



Europäisches  
Patentamt  
European  
Patent Office  
Office européen  
des brevets

# Financial Statements

## Accounting Period **2011**

# Financial Statements

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# Audit opinion

We have audited the financial statements, comprising the statement of financial position, the statement of comprehensive income, statement of changes in equity, statement of cash flows and notes (Article 69 clause 1a of the Financial Regulations), together with the bookkeeping system of the European Patent Organisation (EPO) for the accounting period 1 January to 31 December 2011 – as disclosed in CA/60/12. The maintenance of the books and records and the preparation of the financial statements in accordance with Article 50(g) of the European Patent Convention (EPC) and the Financial Regulations (FinRegs), as described in Section 2.1 of CA/60/12 („Basis of preparation“) lies with the President of the EPO. Under Article 1 clause 3 FinRegs, the EPO’s generally accepted accounting principles are the International Financial Reporting Standards (IFRS) as promulgated by the International Accounting Standards Board (IASB). Our responsibility is to express an opinion on the financial statements, together with the bookkeeping system, based on our audit.

We conducted our audit of the financial statements in accordance with Article 49 EPC and the appropriate regulations of the FinRegs – especially Article 79 FinRegs.

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 accounting principles in 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 records, the financial statements are examined primarily on a test basis 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 legal requirements of the EPC, the FinRegs and with the IFRS 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 requirements.

Munich, 17 April 2012

The Board of Auditors

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# Financial Statements

## Statement of Comprehensive Income for the year ended 31 December 2011

in '000 EUR

	Notes	2011	2010
Revenue			
Revenue from patent and procedural fees	(3)	1 391 816	1 346 427
Other revenue	(3)	62 578	66 671
Other operating income	(5)	12 026	17 222
Work performed and capitalised	(11)	484	1 228
Employee benefit expenses	(6)	(1 133 030)	(1 095 369)
Depreciation and amortisation expenses	(10) (11)	(56 960)	(60 083)
Other operating expenses	(7)	(187 682)	(186 308)
<b>Operating result</b>		<b>89 232</b>	<b>89 788</b>
Finance revenue	(8)	26 348	388 607
Finance costs	(9)	(490 253)	(331 237)
<b>Financial result</b>		<b>(463 905)</b>	<b>57 370</b>
<b>Profit/(loss) for the year</b>		<b>(374 673)</b>	<b>147 158</b>
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Actuarial gains (losses) on defined benefit obligations	(20)	366 209	(295 630)
Items that may be reclassified subsequently to profit or loss:		-	-
<b>Total comprehensive income for the year</b>		<b>(8 464)</b>	<b>(148 472)</b>

The notes are an integral part of the financial statements.

Regarding potential future national renewal fees, see Notes 2.6.3. and 4.

## Statement of Financial Position as of 31 December 2011

in '000 EUR

Assets	Notes	2011	2010	2009
<b>Non-current assets</b>				
Property, plant and equipment	(10)	624 021	650 871	687 120
Intangible assets	(11)	31 139	34 178	36 880
RFPSS financial assets		3 889 989	3 892 421	3 393 113
RFPSS other assets		3 124	1 183	15 448
RFPSS restricted cash		64 981	86 000	119 918
RFPSS financial liabilities		(23 379)	(186)	(18 963)
RFPSS other liabilities		(97)	(452)	(19 177)
<b>RFPSS net assets</b>	(12)	<b>3 934 618</b>	<b>3 978 966</b>	<b>3 490 339</b>
Bonds	(13)	629 125	405 776	93 711
Home loans to staff	(14)	108 662	105 486	103 425
Other financial assets	(15)	42 000	27 000	-
Other assets	(16)	58 312	59 945	55 860
<b>Total non-current assets</b>		<b>5 427 877</b>	<b>5 262 222</b>	<b>4 467 335</b>
<b>Current assets</b>				
Trade and other receivables	(17)	120 195	105 120	103 672
Bonds	(13)	63 176	-	-
Home loans to staff	(14)	3 414	4 825	3 815
Other financial assets	(15)	268 220	382 041	413 070
Prepaid expenses	(18)	13 065	11 661	8 836
Cash and cash equivalents	(19)	109 294	43 164	105 893
<b>Total current assets</b>		<b>577 364</b>	<b>546 811</b>	<b>635 286</b>
<b>Total assets</b>		<b>6 005 241</b>	<b>5 809 033</b>	<b>5 102 621</b>
<b>Equity and liabilities</b>				
<b>Equity</b>		<b>2011</b>	<b>2010</b>	<b>2009</b>
Retained earnings		(1 990 282)	(1 981 818)	(1 833 346)
Other components of equity		-	-	-
<b>Total equity</b>		<b>(1 990 282)</b>	<b>(1 981 818)</b>	<b>(1 833 346)</b>
<b>Non-current liabilities</b>				
Defined benefit liability	(20)	6 808 831	6 625 315	5 823 435
Salary Savings Plan obligation	(21)	5 459	2 977	762
Other employee-related liabilities	(22)	6 940	6 913	6 233
Finance lease liabilities	(24)	1 258	6 737	13 709
Provisions	(25)	616	678	12 406
Prepaid fees	(26)	624 674	578 161	553 167
<b>Total non-current liabilities</b>		<b>7 447 778</b>	<b>7 220 781</b>	<b>6 409 712</b>
<b>Current liabilities</b>				
Other employee-related liabilities	(22)	88 559	80 879	72 353
Trade and other payables	(23)	139 613	137 014	116 387
Finance lease liabilities	(24)	7 093	12 036	11 249
Provisions	(25)	3 428	15 521	7 844
Prepaid fees	(26)	309 052	324 620	318 422
<b>Total current liabilities</b>		<b>547 745</b>	<b>570 070</b>	<b>526 255</b>
<b>Total liabilities</b>		<b>7 995 523</b>	<b>7 790 851</b>	<b>6 935 967</b>
<b>Total equity and liabilities</b>		<b>6 005 241</b>	<b>5 809 033</b>	<b>5 102 621</b>

The notes are an integral part of the financial statements.  
Regarding potential future national renewal fees, see Notes 2.6.3. and 4.

## Statement of Changes in Equity for the year ended 31 December 2011

in '000 EUR

	Issued capital	Cumulative changes in equity not recognised through profit or loss	Reserves Retained earnings	Total equity
<b>Balance at 1 January 2010</b>	–	–	(1 833 346)	<b>(1 833 346)</b>
Changes in equity for 2010				
Actuarial gains (losses) on defined benefit obligations			(295 630)	(295 630)
Profit (loss) for the period			147 158	147 158
<b>Balance at 31 December 2010</b>	–	–	(1 981 818)	<b>(1 981 818)</b>
Changes in equity for 2011				
Actuarial gains (losses) on defined benefit obligations			366 209	366 209
Profit (loss) for the period			(374 673)	(374 673)
<b>Balance at 31 December 2011</b>	–	–	(1 990 282)	<b>(1 990 282)</b>

The notes are an integral part of the financial statements.  
Regarding potential future national renewal fees, see Notes 2.6.3. and 4.

## Statement of Cash Flows for the year ended 31 December 2011

in '000 EUR

Cash flows from operating activities	Notes	2011	2010
Profit/loss of the year		(374 673)	147 158
Adjustments for:			
Depreciation and amortisation	(10) (11)	56 960	60 083
Disposal of property, plant and equipment	(10)	2 749	1 912
Other gains and losses		3 672	(2 164)
Revaluation of RFPSS assets		248 563	(284 952)
Net interest		(73 329)	(55 320)
Dividend income		(56 416)	(48 488)
Changes in defined benefit liability	(20)	549 725	506 250
Changes in Salary Savings Plan obligation	(21)	2 482	2 215
Changes in provisions	(25)	(12 154)	(4 052)
Changes in prepaid fees	(26)	30 946	31 192
Changes in assets and liabilities carried as working capital		744	30 736
<b>Total</b>		<b>379 269</b>	<b>384 570</b>
<b>Cash flows from investing activities</b>		<b>2011</b>	<b>2010</b>
Proceeds from disposal of:			
Property, plant and equipment		13	403
Bonds		-	-
Purchases of:			
Property, plant and equipment		(22 838)	(14 738)
Intangible assets		(5 015)	(2 825)
Bonds		(288 961)	(313 441)
Charge in bank deposits ≥ 3 months		98 821	4 029
Home loans granted to staff		(25 183)	(23 036)
Repayment of staff home loans		23 562	20 713
Cash outflow from the purchase of RFPSS assets		(3 115 013)	(2 321 722)
Cash inflow from the sale of RFPSS assets		2 894 300	2 090 153
Cash inflow/(outflow) from decrease/(increase) in restricted cash		21 019	33 917
Interest received		62 939	44 904
Dividends received		56 489	47 730
<b>Total</b>		<b>(299 867)</b>	<b>(433 913)</b>
<b>Cash flows from financing activities</b>		<b>2011</b>	<b>2010</b>
Interest paid		(894)	(1 382)
Repayment of lease liabilities		(12 378)	(12 004)
<b>Total</b>		<b>(13 272)</b>	<b>(13 386)</b>
<b>Net increase/decrease in cash and cash equivalents</b>	(19)	<b>66 130</b>	<b>(62 729)</b>
Cash and cash equivalents net of bank overdrafts at the beginning of the period		43 164	105 893
Effect of exchange rate changes on cash and cash equivalents		-	-
Cash and cash equivalents net of bank overdrafts at the end of the period		109 294	43 164

The notes are an integral part of the financial statements.  
Regarding potential future national renewal fees, see Notes 2.6.3. and 4.

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# 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 Erhardtstrasse 27, 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 16 April 2012.

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

- as an intergovernmental organisation, the EPO cannot become insolvent because according to the EPC its 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 2.6.3 and 4 on future renewal fees for European patents and Note 31.4 on Capital Management.

## 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.

### 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.

The EPO's financial statements for the year ending 31 December 2011 reflect the deletion from its Financial Regulations of the exception regarding the criteria for plan assets as defined in IAS 19.7. For details about this change, see Notes 2.2 and 30.5.

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)**

As from 1 January 2011 the EPO early adopted IFRS 9 – Financial instruments: Classification and measurement for financial assets and liabilities. IFRS 9 replaces the parts of IAS 39 – Financial Instruments: Recognition and Measurement that relate to the classification and measurement of financial assets. The standard requires financial instruments to be classified into those measured as at fair value and those measured at amortised cost. The classification is decided at initial recognition, and depends on the entity's business model for managing its financial instruments and on the contractual cash-flow characteristics of the instrument.

Assessing the financial instruments held by the Organisation as at the date of initial application of IFRS 9, the EPO has classified them as follows:

- Financial instruments (assets and liabilities) held by the Reserve Funds for Pensions and Social Security (RFPSS): The portfolio of the RFPSS is managed and evaluated on a fair value basis, and is not held in order to collect contractual cash flows. Therefore, these instruments are classified as financial instruments at fair value through profit or loss.
- RFPSS other assets and other liabilities: These positions include tax receivables and amounts payable or receivable resulting from purchase or sale of RFPSS assets/liabilities. They are valued at amortised cost.

- RFPSS restricted cash: 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). Under EPO regulations, this cash cannot be used for operational purposes, but only for post-employment payments. Therefore, the cash of the RFPSS is presented separately in non-current assets as part of the RFPSS net assets and measured at amortised cost.
- Financial instruments held by the Office: These instruments are held with the aim of collecting contractual cash flows, and include bonds, home loans, receivables, trade payables and bank deposits. Accordingly, these instruments are measured at amortised cost.
- Cash and cash equivalents: This class comprises the cash at bank and short-term deposits of the Office.

**The amendments to IAS – 1 Presentation of Financial Statements – Presentation of Other Comprehensive Income** require additional disclosures to be made in the rest of the comprehensive income section so that other items are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss, and (b) items that will be reclassified subsequently to profit or loss if certain conditions are met. The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The EPO has adopted these amendments early and changed the presentation in the Statement of Comprehensive Income accordingly.

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

**The amendment to IFRS 1 – First-Time Adoption of International Financial Reporting Standard – Removal of Fixed Dates for First-Time Adopter** replaces specific dates incorporated into certain IFRS 1 requirements with the date of transition to IFRS. These amendments do not affect the EPO's accounts.

**Amendment to IFRS 1 – First-Time Adoption of International Financial Reporting Standards – Severe Hyperinflation.** The IASB has amended IFRS 1 to provide guidance for entities emerging from severe hyperinflation. The guidance is applicable to entities that are either resuming the presentation of IFRS-compliant financial statements or presenting IFRS financial statements for the first time. These amendments do not affect the EPO's accounts.

**Amendment to IFRS 7 – Enhanced Derecognition Disclosure Requirements.** The IASB has introduced enhanced disclosure requirements in IFRS 7 as part of its comprehensive review of off-balance sheet activities. The amendments are designed to help users of financial statements to understand more easily transactions involving the transfer of financial assets, including the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. Disclosures are not required for comparative periods before the date of initial application of the amendments. EPO management is currently analysing the impact of these amendments.

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011). Key requirements of these five standards are described below:

**IFRS 10** – Consolidated Financial Statements replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation: control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

**IFRS 11** – Joint Arrangements replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 must be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

**IFRS 12** – Disclosure of Interest in Other Entities is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

**IAS 27** – Separate financial statements has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements.

**IAS 28** – Investments in Associates and Joint Ventures has been amended in line with IFRS 10 and IFRS 11.

These new standards and amendments to existing standards will not affect the EPO's accounts.

**IFRS 13** – Fair Value Measurement establishes a single framework for measuring fair value and is applicable for both financial and non-financial items. The standard does not include requirements on when fair value measurement is required; it prescribes how fair value is to be measured if required by another standard. IFRS 13 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". This is sometimes referred to as an "exit price". The guidance then stipulates certain key attributes relevant to fair value measurement which an entity is required to determine in order to arrive at an appropriate measure of fair value under IFRS 13. Specifically, the entity must identify the unit of account to be fair valued, the principal market in which an orderly transaction would occur and the assumptions that would be applied by market participants. Additionally, for non-financial assets, the highest and best use of the assets and whether or not they are to be used on a stand-alone basis must also be determined. In terms of the actual method used to measure fair value, IFRS 13 describes three valuation techniques an entity might use to determine

fair value in the absence of directly observable transactions. The valuation technique should be selected so as to maximise the use of relevant observable inputs and applied on a consistent basis. IFRS 13 also requires enhanced disclosures on fair value measurements. With some exceptions, IFRS 13 requires entities to classify these measurements and disclosures into a three-level 'fair value hierarchy' based on the nature of the inputs:

- Level 1 – quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 – inputs other than quoted market prices included within Level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3 – unobservable inputs for the asset or liability.

The standard requires prospective application from the beginning of the annual period in which it is adopted. EPO management anticipates that IFRS 13 will be adopted in the EPO's financial statements for the year beginning 1 January 2013 and that applying it may affect the amounts reported in the financial statements and result in more extensive disclosures.

**The amendments to IAS 19** – Employee Benefits change how defined benefit plans and termination benefits are accounted for. The most significant change relates to accounting for changes in defined benefit obligations and plan assets. The amendments require changes in defined benefit obligations and in fair value of plan assets to be recognised when they occur, and hence eliminate the 'corridor approach' permitted under the current version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. The amendments also require disclosure of any significant or unusual risks pertaining to the plan, separation of the extent of actuarial gains and losses arising from changes in financial assumptions from those arising from demographic assumptions, subdivision of plan assets – including those assets (if any) for which there is no quoted market price – into various classes, and the provision of a sensitivity analysis in instances where a 'reasonably possible' change would affect the defined benefit obligation. The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and, with certain exceptions, must be applied retrospectively. EPO management anticipates that the amendments to IAS 19 will be fully adopted in the Organisation's financial statements for the year beginning 1 January 2013 and that applying them may affect the amounts reported in respect of the defined benefit plans. However, it has not yet performed a detailed analysis quantifying their likely impact.

In December 2011, the IASB amended the accounting requirements and disclosures related to the offsetting of financial assets and financial liabilities by issuing amendments to IAS 32 – Financial instruments: Presentation and IFRS 7 Financial instruments: Disclosures. The amendments to IAS 32 provide clarifications on the application of the offsetting rules while the amendments to the disclosure requirements in IFRS 7 require information about all recognised financial instruments that are offset in accordance with paragraph 42 of IAS 32. The amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014. However, the new offsetting disclosure requirements are effective sooner – for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. EPO management is currently analysing the impact of these amendments.

**IFRIC 20** – Stripping Costs in the Production Phase of a Surface Mine has no bearing on the EPO's accounts.

### Interpretations and amendments to existing standards which became effective in 2011 but are not relevant for the Organisation's operations

The following interpretations and amendments to published standards are mandatory for accounting periods beginning on or after 1 January 2011 but not relevant to the Organisation's operations:

- **IAS 24** Related Party Disclosures – Revised definition of related parties
- **IAS 32** Financial Instruments. Presentation – Amendments relating to classification of rights issues
- **IFRIC 14 – IAS 19** – The limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Amendment with respect to voluntary prepaid contributions
- **IFRIC 19** Extinguishing Financial Liabilities with Equity Instruments

As part of its annual improvement process, the IASB has issued an omnibus of amendments to its standards and interpretations, primarily to remove inconsistencies and clarify wording. None of these amendments has any impact on the financial position or performance of the Organisation; they are therefore not included in the list above.

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Organisation has changed its accounting policy for the assets held by the RFPSS. Previously it applied an exception regarding the criteria for plan assets as defined in IAS 19.7. After removal of this exception as of 1 January 2011, RFPSS assets no longer qualify for recognition as plan assets under IAS 19. Consequently, they have been recognised in the balance sheet as financial instruments under IFRS 9. Management takes the view that this policy provides reliable and more relevant information, as it is fully IFRS-compliant.

The EPO has also changed the method for recognising standard purchases or sales of financial assets held at amortised cost. Previously, they were recognised using settlement date accounting, but now the EPO applies trade date accounting. The change has been performed retrospectively but has no impact on the figures in the financial statements.

The EPO has reviewed its accounting policy with regard to the recognition of actuarial gains and losses arising from its defined benefit plans. Previously it recognised only the net cumulative unrecognised actuarial gains and losses, for the previous period, which exceeded 10% of the higher of the defined benefit obligation and the fair value of the RFPSS assets in accordance with IAS 19.93 and IAS 19.7 as previously applied. As a consequence, it carried unrecognised gains and losses outside its statement of financial position. During 2011, it decided to change its accounting policy and recognise actuarial gains and losses in the period in which they occur, in total, in retained earnings, as it believes this policy is more consistent and transparent. Changes have been applied retrospectively in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, resulting in the restatement of prior-year financial information.

The impact on the financial statements of all accounting policy changes is disclosed in Note 30.5

## 2.3 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.

## 2.4 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.

## 2.5 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 and other post-employment benefits as defined in Note 2.16.2. are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates, 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 partial compensation for the national tax levied on pensions ("partial compensation", disclosed as the "tax adjustment" in prior reporting periods). Due to the long-term nature of these plans, such estimations are subject to significant uncertainties (please 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 2.11. 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.

## 2.6 REVENUE RECOGNITION

### 2.6.1 Revenue from patent and procedural fees

#### 2.6.1.1 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.

For information on renewal fees post-grant, see Note 2.6.1.3 below (national renewal fees for granted patents).

#### **2.6.1.2 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.

### 2.6.1.3 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.

### 2.6.2 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.

### 2.6.3 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 2.6.1.3.). 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<sup>®</sup> 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.

## 2.7 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. Financial instruments at fair value that are actively traded in the market are measured at the market 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.

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 accrual basis

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

## 2.8 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.

## 2.9 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.

## 2.10 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 2.11. These rules are also valid to property, plant and equipment.

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 year 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.

## 2.11 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 of 3-20 years. 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.

## 2.12 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 – ex-IIB insurance funds – if the criteria for a qualifying insurance policy are met. The Organisation classifies as a qualifying insurance policy all insurance contracts issued by an insurer that is not a related party of the EPO, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan, are not available to the Organisation's own creditors and cannot be paid to the EPO, unless either the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations or are returned to the reporting entity to reimburse it for employee benefits already paid. Only if it is virtually certain that an insurance company will reimburse some or all of the expenditure required to settle the defined benefit obligation is the right to reimbursement recognised as a separate asset. The Organisation measures these assets at fair value. In the Statement of Comprehensive Income, the expense relating to a defined benefit plan is presented net of the amount recognised for reimbursement.

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 new 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 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").

## 2.13 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 the EPO decides it 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

Financial assets and liabilities at fair value through profit or loss comprise instruments held by the RFPSS. 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.

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 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. The difference between market close price and bid price is not considered to be significant. Gains or losses are recognised in the Statement of Comprehensive Income in the financial result section.

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

Bonds held by the Office are debt instruments actively traded in organised financial markets and their fair value is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Bonds are measured after initial recognition at fair value without any deduction for transaction costs on sale or disposal. Gains or losses are recognised in the Statement of Comprehensive Income when the asset is derecognised or impaired and through the amortisation process using the effective interest method.

**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 and short-term deposits with an original maturity of three months or less; 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. This cash is not readily available to the Office for operational purposes and is therefore presented separately from the cash balance.

### 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 Notes 2.8.

### 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, an amount comprising the difference between its acquisition cost and the expected discounted cash flow applying the effective interest rate, less any impairment loss previously recognised in profit or loss, is transferred from equity to the Statement of Comprehensive Income. Reversals of impairment losses on debt instruments are performed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

## 2.14 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.

## 2.15 EQUITY

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

## 2.16 EMPLOYEE BENEFITS

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

### 2.16.1 Short-term employee benefits

Short-term employee benefits are those benefits (other than post-employment benefits) payable within one year after the end of the period in which the services have been rendered. Obligations resulting from short-term employee benefits are presented in the Statement of Financial Position as other employee-related liabilities (current).

### 2.16.2 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.

The Organisation operates four defined benefit plans for its employees. Assets held to fund parts of the pension obligations, lump-sum payments as partial 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 19.7. For some members of its key management the Organisation operates a defined contribution plan under which it pays fixed contributions to an external insurance company.

#### 2.16.2.1 Pension obligations

The liability recognised in the Statement of Financial Position in respect of the defined benefit pension plan (retirement pension, invalidity pension/allowance and partial compensation thereon, if any, as well as family allowances) 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 Joint Pension Administrative Section 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 and demographic assumptions about mortality, employee turnover, invalidity 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. Past-service costs are recognised immediately in the Statement of Comprehensive Income, unless the changes to

the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

In 2008, the former invalidity pension became an invalidity allowance. Due to the economic substance of the invalidity allowance, the accounting treatment remains unchanged, however.

Actuarial gains and losses are recognised in the period in which they occur, in total, in retained earnings.

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

A beneficiary of the defined benefit pension plan as defined above who took up duty before 1 January 2009 can be entitled to partial compensation 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. Until the end of the 2008 accounting period, the expenses of this adjustment were borne by the state in which the recipient was subject to taxes on income for the period considered. In June 2007 the Administrative Council decided to transfer the obligation for the former tax adjustment from the contracting states to the Organisation. This decision has been in force since 1 January 2009. The increase in the DBO for pension obligations due to the abolition of future partial compensation/tax adjustment payments is assessed as past service costs.

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.

For defined contribution plans, the Organisation pays contributions to externally administered pension insurance plans on a contractual basis. The EPO has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

### 2.16.2.2 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 Vanbreda International, Antwerp, Belgium (Vanbreda). 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 Vanbreda 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 Vanbreda.

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.

Death and invalidity insurance is a defined benefit plan and is managed by the Organisation. Under this plan, non-active staff members receive a lump sum, based on their last salary, in case of death or invalidity. The benefits are calculated in proportion to salaries. Payments to beneficiaries are made directly by the Organisation and financed by the contributions of the staff members and the Organisation.

### 2.16.3 Other long-term employee benefits

#### 2.16.3.1 Salary Savings Plan (SSP) obligation

Since 1 January 2009, the Organisation has been operating 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.

#### 2.16.3.2 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).

#### 2.16.4 Termination benefits

Termination benefits 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).

### 2.17 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.

### 2.18 PREPAID FEES

Prepaid fees are recognised to record fee payments received for services not yet performed. See Note 2.6 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	
	2011	2010
<b>Revenue from patent and procedural fees</b>		
Procedural fees related to the patent grant process (Note 3.2)	1 010 626	993 758
National renewal fees for granted patents	381 190	352 669
<b>Total</b>	<b>1 391 816</b>	<b>1 346 427</b>
<b>Other revenue</b>		
Searches for national offices and third parties	51 719	53 911
Patent information services and products	7 065	8 936
Administrative fees	3 794	3 824
<b>Total</b>	<b>62 578</b>	<b>66 671</b>

#### 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	
	2011	2010
Procedural fees for filing and search – EPC and Euro-PCT	152 851	156 636
Procedural fees for international searches – PCT	113 078	113 080
Procedural fees for examination and grant – EPC and Euro-PCT	203 204	198 183
Procedural fees for international preliminary examinations – PCT	13 029	14 064
Procedural fees for opposition	2 621	2 398
Procedural fees for appeal and protest	2 356	2 207
Designation, extension and validation fees	66 621	63 656
Renewal fees for patent applications	456 866	443 534
<b>Total</b>	<b>1 010 626</b>	<b>993 758</b>

#### 4. POTENTIAL FUTURE NATIONAL RENEWAL FEES FOR EUROPEAN PATENTS

The net present value of these fees is KEUR 3 143 273 (2010: KEUR 2 839 901).

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 2.50% and 5.21% in 2011 (2010: between 2.00% and 5.23%). A one percentage point increase in the discount rates applied would result in a decrease of KEUR 155 437 (2010: KEUR 137 618) in the net present value of potential future national renewal fees.

For further information see Notes 2.5 and 2.6.3.

#### 5. OTHER OPERATING INCOME

	in '000 EUR	
	2011	2010
Third-party project funding	5 761	7 694
Income from valuation of insurance funds	1 857	2 071
Rental income	1 400	1 659
Other	3 008	5 798
<b>Total</b>	<b>12 026</b>	<b>17 222</b>

Third-party project funding income concerns the reimbursement of expenses related to projects partly or totally financed by third parties. The corresponding expenses are shown under other operating expenses.

The income from valuation of insurance funds mainly arises from changes in the repurchase value of contracts with insurance companies and credit balances the Organisation had at Vanbreda.

**Operating leases – The EPO as lessor**

The EPO has entered into a number of minor lease agreements concerning office premises. The income from these was as follows:

	in '000 EUR	
	2011	2010
Netherlands Patent Office	571	665
Other	829	994
<b>Total</b>	<b>1 400</b>	<b>1 659</b>

Future revenue from renting office premises in The Hague to the Netherlands Patent Office is as follows:

	in '000 EUR	
	2011	2010
Not later than one year	571	665
Later than one year and not later than five years	–	665
Later than five years	–	–
<b>Total</b>	<b>1 571</b>	<b>1 330</b>

**6. EMPLOYEE BENEFIT EXPENSES**

	in '000 EUR	
	2011	2010
Basic salaries permanent employees	599 581	593 068
Social security <sup>1</sup>	292 263	259 791
Allowances and other benefits	172 710	172 228
Past service costs for "tax adjustments"	22 826	22 558
School and day-care centres	20 464	20 562
Remuneration of other employees	8 894	8 803
Training	8 545	9 162
Other	7 747	9 197
<b>Total</b>	<b>1 133 030</b>	<b>1 095 369</b>

<sup>1</sup> Incl. negative past service costs amounting to KEUR 2 618 (2010: past service cost KEUR 33), see Note 20

## 7. OTHER OPERATING EXPENSES

	in '000 EUR	
	2011	2010
IT maintenance	57 912	58 139
Property and equipment maintenance	45 623	47 621
Consultancy and other external services	25 207	23 127
Patent information and public relations	11 529	11 727
Co-operation and meetings	11 319	9 995
Documentation	10 025	9 009
Travel	7 368	6 084
Postage and telecommunications	5 222	5 429
Office supply	3 407	3 433
Other	10 070	11 744
<b>Total</b>	<b>187 682</b>	<b>186 308</b>

## 8. FINANCE REVENUE

	in '000 EUR	
	2011	2010
Interest income on bonds	13 753	5 671
Interest income from bank accounts and deposits	6 700	4 752
Interest income from home loans	6 164	6 743
Gains on revaluation of RFPSS financial instruments	–	371 001
Valuation gains (losses) assets Salary Savings Plan	(330)	269
Other	61	171
<b>Total</b>	<b>26 348</b>	<b>388 607</b>

Detailed information on finance revenue from financial instruments is presented in Note 30.4.

## 9. FINANCE COSTS

	in '000 EUR	
	2011	2010
Interest costs on defined benefit obligations	351 438	329 160
Losses on revaluation of RFPSS financial instruments	137 967	–
Interest costs finance lease	894	1 382
Increase (decrease) obligation Salary Savings Plan	(330)	269
Other	284	426
<b>Total</b>	<b>490 253</b>	<b>331 237</b>

Detailed information on finance costs for financial instruments is presented in Note 30.4.

## 10. PROPERTY, PLANT AND EQUIPMENT

The reconciliation of the carrying amount of property, plant and equipment for the year 2011 is as follows:

	in '000 EUR			
	Land	Buildings	Office equipment	Total
Cost at 1 January 2011	174 732	811 054	134 029	1 119 815
Additions	–	21 021	3 772	24 793
Disposals	–	(996)	(19 525)	(20 521)
Transfers	–	–	–	–
<b>Cost at 31 December 2011</b>	<b>174 732</b>	<b>831 079</b>	<b>118 276</b>	<b>1 124 087</b>
Accumulated depreciation 1 January 2011	–	(357 401)	(98 724)	(456 125)
Depreciation for the year	–	(35 504)	(15 554)	(51 058)
Disposals	–	440	19 496	19 936
Transfers	–	–	–	–
<b>Accumulated depreciation 31 December 2011</b>	<b>–</b>	<b>(392 465)</b>	<b>(94 782)</b>	<b>(487 247)</b>
Impairment loss for the year	–	–	–	–
<b>Accumulated impairment 31 December 2011</b>	<b>(12 819)</b>	<b>–</b>	<b>–</b>	<b>(12 819)</b>
Net carrying value 1 January 2011	161 913	453 653	35 305	650 871
<b>Net carrying value 31 December 2011</b>	<b>161 913</b>	<b>436 514</b>	<b>23 494</b>	<b>624 021</b>
Including construction in progress				
1 January 2011	–	21 665	–	21 665
31 December 2011	–	10 506	–	10 506

Land and buildings are located at three EPO sites: Munich, The Hague and Vienna.

As at 31 December 2011, property, plant and equipment includes EUR 11.8m of the asset retirement obligation relating to renovation of the Isar building in Munich due to asbestos contamination (2010: EUR 13.8m).

The disposals in 2011 relate mainly to retirement of mainframe hardware (EUR 8.5m acquisition cost, EUR 0.0m net book value) and replacement of the IT storage equipment under Telematics contract (EUR 7.5m acquisition cost, EUR 0.0m net book value).

The EPO building at Erhardtstrasse 27 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 10.7m (2010: EUR 20.5m).

The comparative figures are presented in the table below:

	in '000 EUR			
	Land	Buildings	Office equipment	Total
Cost at 1 January 2010	174 732	799 567	134 306	1 108 605
Additions	–	13 053	9 949	23 002
Disposals	–	(1 566)	(10 226)	(11 792)
Transfers	–	–	–	–
<b>Cost at 31 December 2010</b>	<b>174 732</b>	<b>811 054</b>	<b>134 029</b>	<b>1 119 815</b>
Accumulated depreciation 1 January 2010	–	(320 190)	(88 476)	(408 666)
Depreciation for the year	–	(37 720)	(16 772)	(54 492)
Disposals	–	509	6 524	7 033
Transfers	–	–	–	–
<b>Accumulated depreciation 31 December 2010</b>	<b>–</b>	<b>(357 401)</b>	<b>(98 724)</b>	<b>(456 125)</b>
Impairment loss for the year	–	–	–	–
<b>Accumulated impairment 31 December 2010</b>	<b>(12 819)</b>	<b>–</b>	<b>–</b>	<b>(12 819)</b>
Net carrying value 1 January 2010	161 913	479 377	45 830	687 120
<b>Net carrying value 31 December 2010</b>	<b>161 913</b>	<b>453 653</b>	<b>35 305</b>	<b>650 871</b>
Including construction in progress				
1 January 2010	–	11 998	–	11 998
31 December 2010	–	21 665	–	21 665

## 11. INTANGIBLE ASSETS

The reconciliation of the balances of intangible assets for the year 2011 is as follows:

	in '000 EUR			
	Acquired software	Acquired information systems	Internally generated systems	Total
Cost at 1 January 2011	8 065	54 633	29 984	92 682
Additions	2 624	–	2 416	5 040
Disposals	(132)	(33)	(2 216)	(2 381)
Transfers	–	–	–	–
<b>Cost at 31 December 2011</b>	<b>10 557</b>	<b>54 600</b>	<b>30 184</b>	<b>95 341</b>
Accumulated amortisation 1 January 2011	(7 047)	(45 071)	(6 386)	(58 504)
Amortisation for the year	(655)	(2 081)	(3 166)	(5 902)
Amortisation disposals	132	33	39	204
Amortisation transfers	–	–	–	–
<b>Accumulated amortisation 31 December 2011</b>	<b>(7 570)</b>	<b>(47 119)</b>	<b>(9 513)</b>	<b>(64 202)</b>
Net carrying value 1 January 2011	1 018	9 562	23 598	34 178
<b>Net carrying value 31 December 2011</b>	<b>2 987</b>	<b>7 481</b>	<b>20 671</b>	<b>31 139</b>
Including construction in progress				
1 January 2011	–	–	9 892	9 892
31 December 2011	–	–	10 871	10 871

The comparative figures are as follows:

	in '000 EUR			
	Acquired software	Acquired information systems	Internally generated systems	Total
Cost at 1 January 2010	7 563	54 633	27 608	89 804
Additions	513	–	2 376	2 889
Disposals	(11)	–	–	(11)
Transfers	–	–	–	–
<b>Cost at 31 December 2010</b>	<b>8 065</b>	<b>54 633</b>	<b>29 984</b>	<b>92 682</b>
Accumulated amortisation 1 January 2010	(6 602)	(42 956)	(3 366)	(52 924)
Amortisation for the year	(456)	(2 115)	(3 020)	(5 591)
Amortisation disposals	11	–	–	11
Amortisation transfers	–	–	–	–
<b>Accumulated amortisation 31 December 2010</b>	<b>(7 047)</b>	<b>(45 071)</b>	<b>(6 386)</b>	<b>(58 504)</b>
Net carrying value 1 January 2010	961	11 677	24 242	36 880
<b>Net carrying value 31 December 2010</b>	<b>1 018</b>	<b>9 562</b>	<b>23 598</b>	<b>34 178</b>
Including construction in progress				
1 January 2010	–	–	14 715	14 715
31 December 2010	–	–	9 892	9 892

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 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 484 (2010: KEUR 1 228) are presented in the Statement of Comprehensive Income as Work performed and capitalised.

The Single Patent Programme (SPP) project was discontinued in 2011 and written off accordingly, resulting in a total loss of KEUR 1 438.

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

	in '000 EUR	
Construction in progress	2011	2010
Epoque	10 200	8 887
SPP	–	1 005
ITR Transformation Track	282	–
ITR Semi-Automatic Search	389	–
<b>Total</b>	<b>10 871</b>	<b>9 892</b>

## 12 RFPSS NET ASSETS

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

				in '000 EUR
2011	Pensions	Long-term care	Sickness insurance	Total
RFPSS financial assets	3 525 311	65 951	298 727	3 889 989
RFPSS other assets	2 831	53	240	3 124
RFPSS restricted cash	58 889	1 102	4 990	64 981
RFPSS financial liabilities	(21 188)	(396)	(1 795)	(23 379)
RFPSS other liabilities	(88)	(2)	(7)	(97)
<b>Total</b>	<b>3 565 755</b>	<b>66 708</b>	<b>302 155</b>	<b>3 934 618</b>

  

				in '000 EUR
2010	Pensions	Long-term care	Sickness insurance	Total
RFPSS financial assets	3 529 314	61 516	301 591	3 892 421
RFPSS other assets	1 073	19	91	1 183
RFPSS restricted cash	77 977	1 359	6 664	86 000
RFPSS financial liabilities	(169)	(3)	(14)	(186)
RFPSS other liabilities	(410)	(7)	(35)	(452)
<b>Total</b>	<b>3 607 785</b>	<b>62 884</b>	<b>308 297</b>	<b>3 978 966</b>

  

				in '000 EUR
2009	Pensions	Long-term care	Sickness insurance	Total
RFPSS financial assets	3 071 971	49 476	271 666	3 393 113
RFPSS other assets	13 985	225	1 238	15 448
RFPSS restricted cash	108 568	1 749	9 601	119 918
RFPSS financial liabilities	(17 168)	(277)	(1 518)	(18 963)
RFPSS other liabilities	(17 362)	(280)	(1 535)	(19 177)
<b>Total</b>	<b>3 159 994</b>	<b>50 893</b>	<b>279 452</b>	<b>3 490 339</b>

The major categories of RFPSS net assets are as follows:

				in %
	2011	2010	2009	
Domestique bonds	30	24	25	
Foreign equities	21	24	23	
Domestic equities	20	25	25	
Real estate	9	8	8	
Emerging markets	8	8	9	
Commodities	7	6	5	
Foreign bonds	4	3	2	
Cash	1	2	3	
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	

### 13. BONDS

The EPO's bonds portfolio includes the following:

	in '000 EUR		
	2011	2010	2009
Current	63 176	–	–
Non-current	629 125	405 776	93 711
<b>Total interest-bearing bonds</b>	<b>692 301</b>	<b>405 776</b>	<b>93 711</b>

Interest-bearing bonds quoted in active markets are classified at amortised cost. Their nominal interest is in the range from 1.75% to 6.00% (2010: 1.75% to 6.00%) and maturity dates are between February 2012 and November 2016 (2010: February 2012 and January 2016).

Net gains and losses on bonds were as follows:

	in '000 EUR	
Financial assets at amortised cost	2011	2010
Total interest income	13 753	5 671

No impairment provisions are required on bonds in 2011 (2010: Nil).

### 14. HOME LOANS TO STAFF

	in '000 EUR	
	2011	2010
Home loans non-current	108 662	105 486
Home loans current	3 414	4 825
<b>Total</b>	<b>112 076</b>	<b>110 311</b>

Home loans to staff are initially recognised at fair value. This 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 2011 the net loss due to revaluation of new home loans to fair value amounted to KEUR 2 092 (2010: KEUR 1 985). 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.

The EPO adds the discount to profit or loss using the effective interest rate method.

## 15. OTHER FINANCIAL ASSETS

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

	in '000 EUR	
	2011	2010
Other financial assets non-current	42 000	27 000
Other financial assets current	268 220	382 041
<b>Total</b>	<b>310 220</b>	<b>409 041</b>

The effective interest rate achieved in 2011 on fixed-term deposits with an initial maturity up to one year was 1.43% (2010: 1.06%).

## 16. OTHER ASSETS

	in '000 EUR	
	2011	2010
Repurchase value insurance funds ex-IIB	52 853	51 234
Assets Salary Savings Plan (SSP)	5 459	2 977
Other	–	5 734
<b>Total</b>	<b>58 312</b>	<b>59 945</b>

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 211 (2010: KEUR 202). 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	
	2011	2010
<b>Trade receivables</b>		
Trade receivables – renewal fees	82 771	69 011
Trade receivables – EPO products and services	9 778	8 126
<b>Total</b>	<b>92 549</b>	<b>77 137</b>
<b>Other receivables</b>		
Other receivables – tax	10 235	14 482
Other receivables – staff and related accounts	222	222
Other receivables – others	17 189	13 279
<b>Total</b>	<b>27 646</b>	<b>27 983</b>
<b>Total trade and other receivables</b>	<b>120 195</b>	<b>105 120</b>

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	
	2011	2010
Net carrying amount, trade receivables – EPO products and services	9 778	8 126
Of which neither impaired nor past due on the reporting date	5 493	5 879
Of which not impaired as of the reporting date and past due in the following periods:		
Less than 120 days	3 398	1 661
More than 120 days	887	586

During 2011, the EPO wrote off uncollectible receivables amounting to KEUR 3 (2010: KEUR 13) 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.

## 18. PREPAID EXPENSES

	in '000 EUR	
	2011	2010
Prepaid employee-related expenses	7 165	4 241
Prepaid software expenses	5 382	7 256
Prepaid other expenses	518	164
<b>Total</b>	<b>13 065</b>	<b>11 661</b>

## 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	
	2011	2010
Short-term bank deposits	39 610	36 200
Cash at bank and in hand	69 684	6 964
<b>Total</b>	<b>109 294</b>	<b>43 164</b>

## 20. DEFINED BENEFIT LIABILITY

in '000 EUR

Accounting for 2011	Pension obligation	Long-term care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	5.38 %	5.55 %	5.51 %	4.56 %	
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 2011	5 762 543	1 573 321	6 265 84	1 326 20	6 679 068
Interest cost	303 740	8 474	33 059	6 165	351 438
Current service cost	263 574	6 169	35 342	11 872	316 957
Past service costs	(2 618)	-	-	-	(2 618)
Transfer of pension rights	9 976	-	-	-	9 976
Benefits paid	(1 277 16)	(3 076)	(15 015)	(5 665)	(1 514 72)
Actuarial (gain) loss on obligation	(2 299 33)	(13)	(85 934)	(50 329)	(3 662 09)
<b>Present value of obligation 31 December 2011</b>	<b>5 979 566</b>	<b>1 688 875</b>	<b>5 940 36</b>	<b>94 663</b>	<b>6 837 140</b>
Unrecognised past service costs	(28 309)	-	-	-	(28 309)
<b>Liability recognised in the Statement of Financial Position</b>	<b>5 951 257</b>	<b>1 688 875</b>	<b>5 940 36</b>	<b>94 663</b>	<b>6 808 831</b>
Amounts recognised in the Statement of Comprehensive Income					
Interest cost	303 740	8 474	33 059	6 165	351 438
Current service cost	263 574	6 169	35 342	11 872	316 957
Past service costs	22 826	-	-	-	22 826
Staff contributions	(56 070)	(3 225)	-	(1 467)	(60 762)
<b>Recognised in the Statement of Comprehensive Income</b>	<b>534 070</b>	<b>11 418</b>	<b>68 401</b>	<b>16 570</b>	<b>630 459</b>

in '000 EUR

Accounting for 2010	Pension obligation	Long-term care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	5.33 %	5.44 %	5.34 %	4.75 %	
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 2010	5 133 721	1 332 276	5 084 88	1 242 61	5 899 746
Interest cost	287 169	7 637	28 252	6 102	329 160
Current service cost	235 648	5 196	31 119	11 685	283 648
Past service costs	(33)	-	-	-	(33)
Transfer of pension rights	10 266	-	-	-	10 266
Benefits paid	(1 201 23)	(2 762)	(11 553)	(4 911)	(1 393 49)
Actuarial (gain) loss on obligation	215 895	13 974	70 278	(4 517)	295 630
<b>Present value of obligation 31 December 2010</b>	<b>5 762 543</b>	<b>1 573 321</b>	<b>6 265 84</b>	<b>1 326 20</b>	<b>6 679 068</b>
Unrecognised past service costs	(53 753)	-	-	-	(53 753)
<b>Liability recognised in the Statement of Financial Position</b>	<b>5 708 790</b>	<b>1 573 321</b>	<b>6 265 84</b>	<b>1 326 20</b>	<b>6 625 315</b>
Amounts recognised in the Statement of Comprehensive Income					
Interest cost	287 169	7 637	28 252	6 102	329 160
Current service cost	235 648	5 196	31 119	11 685	283 648
Past service costs	22 524	-	-	-	22 524
Staff contributions	(55 688)	(3 175)	-	1 473	(57 390)
<b>Recognised in the Statement of Comprehensive Income</b>	<b>489 653</b>	<b>9 658</b>	<b>59 371</b>	<b>19 260</b>	<b>577 942</b>

## Defined benefit liability

in '000 EUR

Accounting for 2009	Pension obligation	Long-term care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	5.66%	5.79%	5.62%	5.01%	
Future salaries increase	2.50%	2.50%		2.50%	
Future pensions increase	2.50%	2.50%			
Medical costs inflation			5.30%		
Expected average remaining working lives	19	19	19	19	
Present value of obligation 1 January 2009	4 213 782	107 022	521 195	100 912	4 942 911
Interest cost	252 495	6 358	31 275	6 092	296 220
Current service cost	205 120	4 416	31 872	9 284	250 692
Past service costs	859	–	–	–	859
Transfer of pension rights	10 156	–	–	–	10 156
Benefits paid	(108 132)	(2 460)	(13 593)	(7 200)	(131 385)
Actuarial (gain) loss on obligation	559 441	17 940	(62 261)	15 173	530 293
<b>Present value of obligation 31 December 2009</b>	<b>5 133 721</b>	<b>133 276</b>	<b>508 488</b>	<b>124 261</b>	<b>5 899 746</b>
Unrecognised past service costs	(76 311)	–	–	–	(76 311)
<b>Liability recognised in the Statement of Financial Position</b>	<b>5 057 410</b>	<b>133 276</b>	<b>508 488</b>	<b>124 261</b>	<b>5 823 435</b>
Amounts recognised in the Statement of Comprehensive Income					
Interest cost	252 495	6 358	31 275	6 092	296 220
Current service cost	205 120	4 416	31 872	9 284	250 692
Past service costs	20 473	–	–	–	20 473
Staff contributions	(63 875)	(2 740)	–	(2 231)	(68 846)
<b>Recognised in the Statement of Comprehensive Income</b>	<b>414 213</b>	<b>8 034</b>	<b>63 147</b>	<b>13 145</b>	<b>498 539</b>

in '000 EUR

Accounting for 2008	Pension obligation	Long-term care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	6.07%	6.01%	6.08%	6.26%	
Future salaries increase	2.50%	2.50%		2.50%	
Future pensions increase	2.50%	2.50%			
Medical costs inflation			5.00%		
Expected average remaining working lives	20	20	20	20	
Present value of obligation 1 January 2008	4 266 038	118 428	523 592	99 512	5 007 570
Interest cost	233 524	6 499	28 577	5 251	273 851
Current service cost	217 661	4 817	32 136	9 334	263 948
Past service costs	(18 694)	–	–	–	(18 694)
Transfer of pension rights	18 416	–	–	–	18 416
Benefits paid	(86 372)	(2 250)	(11 796)	(6 690)	(107 108)
Actuarial (gain) loss on obligation	(416 791)	(20 472)	(51 314)	(6 495)	(495 072)
<b>Present value of obligation 31 December 2008</b>	<b>4 213 782</b>	<b>107 022</b>	<b>521 195</b>	<b>100 912</b>	<b>4 942 911</b>
Unrecognised past service costs	(95 925)	–	–	–	(95 925)
<b>Liability recognised in the Statement of Financial Position</b>	<b>4 117 857</b>	<b>107 022</b>	<b>521 195</b>	<b>100 912</b>	<b>4 846 986</b>
Amounts recognised in the Statement of Comprehensive Income					
Interest cost	233 524	6 499	28 577	5 251	273 851
Current service cost	217 661	4 817	32 136	9 334	263 948
Past service costs	(996)	–	–	–	(996)
Staff contributions	(68 468)	(2 740)	–	(1 929)	(73 137)
<b>Recognised in the Statement of Comprehensive Income</b>	<b>381 721</b>	<b>8 576</b>	<b>60 713</b>	<b>12 656</b>	<b>463 666</b>

## Net defined benefit liability

in '000 EUR

Accounting for 2007	Pension obligation	Long-term care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	5.53 %	5.54 %	5.52 %	5.46 %	
Future salaries increase	2.50 %	2.50 %		2.50 %	
Future pensions increase	2.50 %	2.50 %			
Medical costs inflation			from 5.5 % in year 1 to 2.5 % in year 15 and beyond		
Expected average remaining working lives	20	20	20	20	
Present value of obligation 1 January 2007	3 732 658	121 668	552 753	101 685	4 508 764
Interest cost	181 793	6 055	26 822	4 560	219 230
Current service cost	206 038	5 339	34 707	9 856	255 940
Past service costs	720 208	–	–	–	720 208
Transfer of pension rights	9 051	–	–	–	9 051
Benefits paid	(75 340)	(2 102)	(10 738)	(5 120)	(93 300)
Actuarial (gain) loss on obligation	(508 370)	(12 532)	(79 952)	(11 469)	(612 323)
<b>Present value of obligation 31 December 2007</b>	<b>4 266 038</b>	<b>118 428</b>	<b>523 592</b>	<b>99 512</b>	<b>5 007 570</b>
Unrecognised past service costs	(113 622)	–	–	–	(113 622)
<b>Liability recognised in the Statement of Financial Position</b>	<b>4 152 416</b>	<b>118 428</b>	<b>523 592</b>	<b>99 512</b>	<b>4 893 948</b>
Amounts recognised in the Statement of Comprehensive Income					
Interest cost	181 793	6 055	26 822	4 560	219 230
Current service cost	206 038	5 339	34 707	9 856	255 940
Past service costs	606 585	–	–	–	606 585
Staff contributions	(44 686)	(2 527)	–	(41)	(47 254)
<b>Recognised in the Statement of Comprehensive Income</b>	<b>949 730</b>	<b>8 867</b>	<b>61 529</b>	<b>14 375</b>	<b>1 034 501</b>

in '000 EUR

Accounting for 2006	Pension obligation	Long-term care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	4.92 %	5.00 %	4.90 %	4.60 %	
Future salaries increase	2.50 %	2.50 %		2.50 %	
Future pensions increase	2.50 %	2.50 %			
Medical costs inflation			from 5.5 % in year 1 to 2.5 % in year 15 and beyond		
Expected average remaining working lives	20	20	20	20	
Present value of obligation 1 January 2006	3 666 136	108 816	598 680	102 821	4 476 453
Interest cost	161 711	5 070	26 437	3 902	197 120
Current service cost	205 061	4 763	42 223	10 360	262 407
Past service costs	–	–	–	–	–
Transfer of pension rights	12 215	–	–	–	12 215
Benefits paid	(64 353)	(1 896)	(9 192)	(5 555)	(80 996)
Actuarial (gain) loss on obligation	(248 112)	4 915	(105 395)	(9 843)	(358 435)
<b>Present value of obligation 31 December 2006</b>	<b>3 732 658</b>	<b>121 668</b>	<b>552 753</b>	<b>101 685</b>	<b>4 508 764</b>
Unrecognised past service costs	–	–	–	–	–
<b>Liability recognised in the Statement of Financial Position</b>	<b>3 732 658</b>	<b>121 668</b>	<b>552 753</b>	<b>101 685</b>	<b>4 508 764</b>
Amounts recognised in the Statement of Comprehensive Income					
Interest cost	161 711	5 070	26 437	3 902	197 120
Current service cost	205 061	4 763	42 223	10 360	262 407
Past service costs	–	–	–	–	–
Staff contributions	(38 881)	(2 383)	–	(2 404)	(43 668)
<b>Recognised in the Statement of Comprehensive Income</b>	<b>327 891</b>	<b>7 450</b>	<b>68 660</b>	<b>11 858</b>	<b>415 859</b>

## Net defined benefit liability

in '000 EUR

Accounting for 2005	Pension obligation	Long-term care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	4.45%	4.70%	4.45%	3.90%	
Future salaries increase	2.50%	2.50%		2.50%	
Future pensions increase	2.50%	2.50%		2.50%	
Medical costs inflation			from 5.5% in year 1 to 2.55% in year 15 and beyond		
Expected average remaining working lives	20	20	20	20	
Present value of obligation 1 January 2005	3 201 850	92 007	496 247	93 126	3 883 230
Interest cost	155 509	4 653	24 119	3 893	188 174
Current service cost	164 388	3 671	32 432	9 435	209 926
Past service costs	–	–	–	–	–
Transfer of pension rights	13 530	–	–	–	13 530
Benefits paid	(56 385)	(1 555)	(8 054)	(6 869)	(72 863)
Actuarial (gain) loss on obligation	187 244	10 040	53 936	3 236	254 456
<b>Present value of obligation 31 December 2005</b>	<b>3 666 136</b>	<b>108 816</b>	<b>598 680</b>	<b>102 821</b>	<b>4 476 453</b>
Unrecognised past service costs	–	–	–	–	–
<b>Liability recognised in the Statement of Financial Position</b>	<b>3 666 136</b>	<b>108 816</b>	<b>598 680</b>	<b>102 821</b>	<b>4 476 453</b>
Amounts recognised in the Statement of Comprehensive Income					
Interest cost	155 509	4 653	24 119	3 893	188 174
Current service cost	164 388	3 671	32 432	9 435	209 926
Past service costs	–	–	–	–	–
Staff contributions	(36 325)	(2 212)	–	(2 315)	(40 852)
<b>Recognised in the Statement of Comprehensive Income</b>	<b>283 572</b>	<b>6 112</b>	<b>56 551</b>	<b>11 013</b>	<b>357 248</b>

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

	in '000 EUR	
	2011	2010
Pension benefits		
Office contributions <sup>1</sup>	112 089	111 446
Staff contributions	55 859	55 487
LTC benefits		
Office contributions	6 072	5 946
Staff and pensioners' contributions	3 225	3 175
Post-employment medical care		
Office contributions for inactive staff and pensioners	7 463	9 316
Inactive staff and pensioners' contributions	2 444	2 343
Death and invalidity		
Office contributions	4 195	3 438
Staff contributions	1 467	1 473
<b>Total</b>	<b>192 814</b>	<b>192 624</b>

<sup>1</sup> Net of reimbursements for ex-IIB employees from external insurance companies as disclosed in Note 16.

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

	in '000 EUR		
Post-employment medical benefits	2011	2010	2009
Retirement pension	4 611 919	4 402 511	3 884 153
Tax adjustment/partial compensation	1 006 295	971 533	865 656
Invalidity allowance	202 042	237 574	246 936
Family allowances	159 310	150 925	136 976
<b>Total</b>	<b>5 979 566</b>	<b>5 762 543</b>	<b>5 133 721</b>

The Organisation receives reimbursements for ex-IIB employees from external insurance companies as disclosed in Note 16.

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

	in '000 EUR	
	2011	2010
Pension obligation		
Active staff	3 945 683	3 831 316
Deferred pensioners	21 196	24 187
Pensioners	2 012 687	1 907 040
LTC insurance		
Active staff	84 280	79 989
Deferred pensioners	1 090	1 084
Pensioners	83 505	76 248
Sickness insurance		
Active staff	360 603	358 539
Deferred pensioners	–	–
Pensioners	233 433	268 045
Death and invalidity		
Active staff	94 663	132 620
Deferred pensioners	–	–
Pensioners	–	–
<b>Total</b>	<b>6 837 140</b>	<b>6 679 068</b>

## 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 1.5% in real terms for the ten coming years; 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% (2010: 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
	2011
Pension obligation	
Actuarial (gain) loss from changes in financial assumptions	(56 810)
Actuarial (gain) loss from changes in demographic assumptions	(173 123)
LTC insurance	
Actuarial (gain) loss from changes in financial assumptions	(4 469)
Actuarial (gain) loss from changes in demographic assumptions	4 456
Sickness insurance	
Actuarial (gain) loss from changes in financial assumptions	(24 135)
Actuarial (gain) loss from changes in demographic assumptions	(61 799)
Death and invalidity	
Actuarial (gain) loss from changes in financial assumptions	1 568
Actuarial (gain) loss from changes in demographic assumptions	(51 897)
<b>Total</b>	<b>(366 209)</b>

In the course of its regular review of contribution rates, in 2011 the EPO modified its main assumptions on career patterns, invalidity and retirement probabilities, and LTC expense profiles by age.

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	
Defined benefit obligations	One percentage point increase	One percentage point decrease
Present value pension obligation	4 962 231	7 340 810
Present value LTC insurance	134 231	216 827
Present value sickness insurance	473 161	752 473
Present value death and invalidity	86 877	103 676

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
Defined benefit obligations	One month increase in life expectancy
Present value pension obligation	5 996 050
Present value LTC insurance	169 465
Present value sickness insurance	594 132
Present value death and invalidity	94 662

## 20.2 MAIN CHARACTERISTICS OF THE ORGANISATION'S DEFINED BENEFIT PLANS

### 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	Staff member	70% of the salary until the age of 65, retirement pension after 65
Family allowances	Beneficiary of the pension plan (Note 2.14.1.1.)	Same as for active staff
Partial compensation, old scheme	Beneficiary of the pension plan (Note 2.14.1.1.)	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

### 20.2.2 Sickness insurance

An employee who has remained in EPO service until retirement or is in receipt of an invalidity allowance, 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 (max. 2.4%) is charged to the employee. Since 2008, a spouse in employment outside the EPO and whose salary exceeds a certain level has been subject 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 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 1.2%.
- (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

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 (max. 0.6% of basic salary).

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.

## 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). It is foreseen that participants may also, at their express request, make additional voluntary contributions.

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 (currently 27.3% of basic salary) 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.

Any additional voluntary contributions are borne entirely by the employee.

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. The EPO recognises an obligation for payment of this entitlement amounting to KEUR 5 459 (2010: KEUR 2 977). 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

Of total other employee-related liabilities, KEUR 6 940 (2010: KEUR 6 913) is non-current and mainly includes an obligation for long-term employee benefits due to long-service leave, gratuities and termination benefits.

The current breakdown is as follows

	in '000 EUR	
	2011	2010
Regular vacation	40 620	39 161
Home leave	28 920	27 084
Other compensated absences	15 000	10 958
Other	4 019	3 676
<b>Total</b>	<b>88 559</b>	<b>80 879</b>

## 23. TRADE AND OTHER PAYABLES

	in '000 EUR	
	2011	2010
Current deposit accounts by patent applicants	81 210	78 800
Payables to suppliers and trade creditors	55 612	53 538
Other	2 791	4 676
<b>Total</b>	<b>139 613</b>	<b>137 014</b>

With My.epoline®, applicants can debit online the 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 has entered into four finance lease contracts:

The Open Infrastructure Offering contract (OIO2, replacing the previous OIO contract with IBM) was signed in December 2007 with IBM companies in the Netherlands, Germany and Austria. The contract covers the period between 2008 and 2012. The total value of deliverables and services under this contract over the 5-year period is EUR 86.6m (2010: EUR 84.9m).

The contract signed with Telematics S.A. Brussels, Belgium, relates to the delivery, configuration and maintenance of storage capacity. As at 31 December 2011, the total value of the contract was EUR 49.3m (2010: EUR 48.7m), including equipment amounting to EUR 33.3m (2010: EUR 33.0m). The first deliveries under this agreement were made in May 2003.

The contract with T-Systems Business Services GmbH, Bonn, Germany, signed in August 2006, relates to the supply, installation, connection, configuration and management of the LAN infrastructure consisting of new hardware and related software. In 2011 the contract was extended until 2016. First installations under the contract took place in October 2006. The total value of the equipment delivered under the contract is EUR 9.6m (2010: EUR 9.6m).

The contract with Dell GmbH, Frankfurt am Main, Germany, signed in June 2008, for 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 is for an initial period of 6 years, with annual extensions possible up to 10 years. First installations took place in July 2008. The expected total value of the contract is EUR 34.7m (2010: EUR 34.4m).

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

	in '000 EUR	
	2011	2010
Assets value		
Office equipment	10 665	20 532
Future lease payments		
Not later than one year	7 388	12 939
Later than one year and not later than five years	1 321	6 957
Later than five years	–	–
<b>Total future lease payments</b>	<b>8 709</b>	<b>19 896</b>
Future interest payable	(358)	(1 123)
<b>Present value of future lease payments</b>	<b>8 351</b>	<b>18 773</b>

## 25. PROVISIONS

	in '000 EUR			
	Asset retirement obligation	Litigation risks	Other	Total
1 January 2011	12 141	1 806	2 252	16 199
Use	(12 746)	(1 806)	(969)	(15 521)
Reversal	–	–	(348)	(348)
Addition	605	2 390	715	3 710
Interest effect	–	–	4	4
Other	–	–	–	–
<b>31 December 2011</b>	<b>–</b>	<b>2 390</b>	<b>1 654</b>	<b>4 044</b>
Current	–	2 390	1 038	3 428
Non-current	–	–	616	616
<b>Total</b>	<b>–</b>	<b>2 390</b>	<b>1 654</b>	<b>4 044</b>

Provisions for asset-retirement obligations were initially recognised due to contractual or legal obligations for dismantling and renovating two office buildings in Munich (Isar and Westsite). The whole amount was released in 2011. Although contractual obligations for dismantling and renovation are usual in the ordinary course of business, the Organisation recognises no provisions for its other leased buildings as it is highly unlikely that it will terminate these lease contracts.

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.

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 between 2012 and 2015.

## 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 2011	Increase/ (decrease)	Ending balance 31 December 2011
Searches – EPC and Euro-PCT	182 428	(5 452)	176 976
International searches – PCT	44 478	4 299	48 777
Examination – EPC and Euro-PCT	655 535	30 339	685 874
International preliminary examination – PCT	6 369	281	6 650
Opposition	6 277	(14)	6 263
Appeal	7 532	1 107	8 639
Others	162	385	547
<b>Total</b>	<b>902 781</b>	<b>30 945</b>	<b>933 726</b>

	in '000 EUR		
	Opening balance 1 January 2010	Increase/ (decrease)	Ending balance 31 December 2010
Searches – EPC and Euro-PCT	175 295	7 133	182 428
International searches – PCT	44 144	334	44 478
Examination – EPC and Euro-PCT	632 635	22 900	655 535
International preliminary examination – PCT	6 490	(121)	6 369
Opposition	6 251	26	6 277
Appeal	6 666	866	7 532
Others	108	54	162
<b>Total</b>	<b>871 589</b>	<b>31 192</b>	<b>902 781</b>

## 27. COMMITMENTS

	in '000 EUR	
	2011	2010
Purchase commitments fixed assets	205	1 110
Purchase commitments intangible assets	790	174

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 was signed with Eurocommerce Robex Groep B.V. The agreement has been extended by 5 years and now 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 extended for another 5 years. The annual rent paid by the EPO is EUR 3.9m.

The contract for the lease of office space in the Rijsvoort building in The Hague, signed with IFG Institutional Funds GmbH, has been extended to 31 December 2020, with a right of early termination on 31 December 2015. The annual rent paid by the EPO is EUR 0.9m.

The contract for the lease of office space in the Capitellum building in Munich was signed with Alterra Immobilienverwaltungs GmbH. The agreement covers a period of 15 years ending on 30 June 2015. The total value of the contract over 15 years is EUR 49m.

The contract signed in 2002 with Schuyffel Vastgoed Exploitatie V B.V. to rent office space in Kantorenpark Hardenburch (The Hague) covers a period of 10 years ending on 31 March 2012 and can be extended by another 5 years. The annual rent paid by the EPO is EUR 0.2m.

The total operating lease expense recognised in the Statement of Comprehensive Income for 2011 amounts to KEUR 16 402 (2010: KEUR 18 323).

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

	in '000 EUR	
	2011	2010
Not later than one year	8 181	10 572
Later than one year and not later than five years	27 066	31 328
Later than five years	7 838	11 757
<b>Total</b>	<b>43 085</b>	<b>53 657</b>

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

In June 2007, the Administrative Council decided to abolish the tax adjustment for employees joining the Office on or after 1 January 2009, and to require the Office to pay it for those already in post before that date (see Note 2.16.2.1). The EPO has taken measures to limit the negative financial impact of this.

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

As of 1 January 2009, the national tax adjustment borne by each Contracting State has 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 considers 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. The Office is aware that this view is not shared by all national tax authorities.

To account for the partial-compensation obligation, an actuarially calculated amount equal to the present value of the obligation under the old tax-adjustment regime is recognised as a separate part of the funded portion of the EPO's pension liabilities (see Note 20). No account is taken of risks that might result from partial compensation being treated

differently for tax purposes from the former tax adjustment. The Office has started negotiations with national tax authorities to reach a common understanding on the taxation of partial compensation. It is not clear whether a negative outcome would result in an EPO obligation to compensate staff who relied on tax exemption. Depending on the outcome of these negotiations, EPO management will decide on further action, which might involve recognising further liabilities.

### **Introduction of the EU invalidity allowance model, replacing the invalidity pension**

Since 1 January 2008, employees leaving the EPO due to invalidity are paid an invalidity allowance instead of an invalidity pension. They then draw a retirement pension on reaching retirement age. In the meantime, they continue contributing to the pension scheme, but this allowance – unlike the old invalidity pension – is subject to EPO internal tax because the Office takes the view that it is exempt from national income tax. The Office is aware that this view is not shared by all national tax authorities. To account for risks of whatever nature, the EPO has recognised as a liability an actuarially calculated amount equal to the present value of the obligation under the old tax-adjustment regime for invalidity pensions (see Note 20). No account is taken of risks that might result from the allowance being treated differently for tax purposes from the old invalidity pension.

The Office has started negotiations with national tax authorities to reach a common understanding on the taxation of invalidity allowances. It is not clear whether a negative outcome would result in an EPO obligation to compensate staff who relied on tax exemption. The Office believes that its duty of care requires it to support recipients of invalidity allowances in any legal disputes with national tax authorities. During the reporting period the EPO has duly paid a total of KEUR 110 (2010: KEUR 171) as an advance to the non-active staff concerned. This amount is recognised under "Other receivables – staff and related accounts" (see Note 17) and is not subject to any impairment. Depending on the outcome of its negotiations with the national tax authorities, EPO management will decide on further action, which might involve recognising further liabilities.

### **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 2.16.3.1). 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. The Office is aware that this view is not shared by all national tax authorities. It has therefore started negotiations with national tax authorities to reach a common understanding on the tax treatment of SSP payments. It is not clear whether a negative outcome 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). Depending on the outcome of these negotiations, the Office will decide on further action, which might involve recognising further liabilities.

In addition, the Organisation has contingencies arising in the ordinary course of business, mainly due to disputed invoices 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 year ended 31 December 2011, it has not made any provisions for doubtful debts concerning amounts owed by related parties (2010: Nil). The EPO has not applied partial exemptions, if any, for government-related entities provided by IAS 24 – Related Party Disclosures (rev. 2009).

### 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 Management Committee of the Office and the Fund Administrator of the RFPSS.

The EPO has five directorates-general, each headed by a vice-president who together, along with the President, the Chief Financial Officer, the Chief Information Officer, the Controller, the Principal Director Human Resources and the head of Communication, form the executive body (Management Committee or MAC) of the EPO. For the purpose of this note to the financial statements, the members of the MAC 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	
	2011	2010
Compensation of key managers		
Short-term employee benefits <sup>1</sup>	3 059	2 789
Post-employment benefits, service costs	749	689
Post-employment benefits, defined contribution plans	108	108
<b>Total</b>	<b>3 916</b>	<b>3 586</b>

<sup>1</sup> 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 11 096 (2010: KEUR 11 507) for the key managers.

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

	in '000 EUR	
	2011	2010
MAC members and Fund Administrator	–	–
Close family members of key managers	–	–
Contracting States		
Co-operation with national offices	5 803	4 337
Rent office building Berlin	2 575	2 575
<b>Total</b>	<b>8 378</b>	<b>6 912</b>

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

	in '000 EUR	
	2011	2010
MAC members and Fund Administrator	2	2
Close family members of key managers	–	–
Contracting States		
Renewal fees for granted patents (incl. interest)	381 251	352 838
Searches on behalf of ex-IIB member states	32 993	34 200
Searches on behalf of other Contracting States	18 668	19 755
Reimbursement rent office building Berlin	992	1 012
Rental income Netherlands patent office	659	665
Other revenue	4 514	5 232
<b>Total</b>	<b>439 079</b>	<b>413 704</b>

### Loans, receivables and other assets due from related parties

	in '000 EUR	
	2011	2010
MAC members and Fund Administrator	18	24
Close family members of key managers	–	–
Contracting States		
Renewal fees	82 771	69 011
VAT and other taxes	8 347	10 585
Contracting States using EPO services	7 812	6 197
Tax adjustments	1 888	3 897
Other	469	567
<b>Total</b>	<b>101 305</b>	<b>90 281</b>

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	
	2011	2010
MAC members and Fund Administrator	–	–
Close family members of key managers	–	–
Contracting States	3 369	13 424
<b>Total</b>	<b>3 369</b>	<b>13 424</b>

The post-employment benefit obligation for key managers and their close family members is disclosed in the section "Compensation of key managers (MAC members and Fund Administrator) and their close family members".

### 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	2011	2010	2009	2011	2010	2009	
<b>Financial assets at fair value through profit and loss</b>							
Standard bonds	834 308	799 407	741 936	834 308	799 407	741 936	
Other bonds	491 145	252 336	229 843	491 145	252 336	229 843	
Shares	1 231 625	1 353 855	1 196 299	1 231 625	1 353 855	1 196 299	
Funds	1 307 042	1 452 428	1 212 337	1 307 042	1 452 428	1 212 337	
Derivatives used for trading	–	16 643	2 535	–	16 643	2 535	
Other instruments	25 869	17 752	10 163	25 869	17 752	10 163	
<b>Total</b>	<b>3 889 989</b>	<b>3 892 421</b>	<b>3 393 113</b>	<b>3 889 989</b>	<b>3 892 421</b>	<b>3 393 113</b>	
RFPSS restricted cash	64 981	86 000	119 918	64 981	86 000	119 918	
<b>Financial assets at amortised cost</b>							
RFPSS other assets	3 124	1 183	15 448	3 124	1 183	15 448	
<b>Financial liabilities at fair value through profit and loss</b>							
Derivatives used for trading	(23 379)	(186)	(18 963)	(23 379)	(186)	(18 963)	
<b>Financial liabilities at amortised cost</b>							
RFPSS other liabilities	(97)	(452)	(19 177)	(97)	(452)	(19 177)	
<b>Total net RFPSS financial instruments</b>	<b>3 934 618</b>	<b>3 978 966</b>	<b>3 490 339</b>	<b>3 934 618</b>	<b>3 978 966</b>	<b>3 490 339</b>	
<b>Office financial instruments</b>							
<b>Financial assets measured at amortised cost</b>							
Bonds	692 301	405 776	93 711	684 725	401 671	92 781	
Home loans	112 076	110 311	107 240	123 787	117 589	112 119	
Trade and other receivables	120 195	105 120	103 672	120 195	105 120	103 672	
Other financial assets	310 220	409 041	413 070	310 220	409 041	413 070	
<b>Total</b>	<b>1 234 792</b>	<b>1 030 248</b>	<b>717 693</b>	<b>1 238 927</b>	<b>1 033 421</b>	<b>721 642</b>	
Cash and cash equivalents	109 294	43 164	105 893	109 294	43 164	105 893	
<b>Total Office financial assets</b>	<b>1 344 086</b>	<b>1 073 412</b>	<b>823 586</b>	<b>1 348 221</b>	<b>1 076 585</b>	<b>827 535</b>	
<b>Financial liabilities measured at amortised cost</b>							
Trade and other payables	(139 613)	(137 014)	(116 387)	(139 613)	(137 014)	(116 387)	
Finance lease liabilities	(8 351)	(18 773)	(24 958)	(8 351)	(18 773)	(24 958)	
<b>Total Office financial liabilities</b>	<b>(147 964)</b>	<b>(155 787)</b>	<b>(141 345)</b>	<b>(147 964)</b>	<b>(155 787)</b>	<b>(141 345)</b>	

Financial instruments at fair value through profit and loss are valued at the market close price on the balance sheet date or the last available price from the market maker. The difference between market close price and bid price is not considered to be significant.

Cash, cash equivalents, trade and other receivables as well as trade and other payables 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 carried at amortised cost is based on quoted bid prices at the balance sheet date.

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 LEVELS

For valuation purposes, financial instruments are classified under the following fair value levels:

- Level 1 – quoted prices in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly
- Level 3 – inputs for the asset or liability that are not based on observable market data

The table below presents the financial instruments classified according to the above fair value hierarchy:

in '000 EUR				
31 December 2011	Level 1	Level 2	Level 3	Total
Standards bonds	834 308	–	–	834 308
Other bonds	–	491 145	–	491 145
Shares	1 231 625	–	–	1 231 625
Funds	–	1 307 042	–	1 307 042
Derivatives used for trading	–	–	–	–
Other instruments	–	25 869	–	25 869
<b>Total financial assets</b>	<b>2 065 933</b>	<b>1 824 056</b>	<b>–</b>	<b>3 889 989</b>
Derivatives used for trading	–	23 379	–	23 379
<b>Total financial liabilities</b>	<b>–</b>	<b>23 379</b>	<b>–</b>	<b>23 379</b>
31 December 2010	Level 1	Level 2	Level 3	Total
Standards bonds	799 407	–	–	799 407
Other bonds	–	252 336	–	252 336
Shares	1 052 278	301 577	–	1 353 855
Funds	39 716	1 412 712	–	1 452 428
Derivatives used for trading	–	16 643	–	16 643
Other instruments	–	17 752	–	17 752
<b>Total financial assets</b>	<b>1 891 401</b>	<b>2 001 020</b>	<b>–</b>	<b>3 892 421</b>
Derivatives used for trading	–	186	–	186
<b>Total financial liabilities</b>	<b>–</b>	<b>186</b>	<b>–</b>	<b>186</b>

Level 1 includes all exchange-traded instruments for which quoted prices are readily available. Level 2 comprises over-the-counter instruments for which valuation is available from the market maker.

### 30.3 CLASSIFICATION OF FINANCIAL ASSETS AT THE DATE OF INITIAL APPLICATION OF IFRS 9

The classification and measurement category for each class of financial assets at the date of initial IFRS 9 application were as follows:

1 January 2011	Measurement category		Carrying amount in '000 EUR		
	Original	New (IFRS 9)	Original	New (IFRS 9)	Difference
<b>FRPSS financial instruments</b>					
Standard bonds	Plan assets	Financial assets at fair value through profit and loss	799 407	799 407	0
Other bonds	Plan assets	Financial assets at fair value through profit and loss	252 336	252 336	0
Shares	Plan assets	Financial assets at fair value through profit and loss	1 353 855	1 353 855	0
Funds	Plan assets	Financial assets at fair value through profit and loss	1 452 428	1 452 428	0
Derivatives used for trading (assets)	Plan assets	Financial assets at fair value through profit and loss	16 643	16 643	0
Other instruments	Plan assets	Financial assets at fair value through profit and loss	17 752	17 752	0
Other assets	Plan assets	Financial assets at amortised cost	1 183	1 183	0
FRPSS restricted cash	Plan assets	Financial assets at amortised cost	86 000	86 000	0
Derivatives used for trading (liabilities)	Plan assets	Financial liabilities at fair value through profit and loss	(186)	(186)	0
Other liabilities	Liabilities at amortised cost	Financial liabilities at amortised cost	(452)	(452)	0
<b>Total FRPSS financial instruments</b>			<b>3 978 966</b>	<b>3 978 966</b>	<b>0</b>
<b>Office financial instruments</b>					
Bonds	Available for sale	Financial assets at amortised cost	401 671	405 776	4 105
Home loans to staff	Loans and receivables	Financial assets at amortised cost	110 311	110 311	0
Trade and other receivables	Loans and receivables	Financial assets at amortised cost	105 120	105 120	0
Other financial assets	Loans and receivables	Financial assets at amortised cost	409 041	409 041	0
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost	43 164	43 164	0
<b>Total Office financial instruments</b>			<b>1 069 307</b>	<b>1 073 412</b>	<b>4 105</b>
Trade and other payables	Liabilities at amortised cost	Financial liabilities measured at amortised cost	(137 014)	(137 014)	0
Finance lease liabilities	Liabilities at amortised cost	Financial liabilities measured at amortised cost	(18 773)	(18 773)	0
<b>Total Office financial liabilities</b>			<b>(155 787)</b>	<b>(155 787)</b>	<b>0</b>

### 30.4 GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

These are summarised in the table below:

in '000 EUR		
<b>RFPS financial instruments</b>		
<b>Financial instruments at fair value</b>	<b>2011</b>	<b>2010</b>
Fair value gains (losses) on assets	(217 827)	281 795
Income from coupons, dividends and interest	103 954	87 853
Custodian fees and other costs	(391)	(399)
Sundry	(324)	1 938
Impairment loss	–	–
Fair value gains (losses) on liabilities	(23 379)	(186)
<b>Total</b>	<b>(137 967)</b>	<b>371 001</b>
<b>Office financial instruments</b>		
<b>Financial assets at amortised cost</b>	<b>2011</b>	<b>2010</b>
Interest income from home loans	6 164	6 743
Interest income on bonds	13 753	5 671
Interest income from bank accounts and deposits	6 700	4 752
Other	61	171
<b>Total</b>	<b>26 678</b>	<b>17 337</b>
<b>Financial liabilities at amortised cost</b>		
Interest costs finance lease	(894)	(1 382)
<b>Total</b>	<b>(894)</b>	<b>(1 382)</b>

### 30.5 EFFECT OF THE CHANGE IN ACCOUNTING POLICY

The change in accounting policy referred to in Note 2.2 has been applied retrospectively and a third Balance Sheet was added. Its impact on the balance sheet was a gross-up of the previously recorded net defined benefit liability obligation, with RFPSS assets being recorded gross of the pension liability position under non-current assets. Past actuarial losses on RFPSS assets have been retrospectively restated and deducted from retained earnings. Finance revenue now includes the actual return on RFPSS assets rather than only the expected return on plan assets.

The effect of the change in accounting policy is as follows:

in '000 EUR

	Original		Adjustment		Restated	
	2010	2009	2010	2009	2010	2009
<b>Statement Financial Position</b>						
RFPSS net financial instruments	-	-	3 978 966	3 490 339	3 978 966	3 490 339
Marketable securities / bonds	401 671	92 781	4 105	930	405 776	93 711
Retained earnings	(1 828 640)	(1 859 356)	(153 178)	26 010	(1 981 818)	(1 833 346)
Other components of equity	(4 105)	(930)	4 105	930	-	-
Defined benefit liability	2 493 171	2 359 106	4 132 144	3 464 329	6 625 315	5 823 435
<b>Statement of Comprehensive Income</b>						
Employee benefit expenses	(1 087 554)	(1 021 493)	(7 815)	(2 694)	(1 095 369)	(1 024 187)
Profit/loss on revaluation of RFPSS financial instruments	-	-	371 001	737 459	371 001	742 325
Expected return on plan assets	246 744	185 931	(246 744)	(185 931)	-	-

## 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, other assets, cash and fixed-term deposits which arise directly from the EPO's operational activities as well as finance lease obligations that are used to finance the EPO's operations.

Liquidity surpluses not needed to cover operational short-term expenses are invested in debt securities with the aim of maximising returns. The EPO's long-term investment portfolio comprises fixed-interest-bearing bonds with maturities within a range of 1 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 portfolios: domestic equities, foreign equities, domestic bonds, foreign bonds, inflation-linked bonds, corporate bonds, emerging markets, 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 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. Interest rate risks are presented by means of sensitivity analyses. These show the effects on equity of changes in market interest rates.

The EPO manages cash-flow interest risk by investing liquidity surpluses in 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 31 December 2011, the equity would have been by KEUR 17 767 (31 December 2010: KEUR 11 610) lower (higher) as a result of a decrease (increase) in fair value of fixed-interest bonds classified as at amortised cost. The higher volatility reflects the increase in the bonds portfolio by over 71% during 2011.

At 31 December 2011, if the EUR had weakened/strengthened by 10% against the pound sterling (GBP), Swedish krone (SEK) and Swiss franc (CHF), with all other variables held constant, the result for the year would have been higher/lower, mainly as a result of foreign exchange gains/losses on translation of GBP/SEK/CHF-denominated accounts receivable. The impact on income would have been as follows:

	in '000 EUR	
	2011	2010
GBP	1 134	1 024
SEK	316	243
CHF	252	310
<b>Total</b>	<b>1 702</b>	<b>1 577</b>

The Organisation has not performed a sensitivity analysis for granted home loans, as fair value changes due to lower (higher) interest rates would not have an impact on the EPO's profit or loss and equity.

**(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 VaR, a statistically based estimate of the potential loss on the portfolio resulting from adverse market movements. This metric allows estimating the maximum expected loss with a degree of confidence, chosen to be 95%, within one month horizon. As of close of 2011 the VaR was estimated at EUR 240m. This figure is based on the assumptions that the portfolio returns in the one month VaR horizon are normally distributed whereby its volatility is derived from the historical returns of the risk factors the portfolio is exposed to as of analysis date. VaR figures are compared to realised losses and monitored by assets classes. As of April 2011, 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 for commodities and EFFAS/ Merrill Lynch/Barclays for fixed income.

	in '000 EUR	
	2011	2010
VaR (parametric, 1 month horizon, 95%, in million Euro)	240	250

A risk factor based model is used to decompose risk and enable management to analyse the aggregations and contributors which require specific attention under market conditions prevailing at time of analysis and to carry out stress tests. The latter allow management to estimate the impact of specific market events that may not be fully reflected in VaR estimates. The effects of these stress tests are reported to management allowing an evaluation of exposures to specific risk factors.

Any investment by the RFPSS in an investment fund must not exceed 5% of the total net asset value of a closed-end fund and must not exceed 20% of the total net-asset-value of an open-end fund. Exposures to any one company are mitigated by a maximum holding of 5% of the total company-issued equity, whereby this must also not exceed 3% of RFPSS assets.

Foreign exchange risks are mitigated by maintaining a minimum of 60% of assets in the base currency (euro) and running a currency overlay programme hedging 60% of US dollar, pound sterling and Japanese yen exposures.

## 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.

Liquidity surpluses not needed in the short term are 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 liquidity surpluses, the EPO tries to maintain a balance between short-term deposits (up to one year) and non-current bonds. Based on past experience, the appropriate ratio is 30%:70%. This ratio is reviewed regularly.

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

### (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 2.4m (2010: EUR 4.9m).

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

	in '000 EUR	
	2011	2010
Less than 3 months	23 379	186
Between 3 months and 1 year	–	–
More than 1 year	–	–
<b>Total financial liabilities at fair value</b>	<b>23 379</b>	<b>186</b>

### 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-1 "short-term debt" rating. Longer than 1-year fixed-term deposits have to be placed with financial institutions with at least AA "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.

Bonds and other interest-bearing securities acquired by the EPO have to be capital-guaranteed with at least AA rating. In case of a downgrade below AA 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 AAA rating. The minimum rating allowed is BBB, whereby no more than 10% of assets may be held at this rating. No more than 3% 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 2011	Rating below "A"	Not rated	Rating "A" and higher	Total
Domestic government bonds	86 132	–	663 495	749 627
Domestic corporate bonds	95 912	–	181 501	277 413
Domestic inflation-linked bonds	34 886	–	111 200	146 086
Foreign bonds	10 688	–	141 639	152 327
Cash and currency forwards	–	–	64 981	64 981
<b>Total financial assets</b>	<b>227 618</b>	<b>–</b>	<b>1 162 816</b>	<b>1 390 434</b>

  

31 December 2010	Rating below "A"	Not rated	Rating "A" and higher	Total
Domestic bonds	129 987	–	820 011	949 998
Foreign bonds	8 677	–	93 068	101 745
Cash and currency forwards	–	–	102 643	102 643
<b>Total financial assets</b>	<b>138 664</b>	<b>–</b>	<b>1 015 722</b>	<b>1 154 386</b>

### 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.

Since 1984, the EPO has been setting aside reserves in the RFPSS so that it can pay its pension obligations. This also minimises the risk of the contracting states being asked to cover the financing of these pensions in accordance with the guarantee laid down in Article 40 of the Pension Scheme Regulations.

Since 2001, it has also been building up a reserve fund for LTC insurance. Since 2008, it has been doing the same for healthcare insurance.

Another instrument to manage coverage for post-employment benefits is the regular actuarial study to assess whether these obligations are sufficiently funded. If required, measures are then taken.

The monitoring of the development of assets and liabilities is an important task of the Asset Liability Management Committee, which reports direct to the President and makes recommendations on all substantial investments and/or changes in liabilities.

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 2.6.3).

## **32. EVENTS AFTER THE REPORTING PERIOD**

There are no material favourable and unfavourable events that occur between the end of the reporting period and the date when the financial statements have been authorised for issue.



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