



Europäisches
Patentamt
European
Patent Office
Office européen
des brevets

Financial Statements

Accounting Period **2010**

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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 2010 – as disclosed in CA/60/11. 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/60/11 (“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), except for the IAS 19.7 provisions governing plan assets. 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 FinRegs and give a true and fair view of the net assets, financial position and results of operations of the EPO in accordance with accounting principles as laid down in Article 1 clause 3 FinRegs.

Without qualifying this opinion, we point out that the EPO had applied IFRS 1 as of the transition date January 1, 2005, despite not being a first-time adopter within the meaning of that standard. In line with the FinRegs but not in accordance with IAS 19.7, the EPO has netted out its plan assets and defined benefit obligations, although not entitled to do so because the plan assets are not held legally separate from the EPO. The EPO is therefore unable to give a valid explicit and unreserved statement of IFRS compliance pursuant to IFRS 1.3 (issued June 2003). So, as of the transition date January 1, 2005 the EPO was not a first-time adopter within the meaning of IFRS 1 and, since the FinRegs allow it to depart from IAS 19.7 only, cannot apply the exemptions and concessions available under IFRS 1. However, and despite using the corridor approach for its employee benefits, the EPO has nonetheless applied the exemption under IFRS 1.20 (issued June 2003) and recognised, as at the transition date of 1 January 2005, all cumulative actuarial gains and losses since the start of the plan.

Munich, 28 April 2011

The Board of Auditors

Statement of Comprehensive Income for the year ended 31 December 2010

		in '000 EUR	
	Notes	2010	2009
Revenue			
Revenue from patent and procedural fees	(3)	1 346 427	1 215 181
Other revenue	(3)	66 671	56 364
Other operating income	(5)	17 222	15 851
Work performed and capitalised	(11)	1 228	618
Employee benefit expenses	(6)	(1 087 554)	(1 021 493)
Depreciation and amortisation expenses	(10) (11)	(60 083)	(58 447)
Other operating expenses	(7)	(186 308)	(187 879)
Operating result		97 603	20 195
Finance revenue	(8)	264 350	206 231
Finance costs	(9)	(331 237)	(298 999)
Financial result		(66 887)	(92 768)
Profit/(loss) for the year		30 716	(72 573)
Other comprehensive income			
Available-for-sale financial assets	(13)	(3 175)	(643)
Total comprehensive income for the year		27 541	(73 216)

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

Statement of Financial Position as of 31 December 2010

in '000 EUR

Assets	Notes	2010	2009
Non-current assets			
Property, plant and equipment	(10)	650 871	687 120
Intangible assets	(11)	34 178	36 880
Marketable securities	(13)	401 671	92 781
Home loans to staff	(14)	105 486	103 425
Other financial assets	(16)	27 000	–
Other assets	(12)	59 945	55 860
Total non-current assets		1 279 151	976 066
Current assets			
Trade and other receivables	(15)	116 781	112 508
Home loans to staff	(14)	4 825	3 815
Other financial assets	(16)	382 041	413 070
Cash and cash equivalents	(17)	43 164	105 893
Total current assets		546 811	635 286
Total assets		1 825 962	1 611 352

Equity and liabilities		2010	2009
Equity			
Retained earnings		(1 828 640)	(1 859 356)
Other components of equity		(4 105)	(930)
Total equity		(1 832 745)	(1 860 286)
Non-current liabilities			
Net defined benefit liability	(18)	2 493 171	2 359 106
Salary Savings Plan obligation	(19)	2 977	762
Trade and other payables	(20)	6 913	6 233
Finance lease liabilities	(21)	6 737	13 709
Provisions	(22)	678	12 406
Prepaid fees	(23)	578 161	553 167
Total non-current liabilities		3 088 637	2 945 383
Current liabilities			
Trade and other payables	(20)	217 893	188 740
Finance lease liabilities	(21)	12 036	11 249
Provisions	(22)	15 521	7 844
Prepaid fees	(23)	324 620	318 422
Total current liabilities		570 070	526 255
Total liabilities		3 658 707	3 471 638
Total equity and liabilities		1 825 962	1 611 352

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

Statement of Changes in Equity for the year ended 31 December 2010

in '000 EUR

	Issued capital	Cumulative changes in equity not recognised through profit or loss (Note 13)	Reserves	Total equity
Balance at 1 January 2009	–	(287)	(1 786 783)	(1 787 070)
Changes in equity for 2009				
Available for sale investments		(643)		(643)
Profit (loss) for the period			(72 573)	(72 573)
Balance at 31 December 2009	–	(930)	(1 859 356)	(1 860 286)
Changes in equity for 2010				
Available for sale investments		(3 175)		(3 175)
Profit (loss) for the period			30 716	30 716
Balance at 31 December 2010	–	(4 105)	(1 828 640)	(1 832 745)

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

Statement of Cash Flows for the year ended 31 December 2010

in '000 EUR

Cash flows from operating activities	Notes	2010	2009
Profit/loss of the year		30 716	(72 573)
Adjustments for:			
Depreciation and amortisation	(10) (11)	60 083	58 447
Disposal of property, plant and equipment	(10)	1 912	1 804
Other gains and losses		(2 167)	(1 899)
Net interest		(15 956)	(18 433)
Changes in net defined benefit liability	(18)	134 066	127 581
Changes in Salary Savings Plan obligation		2 215	762
Changes in provisions	(22)	(4 052)	6 133
Changes in prepaid fees	(23)	31 192	(6 018)
Changes in assets and liabilities carried as working capital		29 701	(2 530)
Total		267 710	93 274
Cash flows from investing activities		2010	2009
Proceeds from disposal of:			
Property, plant and equipment		403	92
Marketable securities		–	83 900
Purchases of:			
Property, plant and equipment		(14 738)	(24 405)
Intangible assets		(2 825)	(3 607)
Marketable securities		(313 440)	(93 644)
Charge in bank deposits > 3 months		4 029	(4 670)
Home loans granted to staff		(23 036)	(23 098)
Repayment of staff home loans		20 713	18 923
Interest received		11 841	24 415
Total		(317 053)	(22 094)
Cash flows from financing activities		2010	2009
Interest paid		(1 382)	(1 793)
Repayment of lease liabilities		(12 004)	(12 360)
Total		(13 386)	(14 153)
Net increase/decrease in cash and cash equivalents	(17)	(62 729)	57 027
Cash and cash equivalents net of bank overdrafts at the beginning of the period		105 893	48 866
Effect of exchange rate changes on cash and cash equivalents		–	–
Cash and cash equivalents net of bank overdrafts at the end of the period		43 164	105 893

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

Notes

1. GENERAL INFORMATION

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

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

The Organisation is a legal entity and has its seat in Munich, a branch at The Hague/Rijswijk and sub-offices in Berlin and Vienna. The address of its head office is Erhardtstrasse 27, 80469 Munich, Germany.

As laid down in the EPC and in the Organisation's Financial Regulations (FinRegs) effective as of 26 June 2007, the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as provided by the International Accounting Standards Board (IASB), with the exception of the criteria for plan assets as defined in IAS 19.7.

These financial statements were authorised for issue by the President on 15 April 2011.

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 2.5.3. and 4 on future renewal fees for European patents and Note 29.2 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 have been prepared on a historical cost basis, except for financial instruments that are measured at amortised cost or fair value. Plan assets are also measured at fair value, taking into account actuarial gains or losses. The financial statements are presented in euros (EUR) and all values are rounded to the nearest thousand (EUR '000), unless otherwise indicated.

Due to the exception in the Financial Regulations as regards non-adoption of the criteria for plan assets as defined in IAS 19.7 (see Note 1), the Organisation was not an IFRS first-time adopter within the meaning of IFRS 1. However, the Organisation had applied IFRS 1 as of the transition date 1 January 2005 to be comparable with other IFRS first-time adopters and fulfilled the disclosure requirements of IFRS 1.

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.

Standards effective (or adopted early) in 2010 and having an impact on the financial statements as of 31 December 2010

The application of new standards had no impact on the EPO's financial statements as of 31 December 2010.

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

IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010). The IASB amended IFRS 1 to exempt first-time adopters of IFRS from providing the additional disclosures introduced by the March 2009 amendments to **IFRS 7 Improving Disclosures about Financial Instruments**. The amendment gives first-time adopters the same transitional provisions that the amendments to IFRS 7 provide to current IFRS preparers. These amendments will have no impact on the EPO's accounts.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011). The first amendment replaces references to a fixed transition date of "1 January 2004" with "the date of transition to IFRS", thus eliminating the need for companies adopting IFRS for the first time to restate derecognition transactions that occurred before the date of transition to IFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRS because its unit of account was subject to severe hyperinflation. These amendments will have no impact on the EPO's accounts.

IFRS 7 Financial Instruments: Disclosures – Amendments Enhancing Disclosures about Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2010). The IASB introduced enhanced disclosure requirements to IFRS 7 Financial Instruments: Disclosures as part of its comprehensive review of off-balance-sheet activities. The amendments are designed to ensure that users of financial statements are better able to understand transactions involving the transfer of financial assets (e.g. securitisations), 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 number of transfer transactions are undertaken around the end of a reporting period. These amendments will have no impact on the EPO's accounts.

IAS 12 Income Taxes (amendments) (effective for annual periods beginning on or after 1 July 2011). IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in **IAS 40 Investment Property**. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will normally be through sale. As a result of the amendments, **SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets** would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn. These amendments will have no impact on the EPO's accounts.

Interpretations and amendments to existing standards which became effective in 2010 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 2010 but they are not relevant to the Organisation's operations:

- **IFRS 1 First-time Adoption of International Financial Reporting Standards - Additional Exemptions for First-time Adopters** (amendments)
- **IFRS 2 Group Cash-settled Share-based Payment Arrangements**
- **IAS 32 Financial Instruments: Presentation – Amendments Relating to Classification of Rights Issues**
- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**

As part of its annual improvement process, the IASB issued an omnibus of amendments to its standards, 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 CONSOLIDATION

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

2.3 FOREIGN CURRENCY TRANSLATION

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

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

The assets and liabilities relating to the defined benefit pension plans and other post-employment benefits as defined in Note 2.14.11. are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, 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 25)

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 an available-for-sale financial asset is other than temporarily impaired. This requires significant judgement. In making this judgement, the Organisation evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost.

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

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

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

2.5 REVENUE RECOGNITION

2.5.1 Revenue from patent and procedural fees

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

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

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

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

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

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

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

Patent granting fees are recognised in the Statement of Comprehensive Income after the service related to each fee has been fully performed by the EPO.

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 upon full completion of the underlying work as follows:

- **Search fees and claims fees for the eleventh and each subsequent claims:** 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 EPO Contracting States 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 2.5.1.3 below (national renewal fees for granted patents).

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

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

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

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

The EPO does not start performing the service until the fee involved has been received.

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

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

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

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

2.5.1.3 National renewal fees for granted European patents

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

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

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

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

2.5.2 Other revenue

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

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

2.5.3 Potential future national renewal fees for European patents

The EPO's costs related to the patent granting process from filing up to grant are covered only partly by its own procedural fees, the remainder being financed from national renewal fees for granted European patents, payable for each year the patent is maintained in force (see also Note 2.5.1.3.). Further information on the financing of the EPO is provided in Note 28.2 on capital management.

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

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

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

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

Life expectancy and national validations are estimated using historical statistics for each Contracting State.

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

2.6 FINANCE REVENUE

Finance revenue is recognised on an accrual basis using the effective interest method.

2.7 LEASES

A lease is classified as a finance lease if it transfers to the lessee substantially all of the risks and rewards incidental to ownership. All other leases are treated as operating leases.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the legal form of the contract.

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

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

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

2.8 INCOME TAXES

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

2.9 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

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

2.10 INTANGIBLE ASSETS

Intangible assets acquired separately are capitalised at cost. Following initial recognition, an intangible asset is carried at its cost less any accumulated amortisation. The depreciable amount of an intangible asset is allocated on a straight-line basis over its useful life 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.

2.11 OTHER ASSETS

The repurchase value of insurance contracts agreed between the former Institut International des Brevets (ex-IIB) and several insurance companies is presented as a separate asset – 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 all other respects they are treated as plan assets. 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 19. A corresponding liability is recognised and presented separately in the Statement of Financial Position ("Salary Savings Plan obligation")

2.12 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.

Purchase and sale of financial assets are recognised using settlement-date accounting. The settlement date is the day on which the asset is delivered to or by the EPO.

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 IAS 39 (Financial Instruments: Recognition and Measurement) in the following categories: at fair value through profit or loss; available-for-sale; and loans and receivables. The classification depends on the purpose for which the financial asset was acquired. The classification of financial assets is determined at initial recognition and re-evaluated at every reporting date.

A financial asset is derecognised when the contractual rights to its cash flows have expired. A financial liability is derecognised when the obligation specified in the contract is discharged or cancelled or expires.

Marketable securities

Available-for-sale marketable securities are debt instruments actively traded in organised financial markets and their fair value is usually determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Available-for-sale investments are measured after initial recognition at fair value without any deduction for transaction costs on sale or disposal. Gains and losses arising from a change in fair value are recognised as a separate component of equity until the investment is derecognised or until the investment is found to be impaired, at which time the cumulative gain or loss in equity previously reported is included in the Statement of Comprehensive Income. Interest income from these instruments is shown under finance revenues and is calculated using the effective interest method.

The EPO assesses at each balance sheet date whether there is any objective evidence that an available-for-sale security is impaired. If any such evidence exists, an amount comprising the difference between its acquisition cost and its current fair value, 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.

Available-for-sale marketable securities are included in non-current assets unless they are disposed of within 12 months of the balance sheet date or the investment is due during that period. If the decision to dispose is already certain at the balance sheet date, then the marketable securities are classified as assets held for sale.

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 current 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.

Other financial assets / Cash and cash equivalents

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 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 purpose 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.

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.

2.13 EQUITY

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

2.14 EMPLOYEE BENEFITS**2.14.1 Net defined benefit liability**

Employee benefits comprise any benefits given by an employer to actual or former employees and to those entitled under them (beneficiary) for past services rendered. 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. Typically, defined benefit plans define an amount of pension benefit that an employee 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 are invested by the RFPSS. 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.

2.14.1.1 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 less the fair value of plan assets, together with adjustments - if any - for unrecognised actuarial gains or losses and past service costs.

The DBO is calculated annually by independent actuaries at the OECD's Joint Pension Administrative Section (JPAS) 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.

The plan assets comprise assets held by a long-term employee benefit fund. The expected return on plan assets is based on market expectations. The calculation also takes administrative costs into account, including custodian fees, taxes on income (non-EPO-Contracting States) and other expenses such as bank charges.

Actuarial gains and losses arising from changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the DBO are charged or credited to employee benefit expenses over the employees' expected average remaining working lives (corridor approach). Due to the exception to the Financial Regulations as regards non-adoption of the criteria for plan assets as defined in IAS 19.7, the Organisation was not an IFRS first-time adopter within the meaning of IFRS 1. However, the Organisation applied IFRS 1 as of the transition date 1 January 2005 to recognise the cumulative actuarial gains and losses from all defined benefit plans directly in equity at the date of transition.

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. The return on plan assets is classified as interest revenue. 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.

2.14.1.2 Other post-employment benefit obligations

The Organisation provides health and LTC insurance for its pensioners. 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 arising from changes in actuarial assumptions in excess of the greater of 10% of the value of the plan assets – if any – or 10% of the DBO, are charged or credited to income over the expected average remaining working lives of the employees concerned. These 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. Payments to beneficiaries are carried out 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 pensioners by the insurance company.

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 carried out directly by the Organisation and financed by the contributions of the staff members and the Organisation.

2.14.2 Salary Savings Plan obligation

Since 1 January 2009, the Organisation operates an SSP managed by external service providers. The amount of the SSP received by the beneficiaries is recognised as an obligation from other long-term employee benefits and is determined by the amount of contributions paid by the Office and the beneficiary to that plan together with investment returns on the contributions. Contributions paid by the EPO are included in employee benefit expenses. In contrast to the accounting treatment of pension and other post-employment benefit obligations, any gains and losses are recognised immediately in the Statement of Comprehensive Income as finance revenue or finance costs. The main characteristics of the SSP are summarised in Note 19.

2.14.3 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.

2.15 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.

2.16 PREPAID FEES

Prepaid fees are recognised to record payments received for services not yet performed. See Note 2.5 above.

3. REVENUE

3.1 REVENUE

The revenue breaks down into the following categories:

	in '000 EUR	
Revenue from patent and procedural fees	2010	2009
Procedural fees related to the patent grant process (Note 3.2)	993 758	880 012
National renewal fees for granted patents	352 669	335 169
Total	1 346 427	1 215 181
Other revenue		
Searches for national offices and third parties	53 911	45 337
Patent information services and products	8 936	7 376
Administrative fees	3 824	3 651
Total	66 671	56 364

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	
	2010	2009
Procedural fees for filing and search – EPC and Euro-PCT	156 636	145 895
Procedural fees for international searches – PCT	113 080	127 640
Procedural fees for examination and grant – EPC and Euro-PCT	198 183	177 677
Procedural fees for international preliminary examinations – PCT	14 064	15 743
Procedural fees for opposition	2 398	2 170
Procedural fees for appeal and protest	2 207	2 087
Designation, extension and validation fees	63 656	58 908
Renewal fees for patent applications	443 534	349 892
Total	993 758	880 012

4. POTENTIAL FUTURE NATIONAL RENEWAL FEES FOR EUROPEAN PATENTS

The net present value of these fees is KEUR 2 839 901 (2009: KEUR 2 747 673).

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 2.00% and 5.23% in 2010 (2009: between 2.20% and 5.55%). A one percentage point increase in the discount rates applied would result in a decrease of KEUR 137 618 (2009: KEUR 132 795) in the net present value of potential future national renewal fees.

For further information see Notes 2.4 and 2.5.3.

5. OTHER OPERATING INCOME

in '000 EUR		
	2010	2009
Third-party project funding	7 694	6 037
Income from valuation of insurance funds	2 071	2 170
Rental income	1 659	1 527
Gains from marketable securities	–	1 167
Other	5 798	4 950
Total	17 222	15 851

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 has at Vanbreda. In 2010, the credit balance at Vanbreda increased by KEUR 43 (2009: KEUR 74).

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		
	2010	2009
Netherlands Patent Office	665	698
Other	994	829
Total	1 659	1 527

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

in '000 EUR		
	2010	2009
Not later than one year	665	698
Later than one year and not later than five years	665	1 395
Later than five years	–	–
Total	1 330	2 093

6. EMPLOYEE BENEFIT EXPENSES

in '000 EUR		
	2010	2009
Basic salaries permanent employees	593 068	570 492
Social security incl. recognised actuarial gains ¹	251 976	225 991
Allowances and other benefits	172 228	154 669
Past service costs for "tax adjustments"	22 558	19 614
School and day-care centres	20 562	19 925
Training	9 162	9 173
Remuneration of other employees	8 803	11 385
Other	9 197	10 244
Total	1 087 554	1 021 493

¹ Incl. past service costs amounting to KEUR 33 (2009: past service cost KEUR 859), see Note 18

7. OTHER OPERATING EXPENSES

	in '000 EUR	
	2010	2009
IT maintenance	58 139	66 432
Property and equipment maintenance	47 621	49 933
Consultancy and other external services	23 127	19 070
Patent information and public relations	11 727	11 050
Co-operation and meetings	9 995	8 483
Documentation	9 009	9 193
Travel	6 084	5 505
Postage and telecommunications	5 429	5 138
Office supply	3 433	4 146
Other	11 744	8 929
Total	186 308	187 879

8. FINANCE REVENUE

	in '000 EUR	
	2010	2009
Expected return on plan assets	246 744	185 931
Interest income from home loans	6 743	5 168
Interest income on marketable securities	5 671	1 442
Interest income from bank accounts and deposits	4 752	13 286
Valuation gains assets Salary Savings Plan	269	74
Other	171	330
Total	264 350	206 231

9. FINANCE COSTS

	in '000 EUR	
	2010	2009
Interest costs on defined benefit obligations	329 160	296 220
Interest costs finance lease	1 382	1 793
Increase obligation Salary Savings Plan	269	74
Other	426	912
Total	331 237	298 999

10. PROPERTY, PLANT AND EQUIPMENT

The reconciliation of the carrying amount of property, plant and equipment for the year 2010 is as follows:

	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	–	–	–	–
Cost at 31 December 2010	174 732	811 054	134 029	1 119 815
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	–	–	–	–
Accumulated depreciation 31 December 2010	–	(357 401)	(98 724)	(456 125)
Impairment loss for the year	–	–	–	–
Accumulated impairment 31 December 2010	(12 819)	–	–	(12 819)
Net carrying value 1 January 2010	161 913	479 377	45 830	687 120
Net carrying value 31 December 2010	161 913	453 653	35 305	650 871
Including construction in progress				
1 January 2010	–	11 998	–	11 998
31 December 2010	–	21 665	–	21 665

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

As at 31 December 2010, property, plant and equipment includes EUR 13.8m of the asset retirement obligation relating to renovation of the Isar building in Munich due to asbestos contamination (2009: EUR 16.4m).

The disposals in 2010 (EUR 11.8m acquisition cost, EUR 4.8m net book value) relate mainly to replacement of mainframe servers leased from IBM (EUR 8.3m acquisition cost, EUR 3.6m net book value) and renovation of the carpark in the Shell building in The Hague (EUR 1.4m acquisition cost, EUR 0.9m 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 20.5m (2009: EUR 27.1m).

The comparative figures for the year 2009 are presented in the table below:

in '000 EUR				
	Land	Buildings	Office equipment	Total
Cost at 1 January 2009	174 732	780 135	166 891	1 121 758
Additions	–	20 957	11 955	32 912
Disposals	–	(1 525)	(44 540)	(46 065)
Transfers	–	–	–	–
Cost at 31 December 2009	174 732	799 567	134 306	1 108 605
Accumulated depreciation 1 January 2009	–	(284 529)	(113 979)	(398 508)
Depreciation for the year	–	(36 148)	(17 732)	(53 880)
Disposals	–	487	43 235	43 722
Transfers	–	–	–	–
Accumulated depreciation 31 December 2009	–	(320 190)	(88 476)	(408 666)
Impairment loss for the year	–	–	–	–
Accumulated impairment 31 December 2009	(12 819)	–	–	(12 819)
Net carrying value 1 January 2009	161 913	495 606	52 912	710 431
Net carrying value 31 December 2009	161 913	479 377	45 830	687 120
Including construction in progress				
1 January 2009	–	2 869	–	2 869
31 December 2009	–	11 998	–	11 998

11. INTANGIBLE ASSETS

The reconciliation of the balances of intangible assets for the year 2010 is 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	–	–	–	–
Cost at 31 December 2010	8 065	54 633	29 984	92 682
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	–	–	–	–
Accumulated amortisation 31 December 2010	(7 047)	(45 071)	(6 386)	(58 504)
Net carrying value 1 January 2010	961	11 677	24 242	36 880
Net carrying value 31 December 2010	1 018	9 562	23 598	34 178
Including construction in progress				
1 January 2010	–	–	14 715	14 715
31 December 2010	–	–	9 892	9 892

The comparative figures for 2009 are as follows:

in '000 EUR				
	Acquired software	Acquired information systems	Internally generated systems	Total
Cost at 1 January 2009	7 093	54 693	24 380	86 166
Additions	475	–	3 168	3 643
Disposals	(5)	–	–	(5)
Transfers	–	(60)	60	–
Cost at 31 December 2009	7 563	54 633	27 608	89 804
Accumulated amortisation 1 January 2009	(6 135)	(40 847)	(1 379)	(48 361)
Amortisation for the year	(471)	(2 117)	(1 979)	(4 567)
Amortisation disposals	4	–	–	4
Amortisation transfers	–	8	(8)	–
Accumulated amortisation 31 December 2009	(6 602)	(42 956)	(3 366)	(52 924)
Net carrying value 1 January 2009	958	13 846	23 001	37 805
Net carrying value 31 December 2009	961	11 677	24 242	36 880
Including construction in progress				
1 January 2009	–	–	21 622	21 622
31 December 2009	–	–	14 715	14 715

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 1 228 (2009: KEUR 618) are presented in the Statement of Comprehensive Income as "Work performed and capitalised".

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

in '000 EUR		
Construction in progress	2010	2009
Docarea	–	6 361
SPP	1 005	–
Epoque	8 887	8 354
Total	9 892	14 715

The Docarea system was completed in February 2010 and is now in operation. Its total development cost was KEUR 6 422.

12. OTHER ASSETS

in '000 EUR		
	2010	2009
Repurchase value insurance funds ex-IIB	51 234	49 407
Assets Salary Savings Plan (SSP)	2 977	762
Other	5 734	5 691
Total	59 945	55 860

The EPO holds contracts (funds) concluded by the ex-IIB with several insurance companies in order to receive reimbursements for pension payment to ex-IIB staff members. The Organisation received reimbursements from these funds amounting to KEUR 202 (2009: KEUR 210). Regarding the changes to the repurchase value of these funds and to the EPO's balance at Vanbreda, disclosed as "Other", reference is made to 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 19.

13. MARKETABLE SECURITIES

The EPO's marketable securities include the following:

in '000 EUR		
	2010	2009
Interest-bearing bonds – quoted	401 671	92 781
Interest-bearing bonds – unquoted	–	–
Total	401 671	92 781
Current	–	–
Non-current	401 671	92 781

Interest-bearing bonds quoted in active markets are classified as available-for-sale bearing nominal interest in the range from 1.75% to 6.00% (2009: 2.25% to 6.00%) and maturity dates between February 2012 and January 2016 (2009: February 2012 and November 2014).

Net gains and losses on marketable securities were as follows:

in '000 EUR		
Financial assets at fair value through P&L	2010	2009
Net gains or losses	–	1 167
Available for sale financial assets		
Amount recognised in profit or loss	–	–
Amount recognised in equity during the period	(3 175)	(984)
Amount reclassified from equity to profit or loss	–	341
Total interest income	5 671	1 442

No impairment provisions are required on marketable securities in 2010 (2009: Nil).

14. HOME LOANS TO STAFF

	in '000 EUR	
	2010	2009
Home loans non-current	105 486	103 425
Home loans current	4 825	3 815
Total	110 311	107 240

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 2010 the net loss due to revaluation of new home loans to fair value amounted to KEUR 1 985 (2009: KEUR 2 030). 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. TRADE AND OTHER RECEIVABLES

	in '000 EUR	
	2010	2009
Trade receivables	69 011	64 587
Trade receivables – Contracting States	69 011	64 587
Trade receivables – clients	8 126	13 527
Total	77 137	78 114
Other receivables	14 482	16 081
Other receivables – tax	14 482	16 081
Other receivables – staff and related accounts	222	335
Other receivables – others	24 940	17 978
Total	39 644	34 394
Total trade and other receivables	116 781	112 508

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 - clients that were past due but not impaired is as follows:

	in '000 EUR	
	2010	2009
Net carrying amount, trade receivables – clients	8 126	13 527
Of which neither impaired nor past due on the reporting date	5 879	8 187
Of which not impaired as of the reporting date and past due in the following periods:		
Less than 120 days	1 661	4 001
More than 120 days	586	1 339

During 2010, the EPO wrote off uncollectible receivables amounting to KEUR 13 (2009: KEUR 3) which are shown in the Statement of Comprehensive Income under other operating expenses.

Trade receivables – Contracting States 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 pensioners' income tax payable ("tax adjustment") to the EPO by the Contracting States.

Other receivables – others mainly consist of accrued income on marketable securities and fixed-term deposits and advance payments to various suppliers.

16. OTHER FINANCIAL ASSETS

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

	in '000 EUR	
	2010	2009
Other financial assets non-current	27 000	–
Other financial assets current	382 041	413 070
Total	409 041	413 070

17. 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	
	2010	2009
Short-term bank deposits	36 200	88 640
Cash at bank and in hand	6 964	17 253
Total	43 164	105 893

The effective interest rate achieved in 2010 on all fixed-term deposits disclosed in Notes 16 and 17 was 1.06% (2009: 2.55%).

18. NET DEFINED BENEFIT LIABILITY

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%	
Expected return on plan assets	6.95%	6.95%	6.95%		
Future salaries increase	2.50%	2.50%		2.50%	
Future pensions increase	2.50%	2.50%			
Medical costs inflation			3.20%		
The Organisation is expected to contribute EUR 152 m in 2011					
Expected average remaining working lives	19	19	19	19	
Present value of obligation 1 January 2010	5 133 721	133 276	508 488	124 261	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	(120 123)	(2 762)	(11 553)	(4 911)	(139 349)
Actuarial (gain) loss on obligation	215 895	13 974	70 278	(4 517)	295 630
Present value of obligation 31 December 2010	5 762 543	157 321	626 584	132 620	6 679 068
Fair value of plan assets 1 January 2010	3 159 996	50 893	279 450	–	3 490 339
Expected return on plan assets	223 565	3 757	19 422	–	246 744
Contributions	185 785	9 089	9 316	–	204 190
Transfer of pension rights	10 266	–	–	–	10 266
Benefits paid	(82 515)	(2 762)	(11 553)	–	(96 830)
Actuarial gain (loss) on plan assets	110 689	1 905	11 663	–	124 257
Fair value of plan assets 31 December 2010	3 607 786	62 882	308 298	–	3 978 966
Limits of corridor	513 372	13 328	50 849	12 426	
Unrecognised actuarial gains (losses) 1 January 2010	(173 389)	(8 196)	199 343	8 252	
Actuarial gain (loss) for the year – obligation	(215 895)	(13 974)	(70 278)	4 517	
Actuarial gain (loss) for the year – plan assets	110 689	1 905	11 663	–	
Subtotal	(278 595)	(20 265)	140 728	12 769	
Actuarial (gain) loss recognised	–	–	(7 815)	–	
Unrecognised actuarial gains (losses) 31 December 2010	(278 595)	(20 265)	132 912	12 769	
Amounts recognised in the Statement of Financial Position					
Present value of funded obligation as at 31 December 2010	5 374 044	157 321	626 584	–	6 157 949
Fair value of plan assets 31 December 2010	(3 607 786)	(62 882)	(308 298)	–	(3 978 966)
Subtotal	1 766 258	94 439	318 286	–	2 178 983
Unfunded obligation	388 499	–	–	132 620	521 119
Unrecognised actuarial gains (losses)	(278 595)	(20 265)	132 912	12 769	(153 178)
Unrecognised past service costs	(53 753)	–	–	–	(53 753)
Liability recognised in the Statement of Financial Position	1 822 409	74 174	451 198	145 389	2 493 171
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)
Expected return on plan assets	(223 565)	(3 757)	(19 422)	–	(246 744)
Net actuarial (gains) or losses recognised in year 2010	–	–	(7 815)	–	(7 815)
Recognised in the Statement of Comprehensive Income	266 088	5 901	32 134	19 260	323 383
Actual return on plan assets					
Expected return on plan assets	223 565	3 757	19 422	–	246 744
Actuarial gain on plan assets	110 689	1 905	11 663	–	124 257
Actual return on plan assets	334 254	5 662	31 085	–	371 001

Net 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%	
Expected return on plan assets	6.95%	6.95%			
Future salaries increase	2.50%	2.50%		2.50%	
Future pensions increase	2.50%	2.50%			
Medical costs inflation			5.30%		
The Organisation is expected to contribute EUR 120 m in 2010					
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
Present value of obligation 31 December 2009	5 133 721	133 276	508 488	124 261	5 899 746
Fair value of plan assets 1 January 2009	2 364 601	34 243	219 220	–	2 618 064
Expected return on plan assets	168 099	2 596	15 236	–	185 931
Contributions	193 002	8 677	8 780	–	210 459
Transfer of pension rights	10 156	–	–	–	10 156
Benefits paid	(74 612)	(2 460)	(13 593)	–	(90 665)
Actuarial gain (loss) on plan assets	498 750	7 837	49 807	–	556 394
Fair value of plan assets 31 December 2009	3 159 996	50 893	279 450	–	3 490 339
Limits of corridor	421 378	10 702	52 120	10 091	
Unrecognised actuarial gains (losses) 1 January 2009	(112 698)	1 907	89 228	24 166	
Actuarial gain (loss) for the year – obligation	(559 441)	(17 940)	62 261	(15 173)	
Actuarial gain (loss) for the year – plan assets	498 750	7 837	49 807	–	
Subtotal	(173 389)	(8 196)	201 296	8 993	
Actuarial (gain) loss recognised	–	–	(1 953)	(741)	
Unrecognised actuarial gains (losses) 31 December 2009	(173 389)	(8 196)	199 343	8 252	
Amounts recognised in the Statement of Financial Position					
Present value of funded obligation as at 31 December 2009	4 749 809	133 276	508 488	–	5 391 573
Fair value of plan assets 31 December 2009	(3 159 996)	(50 893)	(279 450)	–	(3 490 339)
Subtotal	1 589 813	82 383	229 038	–	1 901 234
Unfunded obligation	383 912	–	–	124 261	508 173
Unrecognised actuarial gains (losses)	(173 389)	(8 196)	199 343	8 252	26 010
Unrecognised past service costs	(76 311)	–	–	–	(76 311)
Liability recognised in the Statement of Financial Position	1 724 025	74 187	428 381	132 513	2 359 106
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	(53 719)	(2 740)	–	(2 231)	(58 690)
Expected return on plan assets	(168 099)	(2 596)	(15 236)	–	(185 931)
Net actuarial (gains) or losses recognised in year 2009	–	–	(1 953)	(741)	(2 694)
Recognised in the Statement of Comprehensive Income	256 270	5 438	45 958	12 404	320 070
Actual return on plan assets					
Expected return on plan assets	168 099	2 596	15 236	–	185 931
Actuarial gain on plan assets	498 750	7 837	49 807	–	556 394
Actual return on plan assets	666 849	10 433	65 043	–	742 325

Net defined benefit liability

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%	
Expected return on plan assets	7.50%	7.50%			
Future salaries increase	2.50%	2.50%		2.50%	
Future pensions increase	2.50%	2.50%			
Medical costs inflation			5.00%		
The Organisation is expected to contribute EUR 112 m in 2009					
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)
Present value of obligation 31 December 2008	4 213 782	107 022	521 195	100 912	4 942 911
Fair value of plan assets 1 January 2008	3 329 424	43 162	–	–	3 372 586
Expected return on plan assets	253 480	3 452	20 625	–	277 557
Contributions	150 848	7 973	308 655	–	467 476
Transfer of pension rights	18 416	–	–	–	18 416
Benefits paid	(68 654)	(2 250)	(11 796)	–	(82 700)
Actuarial gain (loss) on plan assets	(1 318 913)	(18 094)	(98 264)	–	(1 435 271)
Fair value of plan assets 31 December 2008	2 364 601	34 243	219 220	–	2 618 064
Limits of corridor	426 604	11 843	52 359	9 951	
Unrecognised actuarial gains (losses) 1 January 2008	808 520	(471)	140 590	18 077	
Actuarial gain (loss) for the year – obligation	416 791	20 472	51 314	6 495	
Actuarial gain (loss) for the year – plan assets	(1 318 913)	(18 094)	(98 264)	–	
Subtotal	(93 602)	1 907	93 640	24 572	
Actuarial (gain) loss recognised	(19 096)	–	(4 412)	(406)	
Unrecognised actuarial gains (losses) 31 December 2008	(112 698)	1 907	89 228	24 166	
Amounts recognised in the Statement of Financial Position					
Present value of funded obligation as at 31 December 2008	2 747 434	107 022	521 195	–	3 375 651
Fair value of plan assets 31 December 2008	(2 364 601)	(34 243)	(219 220)	–	(2 618 064)
Subtotal	382 833	72 779	301 975	–	757 587
Unfunded obligation	1 466 348	–	–	100 912	1 567 260
Unrecognised actuarial gains (losses)	(112 698)	1 907	89 228	24 166	2 603
Unrecognised past service costs	(95 925)	–	–	–	(95 925)
Liability recognised in the Statement of Financial Position	1 640 558	74 686	391 203	125 078	2 231 525
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	(50 052)	(2 740)	–	(1 929)	(54 721)
Expected return on plan assets	(253 480)	(3 452)	(20 625)	–	(277 557)
Net actuarial (gains) or losses recognised in year 2008	(19 096)	–	(4 412)	(406)	(23 914)
Recognised in the Statement of Comprehensive Income	127 561	5 124	35 676	12 250	180 611
Actual return on plan assets					
Expected return on plan assets	253 480	3 452	20 625	–	277 557
Actuarial gain on plan assets	(1 318 913)	(18 094)	(98 264)	–	(1 435 271)
Actual return on plan assets	(1 065 433)	(14 642)	(77 639)	–	(1 157 714)

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%	
Expected return on plan assets	8.10%	8.10%			
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		
The Organisation is expected to contribute EUR 152 m in 2008					
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)
Present value of obligation 31 December 2007	4 266 038	118 428	523 592	99 512	5 007 570
Fair value of plan assets 1 January 2007	3 135 153	36 477	–	–	3 171 630
Expected return on plan assets	256 923	3 169	–	–	260 092
Contributions	135 457	7 399	7 208	–	150 064
Transfer of pension rights	9 051	–	–	–	9 051
Benefits paid	(71 026)	(2 102)	(10 738)	–	(83 866)
Actuarial gain (loss) on plan assets	(136 134)	(1 781)	3 530	–	(134 385)
Fair value of plan assets 31 December 2007	3 329 424	43 162	–	–	3 372 586
Limits of corridor	373 266	12 167	55 275	10 169	
Unrecognised actuarial gains (losses) 1 January 2007	439 601	(11 222)	57 204	6 607	
Actuarial gain (loss) for the year – obligation	508 370	12 532	79 952	11 469	
Actuarial gain (loss) for the year – plan assets	(136 134)	(1 781)	3 530	–	
Subtotal	811 837	(471)	140 686	18 076	
Actuarial (gain) loss recognised	(3 317)	–	(96)	–	
Unrecognised actuarial gains (losses) 31 December 2007	808 520	(471)	140 590	18 076	
Amounts recognised in the Statement of Financial Position					
Present value of funded obligation as at 31 December 2007	3 439 453	118 428	523 592	–	4 081 473
Fair value of plan assets 31 December 2007	(3 329 424)	(43 162)	–	–	(3 372 586)
Subtotal	110 029	75 266	523 592	–	708 887
Unfunded obligation	826 586	–	–	99 511	926 097
Unrecognised actuarial gains (losses)	808 521	(471)	140 590	18 076	966 716
Unrecognised past service costs	(113 622)	–	–	–	(113 622)
Liability recognised in the Statement of Financial Position	1 631 514	74 795	664 182	117 587	2 488 078
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)
Expected return on plan assets	(256 923)	(3 169)	–	–	(260 092)
Net actuarial (gains) or losses recognised in year 2007	(3 317)	–	(96)	–	(3 413)
Recognised in the Statement of Comprehensive Income	689 490	5 698	61 433	14 375	770 996
Actual return on plan assets					
Expected return on plan assets	256 923	3 169	–	–	260 092
Actuarial gain on plan assets	(136 134)	(1 781)	–	–	(137 915)
Actual return on plan assets	120 789	1 388	–	–	122 177

Net defined benefit liability

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%	
Expected return on plan assets	8.10%	8.10%			
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		
The Organisation is expected to contribute EUR 99 m in 2007					
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)
Present value of obligation 31 December 2006	3 732 658	121 668	552 753	101 685	4 508 764
Fair value of plan assets 1 January 2006	2 721 322	27 608	-	-	2 748 930
Expected return on plan assets	223 302	2 443	-	-	225 745
Contributions	119 333	7 008	6 190	-	132 531
Transfer of pension rights	12 215	-	-	-	12 215
Benefits paid	(60 565)	(1 896)	(9 192)	-	(71 653)
Actuarial gain (loss) on plan assets	119 546	1 314	3 002	-	123 862
Fair value of plan assets 31 December 2006	3 135 153	36 477	-	-	3 171 630
Limits of corridor	366 614	10 882	59 868	10 282	
Unrecognised actuarial gains (losses) 1 January 2006	71 943	(7 621)	(51 193)	(3 236)	
Actuarial gain (loss) for the year – obligation	248 112	(4 915)	105 395	9 843	
Actuarial gain (loss) for the year – plan assets	119 546	1 314	3 002	-	
Subtotal	439 601	(11 222)	57 204	6 607	
Actuarial (gain) loss recognised	-	-	-	-	
Unrecognised actuarial gains (losses) 31 December 2006	439 601	(11 222)	57 204	6 607	
Amounts recognised in the Statement of Financial Position					
Present value of funded obligation as at 31 December 2006	3 622 948	121 668	552 753	-	4 297 369
Fair value of plan assets 31 December 2006	(3 135 153)	(36 477)	-	-	(3 171 630)
Subtotal	487 795	85 191	552 753	-	1 125 739
Unfunded obligation	109 711	-	-	101 685	211 396
Unrecognised actuarial gains (losses)	439 601	(11 222)	57 204	6 607	492 190
Unrecognised past service costs	-	-	-	-	-
Liability recognised in the Statement of Financial Position	1 037 107	73 969	609 957	108 292	1 829 325
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)
Expected return on plan assets	(223 302)	(2 443)	-	-	(225 745)
Net actuarial (gains) or losses recognised in year 2006	-	-	-	-	-
Recognised in the Statement of Comprehensive Income	104 589	5 007	68 660	11 858	190 114
Actual return on plan assets					
Expected return on plan assets	223 302	2 443	-	-	225 745
Actuarial gain on plan assets	119 546	1 314	-	-	120 860
Actual return on plan assets	342 848	3 757	-	-	346 605

in '000 EUR

Post-employment medical benefits	2010	2009
Defined benefit obligation	626 584	508 488
Experience adjustment on plan liabilities	70 278	(62 261)
Experience adjustment on plan assets	11 663	49 807

in '000 EUR

Defined benefit plans other than medical benefits	2010	2009
Defined benefit obligation	6 052 484	5 391 258
Experience adjustment on plan liabilities	225 352	592 554
Experience adjustment on plan assets	112 594	506 587

For the fiscal year 2010 a one percentage point change in assumed health care cost trends would have the following effects:

in '000 EUR

	One percentage point increase	One percentage point decrease
Effect on the aggregate of service costs and interest costs	20 353	(16 716)
Effect on DBO	173 197	(131 300)

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

in '000 EUR

	2010	2009
Pension benefits		
Office contributions ¹	111 446	107 746
Staff contributions	55 487	53 719
LTC benefits		
Office contributions	5 946	5 665
Staff and pensioners' contributions	3 175	2 996
Post-employment medical care		
Office contributions	44 497	43 272
Staff and pensioners' contributions	18 002	17 137
Death and invalidity		
Office contributions	3 438	4 969
Staff contributions	1 473	2 231
Total	243 464	237 735

¹ Net of reimbursements for ex-IIB employees from external insurance companies as disclosed in Note 12.

In addition, a contribution of KEUR 20 195 was made in July 2010 in order to fund the part of the Organisation's pension DBO built up for partial compensation. This money is kept in a separate fund of the RFPSS.

The major categories of plan assets are as follows¹:

	as %	
	2010	2009
Domestic equities	25	25
Domestic bonds	24	25
Foreign equities	24	23
Emerging markets	8	9
Real estate	8	7
Commodities	6	5
Foreign bonds	3	3
Cash	2	3
Total	100	100

¹ Money market funds from short-term securities lending, if any, are not included as a separate category.

18.1 EXPLANATIONS OF THE ACTUARIAL ASSUMPTIONS

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 10 following years. The weighted average of purely medical inflation concerning the actual liability structure is 1.2% (2009: 3.3%).

The expected return on plan assets is based on expected long-term development, using the 10-year average rate of return of the past as a plausibility reference. It is intended to amend the expected return on plan assets as soon as the strategic asset allocation is amended or an updated asset allocation study results in a different rate of return. The expected return on plan assets for 2011 will be based on the same policy as for the reporting period.

The obligations for allowance payments to non-active staff are presented as an unfunded pension obligation as these obligations are not covered by the assets of the RFPSS:

	in '000 EUR	
	2010	2009
Invalidity allowance	237 574	246 936
Family allowances	150 925	136 976
Total	388 499	383 912

In 2009, the EPO started to fund the part of the Organisation's pension DBO built up for the tax adjustment / partial compensation. Its present value of KEUR 971 533 (2009: KEUR 865 656) is disclosed as a separable part of the funded pension obligation.

The Organisation receives reimbursements for ex-IIB employees from external insurance companies as disclosed in Note 12.

18.2. MAIN CHARACTERISTICS OF THE ORGANISATION'S DEFINED BENEFIT PLANS

18.2.1 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 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

18.2.2 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 the 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.

18.2.3 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 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%.
- 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.

18.2.4 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.

19. 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 1 January 2009 (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 18.2.1. One third of the compulsory contribution is charged to the employee, two thirds to the Office. Additional voluntary contributions, if any, shall be 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 2 977 (2009: KEUR 762). 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, reference is made to Note 12.

20. TRADE AND OTHER PAYABLES

Of total trade and other payables, KEUR 6 913 (2009: KEUR 6 233) is non-current and mainly includes an obligation for long-term employee benefits due to long-service leave and gratuities.

The current portion of trade and other liabilities is as follows

	in '000 EUR	
	2010	2009
Employee-related liabilities	80 879	72 353
Current deposit accounts by patent applicants	78 800	68 624
Payables to suppliers and trade creditors	53 538	44 438
Other	4 676	3 325
Total	217 893	188 740

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.

Employee-related liabilities mainly include accrued liabilities for untaken annual leave amounting to KEUR 39 161 (2009: KEUR 36 800) and home leave of KEUR 27 084 (2009: KEUR 26 512).

21. 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 84.9m (2009: 85.9m).

The contract signed with Telematics S.A. Brussels, Belgium, relates to the delivery, configuration and maintenance of storage capacity. As at 31 December 2010, the total value of the contract was EUR 48.7m (2009: EUR 46.4m), including equipment amounting to EUR 33.0m (2009: EUR 31.8m). 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. The contract period is 6 years. First installations under the contract took place in October 2006. The total value of the equipment delivered under the contract is EUR 9.6m (2009: EUR 9.5m).

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 signed 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 49.6m (2009: EUR 33.7m).

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

	in '000 EUR	
	2010	2009
Assets value		
Office equipment	20 532	27 119
Future lease payments		
Not later than one year	12 939	12 552
Later than one year and not later than five years	6 957	14 513
Later than five years	–	–
Total future lease payments	19 896	27 065
Future interest payable	(1 123)	(2 108)
Present value of future lease payments	18 773	24 957

22. PROVISIONS

	in '000 EUR			
	Asset retirement obligation	Litigation risks	Other	Total
1 January 2010	17 755	1 416	1 079	20 250
Use	(5 804)	(1 416)	(579)	(7 799)
Reversal	–	–	–	–
Addition	–	1 806	1 749	3 555
Interest effect	190	–	3	193
Other	–	–	–	–
31 December 2010	12 141	1 806	2 252	16 199
Current	12 141	1 806	1 574	15 521
Non-current	–	–	678	678
Total	12 141	1 806	2 252	16 199

The Organisation recognises an asset retirement obligation amounting to KEUR 9 814 (2009: KEUR 15 487) for renovating one of the buildings it owns in Munich (Erhardtstrasse) due to asbestos contamination. The corresponding debit is treated as part of the costs of the building. It is expected that the remaining related costs will be incurred in 2011.

A provision amounting to KEUR 2 327 (2009: KEUR 2 268) is recognised due to a contractual obligation for dismantling and renovating a leased office building in Munich (Westsite). The amount to settle this obligation depends on when the Organisation vacates the building. It is expected that these costs will occur 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 2010 and 2014.

23. 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 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
Total	871 589	31 192	902 781

in '000 EUR			
	Opening balance 1 January 2009	Increase/ (decrease)	Ending balance 31 December 2009
Searches – EPC and Euro-PCT	189 165	(13 870)	175 295
International searches – PCT	54 468	(10 324)	44 144
Examination – EPC and Euro-PCT	613 961	18 674	632 635
International preliminary examination – PCT	7 850	(1 360)	6 490
Opposition	6 159	92	6 251
Appeal	5 897	769	6 666
Others	107	1	108
Total	877 607	(6 018)	871 589

24. COMMITMENTS

in '000 EUR		
	2010	2009
Purchase commitments fixed assets	1 110	1 705

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 for the lease of office space in the Westsite building in Munich was signed with Hochtief Projektentwicklung GmbH. The EPO has exercised the option to terminate the contract at 31 December 2011. The annual rent for this building is EUR 4.2m.

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 2010 amounts to KEUR 18 323 (2009: KEUR 18 319).

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

in '000 EUR		
	2010	2009
Not later than one year	10 572	13 622
Later than one year and not later than five years	31 328	30 752
Later than five years	11 757	1 703
Total	53 657	46 077

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.

25. 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 with the consequence that the Office is required to pay the tax adjustment for those already in post before that date (see Note 2.14.1.1). 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 18). 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 18). 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 171 (2009: Nil) as an advance to the non-active staff concerned. This amount is recognised under "Other receivables – staff and related accounts" (see Note 15) 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 2.14.2). 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 12). 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 22).

26. 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 2010, it has not made any provisions for doubtful debts concerning amounts owed by related parties (2009: Nil).

26.1 RELATED PARTIES TO THE ORGANISATION

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 (DGs), each headed by a vice-president who together, along with the President, the Controller, the head of DG 1 Business Services, the Principal Director Finance 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.

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.

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 the Contracting States 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.

26.2 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	
	2010	2009
Compensation of key managers		
Short-term employee benefits ¹	2 789	2 329
Post-employment benefits, service costs	689	630
Post-employment benefits, defined contribution plans	108	67
Total	3 586	3 026

¹ 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 11 507 (2009: KEUR 7 566) for the key managers.

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

	in '000 EUR	
	2010	2009
MAC members and Fund Administrator	–	–
Close family members of key managers	–	–
Contracting States		
Co-operation with national offices	4 337	3 019
Rent office building Berlin	2 575	2 575
Total	6 912	5 594

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

	in '000 EUR	
	2010	2009
MAC members and Fund Administrator	2	2
Close family members of key managers	–	–
Contracting States		
Renewal fees for granted patents (incl. interest)	352 838	335 499
Searches on behalf of ex-IIB member states	34 200	32 872
Searches on behalf of other Contracting States	19 755	12 485
Reimbursement rent office building Berlin	1 012	1 031
Rental income Netherlands patent office	665	698
Other revenue	5 232	4 845
Total	413 704	387 432

Loans, receivables and other assets due from related parties

	in '000 EUR	
	2010	2009
MAC members and Fund Administrator	24	70
Close family members of key managers	–	–
Contracting States		
Renewal fees	69 011	64 587
VAT and other taxes	10 585	9 136
Contracting States using EPO services	6 197	11 376
Tax adjustments	3 897	6 945
Other	567	1 592
Total	90 281	93 706

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		
	2010	2009
MAC members and Fund Administrator	-	-
Close family members of key managers	-	-
Contracting States	13 424	3 640
Total	13 424	3 640

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".

27. ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

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						
	Available for sale	At fair value through profit or loss	Loans and receivables	Financial liabilities carried at amortised cost	Net carrying amount 31 Dec. 2010	Fair value 31 Dec. 2010
Financial assets						
Non-current						
Marketable securities						
Fixed interest-bearing bonds – quoted	401 671				401 671	401 671
Structured interest-bearing bonds – unquoted		-			-	-
Home loans to staff			105 486		105 486	112 678
Other financial assets			27 000		27 000	27 000
Other assets – other			5 735		5 735	5 735
Current						
Trade and other receivables						
			101 436		101 436	101 436
Marketable securities						
Fixed interest-bearing bonds – quoted	-				-	-
Structured interest-bearing bonds – unquoted		-			-	-
Home loans to staff			4 825		4 825	4 910
Other financial assets			382 041		382 041	382 041
Cash and cash equivalents			43 164		43 164	43 164
Total	401 671	-	669 687	-	1 071 358	1 078 635
Financial liabilities						
Non-current						
Trade and other payables						
				294	294	294
Finance lease liabilities						
				6 737	6 737	6 737
Current						
Trade and other payables						
				137 036	137 036	137 036
Finance lease liabilities						
				12 036	12 036	12 036
Total				156 104	156 104	156 104

in '000 EUR						
	Available for sale	At fair value through profit or loss	Loans and receivables	Financial liabilities carried at amortised cost	Net carrying amount 31 Dec. 2009	Fair value 31 Dec. 2009
Financial assets						
Non-current						
Marketable securities						
Fixed interest-bearing bonds – quoted	92 781				92 781	92 781
Structured interest-bearing bonds – unquoted		-			-	-
Home loans to staff			103 425		103 425	108 237
Other assets – other			5 691		5 691	5 691
Current						
Trade and other receivables						
			103 583		103 583	103 583
Marketable securities						
Fixed interest-bearing bonds – quoted	-				-	-
Structured interest-bearing bonds – unquoted		-			-	-
Home loans to staff			3 815		3 815	3 882
Other financial assets			413 070		413 070	413 070
Cash and cash equivalents			105 893		105 893	105 893
Total	92 781	-	735 476	-	828 257	833 137
Financial liabilities						
Non-current						
Trade and other payables						
				-	-	-
Finance lease liabilities						
				13 709	13 709	13 709
Current						
Trade and other payables						
				116 387	116 387	116 387
Finance lease liabilities						
				11 249	11 249	11 249
Total				141 345	141 345	141 345

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 fixed-interest-bearing bonds classified as available-for-sales securities is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the EPO is the current bid price.

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.

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 fair value hierarchy:

in '000 EUR				
31 December 2010	Level 1	Level 2	Level 3	Total
Fixed interest-bearing bonds – quoted	401 671			401 671
Total financial assets	401 671	–	–	401 671
31 December 2009	Level 1	Level 2	Level 3	Total
Fixed interest-bearing bonds – quoted	92 781			92 781
Total financial assets	92 781	–	–	92 781

28. FINANCIAL RISK MANAGEMENT

28.1 FINANCIAL INSTRUMENTS

The EPO has 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 marketable 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:

Cash flow, foreign exchange and fair value interest rate risk

The EPO's exposure to the risk for changes in market interest rates relates primarily to its marketable securities. 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 the cash-flow interest risk by investing the liquidity surpluses using a mix of fixed and structured 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 portfolio of marketable securities. 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 2010, the equity would have been by KEUR 11 610 (31 December 2009: KEUR 2 974) lower (higher) as a result of a decrease (increase) in fair value of fixed-interest-bearing bonds classified as available-for-sale. The higher volatility of marketable securities is mainly due to the expansion of the bonds portfolio by over 330% during 2010.

At 31 December 2010, 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 the income would have been as follows:

in '000 EUR		
	2010	2009
GBP	1 024	784
SEK	243	312
CHF	310	208
Total	1 577	1 304

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.

Liquidity risk

Liquidity risk management implies maintaining sufficient cash and marketable securities 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. marketable securities) 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 marketable securities 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 marketable securities. Based on past experience, the appropriate ratio is 30%:70%. This ratio is reviewed regularly.

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

Credit risk

Financial instruments deriving from the EPO's operational activities are not subject to significant 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 a AA "issuer rating".

EPO home loans are also not subject to significant credit risk. They are granted only to permanent staff, and repayment is guaranteed through 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 held by the EPO have to be capital-guaranteed with at least a AA rating. 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 marketable securities portfolio that may be invested in a single issuer.

28.2 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

- all income from fees and other sources, and the Organisation's reserves
- 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.

The Organisation's main assets are those of the RFPSS (included as plan assets in the net defined benefit liability), the investments in property, plant and equipment, and financial assets other than plan assets.

For managing the Organisation's capital, two substantial liabilities are to be addressed. Firstly, the EPO is a labour-intensive organisation based on intellectual human capital, so its main obligation concerns the pay and post-employment benefits of its staff. Its second large obligation concerns the prepaid fees it has already received in cash but for which it has not yet provided the services involved.

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. Thorough analyses of possible developments in demand for European patents and in applicant behaviour are conducted in close consultation with the relevant stakeholders.

Actual developments during the year are closely 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.

This planning and monitoring of EPO business and finances ensure that any necessary action (e.g. efficiency measures) can be prepared and taken in good time. This minimises any risk of the EPO not being able to finance its operations from its own resources. In addition, the EPO has taken measures to avoid the risk of sudden increases in its procedural fees or of special contributions from the Contracting States being needed to finance its long-term liabilities (especially for pensions and social security)

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.

In January 2008, the Organisation assigned an amount of KEUR 300 000 to the RFPSS to fund the defined benefit obligation for pensioners' sickness insurance. An additional contribution of KEUR 20 195 was made in July 2010 to fund part of the Organisation's pension DBO built up for partial compensation. Both cash injections are kept in separate funds of the RFPSS.

Another instrument to manage coverage for post-employment benefits is the three-yearly 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 (ALM) 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 2.5.3).

The EPO's annual financial planning and regular actuarial studies will continue to consider what measures may be necessary to ensure that the Organisation can meet its financial obligations to its stakeholders, especially the EPC Contracting States and serving and retired EPO staff.

29. EVENTS AFTER THE REPORTING PERIOD

In March 2011, the Council of the European Union authorised the launch of enhanced co-operation among EU member states to create a unitary patent. Enhanced co-operation had been requested by several EU countries, with the aim of establishing a single patent valid across the territory of the participating member states. The EPO is currently evaluating the likely impact on the Organisation's financial situation if the unitary patent is created.

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