



Europäisches  
Patentamt  
European  
Patent Office  
Office européen  
des brevets

# Financial Statements

## Accounting Period **2014**



**Financial Statements**  
**Accounting Period 2014**



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# Audit opinion

We have audited the financial statements, comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes (Article 69(1)(a) of the Financial Regulations), together with the bookkeeping system of the European Patent Organisation (EPO), Munich, for the accounting period 1 January to 31 December 2014 – as disclosed in CA/60/15. Responsibility for maintaining books and records and preparing the financial statements in accordance with Article 50(g) of the European Patent Convention (EPC) and the Financial Regulations (FinRegs), as described in Section 2.1 of CA/60/15 ("Basis of Preparation"), lies with the President of the Office. Under Article 1(3) FinRegs, the EPO's generally accepted accounting principles are the International Financial Reporting Standards (IFRS) as promulgated by the International Accounting Standards Board (IASB).

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

Our audit has not led to any reservations.

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

Munich, 20 April 2015

The Board of Auditors

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# Financial Statements

## Statement of Comprehensive Income for the year ended 31 December 2014

in '000 EUR

	Notes	2014	2013
Revenue			
Revenue from patent and procedural fees	(3)	1 583 595	1 504 505
Other revenue	(3)	70 762	68 579
Other operating income	(5)	8 412	7 166
Work performed and capitalised	(11)	4 031	3 227
Employee benefit expenses	(6)	(1 408 359)	(1 368 203)
Depreciation and amortisation expenses	(10) (11)	(51 894)	(54 619)
Other operating expenses	(7)	(211 727)	(202 683)
<b>Operating result</b>		<b>(5 180)</b>	<b>(42 028)</b>
Finance revenue	(8)	588 399	501 311
Finance costs	(9)	(432 152)	(385 832)
<b>Financial result</b>		<b>156 247</b>	<b>115 479</b>
<b>Profit/(loss) for the year</b>		<b>151 067</b>	<b>73 451</b>
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurement defined benefit obligations	(20)	(7 906 367)	484 349
Items that may be reclassified subsequently to profit or loss		–	–
<b>Total comprehensive income for the year</b>		<b>(7 755 300)</b>	<b>557 800</b>

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 2014

in '000 EUR

Assets	Notes	2014	2013
<b>Non-current assets</b>			
Property, plant and equipment	(10)	554 105	574 752
Intangible assets	(11)	54 073	45 036
RFPSS financial assets		5 856 494	5 019 235
RFPSS other assets		15 203	4 667
RFPSS restricted cash		244 590	205 835
RFPSS financial liabilities		(31 381)	(172)
RFPSS other liabilities		(47)	(80)
<b>RFPSS net assets</b>	<b>(12)</b>	<b>6 084 859</b>	<b>5 229 485</b>
Bonds	(13)	1 136 073	999 092
Home loans to staff	(14)	100 905	103 701
Other assets	(16)	85 853	72 437
<b>Total non-current assets</b>		<b>8 015 868</b>	<b>7 024 503</b>
<b>Current assets</b>			
Trade and other receivables	(17)	151 593	154 172
Bonds	(13)	199 386	220 784
Home loans to staff	(14)	6 645	6 807
Other financial assets	(15)	324 372	337 900
Prepaid expenses	(18)	12 374	10 736
Cash and cash equivalents	(19)	73 004	42 479
<b>Total current assets</b>		<b>767 374</b>	<b>772 878</b>
<b>Total assets</b>		<b>8 783 242</b>	<b>7 797 381</b>

Equity and liabilities		2014	2013
<b>Equity</b>			
Retained earnings		(1 652 211)	(1 803 278)
Other components of equity		(10 687 945)	(2 781 578)
<b>Total equity</b>		<b>(12 340 156)</b>	<b>(4 584 856)</b>
<b>Non-current liabilities</b>			
Defined benefit liability	(20)	19 740 956	11 074 231
Salary Savings Plan obligation	(21)	30 166	18 022
Other employee-related liabilities	(22)	11 575	9 265
Finance lease liabilities	(24)	5 670	9 387
Provisions	(25)	66	396
Prepaid fees	(26)	747 427	703 583
<b>Total non-current liabilities</b>		<b>20 535 860</b>	<b>11 814 884</b>
<b>Current liabilities</b>			
Other employee-related liabilities	(22)	109 300	99 851
Trade and other payables	(23)	146 190	142 072
Finance lease liabilities	(24)	5 294	4 784
Provisions	(25)	5 907	3 945
Prepaid fees	(26)	320 847	316 701
<b>Total current liabilities</b>		<b>587 538</b>	<b>567 353</b>
<b>Total liabilities</b>		<b>21 123 398</b>	<b>12 382 237</b>
<b>Total equity and liabilities</b>		<b>8 783 242</b>	<b>7 797 381</b>

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 2014

in '000 EUR

	Issued capital	Cumulative changes in equity not recognised through profit or loss	Reserves Retained earnings	Total equity
<b>Balance at 1 January 2013</b>	–	(3 265 927)	(1 876 729)	<b>(5 142 656)</b>
Changes in equity for 2013				
Remeasurement defined benefit obligations		484 349	–	484 349
Profit (loss) for the period		–	73 451	73 451
<b>Balance at 31 December 2013</b>	–	<b>(2 781 578)</b>	<b>(1 803 278)</b>	<b>(4 584 856)</b>
Changes in equity for 2014				
Remeasurement defined benefit obligations		(7 906 367)	–	(7 906 367)
Profit (loss) for the period		–	151 067	151 067
<b>Balance at 31 December 2014</b>	–	<b>(10 687 945)</b>	<b>(1 652 211)</b>	<b>(12 340 156)</b>

*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 2014

in '000 EUR

Cash flows from operating activities	Notes	2014	2013
Profit/loss of the year		151 067	73 451
Adjustments for:			
Depreciation and amortisation	(10) (11)	51 894	54 619
Disposal of property, plant and equipment	(10)	715	1 549
Other gains and losses		(11 456)	(5 850)
Revaluation of RFPSS assets		(442 177)	(355 672)
Net interest		(83 959)	(82 574)
Dividend income		(58 189)	(60 762)
Changes in net defined benefit liability	(20)	760 359	733 164
Changes in Salary Savings Plan obligation	(21)	12 144	7 509
Changes in provisions	(25)	1 632	162
Changes in prepaid fees	(26)	47 990	37 521
Changes in assets and liabilities carried as working capital		16 933	(26 396)
<b>Total</b>		<b>446 953</b>	<b>376 721</b>
Cash flows from investing activities		2014	2013
Proceeds from disposal / settlement of:			
Property, plant and equipment		1	2 423
Bonds / cash receipted upon maturity		220 000	100 500
Purchases of:			
Property, plant and equipment		(25 324)	(15 917)
Intangible assets		(13 523)	(13 527)
Bonds		(352 838)	(398 934)
Change in bank deposits ≥ 3 months		13 528	(6 410)
Home loans granted to staff		(25 704)	(21 380)
Repayment of staff home loans		28 916	23 526
Cash outflow from the purchase of RFPSS assets		(2 458 217)	(2 485 658)
Cash inflow from the sale of RFPSS assets		2 088 551	2 272 796
Cash inflow/(outflow) from decrease/(increase) in restricted cash		(38 755)	(36 765)
Interest received		94 499	83 931
Dividends received		58 427	59 288
<b>Total</b>		<b>(410 439)</b>	<b>(436 127)</b>
Cash flows from financing activities		2014	2013
Interest paid		(757)	(497)
Repayment of lease liabilities		(5 207)	(2 847)
<b>Total</b>		<b>(5 964)</b>	<b>(3 344)</b>
Net increase/decrease in cash and cash equivalents	(19)	30 550	(62 750)
Cash and cash equivalents net of bank overdrafts at the beginning of the period		42 479	105 243
Effect of exchange rate changes on cash and cash equivalents		(25)	(15)
Cash and cash equivalents net of bank overdrafts at the end of the period		73 004	42 479

The notes are an integral part of the financial statements.

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

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# Notes

## 1. GENERAL INFORMATION

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

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

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

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

These financial statements were authorised for issue by the President on 15 April 2015.

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 31.4 on Capital Management.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 BASIS OF PREPARATION

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

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

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

**IAS 19 – Employee Benefits – Defined Benefit Plans. Employee Contributions.** The amendments to IAS 19 clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions can be, but are not required to be, recognised as a reduction in the service cost in the period in which the related service is rendered. The amendments to IAS 19 are effective for annual periods beginning on or after 1 July 2014. The EPO has adopted them early in the financial statements as of 31 December 2013 with no impact on profit or loss or on equity.

The application of other new standards and interpretations had no impact on the EPO's financial statements as of 31 December 2014.

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

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

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

- Classification and measurement
- Hedge accounting
- Impairment

**IFRS 9 (2009)** and **IFRS 9 (2010)** introduced new classification and measurement methods for financial instruments. According to these standards, financial instruments had to be measured either at amortised cost or at fair value, depending on the characteristics of their cash flows and the way they were managed (business model).

**IFRS 9 (2013)** introduced new hedge accounting rules designed to be more closely aligned with how entities manage risk when hedging financial and non-financial risk exposures.

**IFRS 9 (2013)** also permitted an entity to apply only the requirements introduced in **IFRS 9 (2010)** for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss, without applying the other requirements of IFRS 9.

**IFRS 9 (2014)** includes the prior IFRS 9 standards and further addresses the topic of impairment of financial instruments. It introduces a new, expected loss impairment model that requires more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses as from when financial instruments are first recognised, and it lowers the threshold for recognition of losses expected over their full lifetime.

**IFRS 9 (2014)** is effective for periods beginning on or after 1 January 2018 early adoption is permitted. Prior versions of the standard remain available for early application if the relevant date of initial application was before 1 February 2015.

The EPO has applied **IFRS 9 (2010)** since 2011.

EPO management is currently analysing the impact of **IFRS 9 (2014)** on the accounts.

**IFRS 14 – Regulatory Deferral Accounts.** This new standard allows entities that are first-time adopters of IFRS to continue recognising amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS and in subsequent financial statements. However, to enhance comparability with entities that already apply IFRS and do not recognise the deferred amounts, IFRS 14 requires that the effect of recognising the deferred account balances arising from rate regulation must be presented separately from other items, and specific disclosures are required. IFRS 14 will apply to annual reporting periods beginning on or after 1 January 2016. This standard is not applicable to the EPO.

**IFRS 15 – Revenue from Contracts with Customers.** This new standard specifies how and when an entity must recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

According to the new standard, a reporting entity must recognise revenue by applying the following 5-step approach:

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

Step 2 - Identify the performance obligations in the contract

Step 3 - Determine the transaction price

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

Step 5 - Recognise revenue as and when, the entity satisfies a performance obligation.

IFRS 15 will apply to annual reporting periods beginning on or after 1 January 2017.

EPO management is currently analysing the impact of this standard on the accounts.

**IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations.** The amendments to IFRS 11 address the accounting for interests in joint ventures and joint operations, in particular the question whether the acquirer of interests in joint operations should apply the principles in IFRS 3 Business Combinations on initial recognition of the interest or whether the acquirer should instead account for it as the acquisition of a group of assets. The amendments to IFRS 11 will apply to annual reporting periods beginning on or after 1 January 2016. They will not affect the EPO's accounts.

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

**IAS 16 and IAS 41** – Agriculture: Bearer Plants. The amendments take bearer plants which are used solely to grow produce out of the scope of IAS 41 Agriculture and bring them into the scope of IAS 16 so that they are accounted for in the same way as property, plant and equipment. The amendments to IAS 16 and IAS 41 will apply to annual reporting periods beginning on or after 1 January 2016. Neither standards is applicable to the EPO.

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

**IFRS 10 and IAS 28** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. According to the amendments, a full gain or loss is recognised when a transaction involves a business, and a partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The amendments to IFRS 10 and IAS 28 will apply to annual reporting periods beginning on or after 1 January 2016. They are not applicable to the EPO.

Annual Improvements to IFRS 2010-2012 Cycle and 2011-2013 Cycle are applicable for annual periods beginning on or after 1 July 2014. They will have no impact on the EPO's accounts.

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

**Interpretations and amendments to existing standards which became effective in 2014 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 2014 but not relevant to the Organisation's operations:

- Amendments to **IAS 39** – Novation of Derivatives and Continuation of Hedge Accounting
- Amendments to **IAS 36** – Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to **IFRS 10, IFRS 12 and IAS 27** – Investment Entities
- Amendments to **IAS 32** – Offsetting Financial Assets and Financial Liabilities
- **IFRIC 21** – Levies

## 2.2 CONSOLIDATION

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

## 2.3 FOREIGN CURRENCY TRANSLATION

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

## 2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

The liabilities relating to the defined benefit pension plans as defined in Note 2.15.2.1 and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, career development, mortality rates, future pension increases and other actuarial parameters. Calculation of the defined benefit plan also means making assumptions to determine the level of lump-sum payments as tax compensation for the national tax levied on pensions (disclosed as "partial compensation", or "tax adjustment"). Due to the long-term nature of these plans, such estimations are subject to significant legal and actuarial uncertainties (see also Note 28).

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

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

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

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

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

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

## 2.5 REVENUE RECOGNITION

### 2.5.1. Revenue from patent and procedural fees

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

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

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

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

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

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

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

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

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

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

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

- **Search fees and claims fees:** the underlying search service is fully performed when the search report has been dispatched to the patent applicant.
- **Examination fees:** the underlying examination service is fully performed when the written communication of the intention to grant the patent or the decision to refuse the application has been sent to the patent applicant.
- **Opposition fees:** the underlying service is fully performed when the opposition procedure has been finalised, i.e. when a final decision by the opposition division has been communicated to the parties.
- **Appeal fees:** the underlying service is fully performed when the appeal procedure has been finalised, i.e. when a final decision by the board of appeal has been communicated to the parties.

- **Limitation fees:** the underlying service is fully performed when the examining division's decision as to whether or not the request for limitation is allowable has been communicated to the requester.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 2.5.1.3. National renewal fees for granted European patents

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

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

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

**National renewal fees for granted patents** for the first three quarters of the year (due dates 30 April, 31 July and 30 October) are recognised as revenue upon receipt of payment.

National renewal fees for the fourth quarter (due date 31 January) are accrued on the basis of cash received before year-end closure. Amounts not received by that date are accrued using estimates based on the average amount received in the first three quarters of the year.

#### 2.5.2 Other revenue

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

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

#### 2.5.3 Potential future national renewal fees for European patents

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

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

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

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

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

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

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

## 2.6 FINANCE REVENUE AND FINANCE COSTS

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

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

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

## 2.7 LEASES

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

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

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

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

## 2.8 INCOME TAXES

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

## 2.9 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

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

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

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

## 2.10 INTANGIBLE ASSETS

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

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

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

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

The costs of capitalised internally generated intangible assets comprise:

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

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

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

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

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

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

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

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

## 2.11 OTHER ASSETS

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

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

## 2.12 FINANCIAL INSTRUMENTS

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

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

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

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

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

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

Financial assets and liabilities at fair value through profit or loss comprise instruments held by the RFPSS. The RFPSS portfolio is managed and evaluated on a fair value basis and is not held to collect contractual cash flows. The portfolio comprises standard and other bonds, shares, funds, derivatives and other instruments.

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

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

### **Bonds**

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

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

### **Home loans**

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

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

### **Trade and other receivables**

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

### **Other financial assets**

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

### **Cash and cash equivalents**

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

### **RFPSS restricted cash**

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

### Trade and other payables

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

### RFPSS other assets

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

### RFPSS other liabilities

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

### Lease liabilities

Reference is made to Note 2.7.

### Impairment

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

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

### Fair value measurements

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

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

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

## 2.13 PREPAID EXPENSES

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

## 2.14 EQUITY

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

## 2.15 EMPLOYEE BENEFITS

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

### 2.15.1 Short-term employee benefits

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

### 2.15.2 Post-employment benefits – defined benefit liability

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity and will have no legal obligation to pay further contributions if the separate entity does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. At the EPO, defined benefit plans define an amount of pension benefit that a beneficiary will receive on retirement, usually dependent on one or more factors such as age, years of service and pay.

The Organisation operates four defined benefit plans for its employees. Assets held to fund parts of the pension obligations, lump-sum payments as partial compensation for national taxation of pensions, long-term care (LTC) insurance and sickness insurance for pensioners and those entitled under them are invested by the RFPSS but do not represent plan assets in terms of IAS 19.8.

#### 2.15.2.1 Pension obligations

The liability recognised in the Statement of Financial Position in respect of the defined benefit pension plan (retirement pension, invalidity pension/allowance and tax compensation thereon, if any, as well as family allowances) is the present value of the defined benefit obligation (DBO) at the balance sheet date, together with adjustments - if any - for past service costs.

The DBO is calculated annually by independent actuaries at the OECD's International Service for Remunerations and Pensions (ISRP) using the projected unit credit method, taking into account not only the pension obligations and vested pension rights known at the balance sheet date but also expected future salary increases, career development and demographic assumptions about mortality, employee turnover, 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.

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

A beneficiary of the defined benefit pension plan as defined above who took up duty before 1 January 2009 can be entitled to tax compensations 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.

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

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

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

#### **2.15.2.2 Other post-employment benefit obligations**

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

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

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

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

Death and invalidity insurance is a defined benefit plan and is managed by the Organisation. Under this plan, beneficiaries receive a lump sum, based on their last salary, in case of death or invalidity. The benefits are calculated in proportion to salaries. Payments to beneficiaries are made directly by the Organisation and financed by the contributions of the staff members and the Organisation. The actuarial present value of the death and invalidity benefits is based on the benefits promised under the terms of the plan as described in Note 20.2.4 using the projected salary levels and the risk of invalidity or death in service for each plan participant at the balance sheet date. The regular cash settlements after each three-year period, if any, do not affect the actuarial present value of the death and invalidity obligation.

### **2.15.3 Other long-term employee benefits**

#### **2.15.3.1 Salary Savings Plan (SSP) obligation**

Since 1 January 2009, the Organisation has been operating an SSP managed by external service providers. The amount of the SSP received by the beneficiaries is recognised as an obligation from other long-term employee benefits and is determined by the amount of contributions paid by the Office and the beneficiary to that plan, together with investment returns on the contributions. Contributions paid by the EPO are included in employee benefit expenses. In contrast to the accounting treatment of pension and other post-employment benefit obligations, any gains and losses are recognised immediately in the Statement of Comprehensive Income as finance revenue or finance costs. The Salary Savings Plan obligation is presented in the Statement of Financial Position as a separate line item. The main characteristics of the SSP are summarised in Note 21.

#### **2.15.3.2 Other employee-related liabilities (non-current)**

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

#### 2.15.4 Termination benefits

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

#### 2.16 PROVISIONS

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

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

#### 2.17 PREPAID FEES

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

### 3. REVENUE

#### 3.1 REVENUE FROM PATENT AND PROCEDURAL FEES AND OTHER REVENUE

The revenue breaks down into the following categories:

	in '000 EUR	
Revenue from patent and procedural fees	2014	2013
Procedural fees related to the patent grant process (Note 3.2)	1138 012	1 076 143
National renewal fees for granted patents	445 583	428 362
<b>Total</b>	<b>1 583 595</b>	<b>1 504 505</b>
Other revenue		
Searches for national offices and third parties	59 592	57 026
Patent information services and products	7 609	7 918
Administrative fees	3 561	3 635
<b>Total</b>	<b>70 762</b>	<b>68 579</b>

#### 3.2 PROCEDURAL FEES RELATED TO THE PATENT GRANT PROCESS

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

	in '000 EUR	
	2014	2013
Procedural fees for filing and search – EPC and Euro-PCT	171 948	159 197
Procedural fees for international searches – PCT	137 807	132 301
Procedural fees for examination and grant – EPC and Euro-PCT	209 991	204 261
Procedural fees for international preliminary examinations – PCT	14 671	14 238
Procedural fees for opposition	2 714	2 558
Procedural fees for appeal and protest	2 643	2 544
Designation, extension and validation fees	78 532	72 518
Renewal fees for patent applications	519 706	488 526
<b>Total</b>	<b>1 138 012</b>	<b>1 076 143</b>

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

The net present value of these fees is KEUR 3 876 977 (2013: KEUR 3 647 126).

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

The discount rates applied in line with the term of the expected cash flows range between 0.23% and 1.53% in 2014 (2013: between 0.82% and 3.73%). A one percentage point increase in the discount rates applied would result in a decrease of KEUR 203 545 (2013: KEUR 182 878) 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	
	2014	2013
Fees for European Qualifying Examination	1 728	2 139
Income from valuation of insurance funds	1 449	155
Rental income	994	733
Third-party project funding	161	379
Other	4 080	3 760
<b>Total</b>	<b>8 412</b>	<b>7 166</b>

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

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

### Operating leases – The EPO as lessor

The EPO has entered into a number of minor lease agreements concerning office premises. The income from these contracts in 2014 was KEUR 994 (2013: KEUR 733).

## 6. EMPLOYEE BENEFIT EXPENSES

	in '000 EUR	
	2014	2013
Basic salaries permanent employees	6 678 59	6 396 24
Social security	4 761 32	4 931 59
Allowances and other benefits	2 038 65	1 839 17
School and day-care centres	21 618	20 838
Past service costs	9 479	1 888
Training	9 021	8 487
Remuneration of other employees	8 481	9 142
Other	11 904	11 148
<b>Total</b>	<b>14 083 59</b>	<b>13 682 03</b>

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

**7. OTHER OPERATING EXPENSES**

in '000 EUR

	2014	2013
IT maintenance	84 028	79 554
Property and equipment maintenance	43 169	41 321
Consultancy and other external services	29 484	26 969
Patent information and public relations	16 158	16 569
Co-operation and meetings	11 312	10 892
Documentation	9 775	10 261
Travel	7 264	7 577
Postage and telecommunications	3 771	3 894
Office supply	2 905	3 030
Other	3 861	2 616
<b>Total</b>	<b>211 727</b>	<b>202 683</b>

**8. FINANCE REVENUE**

in '000 EUR

	2014	2013
Interest income on bonds	24 380	23 801
Interest income from bank accounts and deposits	1 979	2 692
Interest income from home loans	5 525	5 774
Income and gains on RFPSS assets (net)	552 535	466 734
Valuation gains (losses) assets Salary Savings Plan	3 945	2 304
Other	35	6
<b>Total</b>	<b>588 399</b>	<b>501 311</b>

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

**9. FINANCE COSTS**

in '000 EUR

	2014	2013
Interest costs on defined benefit obligations	427 261	382 757
Interest costs finance lease	757	497
Increase (decrease) obligation Salary Savings Plan	3 945	2 304
Other	189	274
<b>Total</b>	<b>432 152</b>	<b>385 832</b>

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

## 10. PROPERTY, PLANT AND EQUIPMENT

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

	in '000 EUR			
	Land	Buildings	Office equipment	Total
Cost at 1 January 2014	174 732	843 474	133 952	1 152 158
Additions	–	22 242	5 084	27 326
Disposals	–	(1 003)	(1 075)	(2 078)
Transfers	–	–	–	–
<b>Cost at 31 December 2014</b>	<b>174 732</b>	<b>864 713</b>	<b>137 961</b>	<b>1 177 406</b>
Accumulated depreciation 1 January 2014	–	(465 846)	(98 741)	(564 587)
Depreciation for the year	–	(35 070)	(12 185)	(47 255)
Disposals	–	287	1 073	1 360
Transfers	–	–	–	–
<b>Accumulated depreciation 31 December 2014</b>	<b>–</b>	<b>(500 629)</b>	<b>(109 853)</b>	<b>(610 482)</b>
Impairment loss for the year	–	–	–	–
<b>Accumulated impairment 31 December 2014</b>	<b>(12 819)</b>	<b>–</b>	<b>–</b>	<b>(12 819)</b>
Net carrying value 1 January 2014	161 913	377 628	35 211	574 752
<b>Net carrying value 31 December 2014</b>	<b>161 913</b>	<b>364 084</b>	<b>28 108</b>	<b>554 105</b>
Including construction in progress				
1 January 2014	–	14 096	–	14 096
31 December 2014	–	34 085	–	34 085

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

The disposals in 2014 relate mainly to the renovation of technical installations in buildings (KEUR 942 acquisition cost, KEUR 654 net book value).

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

Office equipment contains assets under finance lease at the value of EUR 11.0m (2013: EUR 14.4m).

The comparative figures are presented in the table below:

	in '000 EUR			
	Land	Buildings	Office equipment	Total
Cost at 1 January 2013	174 732	833 528	133 652	1 141 912
Additions	–	10 981	20 104	31 085
Disposals	–	(990)	(19 849)	(20 839)
Transfers	–	(45)	45	–
<b>Cost at 31 December 2013</b>	<b>174 732</b>	<b>843 474</b>	<b>133 952</b>	<b>1 152 158</b>
Accumulated depreciation 1 January 2013	–	(427 499)	(104 828)	(532 327)
Depreciation for the year	–	(38 714)	(10 267)	(48 981)
Disposals	–	366	16 355	16 721
Transfers	–	1	(1)	–
<b>Accumulated depreciation 31 December 2013</b>	<b>–</b>	<b>(465 846)</b>	<b>(98 741)</b>	<b>(564 587)</b>
Impairment loss for the year	–	–	–	–
<b>Accumulated impairment 31 December 2013</b>	<b>(12 819)</b>	<b>–</b>	<b>–</b>	<b>(12 819)</b>
Net carrying value 1 January 2013	161 913	406 029	28 824	596 766
<b>Net carrying value 31 December 2013</b>	<b>161 913</b>	<b>377 628</b>	<b>35 211</b>	<b>574 752</b>
Including construction in progress				
1 January 2013	–	4 862	–	4 862
31 December 2013	–	14 096	–	14 096

## 11. INTANGIBLE ASSETS

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

	in '000 EUR			
	Acquired software	Acquired information systems	Internally generated systems	Total
Cost at 1 January 2014	11 542	54 600	54 788	120 930
Additions	1 062	–	12 614	13 676
Disposals	–	–	–	–
Transfers	–	–	–	–
<b>Cost at 31 December 2014</b>	<b>12 604</b>	<b>54 600</b>	<b>67 402</b>	<b>134 606</b>
Accumulated amortisation 1 January 2014	(9 830)	(49 851)	(16 213)	(75 894)
Amortisation for the year	(1 134)	(725)	(2 780)	(4 639)
Amortisation disposals	–	–	–	–
Amortisation transfers	–	–	–	–
<b>Accumulated amortisation 31 December 2014</b>	<b>(10 964)</b>	<b>(50 576)</b>	<b>(18 993)</b>	<b>(80 533)</b>
Net carrying value 1 January 2014	1 712	4 749	38 575	45 036
<b>Net carrying value 31 December 2014</b>	<b>1 640</b>	<b>4 024</b>	<b>48 409</b>	<b>54 073</b>
Including construction in progress				
1 January 2014	–	–	23 079	23 079
31 December 2014	–	–	17 430	17 430

The comparative figures are as follows:

	in '000 EUR			
	Acquired software	Acquired information systems	Internally generated systems	Total
Cost at 1 January 2013	10 654	54 600	42 006	107 260
Additions	888	–	12 782	13 670
Disposals	–	–	–	–
Transfers	–	–	–	–
<b>Cost at 31 December 2013</b>	<b>11 542</b>	<b>54 600</b>	<b>54 788</b>	<b>120 930</b>
Accumulated amortisation 1 January 2013	(8 761)	(49 126)	(12 369)	(70 256)
Amortisation for the year	(1 069)	(725)	(3 844)	(5 638)
Amortisation disposals	–	–	–	–
Amortisation transfers	–	–	–	–
<b>Accumulated amortisation 31 December 2013</b>	<b>(9 830)</b>	<b>(49 851)</b>	<b>(16 213)</b>	<b>(75 894)</b>
Net carrying value 1 January 2013	1 893	5 474	29 637	37 004
<b>Net carrying value 31 December 2013</b>	<b>1 712</b>	<b>4 749</b>	<b>38 575</b>	<b>45 036</b>
Including construction in progress				
1 January 2013	–	–	10 925	10 925
31 December 2013	–	–	23 079	23 079

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 4 031 (2013: KEUR 3 227) are presented in the Statement of Comprehensive Income as **Work performed and capitalised**. 73% of the capitalised internal costs for 2014 relate to development work performed under the IT Roadmap programme.

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

	in '000 EUR	
Construction in progress	2014	2013
Epoque	809	1 467
ITR Transformation Track	12 977	17 887
ITR Semi-Automatic Search	3 644	3 725
<b>Total</b>	<b>17 430</b>	<b>23 079</b>

## 12. RFPSS NET ASSETS

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

				in '000 EUR
2014	Pensions	LTC	Sickness insurance	Total
RFPSS financial assets	5 274 691	110 070	471 733	5 856 494
RFPSS other assets	13 693	286	1 224	15 203
RFPSS restricted cash	220 292	4 597	19 701	244 590
RFPSS financial liabilities	(28 264)	(590)	(2 527)	(31 381)
RFPSS other liabilities	(42)	(1)	(4)	(47)
<b>Total</b>	<b>5 480 370</b>	<b>114 362</b>	<b>490 127</b>	<b>6 084 859</b>

				in '000 EUR
2013	Pensions	LTC	Sickness insurance	Total
RFPSS financial assets	4 514 245	93 493	411 497	5 019 235
RFPSS other assets	4 198	87	382	4 667
RFPSS restricted cash	185 125	3 834	16 876	205 835
RFPSS financial liabilities	(154)	(3)	(15)	(172)
RFPSS other liabilities	(72)	(1)	(7)	(80)
<b>Total</b>	<b>4 703 342</b>	<b>97 410</b>	<b>428 733</b>	<b>5 229 485</b>

The major categories of RFPSS net assets are as follows:

		in %	
	2014	2013	
Domestic bonds	25	25	
Foreign bonds	8	7	
Domestic equities	18	18	
Foreign equities	24	24	
Emerging markets	8	8	
Real estate	9	9	
Commodities	4	5	
Cash	4	4	
<b>Total</b>	<b>100</b>	<b>100</b>	

### 13. BONDS

The EPO's bonds portfolio includes the following:

	in '000 EUR	
Interest-bearing bonds	2014	2013
Non-current	1136 073	999 092
Current	199 386	220 784
<b>Total</b>	<b>1335 459</b>	<b>1219 876</b>

Interest-bearing bonds quoted in active markets are classified at amortised cost. Their nominal interest is in the range from 0.875% to 5.25% (2013: 1.00% to 5.25%) and maturity dates are between January 2015 and December 2019 (2013: January 2014 and November 2018).

Net gains and losses on bonds were as follows:

	in '000 EUR	
Financial assets at amortised cost	2014	2013
Total interest income	24 380	23 801

No impairment provisions are required on bonds in 2014 (2013: Nil).

### 14. HOME LOANS TO STAFF

	in '000 EUR	
	2014	2013
Home loans non-current	100 905	103 701
Home loans current	6 645	6 807
<b>Total</b>	<b>107 550</b>	<b>110 508</b>

Home loans to staff are initially recognised at fair value, which is estimated at the present value of all future cash receipts discounted using the prevailing market rate for a similar financial instrument of a similar duration. In 2014 the net loss due to revaluation of new home loans to fair value amounted to KEUR 2 090 (2013: KEUR 1 791). After initial recognition, home loans are measured at amortised cost using the effective interest method. They are split into non-current and current portions based on the remaining term of the loan.

### 15. OTHER FINANCIAL ASSETS

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

	in '000 EUR	
	2014	2013
Other financial assets non-current	–	–
Other financial assets current	324 372	337 900
<b>Total</b>	<b>324 372</b>	<b>337 900</b>

The effective interest rate achieved in 2014 on fixed-term deposits with an initial maturity up to one year was 0.50% (2013: 0.66%).

## 16. OTHER ASSETS

in '000 EUR

	2014	2013
Repurchase value insurance funds ex-IIB	55 687	54 415
Assets Salary Savings Plan (SSP)	30 166	18 022
<b>Total</b>	<b>85 853</b>	<b>72 437</b>

The EPO holds contracts (funds) concluded by the ex-IIB with several insurance companies in order to receive reimbursements for pension payments to ex-IIB staff members. The Organisation received reimbursements from these funds amounting to KEUR 177 (2013: KEUR 150). Regarding changes to the repurchase value of these funds see Note 5.

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

## 17. TRADE AND OTHER RECEIVABLES

in '000 EUR

Trade receivables	2014	2013
Trade receivables – renewal fees	89 703	105 659
Trade receivables – EPO products and services	7 906	9 619
<b>Total</b>	<b>97 609</b>	<b>115 278</b>

Other receivables		
Other receivables – tax	10 240	8 376
Other receivables – staff and related accounts	379	366
Other receivables – others	43 365	30 152
<b>Total</b>	<b>53 984</b>	<b>38 894</b>
<b>Total trade and other receivables</b>	<b>151 593</b>	<b>154 172</b>

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

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

	in '000 EUR	
	2014	2013
Net carrying amount, trade receivables – EPO products and services	7 906	9 619
Of which neither impaired nor past due on the reporting date	6 021	5 710
Of which not impaired on the reporting date and past due in the following periods		
Less than 120 days	136	2 457
More than 120 days	1 749	1 452

During 2014, the EPO wrote off uncollectible receivables amounting to KEUR 1 (2013: KEUR 4) which are shown in the Statement of Comprehensive Income under other operating expenses.

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

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

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

## 18. PREPAID EXPENSES

	in '000 EUR	
	2014	2013
Prepaid employee-related expenses	9 819	9 562
Prepaid software expenses	2 317	832
Prepaid other expenses	238	342
<b>Total</b>	<b>12 374</b>	<b>10 736</b>

## 19. CASH AND CASH EQUIVALENTS

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

	in '000 EUR	
	2014	2013
Short-term bank deposits	–	–
Cash at bank and in hand	73 004	42 479
<b>Total</b>	<b>73 004</b>	<b>42 479</b>

## 20. DEFINED BENEFIT LIABILITY

in '000 EUR

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

## Amounts recognised in the Statement of Comprehensive Income

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

in '000 EUR

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

## Amounts recognised in the Statement of Comprehensive Income

Interest cost	335 677	10 526	33 177	3 377	382 757
Current service cost	449 959	11 746	52 723	9 974	524 402
Past service costs	1 888	–	–	–	1 888
Staff contributions	(60 530)	(3 519)	–	(902)	(64 951)
<b>Recognised in the Statement of Comprehensive Income</b>	<b>726 994</b>	<b>18 753</b>	<b>85 900</b>	<b>12 449</b>	<b>844 096</b>

## Defined benefit liability

in '000 EUR

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

## Amounts recognised in the Statement of Comprehensive Income

Interest cost	317 874	9 277	32 294	4 154	363 599
Current service cost	260 915	6 363	29 545	8 167	304 990
Past service costs	30 231	–	–	–	30 231
Staff contributions	(58 538)	(3 363)	–	(2 571)	(64 472)
<b>Recognised in the Statement of Comprehensive Income</b>	<b>550 482</b>	<b>12 277</b>	<b>61 839</b>	<b>9 750</b>	<b>634 348</b>

in '000 EUR

Accounting for 2011	Pension obligation	Long-term care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	5.38%	5.55%	5.51%	4.56%	
Future salaries increase	2.50%	2.50%		2.50%	
Future pensions increase	2.50%	2.50%			
Medical costs inflation			3.10%		
Expected average remaining working lives	19	19	19	19	
Present value of obligation 1 January 2011	5 762 543	157 321	626 584	132 620	6 679 068
Interest cost	303 740	8 474	33 059	6 165	351 438
Current service cost	263 574	6 169	35 342	11 872	316 957
Past service costs	(2 618)	–	–	–	(2 618)
Transfer of pension rights	9 976	–	–	–	9 976
Benefits paid	(127 716)	(3 076)	(15 015)	(5 665)	(151 472)
Remeasurements on obligation	(229 933)	(13)	(85 934)	(50 329)	(366 209)
<b>Present value of obligation 31 December 2011</b>	<b>5 979 566</b>	<b>168 875</b>	<b>594 036</b>	<b>94 663</b>	<b>6 837 140</b>
Unfunded obligation	5 979 566	168 875	594 036	94 663	6 837 140
Unrecognised past service costs	(28 309)	–	–	–	(28 309)
<b>Liability recognised in the Statement of Financial Position</b>	<b>5 951 257</b>	<b>168 875</b>	<b>594 036</b>	<b>94 663</b>	<b>6 808 831</b>

## Amounts recognised in the Statement of Comprehensive Income

Interest cost	303 740	8 474	33 059	6 165	351 438
Current service cost	263 574	6 169	35 342	11 872	316 957
Past service costs	22 826	–	–	–	22 826
Staff contributions	(56 070)	(3 225)	–	(1 467)	(60 762)
<b>Recognised in the Statement of Comprehensive Income</b>	<b>534 070</b>	<b>11 418</b>	<b>68 401</b>	<b>16 570</b>	<b>630 459</b>

## 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%	
Future salaries increase	2.50%	2.50%		2.50%	
Future pensions increase	2.50%	2.50%			
Medical costs inflation			3.20%		
Expected average remaining working lives	19	19	19	19	
Present value of obligation 1 January 2010	5 133 721	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)
Remeasurements on obligation	215 895	13 974	70 278	(4 517)	295 630
<b>Present value of obligation 31 December 2010</b>	<b>5 762 543</b>	<b>157 321</b>	<b>626 584</b>	<b>132 620</b>	<b>6 679 068</b>
Unfunded obligation	5 762 543	157 321	626 584	132 620	6 679 068
Unrecognised past service costs	(53 753)	–	–	–	(53 753)
<b>Liability recognised in the Statement of Financial Position</b>	<b>5 708 790</b>	<b>157 321</b>	<b>626 584</b>	<b>132 620</b>	<b>6 625 315</b>
Amounts recognised in the Statement of Comprehensive Income					
Interest cost	287 169	7 637	28 252	6 102	329 160
Current service cost	235 648	5 196	31 119	11 685	283 648
Past service costs	22 524	–	–	–	22 524
Staff contributions	(55 688)	(3 175)	–	1 473	(57 390)
<b>Recognised in the Statement of Comprehensive Income</b>	<b>489 653</b>	<b>9 658</b>	<b>59 371</b>	<b>19 260</b>	<b>577 942</b>

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

	in '000 EUR	
	2014	2013
Pension benefits		
Office contributions	130 554	121 037
Staff contributions	65 096	60 380
LTC benefits		
Office contributions	6 951	6 640
Staff and pensioners' contributions	3 689	3 518
Post-employment medical care		
Office contributions for inactive staff and pensioners	8 104	8 267
Inactive staff and pensioners' contributions	3 448	2 921
Death and invalidity		
Office contributions	1 858	2 015
Staff contributions	467	902
<b>Total</b>	<b>220 167</b>	<b>205 680</b>

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

	in '000 EUR	
	2014	2013
Retirement pension	13 344 298	7 415 948
Tax adjustment/partial compensation	2 851 942	1 602 267
Invalidity allowance	389 299	270 498
Family allowances	365 211	230 877
<b>Total</b>	<b>16 950 750</b>	<b>9 519 590</b>

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

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

	in '000 EUR	
	2014	2013
Pension obligation		
Active staff	12 976 454	6 695 088
Deferred pensioners	59 057	29 877
Pensioners	3 915 240	2 794 625
LTC insurance		
Active staff	540 746	234 181
Deferred pensioners	4 724	2 056
Pensioners	230 150	149 202
Sickness insurance		
Active staff	1 363 917	689 827
Deferred pensioners	–	–
Pensioners	506 641	356 932
Death and invalidity		
Active staff	144 027	122 443
Deferred pensioners	–	–
Pensioners	–	–
<b>Total</b>	<b>19 740 956</b>	<b>11 074 231</b>

## 20.1 ACTUARIAL ASSUMPTIONS AND SENSITIVITIES

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

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

The medical costs inflation applied is 1.44% (2013: 1.5%) in real terms; the rate is then reduced to 0.5% on a linear basis for the ten following years.

The weighted average of purely medical inflation concerning the actual liability structure is 1.2% (2013: 1.2%).

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

	in '000 EUR	
	2014	2013
Pension obligation		
Actuarial (gain) loss from changes in financial assumptions	7 050 830	(706 516)
Actuarial (gain) loss from changes in demographic assumptions	(262 493)	107 318
LTC insurance		
Actuarial (gain) loss from changes in financial assumptions	387 702	(36 687)
Actuarial (gain) loss from changes in demographic assumptions	(25 866)	122 445
Sickness insurance		
Actuarial (gain) loss from changes in financial assumptions	943 939	(103 219)
Actuarial (gain) loss from changes in demographic assumptions	(197 769)	138 598
Death and invalidity		
Actuarial (gain) loss from changes in financial assumptions	23 155	(3 223)
Actuarial (gain) loss from changes in demographic assumptions	(13 131)	(3 065)
<b>Total</b>	<b>7 906 367</b>	<b>(484 349)</b>

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

	in '000 EUR	
At 31 December 2014	One percentage point increase	One percentage point decrease
Present value pension obligation	13 219 586	22 198 320
Present value LTC insurance	568 800	1 082 339
Present value sickness insurance	1 370 893	2 577 539
Present value death and invalidity	130 714	159 591

	in '000 EUR	
At 31 December 2013	One percentage point increase	One percentage point decrease
Present value pension obligation	7 720 931	11 962 559
Present value LTC insurance	295 913	513 424
Present value sickness insurance	805 241	1 376 919
Present value death and invalidity	111 948	134 621

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

in '000 EUR	
At 31 December 2014	One month increase in life expectancy
Present value pension obligation	16 963 255
Present value LTC insurance	777 112
Present value sickness insurance	1 873 344
Present value death and invalidity	–

in '000 EUR	
At 31 December 2013	One month increase in life expectancy
Present value pension obligation	9 554 882
Present value LTC insurance	386 937
Present value sickness insurance	1 048 626
Present value death and invalidity	–

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

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

in '000 EUR			
At 31 December 2014	Less than 1 year	Between 1-5 years	Over 5 years
Pension obligation	182 024	868 006	25 407 924
LTC insurance	4 099	20 255	1 386 585
Sickness insurance	19 628	88 494	1 395 078
Death and invalidity	8 503	33 792	122 828
<b>Total</b>	<b>214 254</b>	<b>1 010 547</b>	<b>28 312 415</b>

in '000 EUR			
At 31 December 2013	Less than 1 year	Between 1-5 years	Over 5 years
Pension obligation	169 128	812 853	25 057 096
LTC insurance	3 735	18 755	1 426 859
Sickness insurance	18 344	83 465	1 364 083
Death and invalidity	8 419	33 381	126 887
<b>Total</b>	<b>199 626</b>	<b>948 454</b>	<b>27 974 925</b>

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

in years	2014	2013
Pension obligation	30	31
LTC insurance	37	38
Sickness insurance	25	26
Death and invalidity	11	12

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

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

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

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

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

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

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

### 20.2.1 Pension obligation

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

The Reserve Fund for Pensions is allocated payments equivalent to the Office's and the staff's pension contributions – 19.4% and 9.7% respectively of basic salaries paid – after deduction of pensions actually paid. For 2014, the AAG had recommended increasing the total pension contribution rate from 27.9% to 29.1%.

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

### 20.2.2 Sickness insurance

An employee who has remained in EPO service until retirement or 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. A spouse in employment outside the EPO and whose salary exceeds a certain level has to pay to an additional contribution.

Benefits also apply to a person entitled to a survivor's pension following the death of an employee who was in active employment or who remained in EPO service until retirement, or following the death of a person entitled to an invalidity pension. The contribution is calculated as a percentage of the survivor's pension.

A person entitled to an orphan's or dependant's pension may also be covered, but only on request. The contribution is calculated as a percentage of the orphan's or dependant's pension.

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

### 20.2.3 Long-term care insurance

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

The following contributions are paid:

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

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

### 20.2.4 Death and invalidity insurance

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

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

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

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

## 21. SALARY SAVINGS PLAN OBLIGATION

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

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

Any additional voluntary contributions are borne entirely by the employee.

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

## 22. OTHER EMPLOYEE-RELATED LIABILITIES

in '000 EUR

	2014	2013
Regular vacation	50 774	44 290
Home leave	34 352	29 790
Other compensated absences	19 745	16 202
Other	4 429	9 569
<b>Total</b>	<b>109 300</b>	<b>99 851</b>

In addition, an amount of KEUR 11 574 (2013: KEUR 9 265) is presented as non-current and mainly includes an obligation for long-term employee benefits due to long-service leave, gratuities and severance grants.

## 23. TRADE AND OTHER PAYABLES

in '000 EUR

	2014	2013
Current deposit accounts by patent applicants	96 517	91 269
Payables to suppliers and trade creditors	47 743	49 022
Other	1 930	1 781
<b>Total</b>	<b>146 190</b>	<b>142 072</b>

With My.epoline®, applicants can debit online the deposit accounts kept by the Organisation for fee payments relating to their applications. A liability is recognised for incoming payments replenishing these accounts.

## 24. FINANCE LEASE LIABILITIES

The EPO is a party to two finance lease contracts:

The contract with T-Systems Business Services GmbH, Bonn, Germany, signed in August 2006, relates to the supply, installation, connection, configuration and management of the LAN infrastructure consisting of new hardware and related software. In 2011 the contract was extended until 2016. First installations under the contract took place in October 2006. The expected total value of the contract is EUR 19.1m (2013: EUR 9.6m).

The contract with Dell GmbH, Frankfurt am Main, Germany, signed in June 2008, for delivery, installation, maintenance and management of the desktop and laptop computer equipment. The equipment delivered under the contract will be used over a period not shorter than 3.5 years. The contract was 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 74.6m (2013: EUR 74.4m).

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

	in '000 EUR	
	2014	2013
Assets value		
Office equipment	10 992	14 360
Future lease payments		
Not later than one year	5 778	5 463
Later than one year and not later than five years	5 869	9 940
Later than five years	–	–
<b>Total future lease payments</b>	<b>11 647</b>	<b>15 403</b>
Future interest payable	(683)	(1 232)
<b>Present value of future lease payments</b>	<b>10 964</b>	<b>14 171</b>

## 25. PROVISIONS

	in '000 EUR			
	Litigation risks	Tax consultancy	Other	Total
1 January 2014	2 999	666	676	4 341
Use	2 999	128	426	3 553
Reversal	–	354	250	604
Addition	5 418	–	362	5 780
Interest effect	–	9	–	9
Other	–	–	–	–
<b>31 December 2014</b>	<b>5 418</b>	<b>193</b>	<b>362</b>	<b>5 973</b>
Current	5 418	127	362	5 907
Non-current	–	66	–	66
<b>Total</b>	<b>5 418</b>	<b>193</b>	<b>362</b>	<b>5 973</b>

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 2015 and 2016.

## 26. PREPAID FEES

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

in '000 EUR

	Opening balance 1 January 2014	Increase/ (decrease)	Ending balance 31 December 2014
Searches – EPC and Euro-PCT	180 083	(42)	180 041
International searches – PCT	45 609	(5 743)	39 866
Examination – EPC and Euro-PCT	765 912	50 327	816 239
International preliminary examination – PCT	7 126	1 435	8 561
Opposition	6 748	299	7 047
Appeal	10 368	1 175	11 543
Others	4 438	539	4 977
<b>Total</b>	<b>1 020 284</b>	<b>47 990</b>	<b>1 068 274</b>

in '000 EUR

	Opening balance 1 January 2013	Increase/ (decrease)	Ending balance 31 December 2013
Searches – EPC and Euro-PCT	179 916	167	180 083
International searches – PCT	48 988	(3 379)	45 609
Examination – EPC and Euro-PCT	726 336	39 576	765 912
International preliminary examination – PCT	7 045	81	7 126
Opposition	6 546	202	6 748
Appeal	9 653	715	10 368
Others	4 279	159	4 438
<b>Total</b>	<b>982 763</b>	<b>37 521</b>	<b>1 020 284</b>

## 27. COMMITMENTS

in '000 EUR

	2014	2013
Purchase commitments fixed assets	155 922	836
Purchase commitments intangible assets	4 154	3 408

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

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

The contract for the lease of office space in the Le Croisé building in The Hague 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 4.1m.

The contract for the lease of office space in the Rijsvoort building in The Hague, signed with IVG 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 total operating lease expense recognised in the Statement of Comprehensive Income for the reporting period amounts to KEUR 12 338 (2013: KEUR 12 347).

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

	in '000 EUR	
	2014	2013
Not later than one year	6 502	8 283
Later than one year and not later than five years	12 946	18 338
Later than five years	255	–
<b>Total</b>	<b>19 703</b>	<b>26 621</b>

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

## 28. CONTINGENCIES AND RISKS

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

In June 2007, the Administrative Council decided to abolish the tax adjustment for employees joining the Office on or after 1 January 2009, and to require the Office to pay it for those already in post before that date (see Note 2.15.2.1). The EPO has taken measures to limit the negative financial impact of this.

### 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 and courts.

To account for risks of whatever nature, the EPO has recognised as a liability an actuarially calculated amount equal to the present value of the obligation under the old tax-adjustment regime for invalidity pensions (see Note 20). No account is taken of risks that might result from the allowance being treated differently for tax purposes from the old invalidity pension.

It is not clear whether a negative outcome of possible court decisions would result in an EPO obligation to compensate staff who relied on tax exemption. 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 206 (2013: KEUR 194) as an advance to the non-active staff concerned. This amount is recognised under "Other receivables – staff and related accounts" (see Note 17) and is not subject to any impairment. Depending on the outcome of final court decisions, EPO management will decide on further action (see Note 32), 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 2.15.3.1). Throughout their EPO employment, the money thus invested remains the property of the Organisation. Consequently, the resulting income is regarded as exempt from direct taxes, under Article 4 EPO-PPI. On termination of service, the employee is entitled to payment of the capital built up under the SSP. As deferred salary, this is subject to internal tax under Article 16(1) EPO-PPI and therefore, in the Office's view, exempt from national tax.

This view might not be shared by all national tax authorities.

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

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

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

To account for any kind of tax compensation obligations, an actuarially calculated amount equal to the present value of the obligation under the tax-adjustment regime in force until 2008 and from 2015 onwards is recognised as a separate part of the funded portion of the EPO's pension liabilities (see Note 20). No account is taken of risks that might arise from claims for compensation from third parties relying on tax treatment under Article 16(1) EPO-PPI.

### **Other contingencies and risks**

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

## 29. RELATED PARTY DISCLOSURES

The Organisation has entered into transactions with members of the EPO's key management personnel, their close family members and the Contracting States. For the reporting period, it has not made any provisions for doubtful debts concerning amounts owed by related parties (2013: Nil). The EPO has not applied partial exemptions, if any, for government-related entities provided by IAS 24 - **Related Party Disclosures**.

### 29.1 RELATED PARTIES TO THE ORGANISATION

#### 29.1.1 Members of key management

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

For the purpose of this note to the financial statements, the members of the EPO's Management Committee (MAC) are considered to be related parties. Besides the MAC members, the RFPSS Fund Administrator is also considered to be a related party. The importance and the size of the funds, combined with his functions, put him on a par with the members of the MAC.

#### 29.1.2 Close family members of key managers

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

#### 29.1.3 Contracting States

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

## 29.2 TRANSACTIONS AND OUTSTANDING BALANCES WITH RELATED PARTIES

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

	in '000 EUR	
	2014	2013
Short-term employee benefits*	3 037	2 977
Post-employment benefits, service costs	1 794	1 120
<b>Total</b>	<b>4 831</b>	<b>4 097</b>

\* 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 21 971 (2013: KEUR 11 927) for 14 (2013: 11) key managers.

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

	in '000 EUR	
	2014	2013
MAC members and Fund Administrator	–	–
Close family members of key managers	–	–
Contracting States		
Co-operation with national offices	5 045	4 626
Rent office building Berlin	2 575	2 575
<b>Total</b>	<b>7 620</b>	<b>7 201</b>

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

	in '000 EUR	
	2014	2013
MAC members and Fund Administrator	1	1
Close family members of key managers	–	–
Contracting States		
Renewal fees for granted patents (incl. interest)	445 616	428 365
Searches on behalf of ex-IIB member states	38 175	35 819
Searches on behalf of other Contracting States	21 417	21 207
Reimbursement rent office building Berlin	874	915
Other revenue	7 455	7 314
<b>Total</b>	<b>513 538</b>	<b>493 621</b>

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

in '000 EUR

	2014	2013
MAC members and Fund Administrator	62	4
Close family members of key managers	–	–
Contracting States		
Renewal fees	89 703	105 659
VAT and other taxes	9 776	7 908
Contracting States using EPO services and products	5 712	7 571
Tax adjustments	464	468
<b>Total</b>	<b>105 717</b>	<b>121 610</b>

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

**Payables and other liabilities**

in '000 EUR

	2014	2013
MAC members and Fund Administrator	–	–
Close family members of key managers	–	–
Contracting States	100	248
<b>Total</b>	<b>100</b>	<b>248</b>

## 30. ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

### 30.1 FINANCIAL INSTRUMENTS BY CATEGORY

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

	Carrying value		Fair value	
	2014	2013	2014	2013
in '000 EUR				
<b>RFPSS Financial instruments</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Financial assets at fair value through profit and loss</b>				
Standard bonds	1 367 309	1 127 570	1 367 309	1 127 570
Other bonds	473 496	394 890	473 496	394 890
Shares	1 751 139	1 519 879	1 751 139	1 519 879
Funds	2 228 449	1 933 676	2 228 449	1 933 676
Derivatives used for trading	2 165	12 475	2 165	12 475
Other instruments	33 936	30 745	33 936	30 745
<b>Total</b>	<b>5 856 494</b>	<b>5 019 235</b>	<b>5 856 494</b>	<b>5 019 235</b>
RFPSS restricted cash	244 590	205 835	244 590	205 835
<b>Financial assets at amortised cost</b>				
RFPSS other assets	15 203	4 667	15 203*	4 667*
<b>Financial liabilities at fair value through profit and loss</b>				
Derivatives used for trading	(31 381)	(172)	(31 381)	(172)
<b>Financial liabilities at amortised cost</b>				
RFPSS other liabilities	(47)	(80)	(47)*	(80)*
<b>Total net RFPSS financial instruments</b>	<b>6 084 859</b>	<b>5 229 485</b>	<b>6 084 859</b>	<b>5 229 485</b>
<b>Office financial instruments</b>				
<b>Financial assets measured at amortised cost</b>				
Bonds	1 335 459	1 219 876	1 369 062	1 240 425
Home loans	107 550	110 508	125 954	121 336
Trade and other receivables	151 593	154 172	151 593*	154 172*
Other financial assets	324 372	337 900	324 372*	337 900*
<b>Total</b>	<b>1 918 974</b>	<b>1 822 456</b>	<b>1 970 981</b>	<b>1 853 833</b>
Cash and cash equivalents	73 004	42 479	73 004*	42 479*
<b>Total Office financial assets</b>	<b>1 991 978</b>	<b>1 864 935</b>	<b>2 043 985</b>	<b>1 896 312</b>
<b>Financial liabilities measured at amortised cost</b>				
Trade and other payables	(146 190)	(142 072)	(146 190)*	(142 072)*
Finance lease liabilities	(10 964)	(14 171)	(10 964)*	(14 171)*
<b>Total Office financial liabilities</b>	<b>(157 154)</b>	<b>(156 243)</b>	<b>(157 154)</b>	<b>(156 243)</b>

\* Approximation of fair value

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

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

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

### 30.2 FAIR VALUE HIERARCHY

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

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

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

in '000 EUR

31 December 2014	Level 1	Level 2	Level 3	Total
RFPSS financial assets				
Standard bonds	1346 830	20 479	–	1367 309
Other bonds	331 365	142 131	–	473 496
Shares	1751139	–	–	1751139
Funds	–	2 228 449	–	2 228 449
Derivatives used for trading	–	2 165	–	2 165
Other instruments	–	33 936	–	33 936
Office financial assets				
Bonds	1369 062	–	–	1369 062
Home Loans	–	125 954	–	125 954
<b>Total financial assets</b>	<b>4 798 396</b>	<b>2 553 114</b>	<b>–</b>	<b>7 351 510</b>
RFPSS financial liabilities				
Derivatives used for trading	–	31 381	–	31 381
<b>Total financial liabilities</b>	<b>–</b>	<b>31 381</b>	<b>–</b>	<b>31 381</b>

in '000 EUR

31 December 2013	Level 1	Level 2	Level 3	Total
RFPSS financial assets				
Standard bonds	1078 813	48 757	–	1127 570
Other bonds	332 975	61 915	–	394 890
Shares	1519 879	–	–	1519 879
Funds	–	1 933 676	–	1 933 676
Derivatives used for trading	–	12 475	–	12 475
Other instruments	–	30 745	–	30 745
Office financial assets				
Bonds	1 240 425	–	–	1 240 425
Home Loans	–	121 336	–	121 336
<b>Total financial assets</b>	<b>4 172 092</b>	<b>2 208 904</b>	<b>–</b>	<b>6 380 996</b>
RFPSS financial liabilities				
Derivatives used for trading	–	172	–	172
<b>Total financial liabilities</b>	<b>–</b>	<b>172</b>	<b>–</b>	<b>172</b>

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

Level 2 measurements were determined using the following techniques:

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

### 30.3 GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

These are summarised in the table below:

	in '000 EUR	
Financial instruments at fair value	2014	2013
Fair value gains (losses) on assets	473 006	356 251
Income from coupons, dividends and interest	110 982	111 558
Custodian fees and other costs	(627)	(525)
Sundry	(433)	(378)
Impairment loss	–	–
Fair value gains (losses) on liabilities	(30 393)	(172)
<b>Total</b>	<b>552 535</b>	<b>466 734</b>

	in '000 EUR	
Financial assets at amortised cost	2014	2013
Interest income from home loans	5 525	5 774
Interest income on bonds	24 380	23 801
Interest income from bank accounts and deposits	1 979	2 692
Other	35	6
<b>Total</b>	<b>31 919</b>	<b>32 273</b>

Financial liabilities at amortised cost		
Interest costs finance lease	(757)	(497)
<b>Total</b>	<b>(757)</b>	<b>(497)</b>

## 31. FINANCIAL RISK MANAGEMENT

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

### (a) Financial instruments held by the Office

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

Surplus liquidity not needed to cover operational short-term expenses is invested in debt securities with the aim of maximising returns. The EPO's long-term investment portfolio comprises fixed-interest-bearing bonds with maturities within a range of 1 to 5 years.

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

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

### (b) Financial instruments held by the RFPSS

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

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

## 31.1 MARKET RISK

### (a) Financial instruments held by the Office

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

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

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

If market interest rates had been 100 basis points higher (lower) at the reporting date, the equity would have been KEUR 34 490 (31 December 2013: KEUR 31 464) lower (higher) as a result of a decrease (increase) in fair value of fixed-interest bonds classified as at amortised cost. The higher volatility reflects the increase in the bonds portfolio by 9% as compared to 31 December 2013.

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.

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

#### **(b) Financial instruments held by the RFPSS**

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

As at the end of 2014 the VaR was estimated at EUR 216 million. The increase in the VaR, relative to 2013, stems from the increase in assets under management and is partially mitigated by a decreased market-return volatility.

This figure is based on the assumptions of normal portfolio return distributions and persistence of the statistical characteristics of the distributions of returns in the horizon period. VaR figures are monitored by asset class and tracking error guidelines are used to monitor aspects of deviations from benchmark. The latter are based on MSCI/FTSE for equity/real estate, S&P/Dow Jones/UBS for commodities and EFFAS/Merrill Lynch/JP Morgan for fixed income. A risk-factor-based model, BarraOne provided by MSCI Barra, is used to break down risk and enable management to analyse aggregations and contributions.

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

	2014	2013
VaR (parametric, 1 month horizon, 95%, in million Euro)	216	210

## 31.2 LIQUIDITY RISK

#### **(a) Financial instruments held by the Office**

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

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

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

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

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

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

#### **(b) Financial instruments held by the RFPSS**

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

In relation to investment management activities, daily operational cash requirements are covered by cash management tools that forecast and allow matching of cash flows generated by investment operations. The margin account relating to bund future positions as collateral for derivative transactions amounted to EUR 0.7m (2013: EUR 0.8m).

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

	in '000 EUR	
	2014	2013
Less than 3 months	31381	172
Between 3 months and 1 year	–	–
More than 1 year	–	–
<b>Total financial liabilities at fair value</b>	<b>31381</b>	<b>172</b>

### 31.3 CREDIT RISK

#### **(a) Financial instruments held by the Office**

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

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

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

Bonds and other interest-bearing securities acquired by the EPO have to be capital-guaranteed with at least AA rating. In case of a downgrade below AA the EPO is closely monitoring the respective bond or interest-bearing security to decide on further actions for minimising the credit risk. If there is no rating available for the security, the rating requirement applies to the issuer of the security. Furthermore, the credit risk of securities is minimised through the setting of a maximum limit (20%) of the total bonds portfolio that may be invested with a single individual issuer.

#### (b) Financial instruments held by the RFPSS

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

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

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

				in '000 EUR
31 December 2014	Rating below "A"	Not rated	Rating "A" and higher	Total
Domestic government bonds	348 594	–	834 449	1 183 043
Domestic corporate bonds	107 694	–	255 519	363 213
Domestic inflation-linked bonds	–	–	–	–
Foreign bonds	6 882	–	287 667	294 549
Cash and currency forwards	–	–	244 590	244 590
<b>Total financial assets</b>	<b>463 170</b>	<b>–</b>	<b>1 622 225</b>	<b>2 085 395</b>

in '000 EUR

31 December 2013	Rating below "A"	Not rated	Rating "A" and higher	Total
Domestic government bonds	339 216	–	645 431	984 647
Domestic corporate bonds	95 113	–	212 846	307 959
Domestic inflation-linked bonds	–	–	–	–
Foreign bonds	6 221	–	223 633	229 854
Cash and currency forwards	–	–	210 502	210 502
<b>Total financial assets</b>	<b>440 550</b>	<b>–</b>	<b>1 292 412</b>	<b>1 732 962</b>

Derivative transactions of the RFPSS are either transacted on an exchange, or entered into under German master agreements (DRV). In general, under such agreements the amounts owned by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated onto a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement are terminated, the termination values is assessed and only a single net amount is due or payable in settlement of all transactions.

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

Master netting and similar:

in '000 EUR

31 December 2014	Gross and net amounts of financial instruments in the statement of financial position	Related financial instruments that are not offset	Net amount
Financial asset			
Derivatives used for trading	2 165	(2 165)	0
<b>Total financial assets</b>	<b>2 165</b>	<b>(2 165)</b>	<b>0</b>
Financial liabilities			
Derivatives used for trading	31 381	(2 165)	29 216
<b>Total financial liabilities</b>	<b>31 381</b>	<b>(2 165)</b>	<b>29 216</b>

in '000 EUR

31 December 2013	Gross and net amounts of financial instruments in the statement of financial position	Related financial instruments that are not offset	Net amount
Financial asset			
Derivatives used for trading	12 475	(172)	12 303
<b>Total financial assets</b>	<b>12 475</b>	<b>(172)</b>	<b>12 303</b>
Financial liabilities			
Derivatives used for trading	172	(172)	(0)
<b>Total financial liabilities</b>	<b>172</b>	<b>(172)</b>	<b>(0)</b>

### 31.4 CAPITAL MANAGEMENT

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

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

The Organisation is financed from its own resources, from its share of national renewal fees and, if need be, from special contributions by the Contracting States.

Any liquidity deficits would be financed by its Contracting States, so the Organisation has no risk of insolvency.

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

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

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

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

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

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

## 32. EVENTS AFTER THE REPORTING PERIOD

In March 2015, the Administrative Council decided to reform from 1 April 2015 onwards the invalidity scheme in force at the balance sheet date, inter alia by abolishing the lump sum referred to in Note 20.2.4. At the balance sheet date, the EPO recognises for such lump-sum payments an actuarially calculated post-employment benefit obligation that is to be released in 2015. In addition, contributions will no longer be charged to the staff and to the Office.



Published and edited by  
European Patent Office  
Munich  
Germany  
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