



Europäisches  
Patentamt  
European  
Patent Office  
Office européen  
des brevets

# Financial Statements Accounting Period **2020**

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# Financial Statements

## Accounting Period **2020**

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# Audit opinion

The audit opinion on the following page is originally provided in the Report of the Board of Auditors of the European Patent Organisation accessible via the EPO's website.

## 1. Opinion

The Board of Auditors have audited the financial statements, comprising the statement of comprehensive income, the statement of financial position, 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) for the accounting period 1 January to 31 December 2020 – as disclosed in CA/60/21.

In our opinion, the financial statements give a true and fair view of the financial position of the EPO as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with the accounting principles of Article 50(g) of the European Patent Convention (EPC) and the Financial Regulations (FinRegs) based thereon.

## 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the “BoA’s Responsibilities for the Audit of the Financial Statements” section of our report. We are independent of the EPO in accordance with the ethical requirements under Article 50(g) of the European Patent Convention (EPC) and the Financial Regulations (FinRegs) that are relevant to our audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## 3. Responsibilities of the President of the EPO for the financial statements

The President of the EPO is responsible for the preparation and fair presentation of the financial statements in accordance with Article 50(g) of the European Patent Convention (EPC) and the Financial Regulations (FinRegs). Under Article 1(3) FinRegs, the generally accepted accounting principles of the EPO are the International Financial Reporting Standards (IFRSs) as promulgated by the International Accounting Standards Board (IASB). Furthermore, the President of the EPO is responsible for such internal control as necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the President of the EPO is responsible for assessing the Organisation’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organisation or to cease operations, or has no realistic alternative but to do so.

## 4. BoA’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- a. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- b. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the EPO's internal control.
- c. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the President of the EPO.
- d. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the EPO's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the EPO to cease to continue as a going concern.
- e. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Munich, 15 April 2021

#### **Board of Auditors**

H. Schuh

O. Hollum

F. Angermann

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# Financial Statements

## Statement of Comprehensive Income for the year ended 31 December 2020

		in '000 EUR	
	Notes	2020	2019
Revenue			
Revenue from patent and procedural fees	(3)	1 970 164	1 991 003
Other revenue	(3)	10 157	11 009
Other operating income	(5)	6 011	20 139
Work performed and capitalised	(11)	—	463
Employee benefit expenses	(7)	(2 225 066)	(1 859 911)
Depreciation and amortisation expenses	(11)(12)	(65 938)	(58 772)
Other operating expenses	(8)	(231 711)	(239 077)
<b>Operating result</b>		<b>(536 383)</b>	<b>(135 146)</b>
Finance revenue	(9)	563 483	1 784 557
Finance costs	(10)	(342 958)	(436 024)
<b>Financial result</b>		<b>220 525</b>	<b>1 348 533</b>
<b>Profit/(loss) for the year</b>		<b>(315 858)</b>	<b>1 213 387</b>
<b>Other comprehensive income</b>			
Items that will not be reclassified to profit or loss:			
Remeasurement defined benefit obligations	(21)	1 067 571	(8 041 438)
Items that may be reclassified subsequently to profit or loss:		—	—
<b>Total comprehensive income/loss for the year</b>		<b>751 713</b>	<b>(6 828 051)</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 at 31 December 2020

		in '000 EUR	
Assets	Notes	2020	2019
<b>Non-current assets</b>			
Property, plant and equipment	(11)	692 205	733 506
Intangible assets	(12)	31 290	33 192
RFPSS financial assets		10 014 752	9 329 007
RFPSS other assets		623	640
RFPSS restricted cash		328 243	264 845
RFPSS financial liabilities		(738)	(694)
RFPSS other liabilities		(102)	(97)
<b>RFPSS net assets</b>	<b>(14)</b>	<b>10 342 778</b>	<b>9 593 701</b>
Investments	(15)	3 137 883	2 954 704
Home loans to staff	(16)	91 891	89 946
Other assets	(17)	146 459	124 462
<b>Total non-current assets</b>		<b>14 442 506</b>	<b>13 529 511</b>
<b>Current assets</b>			
Trade and other receivables	(18)	153 928	192 086
Home loans to staff	(16)	8 375	8 161
Prepaid expenses	(19)	24 164	20 247
Cash and cash equivalents	(20)	100 017	61 165
<b>Total current assets</b>		<b>286 484</b>	<b>281 659</b>
<b>Total assets</b>		<b>14 728 990</b>	<b>13 811 170</b>

		in '000 EUR	
Equity and liabilities	Notes	2020	2019
<b>Equity</b>			
Retained earnings		(1 943 390)	(1 627 532)
Other components of equity		(14 937 159)	(16 004 730)
<b>Total equity</b>		<b>(16 880 549)</b>	<b>(17 632 262)</b>
<b>Non-current liabilities</b>			
Defined benefit liability	(21)	29 984 949	29 868 880
Salary Savings Plan obligation	(22)	146 133	124 117
Other employee-related liabilities	(23)	31 120	24 455
Lease liabilities	(13)	47 133	65 056
Prepaid fees and refund liabilities	(3)	531 666	513 574
<b>Total non-current liabilities</b>		<b>30 741 001</b>	<b>30 596 082</b>
<b>Current liabilities</b>			
Other employee-related liabilities	(23)	247 544	169 790
Trade and other payables	(24)	190 074	205 685
Lease liabilities	(13)	16 092	16 213
Provisions	(25)	6 012	9 541
Prepaid fees and refund liabilities	(3)	408 816	446 121
<b>Total current liabilities</b>		<b>868 538</b>	<b>847 350</b>
<b>Total liabilities</b>		<b>31 609 539</b>	<b>31 443 432</b>
<b>Total equity and liabilities</b>		<b>14 728 990</b>	<b>13 811 170</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 2020

	in '000 EUR			
	Issued capital	Reserves		Total equity
		Cumulative changes in equity not recognised through profit or loss	Retained earnings	
<b>Balance at 1 January 2019</b>	–	(7 963 292)	(2 840 919)	(10 804 211)
<b>Changes in equity for 2019</b>				
Remeasurement defined benefit obligations		(8 041 438)	–	(8 041 438)
Profit (loss) for the period		–	1 213 387	1 213 387
<b>Balance at 31 December 2019</b>	–	(16 004 730)	(1 627 532)	(17 632 262)
<b>Changes in equity for 2020</b>				
Remeasurement defined benefit obligations		1 067 571	–	1 067 571
Profit (loss) for the period		–	(315 858)	(315 858)
<b>Balance at 31 December 2020</b>	–	(14 937 159)	(1 943 390)	(16 880 549)

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 2020

in '000 EUR

	Notes	2020	2019
<b>Cash flows from operating activities</b>			
Cash receipts from Patent Applicants	(3)	1 298 879	1 321 013
Cash receipts from Member States – patent related	(3)	675 763	621 399
Cash receipts from Member States – reimbursement of VAT and other taxes		57 100	6 672
Cash receipts from other users and other cash receipts		4 864	7 714
Cash receipts from transfers of pension rights	(21)	3 209	7 035
<b>Total operating cash receipts</b>		<b>2 039 815</b>	<b>1 963 833</b>
<b>Cash flows from operating activities</b>			
Payments to staff – salaries and allowances	(7)	(876 750)	(891 866)
Payments to pensioners and former staff	(21)	(291 797)	(266 374)
Payments to healthcare provider for staff and pensioners	(21)	(72 865)	(76 056)
Payments to the European School Munich		(25 914)	(23 615)
Payments to suppliers of goods and services		(295 489)	(275 825)
Net investments in Salary Savings Plan	(22)	(17 785)	(17 362)
Payment of fees to Extension and Validation States	(3)	(906)	(694)
<b>Total operating cash payments</b>		<b>(1 581 506)</b>	<b>(1 551 792)</b>
<b>Cash Flow from operating activities</b>		<b>458 309</b>	<b>412 041</b>
<b>Cash flows from investing activities</b>			
Acquisition of tangible and intangible assets	(11)(12)	(24 855)	(25 287)
Proceeds from sale of assets	(11)(12)	12	16
Net statutory investments in RFPSS	(14)	(40 436)	(35 907)
Net voluntary investments in RFPSS	(14)	(285 000)	(220 000)
Divestment in-house cash management		–	58 035
Net investments in EPOTIF	(15)	(50 000)	(169 980)
Home Loans granting	(16)	(16 538)	(16 800)
Home Loans repayment	(16)	14 135	14 448
Home Loans interest payment	(16)	923	1 116
<b>Cash flow from investing activities</b>		<b>(401 759)</b>	<b>(394 359)</b>
<b>Cash flows from financing activities</b>			
Interest paid		(1 073)	(949)
Repayment of lease liabilities	(13)	(16 625)	(10 415)
<b>Cash flow from financing activities</b>		<b>(17 698)</b>	<b>(11 364)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>38 852</b>	<b>6 318</b>
<b>Cash and cash equivalents net of bank overdrafts at the beginning of the period</b>		<b>61 165</b>	<b>54 859</b>
Effect of exchange rate changes on cash and cash equivalents		–	(12)
<b>Cash and cash equivalents net of bank overdrafts at the end of the period</b>		<b>100 017</b>	<b>61 165</b>

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-Benthem-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 2021.

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

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

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

## 2. Summary of significant accounting policies

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

In order to foster transparency of cash movements at the EPO, the cash flows from operating activities have been prepared in 2020 according to IAS 7.18a (direct method) while they were prepared until 2019 according to IAS 7.18b (indirect method). The classes of gross cash receipts and gross cash payments have been obtained based on IAS 7.19b i.e. adjusting items in the statement of comprehensive income for changes during the period in operating receivables and payables. Investments into the RFPSS and EPOTIF are presented on a net basis pursuant to IAS 7.22b and IAS 7.23 2.B while until 2019 they were presented on a gross basis. Comparative information for 2019 has been restated accordingly.

### 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 segment reporting, as IFRS 8 must be applied only by entities whose debt or equity securities are publicly traded and by those in the process of issuing such securities in public securities markets.

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

The EPO did not adopt any new standards or interpretations in 2020.

The EPO initially applied IFRS 16 Leases from 1 January 2019. The EPO applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019.

#### **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 17 – Insurance Contracts.** This new standard introduces a new measurement model for insurance liabilities, based on the present value of future cash flows. The standard has an effective date of 1 January 2023. This standard will have no impact on the EPO's accounts.

**Amendments to IFRS 17** These amendments address concerns and implementation challenges that were identified after the IFRS 17 Insurance Contracts was published in 2017. The amendment is applicable to reporting periods beginning on or after 1 January 2023. It will have no impact on the EPO accounts.

**Applying IFRS 9 ‘Financial Instruments’ with IFRS 4 ‘Insurance Contracts’ (Amendments to IFRS 4).** The pronouncement amending IFRS 4 ‘Insurance Contracts’ provide options for entities that issue insurance contracts within the scope of IFRS 4. It is to be applied at the time when IFRS 9 is first applied. The pronouncement has no implications for the EPO.

**Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)**

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. It is applicable to reporting periods beginning on or after 1 January 2023. The EPO has not yet evaluated the impact of this pronouncement.

**Reference to the Conceptual Framework (Amendments to IFRS 3)** The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard. It is applicable to reporting periods beginning on or after 1 January 2022. It will have no impact on the EPO accounts.

**Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)**

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. The pronouncement is applicable to reporting periods beginning on or after 1 January 2022. It is not expected to have material impact on the EPO accounts.

**Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)** The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The pronouncement is applicable to reporting periods beginning on or after 1 January 2022. It is not expected to have material impact on the EPO accounts.

**Annual Improvements to IFRS Standards 2018–2020**

Makes amendments to the following standards:

IFRS 1 – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent’s date of transition to IFRSs.

IFRS 9 – The amendment clarifies which fees an entity includes when it applies the ‘10 percent’ test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf. IFRS 16 – The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

IAS 41 – The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The pronouncement is applicable to reporting periods beginning on or after 1 January 2022. It is not expected to have material impact on the EPO accounts.

#### **Interpretations and amendments to existing standards which became effective in 2020 but are not relevant for the Organisation's operations.**

**Amendments to IFRS 3 – Definition of a Business** These amendments entail changes to the defined terms in Appendix A, the application guidance and the illustrative examples of IFRS 3 only. They are applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. The pronouncement had no impact on the EPO's accounts.

**Amendments to IAS 1 and IAS 8 – Definition of Material** These amendments clarify the definition of “material” and align the definition used in the Conceptual Framework and the standards. They are applicable to annual periods beginning on or after 1 January 2020. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. The amendments to the definition of material had no significant impact on the EPO's financial statements.

**The Conceptual Framework for Financial Reporting** It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. The changes had no material impact on the EPO's accounting policies.

**Covid-19-Related Rent Concessions (Amendment to IFRS 16)** The amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. It is applicable to reporting periods beginning on or after 1 January 2020. It had no impact on the EPO accounts.

**Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)** The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements. Interbank offered rates (IBORs) are interest reference rates, such as LIBOR or EURIBOR that represent the cost of obtaining unsecured funding. The amendments are effective for annual periods beginning on or after 1 January 2020 (Phase 1) and on or after 1 January 2021 (Phase 2). They have no impact on the EPO's financial statements.

## **2.2 Consolidation**

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

## 2.3 Foreign currency translation

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

## 2.4 Significant accounting judgements and estimates

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

The liabilities relating to the defined benefit pension plans as defined in Note 2.15.2 and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, career development, mortality rates, the duration of incapacity to work, future pension increases and other actuarial parameters. 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 mortality table applied by the Office is the International Civil Servants Life Table (ICSLT) produced by the ISRP which is a table specific to international civil servants based in Europe. During 2019, EPO's Actuarial Advisory Group (AAG) recommended the use of an EPO specific mortality table based on the most actual ICSLT mortality table which is the 2018 table. In particular, the AAG made two changes to the 30-year longevity improvements of the standard ICSLT 2018 table. First, it recalibrated the trend to better match the EPO pensioner population. Second, in view of technical reasons and taking into account first signals of a slowdown in expected increases in life expectancy, the AAG reduced at this stage the horizon of longevity improvements from 30 years to 10 years. This assumption will be reviewed in 2021. Calculation of the defined benefit plan also means making assumptions to determine the level of lump-sum payments as tax compensation for the national tax levied on pensions (disclosed as "tax adjustment"). Due to the long-term nature of these plans, such estimations are subject to significant legal and actuarial uncertainties (see also Note 27).

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.

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**

The EPO recognises its revenue in accordance with **IFRS 15 Revenue from Contracts with Customers**. When a patent application is filed, a contract is established between the EPO and the patent applicant, creating enforceable rights and obligations for both parties. However, the EPO does not usually have individual customer contracts in place but instead performs its patent examination services on the basis of the legal regulations (EPC and PCT) under which patent applicants file their applications.

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 and its Implementing Regulations and the Rules relating to Fees of 20 October 1977.

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.

The fees related to each step are standardised and determine the transaction price related to the contract with customer.

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 EPO satisfies its performance obligation, i.e. when it transfers the service. Costs are expensed as incurred. Fees received as payment for services for which the performance obligation has not yet been fully satisfied or for which the patent applicant is entitled to a refund are presented at the closing date as a liability.

The prepaid fees, recognised in the Statement of Financial Position as liabilities (from contracts with customers), are carried forward and recognised as revenue upon full satisfaction of the related performance obligation as follows:

- **Filing and page fees:** the underlying performance obligation, namely examination of the patent application for compliance with the formal requirements, is satisfied completely by the EPO shortly after filing/entry into European phase. Payment is due within one month of the filing date.
- **Search fees and claims fees** included in the transaction price: the underlying performance obligation for the search service is fully satisfied once the search report has been dispatched to the patent applicant. According to Article 9.2 of the Rules relating to Fees, an applicant may be entitled to a full or partial refund of the search fees if the EPO was able to make use of a search report previously drawn up by it.

Furthermore, the applicant can decide at any time to cancel the search contract with the EPO either actively (withdrawal of the application) or passively (application deemed to be withdrawn). According to Article 9.1 of the Rules relating to Fees, the search fee paid for a European or supplementary European search is to be fully refunded if the European patent application is withdrawn, refused or deemed to be withdrawn at a time when the EPO has not yet begun to draw up the search report.

- **Examination fees and claims fees** included in the transaction price: the underlying performance obligation for the examination service is fully satisfied once the written communication of the intention to grant the patent or the decision to refuse the application has been sent to the patent applicant.

The patent applicant can decide at any time to cancel the examination contract with the EPO either actively (withdrawal of the application) or passively (application deemed to be withdrawn). Under Article 11(a) of the Rules relating to Fees (as in force from 1 July 2016), the examination fee provided for in Article 94(1) EPC is to be refunded in full if the European patent application is withdrawn, refused or deemed to be withdrawn before substantive examination has begun.

Under Article 11(b) of the Rules relating to Fees, as in force from 1 November 2016, the examination fee provided for in Article 94(1) EPC is to be refunded at a rate of 50% if the European patent application is withdrawn after substantive examination has begun but

before either expiry of the time limit for replying to the first Article 94(3) communication issued by the examining division, even if the applicant has already replied, or, in the case of a direct grant (i.e. no previous Art. 94(3) communication), before the date on which the Rule 71(3) communication is dispatched.

Article 11(b) of the Rules relating to Fees applies to all applications for which substantive examination started on or after 1 November 2016 and applies only if they are withdrawn, not if they are refused or deemed to be withdrawn.

- **Grant and printing fees:** these fees are due four months after completion of the examination service by the EPO. The underlying performance obligation for the grant service is fully satisfied once the patent is published.
- **Opposition fees:** the underlying performance obligation is fully satisfied once the opposition proceedings have been closed, i.e. once a final decision by the opposition division has been communicated to the parties.
- **Appeal fees:** the underlying performance obligation is fully satisfied once the appeal proceedings have been closed, i.e. once a final decision by the board of appeal has been communicated to the parties.
- **Limitation fees:** the underlying performance obligation is fully satisfied once 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:

- **Designation, extension and validation fees:** there is no performance obligation related to these fees; they are one-off fees payable to ensure protection of the invention in the EPC contracting and extension/validation 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 and validation 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.

- **Renewal fees for patent applications:** payment of renewal fees for patent applications is not subject to the EPO's fulfilment of a performance obligation; they 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 (six months for the third renewal fee) before the due date under Rule 51(1) EPC are refundable and therefore 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.

#### 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 when the EPO satisfies its performance obligation, i.e. when it transfers the service.

Costs are expensed as incurred. Fees received as payment for services for which the performance obligation has not yet been fully satisfied 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 as follows:

- **International and international-type search fees:** the underlying performance obligation is fully satisfied once the search report has been dispatched to the patent applicant. As prescribed by Rule 41.1 PCT, when establishing the international search report on an international application in its capacity as International Searching Authority, the EPO must, to the extent possible, use the results of any earlier search performed by it. It must then fully or partially refund the search fee, depending on the extent of use it was able to make of the results of that previous search.
- **PCT Chapter II examination fees:** the underlying performance obligation is fully satisfied once the international preliminary examination report has been dispatched to the patent applicant and the examining division has completed 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. There is no EPO performance obligation associated with post-grant renewal fees.

#### 2.5.1.4. Searches for national offices and third parties

Revenue from **searches for national offices and third-party searches** are recognised upon satisfaction of the corresponding performance obligation, i.e. upon rendering of the service and issue of the invoice involved. To better reflect the nature of these revenues and to align them with the internal reporting on search products, they have been reclassified in 2019 from other revenue to revenue from patent and procedural fees. The revenue classification for the comparative period was adjusted accordingly.

### 2.5.2 Other revenue

Other revenue includes revenue from **patent information services, sales of patent information products and administrative fees**, with the following principles of revenue recognition:

- Revenue from **patent information services** is recognised upon satisfaction of the corresponding performance obligation, i.e. upon rendering of the service and issue of the invoice involved.
- For **sales of patent information products**, the revenue is recognised once control over the goods is transferred to the buyer.
- Revenue from **administrative fees** is recognised upon satisfaction of the corresponding performance obligation i.e. upon rendering of the administrative service.

### 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 30.4 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 for onerous contracts.

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 the payment is established.

## 2.7 Leases

The EPO has applied IFRS 16 as from 1 January 2019 using the modified retrospective approach.

At inception of a contract, the EPO assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

### As a lessee

The EPO recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, or over the useful life of the underlying asset. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the discounted lease payments at the commencement date.

The EPO uses its incremental borrowing rate as the discount rate, the incremental borrowing rate being the estimated rate that the EPO would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Lease payments included in the measurement of the lease liability comprise fixed payments, in-substance fixed payments, variable lease payments that depend on an index or a rate and the exercise price of a purchase options that the EPO is reasonably certain to exercise, lease payments in an optional renewal period if the EPO is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the EPO is reasonably certain not to terminate the lease contract early.

The lease liability is measured at amortised cost using the effective interest method.

The EPO presents the right-of-use in 'property, plant and equipment' in the statement of financial position.

The EPO has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The EPO recognises the lease payments associated with these leases as an expense 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 3m.

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. When data concerning internal cost is not available, eligible projects are capitalised based on their external cost only.

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

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 22. A corresponding liability is recognised and presented separately in the Statement of Financial Position ("Salary Savings Plan obligation").

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

## 2.12 Financial instruments

The EPO applies IFRS 9 (2014) to the reporting of 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 in the short term. Therefore all RFPSS assets are presented as non-current.

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

#### EPO Treasury Investment Fund (EPOTIF)

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

After initial recognition, the fair value of EPOTIF investment units is measured on the basis of the Net Assets Value as published by the capital management company in charge of the fund administration (Master KVG).

#### RFPSS assets

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

At initial recognition the instruments in this category are measured at fair value. Transaction costs are expensed in profit or loss for the period in which they were incurred. The instruments that are actively traded in the market are valued at the market auction price (also called close price) on the balance sheet date. If there is no active market for financial instruments, the last available price from the market maker is used. Gains or losses are recognised in the Statement of Comprehensive Income in the financial result section. The instruments held both by the EPOTIF and 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 29.3.

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

#### **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.

#### **Cash and cash equivalents**

Cash and cash equivalents in the Statement of Financial Position comprise cash at banks and in hand, as well as short-term deposits with an original maturity of three months or less, and 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 recognises an expected credit loss allowance on financial assets that are measured at amortised cost. The loss allowance is measured at an amount equal to 12-months' expected credit losses unless the credit risk on the financial instrument has increased significantly since initial recognition, in which case the loss allowance is measured at an amount equal to the lifetime expected credit losses. The credit loss on the financial asset is measured as the present value of the difference between the cash flows that are due to the EPO under the contract and the cash flows that the EPO expects to receive.

### Fair value measurements

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

- The fair value of instruments that are actively traded in the market is measured at the market auction price (also called close price) on the balance sheet date.
- The fair value of instruments for which there is no active market is measured at the last available price from the market maker.
- The fair value of EPOTIF investment units is measured on the basis of the Net Assets Value as published by the capital management company in charge of the fund administration (Master KVG).
- 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 current 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 of 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). These liabilities mainly concern bonus payments and compensated absences such as regular annual leave and home leave which are determined by applying an average daily cost rate, based on year-end figures, on granted but untaken leave.

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

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

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

- a retirement pension plan including retirement for health reasons, any tax compensation thereon, and family allowances
- an LTC plan
- a sickness insurance for pensioners
- a death insurance involving lump-sum payments.

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

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

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

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

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

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

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

For all employees declared to be on incapacity following a medical opinion, a provision is recognised on a case-by-case basis for 70% of their basic salary and salary-related allowances for that part of time for which they are discharged from duties for reasons of incapacity, during the entire expected period of incapacity. Since there is no vesting period, for all such employees vesting occurs immediately following the declaration that they are incapacitated. Therefore, no provisions are recognised for the potential risk of incapacity in the group of active employees.

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

The potential risk of retirement for health reasons is recognised under the normal pension scheme of the EPO.

### 2.15.3 Pension plan

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

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

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

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

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

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

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

#### 2.15.4 Other post-employment benefit obligations

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

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

Post-employment health insurance is a defined benefit plan managed by the insurance broker Cigna International Health Services BVBA, Antwerp, Belgium (Cigna). The obligation for this insurance is calculated on the basis of the anticipated medical costs and the EPO's estimated future contributions to the insurance contracts given the medical cost for the current population of pensioners and those entitled under them. Payments to beneficiaries are made directly by Cigna on behalf of the EPO. Under the system in place until 2016, the EPO paid insurance premiums to Cigna; in 2017, this system was replaced by a self-insurance model administered by Cigna. As a result of this change, the EPO no longer pays a fixed insurance premium per insured family but pays plan participants' medical costs itself. The benefits paid are calculated taking into account the graph of refunds by age, based on the refunds made to the beneficiaries by Cigna.

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

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

The death insurance is a defined benefit plan managed by the Organisation. Under this plan, beneficiaries receive a lump sum, based on the deceased's last salary, in the event of death. The benefits are calculated in proportion to salaries. Payments to beneficiaries are made directly by the Organisation and financed by the contributions of staff members and the Organisation. The actuarial present value of the death benefits is based on the benefits promised under the terms of the plan as described in Note 21.2.4 using the projected salary levels and the risk of 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 obligation.

## 2.15.5 Other long-term employee benefits

### 2.15.5.1 Salary Savings Plan (SSP) obligation

The Organisation operates an SSP managed by external service providers. The amount of the SSP received by the beneficiaries is recognised as an obligation from other long-term employee benefits and is determined by the amount of contributions paid by the Office and the beneficiary to that plan, together with investment returns on the contributions. Contributions paid by the EPO are included in employee benefit expenses. In contrast to the accounting treatment of pension and other post-employment benefit obligations, any gains and losses are recognised immediately in the Statement of Comprehensive Income as finance revenue or finance costs. The Salary Savings Plan obligation is presented in the Statement of Financial Position as a separate line item. The main characteristics of the SSP are summarised in Note 22.

### 2.15.5.2 Incapacity

For any permanent employee declared to be on incapacity following a medical opinion, a provision is recognised on a case-by-case basis for 70% of their basic salary and salary-related allowances for that part of time for which they are discharged from duties for reasons of incapacity, during the entire expected period of incapacity. During 2018 the incapacity scheme was opened up to employees working on fixed-term contracts.

### 2.15.5.3 Other employee-related liabilities (non-current)

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

## 2.15.6 Termination benefits

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

## 2.16 Provisions

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

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

## 2.17 Prepaid fees and refund liabilities

Prepaid fees and refund liabilities (contract liabilities) are recognised under IFRS 15 **Revenue from Contracts with Customers** to record fee payments received for services for which the performance obligation has not yet been fully satisfied or for which the payer is entitled to a refund, as well as prepayments for renewal fees for patent applications. See Note 2.5 above.

## 3. Revenue from contracts with customers

The following tables show the disaggregation of the EPO revenue by major products:

### 3.1 Revenue from patent and procedural fees and other revenue

The revenue breaks down into the following categories:

	in '000 EUR	
	2020	2019
<b>Revenue from patent and procedural fees</b>		
Procedural fees related to the patent grant process (Note 3.2)	1 312 582	1 354 804
National renewal fees for granted patents	597 629	581 679
Searches for national offices and third parties	59 953	54 520
<b>Total</b>	<b>1 970 164</b>	<b>1 991 003</b>
<b>Other revenue</b>		
Patent information services and products	7 472	8 203
Administrative fees	2 685	2 806
<b>Total</b>	<b>10 157</b>	<b>11 009</b>

### 3.2 Procedural fees related to the patent grant process

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

Procedural fees related to the patent grant process	in '000 EUR	
	2020	2019
Filing – EPC and Euro-PCT	69 491	60 134
Searches – EP and Euro-PCT	158 434	155 366
International searches-PCT	124 787	122 664
Examination – EPC and Euro-PCT	271 665	292 772
International preliminary examination-PCT	10 202	11 584
Grant – EP and Euro-PCT	126 849	128 391
Opposition	2 141	3 781
Appeal	4 377	5 241
Designation, extension and validation fees	97 207	93 328
Renewal fees for patent applications	442 318	476 153
Others	5 111	5 390
<b>Total</b>	<b>1 312 582</b>	<b>1 354 804</b>

### 3.3 Contract balances

The following table provides information about receivables as well as prepaid fees and refund liabilities (contract liabilities) from contracts with customers:

Contract balances	in '000 EUR	
	2020	2019
Receivables, which are included in "Trade and other receivables" (see Note 18)	134 109	147 303
Prepaid fees and refund liabilities	940 482	959 695
Thereof prepaid fees	939 515	957 536
Thereof refund liabilities	967	2 159

Prepaid fees are recognised to record fee payments received for services for which the EPO has not yet fully satisfied its performance obligations as well as prepayments on patent application renewal fees which are refundable on the date of the financial statements.

Refund liabilities include the amount of refunds due at the balance-sheet date which have not yet been paid out.

The following tables show the significant changes in the prepaid fees balances during the reporting period:

in '000 EUR

Prepaid fees	Opening balance 01.01.2020	Revenue recognised that was included in the prepaid fees at the beginning of the period	Decreases of prepaid fees due to cancellation of the contract	Increases due to cash received excluding amounts recognised as revenue during the period	Ending balance 31.12.2020
Filing – EPC and Euro-PCT	19 125	(18 664)	(209)	16 957	17 209
Searches – EP and Euro-PCT	103 563	(94 064)	(1 586)	102 193	110 106
International searches-PCT	33 647	(33 509)	(86)	31 471	31 523
Examination – EPC and Euro-PCT	746 804	(221 502)	(58 745)	263 146	729 703
International preliminary examination-PCT	4 636	(4 388)	(149)	4 003	4 102
Grant – EP and Euro-PCT	16 772	(16 187)	(324)	12 547	12 808
Opposition	5 668	(1 746)	(172)	3 288	7 038
Appeal	21 961	(5 007)	(358)	4 794	21 390
Others	5 360	(5 256)	(91)	5 623	5 636
<b>Total</b>	<b>957 536</b>	<b>(400 323)</b>	<b>(61 720)</b>	<b>444 022</b>	<b>939 515</b>

in '000 EUR

Prepaid fees	Opening balance 01.01.2019	Revenue recognised that was included in the prepaid fees at the beginning of the period	Decreases of prepaid fees due to cancellation of the contract	Increases due to cash received excluding amounts recognised as revenue during the period	Ending balance 31.12.2019
Filing – EPC and Euro-PCT	17 865	(17 365)	(200)	18 825	19 125
Searches – EP and Euro-PCT	97 051	(90 440)	(1 356)	98 308	103 563
International searches-PCT	32 840	(32 493)	(254)	33 554	33 647
Examination – EPC and Euro-PCT	796 852	(240 294)	(63 250)	253 496	746 804
International preliminary examination-PCT	5 538	(5 290)	(25)	4 413	4 636
Grant – EP and Euro-PCT	17 860	(17 293)	(303)	16 508	16 772
Opposition	5 789	(3 351)	(208)	3 438	5 668
Appeal	20 492	(5 579)	(352)	7 400	21 961
Others	5 677	(5 522)	(130)	5 335	5 360
<b>Total</b>	<b>999 964</b>	<b>(417 627)</b>	<b>(66 078)</b>	<b>441 277</b>	<b>957 536</b>

The prepaid fees balances correspond to the transaction price allocated to the remaining performance obligations from contracts with customers. Slight modifications to the transaction price are possible if the patent applicant amends the amount of claims or pages during the patent application process.

For European, Euro-PCT and international searches, the full amount of the transaction price will not be realised as revenue due to the fact that applicants may be entitled to a refund if the search performed was based on an earlier search drawn up by the EPO and the EPO was able to profit fully or partially from the results of that earlier search. For more details on the search fee refund rules, please refer to Note 2.5 “Revenue recognition”.

As an indication, the amounts of refunds paid out per year due to the use of previous search reports are:

- For European and Euro-PCT searches: EUR 17.2m (2019: EUR 16.8m), which is 12% (2019: 12%) of the annual revenue for this product category.
- For international PCT searches: EUR 38.3m (2019: EUR 36.4m), which is 34% (2019: 32%) of the annual revenue for this product category.

Furthermore, examination, European and Euro-PCT search fees will not be fully or partly realised as revenue if applicants cancel the contract by withdrawing their application actively or passively or by closing the proceedings. In these cases the EPO will no longer have any performance obligation. Refunds may fall due depending on whether or not the examiner has started work when the cancellation takes effect. The amounts of cancelled contracts per product are shown separately in the first table above.

As an indication, the amounts of refunds paid out per year due to active or passive withdrawal by the applicant are:

- For examination: EUR 26.7m (2019: EUR 28.1m), which is 10% (2019: 10%) of the annual revenue for this product category.
- For European and Euro-PCT searches: EUR 2.0m (2019: EUR 1.7m), which is 1% (2019: 1%) of the annual revenue for this product category.

In line with its planned production schedule, the EPO expects to satisfy its remaining performance obligations as per balance sheet date for its two main products, search and examination, within:

– 3.8 months (2019: 3.5 months) for searches – EP and Euro-PCT
– 2.4 months (2019: 2.3 months) for international searches-PCT
– 22.3 months (2019: 21.1 months) for examination – EP and Euro-PCT
– 4.2 months (2019: 4.0 months) for international preliminary examinations-PCT

## 4. Potential future national renewal fees for European patents

As at the balance sheet date the net present value of these fees was EUR 5 560m (2019: EUR 5 190m).

Cash flows have been estimated individually per Contracting State and year over the term remaining after grant in each Contracting State. The renewal rates were derived from the behaviour of patent proprietors in the post-grant phase as currently observed.

The discount rates applied in line with the term of the expected cash flows range between -0.36% and 0.59% in 2020 (2019: -0.20% and 0.99%). A one percentage point increase in the discount rates applied would result in a decrease of EUR 318m (2019: EUR 293m) 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	
Other operating income	2020	2019
Reversal of impairment	—	12 819
Fees for European Qualifying Examination	1 309	1 868
Rental income	835	745
Release accruals from prior years	858	1 692
Reimbursement additional site costs Berlin	740	787
Income from valuation of insurance funds	110	119
Other	2 159	2 109
<b>Total</b>	<b>6 011</b>	<b>20 139</b>

Further information regarding the reversal of impairment is presented in Note 11.

## 6. Operating leases – the EPO as lessor

The EPO has entered into a number of minor agreements to lease out limited parts of office premises. All of these contracts are classified as operating leases with fixed payments subject to periodical adjustments for inflation. The income from these contracts in 2020 was EUR 835k (2019: EUR 680k).

Maturity analysis of the non-cancellable lease payments to be received by the EPO (undiscounted):

	in '000 EUR	
Maturity as from reporting date:	2020	2019
Year 1	779	619
Year 2	379	368
Year 3	198	379
Year 4	198	198
Year 5	187	198
Year 6	154	188
<b>Total</b>	<b>1 895</b>	<b>1 950</b>

## 7. Employee benefit expenses

Employee benefit expenses	in '000 EUR	
	2020	2019
Current service cost (net of staff contributions)	1 071 490	755 779
Basic salaries permanent employees	755 052	755 079
Allowances and other benefits	315 134	239 569
Healthcare and other cost of social security	28 621	32 096
School and day-care centres	26 368	23 972
Remuneration of other employees	2 506	6 478
Past service costs	12 967	32 516
Training	4 199	5 075
Other	8 729	9 347
<b>Total</b>	<b>2 225 066</b>	<b>1 859 911</b>

Detailed information on current service cost is presented in Note 21.

## 8. Other operating expenses

Other operating expenses	in '000 EUR	
	2020	2019
IT maintenance	107 767	102 806
Property and equipment maintenance	43 474	42 350
Consultancy and other external services	39 142	40 105
Patent information and public relations	12 155	13 962
Documentation	10 504	10 411
Co-operation and meetings	9 298	12 281
Postage and telecommunications	3 556	4 277
Travel	868	4 909
Other	4 947	7 976
<b>Total</b>	<b>231 711</b>	<b>239 077</b>

## 9. Finance revenue

Finance revenue	in '000 EUR	
	2020	2019
Interest income from bank accounts and deposits	—	12
Interest income from home loans	2 584	2 807
Valuation gains on investments	133 178	324 531
Valuation gains on RFPSS financial instruments	422 626	1 435 047
Valuation gains assets Salary Savings Plan	5 095	22 160
Decrease obligation Salary Savings Plan	—	—
Other	—	—
<b>Total</b>	<b>563 483</b>	<b>1 784 557</b>

Further information on gains from financial instruments is presented in Note 29.3.

## 10. Finance costs

Finance costs	in '000 EUR	
	2020	2019
Interest costs on defined benefit obligations	336 789	412 915
Valuation losses on investments	—	—
Valuation losses on RFPSS financial instruments	—	—
Valuation losses assets Salary Savings Plan	—	—
Increase (decrease) obligation Salary Savings Plan	5 095	22 160
Interest costs lease	1 073	949
Other	1	—
<b>Total</b>	<b>342 958</b>	<b>436 024</b>

Further information on losses from financial instruments is presented in Note 29.3.

## 11. 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
<b>Cost at 1 January 2020</b>	<b>174 732</b>	<b>1 120 003</b>	<b>152 534</b>	<b>1 447 269</b>
Additions	—	5 880	10 574	16 454
Disposals/Retirements	—	(30 026)	(1 814)	(31 840)
Transfers	—	—	—	—
<b>Cost at 31 December 2020</b>	<b>174 732</b>	<b>1 095 857</b>	<b>161 294</b>	<b>1 431 883</b>
Accumulated depreciation 1 January 2020	—	(624 818)	(88 945)	(713 763)
Depreciation for the year	—	(35 181)	(20 454)	(55 635)
Disposals/Retirements	—	27 909	1 811	29 720
Transfers	—	—	—	—
Reversal of impairment loss	—	—	—	—
<b>Accumulated depreciation 31 December 2020</b>	<b>—</b>	<b>(632 090)</b>	<b>(107 588)</b>	<b>(739 678)</b>
Impairment loss for the year	—	—	—	—
<b>Accumulated impairment 31 December 2020</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Net carrying value 1 January 2020	174 732	495 185	63 589	733 506
<b>Net carrying value 31 December 2020</b>	<b>174 732</b>	<b>463 767</b>	<b>53 706</b>	<b>692 205</b>
Including construction in progress				
1 January 2020	—	6 554	—	6 554
31 December 2020	—	5 853	—	5 853

The retirements in 2020 comprise the demolition of the old Main building in The Hague which was completed during the reporting period. The old Main building was already fully depreciated at the time of demolition. The old Main building was the former seat of the IIB, inaugurated in 1972. The New Main building inaugurated in 2018 replaced the old Main building.

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 was 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.

The comparative figures are presented in the table below:

	in '000 EUR			
	Land	Buildings	Office equipment	Total
Cost at 31 December 2018	174 732	1 088 825	143 522	1 407 079
Right-of-use assets initially recognised at 1 January 2019	—	33 892	1 028	34 920
Cost at 1 January 2019	174 732	1 122 717	144 550	1 441 999
Additions	—	15 170	57 966	73 136
Disposals/Retirements	—	(17 884)	(49 982)	(67 866)
Transfers	—	—	—	—
<b>Cost at 31 December 2019</b>	<b>174 732</b>	<b>1 120 003</b>	<b>152 534</b>	<b>1 447 269</b>
Accumulated depreciation 1 January 2019	(12 819)	(605 286)	(127 127)	(745 232)
Depreciation for the year	—	(35 828)	(11 763)	(47 591)
Disposals/Retirements	—	16 296	49 945	66 241
Transfers	—	—	—	—
Reversal of impairment loss	12 819	—	—	12 819
<b>Accumulated depreciation 31 December 2019</b>	<b>—</b>	<b>(624 818)</b>	<b>(88 945)</b>	<b>(713 763)</b>
Impairment loss for the year	—	—	—	—
<b>Accumulated impairment 31 December 2019</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Net carrying value 1 January 2019	161 913	517 431	17 423	696 767
<b>Net carrying value 31 December 2019</b>	<b>174 732</b>	<b>495 185</b>	<b>63 589</b>	<b>733 506</b>
Including construction in progress				
1 January 2019	—	19 132	—	19 132
31 December 2019	—	6 554	—	6 554

The reversal of impairment loss in 2019 refers to the land plot for the EPO's building PschorrHöfe BA8 in Munich. In 2007, an impairment testing had resulted in the recognition of an impairment loss amounting to EUR 12.8m. A new expert valuation performed in 2019 assessed that the value of the land now exceeds its initial purchase price. As a consequence, the impairment loss posted in 2007 was fully reversed in 2019. The corresponding income was presented as other operating income in the statement of comprehensive income.

For details about the right-of-use assets recognised as of 1 January 2019, see Note 13.

The major additions to the property, plant and equipment in 2019 related to the new right-of-use assets: the rented building in Haar (Munich) and the external data centre. The asset retirements included mainly obsolete IT network servers, the fitting out of the Main building and other rented buildings in The Hague.

## 12. 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 2020	14 109	54 600	107 872	176 581
Additions	352	—	8 049	8 401
Disposals	—	—	—	—
Transfers	—	—	—	—
<b>Cost at 31 December 2020</b>	<b>14 461</b>	<b>54 600</b>	<b>115 921</b>	<b>184 982</b>
Accumulated amortisation 1 January 2020	(10 177)	(52 842)	(80 370)	(143 389)
Amortisation for the year	(1 908)	(506)	(7 889)	(10 303)
Amortisation disposals	—	—	—	—
Amortisation transfers	—	—	—	—
<b>Accumulated amortisation 31 December 2020</b>	<b>(12 085)</b>	<b>(53 348)</b>	<b>(88 259)</b>	<b>(153 692)</b>
Net carrying value 1 January 2020	3 932	1 758	27 502	33 192
<b>Net carrying value 31 December 2020</b>	<b>2 376</b>	<b>1 252</b>	<b>27 662</b>	<b>31 290</b>
Including construction in progress				
1 January 2020	—	—	8 628	8 628
31 December 2020	—	—	7 167	7 167

Additions of internally generated systems in 2020 relate mainly to IT projects developed in the frame of the Strategic Plan 2023.

The comparative figures are as follows:

	in '000 EUR			
	Acquired software	Acquired information systems	Internally generated systems	Total
Cost at 1 January 2019	15 714	54 600	108 415	178 729
Additions	3 776	—	2 215	5 991
Disposals	(5 381)	—	(2 758)	(8 139)
Transfers	—	—	—	—
<b>Cost at 31 December 2019</b>	<b>14 109</b>	<b>54 600</b>	<b>107 872</b>	<b>176 581</b>
Accumulated amortisation 1 January 2019	(13 672)	(52 408)	(74 267)	(140 347)
Amortisation for the year	(1 886)	(434)	(8 861)	(11 181)
Amortisation disposals	5 381	—	2 758	8 139
Amortisation transfers	—	—	—	—
<b>Accumulated amortisation 31 December 2019</b>	<b>(10 177)</b>	<b>(52 842)</b>	<b>(80 370)</b>	<b>(143 389)</b>
Net carrying value 1 January 2019	2 042	2 192	34 148	38 382
<b>Net carrying value 31 December 2019</b>	<b>3 932</b>	<b>1 758</b>	<b>27 502</b>	<b>33 192</b>
Including construction in progress				
1 January 2019	—	—	9 269	9 269
31 December 2019	—	—	8 628	8 628

Additions of acquired software in 2019 and 2020 relate mainly to new software licences, while the disposals for that category of assets result from the retirements of licences that were no longer in use and were fully amortised. Disposals of internally generated systems in 2019 refer mainly to an obsolete, fully amortised IT system.

The EPO invests in the development of information systems to support its operations. The figures for these internally generated systems include both external and internal costs. In 2020 no internal cost have been capitalised (2019: EUR 0.5m). Capitalised internal costs, if any, are presented in the Statement of Comprehensive Income as work performed and capitalised.

All internally generated systems currently being developed (construction in progress) are part of the Strategic Plan 2023:

	2020	2019
IT Transformation Track	—	7 364
IT Semi-Automatic Search	—	1 264
Strategic Plan 2023	7 167	—
<b>Total</b>	<b>7 167</b>	<b>8 628</b>

in '000 EUR

### 13. Right-of-use assets and liabilities from leases

The EPO entered a number of leasing contracts as a lessee, to address specific needs concerning the office space and IT equipment. A substantial part of the right-of-use assets recognised by the EPO at 31 December 2020 is related to the dedicated facilities and IT hardware of a data centre, while another significant part is related to the leasing of office space in Haar (district of Munich). All right-of-use assets are presented in the balance sheet under property, plant and equipment (see Note 11).

The following amounts have been recognised during the reporting period in the statement of financial position for right-of-use assets:

	Buildings	Office equipment	Total
Balance at 1 January 2020	35 967	45 102	81 069
Additions	—	—	—
Changes in assumptions	(1 420)	—	(1 420)
Depreciation	(3 402)	(13 258)	(16 660)
<b>Balance at 31 December 2020</b>	<b>31 145</b>	<b>31 844</b>	<b>62 989</b>

in '000 EUR

The amounts recognised during the reporting period in the statement of comprehensive income were as follows:

	in '000 EUR	
Financial position statement of comprehensive income	2020	2019
Interest on lease liabilities	1 073	949
Expenses relating to short term leases	—	—
Expenses relating to leases of low-value assets	4 948	910
<b>Total</b>	<b>6 021</b>	<b>1 859</b>

The following amounts have been recognised during the reporting period in the statement of cash flows:

	in '000 EUR	
Cash outflows for leases	2020	2019
<b>Total</b>	<b>22 454</b>	<b>12 279</b>

The maturity structure of undiscounted lease liabilities at 31 December 2020 was as follows:

	in '000 EUR	
Undiscounted lease liabilities	2020	2019
Less than 1 year	16 935	16 213
Between 1 year and 5 years	36 160	44 297
Over 5 years	13 537	20 759
<b>Total</b>	<b>66 632</b>	<b>81 269</b>

The EPO does not have lease contracts that contain substantial variable lease payments. Substantial subleasing and sale-and-lease-back transactions did not take place during the reporting year. No leasing costs have been included in the carrying amount of other assets.

The leasing contracts related to buildings contain standard provisions according to which future lease payments are increased periodically to reflect changes of the relevant consumer price indexes. These potential increases of lease payments may lead to future cash outflows that are not reflected in the current measurement of lease liabilities. The increases will be reflected both in the right-of-use assets and lease liabilities at the time they become effective.

Substantial payments concerning extension or termination options, residual value guaranties, and leases committed not yet commenced are not present in the EPO leasing contracts. The contracts do not include any financial restrictions or covenants for the EPO.

## 14. RFPSS net assets

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

2020	in '000 EUR			
	Pensions	LTC	Sickness insurance	Total
RFPSS financial assets	9 003 023	247 963	763 766	10 014 752
RFPSS other assets	559	15	49	623
RFPSS restricted cash	295 083	8 127	25 033	328 243
RFPSS financial liabilities	(664)	(18)	(56)	(738)
RFPSS other liabilities	(92)	(3)	(7)	(102)
<b>Total</b>	<b>9 297 909</b>	<b>256 084</b>	<b>788 785</b>	<b>10 342 778</b>

2019	in '000 EUR			
	Pensions	LTC	Sickness insurance	Total
RFPSS financial assets	8 410 678	205 362	712 967	9 329 007
RFPSS other assets	577	14	49	640
RFPSS restricted cash	238 774	5 830	20 241	264 845
RFPSS financial liabilities	( 625)	( 15)	( 54)	( 694)
RFPSS other liabilities	( 87)	( 2)	( 8)	( 97)
<b>Total</b>	<b>8 649 317</b>	<b>211 189</b>	<b>733 195</b>	<b>9 593 701</b>

Major categories of RFPSS net assets are as follows:

RFPSS net assets	in %	
	2020	2019
Domestic government bonds	14.8	15.1
Domestic corporate bonds	5.6	5.7
Foreign bonds	4.5	4.7
Emerging market bonds	4.9	5.0
Domestic equities	19.6	19.2
Foreign equities	24.2	24.4
Emerging markets	9.4	9.3
Real estate	10.2	10.1
Commodities	3.9	4.0
Cash holdings	2.9	2.5
<b>Total</b>	<b>100</b>	<b>100</b>

## 15. Investments

The EPO invests its excess liquidity through the EPO Treasury Investment Fund (EPOTIF). The fund is administered by an external capital management company (Master KVG – Kapitalverwaltungsgesellschaft). The EPO participates in the fund by purchasing investment units issued by the Master KVG. The fund invests, both directly and in the form of derivative instruments, in equities, fixed-income instruments, commodities and alternative investments. Management of the resources invested in the fund by the EPO has been outsourced to asset management companies.

The value of the EPO's investment portfolio at the year-end was as follows:

	in '000 EUR	
Investments	2020	2019
EPO Treasury Investment Fund (EPOTIF)	3 137 883	2 954 704

The table below presents the EPOTIF asset allocation at the year-end.

	in %	
Percentage share in net assets value	2020	2019
Equities	12.5	13.3
Profit participation certificates (equities)	0.2	0.2
Dividend claims	0.0	0.0
Equity-index futures	0.3	0.2
Equity funds	15.0	16.4
Bonds	37.2	37.3
Bond futures	0.0	0.0
Fixed-income funds	22.6	22.1
Commodity funds	0.6	0.7
Currency forwards	0.7	0.1
Other funds	8.2	6.8
Cash	2.7	2.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Net gains and losses on investments were as follows:

	in '000 EUR	
Net gains and losses on investments	2020	2019
Financial assets at fair value through P&L		
Valuation gains or losses	133 178	324 531
<b>Total</b>	<b>133 178</b>	<b>324 531</b>

## 16. Home loans to staff

	in '000 EUR	
Home loans to staff	2020	2019
Non-current	91 891	89 946
Current	8 375	8 161
<b>Total</b>	<b>100 266</b>	<b>98 107</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 2020 the net loss due to revaluation of new home loans to fair value amounted to EUR 1 904k (2019: EUR 2 053k). 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.

## 17. Other assets

	in '000 EUR	
Other assets	2020	2019
Assets Salary Savings Plan (SSP)	146 133	124 117
Repurchase value insurance funds ex-IIB	326	345
<b>Total</b>	<b>146 459</b>	<b>124 462</b>

The assets invested under the SSP are held by an external service provider on the EPO's behalf and are owned by the EPO. The main characteristics of the SSP are summarised in Note 22.

## 18. Trade and other receivables

	in '000 EUR	
Trade receivables	2020	2019
Renewal fees	128 047	140 375
EPO products and services	6 062	6 928
<b>Total</b>	<b>134 109</b>	<b>147 303</b>
<b>Other receivables</b>		
Tax	16 537	44 186
Staff and related accounts	689	3 656
Others	2 593	(3 059)
<b>Total</b>	<b>19 819</b>	<b>44 783</b>
<b>Total trade and other receivables</b>	<b>153 928</b>	<b>192 086</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:

	2020	2019
Net carrying amount, trade receivables – EPO products and services	6 062	6 928
Of which not impaired on the reporting date and past due in the following periods		
Less than 120 days	69	307
More than 120 days	4	20

“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 and are 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.

## 19. Prepaid expenses

	2020	2019
Prepaid expenses		
Employee-related expenses	14 126	12 661
Software expenses	10 038	7 586
Other expenses	–	–
<b>Total</b>	<b>24 164</b>	<b>20 247</b>

Prepaid expenses related to employees refer mainly to prepaid school fees, prepaid software expenses refer to prepaid multiyear software licences and software maintenance fees.

## 20. Cash and cash equivalents

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

	2020	2019
Cash and cash equivalents		
Short-term bank deposits	70 000	60 000
Cash at bank and in hand	30 017	1 165
<b>Total</b>	<b>100 017</b>	<b>61 165</b>

## 21. Defined benefit liability

in '000 EUR

Accounting for 2020	Pension obligation	Long-term care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	0.88%	1.02%	0.93%	0.29%	
Future salaries increase	2.20%	2.20%		2.20%	
Future pensions increase	2.20%				
Medical costs inflation			2.52%		
Present value of obligation 1 January 2020	25 075 784	1 229 831	3 536 629	26 636	29 868 880
Interest cost	281 728	14 722	40 165	174	336 789
Current service cost	999 887	50 897	105 055	1 855	1 157 694
Past service costs	12 967	—	—	—	12 967
Transfer of pension rights	3 209	—	—	—	3 209
Benefits paid	(291 461)	(5 945)	(26 741)	(2 872)	(327 019)
Remeasurements on obligation	(1 229 888)	(73 412)	225 884	9 845	(1 067 571)
<b>Present value of obligation 31 December 2020</b>	<b>24 852 226</b>	<b>1 216 093</b>	<b>3 880 992</b>	<b>35 638</b>	<b>29 984 949</b>
Unrecognised past service costs	—	—	—	—	—
<b>Liability recognised in the Statement of Financial Position</b>	<b>24 852 226</b>	<b>1 216 093</b>	<b>3 880 992</b>	<b>35 638</b>	<b>29 984 949</b>
Amounts recognised in the Statement of Comprehensive Income					
Interest cost	281 728	14 722	40 165	174	336 789
Current service cost	999 887	50 897	105 055	1 855	1 157 694
Past service costs	12 967	—	—	—	12 967
Staff contributions	(78 273)	(6 830)	—	(1 101)	(86 204)
<b>Recognised in the Statement of Comprehensive Income</b>	<b>1 216 309</b>	<b>58 789</b>	<b>145 220</b>	<b>928</b>	<b>1 421 246</b>

in '000 EUR

Accounting for 2019	Pension obligation	Long-term care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	1.13%	1.20%	1.14%	0.69%	
Future salaries increase	2.50%	2.50%		2.50%	
Future pensions increase	2.50%				
Medical costs inflation			2.54%		
Present value of obligation 1 January 2019	17 957 108	874 065	1 973 655	35 947	20 840 775
Interest cost	354 787	18 209	39 416	503	412 915
Current service cost	712 768	29 961	87 516	2 521	832 766
Past service costs	32 525	—	—	—	32 525
Transfer of pension rights	7 035	—	—	—	7 035
Benefits paid	(263 561)	(5 684)	(26 779)	(2 550)	(298 574)
Remeasurements on obligation	6 275 122	313 280	1 462 821	(9 785)	8 041 438
<b>Present value of obligation 31 December 2019</b>	<b>25 075 784</b>	<b>1 229 831</b>	<b>3 536 629</b>	<b>26 636</b>	<b>29 868 880</b>
Unrecognised past service costs	—	—	—	—	—
<b>Liability recognised in the Statement of Financial Position</b>	<b>25 075 784</b>	<b>1 229 831</b>	<b>3 536 629</b>	<b>26 636</b>	<b>29 868 880</b>
Amounts recognised in the Statement of Comprehensive Income					
Interest cost	354 787	18 209	39 416	503	412 915
Current service cost	712 768	29 961	87 516	2 521	832 766
Past service costs	32 525	—	—	—	32 525
Staff contributions	(70 569)	(5 461)	—	(957)	(76 987)
<b>Recognised in the Statement of Comprehensive Income</b>	<b>1 029 511</b>	<b>42 709</b>	<b>126 932</b>	<b>2 067</b>	<b>1 201 219</b>

in '000 EUR

Accounting for 2018	Pension obligation	Long-term care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	1.99%	2.09%	2.01%	1.45%	
Future salaries increase	2.50%	2.50%		2.50%	
Future pensions increase	2.50%				
Medical costs inflation			2.58%		
Present value of obligation 1 January 2018	18 130 696	899 389	2 021 699	35 851	21 087 635
Interest cost	307 998	16 049	34 374	431	358 852
Current service cost	768 378	41 922	99 172	2 651	912 123
Past service costs	36 234	—	—	—	36 234
Transfer of pension rights	8 726	—	—	—	8 726
Benefits paid	(246 939)	(5 579)	(23 052)	(1 564)	(277 134)
Remeasurements on obligation	(1 047 985)	(77 716)	(158 538)	(1 422)	(1 285 661)
<b>Present value of obligation 31 December 2018</b>	<b>17 957 108</b>	<b>874 065</b>	<b>1 973 655</b>	<b>35 947</b>	<b>20 840 775</b>
Unrecognised past service costs	—	—	—	—	—
<b>Liability recognised in the Statement of Financial Position</b>	<b>17 957 108</b>	<b>874 065</b>	<b>1 973 655</b>	<b>35 947</b>	<b>20 840 775</b>
Amounts recognised in the Statement of Comprehensive Income					
Interest cost	307 998	16 049	34 374	431	358 852
Current service cost	768 378	41 922	99 172	2 651	912 123
Past service costs	36 234	—	—	—	36 234
Staff contributions	(69 036)	(5 265)	—	(580)	(74 881)
<b>Recognised in the Statement of Comprehensive Income</b>	<b>1 043 574</b>	<b>52 706</b>	<b>133 546</b>	<b>2 502</b>	<b>1 232 328</b>

in '000 EUR

Accounting for 2017	Pension obligation	Long-term care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	1.71%	1.79%	1.71%	1.23%	
Future salaries increase	2.50%	2.50%		2.50%	
Future pensions increase	2.50%	2.50%			
Medical costs inflation			2.60%		
Present value of obligation 1 January 2017	17 222 264	804 889	1 652 532	36 787	19 716 472
Interest cost	318 336	16 409	30 749	481	365 975
Current service cost	762 912	36 483	89 791	2 768	891 954
Past service costs	9 127	—	—	—	9 127
Transfer of pension rights	4 957	—	—	—	4 957
Benefits paid	(225 450)	(5 332)	(15 798)	(1 255)	(247 835)
Remeasurements on obligation	38 550	46 940	264 425	(2 930)	346 985
<b>Present value of obligation 31 December 2017</b>	<b>18 130 696</b>	<b>899 389</b>	<b>2 021 699</b>	<b>35 851</b>	<b>21 087 635</b>
Unrecognised past service costs	—	—	—	—	—
<b>Liability recognised in the Statement of Financial Position</b>	<b>18 130 696</b>	<b>899 389</b>	<b>2 021 699</b>	<b>35 851</b>	<b>21 087 635</b>
Amounts recognised in the Statement of Comprehensive Income					
Interest cost	318 336	16 409	30 749	481	365 975
Current service cost	762 912	36 483	89 791	2 768	891 954
Past service costs	9 127	—	—	—	9 127
Staff contributions	(66 168)	(5 011)	—	(427)	(71 606)
<b>Recognised in the Statement of Comprehensive Income</b>	<b>1 024 207</b>	<b>47 881</b>	<b>120 540</b>	<b>2 822</b>	<b>1 195 450</b>

in '000 EUR

Accounting for 2016	Pension obligation	Long-term care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	1.82%	2.00%	1.82%	1.28%	
Future salaries increase	2.50%	2.50%		2.50%	
Future pensions increase	2.50%	2.50%			
Medical costs inflation			2.64%		
Present value of obligation 1 January 2016	13 739 821	603 280	1 451 208	34 280	15 828 589
Interest cost	354 536	16 703	38 805	661	410 705
Current service cost	604 400	26 898	78 666	2 596	712 560
Past service costs	8 946	—	—	—	8 946
Transfer of pension rights	6 265	—	—	—	6 265
Benefits paid	(207 623)	(4 933)	(17 325)	(1 449)	(231 330)
Remeasurements on obligation	2 715 919	162 941	101 178	699	2 980 737
<b>Present value of obligation 31 December 2016</b>	<b>17 222 264</b>	<b>804 889</b>	<b>1 652 532</b>	<b>36 787</b>	<b>19 716 472</b>
Unrecognised past service costs	—	—	—	—	—
<b>Liability recognised in the Statement of Financial Position</b>	<b>17 222 264</b>	<b>804 889</b>	<b>1 652 532</b>	<b>36 787</b>	<b>19 716 472</b>
Amounts recognised in the Statement of Comprehensive Income					
Interest cost	354 536	16 703	38 805	661	410 705
Current service cost	604 400	26 898	78 666	2 596	712 560
Past service costs	8 946	—	—	—	8 946
Staff contributions	(64 570)	(4 850)	—	(526)	(69 946)
<b>Recognised in the Statement of Comprehensive Income</b>	<b>903 312</b>	<b>38 751</b>	<b>117 471</b>	<b>2 731</b>	<b>1 062 265</b>

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

	in '000 EUR	
	2020	2019
Pension benefits		
Office contributions	156 279	140 860
Staff contributions	78 145	70 430
LTC benefits		
Office contributions	12 679	10 420
Staff and pensioners' contributions	6 831	5 461
Post-employment medical care		
Office contributions for pensioners	13 043	12 112
Pensioners' contributions	6 597	6 113
Death and invalidity		
Office contributions	1 770	1 591
Staff contributions	1 101	957
<b>Total</b>	<b>276 445</b>	<b>247 944</b>

The Office and staff contributions for the next annual reporting period are expected to be EUR 280m.

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

	2020	2019
Retirement pension/Retirement pensions for health reasons	20 030 827	20 195 362
Tax adjustment/partial compensation	3 975 418	4 031 511
Family allowances	845 981	848 911
<b>Total</b>	<b>24 852 226</b>	<b>25 075 784</b>

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

	2020	2019
Pension obligation		
Active staff	16 821 756	17 390 779
Deferred pensioners	160 226	165 647
Pensioners	7 870 244	7 519 358
LTC insurance		
Active staff	754 471	768 291
Deferred pensioners	1 212	2 080
Pensioners	460 410	459 460
Sickness insurance		
Active staff	2 869 227	2 621 389
Deferred pensioners	4 309	—
Pensioners	1 007 456	915 240
Death insurance		
Active staff	35 638	26 636
Deferred pensioners	—	—
Pensioners	—	—
<b>Total</b>	<b>29 984 949</b>	<b>29 868 880</b>

## 21.1. 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 0.2% (2019: 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 mortality table applied by the Office is a EPO specific one based on the International Civil Servants Life Table (ICSLT 2018) produced by the ISRP which is a table specific to international civil servants based in Europe.

The medical cost inflation applied is 2.52% (2019: 2.54%)

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	
	2020	2019
Pension obligation		
Actuarial (gain) loss from changes in financial assumptions	(239 613)	5 395 298
Actuarial (gain) loss from changes in experience and demographic assumptions	(990 275)	879 824
LTC insurance		
Actuarial (gain) loss from changes in financial assumptions	(45 718)	298 009
Actuarial (gain) loss from changes in experience and demographic assumptions	(27 694)	15 271
Sickness insurance		
Actuarial (gain) loss from changes in financial assumptions	194 988	842 707
Actuarial (gain) loss from changes in experience and demographic assumptions	30 896	620 114
Death		
Actuarial (gain) loss from changes in financial assumptions	301	2 604
Actuarial (gain) loss from changes in experience and demographic assumptions	9 544	(12 389)
<b>Total</b>	<b>(1 067 571)</b>	<b>8 041 438</b>

A change in the discount rates on defined benefit obligations by 0.1 percentage point would result in the following present value of each plan:

At 31 December 2020	in '000 EUR	
	0.1 percentage point increase	0.1 percentage point decrease
Present value pension obligation	24 261 196	25 462 769
Present value LTC insurance	1 178 359	1 255 315
Present value sickness insurance	3 775 313	4 001 658
Present value death and invalidity	35 354	35 929

At 31 December 2019	in '000 EUR	
	0.1 percentage point increase	0.1 percentage point decrease
Present value pension obligation	24 466 421	25 705 583
Present value LTC insurance	1 191 151	1 270 051
Present value sickness insurance	3 440 391	3 647 952
Present value death and invalidity	26 405	26 873

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

At 31 December 2020	in '000 EUR
	One year increase in life expectancy
Present value pension obligation	25 841 009
Present value LTC insurance	1 326 551
Present value sickness insurance	4 053 437
Present value death and invalidity	31 926

At 31 December 2019	in '000 EUR
	One year increase in life expectancy
Present value pension obligation	26 074 813
Present value LTC insurance	1 342 269
Present value sickness insurance	3 691 150
Present value death and invalidity	23 867

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:

At 31 December 2020	in '000 EUR		
	Less than 1 year	Between 1-5 years	Over 5 years
Pension obligation, net of tax adjustment	257 470	1 222 403	24 574 270
LTC insurance	6 617	32 040	1 660 072
Sickness insurance	26 158	130 335	4 747 999
Death and invalidity	3 171	10 638	22 682
<b>Total</b>	<b>293 416</b>	<b>1 395 416</b>	<b>31 005 023</b>

At 31 December 2019	in '000 EUR		
	Less than 1 year	Between 1-5 years	Over 5 years
Pension obligation, net of tax adjustment	244 058	1 172 595	26 808 331
LTC insurance	6 207	30 280	1 799 974
Sickness insurance	30 485	147 377	4 906 884
Death and invalidity	1 917	7 230	19 188
<b>Total</b>	<b>282 667</b>	<b>1 357 482</b>	<b>33 534 377</b>

The expected maturity analysis of undiscounted defined benefit payments is calculated using the salary/pension/cost increase assumptions presented in Note 21.

The undiscounted values of the pension DBO from the above table are net of tax adjustment. Including the tax adjustment would result in a total undiscounted amount of the pension DBO of EUR 37 626m (2019: EUR 33 596m).

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

Duration	in years	
	2020	2019
Pension obligation	24	25
LTC insurance	32	32
Sickness insurance	28	28
Death and invalidity	8	9

The average duration for each defined benefit obligation is calculated using the salary/pension/cost increase assumptions presented in Note 21.

## 21.2. Main characteristics of the Organisation's defined benefit plans

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

Since 1984, the EPO has been setting aside reserves in the RFPSS so that it can fund its pension obligations. Since 2001, it has also been building up a reserve fund for LTC insurance. Since 2008, it has been doing the same for sickness insurance. A breakdown of the reserves per funded plan is disclosed in Note 14.

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

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

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

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

## 21.2.1 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)
Retirement for health reasons	Staff members aged between 55 and 65 that have been totally discharged of duties for reasons of incapacity during 10 years and beneficiaries of the former invalidity allowance	Same as for Retirement pension. For employees who have not reached the age of 60, the number of reckonable years is determined as if the employee had remained in service until the age of 60, and the reference salary is 70% of the employee's last salary as defined under the Pension Scheme Regulations.
Family allowances	Beneficiary of the pension plan (Note 2.15.2)	Same as for active staff
Tax compensation, old scheme	Beneficiary of the pension plan (Note 2.15.2)	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 – 21.8% and 10.9% respectively of basic salaries paid – after deduction of pensions actually paid. For the reporting period, the total pension contribution rate recommended by the AAG was 32.7% (2019: 29.4%).

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

### 21.2.2. Sickness insurance

An employee who has remained in EPO service until retirement or retirement for health reasons, 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 (2020: 2.95% and 2019: 2.95%) is charged to the employee. A spouse in employment outside the EPO and whose salary exceeds a certain level has to pay 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.

### 21.2.3. Long-term insurance

A permanent employee, a former employee in receipt of a retirement pension or a retirement pension for health reasons, 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 the person 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 was for the reporting period defined to be 1.8% (2019: 1.5%).
- (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.

#### 21.2.4. Death insurance

The benefits payable is a fixed amount for funeral expenses incurred for the permanent employee himself, his spouse and, where appropriate, his dependants. In the event of death of the permanent employee, the benefits payable are a lump sum equal to 2.75 times his annual basic salary.

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

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

## 22. 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 21.2.1. One third of the compulsory contribution is charged to the employee, two thirds to the Office.

An individual salary savings account (individual account) is opened for each participant. The sums credited to the individual account are invested by the Office, in accordance with a predefined strategy. The Office offers participants a maximum of three investment strategies. A default investment strategy applies during the first six months of participation; thereafter, each participant may choose a different investment strategy from among those offered by the Office, and may change it once per calendar year. The Office bears no responsibility for the outcome of application of the default strategy or the strategies chosen by participants.

On termination of service, participants are entitled to payment of the balance of their individual account as a lump sum corresponding to the contributions paid into the account, plus or minus investment returns. In the event of the participant's death, his entitlement passes to his estate. The lump sum is paid out as final salary. Concerning the assets invested under the SSP, see Note 17.

## 23. Other employee-related liabilities

Other employee related liabilities	in '000 EUR	
	2020	2019
Regular vacation	105 365	66 879
Home leave	59 759	41 867
Other compensated absences	41 896	29 477
Transitional measures CA/D 4/20	13 087	—
Outstanding healthcare claims from staff	11 405	11 040
Bonus payments	9 800	9 800
Other	6 232	10 727
<b>Total</b>	<b>247 544</b>	<b>169 790</b>

An amount of EUR 31 120k (2019: EUR 24 455k) is presented as non-current liabilities and includes mainly obligations for long-term employee benefits as a result of long-service leave, gratuities, severance grants, obligations due to former non-active staff and similar long-term obligations.

## 24. Trade and other payables

Trade and other payables	in '000 EUR	
	2020	2019
Current deposit accounts by patent applicants	123 593	124 268
Payables to suppliers and trade creditors	65 024	61 881
Other	1 457	19 536
<b>Total</b>	<b>190 074</b>	<b>205 685</b>

Applicants can debit their deposit accounts kept by the Organisation for fee payments relating to their applications. A liability is recognised for payments received from applicants to replenish these accounts.

## 25. Provisions

in '000 EUR

	Litigation risks	Dismantling obligation	Other	Total
<b>1 January 2020</b>	<b>8 796</b>	<b>350</b>	<b>395</b>	<b>9 541</b>
Use	3 141	—	347	3 488
Reversal	—	350	38	388
Addition	—	—	347	347
Interest effect	—	—	—	—
Other	—	—	—	—
<b>31 December 2020</b>	<b>5 655</b>	<b>—</b>	<b>357</b>	<b>6 012</b>
Current	5 655	—	357	6 012
Non-current	—	—	—	—
<b>Total</b>	<b>5 655</b>	<b>—</b>	<b>357</b>	<b>6 012</b>

The provisions for litigation risks include mainly 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.

The provision for removal of asbestos related to the demolition of the old Main building in The Hague was used in 2019 and a residual amount of EUR 350k was released in 2020.

Other provisions include mainly 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 within the next 12 months.

## 26. Commitments

in '000 EUR

Purchase commitments	2020	2019
Fixed assets	5 606	7 138
Intangible assets	10 248	1 360

The commitments for purchases of intangible assets are mainly for development of internally generated systems in the context of the Strategic Plan 2023.

## 27. 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 31.

### Introduction of a Salary Savings Plan

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

This view might not be shared by all national tax authorities. It is not clear whether a negative outcome of possible court decisions would result in an EPO obligation to compensate staff who relied on tax exemption. For the reporting period, the EPO does not regard the tax risk as material, due to the relatively small amount of SSP contributions so far collected (see Note 17). 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 of 1 January 2015 for pensioners who began active service before 1 January 2009.

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

### Other contingencies and risks

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

## 28. 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. The EPO has not applied partial exemptions, if any, for government-related entities provided by **IAS 24 – Related Party Disclosures**.

### 28.1 Related parties to the Organisation

#### 28.1.1 Members of key management

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

At the balance sheet date, the EPO had three directorates-general, each headed by a Vice-President. The Directorate-General 1 in charge of the patent granting process is divided into three sectors, each headed by a Chief Operating Officer.

The President, the Vice-Presidents and specific functional Principal Directors and Directors appointed by the President, constitute the Management Committee (MAC). For the purpose of this note to the financial statements, the MAC members 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.

#### 28.1.2 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.

#### 28.1.3 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.

## 28.2 Transactions and outstanding balances with related parties

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

	2020	2019
	in '000 EUR	
Short-term employee benefits*	11 265	6 406
Post-employment benefits, service costs	5 419	3 543
<b>Total</b>	<b>16 684</b>	<b>9 949</b>

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

The Organisation recognised a defined benefit obligation for post-employment benefits amounting to EUR 85 409k (2019: EUR 51 159k) for 31 (2019: 19) key managers and their close family members.

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

	2020	2019
	in '000 EUR	
MAC members and Fund Administrator	—	—
Close family members of key managers	—	—
Contracting States		
Co-operation with national offices	7 022	5 470
Rent office building Berlin	2 575	2 575
<b>Total</b>	<b>9 597</b>	<b>8 045</b>

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

	2020	2019
	in '000 EUR	
MAC members and Fund Administrator	1	1
Close family members of key managers	—	—
Contracting States		
Renewal fees for granted patents (incl. interest)	597 629	581 679
Searches on behalf of ex-IIB member states	35 228	33 201
Searches on behalf of other Contracting States	24 725	21 319
Reimbursement rent office building Berlin	740	787
Rental income Netherlands patent office	—	—
Other revenue	8 994	8 719
<b>Total</b>	<b>667 317</b>	<b>645 706</b>

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

	2020	in '000 EUR 2019
MAC members and Fund Administrator	191	82
Close family members of key managers	48	—
Contracting States		
Renewal fees	128 047	131 283
VAT and other taxes	16 492	44 139
Contracting States using EPO services and products	5 381	6 460
Tax adjustments	44	—
<b>Total</b>	<b>150 203</b>	<b>181 964</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

	2020	in '000 EUR 2019
MAC members and Fund Administrator	—	—
Close family members of key managers	—	—
Contracting States	114	149
<b>Total</b>	<b>114</b>	<b>149</b>

## 29. Additional disclosures on financial instruments

### 29.1 Financial instruments by category

A comparison of the carrying amounts and fair values of all of the EPO's financial instruments carried in the financial statements is presented below:

RFPSS Financial instruments	Carrying value		in '000 EUR Fair value	
	2020	2019	2020	2019
<b>Financial assets at fair value through profit and loss</b>				
Standard bonds	1 530 730	1 508 010	1 530 730	1 508 010
Other bonds	876 126	767 502	876 126	767 502
Shares	3 304 409	3 022 199	3 304 409	3 022 199
Funds	4 224 100	3 970 520	4 224 100	3 970 520
Derivatives used for trading	32 882	21 988	32 882	21 988
Other instruments	46 505	38 788	46 505	38 788
<b>Total</b>	<b>10 014 752</b>	<b>9 329 007</b>	<b>10 014 752</b>	<b>9 329 007</b>
<b>Financial assets at amortised cost</b>				
RFPSS other assets	623	640	623*	640
RFPSS restricted cash	328 243	264 845	328 243	264 845
<b>Financial liabilities at fair value through profit and loss</b>				
Derivatives used for trading	(738)	(694)	(738)	(694)
<b>Financial liabilities at amortised cost</b>				
RFPSS other liabilities	(102)	(97)	(102)*	(97)
<b>Total net RFPSS financial instruments</b>	<b>10 342 778</b>	<b>9 593 701</b>	<b>10 342 778</b>	<b>9 593 701</b>
<b>Office financial instruments</b>				
<b>Financial assets at fair value through profit and loss</b>				
EPO Treasury Investment Fund	3 137 883	2 954 704	3 137 883	2 954 704
<b>Financial assets measured at amortised cost</b>				
Home loans	100 266	98 107	115 355	110 322
Trade and other receivables	153 928	192 086	153 928*	192 086
<b>Total</b>	<b>254 194</b>	<b>290 193</b>	<b>269 283</b>	<b>302 408</b>
Cash and cash equivalents	100 017	61 165	100 017*	61 165*
<b>Total Office financial assets</b>	<b>3 492 094</b>	<b>3 306 062</b>	<b>3 507 183</b>	<b>3 318 277</b>
<b>Financial liabilities measured at amortised cost</b>				
Trade and other payables	(190 074)	(205 685)	(190 074)*	(205 685)
Lease liabilities	(63 225)	(81 269)	(63 225)*	(81 269)
<b>Total Office financial liabilities</b>	<b>(253 299)</b>	<b>(286 954)</b>	<b>(253 299)</b>	<b>(286 954)</b>

\* Approximation of fair value

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

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.

The changes in liabilities arising from financing activities are classified as follows:

	Lease liabilities	in '000 EUR Total
<b>1 January 2020</b>	<b>81 269</b>	<b>81 269</b>
<b>Cash flows:</b>		
Repayment	(16 624)	(16 624)
<b>Non-cash:</b>		
Acquisition	—	—
Change in lease assumptions	(1 420)	(1 420)
<b>31 December 2020</b>	<b>63 225</b>	<b>63 225</b>

	Lease liabilities	Total
<b>1 January 2019</b>	<b>2 939</b>	<b>2 939</b>
<b>Cash flows:</b>		
Repayment	(10 415)	(10 415)
<b>Non-cash:</b>		
Transition IFRS 16	34 920	34 920
Acquisition	53 825	53 825
<b>31 December 2019</b>	<b>81 269</b>	<b>81 269</b>

## 29.2 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:

31 December 2020	Level 1	Level 2	Level 3	in '000 EUR Total
<b>RFPSS financial assets</b>				
Standard bonds	1 504 990	25 740	–	1 530 730
Other bonds	863 791	12 335	–	876 126
Shares	3 304 409	–	–	3 304 409
Funds	–	4 224 100	–	4 224 100
Derivatives used for trading	–	32 882	–	32 882
Other instruments	–	46 505	–	46 505
<b>Office financial assets</b>				
EPO Treasury Investment Fund	–	3 137 883	–	3 137 883
Home Loans	–	115 355	–	115 355
<b>Total financial assets</b>	<b>5 673 190</b>	<b>7 594 800</b>	<b>–</b>	<b>13 267 990</b>
<b>RFPSS financial liabilities</b>				
Derivatives used for trading	–	738	–	738
<b>Total financial liabilities</b>	<b>–</b>	<b>738</b>	<b>–</b>	<b>738</b>

31 December 2019	Level 1	Level 2	Level 3	in '000 EUR Total
<b>RFPSS financial assets</b>				
Standard bonds	1 485 098	22 912	–	1 508 010
Other bonds	750 081	17 421	–	767 502
Shares	3 022 199	–	–	3 022 199
Funds	–	3 970 520	–	3 970 520
Derivatives used for trading	–	21 988	–	21 988
Other instruments	–	38 788	–	38 788
<b>Office financial assets</b>				
EPO Treasury Investment Fund	–	2 954 704	–	2 954 704
Home Loans	–	110 322	–	110 322
<b>Total financial assets</b>	<b>5 257 378</b>	<b>7 136 655</b>	<b>–</b>	<b>12 394 033</b>
<b>RFPSS financial liabilities</b>				
Derivatives used for trading	–	694	–	694
<b>Total financial liabilities</b>	<b>–</b>	<b>694</b>	<b>–</b>	<b>694</b>

Level 1 includes exchange-traded instruments for which quoted prices are readily available and highly liquid instruments with quoted prices in active markets.

Level 2 measurements were determined using the following techniques:

- The fair value of RFPSS financial instruments was determined based on the published net asset values of investment fund companies and quoted prices for identical assets in markets that are not active.
- The fair value of EPOTIF investment units was derived from the Net Assets Value as published by the capital management company in charge of the fund administration (Master KVG).
- 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.

### 29.3 Gains and losses on financial instruments

Gains and losses on financial instruments are summarised in the table below:

	in '000 EUR	
Financial instruments at fair value	2020	2019
Valuation gains (losses) on financial assets	428 338	1 608 973
Income from coupons, dividends and interest	130 104	152 916
Custodian fees and other costs	(955)	(913)
Sundry	(945)	(836)
Valuation gains (losses) on liabilities	(738)	(562)
<b>Total</b>	<b>555 804</b>	<b>1 759 578</b>

	in '000 EUR	
Financial assets at amortised cost	2020	2019
Interest income from home loans	2 584	2 807
Interest income from bank accounts and deposits	—	12
<b>Total</b>	<b>2 584</b>	<b>2 819</b>

Financial liabilities at amortised cost		
Interest costs lease	(1 073)	(949)
<b>Total</b>	<b>(1 073)</b>	<b>(949)</b>

## 30. 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 financial instruments and for EPOTIF. The following discussion of the policies and processes for managing and measuring the risk reflects the split of management responsibility for these three portfolios.

The main risks arising from the financial instruments are market risk, liquidity risk and credit risk. The Budget and Finance Committee, the Administrative Council and the Supervisory Board of RFPSS approve the investment policies and strategy for managing the risks summarised in Notes 30.1 to 30.3.

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

Financial instruments held by the Office comprise trade receivables and payables and cash which arise directly from the EPO's operational activities as well as lease obligations that are used to finance the EPO's operations.

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

### (b) EPO Treasury Investment Fund

EPOTIF invests in the following asset classes:

Equities	– up to 40% of the total portfolio
Fixed income	– up to 60% of the total portfolio
Cash	– up to 10% of the total portfolio
Commodities	– up to 5% of the total portfolio
Real estate	– up to 15% of the total portfolio
Alternatives / multi-asset investments	– up to 15% of the total portfolio

To execute the investments in the above asset classes the EPOTIF may use all available financial instruments, including physical, derivative and structured financial products. The instruments held by the EPOTIF are subject mainly to market risk. The risk profile of the portfolio is derived from the EPO's strategic asset allocation, as proposed by the President and approved by the Budget and Finance Committee. For tactical reasons, asset managers may depart from this strategic asset allocation, as long as they observe the asset class limits set out above.

Asset managers are bound by a maximum net portfolio exposure of 100%.

EPOTIF cash may be held only with the depositary or other credit institution with a seat or branch registered in Germany and only up to the protection ceiling provided by the German Deposit Protection Fund (Einlagensicherungsfond).

Securities lending of EPOTIF assets is entirely prohibited. Repurchase agreements are not permitted. Derivative short positions may be held only for hedging purposes. Over-the-counter (OTC) derivative contracts for hedging purpose or to gain exposure can only be entered with six selected counterparties approved jointly by the EPO and Master KVG.

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

The RFPSS allocates assets in accordance with the investment strategy and tactical ranges defined by its Supervisory Board. The lower and the upper bandwidths set the maximum admissible deviations from the strategic asset allocation. As a general rule, if a bandwidth is breached, a rebalancing to the strategic weights is triggered. The following asset classes are defined: domestic equities, foreign equities, domestic government bonds incl. Danish mortgage bonds, foreign bonds, domestic corporate bonds, emerging market bonds, emerging market equities, real estate, commodities and cash. The assets are managed actively and/or passively.

The risk characteristics of the financial instruments managed by the RFPSS are essentially derived from the risk profile of the strategic asset allocation as defined by the Supervisory Board of the RFPSS. For details about policies and risk measures applied, see Notes 30.1 to 30.3.

## 30.1 Market risk

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

Financial instruments held by the Office do not have exposure to changes in market value. As these instruments are not market listed and the fair value changes would have no impact on the EPO's profit or loss and equity, a sensitivity analysis has not been performed.

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

### (b) EPO Treasury Investment Fund

Market risks are managed by portfolio diversification, the asset class restrictions imposed by the EPO investment guidelines and absolute limits on the total risk exposure of the portfolio measured with VaR (Value at Risk), a statistically based estimate of the potential loss on the portfolio resulting from adverse market movements. The EPO investment guidelines stipulate that the VaR of the investment portfolio (one-year holding period, 95% level of confidence) must not exceed 20% of the EPOTIF Net Asset Value at any time.

The VaR figures are based on the historical simulation method performed by RiskMetrics® RiskManager (MSCI Inc.). The premise behind historical simulation is that potential changes in the underlying risk factors are identical to those observed over a defined historical period of six years. The empirical distributions of returns for all relevant risk factors (exchange rates, interest rates, equity prices, credit spreads, commodity prices, inflation rates, volatilities) are applied to obtain risk statistics on the basis of mark-to-model valuation. The risk factor price scenarios are calculated at a given holding period of 250 business days, on the assumption that the current fund portfolios are to be held over this same horizon. Lastly, the risk factors' P&Ls are finally used to obtain P&L scenarios for both the fund assets and higher aggregation levels (asset classes, fund portfolios, total fund level). The confidence level (expected probability of loss) of 0.95 is obtained as an interpolated order statistic from the simulated P&L distributions.

VaR figures are monitored by fund and by each fund segment against an absolute VaR guideline.

As at 31 December 2020 the EPOTIF portfolio's VaR was EUR 213m (2019: EUR 184m), which was 6.8% (2019: 6.2%) of the Net Assets Value.

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

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

As at the end of 2020 the VaR was estimated at EUR 691m. The increase of the portfolio's VaR (367m increase compared to end 2019) stems marginally from a higher AUM and mainly from higher market risk (Total Risk increased from 7,12% to 14,06%). The latter is due to the turbulences in global financial markets, caused by the Covid-19 pandemic which has started in March 2020 and continued until the end of the year.

The VaR figures are 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 relative VaR guidelines are used to monitor aspects of deviations from the benchmarks, which are based on MSCI/FTSE for equity/real estate, S&P/Bloomberg for commodities and Merrill Lynch/JP Morgan/Nykredit for fixed income. A risk-factor-based model, MSCI Barra's BarraOne, is used to break risk down and enable management to analyse aggregations and contributions.

Foreign exchange risks are mitigated by maintaining a minimum of 60% of assets in core currencies and maintaining a currency overlay programme at a strategic 50% hedge ratio on US dollar, pound sterling and Japanese yen exposures.

## 30.2 Liquidity risk

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

Liquidity risk management implies maintaining sufficient cash position and cash flows 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 and takes into consideration the expected cash in- and outflows from 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 EPOTIF units in line with estimated cash outflows according to the 5 year budget plan and the 6 month cash flow plan, which is subject to the President's approval.

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

	in '000 EUR	
	2020	2019
Within 1 year	81 959	96 931
More than 1 year	49 697	68 450
<b>Total</b>	<b>131 656</b>	<b>165 381</b>

### (b) EPO Treasury Investment Fund

The Office transfers the cash surplus generated from operational activities to the EPOTIF. A financial study performed by the EPO in 2019 forecasted that it will continue to generate an operational cash surplus until at least 2038. It is therefore not expected to redeem any EPOTIF units in the coming years. Nevertheless, the EPO is legally entitled to liquidate a part or the whole of the EPOTIF fund at any time. In such a case, proceeds from liquidation of fund units would be available at short notice.

As at the year-end, the margin account relating to future positions held as collateral for derivative transactions of EPOTIF amounted to EUR 23.5m (2019: EUR 11m).

### (c) 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 in the short term. 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 4.0m (2019: EUR 1.9m).

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

	in '000 EUR	
Financial liabilities	2020	2019
Less than 3 months	738	694
Between 3 months and 1 year	—	—
More than 1 year	—	—
<b>Total</b>	<b>738</b>	<b>694</b>

### 30.3 Credit risk

Financial instruments used in 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.

Financial assets are considered to have a low credit risk if they have received the investment grade issuer rating BBB-/Baa3 from either S&P or Moody's rating agency or have comparable credit risk characteristics. This applies in particular to home loans and bank deposits reported under other financial instruments.

As at the reporting date the gross carrying amount of financial assets subject to credit risk exposure was as follows:

	in '000 EUR			
	Low credit risk		High credit risk	
	2020	2019	2020	2019
Home loans	100 266	98 107	–	–
Trade and other receivables	153 928	192 086	–	–
Cash and cash equivalents	100 017	61 165	–	–
RFPSS restricted cash	328 243	264 845	–	–
RFPSS other assets	623	640	–	–
<b>Total</b>	<b>683 077</b>	<b>616 843</b>	<b>–</b>	<b>–</b>

A financial asset is considered to be credit-impaired once one or more events having a detrimental impact on the estimated future cash flows have occurred. Examples of such events are information that the borrower is in serious financial or there is a high probability it will enter bankruptcy proceeding. The expected credit losses for credit-impaired assets are measured as the difference between the gross carrying amount and the present value of estimated future cash flows.

A default is considered to have occurred if the delay in payment of interest or principal by the borrower exceeds 30 days, which is the best industry practice used by major rating agencies. In this case, the borrower's debt is written off in full unless any external information is available that allows for a reliable estimate of the recoverable amount, in which case only the amount that cannot be recovered is written off.

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

##### Home loans

Home loans granted to the staff are not subject to significant credit risk. They are granted only 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 a salary or pension. No home-loan borrower has ever defaulted. As this is equivalent to the quality of an AAA instrument, the home loans portfolio is considered to have low credit risk. For these instruments, the EPO calculates a loss allowance amounting to 12-month expected credit losses.

The EPO incorporates the forward-looking information in three economic scenarios: one assuming the current economic conditions will remain unchanged, one assuming deterioration and one assuming improvement of the economic conditions. The probability that the current conditions will remain unchanged has been estimated at 68%, which represents a 1-standard deviation in the normal distribution. The remaining 32% has been equally split between the two other scenarios. The expected credit losses are calculated using S&P Mortgage Default Index. The lifetime default probability represented by the index is adjusted to a 12-month probability by reference to the German Sovereign Credit Default Swap curve. For current conditions, the default probability as at the reporting date is used. For the scenarios with improved/deteriorated economic conditions, the lowest/highest default probability within the last three years is used. The expected loss has been calculated under assumption of a 58% recovery rate, this being the statistic for the German mortgage market. The default probability is adjusted to the 12-month rate. For home loans with a remaining duration of less than one year, the expected loss has been calculated on the basis of a one-year duration, as the effect is immaterial.

As at the reporting date there were no material expected credit losses from the portfolio of home loans.

#### **Trade and other receivables**

Trade receivables - renewal fees: these 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 and are due on 31 January of the following year.

Other receivables – tax: these include VAT and income tax payable (“tax adjustment”) to the EPO by the contracting states.

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

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

Outstanding balances are constantly monitored and assessed for recoverability. Both internal collection procedures and procedures using an external debt collection agency have been set up, and a list of blacklisted customers is kept.

Bad debts are written off when:

- they become uncollectible due to insolvency of the customer, or
- all internal collection and external debt-collector measures to collect the outstanding amounts have failed, or
- all internal collection measures have failed and, due to the small amount of the outstanding receivable, it is not considered cost-effective to pursue further collection measures.

In the case of a write-off, the carrying amount of trade receivables is reduced directly, rather than recognising the impairment on a separate account.

The EPO estimates the expected credit losses from trade receivables on the basis of the default probability of the member states, as quoted by Bloomberg. The customers are grouped into low risk (below 1% default probability) and high risk (above 1% default probability) portfolios. For both groups the expected credit losses are calculated using a provision matrix. As at the balance sheet date, the expected credit losses on trade receivables were immaterial.

To calculate the expected credit losses for the portfolio, the EPO uses a provision matrix. The provision matrix is based on its historically observed default rates over the expected lifetime of the trade receivables and is adjusted for forward-looking estimates. At every reporting date the historically observed default rates are updated and changes in the forward-looking estimates are analysed.

As at the reporting date, no material credit losses were expected from trade and other receivables.

### (b) EPO Treasury Investment Fund

The EPO investment guidelines impose a limit on the fund's exposure to credit-risk-bearing instruments of 60% of the total portfolio value. The risk of the credit instruments is managed by a limit on the total risk exposure (Value at Risk, one year, 95% level of confidence) of 20% of the Net Assets Value. The EPOTIF Strategic Asset Allocation defines the diversification of the credit-risk-bearing instruments and is used as a benchmark for evaluating the asset manager's performance. The target asset allocation is as follows:

Asset Class	in % Weight in portfolio
<b>Fixed Income</b>	<b>20.0</b>
Euro long duration AAA	5.0
Euro corporates broad index	10.0
Global short duration bonds	2.5
Global credit	2.5
<b>Growth Fixed Income</b>	<b>35.0</b>
Global high yield debt	2.5
Emerging market debt LC	12.5
Emerging market debt HC	5.0
Absolute return bonds	10.0
Global convertible bonds	5.0

All EPOTIF debt instruments are managed on the fair value basis.

### (c) 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.

Investments in fixed income asset classes must be made in securities within the admissible investment universe and with due consideration to rating criteria specified for the relevant portfolio. At least 85% of direct bond investments of the relevant portfolio shall be rated investment grade. The relevant rating agencies are Standard and Poor's / Moody's / Fitch. Investment grade is defined by a credit rating of BBB- (or equivalent) or higher by one of the above mentioned rating agencies. In the event of a split rating, the best rating is applied. 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			
	Rating below "A"	Not rated	Rating "A" and higher	Total
<b>31 December 2020</b>				
Domestic government bonds	363 185	–	1 165 843	1 529 028
Domestic corporate bonds	157 415	–	413 715	571 130
Foreign bonds	–	–	306 698	306 698
Cash and currency forwards	–	–	361 125	361 125
<b>Total financial assets</b>	<b>520 600</b>	<b>–</b>	<b>2 247 381</b>	<b>2 767 981</b>
<b>31 December 2019</b>				
Domestic government bonds	373 260	–	1 068 400	1 441 660
Domestic corporate bonds	152 850	–	392 490	545 340
Foreign bonds	–	–	288 512	288 512
Cash and currency forwards	–	–	286 833	286 833
<b>Total financial assets</b>	<b>526 110</b>	<b>–</b>	<b>2 036 235</b>	<b>2 562 345</b>

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

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

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

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

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

in '000 EUR			
31 December 2020	Gross and net amounts of financial instruments in the statement of financial position	Related financial instruments that are not offset	Net amount
<b>Financial assets</b>			
Derivatives used for trading	28 191	(738)	27 453
<b>Total</b>	<b>28 191</b>	<b>(738)</b>	<b>27 453</b>
<b>Financial liabilities</b>			
Derivatives used for trading	738	(738)	–
<b>Total</b>	<b>738</b>	<b>(738)</b>	<b>–</b>
31 December 2019	Gross and net amounts of financial instruments in the statement of financial position	Related financial instruments that are not offset	Net amount
<b>Financial assets</b>			
Derivatives used for trading	19 999	(562)	19 437
<b>Total</b>	<b>19 999</b>	<b>(562)</b>	<b>19 437</b>
<b>Financial liabilities</b>			
Derivatives used for trading	562	(562)	–
<b>Total</b>	<b>562</b>	<b>(562)</b>	<b>–</b>

### 30.4 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 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.

## 31. Events after the reporting period

No material favourable or unfavourable events occurred between the end of the reporting period and the date when the financial statements were authorised for issue.

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