



# Financial Statements 2022



# Contents

Audit o	ppinion	4
Financi	ial Statements	6
Stateme	ent of Comprehensive Income for the year ended 31 December 2022	6
Statem	ent of Financial Position as at 31 December 2022	7
Statem	ent of Changes in Equity for the year ended 31 December 2022	8
Statem	nent of Cash Flows for the year ended 31 December 2022	9
Notes		10
1.	General information	10
2.	Summary of significant accounting policies	11
3.	Revenue from contracts with customers	30
4.	Potential future national renewal fees for European patents	33
5.	Other operating income	33
6.	Operating leases – the EPO as lessor	33
7.	Employee benefit expenses	34
8.	Other operating expenses	34
9.	Finance revenue	35
10.	Finance costs	35
11.	Property, plant and equipment	36
12.	Intangible assets	38
13.	Right-of-use assets and liabilities from leases	39
14.	RFPSS net assets	41
15.	Investments	42

16.	Home loans to statt	43
17.	Other financial assets	43
18.	Other assets	43
19.	Trade and other receivables	44
20.	Prepaid expenses	44
21.	Cash and cash equivalents	44
22.	Defined benefit liability	45
23.	Salary Savings Plan obligation	54
24.	Other employee-related liabilities	54
25.	Trade and other payables	55
26.	Provisions	55
27.	Commitments	56
28.	Contingencies and risks	56
29.	Related party disclosures	57
30.	Additional disclosures on financial instruments	61
31.	Financial risk management	65
32.	Events after the reporting period	74

# **Audit opinion**

#### 1. Audit

We have audited the financial statements, comprising the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes (Article 69(1a) of the Financial Regulations), together with the bookkeeping system of the European Patent Organisation (EPO) for the accounting period 1 January to 31 December 2022.

In our opinion, the financial statements give a true and fair view of the financial position of the EPO as at 31 December 2022, 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 "Auditor'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 in accordance with 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 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 (IFRS) 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. Auditor'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, 17 April 2023

#### **Board of Auditors**

H. Schuh O. Hollum F. Angermann

# **Financial Statements**

# Statement of Comprehensive Income for the year ended 31 December 2022

in EUR '000

Revenue	Notes	2022	2021
Revenue from patent and procedural fees	(3)	1 962 621	1 926 184
Other revenue	(3)	8 981	9 766
Other operating income	(5)	15 099	6 327
Employee benefit expenses	(7)	(1 815 502)	(2 106 990)
Depreciation and amortisation expenses	(11)(12)	(64 481)	(69 911)
Other operating expenses	(8)	(251 734)	(263 169)
Operating result		(145 016)	(497 793)
Finance revenue	(9)	31 245	1 610 715
Finance costs	(10)	(2 489 200)	(298 687)
Financial result		(2 457 955)	1 312 028
Profit / (loss) for the year		(2 602 971)	814 235
Other comprehensive income			
Items that will not be reclassified to profit or loss		<del></del> -	
Remeasurement defined benefit obligations	(22)	10 536 512	3 941 355
Items that may be reclassified subsequently to profit or loss		_	_
Total comprehensive income/loss for the year		7 933 541	4 755 590

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 2022

in EUR '000

Assets	Notes	2022	2021
Non-current assets			
Property, plant and equipment	(11)	633 024	651 831
Intangible assets	(12)	38 685	31 603
RFPSS financial assets		10 061 068	11 533 913
RFPSS other assets		562	627
RFPSS restricted cash		373 638	335 146
RFPSS financial liabilities		(4 325)	(1 694)
RFPSS other liabilities		(199)	(112)
RFPSS net assets	(14)	10 430 744	11 867 880
Investments	(15)	3 230 753	3 620 531
Home loans to staff	(16)	86 749	89 921
Other financial assets	(17)	80 000	_
Other assets	(18)	189 191	196 967
Total non-current assets		14 689 146	16 458 733
Current assets			
Trade and other receivables	(19)	171 989	170 479
Home loans to staff	(16)	8 606	8 426
Prepaid expenses	(20)	27 124	23 433
Cash and cash equivalents	(21)	163 120	60 155
Total current assets		370 839	262 493
Total assets		15 059 985	16 721 226

in EUR '000

			0
Equity and liabilities	Notes	2022	2021
Equity			
Retained earnings		(3 732 126)	(1 129 155)
Other components of equity		(459 292)	(10 995 804)
Total equity		(4 191 418)	(12 124 959)
Non-current liabilities			
Defined benefit liability	(22)	17 439 048	27 077 093
Salary Savings Plan obligation	(23)	188 906	196 664
Other employee-related liabilities	(24)	29 167	63 083
Lease liabilities	(13)	21 009	29 218
Prepaid fees	(3)	740 103	622 289
Total non-current liabilities		18 418 233	27 988 347
Current liabilities			
Other employee-related liabilities	(24)	204 611	223 127
Trade and other payables	(25)	196 447	198 235
Lease liabilities	(13)	9 316	15 708
Provisions	(26)	6 480	5 909
Prepaid fees	(3)	416 316	414 859
Total current liabilities		833 170	857 838
Total liabilities		19 251 403	28 846 185
Total equity and liabilities		15 059 985	16 721 226

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 2022

in EUR '000

Issued capital	Reserves		Total equity
	Cumulative changes in equity not recognised through profit or loss	Retained earnings	
Balance at 1 January 2021 —	(14 937 159)	(1 943 390)	(16 880 549)
Changes in equity for 2021			
Remeasurement defined benefit obligations	3 941 355		3 941 355
Profit (loss) for the period		814 235	814 235
Balance at 31 December 2021 —	(10 995 804)	(1 129 155)	(12 124 959)
Changes in equity for 2022			
Remeasurement defined benefit obligations	10 536 512	,	10 536 512
Profit (loss) for the period		(2 602 971)	(2 602 971)
Balance at 31 December 2022 —	(459 292)	(3 732 126)	(4 191 418)

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 2022

in EUR '000

Cash flows from operating activities	Notes	2022	2021
Cash receipts from Patent Applicants	(3)	1 364 501	1 333 378
Cash receipts from Member States – patent related	(3)	720 172	691 179
Cash receipts from Member States – reimbursement of VAT and other taxes		47 066	30 631
Cash receipts from other users and other cash receipts		4 478	5 996
Cash receipts from transfers of pension rights	(22)	1 535	3 552
Total operating cash receipts		2 137 752	2 064 736
Payments to staff – salaries and allowances	(7)	(871 166)	(900 485)
Payments to pensioners and former staff	(22)	(317 180)	(302 868)
Payments to healthcare provider for staff and pensioners	(22)	(86 440)	(77 646)
Payments to the European School Munich		(25 889)	(26 409)
Payments to suppliers of goods and services		(295 206)	(298 084)
Net investments in Salary Savings Plan	(23)	(21 650)	(20 169)
Payment of fees to Extension and Validation States	(3)	(1 376)	(1 274)
Total operating cash payments		(1 618 907)	(1 626 935)
Cash Flow from operating activities		518 845	437 801
Cash flows from investing activities	Notes	2022	2021
Acquisition of tangible and intangible assets	(11)(12)	(51 930)	(33 394)
Proceeds from sale of assets	(11)(12)	(20,400)	(20, 205)
Net statutory investments in RFPSS	(14)	(22 193)	(30 325)
Net voluntary investments in RFPSS	(14)	(170 000)	(150 000)
Net investments in EPOTIF	(15)	(80 000)	(250 000)
Home Loans granting	(16)	(8 937)	(12 297)
Home Loans repayment	(16)	12 497	14 536
Home Loans interest payment	(16)	617	751
Investments in bank deposits >3M			
Investments in bank deposits >12M	(17)	(80 000)	_
Interest from deposit		480	
Cash flow from Investing activities		(399 458)	(460 729)
Cash flows from financing activities	Notes	2022	2021
Interest paid		(549)	(843)
Repayment of lease liabilities		(15 873)	(16 091)
Cash flow from Financing activities	(13)	(16 422)	(16 934)
Net increase/(decrease) in cash and cash equivalents		102 965	(39 862)
Cash and cash equivalents net of bank overdrafts at the beginning		60 155	100 017
of the period			
Effect of exchange rate changes on cash and cash equivalents  Cash and cash equivalents net of bank overdrafts at the end of the		400 400	-
period		163 120	60 155

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

#### **Notes**

#### 1. General information

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

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

The Organisation is a legal entity and has its seat in Munich, a branch at The Hague/Rijswijk and sub-offices in Berlin and Vienna. The address of its head office is Bob-van-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 14 April 2023.

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. The cash flows from operating activities have been prepared in line with IAS 7.18a (direct method). The classes of gross cash receipts and gross cash payments have been obtained based on IAS 7.19b, i.e. by adjusting items in the Statement of Comprehensive Income for changes during the period in operating receivables and payables.

#### 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 2022.

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.

#### 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 2024. The EPO has not yet evaluated the impact of this pronouncement.

#### Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. It is applicable to reporting periods beginning on or after 1 January 2023. The EPO has not yet evaluated the impact of this pronouncement.

#### **Definition of Accounting Estimates (Amendments to IAS 8)**

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty." Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. It is applicable to reporting periods beginning on or after 1 January 2023. The EPO has not yet evaluated the impact of this pronouncement.

#### Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The pronouncement is applicable to reporting periods beginning on or after 1 January 2023. It is not expected to have impact on the EPO accounts.

#### Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. It is applicable to reporting periods beginning on or after 1 January 2024. It is not expected to have an impact on the EPO accounts.

#### Non-current Liabilities with Covenants (Amendments to IAS 1)

The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendment is applicable to reporting periods beginning on or after 1 January 2024. It is not expected to have an impact on the EPO accounts.

Interpretations and amendments to existing standards which became effective in 2022 but are not relevant for the Organisation's operations.

#### 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.

#### 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. They 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 amendments have no 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 amendment has no material impact on the EPO accounts.

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

The pronouncement amends 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 IFRS.

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 pronouncements have no material impact on the EPO accounts.

#### 2.2 Consolidation

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

#### 2.3 Foreign currency translation

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

#### 2.4 Significant accounting judgements and estimates

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

The liabilities relating to the defined benefit pension plans as defined in Note 2.15.2 and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, career development, mortality rates, the duration of incapacity to work, future pension increases and other actuarial parameters. 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 2021, EPO's Actuarial Advisory Group (AAG) re-adopted the assumption it had used two years ago when it recommended the use of an EPO specific mortality table based on the most actual 2018 ICSLT mortality table. In its 2021 study, the AAG reviewed the EPO specific mortality table, including the two EPO specific changes that the group had made in 2019 to the 30-year longevity improvements of the standard ICSLT 2018 table, i.e., recalibrating the longevity trend to that of the EPO pensioner population and limiting the longevity (upward) trend to 10 years. The group concluded that both changes are still valid. The next review of these assumptions will take place in 2023. Calculation of the defined benefit plan also means making assumptions to determine the level of lump-sum payments as tax compensation for the national tax levied on pensions (disclosed as "tax adjustment"). Due to the long-term nature of these plans, such estimations are subject to significant legal and actuarial uncertainties (see also Note 28).

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

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

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 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 are presented at the closing date as prepaid fees.

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 31 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 are classified as revenue from patent and procedural fees.

#### 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 31.4 on capital management.

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

Since there is no legal obligation for 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

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 option 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 below EUR 1m 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, and
- 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, unless it is a trade receivable without a significant financing component, in which case it is initially measured at the transaction price. 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. The actuarial study performed in 2021 asserts that pension payments can be financed by returns on investments as well as by contributions, which when added together are expected to exceed pensions payable for the foreseeable future. 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 30.3.

#### (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.

#### Other financial assets

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

#### Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at banks and in hand, as well as short-term deposits with 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 include among others liabilities for goods received or services already performed but not yet invoiced and refund liabilities.

#### RFPSS other assets

RFPSS other assets comprise mainly receivables from dividends and amounts 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.

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 assumed 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 decease'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 22.2.4 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 23.

#### 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

Prepaid fees 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 as well as prepayments for renewal fees for patent applications. See also 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:

	'00

Revenue from patent and procedural fees	2022	2021
Procedural fees related to the patent grant process (Note 3.2)	1 241 729	1 231 152
National renewal fees for granted patents	663 066	640 711
Searches for national offices and third parties	57 826	54 321
Total	1 962 621	1 926 184
Other revenue	2022	2021
Patent information services and products	6 951	7 383
Administrative fees	2 030	2 383
Total	8 981	9 766

### 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:

		in EUR '000
Procedural fees related to the patent grant process	2022	2021
Filing – EPC and Euro-PCT	77 113	71 452
Searches – EP and Euro-PCT	178 278	159 764
International searches – PCT	126 087	120 011
Examination – EPC and Euro-PCT	177 651	212 015
International preliminary examination – PCT	9 707	9 623
Grant – EP and Euro-PCT	79 971	104 570
Opposition	3 914	4 023
Appeal	7 109	6 296
Designation, extension, and validation fees	109 638	104 103
Renewal fees for patent applications	467 603	434 318
Others	4 658	4 977
Total	1 241 729	1 231 152

#### 3.3 Contract balances

The following table provides information about receivables, refund liabilities, as well as prepaid fees from contracts with customers:

		in EUR '000
Contract balances	2022	2021
Receivables included in "Trade and other receivables" (see Note 19)	148 464	143 088
Prepaid fees	1 156 419	1 037 148
Refund liabilities included in "Trade and other payables" (see Note 25)	9 084	6 910

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

in			

Prepaid fees	Opening balance 01.01.2022	Revenue recognised that was included in the prepaid fees at the beginning of the period	Increases due to cash received excluding amounts recognised as revenue during the period	Ending balance 31.12.2022
Filing – EPC and Euro-PCT	19 357	(19 111)	19 891	20 137
Searches – EP and Euro-PCT	127 023	(116 816)	122 369	132 576
International searches – PCT	39 314	(38 815)	36 606	37 105
Examination – EPC and Euro-PCT	798 155	(170 240)	288 723	916 638
International preliminary examination – PCT	3 833	(3 732)	3 625	3 726
Grant – EP and Euro-PCT	9 952	(9 574)	8 134	8 512
Opposition	6 292	(3 668)	2 480	5 104
Appeal	20 290	(6 935)	5 907	19 262
Others	12 932	(12 115)	12 543	13 360
Total	1 037 148	(381 006)	500 278	1 156 420

in EUR '000

Prepaid fees	Opening balance 01.01.2021	Revenue recognised that was included in the prepaid fees at the beginning of the period	Increases due to cash received excluding amounts recognised as revenue during the period	Ending balance 31.12.2021
Filing – EPC and Euro-PCT	17 209	(16 690)	19 015	19 357
Searches – EP and Euro-PCT	110 106	(96 471)	113 513	127 023
International searches – PCT	31 523	(25 716)	33 535	39 314
Examination – EPC and Euro-PCT	729 703	(172 471)	270 260	798 155
International preliminary examination – PCT	4 102	(4 018)	3 762	3 833
Grant – EP and Euro-PCT	12 808	(12 272)	9 419	9 952
Opposition	7 038	(3 449)	3 026	6 292
Appeal	21 390	(6 188)	5 111	20 290
Others	5 636	(5 553)	12 849	12 932
Total	939 515	(342 828)	470 490	1 037 148

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 16.0m (2021: EUR 16.2m), which is 10% (2021: 11%) of the annual revenue for this product category.
- For international PCT searches: EUR 40.9m (2021: EUR 36.5m), which is 36% (2021: 34%) 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 20.2m (2021: EUR 21,6m), which is 12% (2021: 11%) of the annual revenue for this product category.
- For European and Euro-PCT searches: EUR 1.9m (2021: EUR 1.9m), which is 1% (2021: 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:

- 4.1 months (2021: 4.4 months) for searches EP, Euro-PCT and international searches PCT,
- 41.3 months (2021: 30.8 months) for examination EP, Euro-PCT and 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 4 884m (2021: EUR 5 712m).

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 2022 to the expected cash flows range between 2.98% and 3.90% (2021: between -0.33% and 1.16%). A one percentage point increase in the discount rates applied would result in a decrease of EUR 245m (2021: EUR 320m) 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 EUR '000
Other operating income	2022	2021
Release accruals from prior years	9 465	1 025
Fees for European Qualifying Examination	1 691	1 489
Reimbursement additional site costs Berlin	666	717
Rental income	512	852
Income from valuation of insurance funds		93
Tuition fees of EPO Academy	240	295
Other	2 525	1 856
Total	15 099	6 327

# 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 2022, including rent and charges, was EUR 512k (2021: EUR 852k).

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

		in EUR '000	
Maturity as from reporting date:	2022	2021	
Year 1	438	526	
Year 2	1	155	
Year 3	_	154	
Year 4	_	154	
Year 5	_	154	
Year 6	_	154	
Total	439	1 297	

# 7. Employee benefit expenses

in EUR '000

Employee benefit expenses	2022	2021
Current service cost (net of staff contributions)	809 607	1 004 738
Basic salaries	742 669	755 163
Allowances and other benefits	185 919	261 081
Healthcare and other cost of social security	36 009	31 583
School and day-care centres	26 423	26 915
Past service costs	1 219	10 999
Remuneration of other employees	7 584	7 636
Training	3 323	4 487
Other	2 749	4 388
Total	1 815 502	2 106 990

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

Lower allowances and other benefits in 2022 are mainly caused by a reversal of the provision for deferred salaries (EUR -31m), originally created in 2021 (EUR +31m), resulting in the total decrease of reported costs by EUR 62m. Further EUR 14m decrease in this position relates to changes in the provision for leave not taken and other allowances. See also Note 24.

# 8. Other operating expenses

in EUR '000

Other operating expenses	2022	2021
IT maintenance	129 100	134 619
Property and equipment maintenance	36 850	37 619
Consultancy and other external services	34 480	34 975
Co-operation and meetings	16 149	13 827
Patent information and public relations	15 369	15 572
Documentation	11 673	11 247
Postage and telecommunications	2 141	2 721
Damages	701	7 036
Travel	432	33
Other	4 839	5 520
Total	251 734	263 169

# 9. Finance revenue

in	FI	IIR	'n	$\cap \cap$

Finance revenue	2022	2021
Interest income from bank accounts and deposits	1 201	_
Interest income from home loans	2 205	2 439
Valuation gains on investments		232 648
Valuation gains on RFPSS financial instruments		1 343 615
Valuation gains on assets Salary Savings Plan	_	32 013
Decrease obligation Salary Savings Plan	27 839	_
Total	31 245	1 610 715

Further information on gains from financial instruments is presented in Note 30.3.

# 10. Finance costs

in EUR '000

Finance costs	2022	2021
Interest costs on defined benefit obligations	360 647	265 831
Valuation losses on investments	469 777	_
Valuation losses on RFPSS financial instruments	1 630 387	_
Valuation losses assets Salary Savings Plan	27 839	_
Increase obligation Salary Savings Plan		32 013
Interest costs lease	549	843
Other	1	_
Total	2 489 200	298 687

Further information on losses from financial instruments is presented in Note 30.3.

# 11. Property, plant and equipment

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

in EUR '000

Office

			Office	
	Land	Buildings	equipment	Total
Cost at 1 January 2022	174 732	1 102 829	135 646	1 413 207
Additions		31 316	6 823	38 139
Disposals/Retirements	_	(132)	(7 779)	(7 911)
Transfers	_	(4)	4	_
Cost 31 December 2022	174 732	1 134 009	134 694	1 443 435
Accumulated depreciation 1 January 2022		(665 216)	(96 160)	(761 376)
Depreciation for the year		(34 186)	(22 628)	(56 814)
Disposals/Retirements		_	7 779	7 779
Transfers		3	(3)	_
Reversal of impairment loss				_
Accumulated depreciation 31 December 2022	_	(699 399)	(111 012)	(810 411)
Impairment loss for the year				
Accumulated impairment 31 December 2022	_	_	_	_
Net carrying value 1 January 2022	174 732	437 613	39 486	651 831
Net carrying value 31 December 2022	174 732	434 610	23 682	633 024
Including construction in progress				
1 January 2022		8 553		8 553
31 December 2022		28 818		28 818

Additions to buildings in 2022 relate mainly to the Isar Daylight project amounting to EUR 16 015k. Additions to office equipment in 2022 relate mainly to the purchase of network storage hardware for EUR 3 834k.

The retirements of office equipment in 2022 include mainly the decommissioning of mainframe and related hardware components in the amount of EUR 7 278k.

Buildings include construction in progress in the amount of EUR 2 232k for the initial costs for the renovation of the property in Vienna into a carbon-negative building with a carbon-neutral lifecycle.

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 EUR '000

	Land	Buildings	Office equipment	Total
Cost 1 January 2021	174 732	1 095 857	161 294	1 431 883
Additions		9 752	8 777	18 529
Disposals/Retirements		(2 780)	(34 425)	(37 205)
Transfers				_
Cost 31 December 2021	174 732	1 102 829	135 646	1 413 207
Accumulated depreciation 1 January 2021		(632 090)	(107 588)	(739 678)
Depreciation for the year		(33 126)	(22 974)	(56 100)
Disposals/Retirements			34 402	34 402
Transfers	_			_
Reversal of impairment loss				_
Accumulated depreciation 31 December 2021	_	(665 216)	(96 160)	(761 376)
Impairment loss for the year				
Accumulated impairment 31 December 2021	_	_	_	_
Net carrying value 1 January 2021	174 732	463 767	53 706	692 205
Net carrying value 31 December 2021	174 732	437 613	39 486	651 831
Including construction in progress				
1 January 2021		5 853		5 853
31 December 2021		8 553		8 553

Additions to buildings in 2021 mainly relate to landscaping works and construction of a large pond for the New Main building for EUR 3 269k and the new Isar Daylight project for EUR 2 422k. Additions to office equipment in 2021 mainly refer to the purchase of connected tablets for EPO staff for EUR 4 883k.

Retirements of office equipment in 2021 include mainly the decommissioning of obsolete laptops and desktops workstations formerly capitalised according to IAS 17 Leases. Those assets were initially recognised with the amount of EUR 20 172k and were already fully depreciated. Furthermore, the retirements of office equipment in 2021 include the disposal of various office furniture initially recognised as low value assets in the amount of EUR 11 167k and already fully depreciated.

# 12. Intangible assets

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

				in EUR '000	
	Acquired software	Acquired information systems	Internally generated systems	Total	
Cost at 1 January 2022	12 678	5 161	103 194	121 033	
Additions	666		14 396	15 062	
Disposals	(8)	(4 441)	(22 028)	(26 477)	
Transfers			_	_	
Cost at 31 December 2022	13 336	720	95 562	109 618	
Accumulated amortisation 1 January 2022	(12 128)	(5 106)	(72 196)	(89 430)	
Amortisation for the year	(403)	(20)	(7 244)	(7 667)	
Amortisation disposals	8	4 407	21 749	26 164	
Amortisation transfers			_	_	
Accumulated amortisation 31 December 2022	(12 523)	(719)	(57 691)	(70 933)	
Net carrying value 1 January 2022	550	55	30 998	31 603	
Net carrying value 31 December 2022	813	1	37 871	38 685	
Including construction in progress					
1 January 2022			15 355	15 355	
31 December 2022			28 406	28 406	

Additions to internally generated systems in 2022 relate to IT developments within the framework of the Strategic Plan 2023, mainly within the programmes Search and New User Online Engagement.

Disposals of acquired information systems in 2022 include mainly the disposal of legacy prior-art databases. Those assets were initially recognised at the amount of EUR 4 441k and were fully amortised at the time of disposal.

Disposals of internally generated systems in 2022 include mainly the disposal of the residual parts of IT Roadmap and the Docarea software, which were already fully amortised. The assets were initially recognised at the amount of EUR 22 028k.

The EPO invests in the development of information systems to support its operations. The figures for these internally generated systems include only external cost. All internally generated systems currently being developed (construction in progress) are part of the Strategic Plan 2023.

The comparative figures are as follows:

				in EUR '000
	Acquired software	Acquired information systems	Internally generated systems	Total
Cost 1 January 2021	14 461	54 600	115 921	184 982
Additions	36		14 829	14 865
Disposals	(1 819)	(49 439)	(27 556)	(78 814)
Transfers			_	_
Cost at 31 December 2021	12 678	5 161	103 194	121 033
Accumulated amortisation 1 January 2021	(12 085)	(53 348)	(88 259)	(153 692)
Amortisation for the year	(1 862)	(825)	(11 124)	(13 811)
Amortisation disposals	1 819	49 067	27 187	78 073
Amortisation transfers			_	_
Accumulated amortisation 31 December 2021	(12 128)	(5 106)	(72 196)	(89 430)
Net carrying value 1 January 2021	2 376	1 252	27 662	31 290
Net carrying value 31 December 2021	550	55	30 998	31 603
Including construction in progress				
1 January 2021			7 167	7 167
31 December 2021			15 355	15 355

:- FUD 1000

Additions to internally generated systems in 2021 relate mainly to IT developments as part of the Strategic Plan 2023.

Disposals of acquired information systems in 2021 include mainly the disposal of legacy prior-art databases in the context of the mainframe decommissioning.

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

The EPO entered into 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 2022 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:

			in EUR '000
Right-of-use assets	Buildings	Office equipment	Total
Balance 1 January 2022	25 749	18 586	44 335
Additions	1 173	_	1 173
Changes in assumptions	98	_	98
Depreciation	(3 158)	(12 627)	(15 785)
Balance at 31 December 2022	23 862	5 959	29 821

Additions in 2022 relate to the lease of a new building starting from September 2022, to accommodate staff during renovation of the Vienna building (see also Note 11). The change in assumptions in 2022 reflect the increase of indexed price for the lease of the datacentre facilities in Luxemburg.

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

		in EUR '000
Financial position statement of comprehensive income	2022	2021
Interest on lease liabilities	549	843
Expenses relating to leases of short term & low-value assets	597	2 615
Total	1 146	3 458

The total amounts recognised during the reporting period in the statement of cash flows for finance and operating leases were as follows:

Total	16 423	19 687
Cash outflows for leases	2022	in EUR '000 <b>2021</b>

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

		in EUR '000
Undiscounted lease liabilities	2022	2021
Less than 1 year	9 684	16 246
Between 1 years and 5 years	13 874	19 760
Over 5 years	8 221	10 884
Total	31 779	46 890

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:

in EUR '000

2022	Pensions	LTC	insurance	Total
RFPSS financial assets	9 029 991	264 407	766 670	10 061 068
RFPSS other assets	504	15	43	562
RFPSS restricted cash	335 347	9 819	28 472	373 638
RFPSS financial liabilities	(3 883)	(114)	(328)	(4 325)
RFPSS other liabilities	(179)	(5)	(15)	(199)
Total	9 361 780	274 122	794 842	10 430 744

in EUR '000

2021	Pensions	LTC	Sickness insurance	Total
RFPSS financial assets	10 354 936	294 824	884 153	11 533 913
RFPSS other assets	563	16	48	627
RFPSS restricted cash	300 888	8 567	25 691	335 146
RFPSS financial liabilities	(1 520)	(43)	(131)	(1 694)
RFPSS other liabilities	(100)	(3)	(9)	(112)
Total	10 654 767	303 361	909 752	11 867 880

Major categories of RFPSS net assets are as follows:

iı	n	0/2
ш		/(

Asset class share	2022	2021
Domestic government bonds	10.6%	15.3%
Domestic corporate bonds	6.8%	5.8%
Foreign bonds	7.2%	4.5%
Emerging market bonds	9.6%	4.9%
Domestic equities	17.4%	19.7%
Foreign equities	24.9%	24.7%
Emerging markets	9.7%	8.8%
Real estate	9.9%	9.9%
Commodities	0.0%	4.1%
Cash holdings	3.9%	2.3%
Total	100%	100%

## 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:

Investments	2022	2021
EPO Treasury Investment Fund (EPOTIF)	3 230 753	3 620 531

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

in %

Percentage share in Net Assets Value	2022	2021
Equities	15.9	17.1
Profit Participation Certificates (Equities)	0.2	0.2
Dividend Claims	0.1	0.0
Equity-Index Futures	-0.1	0.2
Equity Funds	18.0	17.9
Bonds	30.4	30.8
Bond Futures	0.0	0.0
Fixed-Income Funds	22.4	23.3
Commodity Funds	0.6	0.7
Currency Forwards	0.9	-0.1
Other Funds	7.0	6.3
Cash	4.6	3.6
Total	100.0	100.0

Net gains and losses on investments were as follows:

in EUR '000

2022	2021
(469 777)	232 648
(469 777)	232 648
	(469 777)

#### 16. Home loans to staff

		in EUR '000
Home loans to staff	2022	2021
Home loans non-current	86 749	89 921
Home loans current	8 606	8 426
Total	95 355	98 347

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 2022 the net loss due to revaluation of new home loans to fair value amounted to EUR 1 020k (2021: EUR 1 367k). 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 financial assets

Other financial assets include bank deposits with maturity beyond 3 months.

		in EUR '000
Other financial assets	2022	2021
Other financial assets non-current	80 000	_
Other financial assets current		_
Total	80 000	-

The annualised effective interest rate achieved in 2022 on fixed-term deposits with maturity of up to 18 months was 0.95% (2021: n/a).

## 18. Other assets

		in EUR '000
Other assets	2022	2021
Assets Salary Savings Plan (SSP)	188 906	196 664
Repurchase value insurance funds ex-IIB	285	303
Total	189 191	196 967

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 23.

## 19. Trade and other receivables

	in EUR '000
2022	2021
143 342	137 976
5 122	5 112
148 464	143 088
19 075	23 402
737	752
3 713	3 237
23 525	27 391
171 989	170 479
	143 342 5 122 148 464 19 075 737 3 713 23 525

<sup>&</sup>quot;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.

# 20. Prepaid expenses

		in EUR '000
Prepaid expenses	2022	2021
Prepaid employee-related expenses	13 796	13 165
Prepaid software expenses	13 328	10 268
Prepaid other expenses		_
Total	27 124	23 433

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

# 21. Cash and cash equivalents

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

		in EUR '000
Cash and cash equivalents	2022	2021
Short-term bank deposits	150 000	25 000
Cash at bank and in hand	13 120	35 155
Total	163 120	60 155

<sup>&</sup>quot;Other receivables – tax" comprise VAT and income tax payable ("tax adjustment") to the EPO by the Contracting States.

<sup>&</sup>quot;Other receivables – others" mainly consist of accrued income on bonds and fixed-term deposits as well as advances to suppliers.

# 22. Defined benefit liability

Eι		

		Long-term			in EUR '000
Accounting for 2022	Pension obligation	care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	3.93%	3.98%	3.96%	3.74%	
Future salaries increase	2.20%	2.20%		2.20%	
Future pensions increase	2.20%				
Medical costs inflation			2.50%		
Present value of obligation 01.01.2022	22 777 238	1 062 725	3 204 440	32 690	27 077 093
Interest cost	300 851	15 255	44 308	233	360 647
Current service cost	780 687	37 435	73 707	1 983	893 812
Past service costs	1 220				1 220
Transfer of pension rights	1 534	_		_	1 534
Benefits paid	(315 297)	(6 648)	(33 582)	(3 219)	(358 746)
Remeasurements on obligation	(8 492 323)	(516 210)	(1 525 117)	(2 862)	(10 536 512)
Present value of obligation 31.12.2022	15 053 910	592 557	1 763 756	28 825	17 439 048
Unrecognised past service costs		_	_	_	
Liability recognised in the Statement of Financial Position	15 053 910	592 557	1 763 756	28 825	17 439 048
Amounts recognised in the Statement of Comprehensive Income					
Interest cost	300 851	15 255	44 308	233	360 647
Current service cost	780 687	37 435	73 707	1 983	893 812
Past service costs	1 220				1 220
Staff contributions	(75 948)	(6 882)		(1 259)	(84 089)
Recognised in the Statement of Comprehensive Income	1 006 810	45 808	118 015	957	1 171 590
Accounting for 2021	Pension obligation	Long-term care insurance	Sickness insurance	Death and invalidity	Total
Discount rate	1.33%	1.44%	1.39%	0.75%	
Future salaries increase	2.20%	2.20%		2.20%	
Future pensions increase	2.20%				
Medical costs inflation			2.51%		
Present value of obligation 01.01.2021	24 852 226	1 216 093	3 880 991	35 639	29 984 949
Interest cost	217 399	12 372	35 959	101	265 831
Current service cost	933 441	48 036	105 666	2 293	1 089 436
Past service costs	10 999	_	_	_	10 999
Transfer of pension rights	3 552	_	_	_	3 552
Benefits paid	(299 238)	(6 258)	(28 939)	(1 884)	(336 319)
Remeasurements on obligation	(2 941 141)	(207 518)	(789 237)	(3 459)	(3 941 355)
Present value of obligation 31.12.2021	22 777 238	1 062 725	3 204 440	32 690	27 077 093
Unrecognised past service costs	_		_		,
Liability recognised in the Statement of Financial Position					_
	22 777 238	1 062 725	3 204 440	32 690	27 077 093
Amounts recognised in the Statement of Comprehensive Income	22 777 238	1 062 725	3 204 440	32 690	27 077 093
Amounts recognised in the Statement of Comprehensive Income Interest cost	22 777 238	1 062 725	3 204 440 35 959	<b>32 690</b>	<b>27 077 093</b> 265 831
· · · · · · · · · · · · · · · · · · ·					
Interest cost	217 399	12 372	35 959	101	265 831
Interest cost  Current service cost	217 399	12 372	35 959	101	265 831 1 089 436

in EUR '000

		Long-term			in EUR '000
Accounting for 2020	Pension obligation	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 01.01.2020	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)
Present value of obligation 31.12.2020	24 852 226	1 216 093	3 880 992	35 638	29 984 949
Unrecognised past service costs	_	_	_	_	_
Liability recognised in the Statement of Financial Position	24 852 226	1 216 093	3 880 992	35 638	29 984 949
Amounts recognised in the Statement of Comprehensive Income			<u>, — — — — — — — — — — — — — — — — — — —</u>		
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)
Recognised in the Statement of Comprehensive Income	1 216 309	58 789	145 220	928	1 421 246

in EUR '000

	Pension	Long-term care	Sickness	Death and	IN EUR 1000
Accounting for 2019	obligation	insurance	insurance	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 01.01.2019	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
Present value of obligation 31.12.2019	25 075 784	1 229 831	3 536 629	26 636	29 868 880
Unrecognised past service costs	_		_		_
Liability recognised in the Statement of Financial Position	25 075 784	1 229 831	3 536 629	26 636	29 868 880
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)
Recognised in the Statement of Comprehensive Income	1 029 511	42 709	126 932	2 067	1 201 219

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 01.01.2018	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)
Present value of obligation 31.12.2018	17 957 108	874 065	1 973 655	35 947	20 840 775
Unrecognised past service costs					_
Liability recognised in the Statement of Financial Position	17 957 108	874 065	1 973 655	35 947	20 840 775
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)
Recognised in the Statement of Comprehensive Income	1 043 574	52 706	133 546	2 502	1 232 328

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

	154 113
	77 055
•	

in EUR '000 2021

2022

Pension benefits		
Office contributions	151 897	154 113
Staff contributions	75 948	77 055
LTC benefits		
Office contributions	12 790	12 747
Staff and pensioners' contributions	6 882	6 910
Post-employment medical care		
Office contributions for pensioners	14 310	13 708
Pensioners' contributions	7 190	6 902
Death		
Office contributions	1 960	1 151
Staff contributions	1 259	733
Total	272 236	273 319

The Office and staff contributions for the next annual reporting period are expected to be EUR 307m.

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

in EUR '000

	2022	2021
Retirement pension/Retirement pensions for health reasons	12 090 587	18 358 923
Tax adjustment/partial compensation	2 420 130	3 632 246
Family allowances	543 193	786 069
Total	15 053 910	22 777 238

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

in EUR '000

	2022	2021
Pension obligation		
Active staff	8 841 977	15 072 992
Deferred pensioners	80 334	125 065
Pensioners	6 131 599	7 579 181
LTC insurance		
Active staff	283 648	616 519
Deferred pensioners	629	892
Pensioners	308 280	445 314
Sickness insurance		
Active staff	1 144 698	2 326 835
Deferred pensioners	2 398	2 756
Pensioners	616 660	874 849
Death insurance		
Active staff	28 825	32 690
Deferred pensioners		_
Pensioners		_
Total	17 439 048	27 077 093

## 22.1 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% (2021: 0.2%) 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 an EPO specific one based on the International Civil Servants Life Table (ICSLT 2018 with 2021 projection) produced by the ISRP which is a table specific to international civil servants based in Europe.

The medical cost inflation applied is 2.50% (2021: 2.51%).

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

in EUR '000

	2022	2021
Pension obligation		
Actuarial (gain) loss from changes in financial assumptions	(10 309 296)	(2 514 553)
Actuarial (gain) loss from changes in experience and demographic assumptions	1 816 973	(426 588)
LTC insurance		
Actuarial (gain) loss from changes in financial assumptions	(585 125)	(145 743)
Actuarial (gain) loss from changes in experience and demographic assumptions	68 915	(61 775)
Sickness insurance		
Actuarial (gain) loss from changes in financial assumptions	(1 436 878)	(416 704)
Actuarial (gain) loss from changes in experience and demographic assumptions	(88 239)	(372 533)
Death		
Actuarial (gain) loss from changes in financial assumptions	(6 374)	(1 160)
Actuarial (gain) loss from changes in experience and demographic assumptions	3 512	(2 299)
Total	(10 536 512)	(3 941 355)

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:

in EUR '000

14 787 303	15 327 642
578 429	608 753
1 726 475	1 802 146
28 648	29 004
	1 726 475

in EUR '000

At 31 December 2021	0.1 percentage point increase	0.1 percentage point decrease
Present value pension obligation	22 265 111	23 305 598
Present value LTC insurance	1 031 279	1 095 367
Present value sickness insurance	3 120 813	3 290 955
Present value death and invalidity	32 447	32 936

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

in EUR '000

3 329 121 29 276

At 31 December 2022	One year increase in life expectancy
Present value pension obligation	15 466 976
Present value LTC insurance	636 476
Present value sickness insurance	1 814 175
Present value death and invalidity	25 810
	in EUR '000
At 31 December 2021	One year increase in life expectancy
Present value pension obligation	23 634 268
Present value LTC insurance	1 156 597

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:

Present value sickness insurance

Present value death insurance

in EUR '000

Less than 1 year	Between 1-5 years	Over 5 years
312 611	1 507 605	27 440 095
7 625	37 662	1 800 082
27 277	137 507	4 591 673
3 658	11 811	21 733
351 171	1 694 585	33 853 583
	312 611 7 625 27 277 3 658	312 611 1 507 605 7 625 37 662 27 277 137 507 3 658 11 811

in EUR '000

At 31 December 2021	Less than 1 year	Between 1-5 years	Over 5 years
Pension obligation, net of tax adjustment	270 074	1 296 045	24 868 585
LTC insurance	6 654	32 720	1 638 378
Sickness insurance	25 929	131 600	4 785 216
Death and Invalidity	3 227	10 626	20 765
Total	305 884	1 470 991	31 312 944

The expected maturity analysis of undiscounted defined benefit payments is calculated using the salary/pension/cost increase assumptions presented in Note 22.

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 34 722m (2021: EUR 31 403m).

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

		in years
Duration	2022	2021
Pension obligation	19	23
LTC insurance	25	31
Sickness insurance	22	27
Death and invalidity	6	8

The average duration for each defined benefit obligation is calculated using the salary/pension/cost increase assumptions presented in Note 22. The decrease in the average liability duration in 2022 as compared to 2021 is mainly caused by a substantial increase of the discount rate (e.g. for pension obligation from 1.33% in 2021 to 3.93% in 2022) affecting the expected timing of payments.

## 22.2 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.

## 22.2.1 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% (2021: 32.7%).

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.

#### 22.2.2 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 (2022: 2.95% and 2021: 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.

## 22.2.3 Long-term care 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% (2021: 1.8%).
- (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.

#### 22.2.4 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.

# 23. Salary Savings Plan obligation

Since 1 January 2009, the EPO has been operating an SSP which is compulsory for employees who assumed 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 22.2.1. 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 18.

# 24. Other employee-related liabilities

	in EUR '000
2022	2021
90 313	104 852
51 254	52 704
33 925	38 841
11 188	12 119
10 800	9 800
7 131	4 811
204 611	223 127
20 467	63 083
	90 313 51 254 33 925 11 188 10 800 7 131

Non-current liabilities include 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. See also Note 7.

# 25. Trade and other payables

in EUR '000

Trade and other payables	2022	2021
Current deposit accounts by patent applicants	124 137	125 735
Payables to suppliers and trade creditors	71 191	70 041
Other	1 119	2 459
Total	196 447	198 235

As one of the payment methods offered by the EPO, patent applicants can place funds in deposit accounts with the EPO and use them for future fee payments. The corresponding liability is presented in the table above.

Refund liabilities towards applicants and representatives amounting to EUR 8 874k (2021: EUR 6 759k) are included under Payables to suppliers and other creditors, see also Note 3.3.

## 26. Provisions

in EUR '000

	Litigation risks	Other	Total
1 January 2022	5 552	357	5 909
Use	<del>-</del>	357	_
Reversal		_	_
Addition	571	_	571
Interest effect	<u> </u>	_	_
Other	<del>-</del>	_	_
31 December 2022	6 123	357	6 480
Current	6 123	357	6 480
Non-current	<del>-</del>	_	_
Total	6 123	357	6 480

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.

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.

#### 27. Commitments

in	EU	R	000

Purchase commitments	2022	2021
Fixed assets	41 392	31 216
Intangible assets	4 109	7 450

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

# 28. Contingencies and risks

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

#### **Introduction of a Salary Savings Plan**

The participation in the Salary Savings Plan (SSP) is compulsory for all staff who joined 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 18). 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 from the ordinary course of business, mainly due to disputed invoices, pending legal disputes and arbitration procedures or appeals by staff members including those in front of the Administrative Tribunal of the International Labour Organization. It is not anticipated that these will give rise to any material liabilities other than those for which provision has been made (Note 26).

# 29. Related party disclosures

The Organisation has entered into transactions with members of the EPO's key management personnel, their close family members and the Contracting States. The EPO has not applied partial exemptions, if any, for government-related entities provided by IAS 24 – Related Party Disclosures.

## 29.1 Related parties to the Organisation

## 29.1.1 Members of key management

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

At the balance sheet date, the EPO had three directorates-general, each headed by a Vice-President.

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.

## 29.1.2 Close family members of key managers

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

## 29.1.3 Contracting states

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

## 29.2 Transactions and outstanding balances with related parties

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

in EUR '000

	2022	2021
Short-term employee benefits*	15 739	12 533
Post-employment benefits, service costs	3 427	4 642
Total	19 166	17 175

<sup>\*</sup> The salaries included in the short-term employee benefits are reported before deduction of internal tax.

The Organisation recognised a defined benefit obligation for post-employment benefits amounting to EUR 72 942k (2021: EUR 78 055k) for 38 (2021: 33) key managers and their close family members.

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

in EUR '000

	2022	2021
MAC members and Fund Administrator	_	
Close family members of key managers	_	_
Contracting States		
Co-operation with national offices	17 395	16 295
Rent office building Berlin	2 575	2 575
Total	19 970	18 870

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

in EUR '000

	2022	2021
MAC members and Fund Administrator	210	172
Close family members of key managers	37	43
Contracting States		
Renewal fees	143 341	137 976
VAT and other taxes	19 030	23 358
Contracting States using EPO services and products	3 942	4 225
Tax adjustments	44	44
Total	166 604	165 818

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.

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

in EUR '000

	2022	2021
MAC members and Fund Administrator		1
Close family members of key managers		_
Contracting States		
Renewal fees for granted patents (incl. interest)	663 066	640 711
Searches on behalf of ex-IIB member states	32 794	31 761
Searches on behalf of other Contracting States	29 201	26 741
Reimbursement rent office building Berlin	666	717
Other revenue	8 795	8 439
Total	734 522	708 370

## Renewal fees for granted patents (incl. interest)

Total

The split of renewal fees for granted patents (incl. interest) per Contracting State was as follows:

► Back to contents epo.org | 60

663 066

640 711

# 30. Additional disclosures on financial instruments

# 30.1 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:

in EUR '000

	(	Carrying value		Fair value
RFPSS Financial instruments	2022	2021	2022	2021
Financial assets at fair value through profit and loss				
Standard bonds	1 263 055	1 761 050	1 263 055	1 761 050
Other bonds	1 018 036	1 054 106	1 018 036	1 054 106
Shares	3 152 587	3 820 941	3 152 587	3 820 941
Funds	4 504 999	4 828 413	4 504 999	4 828 413
Derivatives used for trading	46 434	24 431	46 434	24 431
Other instruments	75 957	44 972	75 957	44 972
Total	10 061 068	11 533 913	10 061 068	11 533 913
Financial assets at amortised cost				
RFPSS other assets	562	627	562*	627
RFPSS restricted cash	373 638	335 146	373 638	335 146
Financial liabilities at fair value through profit and loss				
Derivatives used for trading	(4 325)	(1 694)	(4 325)	(1 694)
Delivatives assured that the angle				
Financial liabilities at amortised cost				
	(199)	(112)	(199)*	(112)
Financial liabilities at amortised cost	(199) <b>10 430 744</b>	(112) 11 867 880	(199)* <b>10 430 744</b>	(112) <b>11 867 880</b>
Financial liabilities at amortised cost  RFPSS other liabilities				
Financial liabilities at amortised cost  RFPSS other liabilities				
Financial liabilities at amortised cost  RFPSS other liabilities				
Financial liabilities at amortised cost  RFPSS other liabilities  Total net RFPSS financial instruments	10 430 744	11 867 880	10 430 744	11 867 880
Financial liabilities at amortised cost  RFPSS other liabilities  Total net RFPSS financial instruments  Office financial instruments	10 430 744	11 867 880	10 430 744	11 867 880
Financial liabilities at amortised cost  RFPSS other liabilities  Total net RFPSS financial instruments  Office financial instruments  Financial assets at fair value through profit and loss	10 430 744	11 867 880 2021	10 430 744	11 867 880
Financial liabilities at amortised cost  RFPSS other liabilities  Total net RFPSS financial instruments  Office financial instruments  Financial assets at fair value through profit and loss  EPO Treasury Investment Fund	10 430 744	11 867 880 2021	10 430 744	11 867 880
Financial liabilities at amortised cost  RFPSS other liabilities  Total net RFPSS financial instruments  Office financial instruments  Financial assets at fair value through profit and loss  EPO Treasury Investment Fund  Financial assets measured at amortised cost	2022 3 230 753	2021 3 620 531	2022 3 230 753	2021 3 620 531
Financial liabilities at amortised cost  RFPSS other liabilities  Total net RFPSS financial instruments  Office financial instruments  Financial assets at fair value through profit and loss  EPO Treasury Investment Fund  Financial assets measured at amortised cost  Home loans	2022 3 230 753 95 355	2021 3 620 531 98 347	2022 3 230 753 86 195	2021 3 620 531 108 728
Financial liabilities at amortised cost  RFPSS other liabilities  Total net RFPSS financial instruments  Office financial instruments  Financial assets at fair value through profit and loss  EPO Treasury Investment Fund  Financial assets measured at amortised cost  Home loans  Trade and other receivables	2022 3 230 753 95 355 171 989	2021 3 620 531 98 347	2022 3 230 753 86 195 171 989*	2021 3 620 531 108 728
Financial liabilities at amortised cost  RFPSS other liabilities  Total net RFPSS financial instruments  Office financial instruments  Financial assets at fair value through profit and loss  EPO Treasury Investment Fund  Financial assets measured at amortised cost  Home loans  Trade and other receivables  Other financial assets	2022 3 230 753 95 355 171 989 80 000	2021 3 620 531 98 347 170 479	2022 3 230 753 86 195 171 989* 80 000*	2021 3 620 531 108 728 170 479
Financial liabilities at amortised cost  RFPSS other liabilities  Total net RFPSS financial instruments  Office financial instruments  Financial assets at fair value through profit and loss  EPO Treasury Investment Fund  Financial assets measured at amortised cost  Home loans  Trade and other receivables  Other financial assets	2022 3 230 753 95 355 171 989 80 000	2021 3 620 531 98 347 170 479	2022 3 230 753 86 195 171 989* 80 000*	2021 3 620 531 108 728 170 479
Financial liabilities at amortised cost  RFPSS other liabilities  Total net RFPSS financial instruments  Office financial instruments  Financial assets at fair value through profit and loss  EPO Treasury Investment Fund  Financial assets measured at amortised cost  Home loans  Trade and other receivables  Other financial assets  Total	2022 3 230 753 95 355 171 989 80 000 347 344	2021 2021 3 620 531 98 347 170 479 — 268 826	2022 3 230 753 86 195 171 989* 80 000* 338 184	11 867 880  2021  3 620 531  108 728  170 479  — 279 207
Financial liabilities at amortised cost  RFPSS other liabilities  Total net RFPSS financial instruments  Office financial instruments  Financial assets at fair value through profit and loss  EPO Treasury Investment Fund  Financial assets measured at amortised cost  Home loans  Trade and other receivables  Other financial assets  Total  Cash and cash equivalents	2022 3 230 753 95 355 171 989 80 000 347 344 163 120	2021  2021  3 620 531  98 347  170 479  268 826  60 155	2022 3 230 753 86 195 171 989* 80 000* 338 184 163 120*	2021  3 620 531  108 728 170 479  279 207
Financial liabilities at amortised cost  RFPSS other liabilities  Total net RFPSS financial instruments  Office financial instruments  Financial assets at fair value through profit and loss  EPO Treasury Investment Fund  Financial assets measured at amortised cost  Home loans  Trade and other receivables  Other financial assets  Total  Cash and cash equivalents	2022 3 230 753 95 355 171 989 80 000 347 344 163 120	2021  2021  3 620 531  98 347  170 479  268 826  60 155	2022 3 230 753 86 195 171 989* 80 000* 338 184 163 120*	2021  3 620 531  108 728 170 479  279 207
Financial liabilities at amortised cost  RFPSS other liabilities  Total net RFPSS financial instruments  Office financial instruments  Financial assets at fair value through profit and loss  EPO Treasury Investment Fund  Financial assets measured at amortised cost  Home loans  Trade and other receivables  Other financial assets  Total  Cash and cash equivalents  Total Office financial assets	2022 3 230 753 95 355 171 989 80 000 347 344 163 120	2021  2021  3 620 531  98 347  170 479  268 826  60 155	2022 3 230 753 86 195 171 989* 80 000* 338 184 163 120*	2021  3 620 531  108 728 170 479  279 207
Financial liabilities at amortised cost  RFPSS other liabilities  Total net RFPSS financial instruments  Office financial instruments  Financial assets at fair value through profit and loss  EPO Treasury Investment Fund  Financial assets measured at amortised cost  Home loans  Trade and other receivables  Other financial assets  Total  Cash and cash equivalents  Total Office financial assets  Financial liabilities measured at amortised cost	2022  3 230 753  95 355  171 989  80 000  347 344  163 120  3 741 217	2021  2021  3 620 531  98 347  170 479  268 826  60 155  3 949 512	2022  3 230 753  86 195  171 989*  80 000*  338 184  163 120*  3 732 057	2021  3 620 531  108 728  170 479  279 207  60 155  3 959 893

<sup>\*</sup> 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:

44 926

44 926

		= 0. 1 000
	Lease liabilities	Total
At 1 January 2022	44 926	44 926
Cash flows		
Repayment	(15 873)	(15 873)
Non-cash		
Acquisition	1 174	1 174
Change in lease assumptions	98	98
At 31 December 2022	30 325	30 325
	Lease liabilities	Total
At 1 January 2021	63 225	63 225
Cash flows		
Repayment	(16 091)	(16 091)
Non-cash		
Acquisition		_
Change in lease assumptions	(2 208)	(2 208)

## 30.2 Fair value hierarchy

At 31 December 2021

Depending on the techniques and inputs used to measure fair value, financial instruments are categorised into 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 2022	Level 1	Level 2	Level 3	in EUR '000 <b>Total</b>
RFPSS financial assets	Level 1	Level 2	Level 3	TOtal
Standard bonds	1 263 055			1 263 055
Other bonds	1 004 231	13 805		1 018 036
Shares	3 152 587			3 152 587
Funds		4 504 999	_	4 504 999
Derivatives used for trading		46 434		46 434
Other instruments		75 957		75 957
Office financial assets				
EPO Treasury Investment Fund		3 230 753		3 230 753
Home Loans		86 195	_	86 195
Total financial assets	5 419 873	7 958 143	_	13 378 016
DEDOC C				
RFPSS financial liabilities		4 325		4 325
Derivatives used for trading				
Derivatives used for trading  Total financial liabilities		4 325	_	4 325
Total financial liabilities	Level 1	4 325	Lovel 3	4 325
Total financial liabilities  31 December 2021	Level 1		Level 3	4 325
Total financial liabilities  31 December 2021  RFPSS financial assets		4 325 Level 2	Level 3	4 325 in EUR '000 Total
Total financial liabilities  31 December 2021  RFPSS financial assets  Standard bonds	1 749 816	4 325 Level 2	Level 3	4 325 in EUR '000 Total
Total financial liabilities  31 December 2021  RFPSS financial assets  Standard bonds  Other bonds	1 749 816 1 040 794	4 325 Level 2	Level 3	4 325 in EUR '000 Total 1 761 050 1 054 106
Total financial liabilities  31 December 2021  RFPSS financial assets  Standard bonds  Other bonds  Shares	1 749 816	11 234 13 312	Level 3	4 325 in EUR '000 Total  1 761 050 1 054 106 3 820 941
Total financial liabilities  31 December 2021  RFPSS financial assets  Standard bonds  Other bonds  Shares  Funds	1 749 816 1 040 794	11 234 13 312 — 4 828 413	Level 3	4 325 in EUR '000 Total  1 761 050 1 054 106 3 820 941 4 828 413
Total financial liabilities  31 December 2021  RFPSS financial assets  Standard bonds  Other bonds  Shares  Funds  Derivatives used for trading	1 749 816 1 040 794	Level 2  11 234 13 312 4 828 413 24 431	Level 3	4 325 in EUR '000 Total  1 761 050 1 054 106 3 820 941 4 828 413 24 431
Total financial liabilities  31 December 2021  RFPSS financial assets  Standard bonds  Other bonds  Shares  Funds  Derivatives used for trading  Other instruments	1 749 816 1 040 794	11 234 13 312 — 4 828 413	Level 3	4 325
Total financial liabilities  31 December 2021  RFPSS financial assets  Standard bonds  Other bonds  Shares  Funds  Derivatives used for trading  Other instruments  Office financial assets	1 749 816 1 040 794	11 234 13 312 — 4 828 413 24 431 44 972		4 325 in EUR '000 Total  1 761 050 1 054 106 3 820 941 4 828 413 24 431 44 972
Total financial liabilities  31 December 2021  RFPSS financial assets  Standard bonds  Other bonds  Shares  Funds  Derivatives used for trading  Other instruments  Office financial assets  EPO Treasury Investment Fund	1 749 816 1 040 794	11 234 13 312 — 4 828 413 24 431 44 972 3 620 531	Level 3	4 325 in EUR '000 Total  1 761 050 1 054 106 3 820 941 4 828 413 24 431 44 972
Total financial liabilities  31 December 2021  RFPSS financial assets  Standard bonds  Other bonds  Shares  Funds  Derivatives used for trading  Other instruments  Office financial assets  EPO Treasury Investment Fund  Home Loans	1 749 816 1 040 794 3 820 941 ————————————————————————————————————	11 234 13 312 — 4 828 413 24 431 44 972 3 620 531 108 728		4 325 in EUR '000 Total  1 761 050 1 054 106 3 820 941 4 828 413 24 431 44 972 3 620 531 108 728
Total financial liabilities  31 December 2021  RFPSS financial assets  Standard bonds  Other bonds  Shares  Funds  Derivatives used for trading  Other instruments  Office financial assets  EPO Treasury Investment Fund	1 749 816 1 040 794	11 234 13 312 — 4 828 413 24 431 44 972 3 620 531	Level 3	4 325 in EUR '000 Total  1 761 050 1 054 106 3 820 941 4 828 413 24 431 44 972 3 620 531 108 728
Total financial liabilities  31 December 2021  RFPSS financial assets  Standard bonds  Other bonds  Shares  Funds  Derivatives used for trading  Other instruments  Office financial assets  EPO Treasury Investment Fund  Home Loans	1 749 816 1 040 794 3 820 941 ————————————————————————————————————	11 234 13 312 — 4 828 413 24 431 44 972 3 620 531 108 728	Level 3	4 325 in EUR '000 Total  1 761 050 1 054 106 3 820 941 4 828 413 24 431
31 December 2021  RFPSS financial assets  Standard bonds Other bonds Shares Funds Derivatives used for trading Other instruments Office financial assets EPO Treasury Investment Fund Home Loans Total financial assets	1 749 816 1 040 794 3 820 941 ————————————————————————————————————	11 234 13 312 — 4 828 413 24 431 44 972 3 620 531 108 728	Level 3	4 325 in EUR '000 Total  1 761 050 1 054 106 3 820 941 4 828 413 24 431 44 972 3 620 531 108 728

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 Asset 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.

#### 30.3 Gains and losses on financial instruments

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

		in EUR '000
Financial instruments at fair value	2022	2021
Valuation gains (losses) on financial assets	(2 275 920)	1 439 246
Income from coupons, dividends and interest	182 307	140 656
Custodian fees and other costs	(1 090)	(1 107)
Sundry	(1 136)	(838)
Valuation gains (losses) on liabilities	(4 325)	(1 694)
Total	(2 100 164)	1 576 263
Financial assets at amortised cost	2022	in EUR '000 <b>2021</b>
Financial assets at amortised cost	2022	2021
Interest income from home loans		2021
International form bank and an additional to	2 205	2 439
Interest income from bank accounts and deposits	2 205	
Total		
<u>'</u>	1 201	2 439 —
Total	1 201 3 406	2 439 — 2 439

# 31. Financial risk management

Risk management policies at the EPO vary depending 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 the 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 31.1 to 31.3.

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

Financial instruments held by the Office comprise trade receivables and payables, bank deposits 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 only be held for hedging purposes. Over-the-counter (OTC) derivative contracts for hedging purpose or to gain exposure can only be entered into with one of 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. In case of a passive bandwidth breach, the Fund Administrator shall take appropriate corrective action. 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 (until June 2022) 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 31.1 to 31.3.

#### 31.1 Market risk

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

Financial instruments held by the Office have no 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 2022 the EPOTIF portfolio's VaR was EUR 236m (2021: EUR 262m), which represented 7.3% (2021: 7.2%) 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.

At the end of 2022 the VaR of RFPSS assets was estimated at EUR 602m (2021: EUR 639m). The decrease of VaR by EUR 37m stems mainly from the decreased AUM from EUR 11.8 billion at the end of 2021 to EUR 10.4 billion at the end of 2022. The higher market volatility (Total risk increased from 11.34% to 12.16%) has marginally offset the AUM effect.

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 and Bloomberg/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 50% 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.

## 31.2 Liquidity risk

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

Liquidity risk management implies maintaining sufficient cash position and cash flows to meet the entity's shortand long-term liabilities.

The EPO's treasury department monitors the risk of a shortage of funds using a daily cash management tool, allowing to analyse the maturity of financial assets as well as the expected cash in- and outflows from daily operations.

The EPO bears 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, subject to the President's approval.

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

		in EUR '000
	2022	2021
Within 1 year	80 875	86 287
More than 1 year	22 095	30 644
Total	102 970	116 931

#### (b) EPO Treasury Investment Fund

The Office transfers parts of 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 19.8m (2021: EUR 20.4m).

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

The Office transfers to the RFPSS the contributions to cover future costs of pensions, sickness insurance and long term care. The reserves managed by the RFPSS are created to assist the Office in covering its social security schemes under its budget. 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.

Within the scope of 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 3.1m (2021: EUR 6.0m).

The RFPSS financial liabilities include mainly derivatives used for trading and have the following maturity structure as at 31 December:

Total	4 524	1 806
More than 1 year	_	_
Between 3 months and 1 year	_	_
Less than 3 months	4 524	1 806
Financial liabilities	2022	2021
		in EUR '000

#### 31.3 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 EUR '000

	Low Credit Risk		High Credit	
	2022	2021	2022	2021
Home loans	95 355	98 347	_	_
Trade and other receivables	171 989	170 479	_	_
Other financial assets	80 000	_		
Cash and cash equivalents	163 120	60 155		_
RFPSS restricted cash	373 638	335 146	_	_
RFPSS other assets	562	627		_
Total	884 664	664 754	_	-

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 about serious financial difficulty of the borrower or 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 homeloan 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 related to 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,
- 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, there were no material expected credit losses related to trade and other receivables.

#### Other financial assets

Other financial assets comprise bank deposits, used in the management of the EPO's operational cash flows.

All deposits with banks which have received the investment grade issuer rating BBB-/Baa3 from either S&P or Moody's rating agency are considered to have a low credit risk. For these instruments, the EPO recognises a loss allowance amounting to 12 months' 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 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 Bloomberg's 1-year default probability. 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 40% recovery rate, which is the industry standard for valuation of Credit Default Swaps. For deposits with a remaining duration of less than one year, an adjustment for the actual duration of the deposit was made.

The EPO constantly monitors the macroeconomic environment in which the banks operate and, if adverse changes to this environment can reliably be expected, it may adapt the expected default rates using forward-looking information available from Bloomberg.

Should the rating of an instrument fall below the investment grade, the EPO reassesses whether the credit risk of the asset has increased significantly since initial recognition. The major criteria for the reassessment are significant negative changes in credit rating or external market indicators of credit risk, unfavourable price changes of the bank's equity, significant adverse changes in the bank's financial situation or its regulatory, economic, or technological environment. Where there has been a significant increase in the asset's credit risk, the EPO recognises a loss allowance amounting to the lifetime expected credit losses. The amount of losses is calculated on the basis of available external information such as credit default swap prices or Bloomberg's Credit Risk model.

As at the reporting date there were no material expected credit losses related to other financial assets.

#### (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 allocation of funds to asset classes subject to credit risk is as follows:

	in %
Asset Class	Weight in portfolio
Domestic Government Bonds (Aggregate)	5
Domestic Corporate Bonds	13
Global Bonds (hedged)	14
Emerging Markets Bonds Local Currency	8
Emerging Markets Bonds Hard Currency (hedged)	8

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 EUR '000

31 December 2022	Rating below "A"	Not rated	Rating "A" and higher	Total
Domestic government bonds	252 042		840 931	1 092 973
Domestic corporate bonds	141 339	_	563 228	704 567
Foreign bonds	<u> </u>	_	483 551	483 551
Cash and currency forwards	<u> </u>	_	420 072	420 072
Total financial assets	393 381	_	2 307 782	2 701 163

in EUR '000

31 December 2021	Rating below "A"	Not rated	Rating "A" and higher	Total
Domestic government bonds	453 283		1 332 789	1 786 072
Domestic corporate bonds	232 578	_	450 738	683 316
Foreign bonds		_	345 768	345 768
Cash and currency forwards	_	_	359 577	359 577
Total financial assets	685 861	_	2 488 872	3 174 733

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 are 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 EUR '000
	Gross and net amounts of	Related financial	
	financial instruments in the	instruments that are not	
31 December 2022	statement of financial position	offset	Net amount
Financial Assets			
Derivatives used for trading	43 284	(4 325)	38 959
Total financial assets	43 284	(4 325)	38 959
Financial Liabilities			
Derivatives used for trading	4 325	(4 325)	_
Total financial liabilities	4 325	(4 325)	_
	Gross and net amounts of	Related financial	in EUR '000
		Related linancial	0 000
	tinancial instruments in the		2011 000
31 December 2021	financial instruments in the statement of financial position	instruments that are not offset	Net amount
31 December 2021 Financial Assets		instruments that are not	
		instruments that are not	
Financial Assets	statement of financial position	instruments that are not offset	Net amount
Financial Assets  Derivatives used for trading	statement of financial position  18 400	instruments that are not offset (1 694)	Net amount
Financial Assets  Derivatives used for trading  Total financial assets	statement of financial position  18 400	instruments that are not offset (1 694)	Net amount

#### 31.4 Capital management

The EPO is a non-profit organisation, and the main objectives of its capital management are to ensure the continuity of its tasks as defined in the EPC – in particular the grant of European patents – and to meet its obligations to its stakeholders, including: 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 necessary, 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. 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 through monthly financial management reports provided to the EPO management and quarterly reporting to the Budget and Finance Committee and the Administrative Council.

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

# 32. 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.