Europäisches Patentamt
European Patent Office
Office européen des brevets


# Financial Statements 2023

# Contents

# Audit opinion

## 1. Audit and Audit Opinion

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 2023, as disclosed in CA/60/24.

In our opinion, the financial statements give a true and fair view of the financial position of the EPO as of 31 December 2023, 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, 15 April 2024

**Board of Auditors**

F. Hervio　　　O. Hollum　　　H. Schuh

# Financial Statements

## Statement of Comprehensive Income for the year ended 31 December 2023

in EUR '000

| Revenue | Notes | 2023 | 2022 |
|---|---|---|---|
| Revenue from patent and procedural fees | (3) | 2 158 032 | 1 962 621 |
| Other revenue | (3) | 9 510 | 8 981 |
| Other operating income | (5) | 8 145 | 15 099 |
| Employee benefit expenses | (7) | (1 649 929) | (1 815 502) |
| Depreciation and amortisation expenses | (11)(12) | (69 231) | (64 481) |
| Other operating expenses | (8) | (253 329) | (251 734) |
| **Operating result** | | **203 198** | **(145 016)** |
| Finance revenue | (9) | 1 768 571 | 31 245 |
| Finance costs | (10) | (704 740) | (2 489 200) |
| **Financial result** | | **1 063 831** | **(2 457 955)** |
| **Profit / (loss) for the year** | | **1 267 029** | **(2 602 971)** |
| **Other comprehensive income** | | | |
| Items that will not be reclassified to profit or loss | | | |
| Remeasurement defined benefit obligations | (22) | (2 871 958) | 10 536 512 |
| Items that may be reclassified subsequently to profit or loss | | — | — |
| **Total comprehensive income/loss for the year** | | **(1 604 929)** | **7 933 541** |

The notes are an integral part of the financial statements.
Information on potential future national renewal fees is provided in Notes 2.5.3 and 4.

# Statement of Financial Position as at 31 December 2023

in EUR '000

| Assets | Notes | 2023 | 2022 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | (11) | 617 187 | 633 024 |
| Intangible assets | (12) | 39 585 | 38 685 |
| RFPSS financial assets | | 11 780 378 | 10 061 068 |
| RFPSS other assets | | 639 | 562 |
| RFPSS restricted cash | | 359 249 | 373 638 |
| RFPSS financial liabilities | | (7 852) | (4 325) |
| RFPSS other liabilities | | (112) | (199) |
| **RFPSS net assets** | (14) | **12 132 302** | **10 430 744** |
| Investments | (15) | 3 532 032 | 3 230 753 |
| Home loans to staff | (16) | 81 868 | 86 749 |
| Other financial assets | (17) | — | 80 000 |
| Other assets | (18) | 240 245 | 189 191 |
| **Total non-current assets** | | **16 643 219** | **14 689 146** |
| **Current assets** | | | |
| Trade and other receivables | (19) | 187 217 | 171 989 |
| Investments | (15) | 187 706 | — |
| Home loans to staff | (16) | 8 469 | 8 606 |
| Other financial assets | (17) | 115 360 | — |
| Prepaid expenses | (20) | 29 636 | 27 124 |
| Cash and cash equivalents | (21) | 155 425 | 163 120 |
| **Total current assets** | | **683 813** | **370 839** |
| **Total assets** | | **17 327 032** | **15 059 985** |

in EUR '000

| Equity and liabilities | Notes | 2023 | 2022 |
|---|---|---|---|
| **Equity** | | | |
| Retained earnings | | (2 465 097) | (3 732 126) |
| Other components of equity | | (3 331 250) | (459 292) |
| **Total equity** | | **(5 796 347)** | **(4 191 418)** |
| **Non-current liabilities** | | | |
| Defined benefit liability | (22) | 21 207 392 | 17 439 048 |
| Salary Savings Plan obligation | (23) | 239 977 | 188 906 |
| Other employee-related liabilities | (24) | 29 683 | 29 167 |
| Lease liabilities | (13) | 17 425 | 21 009 |
| Prepaid fees | (3) | 838 912 | 740 103 |
| **Total non-current liabilities** | | **22 333 389** | **18 418 233** |
| **Current liabilities** | | | |
| Other employee-related liabilities | (24) | 164 981 | 204 611 |
| Trade and other payables | (25) | 190 480 | 196 447 |
| Lease liabilities | (13) | 3 996 | 9 316 |
| Provisions | (26) | 6 025 | 6 480 |
| Prepaid fees | (3) | 424 508 | 416 316 |
| **Total current liabilities** | | **789 990** | **833 170** |
| **Total liabilities** | | **23 123 379** | **19 251 403** |
| **Total equity and liabilities** | | **17 327 032** | **15 059 985** |

The notes are an integral part of the financial statements.
Information on potential future national renewal fees is provided in Notes 2.5.3 and 4.

## Statement of Changes in Equity for the year ended 31 December 2023

in EUR '000

| | Issued capital | Reserves | | Total equity |
|---|---|---|---|---|
| | | Cumulative changes in equity not recognised through profit or loss | Retained earnings | |
| **Balance at 1 January 2022** | **—** | **(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)** |
| | | | | |
| **Changes in equity for 2023** | | | | |
| Remeasurement defined benefit obligations | | (2 871 958) | | (2 871 958) |
| Profit (loss) for the period | | | 1 267 029 | 1 267 029 |
| | | | | |
| **Balance at 31 December 2023** | **—** | **(3 331 250)** | **(2 465 097)** | **(5 796 347)** |

The notes are an integral part of the financial statements.
Information on potential future national renewal fees is provided in Notes 2.5.3 and 4..

# Statement of Cash Flows for the year ended 31 December 2023

in EUR '000

| Cash flows from operating activities | Notes | 2023 | 2022 |
|---|---|---|---|
| Cash receipts from Patent Applicants | (3) | 1 520 750 | 1 364 501 |
| Cash receipts from Member States – patent related | (3) | 752 718 | 720 172 |
| Cash receipts from Member States – reimbursement of VAT and other taxes | | 37 889 | 47 066 |
| Cash receipts from other users and other cash receipts | | 6 128 | 4 478 |
| Cash receipts from transfers of pension rights | (22) | 1 168 | 1 535 |
| **Total operating cash receipts** | | **2 318 653** | **2 137 752** |
| | | | |
| Payments to staff – salaries and allowances | (7) | (955 131) | (871 166) |
| Payments to pensioners and former staff | (22) | (362 537) | (317 180) |
| Payments to healthcare provider for staff and pensioners | (22) | (89 816) | (86 440) |
| Payments to the European School Munich | | (25 555) | (25 889) |
| Payments to suppliers of goods and services | | (322 128) | (295 206) |
| Net investments in Salary Savings Plan | (23) | (26 900) | (21 650) |
| Payment of fees to Extension and Validation States | (3) | (1 225) | (1 376) |
| **Total operating cash payments** | | **(1 783 292)** | **(1 618 907)** |
| **Cash Flow from operating activities** | | **535 361** | **518 845** |

| Cash flows from investing activities | Notes | 2023 | 2022 |
|---|---|---|---|
| Acquisition of tangible and intangible assets | (11)(12) | (53 756) | (51 930) |
| Proceeds from sale of assets | (11)(12) | — | 8 |
| Net statutory investments in RFPSS | (14) | (36 374) | (22 193) |
| Net voluntary investments in RFPSS | (14) | (239 000) | (170 000) |
| Net investments in EPOTIF | (15) | — | (80 000) |
| Home Loans granting | (16) | (5 160) | (8 937) |
| Home Loans repayment | (16) | 11 068 | 12 497 |
| Home Loans interest payment | (16) | 643 | 617 |
| Net investments in bank deposits | (17) | (35 360) | (80 000) |
| Net investments in bonds | (15) | (185 335) | — |
| Interest from deposit and current account | (9) | 10 042 | 480 |
| **Cash flow from Investing activities** | | **(533 232)** | **(399 458)** |

| Cash flows from financing activities | Notes | 2023 | 2022 |
|---|---|---|---|
| Interest paid | | (378) | (549) |
| Repayment of lease liabilities | (13) | (9 446) | (15 873) |
| **Cash flow from Financing activities** | | **(9 824)** | **(16 422)** |

| | | | |
|---|---|---|---|
| **Net increase/(decrease) in cash and cash equivalents** | | **(7 695)** | **102 965** |
| **Cash and cash equivalents net of bank overdrafts at the beginning of the period** | | **163 120** | **60 155** |
| Effect of exchange rate changes on cash and cash equivalents | | | |
| **Cash and cash equivalents net of bank overdrafts at the end of the period** | | **155 425** | **163 120** |

The notes are an integral part of the financial statements.
Information on potential future national renewal fees is provided in 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 15 April 2024.

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 where 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. Material accounting policy information

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. They 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 indicated otherwise.

In accordance with IFRS 8 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)**

**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. The amendments are applicable to reporting periods beginning on or after 1 January 2023.

**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. The amendments are applicable to reporting periods beginning on or after 1 January 2023.

The amendments have no material impact on the financial statements of the EPO.

**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 S1 General Requirements for Disclosure of Sustainability-related Financial Information**
IFRS S1 sets out overall requirements for sustainability-related financial disclosures with the objective to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity. It is applicable to reporting periods beginning on or after 1 January 2024. It will have no impact on the EPO accounts.

**IFRS S2 Climate-related Disclosures**
IFRS S2 sets out the requirements for identifying, measuring and disclosing information about climate-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity. It is applicable to reporting periods beginning on or after 1 January 2024. 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. It will have no 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 will have no 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.

**Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)**
The amendments add disclosure requirements, and "signposts" within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements. It is applicable to reporting periods beginning on or after 1 January 2024. It will have no impact on the EPO accounts.

**Lack of Exchangeability (Amendments to IAS 21)**
The amendments contain guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not. It is applicable to reporting periods beginning on or after 1 January 2025. The EPO has not yet evaluated the impact of this pronouncement.

**Interpretations and amendments to existing standards which became effective in 2023 but are not relevant for the Organisation's operations.**

**IFRS 17 – Insurance Contracts.**
IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. The standard has an effective date of 1 January 2023.

**Amendments to IFRS 17**
The amendments address concerns and implementation challenges that were identified after IFRS 17 Insurance Contracts was published in 2017. The amendments are applicable to reporting periods beginning on or after 1 January 2023.

**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 amendments are applicable to reporting periods beginning on or after 1 January 2023.

**International Tax Reform — Pillar Two Model Rules (Amendments to IAS 12)**
The amendments provide a temporary exception to the requirements regarding deferred tax assets and liabilities related to pillar two income taxes. The amendments are applicable to reporting periods beginning on or after 1 January 2023.

## 2.2 Consolidation

Although the Reserve Funds for Pensions and Social Security (RFPSS) has 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 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 changes in life expectancy. The mortality table applied by the Office is the International Civil Servants Life Table (ICSLT) produced by the OECD's International Service for Remunerations and Pensions (ISRP) which is a table specific to international civil servants based in Europe.

In 2023, the EPO's Actuarial Advisory Group (AAG) confirmed the application of an EPO-specific mortality table based on the standard ICSLT 2018 mortality table as well as the recalibration of the specific longevity trend for the EPO pensioner population and its limiting to 10 years. Both changes were already introduced in the 2019 AAG study and confirmed in the 2021 AAG study.

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 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. This 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. 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.

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 by transferring the service. Costs are expensed as incurred. Fees received as payment for services for which the performance obligation has not yet been 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 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 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 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 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, 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, 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) EPC communication issued by the examining division, even if the applicant has already replied, or, in the case of a direct grant (a grant with no previous Article 94(3) EPC communication), before the date on which the Rule 71(3) EPC 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 satisfied once the patent is published.

- **Opposition fees:** the underlying performance obligation is satisfied once the opposition proceedings have been closed, which is once a final decision by the opposition division has been communicated to the parties.

- **Appeal fees:** the underlying performance obligation is satisfied once the appeal proceedings have been closed, which is once a final decision by the board of appeal has been communicated to the parties.

- **Limitation fees:** the underlying performance obligation is 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 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 performed by the EPO at the date of filing, before payment of the fee is due.

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

  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. The fees are recognised as revenue on receipt and are not spread across financial periods where the renewal period runs across two calendar years. 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, which is 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. The EPO 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, the patent proprietor has the option to validate the patent in the Contracting States designated during the patent grant procedure. As a result, renewal fees for subsequent years 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 must 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 based on cash received before year-end closure. Amounts not received by the year-end closure are accrued using estimates based on the average amount received in the first three quarters of the year.

### 2.5.1.4 Patent fees for granted European Patents with unitary effect

As of June 1, 2023, after the publication of a European patent in the European Patent Bulletin, the patent proprietor has the possibility to request unitary patent protection to the EPO within one month after said publication. Patents with unitary effect will be protected within the 17 EU Member States that have ratified the Agreement on the Unified Patent Court (UPC Agreement) providing uniform patent protection in these Member States.

It is expected that more EU Member States will ratify the UPC Agreement in the coming years, so that eventually a patent with unitary effect could benefit from the unified patent protection in up to 25 EU Member States.

Fees relating to patents with unitary effect include renewal fees, any additional fees for their belated payment, fees for re-establishment of rights and administrative fees. These fees are paid in full by the patent proprietor to the EPO and are partly distributed to the participating Member States on a quarterly basis. The participating Member States receive 50% share of the renewal fees and of any additional fees for their late payment (Article 147 EPC), whereas, the costs for the administration of the unitary patent incurred by the European Patent Organisation for the additional tasks shall be borne in their entirety by the participating Member States in line with Art 146 EPC.

The costs incurred by the European Patent Organisation for the additional tasks entrusted to the EPO are disclosed under Other Operating Income, see Note 5.

**Principles of revenue recognition for patent fees for granted European patents with unitary effect**

Payment of renewal fees for patents with unitary effect is not subject to the EPO's fulfilment of a performance obligation. Renewal fees are due yearly in advance, and in respect of the years following the year in which the European Patent receives unitary effect. The fees are recognised as revenue on receipt and are not spread across financial periods where the renewal period runs across two calendar years.

Renewal fees validly paid not more than three months before the due date under Rule 13(2) of the rules related to Unitary Patent Protection (UPR) are refundable and therefore the EPO's share of 50% is recognised as a prepayment.

Administrative fees and fees for the re-establishment of rights are allocated in full to the participating Member States and do not constitute revenue for the EPO.

#### 2.5.1.5 Searches for National Offices and third parties

Revenue from **searches for national offices and third-parties** are recognised upon satisfaction of the corresponding performance obligation, which is 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, which is 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 which is 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 by explicitly taking into account potential national renewal fees for granted patents when fixing its fees for the specific services delivered in the grant procedure.

Since there is no legal obligation for the patentee to maintain the patent for the maximum term of 20 years by paying the renewal fees, 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 is 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 based on 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 at the balance sheet date, and their life expectancy in the 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 period in which they arise in the financial result section of the Statement of Comprehensive Income.

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.

Right-of-use assets are included 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 for 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 are capitalised at cost. Following initial recognition, an intangible asset is carried at its cost less accumulated amortisation. Amortisation is allocated on a straight-line basis over the useful life of the asset. 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.

Acquired software is amortised over a period of 3-5 years. The amortisation period of acquired, and internally developed, 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.

Internally generated intangible assets are capitalised if they meet the following 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 total internal and external costs over the project life exceed EUR 3m.

The costs of internally generated intangible assets comprise:

- the cost of services used in generating the asset. This comprises fees for IT consultants, the purchase price of development software and hardware;
- the cost of internal employees involved in generating the asset. This includes salaries allocated to the project based on the time used by internal staff for development activities and recorded in an IT-based system;
- other directly attributable internal costs of materials, services and depreciation incurred in generating the asset;
- programme management cost;
- borrowing cost, if any.

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

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

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets not yet ready for use are reviewed for impairment at each reporting date. 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 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 are recognised as income or expense in the Statement of Comprehensive Income.

## 2.11 Other assets

Other assets consist of assets held under the Salary Savings Plan (SSP) as well as assets held to finance the obligations towards beneficiaries of the former Institut International des Brevets (ex-IIB).

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 23. A corresponding liability is recognised and presented separately as the Salary Savings Plan obligation in the Statement of Financial Position.

The repurchase value of insurance contracts agreed between the 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

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. The EPO applies IFRS 9 to the reporting of financial instruments.

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 is 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 Master KVG, i.e., the capital management company in charge of the fund administration.

**Bonds**

The bonds portfolio is managed, evaluated, and measured on a fair value basis and is not held to collect contractual cash flows. Consequently, bonds are measured at fair value through profit and loss.

All bonds owned by the EPO are actively traded in the market. At initial recognition, the instruments in this category are measured at fair value. After initial recognition bonds are valued at the market close price on the balance sheet date. Gains or losses are recognised in the Statement of Comprehensive Income in the financial result section.

**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 restricted cash is cash and cash equivalents used for the purchase or received from the sale of RFPSS investments. RFPSS restricted cash comprises cash at bank, short-term deposits 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 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**

RFPSS other liabilities comprise amounts payable for the purchase of RFPSS assets, as well as other trade payables.

**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 the 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 Asset Value as published by Master KVG, the capital management company in charge of the fund administration.
- 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 at 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 beneficiaries as described in Note 22.2.1 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 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 under Current Liabilities as other employee-related liabilities. 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 (see Note 2.15.3)
- an LTC plan (see Note 2.15.4)
- a sickness insurance for pensioners (see Note 2.15.4)
- a death insurance involving lump-sum payments (see Note 2.15.4).

In 2023 an extension of the recognition of registered partnerships has been decided leading to amendments to the Service Regulations as well as to the Pension Regulations. Registered partnerships, both same-sex and mixed-sex, are treated the same as marriages, giving access to the same entitlements and being subject to the same obligations. The extension of the recognition of registered partnerships triggered past service costs which are reflected in 2023, see Note 7.

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 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 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 related adjustment 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.

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. 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 total in the period in which they occur, 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. The payments reimbursing the plan participants' medical costs in line with the insurance contract are made directly by Cigna on behalf of the EPO to the beneficiaries (self-insurance model). 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 a 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, in the event of death beneficiaries receive a lump sum based on the deceased's last salary. 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 and are settled after a three-year period. These regular cash-settlements do not affect the actuarial present value of the death obligation. 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.

### 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 to be received by the beneficiaries is recognised as an obligation included within 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 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.

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

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 under non-current liabilities.

### 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 under current and non-current liabilities.

## 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 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.

# 3. Revenue from contracts with customers

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

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

The revenue breaks down into the following categories:

in EUR '000

| Revenue from patent and procedural fees | 2023 | 2022 |
|---|---|---|
| Procedural fees related to the patent grant process (Note 3.2) | 1 400 101 | 1 241 729 |
| National renewal fees for granted patents | 702 716 | 663 066 |
| Renewal fees for granted patents with unitary effect | 1 529 | — |
| Searches for national offices and third parties | 53 686 | 57 826 |
| **Total** | **2 158 032** | **1 962 621** |

| Other revenue | 2023 | 2022 |
|---|---|---|
| Patent information services and products | 7 170 | 6 951 |
| Administrative fees | 2 340 | 2 030 |
| **Total** | **9 510** | **8 981** |

## 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 | 2023 | 2022 |
|---|---|---|
| Filing – EPC and Euro-PCT | 83 496 | 77 113 |
| Searches – EP and Euro-PCT | 158 955 | 178 278 |
| International searches – PCT | 124 982 | 126 087 |
| Examination – EPC and Euro-PCT | 240 888 | 177 651 |
| International preliminary examination – PCT | 9 250 | 9 707 |
| Grant – EP and Euro-PCT | 107 216 | 79 971 |
| Opposition | 3 110 | 3 914 |
| Appeal | 7 500 | 7 109 |
| Designation, extension, and validation fees | 114 922 | 109 638 |
| Renewal fees for patent applications | 544 914 | 467 603 |
| Others | 4 868 | 4 658 |
| **Total** | **1 400 101** | **1 241 729** |

## 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 | 2023 | 2022 |
| --- | --- | --- |
| Receivables included in "Trade and other receivables" (see Note 19) | 157 802 | 148 464 |
| Prepaid fees | 1 263 420 | 1 156 419 |
| Refund liabilities included in "Trade and other payables" (see Note 25) | 9 969 | 8 874 |

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

in EUR '000

| Prepaid fees | Opening balance 01.01.2023 | 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 31.12.2023 |
| --- | --- | --- | --- | --- |
| Filing – EPC and Euro-PCT | 20 138 | (19 815) | 21 518 | 21 841 |
| Searches – EP and Euro-PCT | 132 576 | (103 788) | 142 659 | 171 447 |
| International searches – PCT | 37 104 | (35 968) | 34 000 | 35 136 |
| Examination – EPC and Euro-PCT | 916 638 | (230 186) | 297 458 | 983 910 |
| International preliminary examination – PCT | 3 726 | (3 610) | 3 533 | 3 649 |
| Grant – EP and Euro-PCT | 8 512 | (8 242) | 12 184 | 12 454 |
| Opposition | 5 104 | (2 922) | 2 016 | 4 197 |
| Appeal | 19 262 | (7 349) | 4 665 | 16 578 |
| Others | 13 360 | (12 840) | 13 688 | 14 208 |
| **Total** | **1 156 419** | **(424 720)** | **531 721** | **1 263 420** |

in EUR '000

| 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 | 37 104 |
| Examination – EPC and Euro-PCT | 798 155 | (170 241) | 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** | **(381 007)** | **500 278** | **1 156 419** |

The prepaid fees balances correspond to the transaction price allocated to the remaining performance obligations from contracts with customers. Minor modifications to the transaction price are possible if the patent applicant amends the number 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.

As an indication, refunds paid out in the reporting period due to the use of previous search reports were:

- For European and Euro-PCT searches: EUR 17.3m (2022: EUR 16.0m), which is 12% (2022: 10%) of the annual revenue for this product category.
- For international PCT searches: EUR 41.3m (2022: EUR 40.9m), which is 36% (2022: 36%) 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 a performance obligation. Refunds may fall due depending on whether the examiner has started work when the cancellation takes effect.

As an indication, refunds paid in the reporting period due to active or passive withdrawal by the applicant were:

- For examination: EUR 24.6m (2022: EUR 20.2m), which is 11% (2022: 12%) of the annual revenue for this product category.
- For European and Euro-PCT searches: EUR 2.3m (2022: EUR 1.9m), which is 2% (2022: 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 in place at the balance sheet date for its two main products, search and examination, within:

- 5.8 months (2022: 4.1 months) for searches – EP, Euro-PCT and international searches – PCT,
- 32.1 months (2022: 41.3 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 potential future national renewal fees for European patents was EUR 5 325m (2022: EUR 4 884m).

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 currently observed behaviour of patent proprietors in the post-grant phase.

The discount rates applied in 2023 to the expected cash flows range between 2.97% and 3.57% (2022: between 2.98% and 3.90%). A one percentage point increase in the discount rates applied would result in a decrease of EUR 272m (2022: EUR 245m) 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 | 2023 | 2022 |
|---|---|---|
| Member States share of Unitary Patent administration costs | 2 145 | — |
| Fees for European Qualifying Examination | 1 450 | 1 691 |
| Income from refund of energy tax | 666 | 1 068 |
| Reimbursement additional site costs Berlin | 476 | 666 |
| Rental income | 451 | 512 |
| Release accruals from prior years | 334 | 9 465 |
| Tuition fees of EPO Academy | 166 | 240 |
| Other | 2 457 | 1 457 |
| **Total** | **8 145** | **15 099** |

## 6. Operating leases – the EPO as lessor

The EPO has entered into several minor agreements to lease out limited parts of office premises. All these contracts are classified as operating leases with fixed payments subject to periodical adjustments for inflation. The income from these contracts in 2023, including rent and charges, was EUR 451k (2022: EUR 512k).

At 31 December 2023, the maturity of all non-cancellable lease payments (undiscounted) to be received by the EPO does not exceed one year and amounts to EUR 378k (31 December 2022: EUR 439k):

## 7. Employee benefit expenses

in EUR '000

| Employee benefit expenses | 2023 | 2022 |
|---|---|---|
| Current service cost (net of staff contributions) | 381 033 | 809 607 |
| Basic salaries | 817 091 | 742 669 |
| Allowances and other benefits | 215 902 | 185 919 |
| Healthcare and other cost of social security | 34 845 | 36 009 |
| School and day-care centres | 26 083 | 26 423 |
| Past service costs | 149 358 | 1 219 |
| Remuneration of other employees | 10 806 | 7 584 |
| Training | 3 326 | 3 323 |
| Other | 11 485 | 2 749 |
| **Total** | **1 649 929** | **1 815 502** |

Detailed information on current service cost is presented in Note 22.

Past service costs in 2023 result from the extension of the recognition of registered partnerships (EUR 148m) and from transfers of pension rights (EUR 1m). Further information on extension of the recognition of registered partnerships is provided in Note 2.15.2.

## 8. Other operating expenses

in EUR '000

| Other operating expenses | 2023 | 2022 |
|---|---|---|
| IT maintenance | 120 811 | 129 100 |
| Property and equipment maintenance | 43 551 | 36 850 |
| Consultancy and other external services | 35 279 | 34 480 |
| Patent information and public relations | 18 843 | 15 369 |
| Co-operation and meetings | 16 332 | 16 149 |
| Documentation | 12 467 | 11 673 |
| Postage and telecommunications | 2 066 | 2 141 |
| Travel | 842 | 432 |
| Charges on payment by credit card | 634 | 572 |
| Damages | 268 | 701 |
| Other | 2 236 | 4 267 |
| **Total** | **253 329** | **251 734** |

## 9. Finance revenue

in EUR '000

| Finance revenue | 2023 | 2022 |
|---|---|---|
| Interest income from bank accounts and deposits | 11 580 | 1 201 |
| Interest income from home loans | 2 097 | 2 205 |
| Valuation gains on investments | 303 650 | — |
| Valuation gains on RFPSS financial instruments | 1 425 035 | — |
| Valuation gains on assets Salary Savings Plan | 26 209 | — |
| Decrease obligation Salary Savings Plan | — | 27 839 |
| **Total** | **1 768 571** | **31 245** |

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

## 10. Finance costs

in EUR '000

| Finance costs | 2023 | 2022 |
|---|---|---|
| Interest costs on defined benefit obligations | 678 153 | 360 647 |
| 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 | 26 209 | — |
| Interest costs lease | 378 | 549 |
| Other | — | 1 |
| **Total** | **704 740** | **2 489 200** |

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

| | Land | Buildings | Office equipment | Total |
|---|---|---|---|---|
| **Cost at 1 January 2023** | **174 732** | **1 134 009** | **134 694** | **1 443 435** |
| Additions | — | 40 811 | 4 492 | 45 303 |
| Disposals/Retirements | — | (13 793) | (21 321) | (35 114) |
| Transfers | — | (27) | 27 | — |
| **Cost 31 December 2023** | **174 732** | **1 161 000** | **117 892** | **1 453 624** |
| | | | | |
| Accumulated depreciation 1 January 2023 | — | (699 399) | (111 012) | (810 411) |
| Depreciation for the year | — | (35 269) | (13 445) | (48 714) |
| Disposals/Retirements | — | 13 794 | 21 316 | 35 110 |
| Transfers | — | — | — | — |
| Reversal of impairment loss | — | — | — | — |
| **Accumulated depreciation 31 December 2023** | **—** | **(720 874)** | **(103 141)** | **(824 015)** |
| | | | | |
| Impairment loss for the year | — | (12 422) | — | (12 422) |
| **Accumulated impairment 31 December 2023** | — | (12 422) | — | (12 422) |
| | | | | |
| Net carrying value 1 January 2023 | 174 732 | 434 610 | 23 682 | 633 024 |
| **Net carrying value 31 December 2023** | **174 732** | **427 704** | **14 751** | **617 187** |
| | | | | |
| Including construction in progress | | | | |
| 1 January 2023 | — | 28 818 | — | 28 818 |
| 31 December 2023 | — | 29 600 | — | 29 600 |

The additions to buildings in 2023 include EUR 18 681k for the Vienna Green Hub project, EUR 16 566k for various building renovation projects in Munich, and EUR 4 468k for renovation works in The Hague.

The EPO building in Vienna has been stripped down to its original structural concrete skeleton and is undergoing renovation to the highest environmental standards to provide a carbon-negative building with a carbon-neutral lifecycle. The cumulative cost of the construction in progress for the Vienna Green Hub is EUR 20 914k at 31 December 2023.

The impairment loss in 2023 relates to the Shell building in the Hague, which has been idle since end of 2023. Built in 1978, the Shell building would require disproportionately high investments to reduce its high maintenance and energy costs; making it economically and environmentally unviable for further use. Consequently, the book value of the Shell building is no longer supported by any recoverable amount.

The retirements of buildings in 2023 relate primarily to technical installations. The retirements of office equipment in 2023 include fully amortised IT hardware.

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 and the New Main building in The Hague were 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 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 with a value of EUR 16 015k. Additions to office equipment in 2022 include EUR 3 834k for the purchase of network storage hardware.

The retirements of office equipment in 2022 include EUR 7 287k for the decommissioning of mainframe and related hardware components.

Buildings include construction in progress 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.

## 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 2023 | 13 336 | 720 | 95 562 | 109 618 |
| Additions | 5 | — | 8 990 | 8 995 |
| Disposals | (2 019) | — | (5 120) | (7 139) |
| Transfers | — | — | — | — |
| **Cost at 31 December 2023** | **11 322** | **720** | **99 432** | **111 474** |
| | | | | |
| Accumulated amortisation 1 January 2023 | **(12 523)** | **(719)** | **(57 691)** | **(70 933)** |
| Amortisation for the year | (319) | — | (7 776) | (8 095) |
| Amortisation disposals | 2 019 | — | 5 120 | 7 139 |
| Amortisation transfers | — | — | — | — |
| **Accumulated amortisation 31 December 2023** | **(10 823)** | **(719)** | **(60 347)** | **(71 889)** |
| | | | | |
| Net carrying value 1 January 2023 | 813 | 1 | 37 871 | 38 685 |
| **Net carrying value 31 December 2023** | **499** | **1** | **39 085** | **39 585** |
| | | | | |
| Including construction in progress | | | | |
| 1 January 2023 | — | — | 28 406 | 28 406 |
| 31 December 2023 | — | — | 1 875 | 1 875 |

Additions to internally generated systems in 2023 relate to IT developments within the framework of the Strategic Plan 2023. The primary contributors were the WIPO Data Exchange and Classification 2.0 programs, with investments totalling EUR 3 081k and EUR 2 506k, respectively.

The decrease of construction in progress by EUR 26 531k in 2023 results from the completion of IT development projects including EUR 6 226k for the Search Platform, EUR 5 686k for the new Electronic Filling, and EUR 2 902k for the Digital File Repository.

The disposal of internally generated systems primarily pertains to the NACM that had an initial construction cost of EUR 4 167k and was fully amortised at the time of disposal. Additionally, in 2023, there were disposals of acquired software, which encompassed various software licenses that were no longer used and had already been fully amortised.

The EPO invests in the development of information systems to support its operations. The amounts capitalised for internally generated systems include only external costs. All internally generated systems developed in the reporting period and included in construction in progress were 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 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 a cost 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 a cost of EUR 22 028k.

## 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 2023 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 the 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 2023 | **23 862** | **5 959** | **29 821** |
| Additions | 58 | — | 58 |
| Changes in assumptions | 484 | — | 484 |
| Depreciation | (3 628) | (5 959) | (9 587) |
| **Balance at 31 December 2023** | **20 776** | **—** | **20 776** |

Changes in assumptions in 2023 reflect the increase in the indexed price for the lease of the data centre facilities in Luxemburg.

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

in EUR '000

| Financial position statement of comprehensive income | 2023 | 2022 |
|---|---|---|
| Interest on lease liabilities | 378 | 549 |
| Expenses relating to leases of short term & low-value assets | 903 | 597 |
| **Total** | **1 281** | **1 146** |

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

in EUR '000

| Cash outflows for leases | 2023 | 2022 |
|---|---|---|
| | | |
| **Total** | **10 689** | **16 423** |

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

in EUR '000

| Undiscounted lease liabilities | 2023 | 2022 |
|---|---|---|
| Less than 1 year | 4 287 | 9 684 |
| Between 1 years and 5 years | 11 775 | 13 874 |
| Over 5 years | 6 491 | 8 221 |
| **Total** | **22 553** | **31 779** |

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 relating to buildings contain standard provisions according to which future lease payments are increased periodically to reflect changes in 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 was as follows:

in EUR '000

| 2023 | Pensions | LTC | Sickness insurance | Total |
|---|---|---|---|---|
| RFPSS financial assets | 10 562 144 | 312 786 | 905 448 | **11 780 378** |
| RFPSS other assets | 573 | 17 | 49 | **639** |
| RFPSS restricted cash | 322 099 | 9 539 | 27 611 | **359 249** |
| RFPSS financial liabilities | (7 039) | (208) | (605) | **(7 852)** |
| RFPSS other liabilities | (100) | (3) | (9) | **(112)** |
| **Total** | **10 877 677** | **322 131** | **932 494** | **12 132 302** |

in EUR '000

| 2022 | Pensions | LTC | Sickness 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** |

Major categories of RFPSS net assets are as follows:

| Asset class share in % | 2023 | 2022 |
|---|---|---|
| Domestic government bonds | 10.8% | 10.6% |
| Domestic corporate bonds | 6.8% | 6.8% |
| Foreign bonds | 7.7% | 7.2% |
| Emerging market bonds | 9.7% | 9.6% |
| Domestic equities | 15.9% | 17.4% |
| Foreign equities | 25.6% | 24.9% |
| Emerging markets | 9.6% | 9.7% |
| Real estate | 11.1% | 9.9% |
| Commodities | 0.0% | 0.0% |
| Cash holdings | 2.8% | 3.9% |
| **Total** | **100.0%** | **100.0%** |

## 15. Investments

The EPO invests its excess liquidity through the EPO Treasury Investment Fund (EPOTIF) and investments in bonds.

**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.

**Bonds**

EPO invests in government and corporate bonds with an investment grade rating and a duration to maturity not exceeding 3 years.

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

in EUR '000

| Investments | 2023 | 2022 |
|---|---|---|
| EPO Treasury Investment Fund (EPOTIF) | 3 532 032 | 3 230 753 |
| Bonds, non-current | — | — |
| Bonds, current | 187 706 | — |
| **Total** | **3 719 738** | **3 230 753** |

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

| Percentage share in Net Assets Value | 2023 | 2022 |
|---|---|---|
| Equities | 17.2% | 15.9% |
| Profit Participation Certificates (Equities) | 0.1% | 0.2% |
| Dividend Claims | 0.1% | 0.1% |
| Equity-Index Futures | 0.3% | -0.1% |
| Equity Funds | 18.8% | 18.0% |
| Bonds | 28.7% | 30.4% |
| Bond Futures | 0.1% | 0.0% |
| Fixed-Income Funds | 21.3% | 22.4% |
| Commodity Funds | 0.5% | 0.6% |
| Currency Forwards | 0.4% | 0.9% |
| Other Funds | 7.4% | 7.0% |
| Cash | 5.1% | 4.6% |
| **Total** | **100.0%** | **100.0%** |

Net gains and losses on investments were as follows:

in EUR '000

| Net gains and losses on investments | 2023 | 2022 |
|---|---|---|
| Financial assets at fair value through P&L | | |
| Valuation gains or losses | 303 650 | (469 777) |
| **Total** | **303 650** | **(469 777)** |

## 16. Home loans to staff

in EUR '000

| Home loans to staff | 2023 | 2022 |
|---|---|---|
| Home loans non-current | 81 868 | 86 749 |
| Home loans current | 8 469 | 8 606 |
| **Total** | **90 337** | **95 355** |

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 2023 the net loss due to the revaluation of new home loans to fair value amounted to EUR 565k (2022: EUR 1 020k). 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 date beyond 3 months.

in EUR '000

| Other financial assets | 2023 | 2022 |
|---|---|---|
| Other financial assets non-current | — | 80 000 |
| Other financial assets current | 115 360 | — |
| **Total** | **115 360** | **80 000** |

The annualised effective interest rate achieved in 2023 on fixed-term deposits was 2.86% (2022: 0.95%).

## 18. Other assets

in EUR '000

| Other assets | 2023 | 2022 |
|---|---|---|
| Assets Salary Savings Plan (SSP) | 239 977 | 188 906 |
| Repurchase value insurance funds ex-IIB | 268 | 285 |
| **Total** | **240 245** | **189 191** |

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

| Trade receivables | 2023 | 2022 |
|---|---|---|
| Trade receivables – renewal fees | 150 659 | 143 342 |
| Trade receivables – EPO products and services | 7 143 | 5 122 |
| **Total trade receivables** | **157 802** | **148 464** |
| | | |
| **Other receivables** | | |
| Other receivables – tax | 24 489 | 19 075 |
| Other receivables – staff and related accounts | 1 887 | 737 |
| Other receivables – others | 3 039 | 3 713 |
| **Total other receivables** | **29 415** | **23 525** |
| **Total trade and other receivables** | **187 217** | **171 989** |

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

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

Other receivables – others mainly consists of accrued income on bonds and fixed-term deposits, and advances to suppliers.

## 20. Prepaid expenses

in EUR '000

| Prepaid expenses | 2023 | 2022 |
|---|---|---|
| Prepaid employee-related expenses | 14 498 | 13 796 |
| Prepaid software expenses | 15 138 | 13 328 |
| Prepaid other expenses | — | — |
| **Total** | **29 636** | **27 124** |

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

## 21. Cash and cash equivalents

The assets reported under Cash and Cash Equivalents have a maturity of three months or less and comprise the following:

in EUR '000

| Cash and cash equivalents | 2023 | 2022 |
|---|---|---|
| Short-term bank deposits | 145 000 | 150 000 |
| Cash at bank | 10 425 | 13 120 |
| **Total** | **155 425** | **163 120** |

# 22. Defined benefit liability

in EUR '000

| Accounting for 2023 | Pension obligation | Long-term care insurance | Sickness insurance | Death | Total |
|---|---|---|---|---|---|
| Discount rate | 3.26% | 3.27% | 3.27% | 3.15% | |
| Future salaries increase | 2.20% | 2.20% | | 2.20% | |
| Future pensions increase | 2.20% | | | | |
| Medical costs inflation | | | 2.52% | | |
| Present value of obligation 01.01.2023 | 15 053 910 | 592 557 | 1 763 756 | 28 825 | 17 439 048 |
| Interest cost | 584 547 | 23 421 | 69 142 | 1 043 | 678 153 |
| Current service cost | 428 515 | 16 600 | 27 546 | 1 669 | 474 330 |
| Past service costs | 117 053 | 12 111 | 20 194 | — | 149 358 |
| Transfer of pension rights | 1 168 | — | — | — | 1 168 |
| Benefits paid | (361 055) | (8 176) | (35 498) | (1 894) | (406 623) |
| Remeasurements on obligation | 2 163 425 | 276 764 | 430 211 | 1 558 | 2 871 958 |
| **Present value of obligation 31.12.2023** | **17 987 563** | **913 277** | **2 275 351** | **31 201** | **21 207 392** |
| Unrecognised past service costs | — | — | — | — | — |
| **Liability recognised in the Statement of Financial Position** | **17 987 563** | **913 277** | **2 275 351** | **31 201** | **21 207 392** |
| Amounts recognised in the Statement of Comprehensive Income | | | | | |
| Interest cost | 584 547 | 23 421 | 69 142 | 1 043 | 678 153 |
| Current service cost | 428 515 | 16 600 | 27 546 | 1 669 | 474 330 |
| Past service costs | 117 053 | 12 111 | 20 194 | — | 149 358 |
| Staff contributions | (85 943) | (6 330) | — | (741) | (93 014) |
| **Recognised in the Statement of Comprehensive Income** | **1 044 172** | **45 802** | **116 882** | **1 971** | **1 208 827** |

in EUR '000

| Accounting for 2022 | Pension obligation | Long-term care insurance | Sickness insurance | Death | 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** |

in EUR '000

| Accounting for 2021 | Pension obligation | Long-term care insurance | Sickness insurance | Death | 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 | | | | | |
| 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 |
| Staff contributions | (77 055) | (6 910) | — | (733) | (84 698) |
| **Recognised in the Statement of Comprehensive Income** | **1 084 784** | **53 498** | **141 625** | **1 661** | **1 281 568** |

in EUR '000

| Accounting for 2020 | Pension obligation | Long-term care insurance | Sickness insurance | Death | 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 | | | | | |
| 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

| Accounting for 2019 | Pension obligation | Long-term care insurance | Sickness insurance | Death | 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** |

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

in EUR '000

| | 2023 | 2022 |
|---|---|---|
| Pension benefits | | |
| Office contributions | 171 886 | 151 897 |
| Staff contributions | 85 943 | 75 948 |
| LTC benefits | | |
| Office contributions | 11 838 | 12 790 |
| Staff and pensioners' contributions | 6 330 | 6 882 |
| Post-employment medical care | | |
| Office contributions for pensioners | 18 149 | 14 310 |
| Pensioners' contributions | 9 114 | 7 190 |
| Death | | |
| Office contributions | 1 150 | 1 960 |
| Staff contributions | 741 | 1 259 |
| **Total** | **305 151** | **272 236** |

The Office and staff contributions for the next annual reporting period are expected to be EUR 324m.

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

in EUR '000

| | 2023 | 2022 |
|---|---|---|
| Retirement pension / Retirement pensions for health reasons | 14 477 164 | 12 090 587 |
| Tax adjustment | 2 870 126 | 2 420 130 |
| Family allowances | 640 273 | 543 193 |
| **Total** | **17 987 563** | **15 053 910** |

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

in EUR '000

| | 2023 | 2022 |
|---|---|---|
| Pension obligation | | |
| Active staff | 10 785 313 | 8 841 977 |
| Deferred pensioners | 95 174 | 80 334 |
| Pensioners | 7 107 076 | 6 131 599 |
| LTC insurance | | |
| Active staff | 454 973 | 283 648 |
| Deferred pensioners | 768 | 629 |
| Pensioners | 457 536 | 308 280 |
| Sickness insurance | | |
| Active staff | 1 505 169 | 1 144 698 |
| Deferred pensioners | 2 384 | 2 398 |
| Pensioners | 767 798 | 616 660 |
| Death insurance | | |
| Active staff | 31 201 | 28 825 |
| Deferred pensioners | — | — |
| Pensioners | — | — |
| **Total** | **21 207 392** | **17 439 048** |

## 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% (2022: 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 2023 projection) produced by the ISRP which is a table specific to international civil servants based in Europe.

The medical cost inflation applied is 2.52% (2022: 2.50%).

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

| | 2023 | 2022 |
|---|---|---|
| Pension obligation | | |
| Actuarial (gain) loss from changes in financial assumptions | 2 051 995 | (10 309 296) |
| Actuarial (gain) loss from changes in experience and demographic assumptions | 111 430 | 1 816 973 |
| | | |
| LTC insurance | | |
| Actuarial (gain) loss from changes in financial assumptions | 151 919 | (585 125) |
| Actuarial (gain) loss from changes in experience and demographic assumptions | 124 845 | 68 915 |
| | | |
| Sickness insurance | | |
| Actuarial (gain) loss from changes in financial assumptions | 314 601 | (1 436 878) |
| Actuarial (gain) loss from changes in experience and demographic assumptions | 115 609 | (88 239) |
| | | |
| Death | | |
| Actuarial (gain) loss from changes in financial assumptions | 1 113 | (6 374) |
| Actuarial (gain) loss from changes in experience and demographic assumptions | 446 | 3 512 |
| **Total** | **2 871 958** | **(10 536 512)** |

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

| At 31 December 2023 | 0.1 percentage point increase | 0.1 percentage point decrease |
|---|---|---|
| Present value pension obligation | 17 653 694 | 18 330 648 |
| Present value LTC insurance | 889 163 | 938 231 |
| Present value sickness insurance | 2 224 995 | 2 327 253 |
| Present value death | 31 007 | 31 398 |

in EUR '000

| At 31 December 2022 | 0.1 percentage point increase | 0.1 percentage point decrease |
|---|---|---|
| Present value pension obligation | 14 787 303 | 15 327 642 |
| Present value LTC insurance | 578 429 | 608 753 |
| Present value sickness insurance | 1 726 475 | 1 802 146 |
| Present value death | 28 648 | 29 004 |

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

| At 31 December 2023 | One year increase in life expectancy |
|---|---|
| Present value pension obligation | 18 523 454 |
| Present value LTC insurance | 987 349 |
| Present value sickness insurance | 2 345 446 |
| Present value death | 27 916 |

in EUR '000

| 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 insurance | 25 810 |

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

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

in EUR '000

| At 31 December 2023 | Less than 1 year | Between 1-5 years | Over 5 years |
|---|---|---|---|
| Pension obligation, net of tax adjustment | 335 381 | 1 615 733 | 28 774 969 |
| LTC insurance | 8 508 | 43 902 | 2 396 347 |
| Sickness insurance | 31 017 | 155 991 | 5 049 568 |
| Death | 3 846 | 12 526 | 22 283 |
| **Total** | **378 752** | **1 828 152** | **36 243 167** |

in EUR '000

| At 31 December 2022 | Less than 1 year | Between 1-5 years | Over 5 years |
|---|---|---|---|
| Pension obligation, net of tax adjustment | 312 611 | 1 507 605 | 27 440 095 |
| LTC insurance | 7 625 | 37 662 | 1 800 082 |
| Sickness insurance | 27 277 | 137 507 | 4 591 673 |
| Death | 3 658 | 11 811 | 21 733 |
| **Total** | **351 171** | **1 694 585** | **33 853 583** |

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 36 416m (2022: EUR 34 722m).

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

in years

| Duration | 2023 | 2022 |
|---|---|---|
| Pension obligation | 19 | 19 |
| LTC insurance | 27 | 25 |
| Sickness insurance | 23 | 22 |
| Death | 6 | 6 |

## 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 for each of the funded plans 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 where 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 lifetime, 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 G1, step 4. |
| Reversion of retirement pension | Surviving spouse/registered partner | 60% of the retirement pension |
| Survivor's pension | Surviving spouse/registered partner | 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 the allocated payments equivalent to the Office's and the staff's pension contributions – 21.8% and 10.9% respectively of basic salaries paid, and after deduction of pensions actually paid. For the reporting period, the total pension contribution rate recommended by the AAG was 32.7% (2022: 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, the employee's spouse or registered partner, 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 (2023: 3.25% and 2022: 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 if coverage by the EPO health insurance is desired.

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. 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

An employee, a former employee in receipt of a retirement pension or a retirement pension for health reasons, the employee's (former) spouse, spouse, registered partner, 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 1.5% (2022: 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

In the event of death of the insured, the benefits payable is a lump sum equal to 2.75 times the 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 employee, which is required to insure him against the risk of death, is charged to the employee.

An 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 to the SSP is equal to the difference between the contribution to the pension scheme for staff in post on 31 December 2008 belonging to the old pension scheme and that payable under the new pension scheme, by 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, see Note 18 for details of the assets invested under the SSP.

## 24. Other employee-related liabilities

in EUR '000

| Current other employee-related liabilities | 2023 | 2022 |
|---|---|---|
| Regular vacation | 64 900 | 90 313 |
| Home leave | 36 600 | 51 254 |
| Other compensated absences | 27 505 | 33 925 |
| Outstanding healthcare claims from staff | 14 688 | 11 188 |
| Bonus payments | 11 300 | 10 800 |
| Other | 9 988 | 7 131 |
| **Total** | **164 981** | **204 611** |
| **Non-current other employee related liabilities** | **29 683** | **29 167** |

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 | 2023 | 2022 |
|---|---|---|
| Current deposit accounts by patent applicants | 131 574 | 124 137 |
| Payables to suppliers and trade creditors | 57 865 | 71 191 |
| Other | 1 041 | 1 119 |
| **Total** | **190 480** | **196 447** |

One of the payment methods offered by the EPO is for patent applicants to 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 9 969k (2022: EUR 8 874k) 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 2023** | **6 123** | **357** | **6 480** |
| Use | — | — | — |
| Reversal | 598 | — | 598 |
| Addition | — | 143 | 143 |
| Interest effect | — | — | — |
| Other | — | — | — |
| **31 December 2023** | **5 525** | **500** | **6 025** |
| Current | 5 525 | 500 | 6 025 |
| Non-current | — | — | — |
| **Total** | **5 525** | **500** | **6 025** |

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 EUR '000

| **Purchase commitments** | **2023** | **2022** |
|---|---|---|
| Purchase commitments fixed assets | 19 246 | 41 392 |
| Purchase commitments intangible assets | 1 984 | 4 109 |

The commitments for purchases of intangible assets are mainly for the 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 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.

**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 (see 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

| | 2023 | 2022 |
|---|---|---|
| Short-term employee benefits* | 19 456 | 15 739 |
| Post-employment benefits, service costs | 4 492 | 3 427 |
| **Total** | **23 948** | **19 166** |

* 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 108 004k (2022: EUR 72 942k) for 42 (2022: 38) 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

| | 2023 | 2022 |
|---|---|---|
| MAC members and Fund Administrator | — | — |
| Close family members of key managers | — | — |
| Contracting States | | |
| Co-operation with national offices | 15 383 | 17 395 |
| Rent office building Berlin | 2 575 | 2 575 |
| **Total** | **17 958** | **19 970** |

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

in EUR '000

| | 2023 | 2022 |
|---|---|---|
| MAC members and Fund Administrator | — | — |
| Close family members of key managers | — | — |
| Contracting States | | |
| Renewal fees for granted patents | 702 716 | 663 066 |
| Searches on behalf of ex-IIB member states | 36 314 | 32 794 |
| Searches on behalf of other Contracting States | 20 848 | 29 201 |
| Reimbursement rent office building Berlin | 476 | 666 |
| Other revenue | 8 483 | 8 795 |
| **Total** | **768 837** | **734 522** |

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

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.

in EUR '000

| | 2023 | 2022 |
|---|---|---|
| MAC members and Fund Administrator | 206 | 210 |
| Close family members of key managers | 32 | 37 |
| Contracting States | | |
| Renewal fees | 150 734 | 143 341 |
| VAT and other taxes | 24 445 | 19 030 |
| Contracting States using EPO services and products | 5 954 | 3 942 |
| Carry-over Unitary Patent balance | 743 | — |
| Tax adjustments | 44 | 44 |
| **Total** | **182 158** | **166 604** |

### Payables and other liabilities

in EUR '000

| | 2023 | 2022 |
|---|---|---|
| MAC members and Fund Administrator | — | — |
| Close family members of key managers | — | — |
| Contracting States | 378 | 409 |
| **Total** | **378** | **409** |

## Renewal fees for granted patents

The split of renewal fees for granted patents per Contracting State was as follows:

in EUR '000

| | | 2023 | 2022 |
|---|---|---|---|
| AL | Albania | 607 | 431 |
| AT | Austria | 26 102 | 26 007 |
| BE | Belgium | 11 335 | 11 337 |
| BG | Bulgaria | 2 299 | 2 317 |
| CH/LI | Switzerland/Liechtenstein | 24 989 | 21 117 |
| CY | Cyprus | 1 145 | 1 129 |
| CZ | Czech Republic | 6 886 | 6 923 |
| DE | Germany | 255 447 | 231 241 |
| DK | Denmark | 10 955 | 10 955 |
| EE | Estonia | 1 521 | 1 577 |
| ES | Spain | 24 068 | 23 492 |
| FI | Finland | 11 215 | 10 760 |
| FR | France | 84 208 | 81 113 |
| GB | United Kingdom | 73 181 | 72 600 |
| GR | Greece | 4 215 | 4 243 |
| HR | Croatia | 997 | 882 |
| HU | Hungary | 6 022 | 5 967 |
| IE | Ireland | 7 519 | 7 545 |
| IS | Iceland | 928 | 864 |
| IT | Italy | 48 431 | 44 775 |
| LT | Lithuania | 1 439 | 1 353 |
| LU | Luxembourg | 1 625 | 1 681 |
| LV | Latvia | 1 403 | 1 351 |
| MK | North Macedonia | 150 | 171 |
| MC | Monaco | 1 186 | 1 197 |
| MT | Malta | 440 | 406 |
| NL | Netherlands | 46 917 | 45 994 |
| NO | Norway | 5 684 | 5 758 |
| PL | Poland | 6 519 | 5 793 |
| PT | Portugal | 6 603 | 6 262 |
| RO | Romania | 3 729 | 3 709 |
| RS | Serbia | 1 003 | 826 |
| SE | Sweden | 15 392 | 15 515 |
| SI | Slovenia | 1 980 | 2 019 |
| SK | Slovakia | 2 582 | 2 664 |
| SM | San Marino | 278 | 256 |
| TR | Türkiye | 3 711 | 2 836 |
| **Total** | | **702 712** | **663 066** |
| | Interest on renewal fees | 4 | — |
| **Total renewal fees including interest** | | **702 716** | **663 066** |

# 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** | **2023** | **2022** | **2023** | **2022** |
| **Financial assets at fair value through profit and loss** | | | | |
| Standard bonds | 1 702 024 | 1 263 055 | 1 702 024 | 1 263 055 |
| Other bonds | 1 030 285 | 1 018 036 | 1 030 285 | 1 018 036 |
| Shares | 3 530 770 | 3 152 587 | 3 530 770 | 3 152 587 |
| Funds | 5 475 062 | 4 504 999 | 5 475 062 | 4 504 999 |
| Derivatives used for trading | 16 255 | 46 434 | 16 255 | 46 434 |
| Other instruments | 25 982 | 75 957 | 25 982 | 75 957 |
| **Total** | **11 780 378** | **10 061 068** | **11 780 378** | **10 061 068** |
| | | | | |
| **Financial assets at amortised cost** | | | | |
| RFPSS other assets | 639 | 562 | 639* | 562* |
| RFPSS restricted cash | 359 249 | 373 638 | 359 249 | 373 638 |
| **Financial liabilities at fair value through profit and loss** | | | | |
| Derivatives used for trading | (7 852) | (4 325) | (7 852) | (4 325) |
| **Financial liabilities at amortised cost** | | | | |
| RFPSS other liabilities | (112) | (199) | (112)* | (199)* |
| **Total net RFPSS financial instruments** | **12 132 302** | **10 430 744** | **12 132 302** | **10 430 744** |

| **Office financial instruments** | **2023** | **2022** | **2023** | **2022** |
|---|---|---|---|---|
| **Financial assets at fair value through profit and loss** | | | | |
| EPO Treasury Investment Fund | 3 532 032 | 3 230 753 | 3 532 032 | 3 230 753 |
| Bonds | 187 706 | — | 187 706 | — |
| **Financial assets measured at amortised cost** | | | | |
| Home loans | 90 337 | 95 355 | 84 446 | 86 195 |
| Trade and other receivables | 187 217 | 171 989 | 187 217* | 171 989* |
| Other financial assets | 115 360 | 80 000 | 115 360* | 80 000* |
| **Cash and cash equivalents** | **155 425** | **163 120** | **155 425*** | **163 120*** |
| **Total Office financial assets** | **4 268 077** | **3 741 217** | **4 262 186** | **3 732 057** |
| | | | | |
| **Financial liabilities measured at amortised cost** | | | | |
| Trade and other payables | (190 480) | (196 447) | (190 480)* | (196 447)* |
| Lease liabilities | (21 421) | (30 325) | (21 421)* | (30 325)* |
| **Total Office financial liabilities** | **(211 901)** | **(226 772)** | **(211 901)** | **(226 772)** |

* 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 carrying amounts and contractual cash flows of financial instruments have not been affected by the interest rate benchmark reform.

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

in EUR '000

| | Lease liabilities | Total |
|---|---|---|
| **At 1 January 2023** | **30 325** | **30 325** |
| **Cash flows** | | |
| Repayment | (9 446) | (9 446) |
| **Non-cash** | | |
| Acquisition | 58 | 58 |
| Change in lease assumptions | 484 | 484 |
| **At 31 December 2023** | **21 421** | **21 421** |

| | 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** |

## 30.2 Fair value hierarchy

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:

in EUR '000

| 31 December 2023 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **RFPSS financial assets** | | | | |
| Standard bonds | 1 702 024 | — | — | **1 702 024** |
| Other bonds | 1 016 843 | 13 442 | — | **1 030 285** |
| Shares | 3 530 770 | — | — | **3 530 770** |
| Funds | — | 5 475 062 | — | **5 475 062** |
| Derivatives used for trading | — | 16 255 | — | **16 255** |
| Other instruments | — | 25 982 | — | **25 982** |
| **Office financial assets** | | | | |
| EPO Treasury Investment Fund | — | 3 532 032 | — | **3 532 032** |
| Bonds | 187 706 | — | — | **187 706** |
| Home Loans | — | 84 446 | — | **84 446** |
| **Total financial assets** | **6 437 343** | **9 147 219** | **—** | **15 584 562** |
| | | | | |
| **RFPSS financial liabilities** | | | | |
| Derivatives used for trading | — | 7 852 | — | 7 852 |
| **Total financial liabilities** | **—** | **7 852** | **—** | **7 852** |

in EUR '000

| 31 December 2022 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **RFPSS financial assets** | | | | |
| 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** |
| Bonds | — | — | | — |
| Home Loans | — | 86 195 | — | **86 195** |
| **Total financial assets** | **5 419 873** | **7 958 143** | **—** | **13 378 016** |
| | | | | |
| **RFPSS financial liabilities** | | | | |
| Derivatives used for trading | — | 4 325 | — | 4 325 |
| **Total financial liabilities** | **—** | **4 325** | **—** | **4 325** |

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** | **2023** | **2022** |
|---|---|---|
| Valuation gains (losses) on financial assets | 1 539 462 | (2 275 920) |
| Income from coupons, dividends and interest | 199 307 | 182 307 |
| Custodian fees and other costs | (1 091) | (1 090) |
| Sundry | (1 141) | (1 136) |
| Valuation gains (losses) on liabilities | (7 852) | (4 325) |
| **Total** | **1 728 685** | **(2 100 164)** |

in EUR '000

| **Financial assets at amortised cost** | **2023** | **2022** |
|---|---|---|
| Interest income from home loans | 2 097 | 2 205 |
| Interest income from bank accounts and deposits | 11 580 | 1 201 |
| **Total** | **13 677** | **3 406** |

| **Financial liabilities at amortised cost** | **2023** | **2022** |
|---|---|---|
| Interest costs lease | (378) | (549) |
| **Total** | **(378)** | **(549)** |

## 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, bonds, 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.

Investments in bonds and fixed term deposits are only made in investment grade instruments and their duration must not exceed 3 years. With the exception of sovereign bonds with the highest available rating (AAA), no more than EUR 25m or 25% of the portfolio, whichever is higher, may be invested in fixed income securities of any single issuer.

### (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 including Danish mortgage bonds, foreign bonds, domestic corporate bonds, emerging market bonds, emerging market equities, real estate, 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

The market risk for the fixed income securities held by the Office is managed according to the Regulations on the Office's cash reserve (see also point 31 (a)), including rating, duration and diversification requirements. As their maximum duration must not exceed 3 years to maturity the market risk of those instruments is low.

The remaining 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 2023 the EPOTIF portfolio's VaR was EUR 298m (2022: EUR 236m), which represented 8.4% (2022: 7.3%) 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 and 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 2023 the VaR of RFPSS assets was estimated at EUR 620m (2022: EUR 602m). The increase of VaR by EUR 18m compared to the end of 2022 stems mainly from the increased AUM from EUR 10.4 billion at the end of 2022 to EUR 12.1 billion at the end of 2023. The lower market risk (total risk declined from 12.16% to 10.77%) has considerably but not completely 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 short- and long-term liabilities.

The EPO's treasury department monitors the risk of a shortage of funds using a daily cash management tool, that analyses 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 operational cash reserve of the Office can only be invested in liquid instruments with at least EUR 500m issue size. Bonds held by the Office can be liquidated within 2 working days.

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

| | 2023 | 2022 |
|---|---|---|
| Within 1 year | 62 152 | 80 875 |
| More than 1 year | 18 266 | 22 095 |
| **Total** | **80 418** | **102 970** |

### (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 2023 forecasted that it will continue to generate an operational cash surplus until at least 2042. 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 17.0m (2022: EUR 19.8m).

### (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 2.3m (2022: EUR 3.1m).

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

in EUR '000

| Financial liabilities | 2023 | 2022 |
|---|---|---|
| Less than 3 months | 7 964 | 4 524 |
| Between 3 months and 1 year | — | — |
| More than 1 year | — | — |
| **Total** | **7 964** | **4 524** |

## 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 Risk | |
|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** |
| Home loans | 90 337 | 95 355 | — | — |
| Trade and other receivables | 187 217 | 171 989 | — | — |
| Bonds | 187 706 | — | | |
| Other financial assets | 115 360 | 80 000 | | |
| Cash and cash equivalents | 155 425 | 163 120 | — | — |
| RFPSS restricted cash | 359 249 | 373 638 | — | — |
| RFPSS other assets | 639 | 562 | — | — |
| **Total** | **1 095 933** | **884 664** | **—** | **—** |

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 home-loan borrower has ever defaulted. As this is equivalent to the quality of an AAA instrument, the home loans portfolio is considered to have low credit risk. For these instruments, the EPO calculates a loss allowance amounting to 12 month expected credit losses.

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

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

**Bonds**

Bonds purchased by the Office shall have an investment grade rating, defined as a minimum credit rating of BBB- (S&P) or Baa3 (Moody's). In the event of a split rating, the higher rating is applied. No more than EUR 25m or 25% of the portfolio, whichever higher, may be invested in fixed income securities of any issuer, while sovereign bonds with AAA (S&P) or AAA (Moody's) rating are exempt from this limit. Investments are only allowed in fixed income instruments with issue size of at least EUR 500m.

**Trade and other receivables**

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

Other receivables – tax: these include VAT and income tax payable ("tax adjustment") to the EPO by the Contracting States.

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

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

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

Bad debts are written off when:

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

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

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

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

As at the reporting date, 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, and Fitch. Investment grade is defined as 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 2023 | Rating below "A" | Not rated | Rating "A" and higher | Total |
|---|---|---|---|---|
| Domestic government bonds | 213 780 | — | 1 090 221 | 1 304 001 |
| Domestic corporate bonds | 250 280 | — | 577 260 | 827 540 |
| Foreign bonds | — | — | 600 768 | 600 768 |
| Cash and currency forwards | — | — | 375 504 | 375 504 |
| **Total financial assets** | **464 060** | **—** | **2 643 753** | **3 107 813** |

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 | — | — | 483 551 | 483 551 |
| Cash and currency forwards | — | — | 420 072 | 420 072 |
| **Total financial assets** | **393 381** | **—** | **2 307 782** | **2 701 163** |

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 provided by one of Standard & Poor's, Moody's or 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, for example 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), which is 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 the 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

| 31 December 2023 | Gross and net amounts of financial instruments in the statement of financial position | Related financial instruments that are not offset | Net amount |
|---|---|---|---|
| **Financial Assets** | | | |
| Derivatives used for trading | 16 255 | (7 852) | 8 403 |
| **Total financial assets** | **16 255** | **(7 852)** | **8 403** |
| | | | |
| **Financial Liabilities** | | | |
| Derivatives used for trading | 7 852 | (7 852) | — |
| **Total financial liabilities** | **7 852** | **(7 852)** | **—** |

in EUR '000

| 31 December 2022 | Gross and net amounts of financial instruments in the statement of financial position | Related financial instruments that are not 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)** | **—** |

### 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, the EPO's product providers, and the EPO's 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.