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Conseil d'administration

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Comprehensive Summary
2016 Budget
Estimates for 2017 - 2020

COMPREHENSIVE SUMMARY – 2016 BUDGET

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2016 BUDGET

A. ORIENTATIONS

Authorisation Budget and IFRS

The point of departure for the IFRS calculations is the Authorisation Budget. Of prime concern, however, is the Operating Result of the Organisation under IFRS.

The IFRS forecasts are determined in compliance with the IFRS regulations, which were adopted in full by the Office as from 1 January 2011.

The IFRS forecast assumes a flat discount rate of 5% for employee benefits, identical to the one used for forecasting purpose in previous budgets. The use of a flat discount rate has the merit of assessing the liabilities and the equity on a consistent basis for the 2016-2020 time period, allowing for comparison from year to year. In addition, this approach is aligned with the one retained for the determination of the actuals for the standardised operating result and the Unit Cost, which are comparable with the forecast values under IFRS.

Framework for Strategic Orientations

The main strategic orientations for the Office were unanimously approved by the Council in June 2011 and revised in June 2014. By implementing the adopted "Efficiency/Quality Policy", the Office will pursue its operational improvements, while maintaining the capacity to finance all necessary investments in the medium term.

Strategic Roadmaps

General context

In order to implement the Strategic Orientations, Roadmaps for IT, Buildings, Co-operation, Quality and HR were submitted to the Administrative Council in October/December 2011 and their update and plans in June 2014. The budgetary assumptions are aligned with the progress in the implementation of the different Roadmaps, whereas especially the IT Roadmap and the Building Roadmap have major investment needs which have to be considered for the 2016 Budget.

IT Roadmap and General IT costs

The IT Roadmap will remain one major area of investment. As a production-oriented organisation, the quality, efficiency and productivity of patent granting procedures are directly correlated to the performance of the IT systems. The IT related activities already initiated in the areas of Reengineering Patent Grant Process, Search Tools and Information Management, through their projects of transformation, improvement and transition, moved to a new phase in 2015 and are expected to last until 2017. The budget for the functional areas and infrastructure provides for business continuity and investments not covered by the IT Roadmap. The infrastructure budget remains constant in 2016, in comparison to 2015, despite accommodating for the increased workload generated by both internal and external users. As regards the functional areas, increased efforts will be done in 2016 and are required in order to accommodate new investments such as the deployment of new search tools, the development of the infrastructure and the need in data storage capacity growth. The current estimated project costs for IT Roadmap amount to €30m for 2016.

Building Roadmap

In its June 2014 meeting, the Administrative Council (AC), having taken note of the current status of the projects defined in the Building Roadmap, unanimously approved the approach for further work. The construction of the new building in The Hague started in 2015 and will continue throughout 2016. The current planning foresees the delivery of the new building in spring 2017, the completion of the site, including the demolition of the tower and landscaping, in 2018, and the final delivery and completion of the project by January 2019. The total contract value amounts to €205m. Out of this amount, €100m are expected to incur in 2016.

HR Roadmap

The Office will pursue in 2016 the implementation of the various projects included in the HR Roadmap. In the framework of the adopted strategic direction, the Office will continue to maintain the overall staff number within the same limitations of the Table of permanent Posts in force since 2010, at 7 075 posts. The implementation of two specific projects in the HR Roadmap is described below:

- *Implementation of the new career system/performance management*

Following the approval by the Administrative Council on 11 December 2014, the New Career System entered into force on 1 January 2015. The transposition of staff into the Job Groups of the New Career System was done effective 1 July 2015. The New Career System is reflected in the Table of permanent Posts accompanying the 2016 Budget proposal. The actual financial impact of the New Career System on the 2016 and future exercises, in particular as it regards the Office's Long Term Liabilities and Current Service Costs will depend on the details of its implementation.

- *Implementation of the invalidity reform*

The reform of the invalidity scheme which entered into force on 1 April 2015 now enables employees to stay in active service even at a percentage of capacity reduced by up to 50%, instead of the previous system which considered only full and permanent invalidity following an (extended) sick leave period. The new system is structured in four phases: sick leave, extended sick leave, incapacity and retirement for health reasons. It allows flexible working arrangements and a partial return to work. For those cases in which there is definitely no likelihood of a return to work, retirement for health reasons is introduced as from the age of 55. As part of the reform package, the lump sum paid in case of permanent invalidity has been abolished since the new scheme focuses on the possibility of returning to work at the Office. Positive financial repercussions of this reform, in particular regarding the Office's liabilities, will become noticeable in the near future.

B. PLANNING PRINCIPLES AND ASSUMPTIONS

The 2016 Budget and the Estimates 2017-2020 as well as the Plan Financial Statements under IFRS are presented in Euro (€) and all values are rounded to the nearest thousand (€ '000) unless otherwise indicated. The following main assumptions were used to prepare the 2016 Budget and the Estimates 2017-2020.

Income

Volume assumptions

Current income estimates are based on 282 800 total filings in 2016, representing an expected growth of 0,6% compared to an estimate of 281 000 filings in the 2015 Budget presented last year. The ratio of direct European to Euro-PCT filings for 2016 is assumed to remain almost constant in comparison to 2015, at 21 : 79.

On the basis of this total filings development, the Office forecasts 155 200 Euro-direct applications and PCT applications entering the regional phase during 2016.

In comparison to the past budget estimates, the number of published patents has been increased to 69 700 in 2016 (68 000 in 2015).

Biennial inflation adjustment

The principle of applying biennial inflation based fee adjustments was adopted by the Council in 2005 and has been a major factor in ensuring the stability and sustainability of the Office's finances as well as protecting users from fee volatility. The past inflation reported by the Eurostat HICP (Harmonized Index for Consumer Prices for 27 EU countries) for the last 24 months amounted to 0,8% as of June 2015. A general adjustment of 1% has been proposed for all procedural fees, which is partly compensated by the freeze of the PCT search and preliminary examination fees, so that the overall increase remains within the observed inflation of 0,8%. The fee adjustments have been considered as of 1 April 2016.

Minimum amount for national renewal fees

The minimum amounts for national renewal fees (for the 3rd to 20th year) provided for in Article 39 EPC have been determined for the periods 2015 and 2016, in accordance with the procedure approved by the Administrative Council in 1997.

Return on RFPSS plan assets

The return on the Reserve Funds for Pensions and Social Security (RFPSS) plan assets, maintained again at 5,75%, will serve for planning purposes and is in line with the current long-term performance objective of the RFPSS.

Expenditure

Planning Assumptions for Employee Benefits

Following the decision of the Council, the adjustments with effect from 1 July 2015 of the salary and other elements of the remuneration of permanent employees of the Office represent +0,92% in the basic salary scale applicable for Germany, +1,45% in the Netherlands and +0,67% in Austria. In accordance with the salary adjustment procedure, a further retroactive adjustment with effect from 1 July 2014 of +0,50% affecting the basic salaries of all sites is applied. The expected salary adjustments as at 1 July 2016 and beyond have been assumed at 2%.

For 2016 an amount of €22m (3% of basic salaries) has been reserved for step increases/promotions/bonuses, to be allocated in accordance with the provisions of the career/performance management system. The actual financial impact of the New Career System on the budget 2016 and particularly on the Long Term Liabilities and Current Service Costs will have to be assessed on the basis of its further practical implementation. It is expected anyhow that it would have a positive effect in terms of reduction of both the staff costs and the future liabilities of the Office.

As it was done in previous years, the International Service for Remunerations and Pensions (ISRP) of the OECD has provided estimates on the Defined Benefit Obligations (DBOs). The Office has continued to retain for the 2016 Budget and Estimates 2017-2020 the flat 5% forecast discount rate, already used in the budgets since 2012.

Following the advice of the Actuarial Advisory Group ("Three Wise Men") the new contribution rates for the social schemes 2016 will be as follows:

Contribution rates (1/3 Staff, 2/3 Office)	Old rates	New rates
Healthcare insurance	9,0%(*)	8,4%
Long Term Care	1,2%	1,5%
Pensions:		
- Old Pension Scheme	29,1%	29,1%
- New Pension Scheme	22,5%	22,5%

(*) In 2015 the contribution of the staff for Healthcare insurance had been capped at 2,9% in application of transitory measures.

Staff

Framework of the "Efficiency/Quality Policy"

In the framework of the "Efficiency/Quality Policy", the Table of Posts will continue to be limited to 7 075 permanent posts. In this context, the Office will maintain its policy applied since 2010 of re-allocating staff resources from support areas towards the patent grant area.

Long-term staff planning

As a preparatory step for the introduction of a central system for multi-year staff planning, a central reserve for vacated posts is being created, the use of which remains at the discretion of the President.

New Career System

With the new career system, distinctions between the previous A, B, and C grades have been removed and replaced by a linear career scale composed of 17 grades. New Job Groups are associated with a range of salary grades. In the New Career System two career paths are available: a technical and a managerial career path. Brief explanations regarding the correspondence between new Job Groups and previous as well as new grades can be found in the remarks to the Table of Posts.

Examining Staff

Within the technical career path, the Office has created a new category called "Senior Expert", Job Group 3 (former A5). For this category, a total number of a total of 80 posts is foreseen to be in place in 2016. Out of this number, 30 posts were already created on 1 July 2015 by the upgrading of existing vacant permanent posts in Job Groups 5 and 6. These upgradings were decided by the President in exercise of the authority entrusted to him by the Financial Regulations. The remainder up to the 80 posts will be created in 2016 by converting available vacant posts into Senior Expert posts.

The number of examiner posts is planned to be increased by 40 new posts (+ 1%) from the actual 4 296 up to 4 336 examiner posts in 2016, which includes the 80 newly created "Senior Experts". It can be noted that some of them could already be opened for recruitment in the course of 2015, the incumbents due to start only as of 1 January 2016.

Additional 80 examiner posts are to be added over the rest of the planning period (2017-2020) to reach a total of 4 416 funded examiner posts by 2020.

Boards of Appeal

In the Appeals Area, the number of posts for members and chairmen of the Boards of Appeal is held stable with 184 permanent posts, while the number of posts in the administrative area has been reduced by 3 to 67 permanent posts.

Non-Examining Staff

In the context of the Office's efficiency efforts, it is necessary to re-allocate staff resources both within the administration and support areas and towards the patent grant area. This is achieved in essence by deletions and/or transferring posts from other units in 2016. A total of 40 posts in other non-examining areas of the Office will be reduced in 2016 to allow for the creation of the new examiners mentioned above, in order to maintain the principle, that any new post within the Office needs to be compensated by a corresponding deletion, so as to ensure the respect of the 7 075 limit on the table of posts, at any time.

The figure of 800 funded posts in Patent Administration reflects the upper limit of funded posts needed at the beginning of 2016.

With the delivery of automation benefits, further savings in view of compensating for new examiner posts are to be expected.

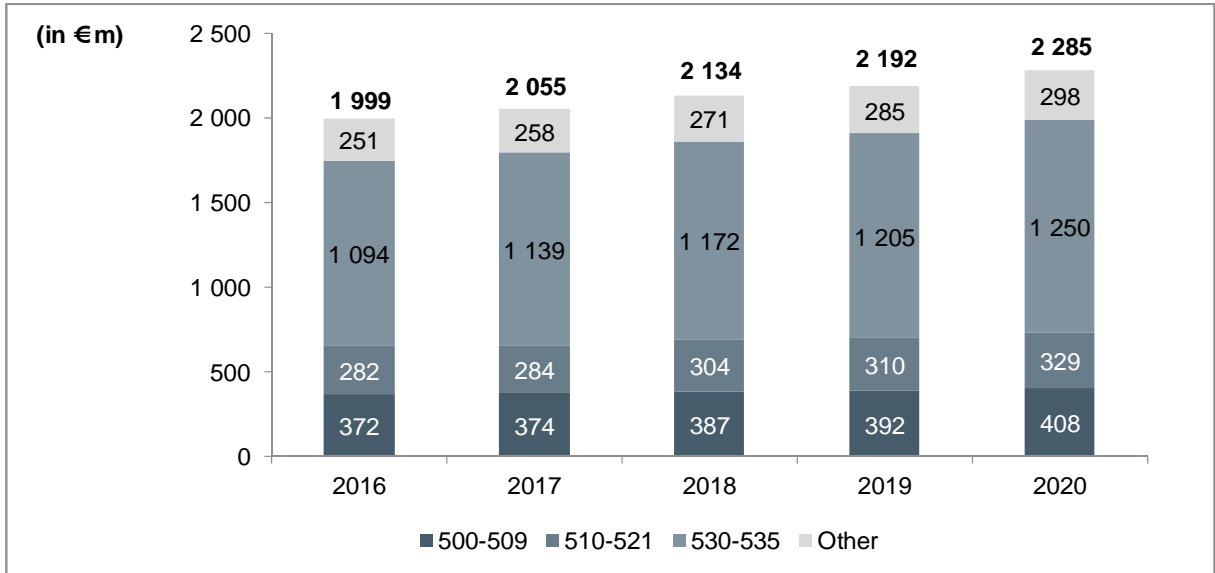
Posts foreseen for The Hague

Out of the 7 075 posts, 2 838 posts are foreseen to be located in The Hague in the 2016 Budget, which represents an increase of 5 posts compared to the 2015 Budget and is in full respect with the provisions of the Protocol on the Staff Complement of the European Patent Office at The Hague (Protocol on Staff Complement) of 29 November 2000.

C. BUDGET RESULTS

2016 MAIN BUDGET AND 2017-2020 ESTIMATES

a) Budget Operating Income

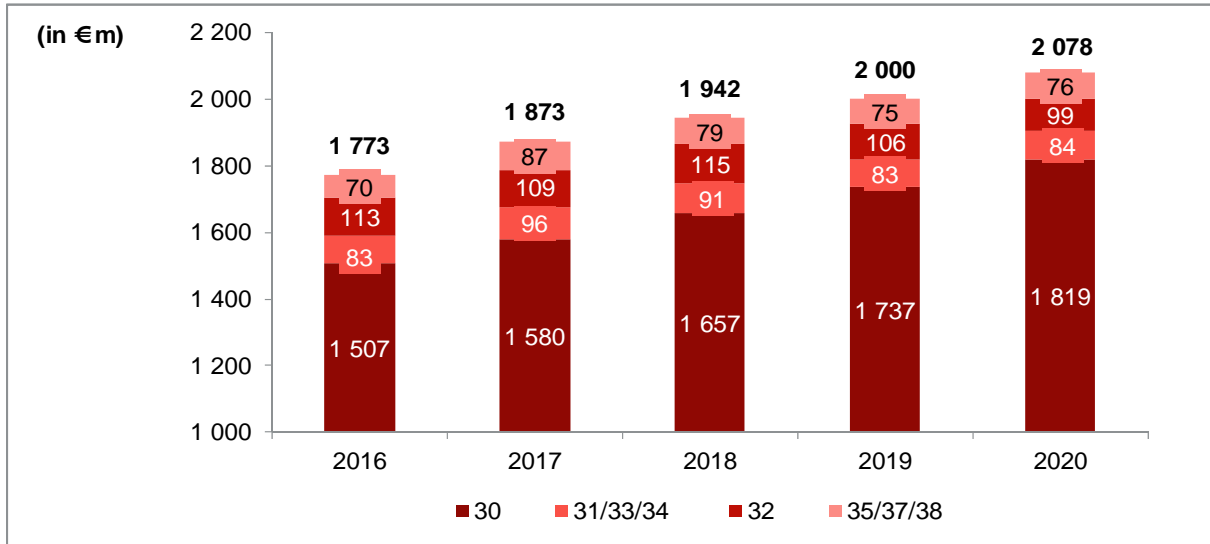


(in €m)	Actual	Budget				Estimates							
		2014	2015	%	2016	%	2017	%	2018	%	2019	%	2020
Group													
500-509	364	367	+1	372	+1	374	+1	387	+4	392	+1	408	+4
510-521	284	285	+0	282	-1	284	+1	304	+7	310	+2	329	+6
530-535	1 044	1 048	+0	1 094	+4	1 139	+4	1 172	+3	1 205	+3	1 250	+4
Other	236	260	+10	251	-3	258	+3	271	+5	285	+5	298	+5
TOTAL	1 929	1 959	+2	1 999	+2	2 055	+3	2 134	+4	2 192	+3	2 285	+4

The forecasted Income for Filing and Search (Groups 500-509) increases by €5m for 2016 compared to the Budget 2015. Income from Examination, Grant and Opposition (Groups 510-521) decreases by €3m for 2016 compared to 2015, due to a lower incoming workload of International Preliminary Examination combined with the freeze of the relating fees. Income from Designation and Renewal Fees (Group 530-535) for 2016 increases by €46m (4%) compared to 2015. It is worth stressing that the forecasts for the Operating Income are based on an extrapolation of applicant's behaviour as currently observed.

At this stage and lacking better information, no specific provision has been made for Income relating to the Unitary Patent. In any case, in the context of the overall budget, these amounts are considered to be immaterial for the first year of its introduction. Furthermore, it is also likely that, in global terms, Income relating to Unitary Patent would be compensated by decreases in Renewal Fees for granted patents to be received by the Office.

b) Budget Operating Expenditure

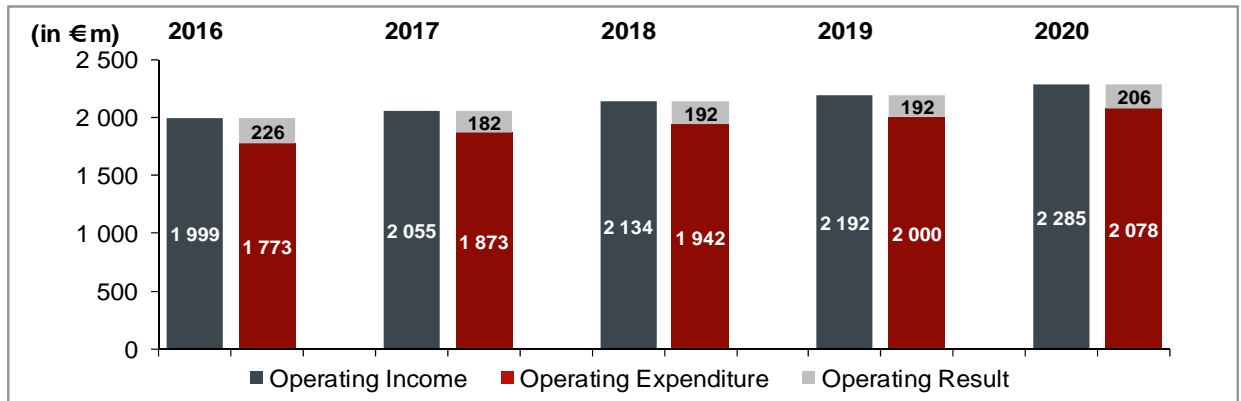


(in €m)	Actual	Budget		Estimates									
	2014	2015	%	2016	%	2017	%	2018	%	2019	%	2020	%
Chapter													
30	1 350	1 492	+10	1 507	+1	1 580	+5	1 657	+5	1 737	+5	1 819	+5
31/33/34	71	87	+23	83	-5	96	+17	91	-5	83	-9	84	+1
32	89	102	+14	113	+11	109	-3	115	+5	106	-8	99	-7
35/37/38	55	67	+22	70	+4	87	+25	79	-10	75	-5	76	+3
TOTAL	1 565	1 748	+12	1 773	+1	1 873	+6	1 942	+4	2 000	+3	2 078	+4

In comparison with the 2015 Budget, the total Operating Expenditure increases only by €25m equivalent to 1,4%. The larger part of this increase (€15m) is to be found in staff costs (Chapter 30). The development of staff costs is mainly determined by the following aspects:

- salary adjustment, resulting from the application of the salary method, assumed at 2% of basic salaries for Budget 2016,
- effect of the career progression and bonuses, which for 2016 is assumed at a value of 3% of basic salaries for planning purposes,
- conversion of 40 posts in Job Groups 5/6 into new examiner posts, Job Groups 3/4 and the upgrading of a total of 80 examiners posts (Job Group 4) to Senior Expert posts (Job Group 3) until the end of 2016,
- difference in the salary between newcomers/retirees and of the variation of the remaining components of the staff cost.

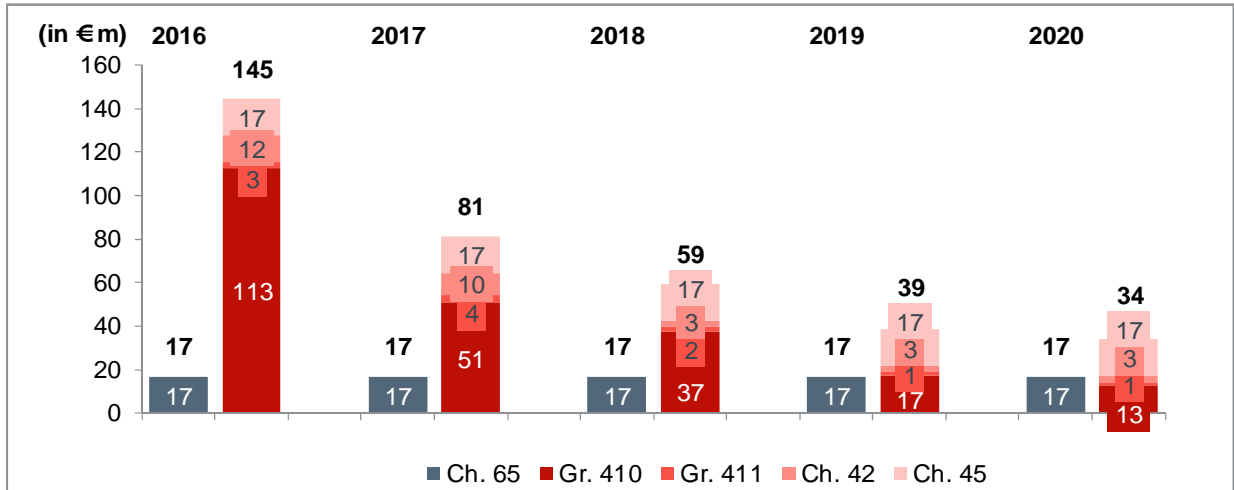
c) Budget Operating Result



(in €m)	Actual	Budget		Estimates			
	2014	2015	2016	2017	2018	2019	2020
Operating Income	1 929	1 959	1 999	2 055	2 134	2 192	2 285
Operating Expenditure	1 565	1 748	1 773	1 873	1 942	2 000	2 078
Operating Result	364	212	226	182	192	192	206

The Operating Result is the difference between the Operating Income and the Operating Expenditure. The Operating Result for 2016 is substantially unchanged in comparison to 2015.

d) Budget Capital Income and Expenditure



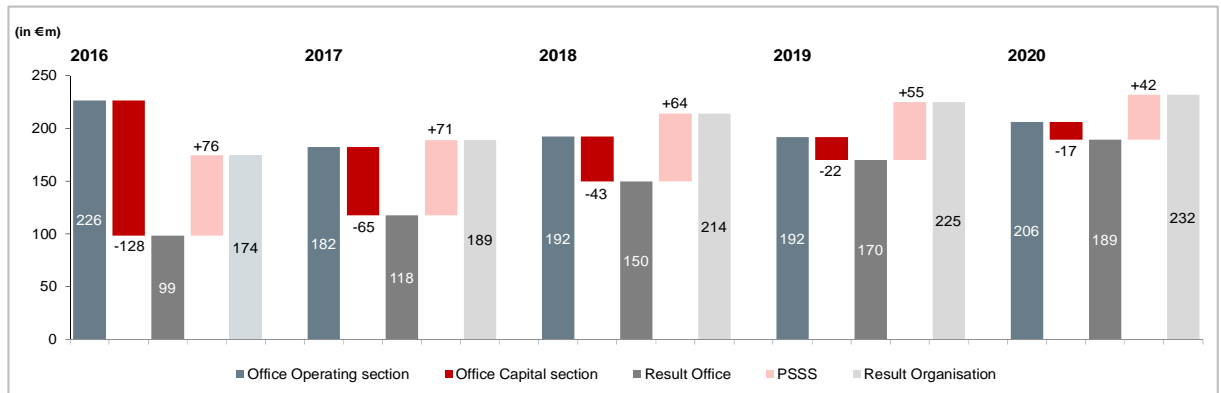
(in €m)	Actual	Budget				Estimates							
	2014	2015	%	2016	%	2017	%	2018	%	2019	%	2020	%
Capital Income													
Ch. 65	20	17	-15	17	+0	17	+0	17	+0	17	+0	17	+0
Capital Expenditure													
Gr. 410	22	93	+316	113	+22	51	-55	37	-26	17	-53	13	-27
Gr. 411	1	2	+204	3	+21	4	+29	2	-43	1	-37	1	+4
Ch. 42	12	24	+97	12	-49	10	-17	3	-70	3	+0	3	+0
Ch. 45	17	17	+2	17	+0	17	+0	17	+0	17	+0	17	+0
TOTAL	52	135	+163	145	+7	81	-44	59	-27	39	-35	34	-12
Capital Result	-32	-119	+273	-128	+8	-65	-49	-43	-34	-22	-49	-17	-22

Capital Income (Ch. 65) includes only home loans repayments by staff, which are equal to the expected amount of home loans to be granted (Capital Expenditure, Ch. 45).

Under the heading Gr. 410, investment needs for the new building in The Hague amount to €100m in 2016. As regards the implementation of the IT Roadmap in 2016, an amount of €11m has been included under the heading Ch. 42.

e) Total Authorisation Budget Results of the Office and of the Organisation

The overall budget result for the period is as follows:

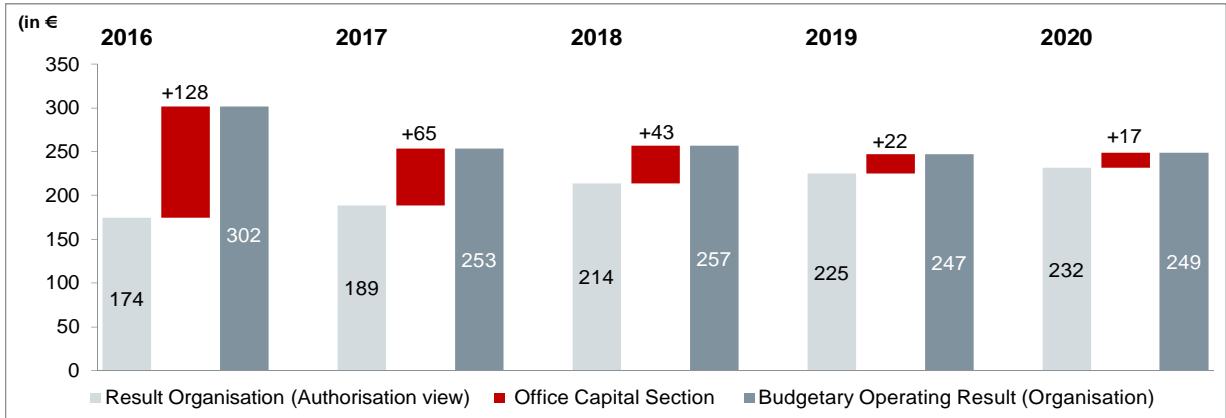


(in €m)	Actual	Budget		Estimates			
	2014	2015	2016	2017	2018	2019	2020
Office Operating section	364	212	226	182	192	192	206
Office Capital section	-32	-119	-128	-65	-43	-22	-17
Result Office	332	93	99	118	150	170	189
PSSS	111	108	76	71	64	55	42
Result Organisation	443	201	174	189	214	225	232

The "Efficiency/Quality Policy" adopted by the Office, combined with the foreseen biennial fee adjustments contribute to a positive outlook and to improve budget surpluses over the planning period, despite considerable investments in buildings and IT.

f) Authorisation Budget of the Organisation (Operating Section)

The basis for the transition from the Authorisation Budget to IFRS presentation of the results is the Total Authorisation Budget result of the Organisation which is adjusted by the capital transactions that are not relevant for IFRS, in order to calculate the Budgetary Operating Result (Organisation).



Basis for transition from Authorisation Budget to IFRS (in €m)	Actual	Budget		Estimates			
	2014	2015	2016	2017	2018	2019	2020
Result Organisation (Authorisation view)	443	201	174	189	214	225	232
Elimination of capital transactions Office (Office Capital Section)	32	119	128	65	43	22	17
Budgetary Operating Result (Organisation)	475	320	302	253	257	247	249

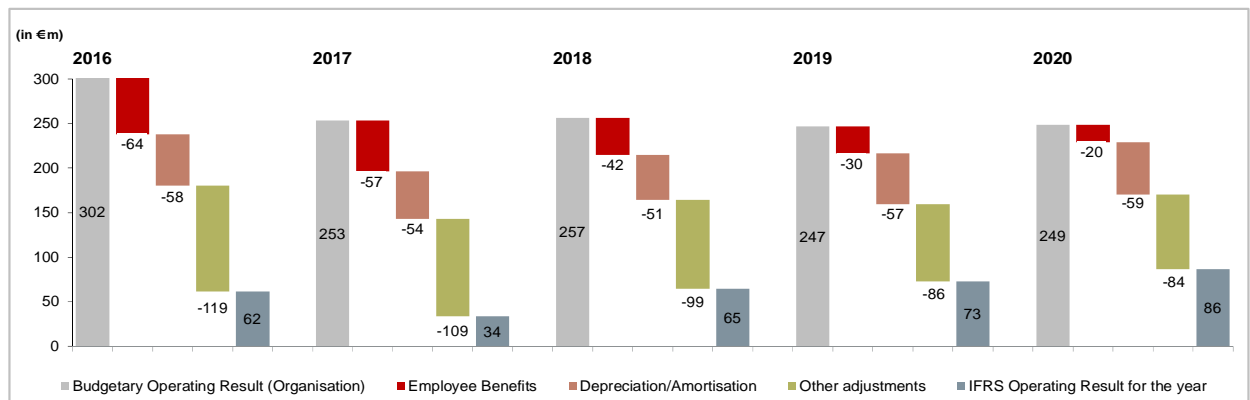
D. PLAN FINANCIAL STATEMENTS UNDER IFRS

a) Statement of Comprehensive Income

Operating Result

The Plan Statement of Comprehensive Income is derived from the Authorisation Budget of the Organisation (Operating Result) as follows:

- Employee Benefits: Contributions to PSSS are replaced by the current and past service cost on DBOs and service cost for SSP. Further adjustments relate to the netting of internal tax, differences in benefits paid as well as changes in provisions for leave not taken and personnel expenses for home loans;
- Depreciation and amortisation for fixed assets are introduced;
- Other adjustments relate to timing difference in revenue recognition for procedural fees (Prepaid Fees difference between opening and closing balance), recognition of internally developed intangible assets, finance lease adjustments and reallocations of Income and Expenditure within Operational and Financial Result that is treated different between the Authorization Budget and IFRS.



Transition from Authorisation Budget to IFRS (in €m)	Budget		Estimates			
	2015	2016	2017	2018	2019	2020
Budgetary Operating Result (Organisation)	320	302	253	257	247	249
Employee Benefits	-42	-64	-57	-42	-30	-20
Depreciation/Amortisation	-64	-58	-54	-51	-57	-59
Other adjustments	-159	-119	-109	-99	-86	-84
IFRS Operating Result for the year	54	62	34	65	73	86

The IFRS Operating Result comprises of the following items:

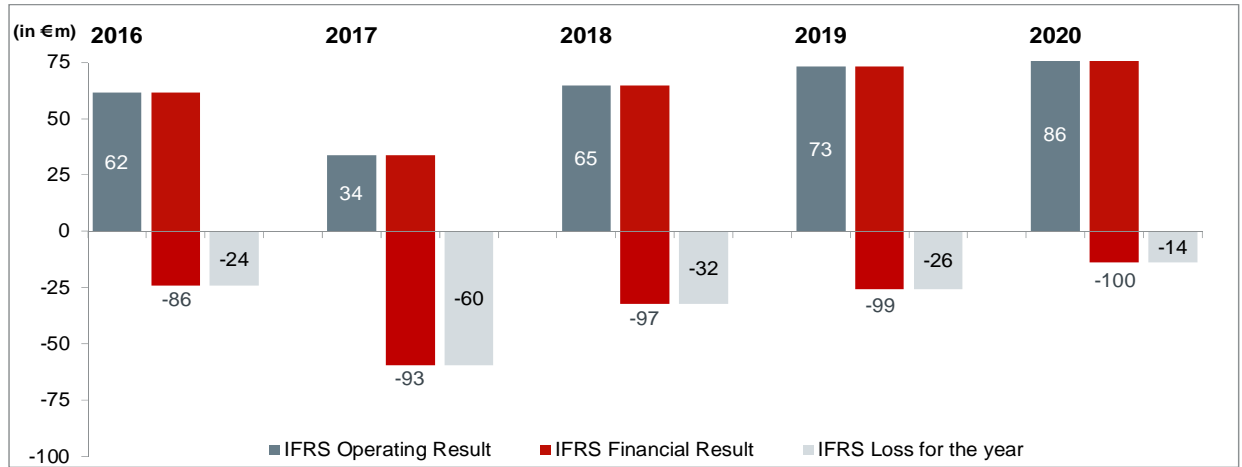
(in €m)	Budget		Estimates			
	2015	2016	2017	2018	2019	2020
Revenue	1 664	1 731	1 784	1 852	1 898	1 967
Other operating income	4	4	4	4	4	4
Work performed and capitalized	5	5	5	5	5	5
Employee benefit expenses	-1 311	-1 362	-1 417	-1 468	-1 524	-1 584
Depreciation and amortisation expenses	-64	-58	-54	-51	-57	-59
Other operating expenses	-243	-259	-289	-278	-253	-247
IFRS Operating Result for the year	54	62	34	65	73	86

The revenue for 2016 is expected to grow by an amount of €67m, in comparison with Budget 2015, due to the expected growth in filings, production, designation and renewal fees for applications as well as granted patents. Employee benefit expenses for 2016 increase by €51m compared to the Budget 2015 in line with the variation in the Authorisation Budget.

The Operating Result for 2016 is positive at €62m, which is slightly higher than the estimated Operating Result for 2015.

Financial Result

The forecast IFRS results of the Organisation are shown below, with a breakdown between the Organisation's Operating and Financial results.



(in €m)	Budget		Estimates			
	2015	2016	2017	2018	2019	2020
IFRS Operating Result for the year	54	62	34	65	73	86
IFRS Financial Result for the year	-98	-86	-93	-97	-99	-100
Other Comprehensive Income for the year	-	-	-	-	-	-
IFRS Total Comprehensive Income for the year (IFRS Loss for the year)	-44	-24	-60	-32	-26	-14

It must be noted that due to the underlying uncertainty of interest rate changes, no Other Comprehensive Income is planned.

The Financial Result is mainly triggered by the return on the expected level of assets of the RFPSS netted by the interest cost of the Defined Benefit Obligation (DBO). In comparison with the Budget 2015, it is expected to improve by €12m, but it is still negative at €-86m. The Financial Result remains highly volatile, as being dependent on the evolution of the financial markets.

IFRS Total Comprehensive Income for the year

The expected IFRS Total Comprehensive Income for the year 2016 amounts to €-24m, an improvement of €20m compared to Budget 2015.

b) Statement of Financial Position under IFRS

(in €m)	Budget		Estimates			
	2015	2016	2017	2018	2019	2020
Fixed Assets	676	755	780	790	775	738
RFPSS	6 500	6 923	7 363	7 822	8 296	8 785
Liquidity	1 850	1 947	2 076	2 237	2 414	2 568
Other Assets	390	425	462	496	533	574
TOTAL ASSETS	9 416	10 049	10 682	11 345	12 017	12 664
Equity	-1 754	-1 778	-1 837	-1 870	-1 895	-1 909
DBO	9 750	10 353	10 971	11 599	12 235	12 878
Prepaid Fees	1 050	1 079	1 103	1 125	1 146	1 175
Other Liabilities	370	395	445	491	531	520
TOTAL EQUITY AND LIABILITIES	9 416	10 049	10 682	11 345	12 017	12 664

Assets
Fixed Assets

The fixed assets of the EPO (property, plant, equipment and intangible assets) are forecasted to significantly increase between 2016 and 2018, following building investments for the new building in The Hague and the capitalisation of intangible assets related to the IT Roadmap.

RFPSS

The RFPSS assets are expected to grow albeit at a slightly decreasing rate (6,2% on average p.a.) reaching €8 785m in 2020. The decreasing growth rate is caused by a declining net balance between contributions, expected returns and disbursements during 2016 and 2020.

Liquidity

The liquidity is made up of the current and non-current bonds, other financial assets as well as cash and cash equivalents as defined under IFRS. The liquidity is expected to increase primarily over the period, allowing a full financing with own resources of the investments planned, mainly the new building in The Hague.

Other Assets

Other Assets are planned to increase between 2016 and 2020 following the growth in trade and other receivables as well as in Salary Savings Plan Assets.

Equity and Liabilities

Equity

The forecast evolution of the net equity is assuming a 5% standard discount rate for Employee Benefits. The expected (negative) equity between 2016 and 2020 remains relatively stable between €-1 778m and €-1 909m.

It should be noted that the expected negative equity at the end of 2015 (€-1 754m) is significantly lower than the one as at end of the latest closed accounting period (31.12.2014: €-12 340m). The variation is primarily caused by the difference between the assumed discount rate of 5% for the DBO and that of the year-end closure 2014 of 1,61% (for pensions).

The volatility of the discount rate, combined with the high sensitivity of the assessment of the liabilities to changes in the discount rate, can lead, at least in the short term, to extreme fluctuations in the actual values of the liabilities and consequently of the negative equity. The development of the Equity shown in the table before is therefore meant to illustrate primarily its expected evolution from year-to-year when computed on a comparable basis, rather than to allow for comparison between forecasts and actuals.

Defined Benefit Obligations (DBO)

Throughout the planning period, a standardized discount rate of 5% has been assumed (compared to the actual discount of 1,61% for pensions). The Defined Benefit Obligations are planned to grow on average by 5,7% p.a., a slightly lower percentage than the RFPSS assets, reaching € 12 878m in 2020.

Prepaid Fees

The prepaid fees (current and non-current), show an increase of 2,3% on average p.a., corresponding approximately to the trend in the planned evolution of total pending applications.

Other Liabilities

Other liabilities (current and non-current) mainly increase due to higher trade and other payables as well as Salary Savings Plan Obligations. The weight of the Salary Savings Plan in both assets and liabilities is still low throughout the planning period, and amounts to € 195m or 1,5% of the DBO by the end of 2020.

Future renewal fees for European patents and costs for work not completed in the excess of prepaid fees received

(in €m)	Budget		Estimates			
	2015	2016	2017	2018	2019	2020
NPV of renewal fees	3 036	3 072	3 127	3 227	3 351	3 388
Costs for work not completed in excess of prepaid fees received	-1 265	-1 324	-1 313	-1 297	-1 278	-1 251

The net present value (NPV) of future renewal fees for European patents payable under Art. 39 EPC is not recognized as an asset in the Organisation's Statements of Financial Position, because there is no obligation on the part of the patentees to renew their patents each year. These fees are therefore excluded from the Statement of Financial Position under IFRS, but are included as a note to the Financial Statements, for information purposes only.

Another element that is not recognized in the Statement of Financial Position under IFRS relates to costs for work not completed in excess of prepaid fees. It is possible that income from procedural and 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, no provision is recognized. While the amount of prepaid fees for work not yet completed is included as a liability, the true cost of performing this work in excess of those fees received is not.

The table above shows the respective figures of these two elements. When considering these amounts, however, it should be borne in mind that they relate to two different portfolios: granted patents as well as pending applications and that they also have different cash flow patterns. Therefore, they are, as such, not directly comparable with each other. Furthermore, they do not fully represent the future development of costs and revenues. Also they do not take account of future renewal fees on pending applications.

E. ANNEXES

1. Authorisation Budget (Organisation)

**SUMMARY OF INCOME AND EXPENDITURE
(PARTS I AND II OF THE BUDGET)
in €'000**

	INCOME	EXPENDITURE
PART I MAIN BUDGET	2 241 955	2 241 955
PART II PENSION AND SOCIAL SECURITY SCHEMES	401 115	401 115
TOTAL	2 643 070	2 643 070
Adjustment for transferrals within the budget:		
PART I MAIN BUDGET		
Section 1: Operating section		
Office contributions to pension and social security schemes (Articles 3002/3)		209 400
Transfer of operating result		226 275
Section 2: Capital section		
Transfer of operating result (Article 6000)	226 275	
PART II PENSION AND SOCIAL SECURITY SCHEMES		
Section 1: Operating section		
Office contributions to pension and social security schemes (Articles 5600-5)	209 400	
Transfer of operating results		75 710
Section 2: Capital section		
Transfer of operating results (Article 6600)	75 710	
NET TOTAL	2 131 685	2 131 685

2. **Authorisation Budget (Office)**
Authorisation Budget (Pension and Social Security Schemes)
Authorisation Budget (Office and Pension and Social Security Schemes – consolidated)

AUTHORISATION BUDGET UNDER ARTICLE 25(1)a) FINREGS - OFFICE

in €'000

Chap. Gr.	EXPENDITURE	Accounts		Budget			Estimates	
		2014	2015	2016	2017	2018	2019	2020
Section 1: Operating section								
30	Staff	1 350 269	1 491 940	1 506 960	1 580 070	1 657 105	1 736 755	1 818 845
31	Property and equipment maintenance	43 169	46 635	41 805	55 655	50 200	41 355	42 100
32	EDP equipment maintenance	89 278	101 800	113 100	109 200	115 100	106 000	99 000
33	Co-operation and meetings	11 302	21 805	21 620	21 565	21 645	21 685	21 885
34	Patent information and communication	16 158	18 740	19 300	19 240	19 495	19 775	20 040
35	General operating expenditure	54 468	66 165	69 290	86 560	78 160	74 020	75 955
37	Project expenditure funded by third parties	161	320	280	280	280	280	280
38	Financial expenditure	205	440	250	250	250	250	250
30-38	Sub-total	1 565 010	1 747 845	1 772 605	1 872 820	1 942 235	2 000 120	2 078 355
<i>Transfer to Section 2</i>								
	Operating section, surplus	363 623	211 575	226 275	182 350	192 060	191 825	206 315
TOTAL operating section		1 928 633	1 959 420	1 998 880	2 055 170	2 134 295	2 191 945	2 284 670
Section 2: Capital section								
410	Land and buildings	22 242	92 585	112 835	50 770	37 355	17 400	12 670
411	Furniture and equipment	789	2 390	2 900	3 755	2 145	1 360	1 410
42	EDP tangible and intangible assets	11 957	23 600	12 000	10 000	3 000	3 000	3 000
45	Loans and advances to third parties	16 529	16 800	16 800	16 800	16 800	16 800	16 800
49	Authorisation budget, surplus	331 844	93 000	98 540	117 825	149 560	170 065	189 235
TOTAL capital section		383 361	228 375	243 075	199 150	208 860	208 625	223 115

AUTHORISATION BUDGET UNDER ARTICLE 25(1)a) FINREGS - OFFICE

in €'000

Chap. Gr.	I N C O M E	Accounts		Budget		Estimates		
		2014	2015	2016	2017	2018	2019	2020
Section 1: Operating section								
500	Income from filing and search (EPC)	170 904	173 455	176 520	177 685	185 020	188 530	197 935
501	Income from filing and search (PCT)	133 643	130 690	132 345	133 115	139 145	140 300	146 515
509	Income from other search work	59 592	63 075	63 075	63 075	63 075	63 075	63 230
510	Income from examination, grant and opposition (EPC)	263 785	263 775	263 925	266 145	286 230	291 840	310 345
511	Income from examination (PCT)	16 105	16 680	13 755	13 530	13 495	13 450	13 405
52	Appeal fees	3 839	4 275	4 395	4 395	4 615	4 615	4 840
530	Designation and renewal fees (EPC)	1 044 296	1 047 685	1 094 035	1 138 500	1 171 530	1 205 000	1 249 685
532	Renewal fees (UPP)	0	0	p.m.	p.m.	p.m.	p.m.	p.m.
535	Extension and validation fees	174	190	240	300	320	320	320
540	Patent information products	7 609	7 470	7 335	7 215	7 300	7 180	7 275
55	General operating income	198 946	220 055	221 635	231 685	242 235	253 080	264 140
57	Third-party project funding	161	320	280	280	280	280	280
58	Financial income	29 579	31 750	21 340	19 245	21 050	24 275	26 700
50-58	Sub-total	1 928 633	1 959 420	1 998 880	2 055 170	2 134 295	2 191 945	2 284 670
TOTAL operating section		1 928 633	1 959 420	1 998 880	2 055 170	2 134 295	2 191 945	2 284 670
Section 2: Capital section								
60	Operating section, surplus	363 623	211 575	226 275	182 350	192 060	191 825	206 315
650	Repayment of staff home loans	19 738	16 800	16 800	16 800	16 800	16 800	16 800
TOTAL capital section		383 361	228 375	243 075	199 150	208 860	208 625	223 115

**AUTHORISATION BUDGET UNDER ARTICLE 25(1)a FINREGS
PENSION AND SOCIAL SECURITY SCHEMES
in €'000**

Art.	EXPENDITURE	Accounts		Budget		Estimates		
		2014	2015	2016	2017	2018	2019	2020
Section 1: Operating section								
3600	Pension payments	119 183	138 515	169 400	184 000	204 000	225 000	249 000
3601	Salary Savings Plan (SSP)	279	1 050	2 140	3 500	1 300	1 500	1 300
3605	Healthcare	60 222	71 395	71 225	75 420	80 325	85 510	91 520
3605	Long-term care payments	4 174	4 280	4 545	4 895	5 245	5 595	5 945
3605	Death payments	2 263	9 015	2 385	2 520	2 640	2 730	2 865
	Sub-total	186 121	224 255	249 695	270 335	293 510	320 335	350 630
	<i>Transfer to Section 2</i>							
	Operating section, surplus	111 026	108 000	75 710	70 895	64 445	54 870	42 445
TOTAL operating section		297 147	332 255	325 405	341 230	357 955	375 205	393 075
Section 2: Capital section								
4610	Transfer of DC plan surplus to SSP Fund	8 180	14 835	17 405	18 820	24 095	26 925	30 365
	Transfer of surplus to Reserve Funds	102 846	93 165	58 305	52 075	40 350	27 945	12 080
TOTAL capital section		111 026	108 000	75 710	70 895	64 445	54 870	42 445
INCOME								
Section 1: Operating section								
5600	Pension contributions	200 079	213 955	210 850	218 545	226 390	234 610	242 830
5601	Salary Savings Plan (SSP)	8 459	15 885	19 545	22 320	25 395	28 425	31 665
5605	Healthcare	75 706	81 415	78 810	83 220	88 065	93 075	98 405
5605	Long-term care insurance contributions	10 640	11 985	13 815	14 625	15 465	16 365	17 310
5605	Death insurance contributions	2 263	9 015	2 385	2 520	2 640	2 730	2 865
TOTAL operating section		297 147	332 255	325 405	341 230	357 955	375 205	393 075
Section 2: Capital section								
6600	Net income							
	- Pension and social security schemes	102 846	93 165	58 305	52 075	40 350	27 945	12 080
	- Defined Contributions Plan (SSP)	8 180	14 835	17 405	18 820	24 095	26 925	30 365
TOTAL capital section		111 026	108 000	75 710	70 895	64 445	54 870	42 445

AUTHORISATION BUDGET UNDER ARTICLE 25(1)a) FINREGS OFFICE / PENSION AND SOCIAL SECURITY SCHEMES (consolidated, adjusted for transferrals within the budget) in €'000			
Chap.	E X P E N D I T U R E	Accounts 2014	Budget 2015 2016
Section 1: Operating section			
30	Staff	1 152 855	1 277 115 1 297 560
31	Property and equipment maintenance	43 169	46 635 41 805
32	EDP equipment maintenance	89 278	101 800 113 100
33	Co-operation and meetings	11 302	21 805 21 620
34	Patent information and communication	16 158	18 740 19 300
35	General operating expenditure	54 468	66 165 69 290
36	Pension and social security schemes	186 121	224 255 249 695
37	Project expenditure funded by third parties	161	320 280
38	Financial expenditure	205	440 250
30-38	Sub-total	1 553 717	1 757 275 1 812 900
Operating section, surplus		474 649	319 575 301 985
TOTAL operating section		2 028 366	2 076 850 2 114 885
Section 2: Capital section			
410	Land and buildings	22 242	92 585 112 835
411	Furniture and equipment	789	2 390 2 900
42	EDP tangible and intangible assets	11 957	23 600 12 000
45	Loans and advances to third parties	16 529	16 800 16 800
Consolidated surplus		442 870	201 000 174 250
TOTAL capital section		494 387	336 375 318 785

AUTHORISATION BUDGET UNDER ARTICLE 25(1)a) FINREGS OFFICE / PENSION AND SOCIAL SECURITY SCHEMES (consolidated, adjusted for transferrals within the budget) in €'000			
Chap. Gr.	I N C O M E	Accounts 2014	Budget 2015 2016
Section 1: Operating section			
500	Income from filing and search (EPC)	170 904	173 455 176 520
501	Income from filing and search (PCT)	133 643	130 690 132 345
509	Income from other search work	59 592	63 075 63 075
510	Income from examination, grant and opposition (EPC)	263 785	263 775 263 925
511	Income from examination (PCT)	16 105	16 680 13 755
52	Appeal fees	3 839	4 275 4 395
530	Designation and renewal fees (EPC)	1 044 296	1 047 685 1 094 035
532	Renewal fees (UPP)	0	p.m. p.m.
535	Extension and validation fees	174	190 240
540	Patent information products	7 609	7 470 7 335
55	General operating income	198 946	220 055 221 635
56	Pension and social security schemes	99 733	117 430 116 005
57	Third-party project funding	161	320 280
58	Financial income	29 579	31 750 21 340
TOTAL operating income		2 028 366	2 076 850 2 114 885
Section 2: Capital section			
60/66	Operating section, surplus	474 649	319 575 301 985
650	Repayment of staff home loans	19 738	16 800 16 800
TOTAL capital section		494 387	336 375 318 785

3. IFRS Results

PLAN IFRS STATEMENT OF COMPREHENSIVE INCOME	
EUROPEAN PATENT ORGANISATION	
in €'000	
	IFRS Plan 2016
REVENUE	
Revenue from patent and procedural fees	
Ch. 50 Filing and search	329 846
51 Examination, grant and opposition	228 756
52 Appeal	3 719
53 Designation, renewal, extension and validation	1 094 275
54 Other revenue	74 210
Other operating income	
Ch. 55 General operating income	4 020
57 Third party project funding	280
Work performed and capitalised	5 000
Total	1 740 106
EXPENSES	
Employee benefit expenses	
Ch. 30 Staff/Personnel expenses	1 361 605
Depreciation and amortisation expenses	
Ch. 39 Depreciation	57 533
Other operating expenses	
Ch. 31 Property and equipment maintenance	41 805
32 EDP equipment maintenance	107 095
33 Co-operation and meetings	21 620
34 Patent information and public relations	19 300
35 General operating expenditure	69 340
37 Project expenditure funded by third parties	280
Total	1 678 578
OPERATING RESULT	61 528
Finance revenue	
Ch. 58 Finance income	399 695
Finance costs	
Ch. 38 Finance expenditure	485 429
FINANCIAL RESULT	- 85 734
PROFIT/(LOSS) FOR THE YEAR	- 24 205
Other Comprehensive Income	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	- 24 205

PLAN IFRS STATEMENTS OF COMPREHENSIVE INCOME			
EUROPEAN PATENT ORGANISATION			
in €'000			
IFRS Plan			
2017	2018	2019	2020
305 593	310 113	318 982	330 553
261 817	290 977	294 702	307 475
3 724	4 657	4 949	5 202
1 138 800	1 171 850	1 205 320	1 250 005
74 090	74 175	74 055	74 150
4 040	4 070	4 095	4 125
280	280	280	280
5 000	5 000	5 000	5 000
1 793 344	1 861 122	1 907 383	1 976 790
1 416 817	1 467 637	1 524 289	1 584 064
53 763	50 852	57 282	59 049
55 655	50 200	41 355	42 100
105 535	108 018	95 456	87 040
21 565	21 645	21 685	21 885
19 240	19 495	19 775	20 040
86 610	78 210	74 070	76 005
280	280	280	280
1 759 465	1 796 337	1 834 191	1 890 463
33 879	64 785	73 191	86 328
422 934	451 421	482 502	513 985
516 350	548 440	581 233	614 124
- 93 415	- 97 019	- 98 731	- 100 138
- 59 537	- 32 235	- 25 540	- 13 811
-	-	-	-
- 59 537	- 32 235	- 25 540	- 13 811

**PLAN IFRS STATEMENTS OF FINANCIAL POSITION
EUROPEAN PATENT ORGANISATION**

Estimated opening Statement of Financial Position per 01.01.2016 and
Plan IFRS Statement of Financial Position per 31.12.2016 (in €'000)

	IFRS Plan	
	01.01.2016	31.12.2016
NON-CURRENT ASSETS		
Property, plant and equipment	608 085	683 773
Intangible assets	68 114	70 729
RFPSS assets	6 499 778	6 922 596
Bonds	1 136 073	1 136 073
Home loans to staff	105 147	107 815
Salary Savings Plan Asset	47 163	67 765
Other assets	57 039	58 425
	8 521 399	9 047 175
CURRENT ASSETS		
Trade and other receivables	175 948	185 225
Bonds	199 386	199 386
Home loans to staff	5 008	5 330
Other financial assets	470 789	470 789
Cash and cash equivalents	43 871	141 188
	895 003	1 001 918
TOTAL ASSETS	9 416 401	10 049 093
EQUITY AND LIABILITIES		
EQUITY		
Retained earnings	-2 186 735	-2 210 941
Other reserves	432 986	432 986
TOTAL EQUITY	-1 753 749	-1 777 955
NON-CURRENT LIABILITIES		
Defined benefit obligation	9 750 313	10 352 855
Salary Savings Plan Obligation	47 163	67 765
Trade and other payables	10 599	10 703
Finance lease liabilities	5 390	1 577
Provisions	873	1 101
Prepaid fees	667 409	690 436
	10 481 745	11 124 437
CURRENT LIABILITIES		
Trade and other payables	296 801	300 746
Finance lease liabilities	3 984	5 663
Provisions	4 735	7 724
Prepaid fees	382 887	388 478
	688 405	702 612
TOTAL LIABILITIES	11 170 151	11 827 048
TOTAL EQUITY AND LIABILITIES	9 416 401	10 049 093

Plan IFRS Statements of Financial Position per 31.12.2017 - 31.12.2020
(in €'000)

IFRS Plan			
31.12.2017	31.12.2018	31.12.2019	31.12.2020
710 222	727 656	719 875	690 795
70 142	62 456	54 815	47 026
7 363 234	7 821 649	8 295 869	8 784 887
1 136 073	1 136 073	1 136 073	1 136 073
110 485	112 604	115 425	118 284
90 977	120 917	155 456	195 483
59 844	61 299	62 788	64 313
9 540 977	10 042 653	10 540 302	11 036 861
195 610	195 352	192 836	189 623
199 386	199 386	199 386	199 386
5 531	6 267	6 197	6 066
470 789	470 789	470 789	470 789
269 448	430 762	607 327	761 506
1 140 764	1 302 556	1 476 535	1 627 370
10 681 741	11 345 209	12 016 837	12 664 232
-2 270 476	-2 302 710	-2 328 248	-2 342 059
432 986	432 986	432 986	432 986
-1 837 490	-1 869 724	-1 895 262	-1 909 074
10 971 337	11 598 992	12 235 413	12 877 572
90 977	120 917	155 456	195 483
10 703	10 703	10 717	10 720
1 387	5 157	8 818	12 895
1 350	1 584	1 452	1 402
690 950	690 750	690 628	690 500
11 766 704	12 428 104	13 102 483	13 788 572
325 950	334 622	335 125	278 754
3 189	6 230	9 339	10 923
11 688	11 320	10 267	10 081
411 701	434 659	454 883	484 976
752 528	786 830	809 616	784 733
12 519 232	13 214 934	13 912 099	14 573 305
10 681 741	11 345 209	12 016 837	12 664 232

4. 2016 Table of Posts

Job Group	Budget					
	Office (DGs 0, 1, 2, 4, 5)		DG 3/Boards of Appeal		TOTAL EPO	
	2015	2016	2015	2016	2015	2016
1	5	5	1	1	6	6
2	32	30	30	30	62	60
3	212	283	148	148	360	431
4	4 871	4 839	21	21	4 892	4 860
5	239	244	3	3	242	247
6	1 462	1 423	51	48	1 513	1 471
Total	6 821	6 824	254	251	7 075	7 075

Notes

Art. 25(2) a) FinRegs

The President is authorised to delete a number of redundant vacant permanent posts in Job Groups 5 and 6 up to the yearly limit specified in Annex I FinRegs and replace these with the corresponding number of permanent posts in Job Groups 2 to 4 (CA/D 21/13).

Contract staff

Up to 5% of permanent posts may be filled by contract staff. Contract staff may also be engaged under budget Article 3010.

Job Groups

- 1 Corresponds to former grades A7 and A7+ and includes grades G16 - G17
- 2 Corresponds to former grade A6 and includes grades G15 - G16
- 3 Corresponds to former grade A5 and includes grades G13 - G15
- 4 Corresponds to former grade A4/1 and includes grades G7 - G13
- 5 Corresponds to former grade B6/4 and includes grades G7 - G10
- 6 Corresponds to former grades B5/1, C6/4, and C5/1 and includes grades G1 - G9