Europäische Patentorganisation
European Patent Organisation
Organisation européenne des brevets

Verwaltungsrat
Administrative Council
Conseil d'administration

CA/20/16

# *Report of the Board of Auditors of the European Patent Organisation on the 2015 accounting period*

**CA/20/16**

Orig.: de, en

Munich, 06.05.2016

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| SUBJECT: | Board of Auditors' report on the 2015 accounting period<br>Explanations and reasons supplied by the President of the Office |
| SUBMITTED BY: | 1. Board of Auditors of the European Patent Organisation<br>2. President of the European Patent Office |
| ADDRESSEES: | 1. Supervisory Board of the RFPSS (for opinion, Article 80 FinRegs)<br>2. Budget and Finance Committee (for opinion, Article 80 FinRegs)<br>3. Administrative Council (for approval and discharge, Article 80 FinRegs and Article 49(3) and (4) EPC) |

## CONTENTS

# I. SUMMARY

## A. OUR TASK IN BRIEF

1) The Board of Auditors performs its tasks in accordance with Articles 49 and 50 EPC, its rules of procedure and professional audit principles.

2) Under Article 50 EPC in conjunction with Article 79 FinRegs, our report contains in particular:

- an audit opinion on the accounts
- the results of our audit carried out to ascertain whether the financial management of the Office is sound
- whatever observations we consider necessary as to the appropriateness of the existing budgetary and financial arrangements.

## B. OPINION ON THE ACCOUNTS

### 1. ACCOUNTING RULES

3) In 2005, the EPO introduced IFRS, albeit subject to an exception in Article 1(3) FinRegs enabling it to net out its social-security liabilities against RFPSS assets.

4) The Article 1(3) FinRegs exception was deleted with effect from 1 January 2011 (CA/D 5/11).

### 2. OPINION

5) We have been able to give an audit opinion without any reservations on the 2015 accounts.

6) The notes to the financial statements shed further light on specific aspects of the balance sheet.

## C. OPINION ON FINANCIAL MANAGEMENT

7) Our audit included not only the annual accounts but also management audits concerning in particular the financial situation, operations and the RFPSS. These have given rise to the following main findings.

# 1. FINANCIAL SITUATION

## 1.1. Financial reporting

8) The EPO revised its financial reporting procedure with effect from 1 January 2011, doing away with the exception under Article 1(3) FinRegs. As a result, its accounts as from 2011 are comparable under IFRS. As set out in CA/84/11, discontinuing the corridor approach and not netting out social-security assets and liabilities in the balance sheet mean that the annual result is subject to greater volatility.

## 1.2. Balance-sheet figures

9) As at 31 December 2015, non-current assets were approx. EUR 8 687m. Of the EUR 672m increase, EUR 507m came from RFPSS net assets and EUR 167m from bonds.

10) As at 31 December 2015, non-current liabilities amounted to some EUR 16 687m, including EUR 15 828m for defined benefit liabilities (for pensions and similar obligations). They were down EUR 3 850m from 2013, with defined benefit liabilities falling by EUR 3 912m

11) Current assets were up by EUR 23m, while current liabilities remained roughly the same.

## 1.3. Economic situation, factoring in the present value of future national renewal fees

12) The present value of future national renewal fees cannot be shown under IFRS because there is no legal obligation to pay them.

13) With no eligible future income to set against the EPO's long-term liabilities from its future business, its balance sheet looks rather lopsided. To counteract that, the present value of future national renewal fees needs to be borne in mind. The figures are taken from CA/60/16.

14) Each year up to 2011, net business assets and pension liabilities were in balance. The imputed shortfall is EUR 5.4bn (last year: EUR 9.8bn), the fluctuations being largely attributable to changes in discount rates.

15) For a long-term view of the actuarial balance of the pension and long-term care (LTC) insurance schemes, see the actuarial valuation as at 31 December 2014 (CA/53/15) and the Office's comments on it (CA/54/15). A fresh actuarial study will be carried out in two years' time.

### 1.4. Income statement

16) At EUR -146m, the operating result is negative and down EUR 140m from the 2014 figure. The main reason for the 2015 figure is that, while revenue rose by EUR 140m, employee benefit expenses increased by EUR 264m.

17) The financial result is EUR -76m, i.e. EUR 232m lower than in 2014.

18) The profit of EUR 4 767m under other comprehensive income can be attributed almost exclusively to the increased discount rates (e.g. the discount rate for pension obligations rose from 1.61% to 2.60%).

### 1.5. Statement of cash flows

19) The inflow from operating activities is EUR 493m, the outflow from investment activities EUR 490m. Taking into account the EUR 6m outflow from financing activities, there has been a net decrease of EUR 3m in cash and cash equivalents, i.e. down EUR 33m from the 2014 figure.

### 1.6. Budget and forecasting accuracy

20) In CA/D 1/14, the AC adopted an authorisation budget within the meaning of Article 25(1)(a) FinRegs totalling EUR 2 094m. The actual outturn was EUR 2 160m, i.e. EUR 67m (3.2%) higher.

21) For the RFPSS, income is EUR 22m (6.7%) and expenditure EUR 16m (7.1%) under plan.

## 2. OPERATIONS

### 2.1. Comments on the accounts and financial management

22) The disclosure in the notes to the financial accounts (CA/69/16) is comprehensive and conclusive. Changes in schemes (e.g. return to tax adjustment, new career scheme, invalidity allowance) have been properly taken into account.

23) The increase in the discount rate for pension liabilities from 1.61% (2014) to 2.60% results from continued application of the calculation method consistently used for many years. The rate is in the benchmark range.

24) IFRS 9 (2010) was used for reporting of financial instruments. From 1 January 2018, it will be compulsory to use IFRS 9 (2014).

25) Appropriation transfers under Article 34(2) FinRegs (between chapters and not exceeding 20% of the amounts under the chapters involved) amounted to EUR 6m. There were no transfers under Article 34(3) FinRegs (decision by the BFC or AC).

### 2.2. Internal control system

#### (a) Analysis of accounting data

26) The accounting data was analysed as part of the audit of the annual financial statements.

27) Regarding the purchase process, audit procedures were performed, such as analysis of segregation of duties, analysis of document flow, quantity deviations between purchase order, goods receipt and invoice, price differences between purchase order and invoice, analysis of vendor master data, etc. No significant observations in respect of the audit issues process were identified.

28) In respect of the manual journal entries, audit procedures were performed, such as analysis of post-closing manual journal entries, analysis of journal entries containing certain keywords, analysis of journal entries with rounded and consistent endings, analysis of journal entries posted on weekends and outside working hours, etc. No significant observations in respect of the audit issues process were identified.

29) All bank statements indicate that bank transactions need at least two approved signatures from two groups of predetermined staff.

### (b) RFPSS governance

30) Control system and compliance system are functioning very well, although there is room for improvement on some, more detailed aspects.

31) The status of the assurance officer is different from that in all other known organisations. Consequently, the role of assurance officer cannot be compared with common standards or best practice from the outside but has to be defined and directed solely by the Supervisory Board. The Supervisory Board has laid down basic principles applicable to the role of assurance officer in RFPSS/SB 9/13. A draft of the precise mandate is still being developed.

32) The Supervisory Board receives extensive monthly reports, quarterly reports and annual performance reports. This might lead to a short-term orientation.

33) The RFPSS is still in a phase of a net cash inflow from the EPO. According to the actuarial projections, this is expected to last for at least the next five to ten years. The main risks are related to the prospective liabilities and the long-term goal of achieving 3.75% over inflation. In order to assess the (strategic) risk and possible reactions to it, a new study of the strategic asset allocation will be performed in 2016. The outcome will give an indication of how to deal with those risks.

34) Benchmarks are regularly reviewed when the studies of strategic asset allocation are performed.

35) The total internal cost of the Fund Administration, incl. Supervisory Board, Internal Audit and Risk Assurance, plus Compliance Assurance, was 0.11% of total assets under management.

36) RFPSS asset management has an excellent team and a prudent long-term investment approach, which includes frequent serious exercises to determine the long-term (strategic) asset allocation and a high-level of discipline in sticking to that asset allocation.

37) Within the next six years, five senior people within the Fund Management will reach the age of mandatory or optional retirement.

## 2.3. Business administration

### (a) Quality management system

38) The EPO has defined an ISO 9001:2008 compliant QMS which has to ensure that products provided to users conform to all relevant requirements and meet the user needs and expectations. The QMS is related to the EPO's patent grant process.

39) The President has the overall responsibility for ensuring that the QMS is maintained and improved in order to achieve the set objectives. The Management Advisory Committee supports the President. The Management Representative for Quality is responsible for maintaining and improving the QMS at all levels of the organisation. Each vice-president is responsible for setting objectives and strategy for his DG.

40) In 2015, the ISO 9001 certification audit took place successfully, with the scope including the patent grant process. Processes in the field of "Patent Information and Post-grant Activities" are now being prepared for inclusion in the QMS. Those processes will be also part of the next ISO 9001 certification audit.

41) We did not identify any major shortcomings in the QMS during the audit, and have no recommendations.

### (b) Recruitment and retirement

42) The authority to appoint employees lies with the President. It has been delegated to the Principle Director Human Resources. The Principle Directorate Human Resources (PD 4.3) is responsible for the administrative aspects of the recruitment process, which facilitates the recruitment of suitable employees for the EPO.

43) For examiners, procedure is described in full. For non-examiners the description is incomplete.

44) A permanent employee will be retired either at the end of the month during which he reaches the age of 65 or at his own request from the age of 50 onwards. He has to inform the EPO of his plans three months before the intended retirement date by submitting a letter requesting retirement to the relevant HR interlocutor.

45) The possibility of short-term notice of early retirement (three months) can cause difficulties in terms of timely re-filling of posts, especially in higher-ranking positions.

### (c) Follow-up: review and internal appeals

46) The number of new cases remains almost the same, while the number of requesters seeking management review has increased. Most requests were related to regulations / policies. The high number of requesters in 2015 resulted from the following mass-requests:

- 1 462 requesters - invalidity insurance - implementation in payslip
- 599 requesters – new career system - breach of acquired pension rights, inequality and arbitrary decision
- 488 requesters - new career system - abolition of step advancement - payslip - through argumentation.

47) Although the Office took some steps, there was no significant increase in overall legal capacity for internal conflict resolution in 2015.

48) The backlog at the ILOAT increased, as more new cases were sent than ILOAT made decisions on.

### (d) Follow-up patent grant process

49) A key element of the "Early Certainty from Search" procedure implemented on 1 July 2014 is that search files need to be processed in time (priority 1). The backlog of priority 1 files was reduced significantly in 2014. During 2015, it was further reduced, falling from 35 030 in December 2014 to 11 562 in December 2015.

## 2.4. IT

### (a) IT roadmap

50) The IT roadmap and the associated projects are making good progress and are expected to finish on time for stream 2 but a delay is expected in the delivery of the re-engineered patent grant process based on the CMS platform. Based on current planning, it is expected that IT roadmap implementation will be completed within the planned budget of EUR 140m.

51) Based on the proposed EUR 140m budget for the IT roadmap, actual spends are at EUR 83m. According to CA/T 8/15 the IT roadmap will end up at EUR 140m.

52) The IT security implementation project is close to finish. Guidelines and policies prepared within the IT security project have been finalised and implemented.

53) The total cost for the actual development of the unitary patent functionality on the legacy system is EUR 1.6m for 2015-2016. UNIP can be fully supported by the legacy system, even the re-engineered processes are not present yet to optimise the registration and search process. As reported in CA/T 8/15, UNIP is ready for deployment in April 2016.

**(b) IT security**

54) The Online Filing application, ranked critical in the EPO's Business Impact Analysis, is currently used for approx. 90% of all applications and provides the main technology for patent application. OLF is a client-server architecture.

The online filing server is secured by firewalls and virus checks. Files are processed to the internal servers which are not accessible via the internet. High IT security standards are in place for the Online Filing system and the data included has a strong protection against data manipulation or data theft.

55) Nevertheless, the EPO provides only basic guidelines on how applications have to be secured according to their criticality. The EPO security measures to be applied are defined within the project as part of the security review procedure.

**(c) IT staffing**

56) A strategic workforce plan was implemented in 2015 and an analysis of current environment and strategic objectives has been performed by IM. The strategy is that IM core activities will move from a technology supplier to a strategic business partner and integrator.

A detailed analysis has been performed by the IT department to identify needs of knowledge and skills for the future. A formalised and mandatory development plan has been installed (IDP) to have a standardised project which supports IM in developing the right skills for its existing workforce.

57) The total number of employees in the IM department should be reduced from 383 (currently working in IM) to 374 in 2020. As IT and IT challenges will become more complex in future, it should be challenged if this complexity can still be addressed with a reduced IM workforce in 2020.

## 2.5. Buildings

### (a) Building investments in The Hague

#### Project organisation

58) The composition of the project team has changed, as a result of retirement and personal circumstances, but not the general project organisation. The project team has been completed again by internal staff and external support.

#### Progress of project and time schedule

59) According to the current time schedule the completion of the new building is still expected for 8/2017 and the completion of the whole project for 5/2019 (no change since last report).

60) The time schedule shows that the move into the new building is planned to be completed by the end of 11/2017. Considering the number of EPO staff, this is an ambitious date but not impossible.

#### Project costs

61) Cost changes are currently fixed in several variation orders with a total amount of approx. EUR 13.5 m (cost-reducing aspects are not considered to show the current possible maximum of increase in these variation orders). Most of this amount is caused by the EPO itself.

62) Considering the existing contingency budget, the project costs are within the total budget and the cost monitoring should be carried out continuously to keep the costs within the limit.

#### Project risks

63) The project risks (e.g. quality variations, technical problems, delays of decisions) have been identified and documented in the risk log which is updated regularly. Responsibilities are defined and mitigation actions are assigned.

### (b) General aspects and other building activities

#### Maintenance planning

64) Since 2015, the software "epiqr" has been used to register the status of the EPO buildings and plan measures for maintenance. Geometric and technical parameters of the buildings are entered as data into this system. Additionally, the structural and technical status is evaluated and categorised, based on inspections of the buildings. According to the building parameters and the status category the maintenance measures are determined.

65) In previous years, the maintenance was planned according to existing deficiencies. The current intention is to move from deficiency-oriented maintenance to preventive and proactive maintenance.

#### Vienna

66) The renovation project in Vienna was carried out from April 2015 to July 2015. The project costs are within the expected budget.

#### Berlin

67) The project is being organised and executed by the *Bundesanstalt für Immobilienaufgaben* (BImA), a German public authority. Planning is currently ongoing; the beginning of the construction works is planned for mid-2016 and the completion of the project is planned for 2021. The costs for the EPO are limited to EUR 6m (including 20% contingency, excluding VAT). This means a delay of the project dates which is not under control of the EPO.

### (c) Benchmarking building cost

68) Based on surveys of the last few years, we performed a benchmark comparison of essential operating costs of EPO buildings (energy, cleaning, and maintenance). In principle, the costs are within the benchmarks. In some respects, the Isar building incurs higher costs.

a) Energy

69) The energy costs in 2015 are slightly lower than the average of the last five years. In total last year's changes are on a normal and average level relating to price fluctuation, the influence of the weather or changed user behaviour. In general, the energy costs for most buildings are within an average range.

b) Cleaning

70) Separate cleaning contracts have been concluded per object for all buildings except those in The Hague.

71) For buildings located in Germany we observed a moderate increase in costs for market price reasons. Cleaning costs for the German buildings show no significant change over last year. In Vienna, the cleaning costs of the buildings are on the same level as last year.

72) In our opinion, contracts with a term of one year are market price and the cleaning costs are within a reasonable range.

c) Maintenance

73) Overall, the fluctuation in maintenance costs for the buildings result from normal market price fluctuation and from technical requirements to perform maintenance work. The high level of maintenance costs - in direct comparison with all EPO buildings - for the "Isar" building (Munich) reflects especially the building's age and special construction type and also the above-mentioned cost allocation.

74) In 2015, all provided costs were on an intermediate level (approx. EUR 19.50/m²) within an average range for maintenance costs regarding similar buildings.

# II. DETAILED REPORT

## A. PRELIMINARY REMARKS

75) The Board of Auditors of the European Patent Organisation (hereinafter "the Board") reports herein under Article 79 of the Financial Regulations (FinRegs) on the 2015 reporting period.

76) The accounts reached us in good time before 31 March 2016, in compliance with Article 70 FinRegs.

77) Under Article 75 FinRegs and following a public invitation to tender the Board also commissioned certain work from the following audit firms:

- KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, D - Munich (for audit of EPO accounts, business administration and IT)
- BDO AG Wirtschaftsprüfungsgesellschaft, D - Hamburg (for buildings and RFPSS)

78) Pursuant to Article 76(2) FinRegs the checks were intended in particular to establish whether:

- the terms of the budget and other budgetary provisions were adhered to,
- the annual accounts as defined in Article 69 FinRegs were properly substantiated and all transactions properly recorded,
- securities and cash on deposit and in hand accorded with the amounts in the cash accounts,
- procedures were efficient and economical and whether work could be performed more efficiently with fewer staff or other resources, or in other ways.

79) Pursuant to Article 7(1)(c) of the Regulations for the Reserve Funds for Pensions and Social Security (RFPSS), we recommend that the Fund Administrator be discharged in respect of the 2015 accounting period. For our comments on the RFPSS, see Section I.C.2.2 of the Executive Summary and Section II.D.3 in the detailed report below.

80) In accordance with Article 76 FinRegs, the Board or the above firms carried out checks on the EPO premises. Petty cash at all sites was closed before 1 January 2015.

81) We would like to take the opportunity to thank the President and the EPO staff consulted for their help and constructive co-operation.

# B. AUDIT OPINION

We have audited the financial statements, comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes (Article 69(1)(a) of the Financial Regulations), together with the bookkeeping system of the European Patent Organisation (EPO), Munich, for the accounting period 1 January to 31 December 2015 – as disclosed in CA/60/16. Responsibility for maintaining books and records and preparing the financial statements in accordance with Article 50(g) of the European Patent Convention (EPC) and the Financial Regulations (FinRegs), as described in Section 2.1 of CA/60/16 ("Basis of preparation"), lies with the President of Office. Under Article 1(3) FinRegs, the EPO's generally accepted accounting principles are the International Financial Reporting Standards (IFRS) as promulgated by the International Accounting Standards Board (IASB). Our responsibility is to express an opinion on the financial statements, together with the bookkeeping system, based on our audit.

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

Our audit has not led to any reservations.

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

Munich, 14 April 2016

**The Board of Auditors**

H. Schuh O. Hollum F. Angermann

# C. COMMENTS ON THE ACCOUNTS

## 1. THE EPO'S FINANCIAL AND ECONOMIC POSITION

### 1.1. Introductory remarks

82) Every BoA report analyses the EPO's financial situation. Our task under Article 79 FinRegs of ascertaining whether its financial management is sound involves not only verifying compliance with efficiency, effectiveness and economy but also scrutinising the EPO's specific self-financing model. The EPO has to manage its resources in such a way that it does not need to call on the member states' guarantee.

83) In CA/D 5/11 the Administrative Council did away with the Article 1(3) FinRegs exception, with retroactive effect from 1 January 2011. So the EPO now has to apply in their entirety the accounting principles issued by the International Accounting Standards Board.

84) This change in its financial-reporting procedure had two major effects:

(a) the RFPSS assets are shown as assets and the DBO as a liability, which leads to significantly higher total assets and liabilities;

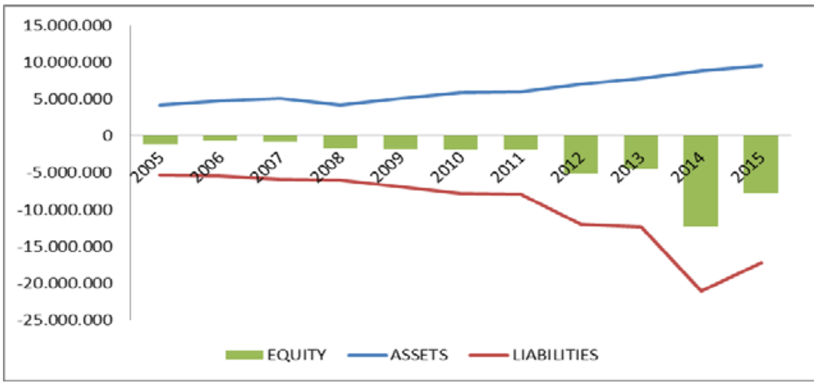
(b) the "corridor" approach, used when accounting for financial and actuarial fluctuations in the liabilities and assets of the social-security schemes, has been discontinued, making the annual accounts much more volatile.

85) The 2015 estimates and figures are based on CA/60/16 (financial statements) and CA/10/16 (budget implementation statement).

86) For the detailed balance-sheet and income-statement figures, see Annexes I/1 and I/2 taken from CA/60/16. Annex III compares the budget estimates as adopted in 2014 and subsequently restated ("IFRS forecast") with actual income and expenditure as per CA/10/15.

## 1.2. Financial-statement figures in brief

### (a) Balance sheet




| (in EUR '000s) | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Non-current assets | 5 427 877 | 6 256 840 | 7 024 503 | 8 015868 | 8 688 702 |
| Current assets | 577 364 | 673 345 | 772 878 | 767 374 | 789 967 |
| Total assets | 6 005 241 | 6 930 185 | 7 797 381 | 8 783 242 | 9 478 669 |
| Non-current liabilities | -7 447 778 | -11 513 459 | -11 814 884 | -20 535 860 | -16 685 700 |
| Current liabilities | -547 745 | -559 382 | -567 353 | -587 538 | -587 918 |
| Total liabilities | -7 995 523 | -12 072 841 | -12 382 237 | -21 123 398 | -17 273 618 |
| Equity | -1 990 282 | -5 142 656 | -4 584 856 | -12 340 156 | -7 794 949 |

87) As at 31 December 2015, non-current assets were approx. EUR 8 687m. Of the EUR 672m increase, EUR 507m came from RFPSS net assets and EUR 167m from bonds.

88) As at 31 December 2015, non-current liabilities amounted to some EUR 16 686m, including EUR 15 828m for defined benefit liabilities (for pensions and similar obligations). They were down by EUR 3 850m from 2014, with defined benefit liabilities falling by EUR 3 912m.

89) Current assets were up by EUR 23m, while current liabilities remained roughly the same.

90) The combined effect of these changes is that negative equity fell by EUR 4 545m, from EUR -12 340m to EUR -7 795m.

## Non-current liabilities

91) As at 31 December 2015, non-current liabilities amounted to some EUR 16 686m, including EUR 15 828m for defined benefit liabilities.

92) The latter can be shown as follows:

| (in EUR '000s) | Active staff | Staff entitled to deferred pension | Pensioners | Total |
|---|---|---|---|---|
| Pension liability | 9 759 027 | 43 064 | 3 937 730 | 13 739 821 |
| LTC insurance | 377 161 | 183 | 225 935 | 603 279 |
| Health insurance | 976 572 | | 474 637 | 1 451 209 |
| Death and invalidity | 34 280 | | | 34 280 |
| Total | 11 147 040 | 43 247 | 4 638 302 | 15 828 589 |

93) The pension liability (EUR 13 740m) breaks down as follows:

| (in EUR '000s) | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Pensions | 4 611 919 | 7 371 651 | 7 415 948 | 13 344 298 | 10 969 949 |
| Health-related pensions | | | | | 70 244 |
| Tax adjustment / partial compensation | 1 006 295 | 1 598 686 | 1 602 267 | 2 851 942 | 2 375 745 |
| Invalidity allowance | 202 042 | 281 424 | 270 498 | 389 299 | -- |
| Family allowances | 159 310 | 231 978 | 230 877 | 365 211 | 323 883 |
| Total | 5 979 566 | 9 483 739 | 9 519 590 | 16 950 750 | 13 739 821 |

94) The large decrease in defined benefit liabilities is almost entirely attributable to the significant rise in the discount rates.

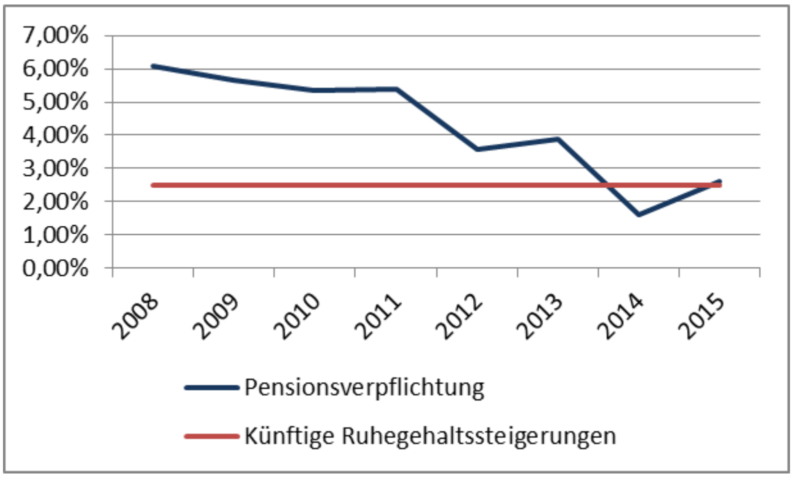
| Discount rates | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Pension liability | 5.38% | 3.57% | 3.89% | 1.61% | 2.60% |
| LTC insurance | 5.55% | 3.77% | 4.10% | 1.75% | 2.78% |
| Health insurance | 5.51% | 3.55% | 3.90% | 1.61% | 2.69% |
| Death and invalidity | 4.56% | 2.89% | 3.17% | 1.32% | 1.97% |

95) The calculations in CA/60/16 (section 20.1) show that a 1% increase in the discount rate would reduce defined benefit liabilities by EUR 3 282m, whereas a 1% reduction would increase them by EUR 4 529m.

| | Liability | 1% increase | 1% decrease |
|---|---|---|---|
| Pension liability | 13 739 821 | 10 968 606 | 17 552 451 |
| LTC insurance | 603 279 | 451 186 | 825 069 |
| Health insurance | 1 451 209 | 1 095 293 | 1 943 109 |
| Death and invalidity | 34 280 | 31 302 | 37 736 |
| Total | 15 828 589 | 12 546 387 | 20 358 365 |
| Difference | | -3 282 202 | 4 529 776 |

96) Despite significantly higher discount rates, the following parameters were the same as in 2014, except that for medical costs, which fell only very slightly:

| Inflation | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Future salary increases | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| Future pension increases | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| Medical costs | 3.10% | 3.10% | 3.20% | 3.10% | 3.06% |




**(b) Economic situation, factoring in the present value of future national renewal fees**

97) The present value of future national renewal fees cannot be shown under IFRS because there is no legal obligation to pay them.

98) With no eligible future income to set against the EPO's long-term liabilities from its future business, its balance sheet looks rather lopsided. To counteract that, the present value of future national renewal fees needs to be borne in mind. The figures are taken from CA/60/15.

| (in EUR '000s) | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| RFPSS net assets | 3 934 618 | 4 622 017 | 5 229 485 | 6 084 859 | 6 591 858 |
| Present value of future renewal fees | 3 142 273 | 3 490 544 | 3 647 126 | 3 876 977 | 3 878 744 |
| Net business assets | 7 076 891 | 8 112 561 | 8 876 611 | 9 961 836 | 10 470 602 |
| Defined benefit liabilities | -6 808 831 | -10 825 416 | -11 074 231 | -19 740 956 | -15 828 589 |
| Balance | 268 060 | -2 712 855 | -2 197 620 | -9 779 120 | -5 357 987 |

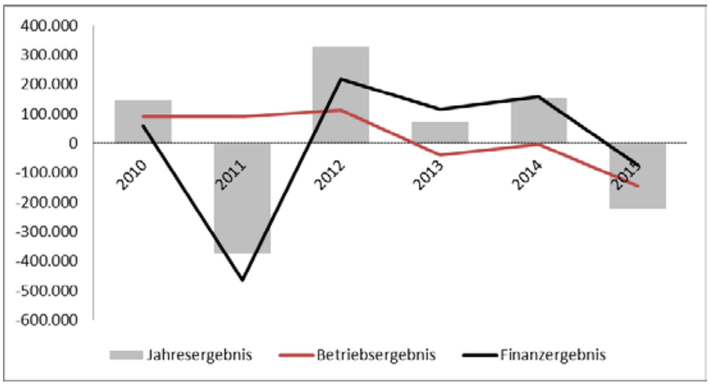
99) Each year up to 2011, net business assets and pension liabilities were more or less in balance. The shortfall, which was between EUR 2 and 3bn in 2012 and 2013, increased in 2014 to almost EUR 10bn but fell in 2015 to approx. EUR 5.4bn.

Compare the present value of future national renewal fees with equity, and a similar picture emerges:

| (in EUR '000s) | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Equity | -1 990 282 | -5 142 656 | -4 584 856 | -12 340 156 | -7 942 355 |
| Present value of future national renewal fees | 3 142 273 | 3 490 544 | 3 647 126 | 3 876 977 | 3 878 744 |
| | 1 151 991 | -1 652 112 | -937 730 | -8 463 179 | -4 063 611 |

100) For a long-term view of the actuarial balance of the pension and long-term care (LTC) insurance schemes, see the actuarial valuation as at 31 December 2014 (CA/53/15) and the Office's comments on it (CA/54/15). A fresh actuarial study will be carried out in two years' time.

## (c) Income statement



| (in EUR '000s) | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Operating result | 89 232 | 110 824 | -42 028 | -5 180 | -145 669 |
| Financial result | -463 905 | 215 762 | 115 479 | 156 247 | -75 838 |
| Profit / loss for the year | -374 673 | 326 586 | 73 451 | 151 067 | -221 507 |
| Other comprehensive income | 366 209 | -3 478960 | 484 349 | -7 906 367 | 4 766 714 |

101) At EUR -146m, the operating result is negative and down EUR 140m from the 2014 figure. The main reason for the 2015 figure is that, while revenue rose by EUR 140m, employee benefit expenses increased by EUR 264m.

102) There was a loss of EUR 76m in the financial result, making it EUR 232m lower than last year.

103) The profit of EUR 4 767m under other comprehensive income can be attributed almost exclusively to the increased discount rates (e.g. the discount rate for pension obligations rose from 1.61% to 2.60%).

| (in EUR '000s) | Revised financial assumptions | Revised demographic assumptions | Total |
|---|---|---|---|
| Pension obligation | 3 607 581 | 386 084 | 3 993 665 |
| LTC insurance | 229 868 | -8 643 | 221 225 |
| Healthcare insurance | 535 962 | 7 740 | 543 702 |
| Death and invalidity | 2 186 | 5 936 | 8 122 |
| Total | 4 375 597 | 391 117 | 4 766 714 |

**(d) Statement of cash flows**

104) The inflow from operating activities is EUR 493m, the outflow from investing activities EUR 490m. Taking into account the EUR 6m outflow from financing activities, there has been a net decrease of EUR 3m in cash and cash equivalents, i.e. down EUR 33m on the 2014 figure.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Cash flows from operating activities | 379 269 | 407 370 | 376 721 | 446 953 | 493 288 |
| Cash flows from investing activities | (299 867) | (401 558) | (436 117) | (410 439) | (489 951) |
| Cash flows from financing activities | (13 272) | (9 824) | (3 344) | (5 964) | (6 156) |
| Net increase/decrease in cash and cash equivalents | 66 130 | (4 012) | (62 740) | 30 550 | (2 819) |

## 2. SPECIFIC ACCOUNTING REMARKS

### 2.1. Post-employment benefit and other long-term employee benefit obligations

105) The following paragraphs should be read in connection with CA/20/15 on the financial statements for the reporting period ending 31 December 2014 as well as note "28. Contingencies and risks" to the financial statements.

106) As at 31 December 2015, the Office's post-employment benefit obligations amount to EUR 15 828m and exceed total assets by EUR 6 350m. They are summarised in the following table:

| **Post-employment benefit obligations** | **2015** | | **2014** | |
|---|---|---|---|---|
| in EURm | Gross DBO (undiscounted) | As per financial statements (discounted) | Gross DBO (undiscounted) | As per financial statements (discounted) |
| Pension obligation | 27 410 | 13 740 | 26 458 | 16 951 |
| LTC insurance | 1 524 | 603 | 1 411 | 776 |
| Sickness insurance | 3 540 | 1 451 | 3 476 | 1 870 |
| Death and invalidity | 42 | 34 | 165 | 144 |
| **Total** | **32 516** | **15 828** | **31 510** | **19 741** |

*Source: 2015: CA/60/16; 2014: CA/60/15*

We draw attention to the following major assumptions and uncertainties:

**(a) Increase in interest rate**

107) According to IAS 19, the interest rate used for discounting defined benefit obligations ("DBO") is determined by reference to market yields at the end of the reporting period. In the case of the Office, it is based on the "iBoXX EURO Corporates AA" index and therefore subject to general market fluctuations. The determination of the discount rate applied by the Office is in line with the requirements of IAS 19.

108) The discount rate used as at 31 December 2015 amounts to 2.60% (last year: 1.61%) for pension obligations. This increase is the major reason for the net actuarial gains (re-measurements on defined benefit obligations) of EUR 4 767m, which have led to an increase in equity. The method used for determining the rate has been applied consistently. We consider the discount rate used by the Office appropriate.

**(b) Increase in service costs 2015**

109) Current service costs are measured using the opening DBO, i.e. the liability as at 31 December 2014. They are determined applying an actuarial calculation. Given the very low discount rates at the end of the 2014 financial year, the opening DBO was extraordinarily high. Due to the mechanics of IAS 19, and as expected at the end of 2014, current service costs for pension obligations increased significantly in 2015 to EUR 845m (compared to EUR 429m in 2014), leading to a negative operating result under IFRS for 2015. Obviously, this is partially offset by the positive impact on the 2015 financial result of the decrease in the interest costs from EUR 367m in 2014 to EUR 271m in 2015.

**(c) Impact of changes in schemes applicable in 2015**

(1) Return to tax adjustment

110) At the end of 2014, the Office proposed replacement of the partial compensation scheme with the former tax adjustment (CA/95/14 Rev. 1), which had been in place until 31 December 2008. The proposal was accepted by the BFC and AC at their meetings in November and December 2014, respectively. It is applicable from 1 January 2015 onwards to all pensioners who began active service before 1 January 2009. There was no impact on the financial statements as at 31 December 2015 or as at 31 December 2014, as for accounting purposes, the Office had treated the partial compensation according to the former tax adjustment rules (in place until 31 December 2008). As at 31 December 2015, provision has been made for liabilities of EUR 2 376m with regard to the tax adjustment.

111) We concur with the accounting treatment applied by the Office and draw attention to the disclosures in note 28, which describe the tax risks of partial compensation. Moreover, we highlight that this is primarily a legal and political matter, rather an accounting issue.

(2) New career scheme

112) In CA/D 10/14, the Administrative Council decided to modify the ServRegs on remuneration. The new scheme has been applicable since 1 January 2015 and is relevant for financial reporting in the following respects:

a. The actuarial calculation of the DBO includes an estimate of future salary increases (estimating the salary of the employee upon retirement) including promotions and step enhancements, as these are considered "regular" at the EPO. Under the new career scheme, regular promotions and step enhancements based on seniority are replaced by a performance-based scheme. The Office assessed the impact on the DBO as low, because under the new career scheme, salary increases might only slow down but not significantly change the salary upon retirement for the active employees as of 31 December 2015. No past experience is available regarding actual promotion and step enhancement patterns and therefore no sufficiently reliable estimate - better than the already observable pattern under the old scheme - is possible. Under IFRS, such a change in plan is to be immediately recognised through P/L. However, based on the arguments above, any change (through P/L) would be too aggressive. We consider the Office's estimate acceptable.
b. Moreover, a bonus scheme was implemented to honour exceptional performance. The bonus element does not give rise to any pension entitlement and therefore does not increase any pension obligation. The bonus granted but not yet paid as at 31 December 2015 has been accrued for in the financial statements as the payment only took place in February 2016 (EUR 8.7m).

113) We concur with the approach taken by the Office for the annual closing 2015. However, in the long run, the change in the scheme might lead to a decrease in pension obligations, as staff might have reached only a lower grade on retirement, leading to a lower salary applicable for calculating the pension entitlement. We recommend updating the assessment for each annual closing, based on the latest experience gathered year by year.

(3) Invalidity and sickness scheme

114) At its meeting in March 2015, the AC approved modifications of the ServRegs and PenRegs on the invalidity and sick leave scheme (CA/14/15 Rev 1).

115) This reform has several impacts on the financial statements, which can be summarised as follows:

a. The one-off payment upon invalidity (up to 33 monthly salaries) is abolished. The relating provision, incl. tax adjustment thereof, has been released.

b. The revised sick leave and invalidity plan distinguishes between the following cases:

c. Short-term sick leave: full remuneration for 125 days of sick leave, plus reduced remuneration for an additional 125 days of sick leave upon medical opinion. Under IAS 19, this is considered a short-term employee benefit if sickness is expected to be wholly ended within 12 months. Short-term employee benefits are expensed as incurred. If sick leave is expected to exceed 12 months, this is considered another long-term employee benefit under IAS 19. There are no vesting conditions attached to the sickness scheme (such as e.g. minimum service period). Therefore other long-term employee benefits are provided for only when a case occurs, i.e. when an employee falls sick and sick leave is expected to exceed 12 months. Under other long-term employee benefits, changes in actuarial assumptions are recognised as income or expense immediately (contrary to post-employment benefit schemes). As at 31 December 2015, no provision has been recognised by the Office as no such case has occurred yet. An analysis has to be undertaken for each annual closing.

d. Extended sick leave: longer than 125 days and up to 36 months with 90% of remuneration. This is also considered another long-term employee benefit plan under IAS 19. As there are no vesting conditions under this plan either, the accounting treatment corresponds to the one described under short-term sick leave exceeding 12 months (i.e. recognition of provision only when a case occurs and immediate recognition of actuarial gains / losses as income or loss).

e. Incapacity: the move from a disability culture (invalids treated like pensioners) to an employment integration culture (incapacity; employee remains in active service) means that the newly introduced incapacity scheme is no longer considered a post-employment benefit plan under IAS 19 but another long-term benefit scheme. There are no vesting conditions attached to the plan and therefore no provision has to be recognised for potential cases. On a case-by-case basis, a provision is accounted for when an employee becomes incapable or is expected to become incapable given his sickness or extended sickness. As an accounting consequence, no provision has to be recognised for potential cases. Actuarial gains / losses are recognised as income or expense.

f. Retirement for health reasons: This part of the plan introduces two additional conditions for early retirement: 1. at least ten years' incapacity and 2. at least 55 years of age. It qualifies as a post-employment benefit plan under IAS 19. The accounting treatment corresponds to the one applied for regular pensions, i.e. a provision has to be recognised for potential cases using an actuarial calculation. Actuarial gains and losses recognised from remeasurements are recognised in OCI. As at 31 December 2015, there is no observation of actual "pensioners for health reasons" available. It is too early to extrapolate any past experience (method that would usually applied by actuary). Therefore, the former invalidity tables have been used to determine the provision. These do not reflect the two additional conditions, but are the currently best estimate available to the Office. In the long run, the two additional conditions will impact on the estimate of the probability of becoming a pensioner for health reasons and therefore potentially reduce the liability for post-employment benefit obligations as the entitlement for an invalidity allowance has been narrowed.

g. Current service costs as well as interest costs have been accounted for as determined at year end 2014 (based on actuarial report 2014). In line with IAS 19, changes in actuarial assumptions have been accounted for as actuarial gains/losses.

**(d) Tax issues relating to post-employee benefits**

116) The Office faces several uncertainties in connection with the taxability of invalidity allowances and pensions for the years 2008 or 2009 until 2015. By re-introducing the former tax adjustment scheme in place until the end of 2008 as well as reforming the sick leave and invalidity schemes, the Office has taken measures to limit its risk exposure. The future treatment and resulting reflection in the defined benefit obligation is described in section (c)(1) above. The different categories can be summarised as follows:

(1) Taxation of invalidity allowance

117) Following requests from national tax authorities, invalids have contacted the Office in this matter to claim support in court proceedings and reimbursement. Precedents have already been set since 2009, when the Office started supporting invalids in their discussions with tax authorities. With the reform of the sickness and invalidity scheme, the risk exposure has been limited to staff who were non-active between 1 January 2008 and 31 December 2015. Pending cases will be settled (CA 14/15 Rev. 1). The Office will deal with all cases for the period 2009 until 2014 on an individual, i.e. case-by-case, basis.

118) A provision has been recognised. Its appropriateness remains to be monitored as the ongoing court trials between national tax authorities and invalids evolve. Please refer to note 25 ("provisions") and note 32 ("events after the reporting period") to the financial statements for further information.

(2) Taxation of partial compensation

119) Although the EPO is not a party to the legal proceedings, it provides legal support for pensioners who have been approached by national tax authorities claiming taxes on partial compensation. In total, 361 cases are known to the Office and supported. These mainly concern pensioners resident in Germany (186), the Netherlands (104), Belgium (68) and, to a lesser extent, Luxembourg. Legal proceedings are pending in several countries. In Belgium and Germany, court proceedings are either in a first-instance or appeal phase. In a judgment of the Hague District Court dated 26 February 2015 concerning a Dutch pensioner, the partial compensation payment was found to be exempt from national tax in the member states according to Article 16(1) of the EPO-PPI. Only in Luxembourg has a final court decision, ruling that the compensation is tax exempt, been published.

120) The Office did not commit itself towards the pensioners to bear all financial consequences of national taxation. In 2015, the Office decided to "phase-out" the support measures provided.

121) For accounting purposes, the Office maintains its position that no reimbursement of taxes paid on partial compensation will be made to pensioners as there is neither a legal nor a constructive obligation. No provision has been recognised and the potential risk ("contingent liability" in accounting terms) is appropriately disclosed in note 28 ("contingencies and risks") in the notes to the financial statements.

122) Moreover, by re-introducing the former tax adjustment scheme, the Office has limited its risk exposure and therefore the materiality of the issue for accounting purposes.

(3) Salary savings plan

123) All staff joining the Office since 1 January 2009 are compulsorily members of the "Salary Savings Plan", a deferred compensation model. The contributions are paid by the Office (two thirds) and the employees themselves (one third) and are subject to internal tax under Article 16(1) of the EPO-PPI. Consequently, the Office takes the position that no national tax can be imposed additionally and has not provided for any potential risk for reimbursement of taxes as at 31 December 2015. The Office aims to reach an agreement on the taxability of the salary savings plan in the context of overall discussions with national tax authorities. Given the fact that the corresponding obligation as at 31 December 2015 amounts to EUR 44 145k, any potential impact from tax adjustment is considered immaterial, but may become material over time, as more and more employees join the scheme.

**(e) Valuation of the tax adjustment**

124) For valuation purposes regarding the tax adjustment on pensions (incl. retirement for health reasons), the Office has not undertaken a detailed assessment regarding the country of tax residence of pensioners and their tax status, but has taken a "loading factor" of 21% on the defined benefit obligation for current and future pensioners (incl. pensioners for health reasons) respectively. The actual payment for tax adjustments (or former partial compensation) is based on the PenRegs and derived from theoretical national income tax according to Inter-Organisations Section of the Co-ordinated Organisations, considering the fiscal situation of the beneficiaries regarding marital status and country of residence.

125) The load factor is derived from historical information by dividing actual payments for tax adjustments by actual payments for pensions. This calculation method has remained unchanged since 2008. At year-end 2015, the load factor was verified and revised. Historical information was used to perform a sanity check by identifying a trend. Since 2008, a minimum of 20.4% and a maximum of 21.8% have been observed. Based on these observations, the load factor has been set at 21%. Formerly, only 19% had been applied on current pensioners and 21% on future pensioners (current staff).

126) For accounting purposes, the Office assumes that the country of residence in the case of retirement (incl. retirement for health reasons) mirrors the country of residence as well as the tax status of EPO's current retired workforce.

127) We concur with the method applied by the Office, but highlight the level of estimate involved and recommend an annual analysis of the appropriateness of the load factor.

#### (f) Summary

128) To summarise, we concur with the accounting treatment for post-employment and other long-term benefit obligations applied by the Office, but highlight the level of estimate involved. Amongst other factors, the calculation of the defined benefit obligations are significantly affected by the discount rate, the mortality tables, the load factor of the tax adjustment and the assumption of the last salary at the end of the career as well as the probability of becoming a pensioner for health reasons.

### 2.2. Repurchase value Caisse Nationale de Prévoyance ("CNP")

129) In its capacity as legal successor of the Institut International des Brevets ("IIB"), the Office accounts for the repurchase value of funds of former IIB-members for pension payments as well as outstanding interest thereon of EUR 56.6m (31 December 2014: EUR 55.1m). The increase is due to accrued interest for 2015. Since July 2007 no payments or reimbursements have been made by CNP to the Office. The amount is confirmed by CNP in its yearly statement provided to the EPO. Since 2000, the EPO has aimed at a transfer of these funds from CNP to the Office and a subsequent contribution to the RFPSS. The Office has terminated the contract with CNP, negotiations have been held and a conclusion had almost been reached in 2007, subject to all ex-IIB members concerned approving the transfer (condition set by CNP). Progress has been made and approval has been obtained from all relevant ex-IIB members in the meantime. An internal legal analysis performed by the Office in 2010 has not revealed any concern regarding the Office's entitlement to these assets. Administrative procedures for the transfer are ongoing and a draft protocol has been prepared, but not signed yet. The Office expects that the payment might be received in the course of 2016.

## 2.3. IT roadmap

130) In 2011, the IT roadmap project was initiated to develop and implement improvements in the patent grant process through integrated IT tools.

131) For accounting purposes the EPO then performed an initial analysis of the three streams of the project to define the intangible assets which will be generated and qualify for recognition under IFRS (IAS 38). Stream 1 comprises short-term efficiency projects as well as reengineering of the patent grant process. Stream 2 involves investments designed to improve the efficiency and quality of the tools used by the examiners. Both streams are eligible for capitalisation. Stream 3 mainly deals with a new infrastructure. As in prior years, no eligible costs were incurred in the 2015 financial year (i.e. no costs capitalised as at 31 December 2015 regarding stream 3).

132) Costs capitalised under IFRS are summarised in the following table:

| | 2011 | 2012 | 2013 | 2014 | 2015 | **Total** | *thereof IT systems* | *thereof construction in progress* |
|---|---|---|---|---|---|---|---|---|
| **Stream 1** | **269** | **8 280** | **9 337** | **9 428** | **5 369** | **32 683** | 15 943 | 16 740 |
| Internal costs | 87 | 3 369 | 1 955 | 2 443 | 1,220 | 9 074 | 5 644 | 3 430 |
| External costs | 182 | 4 911 | 7 382 | 6 985 | 4,149 | 23,609 | 10 299 | 13 310 |
| **Stream 2** | **389** | **1 985** | **2 019** | **1 423** | **3 119** | **8 935** | 6 199 | 2 736 |
| Internal costs | 74 | 1 010 | 486 | 493 | 916 | **2 979** | 2 092 | 887 |
| External costs | 315 | 975 | 1 533 | 930 | 2 203 | **5 956** | 4 107 | 1 849 |

133) External costs of EUR 7 575k for stream 1 and EUR 1 621k stream 2 were expensed in 2015.

134) We concur with the overall accounting treatment applied by the Office, but noticed the following issue which leads to deviations, albeit ones immaterial to the financial statements as a whole:

For certain projects it is possible that some of the project team members charge hours without using activity subcodes, since they are – under certain circumstances - not mandatorily given in the timesheet. Activity subcodes are required for distinguishing between capitalisable and non-capitalisable costs. The Office applies a prudent approach and expenses hours charged by staff without an activity code. The total amount is immaterial for the financial statements as a whole, but should be monitored in order to avoid significant amounts that would be eligible for capitalisation being expensed due to the lack of information in the timesheets.

## 2.4. Accounting for financial instruments applying IFRS 9

135) The EPO adopted the reporting standard on accounting of financial instruments (IFRS 9 (2010)) in 2011 and has continued to apply this version of the standard, which is permissible under IFRS. As a result of the audit of EPO financial statements no significant findings were identified in respect of the accounting of financial instruments in the version of IFRS 9 (2010). Since 2011, the standard has evolved and application of its revised version (IFRS 9 (2014)) will be mandatory from 1 January 2018 onwards. IFRS 9 includes a number of important complex topics that must be addressed and analysed by EPO in good time.

136) Among the potentially critical issues are the following:

a. The assessment of the business model for managing financial assets under which the financial instruments are to be accounted for (either at fair value through P/L or at amortised cost) has to be supported by proper documentation.
b. Analysis as to whether the cash flows from the financial instruments are represented solely by payments of principal and interest on the principal amount outstanding (sole-purpose-to-collect-interest test), to be documented accordingly by EPO. This includes but is not limited to an analysis of each contract that gives rise to a financial instrument.
c. IFRS 9 (2014) introduces the "expected credit loss model" as the method for impairment testing of certain financial assets. Proper analysis and determination of any impairment loss under these new requirements has to be performed by the EPO.
d. Incorporation of the counterparty's risks (Credit Valuation Adjustment, Debit Valuation Adjustment) in the determination of the fair values of derivative financial instruments and follow-up on changes in the portfolio structure.
e. Proper preparation of the notes disclosures in respect of the financial instruments, in accordance with the IFRS requirements.

137) Given the complexity of IFRS 9 (2014) it is important to identify at an early stage the critical issues relevant for the EPO and to ensure that all the necessary measures in terms of the preparation for the application of IFRS 9 (2014) are taken by the EPO by 1 January 2018, the date when application of IFRS 9 (2014) becomes mandatory.

138) Best practice recommendations are currently being developed, as many institutions and companies prepare for the application of IFRS 9 (2014). We recommend monitoring the implementation guidance that is issued for its applicability to the EPO. This might also involve the analysis of underlying processes (e.g. sole-purpose-to-collect-interest test).

139) We recommend that the EPO prepare proper and sufficient documentation to support the analysis performed and conclusions drawn. For example, under IFRS 9, the business model for managing financial assets is relevant for their classification and the accounting treatment. As a consequence, underlying written evidence has to be available.

140) Under IFRS 9 (2014) further notes disclosures will become applicable. We recommend establishing the corresponding procedures to fulfil additional notes disclosure requirements. The requirement for applicable items can be identified by completing an IFRS disclosures checklist.

## 2.5. Calculation of hourly rate for leave accruals

141) The valuation of the accruals for home leave, annual leave and other compensated absences is based on an overall hourly rate that is derived from prior year staff costs adjusted to the current year's salary increase, i.e. the leave accruals as at 31 December 2015 are valued using actual costs of the financial period 2014 adjusted by the salary increase rate applicable for 2015. In addition to basic salaries and allowances also social security expenses are included for determining the overall hourly rate. The latter include actuarially calculated current service costs for DBOs under IAS 19, which are derived from the opening balances of the DBO, e.g. the current service costs for the financial period 2015 are based on the DBO as at 31 December 2014. The method has been applied consistently for several years by the Office. Due to the fluctuation in actuarial assumptions, especially the financial market-driven discount rates, current service costs become volatile. Such fluctuations are disconnected from EPO-internal factors and cannot be influenced by the EPO.

142) Unlike past service costs, which are to be excluded from the valuation of leave accruals, current service costs can optionally be included in accounting.

143) We recommend the EPO consider revising the calculation of the hourly rate using more recent information, i.e. current year's actuals for year-end closing calculations (e.g. employee benefit expenses of the financial year 2016 for determining the accruals as at 31 December 2016). Any revision would be considered a change in accounting estimate under IAS 8 that must be described in the notes to the financial statements.

## 2.6. Process for determining actuarial assumptions

144) The EPO has several defined benefit plans in place. For financial reporting purposes several actuarial assumptions – including demographic assumptions (e.g. mortality rates, probability of becoming a pensioner for health reasons, probability to get married etc.) as well as financial assumptions (e.g. discount rate, medical cost inflation, salary increases etc.) have to be made in order to calculate the provisions. These involve a certain level of estimate as well as expertise in the field of actuarial calculations, accounting knowledge and in-depth knowledge of the relevant post-employment benefit schemes.

145) The assumptions are mainly determined by the HR Policy department and the actuary. In the course of our audit, we identified that several parameters had been changed from the prior year, leading to an impact in the financial statements.

146) Going forward, we recommend implementing a checklist of all actuarial assumptions and stating if / how these have been changed from the prior period, as well as the expected effect on the DBO. This list should be discussed by the HR Policy and Finance departments with the actuary. The purpose is to ensure that all changes in assumptions are known upfront and can be assessed regarding the relevance for financial reporting. In addition it would facilitate the reasonableness checks of the results of the actuarial calculation that are undertaken by the HR Policy and Finance departments.

# 3. GENERAL COMMENTS ON BUDGET IMPLEMENTATION

## 3.1. Forecast income statement

147) The IFRS plan figures as per CA/D 1/14 and CA/10/16 and the actual ones as per CA/60/16 are juxtaposed in Annex III/1.

148) The 2015 operating result is negative (EUR -146m) and so EUR 199m below the forecast figure of EUR +53m. Revenue was EUR 136m (8.6%) and employee benefit expenses EUR 361m (27.5 %) higher than forecast.

149) At EUR -76m, the financial result was EUR 22m higher than forecast. Finance revenue was EUR 123m lower and finance costs EUR 145m higher than forecast.

150) Other comprehensive income was EUR 4 619m above the forecast of zero.

### 3.2. Forecast balance-sheet figures

151) The IFRS plan figures as per CA/D 1/14 and CA/10/16 and the actual ones as per CA/60/16 are juxtaposed in Annex III/2.

152) Assets deviated from plan by EUR 389m (4.3%), with non-current assets EUR 616m (7.6%) over plan and current assets EUR 228m (22.4%) under plan. Overall, RFPSS net assets were EUR 366m (5.9%) and securities EUR 403m (44.7%) over plan, while cash and cash equivalents were EUR 193m (73.4%) under plan.

153) Liabilities were EUR 5 957m (52.0%) over plan. This is attributable to the higher defined benefit liability of EUR 6 000m.

### 3.3. Comparison of budget as adopted and as implemented

154) The basic figures (as per CA/10/16) for comparing the budget as adopted and as implemented are given in Annex II.

155) In CA/D 1/14 the AC adopted an authorisation budget within the meaning of Article 25(1)(a) FinRegs totalling EUR 2 094m. The actual outturn was EUR 2 160m, i.e. EUR 67m (3.2%) higher.

156) The total income from filing and search (Chapter 50), from examination, grant and opposition (Chapter 51), from designation and renewal fees (Chapter 53) and from patent information products (Chapter 54) was EUR 90m over budget, while other income (Chapters 55, 57 and 58) was EUR 23m under budget.

157) There were underspends in all operating expenditure chapters. They totalled EUR 124m, including EUR 91m for staff, EUR 9m for co-operation and meetings, EUR 7m for property and equipment and EUR 11m for general operating expenditure.

158) There was a budget surplus (Chapter 49) of EUR 364m, which is EUR 271m higher than budgeted (EUR 93m).

159) For the RFPSS, income is EUR 22m (6.7%) and expenditure EUR 16m (7.1%) under plan. The transfer to the RFPSS is nearly EUR 6m (5.7%) below the budgeted figure.

### 3.4. Appropriation transfers

160) The appropriation transfers under Article 34 FinRegs are shown in Annex II/4. The figures are taken from CA/10/16.

161) Transfers under Article 34(1) FinRegs (within the same chapter) totalled EUR 5m.

162) Those under Article 34(2) FinRegs (between chapters and not exceeding 20% of the amounts under the chapters concerned) amounted to EUR 6m.

163) There were no transfers under Article 34(3) FinRegs (decision by the BFC or AC).

# D. INTERNAL CONTROL SYSTEM

## 1. ANALYSIS OF ACCOUNTING DATA

164) The accounting data was analysed in the context of the audit of the annual financial statements. To obtain a better insight, KPMG Automated Audit Procedures (KAAP) was used. KAAP is an audit tool that uses data-analytics to perform automated audit procedures, replacing or complementing certain traditional manual audit procedures.

### 1.1. Purchase process

165) The following audit procedures were performed:

- analysis of segregation of duties
- analysis of document flow/three-way match:
- quantity deviations between purchase order, goods-receipt and invoice
- price differences between purchase order and invoice
- analysis of suppliers
- analysis of top 10 vendors
- analysis of vendor master data: transactions where the country of origin of vendor is different from the country indicated in the vendor's related bank details, etc.

166) The findings of the analysis were:

- 16 employees have overlapping rights to perform all functions prescribed by the Purchase Process ("Can Do" – Scenario 1); however, no transaction was identified where the four-eye-principle had not been adhered to.
- "Did Do" transactions in high risk scenarios were tested by checking the individual transactions of procurement users; in our opinion these transactions are justified / appropriate.
- No significant observations in respect of the audit issues process were identified.

### 1.2. Manual adjustments

167) The following procedures were performed in respect of the manual journal entries:

- analysis of post-closing manual journal entries (e.g. journal entries made after 21 January 2016 until 10 March 2016)
- analysis of journal entries, containing in the description certain defined„key" words (e.g. cash, reclassification, correction, adjustment or certain functions)
- analysis of journal entries with rounded and consistent endings
- analysis of journal entries posted on weekends and outside working hours (e.g. later than 22:00 hrs)
- analysis of accounts used less than six times per year
- analysis of the most significant manual journal entries during the year regarding user who performed the respective journal entries and the nature thereof
- search for the journal entries made in correspondence with certain accounts (e.g. cash vs revenues, expenses vs cash).

168) Findings:

- As a result of the analysis performed it was identified that the highest number of manual adjustments were made in February 2015 and August 2015. The mentioned journal entries are substantially related to the adjustments regarding home loans and purchase transactions.
- No significant observations in respect of the audit issues process were identified.

## 2. BANK ACCOUNTS

169) We performed standard procedures on the Office's bank accounts (account confirmations from the respective banks) and emphasised on the tables of authorised persons. All bank statements indicate that bank transactions need at least two approved signatures from two groups of predetermined staff.

170) In general, no payments can be established without fund reservation and without approval from the budget holder.

171) Besides minor cases of auto-approval within the system (travel expenses without any individual documents) every payment needs two independent groups of staff for authorisation before a payment can be made.

172) Due to former rules, the EPO had a bank account in every member state. After implementation of the Single European Payments Area (SEPA) and subsequently changed EPC/FinRegs, the Office was able to reduce the number of its bank accounts. Today, day-to-day business is mainly handled with one bank.

## 3. RFPSS GOVERNANCE

### 3.1. General issues

#### (a) Control system

173) We audited the control system by reviewing 90 transactions from the first three quarters of 2015 in terms of proper function of internal control system, documentation, segregation of duties, physical delivery. For this purpose we checked whether the four-eye-principle was applied for the execution of an order, the upload to Neolink and the corresponding entry in CAMRA. Furthermore we verified the physical delivery by reconciling the Transaction Report produced from CAMRA to the BNP-delivery confirmation and checked the proper documentation by signing the orders.

174) The transaction process uses different single steps which are all well-documented on the relevant pages.

175) The handling of corporate actions is a process from the past and could be simplified. For example, in the case of a capital increase we see no need to transfer some acquisition cost in the form of book value from old shares to subscription rights for new shares before the rights issue has been completed and it has been decided whether to take and hold the new shares or to sell the rights. This is driven by traditional German bookkeeping rules which do not necessarily have to be followed by the EPO. It should be noted that after completion of the capital increase the new shares and the old shares will be registered under one number and traded as one single asset on the markets. The corporate action process will be reviewed in 2016 after an upgrade of the current APR system.

### (b) Compliance system

176) We audited the compliance system by reviewing 100% of the daily compliance checks for 2015. There were a few minor passive breaches (i.e. market movements, downgrading, etc.). The compliance officer runs the compliance check every day and then investigates the reasons for breaches and the proposed action. In that case the breach of rules is reported on a daily and weekly basis to the Fund Administrator and on a quarterly basis to the Supervisory Board. We reconciled the rules on the compliance checks with the investment guidelines and the code of procedures (in force since October 2015). The titles / names of the rules in the compliance checks are still based on former guidelines. We recommend updating these titles and adapting them to the specific articles of the guidelines named above or mentioning the references for each check as a comment.

177) If the investment is appropriate we recommend considering whether the results of the daily compliance checks could be summarised. This could expedite the procedure for reviewing the compliance checks. Moreover, such automation could prospectively facilitate control and reporting of the daily development of the compliance check breaches over a specific period of time.

### (c) Risk assurance officer/ compliance assurance officer

178) Unlike in all other known organisations, the "assurance officer" reports to the Supervisory Board, whose function is restricted to supervising the asset management. Consequently, the role of the assurance officer cannot be compared with common standards or best practice from the outside but has to be defined and directed solely by the Supervisory Board. The Supervisory Board has laid down basic principles of the role of the assurance officer in RFPSS/SB 9/13. Draft of the precise mandate is still in the phase of development.

179) The risk assurance officer provides an extensive quarterly report on risk status and developments. This is expected by the Supervisory Board. However, the frequency and level of detail of those reports are not common for supervisory boards of long-term investors.

180) As a consequence, the Fund Administrator provides less risk information to the Supervisory Board in his monthly and quarterly reports. Common practice is the opposite: Asset Management typically provides detailed risk information to the risk officer who makes a summary from what he receives and develops his own evaluation of the overall picture for the Supervisory Board. However, the Fund Administrator recently has added a commentary on risk to his report.

181) So far the assurance officer has not covered strategic risks to the asset management. In our opinion, those risks mainly relate to the actuarial reserves of the RFPSS, which are outside of the scope of the Fund Administrator and outside of our own mandate. Main issues typically are the development of prospective payments, their volatility and stress probability and the discount rate used for calculation of present value of those liabilities. In the report for the fourth quarter the Chief Assurance Officer has commented on strategic risk. We believe some quantitative comments would be helpful.

182) Standard practice in risk management amongst long-term investors is to allocate a certain monetary risk budget to the asset management in order to define the maximum total risk which may be taken. Since the EPO has no capital, the risk assurance officer should consider developing other potential approaches to define a maximum limit of risk to be taken by the asset management in a certain period.

183) Moreover, the aim of the asset management is not to achieve maximum short-term or long-term returns but to meet, or ideally exceed, the actuarial assumptions for the calculation of the actuarial reserves of the RFPSS, i.e. 3.75% over inflation.

184) Given the continuing low interest environment the obvious way to escape that environment is to take more risk. It might be considered for example during the next study to define the appropriate strategic asset allocation, to lower the minimum of bonds to be invested in AA rated counterparties and to carefully relax the limits for the tactical asset allocation and the tracking error, i.e. allowed deviation from benchmarks.

(d) **Control of change of user profiles**

185) The lack of control mentioned last year is still open, the upgrade of the underlying software has not been completed yet in order to facilitate the role of the compliance officer in the checking of the activity of the IT Administrator. The Implementation is scheduled for 12 March 2016. So far, the change of the user profiles is in the exclusive authorisation of the IT administrator (including his own profile) without any approval procedure by an independent person required.

(e) **Investment in external funds**

186) All external funds are subject to standard compliance checks and do comply with the regulations of the Supervisory Board. The compliance officer checks monthly if all new funds are qualified.

(f) **Mandatory reporting of certain shareholding in a single company**

187) Many countries have individual rules for notification requirements if any investor exceeds a certain threshold of investment in shares of a single corporation. In Germany for example it is set at 5%, 10%, 25% and 50%, respectively, in Italy it is at a lower 2%. Any shareholder exceeding that limit has to report either to the company, to a public register or to a governmental body. This might even involve going to a notary public and signing a document in his presence which might need to be in local (e.g. Italian) language. This rule is based on an EU directive, which sets the lowest threshold at 5%. It applies not only to commercial corporations but to any investment vehicles in the legal form of a corporation, as well.

188) A tender process has been performed by the Fund Administrator together with the procurement department of the EPO, but so far no bidder has appeared who is able to perform all local notification duties.

(g) **Correctness of performance measurement**

189) The calculation of all measures to be reported to the Supervisory Board is performed externally i.e. built into different standard software packages used by the staff within RFPSS, with no possibility to change or influence those formulas. This includes performance and risk measures.

190) The quarterly report of the Fund Administrator includes a table derived from CAMRA. This can be easily reconciled to the original holding report produced by CAMRA. We checked the table for the third and fourth quarter of 2015 and found no exception. We also recalculated the total performance indicated in the report for the third and fourth quarter and can confirm the correctness of this calculation.

191) There is a standard report on the total portfolio by BNP on a monthly basis with tables and graphs. This report is transparent, easy to understand and gives all relevant details. Instead of asking for an individually written report by the Fund Administrator the Supervisory Board might consider to simply use the report by BNP. The report by BNP does not contain stress scenarios on individual asset classes or on the portfolio as a whole. However, we believe that it does not add much comfort to have stress tests be performed on a monthly basis compared to the long-term investment horizon of the RFPSS.

192) The EPO is the only organisation we are aware of where a Supervisory Board receives extensive monthly reports, quarterly reports and annual reports.

193) In order to avoid a short-term orientation, we recommend not requiring monthly plus quarterly reporting from the Fund Administrator, but quarterly or semi-annual reporting.

## 3.2. Specific issues

### (a) Dealing with big risks

194) The RFPSS is still in a phase of a net cash inflow from the EPO. This is expected according to the actuarial projections to last at least for the next five to ten years. During such long periods of time even big shocks of individual markets or asset classes are likely to reverse. Since the RFPSS asset management is not under any short-term constraints of capital or performance, we believe that such short-term or medium-term fluctuations are not relevant and should not be the focus of the Fund Administrator.

195) The main risks are related to the prospective liabilities and the long-term goal of achieving 3.75% over inflation. There might be scenarios which lead to a much earlier requirement of a net payout to the EPO but we have no access to and are not aware of the actuarial assumptions and calculations or any scenario testing which might be carried out by the actuaries. The only risk we can imagine is not meeting the long-term objective. In order to assess the (strategic) risk and possible reactions to that, a new study for the strategic asset allocation will be performed in 2016. The outcome will give an indication how to deal with those risks.

(b) **Cost and benefit of external support**

196) External support is mainly used to regularly measure the performance and to design the strategic asset allocation. The performance measurement is of limited value for the Funds Administrator who has all the information contained in that report and even more from his own internal sources. It could be of value for the Supervisory Board, but so far has not been used as the main and independent monthly information to the Supervisory Board. The work regarding the strategic asset allocation is used by the Supervisory Board to define any appropriate changes to the strategic asset allocation, but gives also helpful insights into and independent views about markets and asset classes for the Funds Administrator.

(c) **Benchmark selection**

197) Benchmarks are regularly reviewed when the studies of strategic asset allocation are performed.

198) Changes may be recommended by external experts or are at least proposed for discussion by the Funds Administrator. They are then approved by the Supervisory Board and attached to the regulations (i.e. Investment Guidelines). No changes of benchmarks are implemented without prior approval of the Supervisory Board.

199) Allowed tracking errors for each asset class are limited by the Funds Administrator and very stable over time (currently at 0.7%). Rebalancing to the benchmarks is done at the end of each quarter, even when the market situation is not positive for that.

## 3.3. Staff development

200) There are no long-term formal staff training and development plans in place, because the RFPSS asset management mainly employs experts in their respective field. RFPSS is providing input to the general budget of the EPO including some training cost. That is used by the staff in accordance with specific needs to keep up with current legal and market developments. Training needs are typically related to change in external regulations and market developments.

201) Each portfolio manager cares for his own update on knowledge and keeping current with markets. Each has a significant number of meetings and discussions with banks, brokers and other outside experts and is an expert in his area of responsibility. All managers are very experienced in their respective focus areas and asset management in general. Most portfolio managers have a CFA degree.

202) For two new members of the team working in the back office there is a phase of training on the job. In addition a plan has been developed for 2016 training on technical issues. Language training and technical training is also offered by the EPO and if applicable joined by RFPSS staff.

203) Fluctuation is rare except for retirement. Within the next six years, five senior people within the Fund Management will reach the age of mandatory or optional retirement. In any case the succession management is in the hands of the EPO's central recruitment department and can only be supported by the RFPSS management. Standard procedure is to look for internal candidates first and only if that is not successful perform a public tender process.

204) Staff rotation does not take place due to the small size of the team of RFPSS and the specialisation of each team member. Portfolio managers have substitutes for holiday and short phases of absence.

205) Since they have no assistants internal successor planning is difficult. Long-term replacement may require reallocation of some or all portfolios depending on the qualification of the replacing person.

206) Rotation is not beneficial because each portfolio manager is a specialist in his area and his portfolio and it would have negative effect to change those specialists into generalists.

207) We recommend considering how to plan for the succession of Portfolio Managers and possibly other staff.

### 3.4. Peer comparison

208) Based on our long-term experience RFPSS Asset management has an excellent team, a prudent long-term investment approach including frequent serious exercises to determine the long-term (strategic) asset allocation and a strong discipline to stick to that asset allocation.

## 4. QUALITY MANAGEMENT SYSTEM

Background

209) The EPO has defined an ISO 9001:2008 compliant QMS which has to ensure that products provided to users conform to all relevant requirements and meet the user needs and expectations. The QMS is related to the EPO's patent process which consists of following operational processes:

- search and examination
- opposition

- limitation/revocation
- patent information and post-grant activities.

210) The first level of the QMS documentation is the Quality Manual that describes the EPO QMS at a strategic level. At the second level there are procedures which describe in detail the relevant processes being part of the QMS. The third level includes the legal texts, regulations, work instructions, documents and records that are relevant for the work being performed within the QMS.

211) QMS Responsibilities: The President has the overall responsibility for ensuring that the QMS is maintained and improved in order to achieve the set objectives. The Management Advisory Committee (MAC) supports the President. The Management Representative for Quality (MRQ) has the responsibility for the maintenance and improvement of the QMS at all levels of the organisation. Each Vice-President is responsible for establishing objectives and strategy for his DG.

212) We had a look at two different balanced scorecards (BSC): one at the overall EPO level and one at the DG 1 level. The BSC at the EPO level includes key performance indicators (KPI) for the following areas: user, process, staff and finance. KPIs measuring quality are included within the user area: quality of search and quality of examination. Both KPIs are provided by Directorate Quality Audit and they are agreed at the annual Quality Review meeting.

213) In addition to the KPIs included in the BSC, a quality dashboard is also included at the EPO Landing Page.

214) CASE is a procedure for quality checks of searches and grants within DG 1. The examining division is responsible for reviewing products before they are issued. CASE is implemented to ensure that the process of systematic quality assurance by the examining division is recorded so that appropriate actions can be taken. Thus, through CASE, systematic quality issues are recognised and can be prevented in future.

215) Based on the ISO9001 requirements it is necessary that the effectiveness of corrective and preventive actions (CAPAs) is evaluated and monitored. The EPO does this by using the EQUID database (intranet, Lotus Notes). The sources for identifying CAPAs can be internal/external process audits, process indicators (e.g. CASE, Directorate of Quality Assurance (DQA) product audits), complaints, user satisfaction surveys and issues that are reported by staff members or raised at meetings with user associations. Systematically entered CAPAs include: non-conformities or observations raised in a process audits, annual quality action plans for DG 1 and DG 2 including actions proposed in response to the integrated quality reports. A CAPA should be registered, if at least one of the following criteria is fulfilled:

- the issue affects large number of users / staff
- the issue recurs over an extended period of time
- the issue might have a serious impact on users or on the reputation of the EPO
- a planned change in one area poses a significant risk of an impact on procedures in other areas
- a defined quality target (KPI or quality indicator) is not met, or the organisation is not on track to meet it.

216) Internal QMS Audits: The aim of the internal QMS audits is to evaluate whether the QMS is compliant with the requirements of ISO 9001 and the QMS requirements determined by EPO. Furthermore, the QMS audits analyse whether the QMS is steadily improved and efficiently implemented. A detailed audit plan for each year is prepared by PDQM and DQA.

217) Product quality audits: The goal of the product quality audits is to check whether the output of the operational units is compliant with the relevant EPO requirements. The scope of the product quality audits are all operational units at EPO (DG 1 and DG 2). The annual quality audit programme is established by DQA in co-operation with PDQM.

218) As DQA is a directorate within PD Internal Audit and Oversight, care must be taken to ensure independence when auditing processes within DQA, i.e. that this is not done by Internal Auditing, as both are in the same principal directorate with a common principal director.

219) The table below gives an overview of the DQA annual programmes approved by the President.

| DQA audits | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Grant | 750 | 750 | 750 | 750 | 750 | 750 |
| Search | 175 | 175 | 175 | 175 | 175 | 175 |
| Refusal | 55 | 0[1] | 45 | 0 | 45 | 0 |
| Opposition | 105 | 0[1] | 50 | 50 | 0 | 100 |
| Classification | 0 | 320 | 320 | 320 | 320 | 320 |
| QMS | 30 | 31 | 26 | t.b.d.[1] | t.b.d.[1] | t.b.d.[1] |

[1] Depending on scope of certification of QMS, DQA resources and efficiency gains achieved.

In 2015, the sampling method for grants was changed. While the samples were previously drawn from the population of granted patents, the samples are now drawn on a weekly basis from the population of patents with the status "intention to grant". This means that the time period between grant and audit and the corresponding feedback loop has been shortened. The director has sole responsibility for deciding whether or not to correct the issue resulting from the DQA product audit, without the involvement of further hierarchy levels.

There is no automated interface between the results of the audit and the CAPA database leading to several manual interfaces/process steps.

220) In 2015, the ISO 9001 certification audit took place successfully, with the scope including the patent granting process. Processes in the field of "Patent information and post-grant activities" are now being prepared for inclusion in the QMS. Those processes will also be part of the next ISO 9001 certification audit.

221) Our audit did not lead to any findings that warrant a recommendation on improving the QMS system.

# 5. RECRUITEMENT AND RETIREMENT

## 5.1. HR roadmap

222) The HR roadmap was presented to the Administrative Council in 2011. It is one of the roadmaps that lay out the strategic orientations that have been established with the goal of ensuring a solid future for the EPO. Through the HR roadmap, the EPO aims at promoting a human resources management which ensures that business needs, the needs of staff and human resources policies are balanced. Accordingly, the HR roadmap describes the strategy of human resources management of the EPO for the period from 2012 to 2015.

223) The strategic orientations of the HR roadmap were defined as the following, each entailing certain objectives and actions:

- managing people and competences
- promoting the manager as a key element of performance and social dialogue
- promoting a good place to work in
- balancing employment value proposition and coverage of the EPO's long-term liabilities

224) These strategic orientations were translated into the following graph which depicts the status (as provided by the Office) of the HR roadmap's project at the end of 2015:

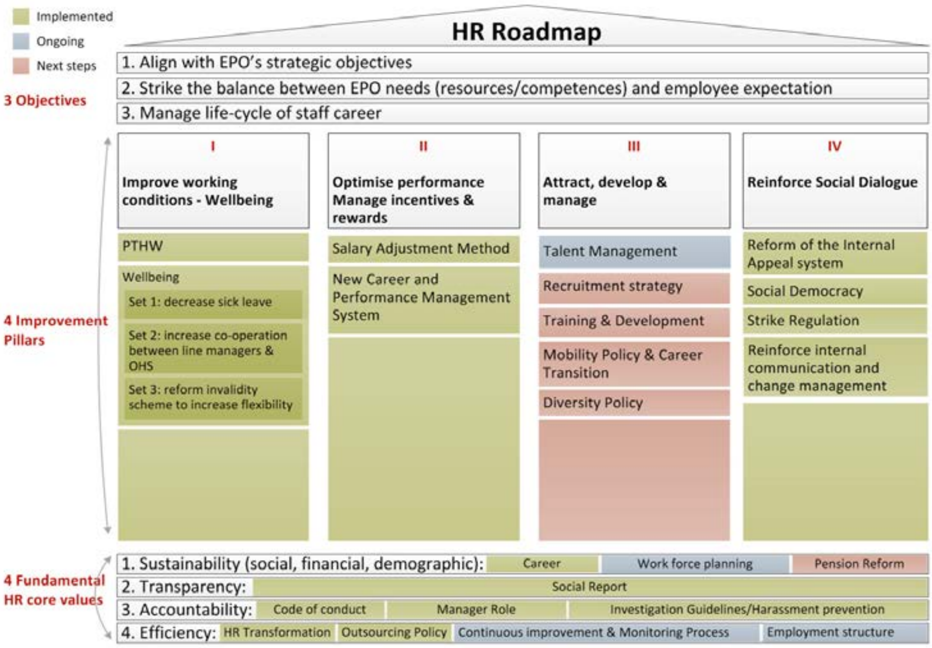



**Figure 1 - Achievements HR roadmap 2015**

225) The Principle Directorate Human Resources (PD 4.3) is commissioned to support the Directorates in the achievement of the goals defined in the HR Roadmap.

## 5.2. New career and performance management system

226) The new career and performance management system is considered to be one of the HR roadmap's corner projects to motivate staff through a stronger emphasis on performance, greater responsibility and empowerment of managers and greater flexibility and diversification in the tools to reward performance. According to the update of the HR roadmap on 6 June 2014 (CA/39/14), the project was scheduled to be implemented by the end of 2015.

227) In order to implement the new system, changes to the Service Regulations for permanent employees of the European Patent Office were decided by the Administrative Council on 11 December 2014.

228) The project was rolled out throughout 2015 and comprised the following essential steps:

(a) Performance management

- Objective setting for employees
- Regular performance reviews by line managers
- Creating performance of the employees quantitative and qualitative distribution to the Office's success

(b) Competency framework and job profiles

- Definition of the required competencies for different roles within the office
- Facilitating recruitment, performance appraisal and identification of training needs

(c) Career system

- Definition of new job groups
- Transposition of employees into new job groups
- Enabling new careers paths within the Office

(d) Rewards

- Possibility to reward high performance through various methods, e.g. promotions, individual bonuses or functional allowances.

### 5.3. Workforce planning

229) With regard to workforce planning, a distinction needs to be made between DG 1/DG 2 and the other directorates-general.

(a) **DG 1/DG 2**

230) The planning process for DG 1 is coordinated by Directorate 1.1.1 Business Analysis and Planning.

231) Based on the strategic goals of the EPO, the Medium-Term Business Plan (MTBP) is created on a yearly basis. It is a five-year plan, prepared by DG 1 in co-ordination with Controlling and Finance and approved by the President.

232) Derived from the MTBP, the DG 1 Internal Plan is prepared by DG 1. It contains the number of examiners required for a given year. It combines a top-down approach (planning by Directorate 1.1.1) with a bottom-up approach (input from other parties, e.g. the Cluster Controllers). The planning process begins at the end of February for the subsequent year. The DG 1 Internal Plan for the subsequent year is aligned with the DG 1 Objective set by the President and is approved by the President in September. Through early approval of the plan, the initiation of the hiring process is intended to be facilitated if necessary.

233) While several variables are accounted for in the DG 1 Internal Plan through the use of various estimation methods such as extrapolation, transfer and econometric models or applicant surveys, there are two major input factors that need to be considered:

- Strategic Directions:
  For a given year, there are strategic directions issued by the President which are to be followed. For 2016, these are coping with the existing workload and timeliness.
- Expected incoming workload:
  The expected incoming workload in combination with the number of products intended to be delivered is a key variable for estimating the amount of required examiners.

234) Based on the approved Internal Plan, the DG 1 Operational Plan is agreed between VP 1 and the PDs and it contains planning details at Joint Cluster and Directorates level, broken down on a monthly basis.

235) The main input factors for the planning in DG 2 are filings from applicants and the output of DG 1 regardless of the respective volumes. DG 2's operational goal is just-in-time delivery of services because backlogs generate additional work.

236) According to the PD 2.1 MTBP 2016-2020, DG 2's plan to ensure timely delivery in the future is to regain employees who are currently working on loan for other departments, to encourage employees of other departments to work in Patent Administration and to increase overall efficiency. External hires are to be avoided. Based on these measures, it is planned to convert 25 DG 2 posts into examiner posts.

(b) **Other directorates-general**

237) For the remaining DGs, no consistent workforce planning process is in place.

238) In accordance with the HR roadmap, a Workforce Planning project was initiated in Q3/2015. Designed as a pilot, a Workforce Planning team has been formed comprised of the budget holder for DG 4, the HR Business Partner 4.3 and the workforce planning analyst. A process has been established in which the requester needs to fill out a de-blocking request in which the rationale for hiring a new employee needs to be documented in detail. Based on the analysis of the rationale, the Workforce Planning team makes a recommendation on whether or not to approve the request. The completed form is submitted to Principal Director 4.3 and VP4 for approval.

239) The project is ongoing. Next steps are an organisational capacity assessment within PD 4.3 in order to be able to evaluate existing capabilities before having to hire externally and a procedure for succession planning for key positions.

240) According to the Workforce Planning Analyst, further steps are aimed at rolling out the project into DG 4.

## 5.4. Recruitment

241) The authority to appoint employees lies with the President. It has been delegated to the Principle Director Human Resources.

242) The Principle Directorate Human Resources (PD 4.3) is responsible for the administrative aspects of the recruitment process, thereby facilitating the hiring of suitable employees for the EPO.

### (a) **Non-examiners**

243) When a post becomes vacant, the directorate requiring a new employee drafts a vacancy notice together with the responsible HR Partner. The vacancy notice contains the relevant information about the post to be filled and is the basis for the advertisement of the vacancy initiated by Recruitment.

244) As soon as Recruitment is made aware of a vacancy notice, the composition of the selection board is initiated. The board consists of three members:

- a chairman appointed by the President
- a member appointed by the President
- a member appointed by the Central Staff Committee

245) The grade of the member of the selection board must be at least equal to that of the post to be filled.

246) A note of competition is prepared by the appointing authority based on the vacancy note. If the post to be filled is that of a director or higher, the note of competition needs to be approved by the President before publication.

247) Depending on the post to be filled, the vacancy is published in different media. All vacancies are published on the EPO website, LinkedIn, Facebook and Twitter. The use of further media such as print needs to be approved by the chairman of the selection board due to the higher costs that will occur. The success of the various channels is monitored.

248) Usually, vacancies are published for four weeks. If this is not sufficient, a prolongation for two weeks can be initiated.

249) All applications are online-based and are checked by Recruitment for formalities, e.g. whether the applicant speaks all required languages.

250) In a pre-selection meeting, the selection board decides on the applicants to be invited to the interviews (typically 5 to 10). If formal requirements are not met by the applicant, the selection board can decide to overrule the formalities check done by Recruitment. Also, the board decides on the assessment procedures to be used, e.g. personality questionnaires, technical tests or assessment centres. The latter are always applied for directors or above.

251) Based on the conducted interviews and other procedures, the selection board creates a report with recommendations to the appointing authority. The report contains a ranking of the applicants in terms of their suitability for the post. The recommendations can be followed by the appointing authority but do not have to be.

252) After it has been decided who to hire, the applicant is contacted and offered the post. If the applicant is willing to start working for the EPO, he needs to undergo the medical examination. The purpose of this is to ensure that the candidate meets the medical requirements of the post. So far, psychological parameters have not yet been evaluated.

253) Furthermore, the screening process is initiated during which an external service provider verifies details given by the applicant, e.g. regarding school and college degrees or previous employers.

254) The positive outcome of both the medical examination and the screening process are detailed as prerequisites for the validity of the job offer.

255) If the applicant agrees to the offer and the medical examination and the screening process are passed, the employment contract is signed and the rejected applicants receive an automated email of refusal.

256) The process is partly described in Annex II to the Service Regulations for permanent employees of the European Patent Office (ServRegs).

(b) **Examiners**

257) The recruitment process for examiners is similar to that of non-examiners. Potential applicants are requested to hand in their applications online. Recruitment checks the applications for formalities and passes them on to the respective Joint Cluster Directors and the respective staff representatives, who evaluate them further and decide whether to invite an applicant for a video conference interview.

258) This interview is intended to assess the language knowledge of the candidate and the broad technical knowledge, thereby providing the possibility to redirect the candidate to the appropriate technical area if the initial selection of fields chosen by the candidate does not correspond to his actual knowledge.

259) Depending on the outcome of the interview, the applicant is invited to a personal interview. These interviews, which consist of a technical assessment performed by a Technical Board and an assessment of personality and motivation performed by a Selection Board, should preferably be conducted during the recruitment events. These are held to facilitate the composition of the selection boards by concentrating the interviews on a few days per year.

260) In cases in which all three languages are required, a computer-based language re-test needs to be taken by the applicant followed by an additional interview with a Selection Board to assess the applicant's language skills.

261) Based on the outcome of the procedures, the Selection Board issues a report to the appointing authority with a recommendation on whether or not to hire the candidate. If the candidate is considered qualified, a medical examination confirming that the candidate meets the medical requirements of the post needs to be performed.

262) Furthermore, the screening process is initiated during which an external service provider verifies details given by the applicant, e.g. regarding school and college degrees or previous employers.

263) If the applicant agrees to the offer and the medical examination and the screening process are passed, the employment contract is signed and the rejected applicants receive an automated email of refusal.

264) The process is documented in procedure "3.10 Staffing/examiner recruitment".

265) 177 new employees joined the EPO in 2015. Most of them (137 or 77%) were new recruits to DG 1, emphasising the EPO's goal of enforced recruitment of examiners instead of non-examiner staff.

266) The sample testing has shown no material deviation from the procedures mentioned above. In one case, the Selection Board did not have a Staff Representative because there was no staff participation at the time of the hiring.

## 5.5. Retirements

267) A permanent employee will be retired either at the end of the month during which he reaches the age of 65 or at his own request from the age of 50 onwards.

268) He has to inform the EPO of his plans three months before the intended retirement date by submitting a request letter for retirement to the relevant HR interlocutor. The latter is responsible for supporting the employee wishing to retire throughout the process. Therefore, he checks the request for completeness and forwards it to HR Salaries and the relevant HR business partner. HR Salaries confirms the receipt of the retirement request and initiates the issuance of the certificate of retirement signed by the President.

269) The HR interlocutors organise the check-out meeting which should take place during the last week of the staff members last week of service. During this meeting, the retiree is informed about the formal aspects necessary before leaving the Office which are described in the "Checklist before leaving the Office".

270) After the list has been completed, the HR interlocutor sends it to HR Salaries and Pensions who initiate the pension payments.

271) The process is described in a workflow description and a working instruction for HR interlocutors.

272) In 2015, 248 employees left the EPO. The large majority of them (195 or 79%) retired. The figures corroborate the considerable importance of retirements for the workforce planning process.

## 5.6. Findings and recommendations

### (a) HR roadmap

273) During the audit, we requested an overview of the actions resulting from the HR roadmap as well as their current status. It was only provided to us two weeks later and the document was created when asked for.

274) We recommend to establish a comprehensive file for ensuring continuous monitoring of the HR roadmap's progress

275) From the document provided to us, there is no indication as to when the Workforce Planning project will be rolled out further into the organisation.

276) We recommend to define and document a clear timeline and the scope of the Workforce Planning project

(b) **Recruiting and retirement**

277) While the recruiting of examiners is described in great detail in procedure "3.10 Staffing/examiner recruitment" due to the process's relevance to the QMS, there is no equivalent guideline for the recruitment of non-examiners. The provisions of the Service Regulations do not describe the full process and cannot be considered a working instruction ensuring conformity of the process.

278) We recommend to establishment a procedure similar to "3.10 Staffing/examiner recruitment" also for other staff.

279) Issues can arise through the EPO staff's possibility to announce their retirement only three months in advance. It can be difficult to re-fill a post on a timely basis, in particular in administrative areas of the Office.

280) We recommend that for new personnel in key positions (e.g. directors upwards) a longer term period of notice for early retirement is established.

## 6. FOLLOW-UP: REVIEW AND INTERNAL APPEALS

281) This is an update on the more extensive report given in CA/21/15. The report from 2015 gives a comprehensive presentation of the system, and is not included in this report.

### 6.1. Update of figures

(a) **Conflict Resolution Unit**

| | 2014 | | 2015 | |
|---|---|---|---|---|
| | **Number of requesters** | **Number of cases** | **Number of requesters** | **Number of cases** |
| **Total** | 1 072 | 223 | 3547 | 215 |
| **Thereof related to Regulations / policies** | 922 | 96 | 3 405 | 105 |

**Table - Registrations Management Reviews in 2014/2015**

282) The number of cases has remained almost the same, but the numbers requesting management review have increased. Most of the requests were related to regulations and policies. The high number of requesters in 2015 resulted from the following mass requests:

- 1 462 requesters - invalidity insurance - implementation in payslip
- 599 requesters – new career system - breach of acquired pension rights, inequality and arbitrary decision
- 488 requesters - new career system - abolition of step advancement - payslip - through argumentation.

| | **2014** | | **2015** | |
|---|---|---|---|---|
| **Categories** | **Number of requesters** | **Number of cases** | **Number of requesters** | **Number of cases** |
| Disciplinary procedure | 19 | 19 | 9 | 9 |
| Invalidity | 7 | 7 | 11 | 11 |
| Investigation / dignity | 1 | 1 | 3 | 3 |
| Leave / working time | 9 | 9 | 7 | 7 |
| Medical procedure | 4 | 4 | 7 | 7 |
| Other / DG 1 | 16 | 9 | 9 | 7 |
| Other / PD4.3 | 10 | 10 | 8 | 8 |
| Other / PD4.4 | 2 | 1 | 2 | 2 |
| Pensions | 2 | 2 | 8 | 5 |
| Promotions | 3 | 3 | 7 | 7 |
| Reckonable experience | 3 | 3 | 2 | 2 |
| Regulations / policies | 922 | 96 | 3 405 | 106 |
| Salary / allowances / payments | 27 | 27 | 59 | 31 |
| Staff Committee Rights | 29 | 14 | 5 | 5 |
| Staff Report - procedural issue | 5 | 5 | 0 | 0 |
| Transfer / appointment / contract | 7 | 7 | 4 | 4 |
| Van Breda / LTC | 6 | 6 | 1 | 1 |
| **Total** | **1 072** | **223** | **3 547** | **215** |

**Table - Categories – CRU for 2014 and 2015**

283) The mass requests (category "Regulations / Policies") with more than 60 requesters are shown below.

| Case No. | Subject | Number of requesters |
|---|---|---|
| 2014-0005 | Oct./Nov. 2013 strike deductions | 150 |
| 2014-0050 | Contributions to healthcare (van Breda) | 108 |
| 2014-0065 | Pension contributions C349 | 105 |
| 2014-0126 | March 2014 strike deductions | 60 |
| 2014-0168 | CA/D 2/14 (Social Democracy) - AC referral | 163 |
| 2014-0221 | November 2014 strike deductions | 91 |
| 2015-0008 | December 2014 strike deductions | 235 |
| 2015-0083 | New Career System – Abolishment of automatic step advancement | 488 |
| 2015-0092 | New Career System – Transposition of previous A4(e) grades | 74 |
| 2015-0093 | CA/D 2/15 – Invalidity reform | 1.462 |
| 2015-0115 | New Career System – Breach of acquired rights | 599 |
| 2015-0119 | CA/D 11/14 – CA/D 14/08 on Art. 42 PenRegs – AC referral | 79 |

**Table - Mass Request**

284) In 2015 there were minor changes in terms of the requests handled by the different units. However, the increases for D 432 (Directorate HR Operations) and PD 4.3 (Principle Directorate Human Resources) were due to the mass requests relating to the changes in the career system.

| | 2014 | | 2015 | |
|---|---|---|---|---|
| **Reviewer** | **Number of requesters** | **Number of cases** | **Number of requesters** | **Number of cases** |
| Administrative Council | 3 | 2 | 1 | 1 |
| D 431 | 9 | 9 | 6 | 6 |
| D 432 | 471 | 76 | 2 749 | 104 |
| D 433 | 0 | 0 | 7 | 7 |
| D 434 | 1 | 1 | 22 | 10 |
| DG 1 | 8 | 6 | 13 | 8 |
| No review | 6 | 6 | 4 | 4 |
| PD 0.6 | 0 | 0 | 2 | 2 |
| PD Muse | 0 | 0 | 1 | 1 |
| PD in DG 1 | 2 | 2 | 0 | 0 |
| PD 4.3 | 15 | 9 | 578 | 14 |
| PD 4.4 | 0 | 0 | 2 | 2 |
| President | 536 | 93 | 147 | 41 |
| VP 4 | 21 | 19 | 15 | 15 |
| **Total** | **1 072** | **223** | **3 547** | **215** |

**Table - Reviewer of request for management review (2014/2015)**

285) Outcome of CRU

| | 2014 | | 2015 | |
|---|---|---|---|---|
| **Outcome CRU** | **Number of requesters** | **Number of cases** | **Number of requesters** | **Number of cases** |
| Allowed | 10 | 9 | 12 | 9 |
| Allowed in part | 3 | 3 | 0 | 0 |
| Decision maintained | 731 | 143 | 3 130 | 108 |
| Forwarded to AC | 5 | 4 | 2 | 2 |
| Forwarded to MC | 1 | 1 | 0 | 0 |
| No action needed | 63 | 4 | 1 | 1 |
| Rejected as irreceivable | 254 | 54 | 202 | 46 |
| Withdrawn | 5 | 5 | 5 | 5 |
| Implied rejection | 0 | 0 | 1 | 1 |
| Pending | 0 | 0 | 22 | 22 |
| Rejected as partly irreceivable | 0 | 0 | 172 | 21 |
| **Total** | **1 072** | **223** | **3 547** | **215** |

**Table - CRU Outcome**

No significant changes compared to the last year. There were fewer cases with the outcome "decision maintained" but more cases which were rejected as (partly) receivable.

(b) **Appeals Committee**

| | 2014 | | 2015 | |
|---|---|---|---|---|
| | **Number of appellants** | **Number of cases** | **Number of appellants** | **Number of cases** |
| **Total** | 531 | 181 | 1810 | 226 |

**Table - Appeals Committee Registrations**

We observe an increasing number of cases and appellants.

286) In 2015 the most cases with the most appellants were related to invalidity insurance (684 appellants) and to the new career system (755 appellants).

| Year | Number of appellants | Subject |
|---|---|---|
| 2014 | 150 | Strike action - deduction salary CA/D 5/13 |
| 2015 | 159 | Salary deductions for strikes Nov./Dec. 2014 |
| 2015 | 628 | Invalidity insurance – Lump-sum payment |
| 2015 | 314 | New career system - Transposition letter |

**Table - Main subjects in 2014 and 2015 (over 100 appellants)**

287) Outcome

| | 2014 | | 2015 | |
|---|---|---|---|---|
| Outcome | Cases | Appellants | Cases | Appellants |
| Allow | 5 | 11 | 2 | 2 |
| Allow in Part | 15 | 26 | 2 | 2 |
| Reject | 155 | 2528 | 190 | 332 |
| **Total** | **175** | **2565** | **194** | **336** |

**Table - Outcome Internal Appeals (Opinion Appeals Committee)**

We observe an increasing number of case-recommendations.

## (c) Final Decisions

| | 2014 | | 2015 | |
|---|---|---|---|---|
| | Cases | Appellants | Cases | Appellants |
| **Total** | 139 | 515 | 243 | 2.420 |

**Table - Final Decisions made by the President / Delegates**

Final decisions taken in 2014/2015 are partly related to recommendations issued by the Appeals Committee in 2013. The number of final decisions has increased.

| | 2014 | | 2015 | |
|---|---|---|---|---|
| Outcome | Cases | Appellants | Cases | Appellants |
| Allow | 3 | 3 | 1 | 1 |
| Allow in Part | 15 | 17 | 1 | 1 |
| Reject | 121 | 495 | 241 | 2.418 |
| **Total** | **139** | **515** | **243** | **2.420** |

**Table - Outcome Final Decisions**

The number of cases in which the Appeals Committee opinion and the final decision of the President differed was lower than last year.

| 2014 | AppCom Opinion | Pres. Allow | Pres. Allow in part | Pres. Reject | Pres. Pending |
|---|---|---|---|---|---|
| Allow | 5 | 1 | 0 | 4 | 0 |
| Allow in Part | 15 | 0 | 4 | 11 | 0 |
| Reject | 155 | 0 | 0 | 153 | 2 |
| | | | | | |
| **2015** | **AppCom Opinion** | **Pres. Allow** | **Pres. Allow in part** | **Pres. Reject** | **Pres. Pending** |
| Allow | 2 | 0 | 1 | 1 | 0 |
| Allow in Part | 2 | 0 | 0 | 1 | 1 |
| Reject | 190 | 0 | 0 | 152 | 38 |

**Table - Outcome Opinions – Number of Cases**

## (d) Average processing time

| In months | Appeal date – position date | Position date - hearing | Hearing – AC opinion | AC opinion – final decision by President | Total average time: appeal date – final decision |
|---|---|---|---|---|---|
| **2014** | 25.61 | 10.26 | 5.32 | 2.20 | 43.39 |
| **2015** | 34.58 | 10.88 | 2.88 | 1.99 | 50.33 |

**Table - Processing Time in Months**

It is possible that the increase in appeal date - position date is due to increased processing of older cases, thus reducing the actual backlog. However, we have not verified this.

(e) **Employment Law Department D 5.3.2**

288) The workload of D 5.3.2 is as follows:

| Settlement notes | Position paper | 2nd written submissions in appeal files | IAC pleadings | Legal input on IAC opinions |
|---|---|---|---|---|
| **Data on appeals 2014** | | | | |
| 12 | 134 | 79 | 80 | 150 |
| **Data on appeals 2015** | | | | |
| 3 | 114 | 32 | 69 | 215 |

| New ILOAT files | Submissions to the ILOAT | Judgments |
|---|---|---|
| **Data on ILOAT 2014** | | |
| 57 | 118 | 40 |
| **Data on ILOAT 2015** | | |
| 110 | 130 | 69 |

**Table - Workload of D 5.3.2 in 2014 and 2015**

The tables do not include data on legal advice, participation in projects or involvement in processing requests for review. Beside the mentioned tasks, D 5.3.2 also has to deal with several projects. Overall Directorate's activity includes beside the re-litigation (ILOAT and internal appeals) also legal advice during the processing of requests for review ("pre-litigation").
In total, the number of data on appeals and data on ILOAT files were in 2015 higher than in 2014, and the backlog at the ILOAT has increased.

289) The development of the new ILOAT files is as follows:

| Year | Number of new ILOAT cases references received by EPO | Number of corresponding rows in caseload |
|---|---|---|
| 2013 | 86 | 108 |
| 2014 | 57 | 63 |
| 2015 | 110 | 136 |

**Table - EPO Cases at ILOAT**

We observe an increasing number of new ILOAT files.
One single ILOAT case may correspond to several rows in caseload. Each row corresponds to an internal appeal procedure or to a direct complaint with the ILOAT.

290) The backlog situation is as follows:

| Workload status of D 5.3.2 - 2014 | Number of cases 2014 | Number of cases 2015 |
|---|---|---|
| On hold / stay of proceedings | 24 | 17 |
| Follow-up of envisaged amicable solution | 62 | 8 |
| Prepare PP | 358 | 418 |
| Drafting 2$^{nd}$ submission and / or pleading | 126 | 102 |
| Legal input on IAC opinion / final decision | 198 | 133 |
| **Total** | 768 | 678 |

**Table - Backlog Situation in 2014 and 2015**

Note: The data shown in the table above are related to cases. The number of ongoing procedures is the most relevant figures in terms of workload, rather than the number of appellants (the number of appellants is more relevant in terms of administrative handling of cases). As the lawyers are dealing with the cases independent of the number of appellants behind them, this number is used in order to show the workload within the department.

No significant changes were found compared to the last year. Most of the cases pending cases (418 cases) are waiting for the position paper.

291) Resources: During both 2014 and 2015, the Office shifted some contracts from non-renewable (2 + 1 years) to euro-contract (3 + 2 years), and from fixed-term to permanent. The staffing levels are characterised with a high proportion of non-permanent staff, especially among the lawyers, and a high turnover. So far two lawyers benefitted from two euro-contracts. Due to the turnover, it is not clear if the actual capacity was significantly increased in 2015.

292) Regarding the workload at the end 2015 compared to the end 2014 (appeals treatment only), it should be noted that the number of files treated in 2015 by D532 (output) was neutralised by the number of new incoming appeals in 2015.

## 7. FOLLOW-UP: PATENT GRANT PROCESS

### 7.1. Processing time of different steps

293) The average time in 2014 needed between the receipt of an application and final grant was 43 months from filing the application. In 2015, the comparable figure was 49 months. All clusters note an increase.

294) The Office has explained the increase as a result of processing more older files, which will have this effect.

### 7.2. Backlogs of product under priority 1

295) Early Certainty from Search (ECfS) entered into force on 1 July 2014 and is the EPO's main initiative to reduce backlogs.

| | Dec. 2014 | Dec. 2015 |
|---|---:|---:|
| Backlog of products under priority 1 | 35 030 | 11 562 |

The following shows the number of incoming files and examiner products in 2015:

| | 2014 | 2015 |
|---|---:|---:|
| New in directorates | 344 976 | 365 545 |
| New search | 213 494 | 216 758 |
| New examinations | 131 482 | 148 787 |
| Examiner products | 320 080 | 364 739 |

# 8. IT

## 8.1. IT roadmap assessment

296) The IT roadmap 2011-2015 (CA/46/11) was presented at the June 2011 Administrative Council meeting to set out the strategic directions for IT. In April 2014, CA/46/14 was provided as an update of the original roadmap. Since the beginning the IT roadmap has evolved to include aspects that were not contained in its original mandate in June 2011: Inclusion of the Security Roadmap implementation, other activities such as the stream 3 IM Transformation, Ergonomics support, Change Management and further benefits improvement transformation projects.

297) As the new governance model "IT Governance 2.0" has been introduced in 2015, this impacts the current view on the IT roadmap. ITR stream 1 and stream 2 are brought in scope of the new Automation Governance model. The last project running in stream 3 is now close to completion. The change of the Governance Model does not impact the reporting on the IT roadmap to the Admin Council according to CA/46/14. The IT roadmap and projects included are in good progress and it is expected to finish on time for stream 2 but a delay is foreseen in the delivery of the reengineered Patent Grant Process based on the CMS platform.

298) Based on current planning, it is expected to finish the IT roadmap implementation within the planned budget of EUR 140m. The planned budget for work that was not executed in 2015 is shifted into the budget planning for coming year(s).

| | ITR MANDATE AUTOMATION CA/46/ docs | PLAN AUTOMATION (26-1-2016) | ACTUALS AUTOMATION (26-1-2016) | 2016 AUTOMATION | 2017/2018 AUTOMATION | ITR AUTOMATION TOTAL (26-1-2016) |
|---|---|---|---|---|---|---|
| **ITR TOTAL** | **€140 000 000** | **€105 215 575** | **€83 343 741** | **€29 500 000** | **€27 200 000** | **€140 043 741** |
| Stream 1 | | €64 892 501 | €55 958 167 | €20 700 000 | €23 200 000 | €99 858 167 |
| Stream 2 | | €19 847 706 | €15 165 620 | €8 800 000 | €4 000 000 | €27 965 620 |
| Stream 3 | | €13 333 829 | €8 354 122 | | | €8 354 122 |
| Other | | €7 141 539 | €3 865 832 | | | €3 865 832 |

**Table: IT roadmap budget and costs**

299) IT Security Implementation project is close to finish. All projects within stream 3 except the IT Security implementation are closed as of today. Closure for the IT Security implementation is planned end of February 2016.

300) Based on the proposed budget of the IT roadmap of EUR 140m, actual spends are at EUR 83m. From a budget perspective, currently 60% of the planned budget had been spent. Referencing CA/T 8/15 with the latest update of planned overall cost and the reported actuals cost, the IT roadmap will end up without exceeding the approved budget.

301) Guidelines and policies prepared within the IT Security project are finalised and implemented. The ISO certification process is planned to start in 2016. We checked the policies provided by EPO and compared them to the ISO 27001 standards. The EPO policies cover the complete standard, are up to date and include references to other policies. They also include an audit trail, the policy owner, responsible persons and the related ISO 27001 chapters. Policies are published in the Intranet of EPO and can be accessed by all individuals.

302) We reviewed the PID 1.4 technical implementation of unitary patent dated 3 July 2015 and the UNIP exception report dated 11 September 2015. In the PID 1.4, the project board decided to implement UNIP on the legacy system except for the CMS filing. Then, following a series of issues, the board decided to reject the offer made by the initial supplier for CMS filing for UNIP proposal and adjust the legacy systems to enable the filing of the unitary patent. Some forms and functionalities of the legacy system need to be updated to support UNIP. The total cost for the actual development of the unitary patent functionality on the legacy system (reflected in the PID 1.4) is EUR 1.6m for 2015 -2016, being part of the overall project budget of EUR 5.5m and still within budget as to date.

303) The financial impact of the decision to end the contract with the initial supplier is EUR 2.6m, including EUR 0.6m in not foreseen costs for the exit support of the initial supplier. Currently total expected costs of the new CMS development is EUR 44m based on the JWPP estimation based on 3 different estimation methods and performed with 2 external companies. The JWPP also includes the statement of work for the unitary patent implementation.

304) We note that UNIP can be fully supported by the legacy system, even if the reengineered processes are not in place yet to optimise the registration and search process. As reported in the CA/T 8/15 UNIP is ready for deployment in April 2016.

305) The End of Project Report (EPR) does not include the final costs occurred for each project, as additional costs are shown in the dashboard even if we did not note a significant difference for all deviations in our sample.

## 8.2. IT licence management

306) The EPO runs 11 SAP systems. Two of these systems, P01 (Productive System) and D01 (Development System), have been analysed based on five SAP tables provided by the client. According to EPO, the remaining nine SAP systems do not include additional users which require a licence. The SAP users in scope are either defined as type A (dialog user) or type C (communication user). Overall, we identified approx. 1 040 type A users and approx. 5 840 type C users.

307) We noted that no licence compliant risk exists for SAP but there is potential for further optimisation when the contract with SAP is next renewed.

308) Nine users have been classified as multiclient /- user system (user type 11) in P01. This is only permitted as these users are also assigned to a mySAP Developer User within system D01.

309) Our analysis for User Type AY (mySAP Limited Professional User) shows a possible overdeployment of users which can be compensated by downgrading the surplus of licences of User Type AX (my SAP Professional User). The downgrade of licences of type AX to type AY could lead to not insignificant saving.

310) Recommendations:

- We recommend that it should be verified by EPO on a regular basis that users of type 11 only use the functionality of an employee user.
- We recommend checking the accuracy of the automated retirement process for type A users.
- We recommend checking whether users with licence type AX can be downgraded to type AY. A licence check should be performed on a regular basis for every overlicensed licence type.

## 8.3. IT Security

311) The Online Filing application, ranked critical in EPOs Business Impact Analysis, is one of three possibilities (Online filing (OLF); new online filing (CMS); Web-form filing) to upload a patent request. OLF is currently used for approx. 90% of all applications and provides the main technology for patent application. OLF is a client-server architecture. The end user needs to install the client on his computer. Authentication is granted by a smartcard which is provided by and the corresponding PIN to establish a connection to the online filing server. The smartcard is personalised and issued to a particular person. It contains certificates, which are managed by EPO. The connection is secured with a X.509 certificate.

312) The online filing server is secured by firewalls and virus checks. Files are processed to the internal servers which are not accessible via internet. Only a few people have access to the database. Access is granted to database administrators and the support team for exception handling. Based on our audit, we conclude, that high IT security standards are in place for the Online Filing system and that the data included has a strong protection against data manipulation or data theft.

313) Nevertheless we identified that only basic guidelines are provided by EPO how applications have to be secured according to their criticality. The EPO security measures to be applied are defined within the project as part of the security review procedure. IT security department needs to be included in the project, if the application is not classified as "low".

314) Only basic security guidelines for all systems are defined. No guideline based on the classification of the system is provided.

315) We recommend defining a minimum standard of IT security measurements for each classification level for applications.

## 8.4. IT Staffing

316) A strategic workforce plan has been implemented in 2015 and an analysis of current environment and strategic objectives has been performed by IM. The strategic direction of IM is that IM core activities will move from a technology supplier to a strategic business partner and integrator.

317) To define future needs, an analysis has been performed in each directorate of the IM department and including all IM employees. The goal of the analysis was to define which knowledge at which level is needed to support the IM functionalities in 2020.

318) By using the new implemented Individual Development Plan (IDP), actions are defined for each employee to develop the individual into the direction and skills needed for the future challenges as analysed by each directorate. The IDP is mandatory for every employee in the IM department and is updated (at least) on a yearly basis.

319) EPO has defined five action types to react on new job profile requirements (buy, build, borrow, bounce and organisational redesign). For each job profile it will be decided which action is needed to fulfil the job profile requirement in future.

320) A detailed analysis has been performed by IT department to identify needs of knowledge and skills for the future. A formalised and mandatory development plan has been installed (IDP) to have a standardised project which supports IM to develop the right skills for its existing workforce.

321) We noted that the total number of employees in the IM department is planned to be reduced from 383 (currently working in IM) to 374 in 2020.

322) We recommend a critical review of workforces planned in IM for the future. As IT and IT challenges are getting more complex in future it should be challenged if this complexity can still be addressed with a reduced IM workforce in 2020.

# 9. BUILDING PROJECTS

## 9.1. New building project in The Hague

### (a) Project organisation

323) The composition of the project team, caused by retirement and personal situations, has changed, but not the general project organisation. The project team has been completed again by internal staff and external support. With the existing project members the personnel continuity is preserved but possible future changes could lead to a loss of information and contacts.

324) The project is still regularly audited by an external Quality Assurance (Ernst & Young). In their latest report (07.01.2016) the stability of the project management team is an important aspect.

325) In the last report it was discussed to give the project manager the mandate for decisions up to an amount of EUR 150k because the internal authorisation process for variation orders is complex and slow and could be a timely bottleneck for decisions. This has not been implemented yet. The approval of the existing variation orders had no negative timely impact on the project.

## (b) Progress of project and time schedule

326) According to the current time schedule the completion of the new building is still expected for 8/2017 and the completion of the whole project for 5/2019 (no change to last report).

327) The time schedule shows that the movement into the new building is planned to be completed by end of 11/2017. Under consideration of the amount of EPO staff this is an ambitious but not impossible date. According to the complexity of the construction project an additional delay, caused by unforeseen aspects, should be taken into consideration.

328) A delay of only months (not unlikely in a project of this size) would lead to the necessity of a later contract termination. For this reason, negotiations with the landlords to achieve a more flexible termination of the existing lease contracts have taken place.

## (c) Project costs

329) Cost changes are currently fixed in several variation orders with a total amount of approx. EUR 13.5m (cost reducing aspects are not considered to show the current possible maximum of increase in these variation orders). Most of this amount is caused by the EPO itself.

| | |
|---|---|
| Security installations | EUR 4.92m |
| Coated low iron glass of facade (design aspect) | EUR 4.75 |
| Technical upgrades (LED lighting, motors for air-con units) | EUR 0.5m |
| Architectural upgrades | EUR 0.34 |
| Staircases | EUR 0.17m |
| Kitchen / coffee corner | EUR 0.11m |
| **Sum** | **EUR 10.79m** |

| | |
|---|---|
| Pollution of soil | EUR 0.63m |
| Additional asbestos | EUR 0.54m |
| Increase of insurance tax (change in Dutch insurance tax law) | EUR 0.27m |
| **Sum** | **EUR 1.44m** |

330) Under consideration of the existing contingency budget the project costs are within the total budget and the cost monitoring should be carried out continuously to keep the costs within the limit.

(d) **Project risks**

331) The project risks (e.g. quality variations, technical problems, delays of decisions) have been identified and documented in the risk log which is updated regularly. Responsibilities are defined and mitigation actions are assigned.

## 9.2. General aspects and other building activities

(a) **Maintenance planning**

332) Since 2015, the software "epiqr" is used to register the status of the EPO buildings and plan measures for maintenance. Geometric and technical parameters of the buildings are entered as data in this system. Additionally, the structural and technical status is evaluated and categorised based on inspections of the buildings. According to the building parameters and the status category the maintenance measures are determined.

333) In previous years, the maintenance was planned according to existing deficiencies. The current intention is to move from deficiency oriented maintenance to preventive and proactive maintenance.

(b) **Vienna**

334) The renovation project in Vienna have been carried out from April 2015 to July 2015. The project costs are within the expected budget.

335) The project in Vienna was audited by Internal Audit of EPO, therefore an additional detailed analysis was not carried out.

(c) **Berlin**

336) The project is organised and executed by the *Bundesanstalt für Immobilienaufgaben* (BImA), a German public authority. Planning is currently ongoing, the beginning of the construction works is planned for mid-2016 and the completion of the project is planned for 2021. The costs for the EPO are limited to EUR 6m (including 20% contingency, excluding VAT). This means a shifting of the project dates which is not under control of the EPO.

(d) **Other projects**

(1) Security concept PschorrHöfe

337) The expected costs are EUR 2.1m and the realisation is planned for September 2016.

(2) Kitchen renovation and restaurant extension in The Hague

338) A contract for consultancy has already been awarded (EUR 0.4m) and the budget for the execution of the works is estimated at EUR 3m. It is planned to finish this project together with the New Main building in August 2017.

(3) Other

339) Currently no other major projects are ongoing or planned.

340) The lease contract for the Capitellum building in Munich was terminated by end of March 2015 and the staff moved into other buildings.

## 9.3. Benchmarking Building cost

(a) **Portfolio**

341) Based on surveys of the last years we performed a benchmark comparison of essential operating costs of EPO buildings (energy, cleaning, maintenance and rent). Last year's survey (2012 to 2014) was added with data of 2015. Special characteristics in comparison to benchmark data have been discussed with PD 4.4 and described in the report or commented as in the last years.

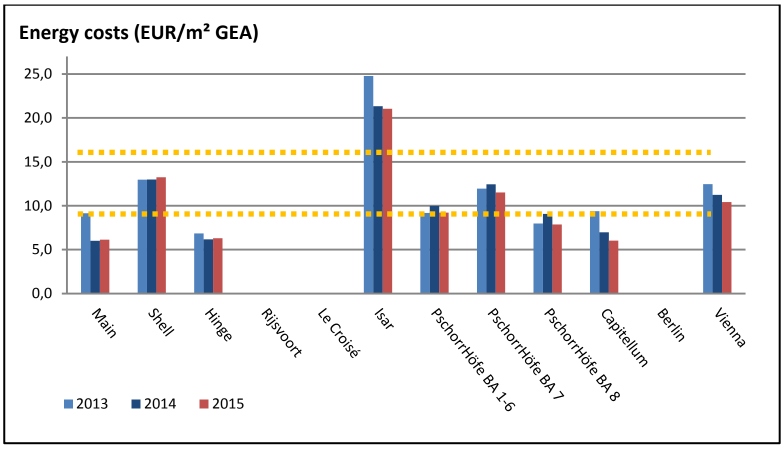
342) The following table shows an overview of EPO buildings.

| Location | Object | owned/ leased | Gross external area (GEA) | No. of workplaces | m² per workplace |
|---|---|---|---|---|---|
| Rijswijk | Main (EPO 2) | owned | 59 714 m² | 1 281 | 47 |
| Rijswijk | Shell (EPO 3) | owned | 79 109 m² | 1 574 | 50 |
| Rijswijk | Hinge (EPO 1) | owned | 52 582 m² | 23 | n/a |
| Rijswijk | Rijsvoort | leased | 11 735 m² | 217 | 54 |
| Rijswijk | Le Croisé | leased | 28 049 m² | 478 | 59 |
| Munich | Isar building | owned | 91 393 m² | 886 | 103 |
| Munich | PschorrHöfe BA 1-6 | owned | 165 235 m² | 2 143 | 77 |
| Munich | PschorrHöfe BA 7 | owned | 44 686 m² | 456 | 98 |
| Munich | PschorrHöfe BA 8 | owned | 66 259 m² | 721 | 92 |
| Munich | Capitellum | leased | 25 841 m² | 415 | 62 |
| Berlin | --- | leased | 25 176 m² | 305 | 83 |
| Vienna | --- | owned | 12 285 m² | 137 | 90 |
| **Total** | | | **662 064 m²** | **8 636** | |

Note: the object Rijsvoort includes the area for kindergarten

## (b) Energy

343) The comparison of energy costs per m² GEA has been carried out for all (owned or leased) buildings.



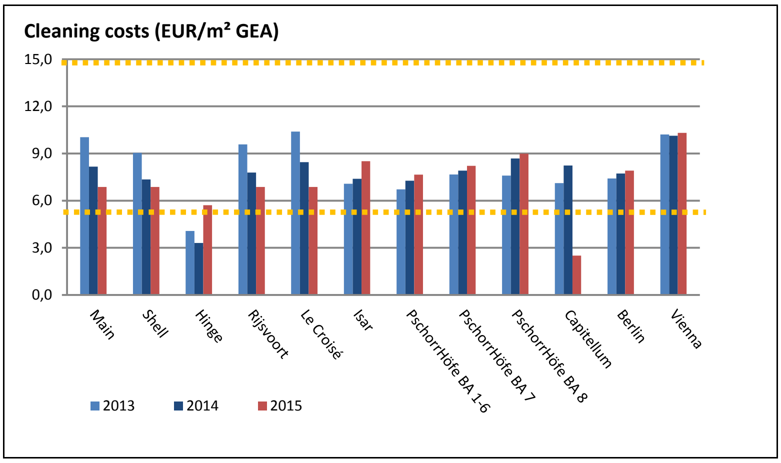

Note: With regard to lease agreements for the objects "Rijsvoort", "Le Croisé" and "Berlin" the agreed leases are including energy costs. There was no comparable figure in the provided documents to show the energy costs separately per building.

344) Energy costs in general depend on the building structure and user behaviour. A typical range for energy costs is published between EUR 9.00/m² and EUR 16.00/m² (GEA). The above graph shows that energy costs for the object "Isar" are higher than the comparable figures. The buildings age, the fittings (upper class and representative function) and the building structure were given as reasons by PD 4.4. The energy costs in 2015 (all in all) are slightly lower than the average of the last five years.

345) In total and in comparison to our last year's review we could not register a significant change of energy costs.

### (c) Cleaning

346) The comparison of cleaning costs per m² GEA has been carried out for all (owned or leased) buildings.




347) Separately cleaning contracts have been agreed per object for all buildings except the objects in The Hague.

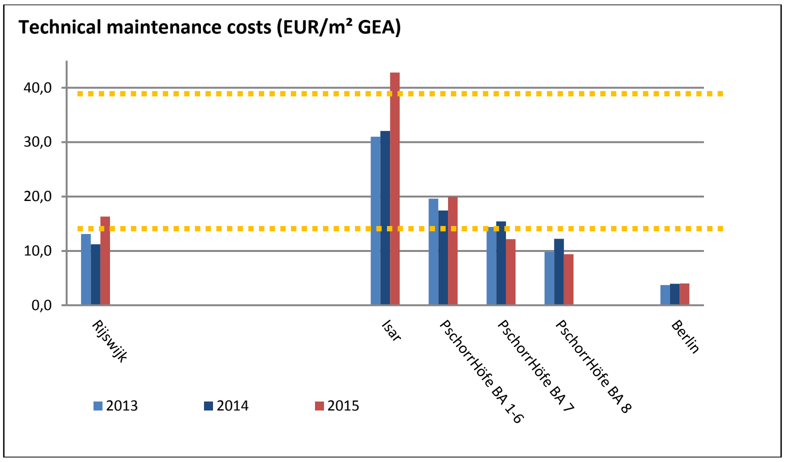
348) For buildings located in Germany we observed a moderate increase of costs for market price reasons. Cleaning costs for the German buildings show no significant change to the previous year. The cleaning costs of the buildings in Vienna are on the same level as last year.

349) We researched market/average cleaning costs in a bandwidth between EUR 5.00 to 15.00/m². The average cost level is around EUR 10.50/m². Statistical investigations prove that costs for ownership or single-tenant-objects are on the upper level, for leased objects on the middle or lower level. Overall, for EPO-buildings the cleaning costs are nearly on the same level (+0.1 %) in comparison to 2014.

350) In our opinion, contracts with a running period of one year are market price. We came to the conclusion that the cleaning costs are within a reasonable range.

(d) **Maintenance**

351) The comparison of maintenance costs per m² GEA has been carried out for all (owned or leased) buildings.




Note: For the object "Capitellum" the technical maintenance costs are part of the payable/agreed lease.

352) Overall, the fluctuation of maintenance costs for the buildings result from normal market price fluctuation and from technical requirements to perform maintenance work. The high level of maintenance costs - in direct comparison with all EPO buildings - for the building "Isar" (Munich) reflects especially the building age and the building special construction type and also the above-mentioned cost allocation. According to PD 4.4 the substantial increase in the cost of maintenance for objects located in Munich is based mainly on the increase of personnel costs. The accounting of invoices and of personnel costs was not detailed enough to get a reliable result of the allocation of the costs to the different buildings. This is mainly caused by invoices which do not show the performed services separately per building. We recommend splitting the invoices of the maintenance costs per building.

353) Technical maintenance costs in general depend on the building structure, the year of construction, the fittings, the ongoing maintenance and the lease agreement terms. A typical range for maintenance costs is published between EUR 5.00/m² and EUR 30.00/m² (GEA).

354) In 2015, all provided costs were on an intermediate level (approx. EUR 19.50/m²) within an average range.

## III. STATUS OF FINDINGS FROM PREVIOUS YEARS

355) The left column is the recommendation reference and title, the second is the EPO implementation report, the third and last reflects the auditors' comment(s).

With regard to the auditors' comments:

- "No further comments" means the auditors do not expect any further explanations from the Office, although they could, in future audits, come back on the considered issues.

- "Recommendation closed" means the auditors consider the Office's response has solved the raised issue.

## A. OFFICE'S FOLLOW-UP REPORT ON CA/20/15 (STATUS 31.01.2016), AND AUDITORS' REACTION

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| II.C.2.3 | We recommend performing a sanity check of internal costs incurred against planning in order to identify any excess costs which would have to be expensed immediately (internal costs are not budgeted). | Closed.<br>A sanity check has been performed, and no excess cost has been identified as at 31.12.2015. | Recommendation closed |
| II.C.2.5 | We recommend that any HR information relevant to financial reporting should be well documented and provided in a standard format on a timely basis (i.e. on time for preparing the financial statements) suitable also for audit purposes. | Closed.<br>A standard format has been agreed between HR and Finance for the provision of data intended to document the Financial Statements. | Recommendation closed |

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| II.C.2.1 | Tax adjustment/partial compensation: We concur with the position taken by the Office, but highlight the level of estimate involved and recommend an annual analysis of the appropriateness of the loading factor for both invalids/pensioners and active staff. | Closed.<br>The loading factors are being reviewed in the framework of the IFRS year-end closure. | Recommendation closed. |
| II.D.2.1 | We recommend considering a move generally away from paper proof of control to electronic documentation only. The costs of changing to electronic documentation need to be considered. | Ongoing.<br>The Fund Administrator will further investigate how to adapt selected internal processes and integrate available or planned EPO document-management systems or services. | Ongoing |
| II.D.2.2 | We recommend that procedures be put in place to ensure that the cause for data import failures are identified, so an informed decision can be taken by management on how to react in a timely manner. | Closed. | Ongoing.<br>At present no information given to BoA. |
| II.D.2.2 | We recommend implementing standard procedures and specific compliance checks for all notification requirements related to direct investments in shares. | Ongoing.<br>In conjunction with Central Procurement and Legal Services, the Fund Administrator is making preparations for a tender to find a suitable consultant. | Ongoing |
| II.D.2.2 | We recommend enhancing the current regulations in order to recognise guarantors. | Closed.<br>The investment guidelines have now been amended in order to recognise guarantors (RFPSS/SB 54/15, approved by the RFPSS Supervisory Board at its 88th meeting in September 2015). | Recommendation closed |

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
| --- | --- | --- | --- |
| II.D.2.3 | We recommend defining precisely the roles of the Risk Assurance Officer and the Compliance Assurance Officer in line with common standards, as appropriately adjusted to the specific needs of the EPO. | Closed.<br><br>The roles of the Risk Assurance Officer in 0.6 (IAO) and the Risk Manager in Fund Administration have been clarified following the Internal Auditing Report 140 agreed by the RFPSS Supervisory Board (SB). The same procedure will be followed in an Internal Auditing report in 2016 to help clarify the roles of the Compliance Officer in the Fund Administration and of the Compliance Assurance Officer in IAO under the new RFPSS Governance. Some immediate action on the last point has already been taken by the Fund Administration following the recommendation in CA/20, in the form of an additional section in its quarterly reports to the RFPSS SB. | No further comments.<br><br>Evolving situation roles will be dynamic. |
| II.E.1.3 | One common tool for the whole process of requests and internal appeals should be implemented. | Ongoing.<br><br>Development of the tool was concluded in 2015. After configuration in early 2016, the tool is expected to be fully operational as of the end of Q1 2016. | Ongoing<br><br>According to the "Internal Appeals eTool 2016 PLANNING" the tool will go live at the end of March / beginning of April. |
| II.E.1.3 | A central function (single-owner process) for the registration of requests and appeals should be implemented. | Ongoing.<br><br>A single process owner has been identified and work is underway to standardise definitions, harmonise workflows and process steps, whilst assigning the individual business responsibilities in the context of the coming tool. | Ongoing<br><br>The central function (single process owner) will be the CRU. The CRU will be responsible for the tool and corresponding statistics. |
| II.E.1.3 | A standardised approach to registering requests and adequate communication of the process should be introduced. | Ongoing.<br><br>A standardised approach has already been implemented. The procedure regarding the internal appeals processes is still under consideration and efforts are being made to create an e-tool to streamline the procedures across all DGs. | Ongoing<br><br>The procedure regarding the internal appeals processes is still under consideration. |

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| II.E.1.3 | Direct dialogue within the Office as pre-litigation for individual cases should be reinforced in order to reduce the number of internal appeals | Ongoing.<br><br>Dialogue is being monitored. In 2015, there were 3 547 requesters and 215 cases. The CRU strongly encourages directorates to communicate directly with requesters. 50% of the cases are of a political nature; in these cases, meetings with individuals are not considered fruitful. For the other 50%, PD 43 organises meetings with the individual staff concerned. | Ongoing<br><br>The CRU has worked on encouraging the directorates to communicate directly where possible (ongoing process). |
| II.E.1.3 | The settlement of old cases should be taken into consideration. | Ongoing.<br><br>Approximately 40 cases from the backlog were suitable for negotiation. In addition, in the 215 new cases in 2015, resulting from approximately 800 appeals, 15 were either withdrawn and/or settled and 45 were either settled/withdrawn. | Ongoing |
| II.E.1.3 | The position paper should be more concise and standardised where possible. | Closed. | Recommendation closed |
| II.E.1.3 | The creation of clusters (topics) for appeals should be implemented as early as possible. | Closed.<br><br>This is an ongoing task for the Appeals Committee. | No further comments<br><br>Will also be a part of the e-tool. |
| II.E.1.3 | Hearings concerning the same topic areas should be clustered. | Closed.<br><br>As far as possible - if cases are ready for processing - and in spite of resistance from some repeat appellants, the clustering of hearings related to the same topic has been implemented and is now an ongoing task. | No further comments<br><br>It is not always possible to cluster the hearings. It depends on the cases which are ready for hearing. |

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| II.E.1.3 | Hearings concerning more trivial cases could be reshaped, e.g. with fewer participants or less time for the hearings. | Closed.<br><br>The recommendation is being implemented by the Appeals Committee.<br><br>Changes to the implementing regulations as part of the regular review of ServRegs are envisaged. | Recommendation closed |
| II.E.1.3 | The Employment Law Directorate should be strengthened in terms of resources and/or organisational redesign to increase output. | Ongoing.<br><br>Discussions with DG 4 on formalisation of the department structure (2 pillars) are still ongoing. Expected to be completed in first quarter of 2016.<br><br>However, the high turnover of staff continues to pose problems (learning curve, training effort, reallocation of files, etc.). | Ongoing<br><br>The staffing levels are characterised by a high proportion of non-permanent staff, especially among the lawyers, and a high turnover. So far two lawyers benefitted from two euro-contracts. |
| II.E.1.3 | The work of lawyers could be more focused on specific areas and supported by training in specific areas (specialisation). | Ongoing.<br><br>A certain degree of specialisation is already achieved through the department structure currently being implemented.<br>Need to avoid over-specialisation, which would have a negative impact on quality, risk-management and, finally, on motivation (in view of the turnover). Good quality also requires a broad view of the Office's rules and the link to the Office policies. | Ongoing |
| | | As regards training, training on writing legal decisions in English was provided. Training was given both in-house by the Language Service and by qualified external experts in drafting effective English. Within HR, specific training in data protection is ongoing. | |

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| II.E.1.3 | Measures to separate the procedures for individual cases (reviews and appeals) from policy discussions should be addressed. | Ongoing.<br><br>Although difficult, for the reasons explained under the implementation status, efforts are still being made to decouple individual cases from policy discussions wherever possible.<br><br>First, the individual meetings offered by HR, especially in management review procedures and at later stages (IAC, ILOAT), and the evidence of withdrawals of individual cases when these meetings are held, show that in certain cases such attempts bear fruit.<br>Second, structuring D 532 as two pillars is a convenient means of separating individual cases from policy discussions. | Ongoing<br><br>Efforts are still made to decouple individual cases from policy discussions where possible. |
| II.E.2.4 | The quality dashboard should be used as a management system to promote positive development of the KPIs. | Closed.<br><br>As previously reported, alignment of all reporting was achieved. The quality dashboard and the DG 1 BSC are kept fully in sync and used to manage quality. | Recommendation closed |
| II.E.2.4 | Mandatory regular meetings for principal directors and directors should be introduced in order to improve the management and communication system and so improve efficiency. | Closed.<br><br>Various types of regular meetings are organised to ensure proper communication and management alignment and action. | Recommendation closed |
| II.E.2.4 | The PAX system should be harmonised with the Office's overall targets and the new performance system. | Closed.<br><br>As previously reported, harmonisation has been achieved. | Recommendation closed<br><br>A new PAX screen has been implemented. |
| II.E.3.2 | We recommend drafting a guideline which makes clear which approvals for purchasing are necessary for the various award procedures, and using standardised forms for that. | Closed.<br><br>The changes in the FinRegs and Tender Guidelines were approved by the BFC and AC in October/ December 2015. The new matrix of thresholds has been published. | Recommendation closed<br><br>Rules modified as per 1 January 2016. |

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| II.E.3.2 | We recommend that procurers be given instructions on the process and training on the different award procedures. | Ongoing.<br><br>The implementation of the Procurement Guide and the training in the different award procedures will continue in 2016. | Ongoing |
| II.E.3.2 | We recommend making values visible in SAP or creating one central list with all sub-delegations for purchasing approvals, including the corresponding issues, in order to make the process more efficient. | Ongoing.<br><br>The concept is in development and implementation planned for the first half of 2016. | Ongoing |
| II.E.3.3 | We recommend setting up a central function for screening suppliers (on a recurring basis) including a structured follow-up for risk evaluations of contracted suppliers. | Closed.<br><br>The single point of contact for contracts ensures the implementation of quality measures on an ongoing basis. | Recommendation closed |
| II.E.3.2 | We recommend the creation of a supplier evaluation system in order to evaluate suppliers after the order has been placed. | Ongoing.<br><br>The supplier evaluation concept will be deployed further in 2016. | Ongoing |
| II.E.3.3 | Design and embed a professional "floating" licences-management process in order to be compliant and maximise the value of the number of licences. | Ongoing.<br><br>The improved asset management process has been documented to an industry standard (BPMN) and interfaces clearly defined with a number of Procurement & Finance improvement projects. | Ongoing<br><br>A software asset management process is currently in place and supporting tools will be introduced in the near future. |
| II.E.3.3 | The Central Procurement strategic roadmap should be enriched with a market and supplier analysis and in-depth procurement category plans. | Ongoing.<br><br>The Procurement Executive Panel, chaired by PD 48, will evaluate and define long-term procurement strategies based on market and supplier analyses. The first meeting of the Procurement Executive Panel is scheduled for the beginning of 2016. | Ongoing |

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| II.E.4.1 | We recommend assessing the (financial) implications of not achieving the 2017 deadline for the CMS system and determining potential scenarios, including a back-out plan in case the EPO is faced with additional capacity requirements, overspending or timeline delays. | Closed.<br>The IT roadmap plan is closely monitored to ensure that planned and potential new benefits are achieved at reasonable cost. This monitoring will continue until the end of the IT roadmap. Reference can be made to the extended report on benefits presented to the TOSC in October (TOSC document EB/2015/06).<br>Each plan and benefit realisation document is validated by the Executive Board (MAC level). | No further comments<br>A new supplier has been introduced to support the CMS development. For UNIP, a scenario has been defined to support UNIP on the basis of the existing legacy systems. |
| II.E.4.1 | We recommend performing a critical path analysis at programme and project level, showing all the steps needed to complete the IT roadmap ("programme") and individual projects, the time it will take to complete each project and the relationships between the projects. | Closed.<br>At the end of July the Programme Operational Board presented the operational plan for PGP (delivery programme for the patent granting process) and KMS (Knowledge Management Search), also covering the former stream 1 and stream 2 of the IT roadmap, to the Executive Board.<br>The presentations provide a high level of insight into the sequence of projects and their dependencies within the delivery programme. The delivery managers, supported by Project Services, monitor the set-up and execution of the detailed planning information and dependencies. | No further comments<br>The presentation to the Executive Board included a high-level analysis and dependencies of projects. However, not all projects needed to complete the roadmap have been initiated yet, meaning they could not be considered in a critical path analysis. |
| II.E.4.1 | We recommend performing substantive reviews on critical project deliverables (PID, budgets, progress reports, etc.) and/or documenting the results of performed substantive procedures to better gain an insight into and better control the scope, budget and timeline of the programme. | Closed.<br>The IT roadmap projects have been screened and migrated into the new delivery programmes as part of the transition to Automation Governance 2.0. In Automation Governance 2.0, the Programme Executive Board is responsible for the project scope, budget and timeline of the delivery programme. | No further comments<br>Procedures have been implemented to streamline project controlling and exception handling.<br>However, a more substantive review of critical project delivery by the project quality assurance manager (PQAM) has not yet been implemented. |

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| | | Project Services continues to monitor the project life-cycle and related approval process. Project Services acts on the project exception reports and tracks follow-up by the relevant roles (e.g. changes in benefits need to be validated by business). Exceptions are reported on a bi-weekly basis to the Programme Operational Board (POB). | |
| II.E.4.1 | More tangible goals should be set within the IT roadmap to mitigate the risk of (further) extending the programme in scope and timeline and to facilitate programme management from a programme sponsor's perspective rather than from a business perspective. | Closed.<br><br>As part of the delivery programme, the focus has been placed on delivering benefit products. The Executive Board (at MAC level) periodically reviews the delivery programme to ensure focus on the delivery of tangible products bringing concrete benefits to the business process.<br><br>The latest review by the Executive Board took place on 22 July 2015, when the Programme Operational Board (POB, document EB/2015/06) presented the implementation roadmap of the PGP (delivery programme for the patent granting process) and KMS (Knowledge Management Search), also covering the former stream 1 and stream 2 of the IT roadmap. The plan and benefit realisation document was presented to the TOSC in October. | Recommendation closed |
| II.E.4.1 | A clear and traceable cost monitoring should be implemented to ensure high transparency of all costs related to the IT roadmap and its sub-projects. It should be clearly defined what costs should be included in the IT roadmap and which costs are running costs. | Closed.<br><br>The status update in CA/20/15 - 31.01.2015 is still valid. The document EB/2015/004 on the budget envelope usage provides clear definitions. | No further comments<br><br>Project monitoring includes automation, external and internal costs. |

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| II.E.4.1 | A comprehensive and in-depth analysis of the financial performance of the IT roadmap from "a programme perspective" should be conducted in order to gain an insight into how the IT roadmap expenditure has developed from the start in 2011 to date and to assess the key root causes of the increased IT roadmap envelope. | Closed.<br><br>The status update in CA/20/15 is still valid. | No further comments<br><br>The ITR is managed on a project basis. A status tracking of overall costs and of deliverables is not performed on an overall basis from an ITR perspective.<br><br>Management at a programme level is difficult, as not all projects required to fulfil the ITR deliverables have been initiated yet. |

## B. <u>OFFICE'S FOLLOW-UP REPORT ON CA/20/14 (STATUS 31.01.2016), AND AUDITORS' REACTION</u>

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| II.E.5 | The internal IT systems administrator is authorised to make any changes to the user profiles, including his own profile. No independent check or control is carried out.<br>We recommend installing a control function for example by providing a monthly report to the compliance manager. | Ongoing.<br><br>The administrator of the external services is authorised to make changes to the user profiles. A control function is expected to be implemented in early 2016 when published applications are migrated to new versions. | Ongoing<br>Control is expected to be implemented in 2016. |
| II.E.6 | Nearly 30% of all assets are invested in USD investments, but only about 3% in GBP investments and about 3% in JPY investments.<br>Regulations require all three currencies to be hedged by at least 60%.<br>In the long term, restricting foreign currency hedging to USD investments might be considered. | Pending.<br><br>The Strategic Asset Allocation, which is currently under review by an external consultant, will take hedging strategies into consideration. | Ongoing |

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| II.F.1.2(c) | Design of IT security policies:<br>The Office should bring the EA&I technical guidelines for the Security Roadmap Implementation Project into line with the high-level policies of the Information Security team. | Closed.<br><br>A first set of guidelines (standards) have been written by the authority on security – a group of subject-matter experts (EA&I and CIO office). Further drafting of guidelines will be an ongoing process with defined roles and responsibilities. All guidelines are aligned with policies. | No further comments<br><br>Policies have been finalised and first policies officially approved. Further policies are still in the approval phase, which will be completed in Q1/2016. |
| II.F.1.2(e) | IT roadmap (FTOSD):<br>We recommend a detailed (open-ended) quality review of the changes to the IT roadmap dashboard.<br><br>***Comment from BoA in CA/20/15***<br>There is a detailed review to verify the data, but there is currently no stringent review of the need for the change request from a business perspective. | Closed.<br><br>The status update in CA/20/15 - 31.01.2015 is still valid. The finding was an exception and was dealt with accordingly. | Recommendation closed<br><br>With the new Governance 2.0 process, changes to the ITR and project deliverables follow a pre-defined process, including a business perspective. |
| II.D.2 | eTendering:<br>In our view, solving the problems caused by the eTendering system is essential to improve the electronic procedure for invitations to tender. | Closed.<br><br>The first open tender using the eTendering tool was launched in November 2015. The evaluation has been performed and the contract will soon be awarded.<br><br>CP continues to process further tenders of increasing complexity using the eTendering tool.<br><br>A training plan for CP will be prepared in association with the eTendering supplier, with the initial sessions taking place in February 2016. | Ongoing.<br><br>Next steps will be observed. |
| II.D.1.1(a) | Regulations should be introduced to regulate the use of frequent traveller bonus programmes | Closed.<br><br>Lufthansa air miles are used where possible, subject to their limitations. No contract has been concluded by PD 48 with KLM on a similar system of air miles. | No further comments |

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| II.D.3.1 | Position HR as a strategic partner and give them a firm role towards career development | Closed.<br><br>All HR units have been heavily involved in the implementation of the new career system:<br>Drafting and implementation of three sets of training for managers (objective setting, competency-based interviews and compensation decisions). In addition, e-learning modules and FAQs are available to staff.<br>Drafting and implementation of the instructions on rewards distribution are supported by financial scenarios. Centralisation of the performance management department is supervised by PD HR to ensure regular reports and close monitoring of the system.<br><br>HR partners support managers in deciding on and communicating rewards allocation. HR monitors the functional allowance allocation. | Recommendation closed. |
| II.D.3.1 | Use the coaching skills of the Talent Department in relation to career development | Ongoing.<br><br>A concept was developed for early identification and overall management training. A pilot for the core area will be run in early March. Last stages of the consultation are scheduled for early February and immediately thereafter approval will be sought from PD 4.3/President.<br>A new workflow to integrate HR partners is ready for consultation. | Ongoing |

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| II.D.3.1 | Evaluate the (Deloitte) competence model and try to incorporate existing, successful local systems of competence management. | Closed.<br><br>Initial assessment (core/functional and leadership competencies) took place Office-wide in June/July as part of the 2015 performance management cycle. More than 150 job profiles have been defined, covering all main functions Office-wide. Each staff member has been allocated a job profile which describes: core, functional and, where applicable, leadership competencies. | Recommendation closed |

## C. OFFICE'S FOLLOW-UP REPORT ON CA/20/13 (STATUS 31.01.2016), AND AUDITORS' REACTION

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| III.B.1 | To simplify calculation of the DBO, a tax adjustment is also provided for invalidity allowances for employees under the new pension scheme. We strongly recommend performing separate calculations from 2013 onwards.<br><br>***Comment from BoA in CA/20/15***<br>Calculation method unchanged from previous year; however, figures for tax adjustment on invalidity allowance available. | Closed.<br><br>Pursuant to CA/D 2/15 adopting the reform of sick leave and invalidity, invalidity allowance recipients will be granted a retirement pension for health reasons as from 1 January 2016. If the pension is taxed nationally, they may claim the tax adjustment provided for in Article 42 of the PenRegs. | Recommendation closed |

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| IV.B.2(a) | No comprehensive supplier contracts database with key data and a reporting mechanism for procurement trends and KPIs is in place. This, incl. Article 22a exceptions, should be implemented under the responsibility of CP. | Closed.<br><br>The FIPS contract tool (t-code ZCONTRACT) has been revived since mid-2013 and all staff have been instructed to use it for central e-storage and for central searchability of procurement-relevant contracts. Data and documents entered in the tool can be exported to newly implemented contract management systems at a later stage.<br>Further extended functionalities for integrated contract management will come with a new tool expected to be implemented in 2017. | Recommendation closed |
| IV.B.2(b) | The role of Central Procurement in the choice of the award procedure is not formally regulated, despite CP's sourcing unit. CP's role should be formally regulated, also for Article 22a FinRegs exceptions. The business unit should confirm in writing which potential suppliers exist. | Closed.<br><br>The corresponding changes in the FinRegs and Tender Guidelines were approved by the BFC and AC in October/December 2015. The changes entered into force on 1 January 2016. | Recommendation closed |
| IV.B.2(c) | Justifications for making use of direct placements due to urgency should be available at all times from CP. | Ongoing.<br><br>The electronic form A, allowing the choice of procedure to be documented and accessed in FIPS, is available for all procurement requests entered via Single Point of Entry (SPE). The roll-out is scheduled for 2016. | Ongoing |

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| IV.D.7 | Effective 1 January 2013 a clause has been implemented by the Administrative Council (Article 3 No. 7 RFPSS Regulations) that the "Administrative Council shall determine the conditions under which a withdrawal may take place." We recommend specifying in more detail what conditions those might be. | Closed.<br><br>The Actual Advisory Group (AAG) is of the opinion that high withdrawal waves are very unlikely to happen. The AAG also pointed out that, even if an extraordinary number of staff were to retire, this would not cause a stressed cash situation for the RFPSS. The reason is that the retirement benefits are paid as monthly pensions and thus the amounts are relatively small. As a rough estimate, based on the average monthly pension of EUR 6 119, more than 900 extra staff would need to retire in 2015 in order to trigger a (small) negative net cash flow for the pension scheme in 2015. Nevertheless, the AAG recognises the validity of the recommendation and it offered to perform stress tests and a sensitivity analysis in the framework of the next actuarial study (in 2017) NB: Retirements in 2015 are not expected to exceed 200. | Recommendation closed |
| V.A.2(c) | The checklist used by R&A and S&A team for the approval covers the relevant security areas in different levels of details. But the usage of the checklist is not documented. Document the usage of the checklist, because the different areas can also be used as hints for further tests or milestones. | Closed.<br><br>The status update in CA/20/15 - 31.01.2015 is still valid and has now become standard practice. | Recommendation closed |

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| | ***Comment from BoA in CA/20/15***<br>The mandatory security assessment for each project has been in very good shape since the last release. The template forces each manager to assess and make transparent any risks to information security associated with a project and its assets and to set out an approach for handling the risks. The defined approach seems to be suitable for identifying and handling information security risks during projects. Some minor deficiencies have been identified.<br>As to the template, we recommend linking the asset list to the already existing asset register to reduce the risks of redundant assets in the register and of potentially inconsistent assessment. Two completed security assessments for the projects Data Service Layer and eTendering have been reviewed; the quality of completion differed. | | |
| V.A.2(c) | Projects are working in milestones, the R&A and S&A team should be involved more often in the process. | Closed.<br>Security and EA&I are involved in all projects at the initiation phase. For all high-risk projects, the possibility of involving them more closely is considered - on a case-by-case basis – as part of the security risk assessment carried out in this phase.<br>Another trigger for re-assessing risk in the course of the project is if a project issues an exception report. Project Services acts on the project exception reports and tracks follow-up by the relevant roles. Involvement of Security and EA&I in a project is proportional to the project risk. A standard cannot be defined as there are too many variables. | Recommendation closed |

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| V.A.2(d) | All projects of the IT roadmap in the execution phase had the approval of the R&A and security group. Where the approval was given subject to a condition or the final decision was deferred to a later point, the condition should be recorded to ensure that this relevant information will not be forgotten during the project. | Closed.<br><br>The status update in CA/20/15 - 31.01.2015 is still valid. The release of the new Project Management Operating Manual (PMOM) is planned for the end of the year. | Ongoing<br><br>The release of the new PMOM is pending. |
| V.C.2 | Further research regarding the trend of underconsumption of the training budget | Ongoing.<br><br>A strategic training plan for all staff is planned for 2016. The intention is that part of the budget should be dedicated to a systematic and central training plan for career and competencies progression. The centralised training plan will allow for better definition of training needs to comply with the newly established competency framework and fulfil business needs. The training plan will follow the performance-management cycle. | Ongoing |
| V.C.2 | Reassess the role and mandate of the Training Committee | Closed.<br><br>A working group has been set up with DG 1, DG 2, DG 4 and DG 5 to propose a strategic training plan, which is currently being developed. | Ongoing |
| V.C.2 | Improve follow-up on training; evaluation at level 2 (employee) and level 3 (manager) | Ongoing.<br><br>A workshop for L&D was held in November to identify best practices and how they can be implemented at the EPO. Key areas will be identified in 2016 for piloting the effectiveness of the training data with the help of HR partners and in line with ISO certification requirements. | Ongoing |

## D. OFFICE'S FOLLOW-UP REPORT ON CA/20/12 (STATUS 31.01.2016), AND AUDITORS' REACTION

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| V.A.1.(c) | As a first step we recommend, as last year, the building up of a formalised working group from the different areas to share their knowledge about the different approaches in data warehouse techniques in the EPO. This recommendation is also mentioned in the EPO Service Study. | Closed.<br><br>The project on enabling IM efficiency by using the data warehouse has been in execution phase since February 2015. The project will address the finding underpinning this recommendation, i.e. move away from the current large manual interaction with spreadsheets to delivery of a single repository for reporting on costs and other management information such as dashboards.<br><br>The recommendation is considered closed as the first step has been taken by pooling the data warehouse expertise in the Office (DG 1, DG 4, IM) in this project. | Recommendation closed |
| V.A.2.(b) | Change the dashboard to a project management information system in such a way that a cockpit for the project manager in a dashboard form is available, but also a functionality to drill down from the key performance indicators to the relevant data. | Closed.<br><br>The portfolio report is published on a monthly basis on the Project Services intranet page. The portfolio dashboard covers all projects falling under the updated Automation Governance. | Recommendation closed |
| VI.A | Finalise code of conduct | Closed.<br><br>The CP Guide covers a code of conduct. The changes in the FinRegs and Tender Guidelines entering into force on 1 January 2016 emphasise the principles of public procurement binding on procurement officers. Procurement officers are also bound by the Office-wide code of conduct. | Recommendation closed |

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| IV.B.3. | Ensure that all relevant information deriving from contracts or changes in contracts is communicated throughout the whole organisation, e.g. through an automated workflow in FIPS. | Ongoing.<br><br>Reference is made to recommendation IV.B.2(b). | Recommendation closed |
| V.C.1(e) | Add an occupational health physician with an advisory role (no decision-making power) to the Medical Committee. The physician should focus on advising the Medical Committee on the possibilities of alternative jobs. He will be able to recommend on the type of job and the amount of hours that the employee is able to work within the EPO. The Medical Committee should only be allowed to take a decision after hearing the advice of the occupational health physician. | Closed.<br><br>Following adoption of CA/D 2/15, the Medical Committee no longer exists. As stated in Article 62b "Incapacity", a medical opinion will determine whether an employee is partially or totally unable to perform his assigned duties. Based on the medical opinion, the employee will be fully or only partially discharged from his duties. Furthermore, as of 1 January 2016, the Health Services directorate will be reorganised to strengthen an integrated approach to health and well-being. | Recommendation closed |
| V.C.1(e) | Introduce proactive periodic examinations of the recipient of an invalidity allowance to establish that he still fulfils the conditions for payment of that allowance. If the Invalidity Committee finds that these conditions are no longer fulfilled, the staff member should resume service, providing his contract has not expired.<br>An alternative might be to introduce a stringent policy regarding periodic examination when this is recommended by the medical committee. | Closed.<br><br>Under the new sick leave and incapacity scheme (CA/D 2/15), an employee who has been on sick leave and extended sick leave can be declared temporarily incapacitated, either fully or partially. In such a situation, the focus is placed on the possibility of reintegration and a return to work and on regular medical reviews to evaluate the degree of incapacity and its duration. | Recommendation closed |
| V.C.1(e) | Employees are currently considered to have invalidity status based on being unable to perform their job on at least a 50% part-time basis. It should be considered to:<br>(a) raise the minimum level to 70%<br>(b) allow the employee to work part-time for 30% or more. | Closed.<br><br>Under the new sick leave and invalidity scheme (CA/D 2/15), the minimum degree of incapacity for a total discharge from duties is 70%. | Recommendation closed |

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| V.C.1(e) | Systematically collect and analyse the data regarding invalidity (while keeping the confidentiality of the individual cases intact). | Closed.<br><br>All statistics related to the topic of invalidity have been published in the social report since 2012. As of 1 April 2015, when the provisions on sick leave and invalidity entered into force, invalidity cases are counted as active status. The number of cases is closely monitored. | Recommendation closed |
| V.C.2(b) | Set a target and develop a plan for reducing the size of the HR department / stopping the increase in the HR department. | Closed.<br><br>A specific workforce planning action is ongoing for PD 43 areas. | Recommendation closed |
| V.C.2(b) | The total cost of the HR department should be benchmarked before conclusions can be drawn regarding cost-effectiveness. | Closed.<br><br>Following the PA study carried out in 2012, the EPO's HR staffing was benchmarked and the activities performed analysed. In 2012, the EPO had 1:39 heads, translating into 1:38 FTEs, and was benchmarked against other organisations of comparable size. Headcounts have gone down since 2012 = 194 to 2015 = 180. Directorates are reviewing their staffing together with their HR partner and the workforce planning analyst to drive efficiency within PD 43. | Recommendation closed |

## E. OFFICE'S FOLLOW-UP REPORT ON CA/20/11 (STATUS 31.01.2016), AND AUDITORS' REACTION

| Reference | Title | Status 31.01.2016 | BoA's/expert's comments |
|---|---|---|---|
| IV.A.1 | Put an ex-post supplier evaluation system in place. | Closed.<br><br>A similar recommendation was made in CA/20/15 (reference II.E.3.2) and its implementation was followed-up there. | Recommendation closed |

## F. SUMMARY AND PRIORITY OF OUR RECOMMENDATIONS

356) We list below our main recommendations in the present report, together with our assessment of relative priorities on a three-point scale.

1 = top priority; immediate action required

2 = medium priority; to be resolved within three years

3 = low priority; long-term action required

| Ref. | Recommendation | Priority | Explanation and reasons |
|---|---|---|---|
| | **Accounting** | | |
| II.C.2.1 114 | We recommend updating the assessment for each annual closing, based on latest experience that is gathered year by year. | 2 | Agreed. This is already implemented in the context of the actuarial study, i.e. on a biennial basis. |
| II.C.2.1 128 | We recommend an annual analysis of the appropriateness of the load factor. | 2 | Agreed. The Compensation and Policies department provides yearly parameters and input as part of the budget preparation. |
| II.C.2.1 138 | Given the complexity of IFRS 9 (2014), it is important to ensure that all the necessary measures are to be taken to prepare for its application (mandatory from 1 January 2018). We recommend preparing proper and sufficient documentation to support the analysis performed and conclusions drawn. | 1 | Agreed |

| | | | |
|---|---|---|---|
| II.C.2.4 141 | Under IFRS 9 (2014) further notes disclosures will be needed. We recommend setting up the relevant procedures needed to fulfil additional notes disclosure requirements. | 1 | Agreed |
| II.C.2.5 144 | We recommend considering a revision of the calculation of the hourly rate, using more recent information. Any revision would be considered a change in accounting estimate under IAS 8 that must be described in the notes to the financial statements. | 3 | Agreed |
| II.C.2.6 147 | We recommend implementing a checklist of all actuarial assumptions and stating if / how these have been changed compared to prior period, as well as the expected effect on the DBO. | 1 | Agreed |
| | | | |
| | **RFPSS** | | |
| II.D.3.1 177 | The titles / names of the rules in the compliance checks are still based on former guidelines. We recommend updating these titles and adapting them to the specific articles of the guidelines. | 2 | Agreed. The Fund Administrator will carry out a review and assessment of the updates within the assigned period. |
| II.D.3.1 178 | We recommend considering whether the results of the daily compliance checks could be summarised. | 3 | Agreed. The Fund Administrator will consider the recommendation and analyse the relevant implementation in terms of cost/benefits. |

| | | | |
|---|---|---|---|
| II.D.3.1 194 | In order to avoid a short-term orientation, we recommend that the Supervisory Board not require monthly plus quarterly reporting from the Fund Administrator, but quarterly or semi-annual reporting. | 2 | The Fund Administrator has recently made a proposal for a review of the periodical reports prepared for the Board, including a more concise monthly report. This has been approved by the Board. |
| II.D.3.1 208 | We recommend considering how to plan for the succession of portfolio managers and possibly other staff. | 1 | Agreed. For key positions, monitoring the dates of end of contract and the Office's pyramid of ages allows for advance staff planning. |
| | | | |
| | **Recruitment/retirement** | | |
| II.D.5.6 275 | We recommend compiling a comprehensive file to ensure continuous monitoring of the HR roadmap's progress. | 2 | Agreed. The HR Roadmap progress is reported upon in various documents, including the President's annual activities report to the AC or the social report, which is also issued on a yearly basis. Furthermore various indicators have been developed to measure the impact of the different reforms introduced. |
| II.D.5.6 277 | We recommend defining and documenting the clear timeline and scope of the Workforce Planning project. | 2 | Agreed. The EPO is working towards building a homogeneous approach within the Office, as currently the various DGs are at different levels of workforce planning. A progressive approach has been decided upon. The main focus is put on ensuring that staffing requests follow a streamlined approach matching the budget cycle. |

| | | | |
|---|---|---|---|
| II.D.5.6 279 | We recommend setting up a procedure similar to examiner recruitment for non-examiners. | 1 | Agreed. The process for documenting the current procedure for non-examiners has already started and is expected to be finalised by the end of July 2016. |
| II.D.5.6 281 | We recommend that a longer period of notice of early retirement be established for new personnel in key positions (e.g. directors upwards). | 2 | The recommendation is noted. Its implementation would require a change of the Service Regulations and it may be considered in the context of a future update of these regulations. |

| | | | |
|---|---|---|---|
| | **IT** | | |
| II.D.8.2 311 | We recommend checking the accuracy of the automated retirement process for type A users. | 2 | Agreed. The recommendation will be dealt with by the yearly licence measurement process. |
| II.D.8.2 311 | We recommend that the EPO verify on a regular basis that type 11 users only use the functionality of an employee user. | 2 | Agreed. Licences are classified according to the SAP recommendations. |
| II.D.8.2 311 | We recommend checking whether users with licence type AX can be downgraded to type AY. A licence check should be performed on a regular basis for every overlicensed licence type. | 1 | Agreed. A check of the correct type level is performed systematically as part of the yearly licence measurement process. |
| II.D.8.3 316 | We recommend defining a minimum standard of IT security measurements for each classification level for applications | 1 | Agreed. A first set of standards per classification level will be published in 2016. |
| II.D.8.4 323 | We recommend a critical review of workforces planned in IM for the future. | 2 | Agreed. A regular review of the Workforce Plan has been set up. |
| | | | |

| | | | |
|---|---|---|---|
| | **Buildings** | | |
| II.D.9.1<br>353 | We recommend splitting the invoices of the maintenance costs per building. | 2 | Agreed. The recommendation has already been implemented for the main maintenance contracts. |

Munich, 14 April 2016

**The Board of Auditors**

H. Schuh O. Hollum F. Angermann

## IV. EPO PRESIDENT
## ADDITIONAL EXPLANATIONS AND REASONS

## V. RECOMMENDATION FOR PUBLICATION

357) This report makes particular reference to

- CA/10/16 – Accounts for the 2015 accounting period – Budget implementation statement
- CA/60/16 – Accounts for the 2015 accounting period – Financial statements.

358) Unlike CA/60/16, CA/10/16 is not intended for publication.

359) The board considers that the report can be published.

# VI. ANNEXES

# ANNEX I Year-on-year comparison, balance sheet and income and expenditure account (in EUR '000s)

## Annex I/1 Income statement

| | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Revenue | | | | |
| Revenue from patent and procedural fees | 1.725.112 | 1.583.595 | 1.504.505 | 1.451.895 |
| Other revenue | 68.586 | 70.762 | 68.579 | 65.799 |
| Other operating income | 6.579 | 8.412 | 7.166 | 9.996 |
| Work performed and capitalised | 2.268 | 4.031 | 3.227 | 4.818 |
| Employee benefit expenses | (1.672.037) | (1.408.359) | (1.368.203) | (1.150.374) |
| Depreciation and amortisation expenses | (53.917) | (51.894) | (54.619) | (54.396) |
| Other operating expenses | (222.260) | (211.727) | (202.683) | (192.830) |
| Collective reward authorised in 2012 | | | | (24.084) |
| **OPERATING RESULT** | **(145.669)** | **(5.180)** | **(42.028)** | **110.824** |
| Finance revenue | 245.973 | 588.399 | 501.311 | 580.892 |
| Finance costs | (321.811) | (432.152) | (385.832) | (365.130) |
| **FINANCIAL RESULT** | **(75.838)** | **156.247** | **115.479** | **215.762** |
| **PROFIT / (LOSS) FOR THE YEAR** | **(221.507)** | **151.067** | **73.451** | **326.586** |
| **Other comprehensive income:** | | | | |
| Items that will not be reclassified to profit or loss: | | | | |
| Actuarial gains (losses) on defined benefit obligations | 4.766.714 | (7.906.367) | 484.349 | (3.478.960) |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Available-for-sale financial assets | | | | |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **4.545.207** | **(7.755.300)** | **557.800** | **(3.152.374)** |

## Annex I/2 Balance sheet

| | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | *546.940* | *554.105* | *574.752* | 596.766 |
| Intangible assets | 53.333 | 54.073 | 45.036 | 37.004 |
| *RFPSS financial instruments* | *6.319.492* | *5.856.494* | *5.019.235* | *4.448.684* |
| *RFPSS other assets* | *871* | *15.203* | *4.667* | *4.491* |
| *RFPSS restricted cash* | *271.660* | *244.590* | *205.835* | *169.070* |
| *RFPSS financial liabilities* | *(83)* | *(31.381)* | *(172)* | *(127)* |
| *RFPSS other liabilities* | *(82)* | *(47)* | *(80)* | *(101)* |
| RFPSS net assets | 6.591.858 | 6.084.859 | 5.229.485 | 4.622.017 |
| Bonds | 1.302.676 | 1.136.073 | 999.092 | 828.365 |
| Home loans to staff | 92.631 | 100.905 | 103.701 | 107.766 |
| Other assets | 101.264 | 85.853 | 72.437 | 64.922 |
| | 8.688.702 | 8.015.868 | 7.024.503 | 6.256.840 |
| **CURRENT ASSETS** | | | | |
| Trade and other receivables | 160.521 | 151.593 | 154.172 | 121.852 |
| Bonds | 263.676 | 199.386 | 220.784 | 100.727 |
| Home loans to staff | 7.454 | 6.645 | 6.807 | 4.447 |
| Other financial assets | 275.200 | 324.372 | 337.900 | 331.490 |
| Prepaid expenses | 13.043 | 12.374 | 10.736 | 9.586 |
| Cash and cash equivalents | 70.073 | 73.004 | 42.479 | 105.243 |
| | 789.967 | 767.374 | 772.878 | 673.345 |
| **TOTAL ASSETS** | **9.478.669** | **8.783.242** | **7.797.381** | **6.930.185** |
| **EQUITY AND LIABILITIES** | | | | |
| **EQUITY** | | | | |
| Retained earnings | (1.873.718) | (1.652.211) | (1.803.278) | (5.142.656) |
| Other components of equity | (5.921.231) | (10.687.945) | (2.781.578) | — |
| **TOTAL EQUITY** | **(7.794.949)** | **(12.340.156)** | **(4.584.856)** | **(5.142.656)** |
| **NON-CURRENT LIABILITIES** | | | | |
| Defined benefit liability | 15.828.589 | 19.740.956 | 11.074.231 | 10.825.416 |
| Salary savings plan obligation | 44.145 | 30.166 | 18.022 | 10.513 |
| Trade and other payables | 12.366 | 11.575 | 9.265 | 9.438 |
| Finance lease liabilities | 1.505 | 5.670 | 9.387 | 1.148 |
| Provisions | 93 | 66 | 396 | 608 |
| Prepaid fees | 799.002 | 747.427 | 703.583 | 666.336 |
| | 16.685.700 | 20.535.860 | 11.814.884 | 11.513.459 |
| **CURRENT LIABILITIES** | | | | |
| Other employee-related liabilities | 110.987 | 109.300 | 99.851 | 97.168 |
| Trade and other payables | 164.560 | 146.190 | 142.072 | 141.367 |
| Finance lease liabilities | 5.491 | 5.294 | 4.784 | 849 |
| Provisions | 30.821 | 5.907 | 3.945 | 3.571 |
| Prepaid fees | 276.059 | 320.847 | 316.701 | 316.427 |
| | 587.918 | 587.538 | 567.353 | 559.382 |
| **TOTAL LIABILITIES** | 17.273.618 | 21.123.398 | 12.382.237 | 12.072.841 |
| **TOTAL EQUITY AND LIABILITIES** | **9.478.669** | **8.783.242** | **7.797.381** | **6.930.185** |

## Annex I/3 Statement of cash flows

| | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| **Profit/loss of the year** | *(221.507)* | *151.067* | *73.451* | *326.586* |
| Adjustments for: | | | | |
| depreciation and amortisation | *53.917* | *51.894* | *54.619* | *54.396* |
| disposal of property, plant, equipment | *5.773* | *715* | *1.549* | *710* |
| disposal of bonds | *466* | -- | -- | -- |
| other gains and losses | *(13.510)* | *(11.456)* | *(5.850)* | *(4.848)* |
| revaluation of RFPSS assets | *(99.371)* | *(442.177)* | *(355.672)* | *(431.150)* |
| net interest | *(76.834)* | *(83.959)* | *(82.574)* | *(82.008)* |
| dividend income | *(65.962)* | *(58.189)* | *(60.762)* | *(66.573)* |
| changes in net defined benefit liability | *854.344* | *760.359* | *733.164* | *537.626* |
| changes in Salary Savings Plan obligation | *13.979* | *12.144* | *7.509* | *5.054* |
| change in provisions | *24.941* | *1.632* | *162* | *135* |
| changes in prepaid fees | *6.787* | *47.990* | *37.521* | *49.037* |
| changes in assets and liabilities carried out as working capital | *10.265* | *16.933* | *(26.396)* | *18.405* |
| **Cash flows from operating activities** | ***493.288*** | ***446.953*** | ***376.721*** | ***407.370*** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Proceeds from disposal/settlement of: | | | | |
| - property, plant and equipment | *1* | *1* | *2.433* | |
| - bonds / cash receipted upon maturity | *264.919* | *220.000* | *100.500* | *62.975* |
| Purchases of: | | | | |
| - property, plant and equipment | *(40.898)* | *(25.324)* | *(15.917)* | *(18.620)* |
| - intangible assets | *(9.169)* | *(13.523)* | *(13.527)* | *(11.678)* |
| - bonds | *(515.285)* | *(352.838)* | *(398.934)* | *(303.791)* |
| Change in bank deposits > 3 months | *49.172* | *13.528* | *(6.410)* | *(21.270)* |
| Home loans granted to staff | *(19.360)* | *(25.704)* | *(21.380)* | *(22.184)* |
| Repayment of staff home loans | *27.120* | *28.916* | *23.526* | *22.263* |
| Cash outflow from the purchase of RFPSS assets | *(2.976.029)* | *(2.458.217)* | *(2.485.658)* | *(2.146.431)* |
| Cash inflow from the sale of RFPSS assets | *2.597.694* | *2.088.551* | *2.272.796* | *1.995.275* |
| Cash inflow (outflow) from decrease (increase) in restricted cash | *(27.070)* | *(38.755)* | *(36.765)* | *(104.089)* |
| Interest received | *94.240* | *94.499* | *83.931* | *78.882* |
| Dividends received | *64.714* | *58.427* | *59.288* | *67.110* |
| **Cash flows from investing activities** | ***(489.951)*** | ***(410.439)*** | ***(436.117)*** | ***(401.558)*** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Interest paid | *(545)* | *(757)* | *(497)* | *(293)* |
| Repayment of lease liabilities | *(5.611)* | *(5.207)* | *(2.847)* | *(9.531)* |
| **Cash flows from financing activities** | ***(6.156)*** | ***(5.964)*** | ***(3.344)*** | ***(9.824)*** |
| **NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS** | ***(2.819)*** | ***30.550*** | ***(62.740)*** | ***(4.012)*** |
| Cash and cash equivalents net of bank overdrafts at the beginning of the period | *73.004* | *42.479* | *105.243* | *109.294* |
| Effect of exchange rate exchanges on cash and cash equivalents | *(112)* | *(25)* | *(15)* | *(39)* |
| Cash and cash equivalents net of bank overdrafts at the end of the period | *70.073* | *73.004* | *42.479* | *105.243* |

# ANNEX II Comparison of budgeted and actual income and expenditure (in EUR '000s)

## Annex II/1 Income

| Chapter | Title | 2015 budget | 2015 actual | Difference absolute | as % |
|---|---|---|---|---|---|
| **Income** | | | | | |
| **Operating transactions** | | | | | |
| 50 | Filing and search | *367.220* | *379.780* | *12.560* | 3,4% |
| 51 | Examination, grant and opposition | *280.455* | *302.809* | *22.354* | 8,0% |
| 52 | Appeals and protest | *4.275* | *4.496* | *221* | 5,2% |
| 53 | Designation, renewal and extension | *1.047.875* | *1.102.727* | *54.852* | 5,2% |
| 54 | Patent information products | *7.470* | *7.988* | *518* | 6,9% |
| 55 | General operating income | *220.055* | *204.331* | *-15.724* | -7,1% |
| 57 | Third-party project funding | *320* | *101* | *-219* | -68,4% |
| 58 | Other income | *31.750* | *25.056* | *-6.694* | -21,1% |
| | **Operating income** | ***1.959.420*** | ***2.027.287*** | ***67.867*** | **3,5%** |
| **Capital transactions** | | | | | |
| 60 | Net income brought forward | *211.575* | *403.835* | *192.260* | 90,9% |
| 61 | Disposal of property and equipment | *0* | *0* | *0* | |
| 62 | Disposal of EDP tangible and intangible assets | *0* | *0* | *0* | |
| 64 | Borrowings | *0* | *0* | *0* | |
| 65 | Repayments of loans and advances | *16.800* | *24.696* | *7.896* | 47,0% |
| 69 | Authorisation budget deficit | *0* | *0* | *0* | |
| | **Capital income** | ***228.375*** | ***428.531*** | ***200.156*** | **87,6%** |
| | **Total income** | ***2.187.795*** | ***2.455.818*** | ***268.023*** | **12,3%** |

## Annex II/2 Expenditure

| Article | Chapter | Title | 2015 budget | 2015 actual | Difference absolute | as % |
|---|---|---|---|---|---|---|
| **Expenditure** | | | | | | |
| **Operating transactions** | | | | | | |
| *300* | | *Basic salaries and allowances* | *1.429.875* | *1.351.060* | *-78.815* | *-5,5%* |
| *301* | | *Remuneration of other employees* | *16.090* | *10.584* | *-5.506* | *-34,2%* |
| *302* | | *General staff costs* | *11.715* | *9.557* | *-2.158* | *-18,4%* |
| *303* | | *Training* | *12.215* | *8.488* | *-3.727* | *-30,5%* |
| *305* | | *Schools and day-care centres* | *22.045* | *21.173* | *-872* | *-4,0%* |
| | 30 | Staff | *1.491.940* | *1.400.862* | *-91.078* | -6,1% |
| *310* | | *Land and buildings* | *43.125* | *37.388* | *-5.737* | *-13,3%* |
| *311* | | *Furniture and equipment* | *3.510* | *2.139* | *-1.371* | *-39,1%* |
| | 31 | Property and equipment | *46.635* | *39.527* | *-7.108* | -15,2% |
| *320* | | *IT maintenance - tangible assets* | *21.400* | *20.009* | *-1.391* | *-6,5%* |
| *321* | | *IT maintenance - intangible assets* | *80.400* | *79.273* | *-1.127* | *-1,4%* |
| | 32 | IT equipment maintenance | *101.800* | *99.282* | *-2.518* | -2,5% |
| | 33 | Co-operation and meetings | *21.805* | *12.365* | *-9.440* | -43,3% |
| | 34 | Patent information and public meetings | *18.740* | *16.220* | *-2.520* | -13,4% |
| *350* | | *Travel* | *8.565* | *6.675* | *-1.890* | *-22,1%* |
| *351* | | *Supplies* | *3.925* | *2.541* | *-1.384* | *-35,3%* |
| *352* | | *Services* | *37.470* | *30.757* | *-6.713* | *-17,9%* |
| *353* | | *Communications* | *4.355* | *3.832* | *-523* | *-12,0%* |
| *354* | | *Documentation* | *10.630* | *9.802* | *-828* | *-7,8%* |
| *359* | | *Other operating expenditure* | *1.220* | *1.266* | *46* | *3,7%* |
| | 35 | General operating expenditure | *66.165* | *54.873* | *-11.292* | -17,1% |
| | 37 | Project expenditure funded by third parties | *320* | *101* | *-219* | -68,4% |
| | 38 | Financial expenditure | *440* | *222* | *-218* | -49,5% |
| | | **Total operating expenditure** | ***1.747.845*** | ***1.623.452*** | ***-124.393*** | **-7,1%** |
| **Capital transactions** | | | | | | |
| | 41 | Property and equipment (excl. IT) | *94.975* | *34.925* | *-60.050* | -63,2% |
| | 42 | IT hardware and software | *23.600* | *12.951* | *-10.649* | -45,1% |
| | 44 | Repayments of loans | *0* | *0* | *0* | |
| | 45 | Loans and advances to third parties | *16.800* | *16.778* | *-22* | -0,1% |
| | 48 | Cash injection to RFPSS | *0* | *0* | *0* | |
| | 49 | Budget surplus | *93.000* | *363.876* | *270.876* | 291,3% |
| | | **Total capital expenditure** | ***228.375*** | ***428.531*** | ***200.156*** | **87,6%** |
| | | **Total expenditure** | ***1.976.220*** | ***2.051.983*** | ***75.763*** | **3,8%** |

# Annex II/3 Implementation of the budget of the Pension and Social Security Schemes

| Article | Chapter | Title | 2015 budget | 2015 actual | Difference absolute | as % |
|---|---|---|---|---|---|---|
| **INCOME** | | | | | | |
| **Operating transactions** | | | | | | |
| | | *Office contributions* | *123.610* | *119.148* | *-4.462* | *-3,6%* |
| | | *Staff contributions* | *61.805* | *59.519* | *-2.286* | *-3,7%* |
| | | *Payments from insurances* | *0* | *152* | *152* | |
| | | *Pension rights transferred* | *10.000* | *6.812* | *-3.188* | *-31,9%* |
| | | *Office contributions (recruited after 1.1.2009)* | *9.240* | *10.181* | *941* | *10,2%* |
| | | *Staff contributions (recruited after 1.1.2009)* | *4.620* | *5.091* | *471* | *10,2%* |
| | | *Office contributions (invalids)* | *3.120* | *2.889* | *-231* | *-7,4%* |
| | | *Invalids' contributions* | *1.560* | *1.331* | *-229* | *-14,6%* |
| 5600 | | Pension contributions | *213.955* | *205.123* | *-8.832* | -4,1% |
| | | *Office contributions* | *10.590* | *6.868* | *-3.722* | *-35,1%* |
| | | *Staff contributions* | *5.295* | *3.434* | *-1.861* | *-35,2%* |
| 5601 | | Salary savings plan | *15.885* | *10.301* | *-5.584* | -35,1% |
| | | *Office contributions* | *54.265* | *52.126* | *-2.139* | *-3,9%* |
| | | *Staff contributions* | *21.475* | *20.767* | *-708* | *-3,3%* |
| | | *Pensioner contributions* | *3.905* | *3.821* | *-84* | *-2,1%* |
| | | *Deferred pension contributions* | *0* | *18* | *18* | *n/a* |
| | | *Invalids' contributions* | *470* | *421* | *-49* | |
| | | *Spouse contributions* | *1.300* | *1.306* | *6* | *0,5%* |
| | | *Healthcare fund* | *81.415* | *78.460* | *-2.955* | *-3,6%* |
| | | *Office contributions* | *7.990* | *7.201* | *-789* | *-9,9%* |
| | | *Staff contributions* | *3.320* | *3.153* | *-167* | *-5,0%* |
| | | *Pensioner contributions* | *605* | *585* | *-20* | *-3,3%* |
| | | *Invalids' contributions* | *70* | *63* | *-7* | *-9,8%* |
| | | *Long-term care insurance* | *11.985* | *11.003* | *-982* | *-8,2%* |
| | | *Office contributions* | *6.010* | *3.478* | *-2.532* | *-42,1%* |
| | | *Staff contributions* | *3.005* | *1.782* | *-1.223* | *-40,7%* |
| | | *Death and invalidity insurance* | *9.015* | *5.260* | *-3.755* | *-41,7%* |
| 5605 | | Social-security contributions | *102.415* | *94.723* | *-7.692* | -7,5% |
| | **56** | **Operating income** | ***332.255*** | ***310.148*** | ***-22.107*** | **-6,7%** |

**EXPENDITURE**

| | | | | | |
|---|---|---|---|---|---|
| **Operating transactions** | | | | | |
| 3600 | Pension payments | *138.515* | *134.888* | *-3.627* | -2,6% |
| 3601 | Salary savings plan | *1.050* | *276* | *-774* | -73,7% |
| | *Healthcare insurance* | *71.395* | *63.197* | *-8.198* | *-11,5%* |
| | *Long-term care insurance* | *4.280* | *4.662* | *382* | *8,9%* |
| | *Death and invalidity insurance* | *9.015* | *5.277* | *-3.738* | *-41,5%* |
| 3605 | Social-security payments | *84.690* | *73.135* | *-11.555* | -13,6% |
| **36** | **Operating expenditure** | ***224.255*** | ***208.299*** | ***-15.956*** | **-7,1%** |
| **Capital transactions: income and expenditure** | | | | | |
| | *Healthcare insurance* | *10.020* | *15.263* | *5.243* | 52,3% |
| | *Pension scheme* | *75.440* | *70.236* | *-5.204* | -6,9% |
| | *Long-term care insurance* | *7.705* | *6.341* | *-1.364* | -17,7% |
| | *Death and invalidity insurance* | *0* | *-17* | *-17* | |
| | *Salary savings plan* | *14.835* | *10.026* | *-4.809* | *-32,4%* |
| 6600/4610 | Surplus for transfer from pension and social-security scheme to RFPSS/balance sheet | *108.000* | *101.849* | *-6.151* | -5,7% |
| **66 + 46** | **Total (transfer to RFPSS/balance sheet)** | ***108.000*** | ***101.849*** | ***-6.151*** | **-5,7%** |

## Annex II/4 Comparison between original and amended budgets

| Article | Chapter | Title | Original budget | Transfer under Art. 34 FinRegs para. 1 intra-chapter | para. 2 inter-chapter (below 20%) | para. 3 Submission to BFC/AC | Amended budget |
|---|---|---|---|---|---|---|---|
| *3000* | | *Basic salaries* | *946.545* | | *-630* | | *945.915* |
| *3001* | | *Allowances and other benefits* | *237.460* | | | | *237.460* |
| *3002* | | *Social-security contributions* | *69.720* | | | | *69.720* |
| *3003* | | *Pension contributions* | *146.560* | | | | *146.560* |
| *3004* | | *Partial compensation* | *29.590* | | | | *29.590* |
| 300 | | Basic salaries and allowances | 1.429.875 | 0 | -630 | 0 | 1.429.245 |
| 301 | | Remuneration of other employees | 16.090 | | | | 16.090 |
| 302 | | General staff costs | 11.715 | | | | 11.715 |
| 303 | | Training | 12.215 | | | | 12.215 |
| *3050* | | *European School* | *20.645* | *370* | | | *21.015* |
| *3055* | | *Children's day-care centres* | *1.400* | | | | *1.400* |
| 305 | | Schools and day-care centres | 22.045 | | | | 22.045 |
| | **30** | **Staff** | **1.491.940** | **0** | **-630** | **0** | **1.491.310** |
| | **31** | **Property and equipment maintenance** | **46.635** | **0** | **1.100** | **0** | **47.735** |
| 320 | | IT maintenance - tangible assets | 21.400 | -1.122 | | | 20.278 |
| *3210* | | *Software* | *27.000* | *-1.300* | | | *25.700* |
| *3211* | | *Integrated systems and services* | *53.400* | *2.422* | *3.957* | | *59.779* |
| 321 | | IT maintenance - intangible assets | 80.400 | 1.122 | 3.957 | 0 | 85.479 |
| | **32** | **IT equipment maintenance** | **101.800** | **0** | **3.957** | **0** | **105.757** |
| | **33** | **Co-operation and meetings** | **21.805** | **0** | **0** | **0** | **21.805** |
| | **34** | **Patent information and communication** | **18.740** | **0** | **0** | **0** | **18.740** |
| 350 | | Travel | 8.565 | | | | 8.565 |
| 351 | | Supplies | 3.925 | -250 | | | 3.675 |
| 352 | | Services | 37.470 | | 630 | | 38.100 |
| 353 | | Communications | 4.355 | | | | 4.355 |
| 354 | | Documentation | 10.630 | | | | 10.630 |
| div. | | Other items | 1.220 | 250 | | | 1.470 |
| | **35** | **General operating expenditure** | **66.165** | **0** | **630** | **0** | **66.795** |
| | **37** | **Project expenditure funded by third parties** | **320** | **0** | **0** | **0** | **320** |
| | **38** | **Financial expenditure** | **440** | **0** | **0** | **0** | **440** |
| | | **Operating transactions** | **1.747.845** | **0** | **5.057** | **0** | **1.752.902** |
| | | **Inward transfers** | | **2.672** | **5.687** | **0** | |
| | | **Outward transfers** | | **-2.672** | **-630** | **0** | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 410 | | Land and buildings | 92.585 | | -1.100 | | 91.485 |
| 411 | | Furniture and equipment | 2.390 | | | | 2.390 |
| | **41** | **Property and equipment** | **94.975** | **0** | **-1.100** | **0** | **93.875** |
| *4200* | | Hardware | 3.600 | 2.600 | 32 | | 6.232 |
| *4210* | | Software | 700 | | 11 | | 711 |
| *4211* | | Integrated systems and services | 19.300 | -2.600 | -4.000 | | 12.700 |
| | **42** | **IT tangible and intangible assets** | **23.600** | **0** | **-3.957** | **0** | **19.643** |
| | **45** | **Loans and advances** | **16.800** | | | | **16.800** |
| | **49** | **Budget surplus** | **93.000** | | | | **93.000** |
| | | **Capital transactions** | **228.375** | **0** | **-5.057** | **0** | **223.318** |
| | | **Inward transfers** | | **2.600** | **43** | **0** | |
| | | **Outward transfers** | | **-2.600** | **-5.100** | **0** | |
| | | **Total** | **1.976.220** | **0** | **0** | **0** | **1.976.220** |
| | | **Inward transfers** | | **5.272** | **5.730** | **0** | |
| | | **Outward transfers** | | **-5.272** | **-5.730** | **0** | |

# ANNEX III Financial forecast and actual income and expenditure

## Annex III/1 Income

| | As per | | | Difference | |
|---|---|---|---|---|---|
| | CA/D 1/14 | CA/10/16 | CA/60/16 | absolute | as % |
| Revenue | | | | | |
| Revenue from patent and procedural fees | 1.589.178 | 1.725.112 | 1.725.112 | 135.934 | 8,6% |
| Other revenue | 74.345 | 68.586 | 68.586 | -5.759 | -7,7% |
| Other operating income | 4.465 | 6.579 | 6.579 | 2.114 | 47,3% |
| Work performed by the entity and capitalised | 5.000 | 2.268 | 2.268 | -2.732 | -54,6% |
| Employee benefit expenses | -1.311.339 | -1.672.037 | -1.672.037 | -360.698 | 27,5% |
| Depreciation and amortisation expenses | -64.499 | -53.917 | -53.917 | 10.582 | -16,4% |
| Other operating expenses | -243.486 | -222.260 | -222.260 | 21.226 | -8,7% |
| **OPERATING RESULT** | **53.664** | **-145.669** | **-145.669** | **-199.333** | |
| Finance revenue | 369.147 | 245.973 | 245.973 | -123.174 | -33,4% |
| Finance costs | -467.020 | -321.811 | -321.811 | 145.209 | -31,1% |
| **FINANCIAL RESULT** | **-97.873** | **-75.838** | **-75.838** | **22.035** | |
| **PROFIT/LOSS FOR THE YEAR** | **-44.209** | **-221.507** | **-221.507** | **-177.298** | |
| Others | 0 | 0 | 4.766.714 | 4.766.714 | |
| **TOTAL** | **-44.209** | **-221.507** | **4.545.207** | **4.589.416** | |

## Annex III/2 Balance sheet

| | As per | | | Difference | |
|---|---|---|---|---|---|
| | CA/D 1/14 | CA/10/16 | CA/60/16 | absolute | as % |
| **ASSETS** | | | | | |
| **NON-CURRENT ASSETS** | | | | | |
| Property, plant and equipment | 656.690 | 546.940 | 546.940 | -109.750 | -16,7% |
| Intangible assets | 72.513 | 53.333 | 53.333 | -19.180 | -26,5% |
| RFPSS net assets | 6.225.685 | 6.591.858 | 6.591.858 | 366.173 | 5,9% |
| Marketable securities | 900.000 | 1.302.676 | 1.302.676 | 402.676 | 44,7% |
| Home loans to staff | 111.255 | 92.631 | 92.631 | -18.624 | -16,7% |
| Other financial assets | 0 | 0 | 0 | 0 | |
| Other assets | 106.405 | 101.264 | 101.264 | -5.141 | -4,8% |
| | 8.072.548 | 8.688.702 | 8.688.702 | 616.154 | 7,6% |
| **CURRENT ASSETS** | | | | | |
| Trade and other receivables | 190.456 | 160.521 | 160.521 | -29.935 | -15,7% |
| Marketable securities | 220.784 | 263.676 | 263.676 | 42.892 | 19,4% |
| Home loans to staff | 4.909 | 7.454 | 7.454 | 2.545 | 51,8% |
| Other financial assets | 337.900 | 275.200 | 275.200 | -62.700 | -18,6% |
| Prepaid expenses | 0 | 13.043 | 13.043 | 13.043 | |
| Cash and cash equivalents | 263.428 | 70.073 | 70.073 | -193.355 | -73,4% |
| | 1.017.477 | 789.967 | 789.967 | -227.510 | -22,4% |
| **TOTAL ASSETS** | **9.090.025** | **9.478.669** | **9.478.669** | **388.644** | **4,3%** |
| **LIABILITIES** | | | | | |
| **EQUITY** | | | | | |
| Retained earnings | -2.419.549 | -1.873.718 | -1.873.718 | 545.831 | -22,6% |
| Other reserves | 45.501 | -6.068.637 | -6.068.637 | -6.114.138 | -13437,4% |
| **TOTAL EQUITY** | **-2.374.048** | **-7.942.355** | **-7.942.355** | **-5.568.307** | **234,5%** |
| **NON-CURRENT LIABILITIES** | | | | | |
| Net defined liability | 9.976.355 | 15.975.995 | 15.975.995 | 5.999.640 | 60,1% |
| Salary savings plan obligation | 49.858 | 44.145 | 44.145 | -5.713 | -11,5% |
| Other employee-related liabilities | 6.535 | 12.366 | 12.366 | 5.831 | 89,2% |
| Finance lease liabilities | 11.984 | 1.505 | 1.505 | -10.479 | -87,4% |
| Provisions | 873 | 93 | 93 | -780 | -89,3% |
| Pre-paid fees | 785.847 | 799.002 | 799.002 | 13.155 | 1,7% |
| | 10.831.452 | 16.833.106 | 16.833.106 | 6.001.654 | 55,4% |
| **CURRENT LIABILITIES** | | | | | |
| Other employee-related liabilities | 0 | 110.987 | 110.987 | 110.987 | n/a |
| Trade and other payables | 290.022 | 164.560 | 164.560 | -125.462 | -43,3% |
| Finance lease liabilities | 14.601 | 5.491 | 5.491 | -9.110 | -62,4% |
| Provisions | 4.735 | 30.821 | 30.821 | 26.086 | 550,9% |
| Pre-paid fees | 323.264 | 276.059 | 276.059 | -47.205 | -14,6% |
| | 632.622 | 587.918 | 587.918 | -44.704 | -7,1% |
| **TOTAL LIABILITIES** | **11.464.074** | **17.421.024** | **17.421.024** | **5.956.950** | **52,0%** |
| **TOTAL EQUITY AND LIABILITIES** | **9.090.026** | **9.478.669** | **9.478.669** | **388.643** | **4,3%** |

## ANNEX IV Audit expenditure

1) EUR 1.6m was set aside for this under Article 3525 of the 2016 budget.

2) As at 31 March 2016, a total of EUR 247 796 had been committed, and EUR 0 already spent. These figures break down as follows:

| | Expenditure booked in 2015 | 2016 to date | |
|---|---|---|---|
| | | Committed | Spending |
| Travel expenses and remuneration of auditors and assistants | 121 626 | 1 300 | |
| KPMG AG Wirtschaftsprüfungsgesellschaft | 186 796 | 189 496 | |
| BDO AG Wirtschaftsprüfungsgesellschaft | 57 000 | 57 000 | |
| TOTAL | 365 422 | 247 796 | |

## ANNEX V List of abbreviations

| | |
|---|---|
| AC | Administrative Council |
| AM | applications management |
| APC | Automation Policy Committee (successor to ASG) |
| APR | accounting, portfolio and risk (management) |
| ASG | Automation Steering Group (replaced by APC) |
| BFC | Budget and Finance Committee |
| BHB | Bayerische Hausbau (Munich property developer) |
| BoA | Board of Auditors |
| BPA | business process area |
| BSC | balanced scorecard |
| CAB | Change Advisory Board |
| CAMRA | portfolio management and bookkeeping system from SS&C (London) |
| CERN | European Organisation (formerly "Centre") for Nuclear Research) |
| CMDB | Configuration Management Database |
| DG | directorate-general |

| | |
|---|---|
| EDP | electronic data processing |
| EESR | Extended European search report |
| EMTP | European machine-translation programme |
| EPC | European Patent Convention |
| EPASYS | European Patent Administration System |
| epi | Institute of Professional Representatives before the European Patent Office |
| EPO | European Patent Organisation or European Patent Office |
| EPR | end of project report |
| EU | European Union |
| EUR | Euro |
| FAMA | Finance Application Management (dept. in PD Finance) |
| FinRegs | Financial Regulations |
| FIPS | finance and personnel system |
| FTE | Full-time equivalent |
| GFA | gross floor area |
| GTB | general terms of business |
| HOAI | German remuneration rules for architects and engineers |
| HR | Human Resources |

| | |
|---|---|
| IAC | Internal Appeals Committee |
| IAS | International Accounting Standards |
| IFRS | International Financial Reporting Standards |
| IGUTEC | German environmental engineering association |
| IIB | International Patent Institute |
| ILO | International Labour Organization |
| ILOAT | Administrative Tribunal of the ILO |
| IM | Information Management (EPO IT department, formerly "IS") |
| INTOSAI | International Organisation of Supreme Audit Institutions |
| IS | Information Systems (EPO IT department, now "IM")) |
| ISS | Information Systems and Services |
| IT | information technology |
| ITIL | IT Infrastructure Library |
| LAN | local area network |
| LTC | long-term care |
| MAC | Management Committee of the EPO |
| MTBP | medium-term business plan of the EPO (CA/40/xx) |
| OIO | Open Infrastructure Offering (framework agreement) |
| OLF | Online filing |
| OSC | Operational Steering Committee |

| | |
|---|---|
| PCT | Patent Cooperation Treaty |
| PD | principal director or principal directorate |
| PID | project initiation document |
| Prince2 | version 2 of project-management software ("projects in controlled environments") |
| PV | minutes (e.g. CA/PV 113 = minutes of AC's 113th meeting) |
| PWC | PricewaterhouseCoopers |
| RFPSS | Reserve Funds for Pensions and Social Security |
| SAP | German software firm |
| SEA | Suite of Examiners' Applications (common user interface for search and examination) |
| SEPA | Single Euro Payments Area |
| SLA | service level agreement |
| TOSC | Technical and Operational Support Committee |
| TSD | Tivoli Service Desk |
| WO-ISA | Written opinion of the International Searching Authority |
| WPTI | Working Party on Technical Information (replaced by TOSC) |