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Conseil d'administration

CA/50/22 Add. 1 B

2023 Budget

Estimates for 2024-2027
Comprehensive Summary





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Orig.: en

Munich, 25.11.2022

SUBJECT: 2023 Budget
Comprehensive summary

SUBMITTED BY: President of the European Patent Office

ADDRESSEES: Administrative Council (for decision)

SUMMARY

Recommendation for publication: Yes.

This document presents a comprehensive summary of the 2023 Budget and 2024 – 2027 Estimates, which is proposed for external publication. This document is an update of the Explanatory Memorandum of the Draft Budget CA/50/22. In addition, it contains the summary sheets of the budgeted results under both the authorisation and the IFRS views. Besides the financial data, the document contains a summary of the 2023 table of posts.

This document was issued in electronic form only.

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EXPLANATORY MEMORANDUM

I. INTRODUCTION

This explanatory memorandum includes the following information:

- Orientations in section II
- Planning principles and assumptions in section III
- Budget results in section IV
- Organisational unit/performance budget view in section V
- Forecast in section VI
- Plan financial statements under the International Financial Reporting Standards (IFRS) in section VII
- Budgetary outlook on the EPO Boards of Appeal (BoA) in Attachment A
- Budget appropriations for the European patent with unitary effect in Attachment B

II. ORIENTATIONS

A. AUTHORISATION BUDGET AND STANDARDISED IFRS PLAN

This document provides the 2023 authorisation budget and the estimates 2024 - 2027 as well as the plan financial statements under IFRS. The basis for the IFRS calculations is the authorisation budget. Of prime concern is the operating result and the profit of the Organisation under IFRS.

The plan IFRS financial statements are determined in compliance with the IFRS regulations adopted in full by the Office on 1 January 2011. To determine the Standardised IFRS plan a flat discount rate of 3.3% for employee benefits obligations is applied. The discount rate of 3.3% reflects the macro-economic scenario adopted for the Financial Study 2019. The use of a flat discount rate has the merit of permitting an assessment of liabilities and equity on a consistent basis for the 2023 - 2027 time period, allowing for year-on-year comparison. In addition, this approach is aligned with the one used when reporting the actuals for both the standardised operating result as well as the unit cost.

B. MAIN MACRO-ECONOMIC ASSUMPTIONS

While the economy was recovering quickly until February 2022, higher inflation, geopolitical uncertainty, and remaining coronavirus pandemic implications affect the economic outlook for 2023. The war in Ukraine has brought additional uncertainty with regard to the ongoing economic recovery, in particular in the light of unprecedented economic sanctions enforced against Russia. These sanctions have already had a substantial impact on the global economy and financial markets. Energy and commodity prices have surged, adding to inflationary pressures from supply chain disruptions. Currently, the economic recovery mainly depends on the further development of the war in Ukraine, the effectiveness of central banks' measures to mitigate inflation and whether new coronavirus variants will occur.

On this basis, and given the remaining uncertainties in the economic environment, the EPO has used prudent assumptions as the basis for its budget. For the year 2023, the EPO expects that applications will evolve somewhat above the 2021 applications (188 600). The assumption for 2023 with 196 300 applications is also slightly above (2.4%) the expected applications for 2022 (forecast 191 700). If the economic recovery is delayed, some impact on the applications to the Office in 2023 could be expected. Experience shows that the evolution of incoming applications only exceptionally deviates from its long-term trend. However, over time, patent protection will continue to play an important role in protecting the benefits of research and development which will be essential for global economic recovery. Going forward an average increase in applications of 1.7% p. a. is expected after 2023, leading to a moderate expected increase throughout the period 2024 - 2027.

C. LONG TERM FINANCIAL SUSTAINABILITY

The 2019 Financial Study evidenced the risk of a total potential financial gap of EUR 5.8bn to be closed over 20 years. To this end the Office proposed a bundle of measures which were approved by the Administrative Council in June 2020. The six selected measures are expected to generate a total financial impact of EUR 6.3bn, i.e. providing a margin of EUR 0.5bn in case one or more measures would not deliver the expected results.

The overall financial situation of the EPO is monitored using the coverage ratio, KPI 5.3 of the Strategic Plan, which expresses the financial assets of the EPO as a percentage of its long-term pension and social security liabilities, applying a flat discount rate of 3.3% for measuring long-term obligations towards staff. In 2019, the coverage ratio was 70%, leaving a coverage gap of 30%. The bundle of measures proposed by the Office aims to deliver a balanced financial position by 2038 when the coverage ratio should reach at least 100%.

As at December 2021, the coverage ratio reached a level of 87.9%. By September 2022, the coverage ratio dropped to 72% and is budgeted at 74% at the end of 2023 driven by the increase in long term liabilities given the exceptionally high salary table adjustment of 1 January 2023 but planned to recover by 2027 to 82%.

As regards the follow-up of the Financial Study performed in 2019, the Office finds itself today in the implementation phase of the measures adopted with CA/18/20. Effective 1 January 2021, the new salary adjustment procedure (SAP) was implemented, replacing the previous method which had been in place for six years. The gross domestic product (GDP) of the EPC contracting states has recovered in 2021 its 2019 level and prompts as at 1 January 2023 the application of the 2022 salary adjustment delayed so far due to the exception clause. The 2022 salary adjustment has been set at 2.1% (CA/D 14/21).

The new SAP introduces a cap at Eurozone HICP (Harmonised Index for Consumer Prices) +0.2% on the calculated salary adjustment. The salary adjustment as at 1 January 2023 submitted to the Council with CA/74/22 has been incorporated in the present document.

The contribution rates for the social schemes will be updated as of 1 January 2023 for pension, healthcare and long-term care based on the outcome of the biennial funding study by the Actuarial Advisory Group in 2021.

In the context of exceptionally high inflation this year, mainly driven by the energy price, the usual bi-annual inflation-based fee adjustment has been exceptionally brought forward partially to 1 April 2023, as further described in the planning assumptions.

It is anticipated that authorisation budget surpluses generated from the Office's operating activities after deduction of investment needs will be used for cash injections into EPOTIF and RFPSS under the general orientation of a ratio of 60% and 40%, respectively. The budgetary credits for the projects and activities leading to the digitisation of the Patent Granting Process have been included according to the latest status.

D. STRATEGIC PLAN 2023

In June 2019, the Administrative Council approved the Strategic Plan 2023 (SP2023) which defines the main goals of the Office until 2023. The ultimate aim is to strive towards a modern and operationally and financially sustainable organisation. The Strategic Plan provides a clear roadmap for achieving that vision.

All expenditure linked to the implementation of the SP2023 and its annual work plans are covered by the budgetary credits foreseen in the 2023 budget.

For 2023, expenditure for SP2023 is expected to amount to EUR 95m according to the following allocation by strategic goals:

Total Operating and Capital Expenditure (in € '000)	2023
Goal 1	
Build an engaged, knowledgeable and collaborative organisation	44 032
Goal 2	
Simplify and modernize IT systems	3 586
Goal 3	
Deliver high-quality products and services efficiently	16 530
Goal 4	
Build a European patent system & network with a global impact	15 330
Goal 5	
Secure long-term sustainability	15 533
Total	95 011

The external expenditure for SP2023 has been included based on the latest estimates submitted to the SP2023 Board. The annual work plans set out the residual activities prioritised in the year ahead and the resources allocated to them. About a quarter of the projects have already been closed successfully by end of Q2 2022 and another quarter is expected to be completed by year end. 2022 will clearly be the year in which the SP2023 projects peak, both in terms of activities and expenditure. Almost all remaining projects are targeting completion by end of the first semester in 2023. The goals remain nevertheless ambitious in that final period. The updated total expenditure for the period 2020-2023 are now forecasted at EUR 298m, of which EUR 192m relate to digital transformation projects.

E. BOARDS OF APPEAL (BoA)

Specific budgetary provisions have been included in the 2023 budget following the structural reform of the EPO Boards of Appeal. These budgetary provisions mainly relate to the identification of the budgetary credits necessary for the operation of the BoA.

In order to meet the objective of settling 90% of cases within 30 months and to reduce the number of pending cases to below 7 000 by 2022 (five-year objective favoured by BoAC in 2017), the total number of permanent posts in the Boards of Appeal was increased by a total of 39 additional posts for Board members in budget 2019 and 2020. On the ground of updated planning figures from the Office for 2022 Budget, the President of the Boards of Appeal returned 10 of the 39 temporary additional posts. As stocks are forecast to considerably decrease from some 6 500 files end of 2022 to 4 200 in 2027, the remaining additional posts will be returned over time.

In total, the Boards of Appeal will have 269 permanent posts in 2023 (205 board members and chairpersons and 64 in the administrative area).

The plan for implementation of the specific budgetary provisions together with the substantiated budget request have been submitted by the President of the Boards of Appeal to the EPO Boards of Appeal Committee (BoAC) for opinion, prior to review by the President of the Office.

A presentation of the budgetary allocations of the EPO Boards of Appeal is set out in Attachment A.

F. UNITARY PATENT PROTECTION (UPP)

Under a proviso of strict budget neutrality, it is foreseen that the European patent with unitary effect will be fully financed by the revenue it generates. The EPO expects that the participating member states will fulfil the ratification requirements enabling a full implementation of the European patent with unitary effect and the Unified Patent Court at the beginning of 2023.

An overview of the budget appropriations for the European patent with unitary effect upon the introduction of unitary patent protection is set out in Attachment B and reflects the structure approved with the budget in previous years. The introduction of the European patent with unitary effect is foreseen in April 2023.

The budgetary estimates were unanimously approved by the Select Committee meeting (SC/28) in its October 2022 session.

The income has been elaborated according to the Base Penetration Rates 2022 presented in the 26th meeting of the Select Committee with document SC/7/22, whereas the costs have been elaborated as per the general cost accounting method in use at the EPO. Its application for assessing the cost for operating the Unitary Patent has been validated by the Council in its decision CA/D 10/17. Details of the cost methodology were provided in document SC/13/22 – “Update on UPP related costs” presented in 27th meeting of the Select Committee in June 2022.

A portion of 20% of the patents granted during the sunrise period are assumed to opt for UP.

The options for UP during the sunrise period will generate fee income at an early stage and will contribute to offset the cost. On this basis a small surplus is expected already in the first year of operation. It must be noted that the final outcome in terms of income, cost and final result (deficit or surplus) remains dependent on the effective behaviour of the patent proprietors after inception.

III. PLANNING PRINCIPLES AND ASSUMPTIONS

The 2023 budget and the estimates 2024-2027 as well as the plan financial statements under IFRS are presented in Euro (EUR). All values are rounded to the nearest thousand (EUR '000) unless otherwise indicated. The following main assumptions were used to prepare the 2023 budget and the estimates 2024 - 2027.

A. INCOME

a) Volume assumptions

Current income estimates are based on 196 300 Euro-direct applications and PCT applications entering the regional phase during 2023 compared to the 191 700 expected applications in 2022 (+2.4%). This assumption takes into account the prevailing macro-economic uncertainty.

The high number of patent publications in the last four years was a direct consequence of the spike in searches completed as of 2015 – as the old backlog was processed – which subsequently entered examination. At present the number of finalised searches and thus entries into examination has stabilised. The budget reflects an output of published patents at around 96 000 in 2023 to 98 000 in 2027.

b) Fee adjustment assumptions

The current galloping inflation calls for an extraordinary deviation from the usual biennial cycle to the adjustment of EPO's fees. Between June 2021 and June 2022, the inflation rate of 9.6% clearly exceeded the inflation rates of the previous two-year cycles used for inflation adjustment. The rate was also significantly above the annual 2% long-term inflation objective of the European Central Bank. In order to mitigate the impact on EPO's financial sustainability and to avoid a double-digit increase in 2024, it is proposed that the inflation-based fee increase be brought forward extraordinarily and that the fees be increased by a portion of the current inflation as early as 1 April 2023. As a result, the current budget contains 5% for all EPC procedural as of 1 April 2023, as well as a 5% fee increase for the renewal fees for patent applications (Internal Renewal Fees - IRF). The PCT Search fee as well as the appeal fees for SME's will remain unchanged. The fee for International Preliminary Examination under PCT, will be slightly increased, such as to align with the increased EP examination fee. Details on the fee adjustment are submitted with the document CA/72/22.

Similarly, as a planning assumption, a further increase of 5% on all procedural fees including IRF has been anticipated on 1 April 2024 in order to keep a form of parallelism between the adjustment parameters for salaries on the cost side (10.9%) and the adjustment parameters for fees on the income side (5% on 1 April 2023 and 5% on 1 April 2024). This anticipation does not prejudice any future decision to be taken by the Council. The relevance of a possible inflation-based fee adjustment in 2024 will be reassessed next year considering among others the effective evolution of inflation in Europe, currently forecasted to be between 14% and 15% for the period June 2021 to June 2023.

As of 1 April 2024, the EP Search and examination fees are aligned with the PCT Search and examination fees respectively and will evolve in parallel for the subsequent adjustment cycle of 2026 (+4% increase foreseen).

c) DE – increase in national renewal fees as of 1 July 2022

Germany (DE) has adjusted its national renewal fees as of 1 July 2022. This adjustment also affects patents delivered by the EPO and validated in Germany. Only a very small portion of German renewal fees due in 2023 were validly paid up to 12 months before they fall due and were paid in advance before the entry into force of the fee increase – as exceptionally permitted by transitional measures. The higher fees will contribute to EPO's income by some EUR 22m in 2023 and up to EUR 23m at the end of the planning period in 2027.

d) Minimum amount for national renewal fees

The minimum amounts for national renewal fees (for the 3rd to 20th year) provided for in Article 39 EPC are to be fixed for the periods 2023 and 2024, in accordance with the procedure approved by the Administrative Council in 1997.

e) Return on RFPSS net assets

The return on the RFPSS plan assets has been assumed at 3.56% for planning purposes and is in line with the current long term performance objective of the RFPSS. For the plan statement of financial position the value of the portfolio as of August 2022 was considered as a reference for the planning period 2023-2027.

f) EPO Treasury Investment Fund (EPOTIF)

EPOTIF includes the financial investments of the EPO which are managed by external asset managers, following the decision of the BFC in May 2018. Financial expenditure reflects the size and the asset allocation of the EPOTIF portfolio, to which the expected return on EPOTIF of 3.12% has been applied (budgetary credits for potential realised losses of EPOTIF). For the plan statement of financial position the asset value as of August 2022 has been considered.

For further details on the forecast evolution of EPOTIF assets, see section B of the plan financial statements under IFRS.

B. EXPENDITURE

a) Planning assumptions for staff costs

The new SAP foresees a mechanism for periodical settlement whereby any positive adjustment resulting from the application of the sustainability clause and carried forward after three annual salary adjustments will be paid out to employees as a lump sum in proportion to the basic salaries and allowances received over the three-year period. With the final results of the SAP in 2022, the amounts initially provided for under the periodical settlement clause, were incorporated in the salary scale increases as of 1st January 2023 and so no periodical settlement is due and no additional such provision is foreseen for 2023, neither under the Authorisation Budget nor under IFRS standardised view.

Following a positive decision of the Council, the adjustments with effect from 1 January 2023 of salary and other elements of the remuneration of permanent employees of the Office, represent +8.8% in Germany, +7.9% in The Netherlands and +9.6% in Austria (see CA/74/22).

Additionally, the positive development of the GDP of the EPC contracting states means that the salary adjustments approved in 2021 but delayed due to the application of the exception clause have added to the adjustments resulting from the SAP as described above (see CA/74/22). This results in total basic salary scale adjustments as of 1 January 2023 of +11.8% in Germany, +9.1% in The Netherlands and +12.8% in Austria.

The expected salary adjustments as at 1 January 2024 and beyond have been assumed at 2.2%.

Furthermore EUR 5m for each of the years 2024 to 2026 under the IFRS view and EUR 15m in 2026 under the Authorisation Budget view are provided for the periodical settlement mechanism based on the estimated long term effect of the sustainability cap (0.3%) representing the difference between the previous average long term salary inflation adjustment parameter of 2.5% and the revised 2.2% long term assumption under the new SAP.

The 2023 budgetary estimates currently foresee, as in 2022, an amount of 3% of basic salaries to be allocated for career progression and bonuses, in accordance with the provisions of the career/performance management system.

As it was the case in previous years, the International Service for Remunerations and Pensions (ISRP) of the OECD has provided estimates on the Defined Benefit Obligations (DBOs). For the 2023 budget and estimates for 2024-2027 the Office applied a flat 3.3% forecast discount rate in order to align the interest rates with the Financial Study.

b) Staff

In line with the cautious planning approach adopted for the incoming workload assumptions, a prudent recruitment policy is anticipated. In terms of examiner recruitment, the replacement of 70%-80% of departing examiners is anticipated in the budget for 2023 as well as for the budget period 2024-2027. As regards staff outside of the patent grant areas, a retirement replacement ratio of 50% has been included.

c) Table of posts

The table of posts will continue to be limited to 7 075 permanent posts. Out of the maximum authorised posts, 3 940 examiner posts are projected for 2023 representing a reduction of 100 posts compared to the 2022 Budget. For the future examiner workforce needs, the cautious planning approach followed since the Covid pandemic outbreak will continue in 2023. Uncertainties having a potential negative impact on economical and IP growth (high inflation, shortage of industrial supplies and resources, end of pandemic, Ukraine crisis) will be duly considered.

As regards formalities officer posts, a new strategic initiative to upscale formalities officer through a learning program is being implemented. The initiative has been established such that there will be no need for replacement of leavers on the existing job basis definition.

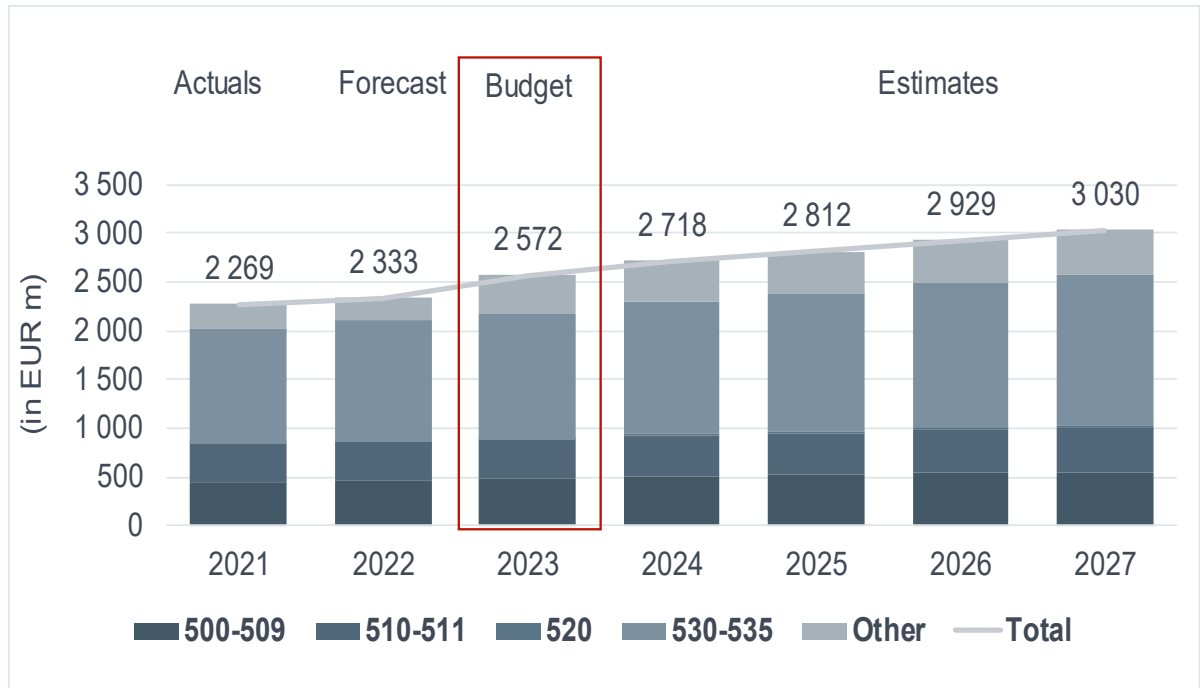
d) Posts foreseen for The Hague

Out of the 7 075 posts, 2 809 posts are foreseen to be located in The Hague in the 2023 budget. This is fully in line with the provisions of the Protocol on the Staff Complement of the European Patent Office at The Hague (Protocol on Staff Complement) of 29 November 2000.

IV. BUDGET RESULTS

A. 2023 MAIN BUDGET AND 2024-2027 ESTIMATES

a) Budget operating income



(in EUR m)	Actuals	Budget	Forecast	Budget		Estimates		
Group	2021	2022	2022	2023	2024	2025	2026	2027
500-509: Filing and search fees	445	418	456	478	504	516	537	548
510-511: Examination, grant and opposition fees	391	369	404	400	427	439	459	469
520: Appeal fees	5	4	7	6	6	6	7	6
530-535: Designations and renewal fees	1 188	1 222	1 240	1 287	1 368	1 428	1 489	1 549
thereof IRF	442	441	456	492	540	571	597	626
thereof NRF (EPO share)	641	678	670	685	704	723	740	756
thereof UPP (MS share)	0	1	0	2	7	15	25	36
Other	241	342	227	401	413	423	438	457
Total	2 269	2 355	2 333	2 572	2 718	2 812	2 929	3 030

The income for filing and search (groups 500-509) is expected to increase by EUR 60m in Budget 2023 compared to Budget 2022, which reflects the current estimates in incoming applications as well as the fee increase.

Income for examination, grant and opposition (groups 510-511) is expected to increase by EUR 31m in the same period.

Income from designation and renewal fees (groups 530-535) for 2023 is expected to increase by EUR 65m in total. The evolution in incoming workload and the planned shift in production more towards search, is expected to contribute to an increase of the pending stock in examination. Consequently and thanks to the fee increase of 2023, renewal fees for applications are estimated at EUR 492m in 2023 (+EUR 51m) and expected to further increase to EUR 626m by 2027 (increase of EUR 134m or 27%). The EPO share of national renewal fees for granted patents is mainly driven by the increase in fee tables of national renewal fees for Germany as of 1 July 2022. This adjustment which affects patents delivered by the EPO and validated in Germany contributes to EPO's income by some EUR 22m per annum - Germany accounting for around 37% of NRF income in 2023. Although the number of grants is planned to remain almost stable over the planning period (from 96 000 in 2023 to 98 000 in 2027), income from national renewal fees for granted patents is expected to increase by EUR 71m within five years (+10%) from EUR 685m in 2023 to EUR 756m as a result of the ageing and maintenance of the existing portfolio of granted patents in the national systems as well as the increase in the German national fee tables.

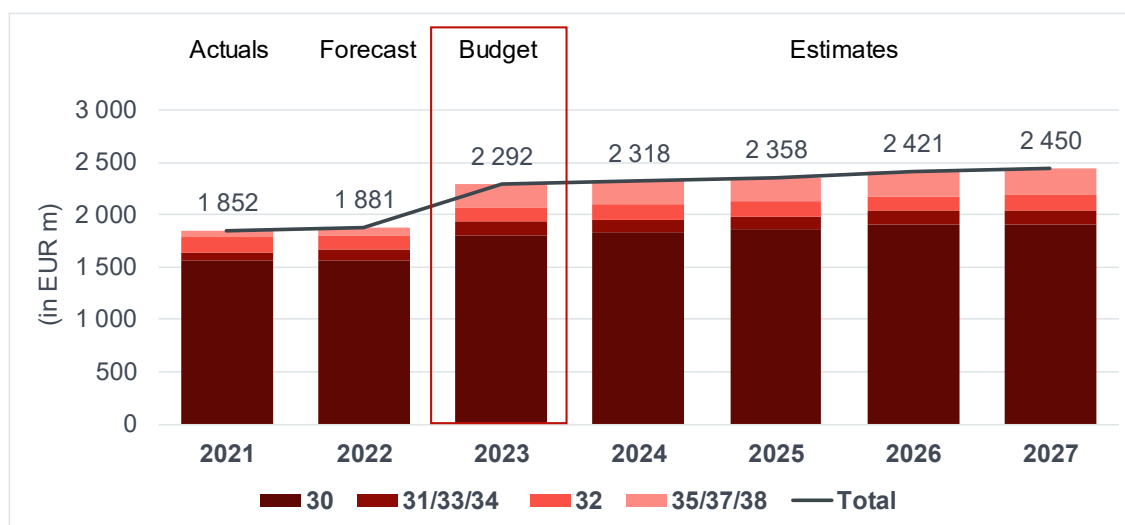
It should be noted that the forecast for the operating income is based on an extrapolation of applicants' behaviour as currently observed.

Other operating income will rise by EUR 56m from EUR 401m in 2023 to EUR 457m in 2027. The net impact on the budget result of the two largest items, EPOTIF gains and internal tax income is neutral as the same amounts are also reflected under other operating expenditure.

The potential realised gains on EPOTIF amount to EUR 135m in the 2023 budget compared to EUR 112m in the 2022 budget, an increase of EUR 23m.

Furthermore, the revenue from internal tax on basic salaries has also increased by EUR 34m, following the increase in the salary mass.

b) Budget operating expenditure



(in EUR m)	Actuals	Budget	Forecast	Budget	Estimates			
Chapter	2021	2022	2022	2023	2024	2025	2026	2027
30: Staff	1 568	1 618	1 562	1 803	1 836	1 864	1 906	1 915
31/33/34: Buildings, Cooperation, Patent information	75	113	101	127	118	123	128	134
thereof UPP (MS share)	0	1	0	2	7	15	25	36
32: IT operating expenditure	149	127	146	143	143	140	140	140
35/37/38: Other expenditure	60	193	73	219	221	231	247	261
Total	1 852	2 051	1 881	2 292	2 318	2 358	2 421	2 450

In comparison with the 2022 budget, total operating expenditure is expected to increase by EUR 185m.

Staff costs (Ch. 30) will increase by EUR 185m (11%) compared with budget 2022, which is driven by the following factors.

Cost increasing factors:

- With effect from 1 January 2023, salaries and other elements of the remuneration of permanent employees of the Office will increase as shown in CA/74/22 (see salary planning assumptions above);
- The effect of career progression and bonuses, which continues to be assumed at a value of 3% for planning purposes;

Decreasing (cost saving) factors:

- The funding of the pension deficit resulting from the pension payments exceeding the pension contributions;

- The revised assumptions on total paid staff years in 2023 (5 988 paid staff years in budget 2023 compared to 6 107 paid staff years in budget 2022);
- The savings in staff costs resulting from the partial retirement replacement and the difference in salary between newcomers and retirees;

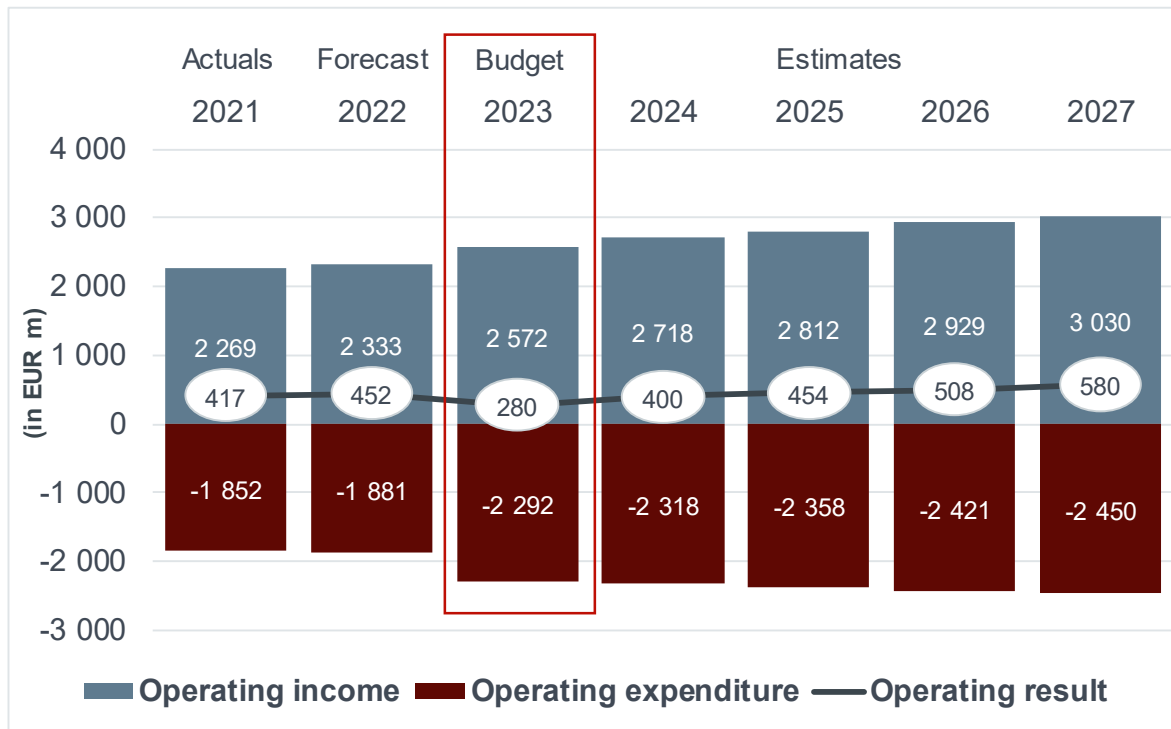
The staff expenditure in 2024 and in 2026, include the estimated value of the payout of the periodical settlement for foregone salary adjustments resulting from the application of the sustainability clause, amounting to EUR 5m in 2024 and EUR 15m in 2026.

The expenditure under chapters 31/33/34 (buildings, cooperation and patent information/public relations) increases (+EUR 14m). In particular expenditure for property and equipment maintenance increases by EUR 13m due to historically high inflation especially in energy. A decrease in expenditure for cooperation with member states of EUR 2m offsets the similar increase of EUR 3m for patent information and communication.

The foreseen increase in IT operating expenditure (Ch. 32) by EUR 16m reflects the expected high energy costs and inflation for 2023 as well as the progress in the initiatives and projects both under SP2023 and running operations which eventually after the investment and project finalisation phase, are meant to lead to a reduction in the IT expenditure.

General operating expenditure under chapter 35 is planned to increase by EUR 3m and financial expenditure under chapter 38 by EUR 23m. The increase in financial expenditure is caused by revised estimates reflecting the size and asset allocation of the EPOTIF portfolio (budgetary credits for potential realised gains of EPOTIF amount to EUR 135m in the 2023 budget compared to EUR 112m in the 2022 budget).

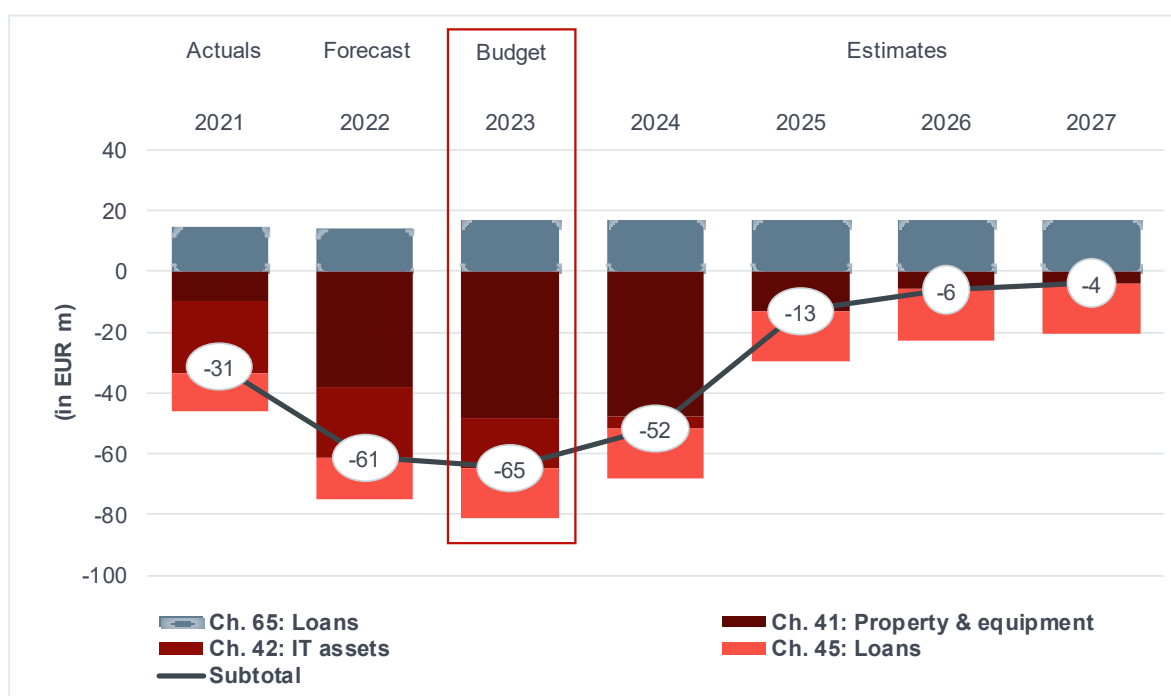
c) **Budget operating result**



(in EUR m)	Actuals 2021	Budget 2022	Forecast 2022	Budget 2023	2024	Estimates		
					2025	2026	2027	
Operating income	2 269	2 355	2 333	2 572	2 718	2 812	2 929	3 030
Operating expenditure	1 852	2 051	1 881	2 292	2 318	2 358	2 421	2 450
Operating result	417	304	452	280	400	454	508	580

The operating result is the difference between operating income and operating expenditure. The operating result for 2023 is expected to decrease by EUR 24m compared with the 2022 budget for the reasons explained in the previous sections.

d) Budget capital income and expenditure



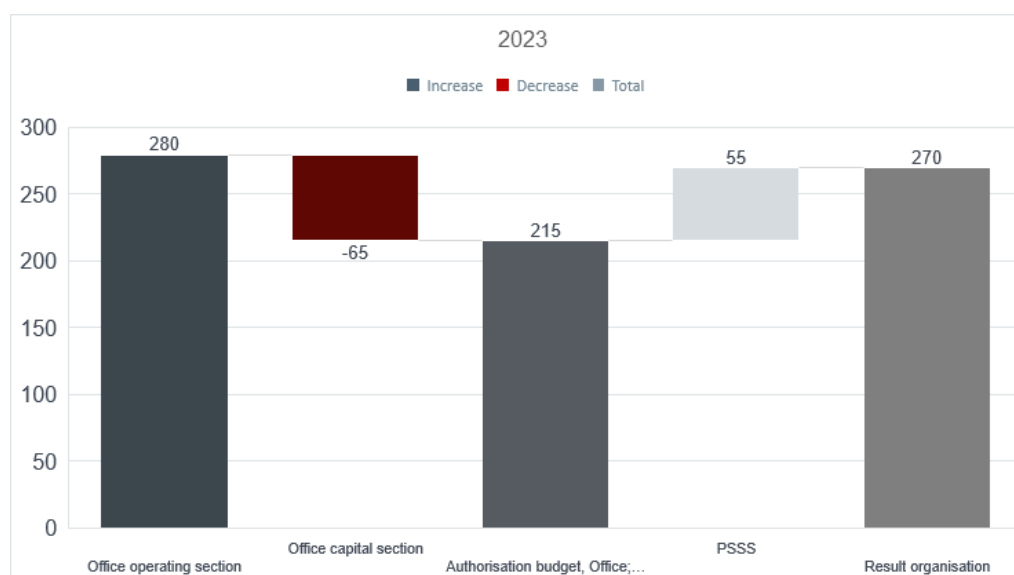
(in EUR m)	Actuals 2021	Budget 2022	Forecast 2022	Budget 2023	2024	Estimates		
						2025	2026	2027
Capital income								
Ch. 65: Loans	15	17	14	17	17	17	17	17
Capital expenditure								
Ch. 41: Property & equipment	10	41	38	48	48	13	6	4
Ch. 42: IT assets	24	29	23	16	4	0	0	0
Ch. 45: Loans	12	17	14	17	17	17	17	17
Subtotal	46	87	75	81	68	30	23	21
Capital result	-31	-70	-61	-65	-52	-13	-6	-4

Budgeted capital income (Ch. 65) comprises home loan repayments by staff, which are equal to the expected amount of home loans to be granted (capital expenditure, Ch. 45).

The capital result is expected to improve to EUR -65m reflecting lower investments in IT, chapter 42 (-EUR 13m compared to the budget 2022) in line with the direction of capitalising only purchased hardware and software as opposed to the former practice of capitalising internally generated assets. On the other hand, part of the initiatives under the Building Investment Programme are planned to take place in chapter 41 (+EUR 7m).

e) Total authorisation budget results of the Office and the Organisation

The overall budget result for the period is as follows:



(in EUR m)	Actuals 2021	Budget 2022	Forecast 2022	Budget 2023	2024	Estimates		
						2025	2026	2027
Office operating section	417	304	452	280	400	454	508	580
Office capital section	-31	-70	-61	-65	-52	-13	-6	-4
Authorisation budget, Office; surplus	386	234	391	215	349	441	502	576
PSSS	46	37	28	55	55	55	55	51
Result organisation	432	271	419	270	404	496	557	627

The estimated 2023 result of the organisation amounts to EUR 270m, a decrease of EUR 1m (0.4%) compared with the 2022 budget.

The result of the Office operating section is mainly driven on the income side by increasing renewal fees, both for patent applications and for granted patents over the planning period 2023-2027.

In 2023, 2024 and 2026 inflation-based fee adjustments of 5%, 5% and 4% respectively are reflected for procedural fees for filing, search, examination and opposition (see planning assumptions above). The 2026 biennial inflation-based fee adjustment is an estimate based on the hypothesis of a return to the long term European Central Bank objective of 2% yearly inflation. The fee adjustments are provisionally included without prejudice of the decisions to be taken in future periods. Furthermore, the DE increase in national renewal fees has a positive impact on both revenues and result. Staff expenditure is expected to remain broadly stable throughout the period 2023-2027.

Over the planning period, the development of the Office capital section is dominated by investments in buildings.

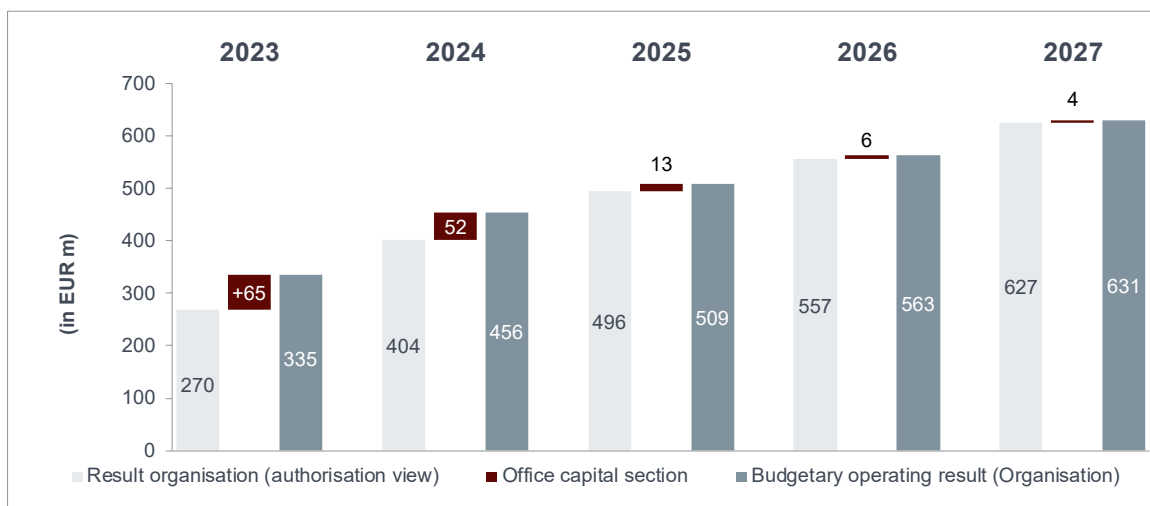
With the projected number of pensioners increasing over the planning period, the expenditure of the PSSS will increase from EUR 386m in 2023 to EUR 473m in 2027. At the same time, the statutory contributions of the Office and Staff will remain stable given the stable salary mass, the assumed increases in remunerations and higher contribution rates for pension and healthcare as of 2023. Since the pension benefit payments will no longer be covered by the statutory contributions, the resulting deficits are assumed to be covered by the operating section of the Office. As a consequence, the net PSSS results are slightly decreasing but still positive.

As a consequence of the positive trend in the result of the Office and the declining but stable PSSS result, the result of the Organisation is expected to increase throughout the period 2023-2027. Years 2024 and 2027 are influenced by the current estimate of the payouts under the new salary adjustment procedure relating to foregone salary adjustments in the form of lump sum compensation.

f) Basis for transition from authorisation budget to Standardised IFRS

Transition step from Authorisation View to IFRS: Transition to Budgetary Operating result (Organisation: Office + PSSS)

The IFRS view of the Organisation is a holistic view covering the Office and PSSS. The starting point for the transition from the Authorisation View to IFRS is the total authorisation budget result of the Organisation. This result encompasses the operation result of both parts and is determined as follows.



(in EUR m)	Actuals 2021	Budget 2022	Forecast 2022	Budget 2023	2024	Estimates		
						2025	2026	2027
Result organisation (authorisation view)	432	271	419	270	404	496	557	627
Elimination of capital transactions Office	31	70	61	65	52	13	6	4
Budgetary operating result (Organisation)	463	341	480	335	456	509	563	631

The additional transition step from Authorisation View to IFRS starting with the Budgetary Operating result (Organisation: Office + PSSS) and leading to the IFRS operating result for the year is covered in section VII.

V. ORGANISATIONAL UNIT/PERFORMANCE BUDGET VIEW

The organisational unit/performance budget view has been prepared in accordance with the purpose of the budgetary funds of the main budget operating and capital section (entrusted funds perspective).

EPO Budget 2023

	Total	DG 0	DG 1	DG 4	DG 5	BoA	UPP	
	2023	Management	Patent Granting Process	Corporate Services	Legal and Int. Affairs	Boards of Appeal	Unitary Patent Protection	Un-allocated*
Headcounts - Permanent Posts								
Job group 1-4	5 601	643	4 121	459	153	225	0	0
Job group 5-6	1 474	194	675	440	121	44	0	0
Total	7 075	837	4 796	899	274	269	0	0
Chapter/ Group								
Operating section - Expenditure in € '000								
Staff								
300 Basic Salaries and allowances, internal tax	1 724 040	45 000	1 078 060	55 000	160 000	69 510	0	316 470
301-305 Other (including trainings, school)	79 365	665	2 390	71 375	325	580	0	4 030
31 Property and equipment maintenance	63 635	130	0	63 505	0	0	0	0
32 IT Operating Expenditure	142 730	0	0	142 730	0	0	0	0
33 Co-operation and meetings	39 175	30	150	1 920	33 025	0	2 650	1 400
34 Patent information and communication	24 140	12 680	630	6 425	4 350	55	0	0
35 General operating expenditure	83 585	11 100	6 644	60 706	4 815	320	0	0
37 Project expenditure funded by third parties	130	0	35	0	95	0	0	0
38 Financial expenditure	135 100	0	0	135 100	0	0	0	0
30-38 Total Operating Expenditure	2 291 900	69 605	1 087 909	536 761	202 610	70 465	2 650	321 900
Chapter/ Group								
Operating section - Income in € '000								
500 Income from filing and search (EPC)	284 310	0	284 310	0	0	0	0	0
501 Income from filing and search (PCT)	129 650	0	129 650	0	0	0	0	0
509 Income from other search work	63 890	0	63 890	0	0	0	0	0
510 Income from examination, grant and opposition (EPC)	390 645	0	390 645	0	0	0	0	0
511 Income from examination (PCT)	8 880	0	8 880	0	0	0	0	0
52 Appeal fees	5 890	0	0	0	0	5 890	0	0
530 Designation and renewal fees (EPC)	1 280 425	0	0	0	0	0	0	1 280 425
532 Renewal fees (UPP)	4 880	0	0	0	0	0	4 880	0
535 Extension and validation fees	1 865	0	0	0	0	0	0	1 865
540 Patent information products	7 790	0	0	0	7 790	0	0	0
55 General operating income, internal tax	254 010	0	3 000	1 250	2 430	20	50	247 380
57 Third-party project funding	130	0	35	0	95	0	0	0
58 Financial income	139 200	0	0	139 200	0	0	0	0
50-58 Total Operating Income	2 571 565	0	880 410	140 450	10 315	5 910	4 930	1 529 550
Total Operating Result	279 665	-69 605	-207 499	-396 311	-192 295	-64 555	2 280	1 207 650
Capital Section in € '000								
Total Capital Expenditure	81 455	0	0	81 455	0	0	0	0
Total Capital Income	16 800	0	0	16 800	0	0	0	0
Total Capital Result	-64 655	0	0	-64 655	0	0	0	0
Result Office	215 010	-69 605	-207 499	-460 966	-192 295	-64 555	2 280	1 207 650

	DG 0	DG 1	DG 4	DG 5	BoA	UPP	Un-allocated*
Product name	-	1. Filing 2. Search 3. Examination 4. Opposition	-	6. Patent Information / Publication 7. Technical Cooperation 8. European Patent Academy	5. Appeal	-	-

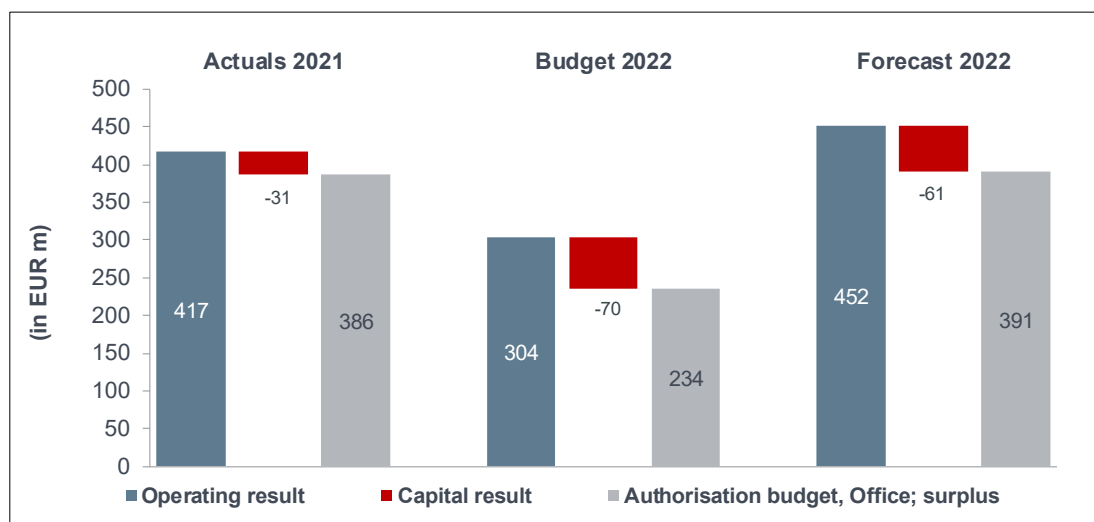
*unallocated items mainly relate to internal tax and renewal fees

VI. FORECAST

The table below provides an up-to-date forecast of the results for the accounting year 2022, firstly based on the Authorisation Budget and secondly under the Standardised IFRS view.

A. **AUTHORISATION BUDGET – OFFICE VIEW (WITHOUT PSSS)**

Detailed forecasts on Article level are included in Part I and Part II of the Authorisation Budget.



(in EUR m)	2021	2022	
	Actuals	Budget	Forecast
Operating income	2 269	2 355	2 333
Operating expenditure	1 852	2 051	1 881
Operating result	417	304	452
Capital income	15	17	14
Capital expenditure	46	87	75
Capital result	-31	-70	-61
Authorisation budget, Office; surplus	386	234	391

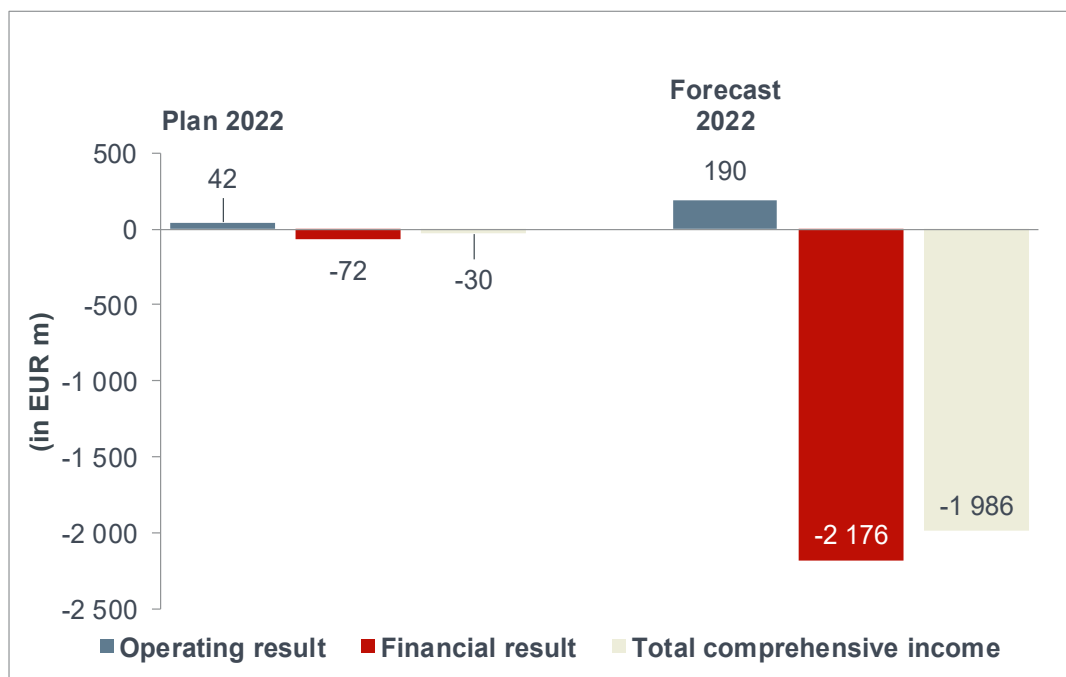
The expected operating-section result of the Authorisation Budget is 49% above the 2022 budget and 8% above 2021 actuals.

The forecast operating surplus is EUR 452m which is EUR 148m higher than the EUR 304m budgeted. The main drivers for the higher operating result are: A EUR 92m higher than budgeted income mainly from filing, search and examination (4.6% more than budgeted), lower cooperation expenditure (-EUR 8m or -20%), lower staff expenditure (-EUR 56m or -3.5%) and lower consultancy and outsourcing, building maintenance and patent information expenditure, in total - EUR 12m or -8%; IT expenditure is expected to be EUR 18m or 14% above operating budget. Other smaller items of income and expenditure contribute to the remaining EUR 2m in the higher forecast operating result.

The capital result is also forecast to be less negative (+EUR 9m); thereof IT is expected to account for EUR 6m or 20% less investment, the rest coming from lower capital expenditure in facility investments and home loans for staff.

B. IFRS – ORGANISATION VIEW (WITH PSSS)

The forecast for the IFRS total comprehensive income is as follows:



(in EUR m)	Actuals	Plan	Forecast
Discount rate for Defined Benefit Obligations	3.3%	3.3%	3.3%
	2021	2022	2022
Operating income	1 942	2 011	1 987
Operating expenses	1 895	1 969	1 797
Operating result	47	42	190
Financial income	1 578	530	-1 575
Financial expenses	569	602	602
Financial result	1 008	-72	-2 176
Profit/loss of the year	1 055	-30	-1 986
Other comprehensive income for the year	500	0	0
Total comprehensive income	1 556	-30	-1 986

As regards the 2022 IFRS Statement of Comprehensive Income forecast, total operating income under IFRS is forecast to finish the year at EUR 1 987m, 1.2% below the 2022 plan. This development is mainly due to lower production especially in examination, offset to a large extent by higher renewal fees compared to budget.

Operating expenses are forecast at a lower level than budgeted (down EUR 172m or 9%) mainly reflecting the underspends mentioned under the authorisation budget. The trends and factors outlined above will lead to a standardised operating result under IFRS of EUR 190m, EUR 148m better than budget.

It is also to be noted that a reversal of the 2021 and 2022 provisions for the redistribution pool amounting to EUR 60m is considered here, under the new SAP. On the other hand exceptionally high energy costs for Q4 of 2022 might affect negatively the end result of 2022.

The financial income is mainly driven by the expected return on EPOTIF and RFPSS assets. The financial expenses mainly relate to interest costs associated with the defined benefit obligations. In total this leads to an estimated financial loss of EUR 2.2bn for the year 2022, reflecting the high market valuation losses incurred by RFPSS and EPOTIF up to August 2022. However, such results are highly volatile and influenced by financial market fluctuations. They are therefore outside the control of the EPO.

VII. PLAN FINANCIAL STATEMENTS UNDER STANDARDISED IFRS

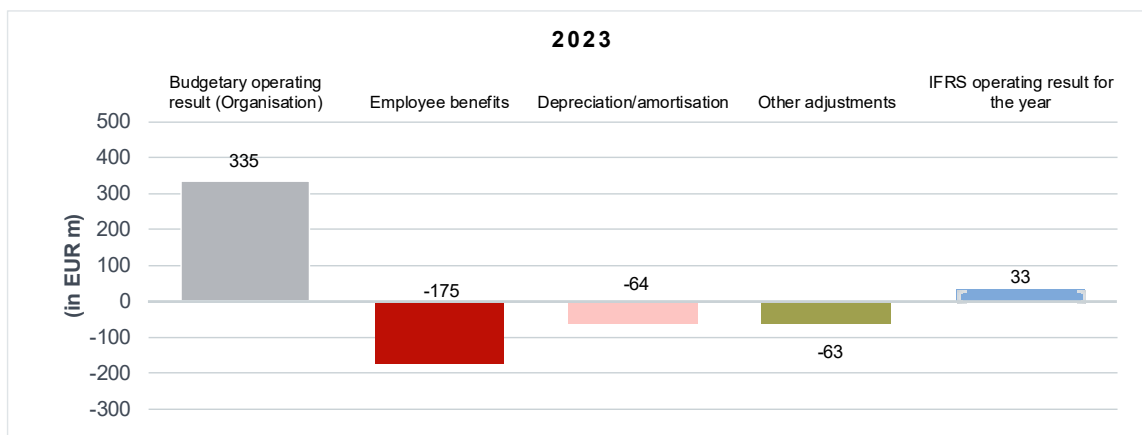
A. STATEMENT OF COMPREHENSIVE INCOME

a) Operating result

The plan statement of comprehensive income is derived from the authorisation budget of the Organisation (operating result), to which the following main adjustments are being made:

- Employee benefits: Contributions to PSSS are substituted under IFRS by the current and past service cost on DBOs with an assumed discount rate of 3.3% and service cost for SSP. Further adjustments relate to differences in benefits paid as well as changes in provisions for paid absences, for the periodical settlement under the new salary adjustment method and staff expenses for home loans.
- Depreciation and amortisation for fixed assets which are not applicable under the authorisation budget are added under IFRS.
- Other adjustments relate to timing differences in revenue recognition for procedural fees (prepaid fees difference between opening and closing balance), lease adjustments under the IFRS 16 and reallocations of income and expenditure between operational and financial result, which are treated differently in the Authorisation Budget and the IFRS.

Transition step from Authorisation View to IFRS: Budgetary Operating result (Organisation: Office + PSSS) to IFRS operating result for the year



Transition from authorisation budget to IFRS	Budget	Forecast	Budget/ Plan	Estimates/Plan			
(in EUR m)	2022	2022	2023	2024	2025	2026	2027
Budgetary operating result (Organisation)	341	480	335	456	509	563	631
Employee benefits	-249	-194	-175	-168	-143	-105	-79
Depreciation/amortisation	-68	-66	-64	-64	-64	-64	-64
Other adjustments	17	-29	-63	-82	-66	-71	-74
IFRS operating result for the year	42	190	33	142	235	323	414

The IFRS standardised operating result comprises the following items:

(in EUR m)	Actuals	Plan	Forecast	Plan	Plan			
	2021	2022	2022	2023	2024	2025	2026	2027
Operating income	1 942	2 011	1 987	2 100	2 216	2 301	2 387	2 459
Employee benefit expenses	-1 562	-1 592	-1 438	-1 676	-1 700	-1 702	-1 707	-1 694
Depreciation and amortisation expenses	-70	-68	-66	-64	-64	-64	-64	-64
Other operating expenses	-263	-309	-293	-326	-310	-300	-294	-287
IFRS operating result for the year	47	42	190	33	142	235	323	414

The operating income for 2023 is expected to increase by EUR 89m in comparison with the 2022 plan due to the following effects:

- Slightly increasing output in search combined with reducing output in examination production
- Increasing trend of the revenue from Internal renewal fees on account of increasing levels of pending applications
- Regular increase in national renewal fee revenue, driven by the existing volume of patents published and maintained, as well as by the increase in the fee table of Germany as of mid 2022 (Germany accounts for around 37% of this category of revenue in 2023)
- Fee increase of 5% as of 1 April 2023 on EPC procedural fees and on internal renewal fees.

Employee benefits in 2023 increase compared to plan 2022 by some 5.3 %. Employee benefits are expected to remain stable throughout the planning period until 2027. Increases in staff expenditure resulting from annual salary adjustments and career progression are compensated by the continuous decline in paid staff years and staff turnover over the planning period. Furthermore, the cost of accumulating new pension rights each year (current service cost) is estimated to decrease year on year on account of the large number of OPS staff leaving and being partially replaced by new NPS staff.

The operating result for 2023 is positive at EUR 33m, a reduction of EUR 9m, compared with the plan operating result for 2022. This also represents a reduction compared to the actual operating result under standardised IFRS of EUR 47m in 2021 when applying the discount rate of 3.3% (reduction of EUR 14m).

b) Financial result

The composition of the IFRS financial result comprises the following items:

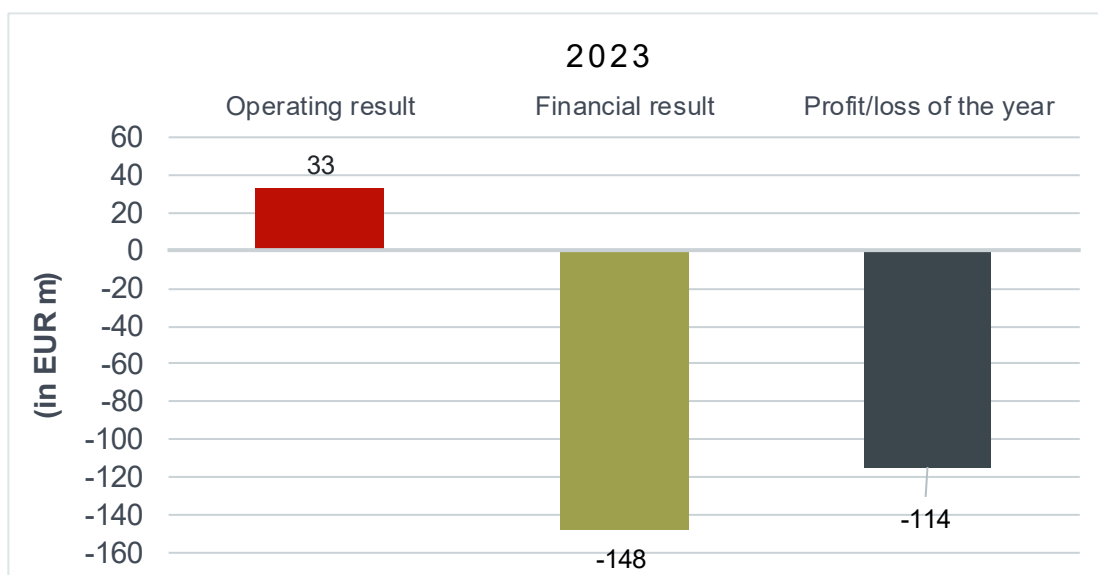
Composition of financial result (in EUR m)	Actuals	Plan	Forecast	Plan	Plan			
	2021	2022	2022	2023	2024	2025	2026	2027
EPOTIF expected return on assets	233	110	-486	105	112	123	135	148
RFPSS	1 344	412	-1 095	395	418	444	472	503
DBO interest cost	-569	-594	-594	-648	-675	-702	-729	-756
Other financial result	2	1	-1	1	1	1	1	1
IFRS financial result for the year	1 008	-72	-2 176	-148	-144	-135	-121	-104

The financial result is mainly driven by the expected return on the assets of the RFPSS calculated by the Actuarial Advisory Group at 3.56% in nominal terms netted against the interest cost on the DBO. The expected return on EPOTIF is estimated at 3.12% nominal rate of return after management fees.

The annual injections to EPOTIF and RFPSS lead to an increase in financial assets which triggers higher expected financial income throughout the planning period.

c) **IFRS total comprehensive income for the year**

The plan IFRS results of the Organisation are shown below, broken down according to operating and financial results.



(in EUR m)	Actuals	Plan	Forecast	Plan	Plan			
	2021	2022	2022	2023	2024	2025	2026	2027
Operating result	47	42	190	33	142	235	323	414
Financial result	1 008	-72	-2 176	-148	-144	-135	-121	-104
Profit/loss of the year	1 055	-30	-1 985	-114	-2	101	202	310
Other comprehensive income for the year	500	0	0	0	0	0	0	0
IFRS total comprehensive income	1 556	-30	-1 985	-114	-2	101	202	310

The expected standardised IFRS loss for 2023 amounts to EUR 114m representing a decrease of EUR 84m compared with the 2022 plan.

Given that the other comprehensive income for the year is primarily driven by fluctuations of the discount rate under the provisions of IFRS, no forecast value has been estimated here since the discount rate is assumed constant (standardised) throughout the planning period.

The total comprehensive income for the year is therefore identical to the projected profit under IFRS.

B. STATEMENT OF FINANCIAL POSITION UNDER IFRS

(in EUR m)	Actuals	Forecast	Plan	Plan			
	31.12.2021	1.1.2023	31.12.2023	2024	2025	2026	2027
Fixed assets	683	694	716	722	704	679	652
RFPSS net assets	11 868	10 965	11 597	12 301	13 078	13 931	14 812
Liquidity and prepaid expenses	84	116	99	95	83	81	78
EPOTIF	3 621	3 465	3 674	3 897	4 163	4 454	4 821
Other assets	466	479	509	538	571	607	642
Total assets	16 721	15 719	16 596	17 552	18 599	19 752	21 004
Equity	-2 746	-6 010	-6 124	-6 126	-6 026	-5 824	-5 514
DBO	17 698	19 837	20 672	21 502	22 328	23 147	23 961
Prepaid fees	1 037	1 165	1 247	1 343	1 430	1 522	1 612
Other liabilities	732	727	801	834	867	907	945
Total equity and liabilities	16 721	15 719	16 596	17 552	18 599	19 752	21 004

a) Assets

(i) Fixed assets

The EPO's fixed assets (property, plant, equipment and intangible assets) are expected to remain largely in line with the value on 31 December 2021, fluctuating slightly, in line with the depreciation of existing assets and the EPO's planned investments.

(ii) RFPSS net assets

RFPSS assets are expected to reach EUR 14.8bn in 2027. This growth reflects the long-term expected rate of return of 3.56% and expected cash injections to RFPSS from the annual cash surplus generated.

(iii) EPOTIF

The evolution of the EPOTIF portfolio is driven by the long-term expected rate of return of 3.12% and the expected cash injections from the annual cash surplus generated into EPOTIF.

(iv) Liquidity and prepaid expenses

Liquidity is made up of cash and cash equivalents as defined under IFRS.

(v) Other assets

Other assets are planned to increase between 2023 and 2027 following the growth in trade and other receivables as well as in Salary Savings Plan assets.

b) Equity and liabilities

(i) Equity

It should be noted that the standardised negative equity at the beginning of 2023 is estimated at EUR -6 bn and is more negative than the one at the end of the latest closed accounting period in the standardised view (31 December 2021 – EUR -2.7bn). The variation is primarily caused by the increase in the DBO estimate for end 2022 incorporating the knock-on effect of the high expected salary increase of 2023 as well as the important losses in the value of RFPSS and EPOTIF cumulated until August 2022 and reflected in the forecast of 1 January 2023.

The standardised negative equity of EUR 6.1bn in 2023 is expected to progressively improve until 2027.

The volatility of the discount rate is directly reflected in the reported actual figures under the IFRS view, namely in the evaluation of the long term obligations at the end of the period which can evolve in both directions by significant EUR amounts, based on the year end market discount rate; such fluctuations impact directly the net assets (equity) position. The development of the DBO and consequently equity shown in the table above under the standardised IFRS is based on a fixed discount rate - aligned with the long term objective from the Financial Study. This standardised view is therefore primarily intended to illustrate the expected evolution from year to year of the equity of the EPO, rather than to allow for comparison between forecasts and actuals.

(ii) Defined benefit obligations (DBO)

Throughout the planning period 2023-2027, a standardised discount rate of 3.3% has been applied. The underlying valuation of DBOs also reflects the new salary adjustment method which foresees a 0.2% cap above Eurozone HICP, for which the European Central Bank has set a long-term target of 2%. For the year 2023, the final result of the SAP for the salary increase as of 1 January 2023 (CA/74/22) has been considered in the actuarial estimates, followed by annual salary adjustments of 2.2% that are lower than those applied until Budget 2021 (2.5%).

The defined benefit obligations are planned to grow on average by 3.8% p.a. reaching EUR 24bn in 2027.

(iii) Prepaid fees

Prepaid fees (current and non-current) show an increase of EUR 447m (+38%) over the planning period, reflecting the expected increase in incoming workload as well as, the planned increase in pending applications.

(iv) Other liabilities

Other liabilities (current and non-current) mainly increase due to higher trade and other payables as well as Salary Savings Plan obligations. The share of both assets and liabilities attributable to the SSP remains low throughout the planning period amounting to EUR 366m or 1.5% of the DBO by the end of 2027.

VIII. ANNEXES

1. Authorisation budget (Organisation)

**Summary of income and expenditure
(Parts I and II of the Budget)**

in € '000		Income	Expenditure
Part I - Main Budget		2 868 030	2 868 030
Part II - Pension and Social Security System		495 290	495 290
Total		3 363 320	3 363 320
Adjustment for transferrals within the budget:			
Part I - Main Budget			
Section 1: Operating section			
Office contributions to pension and social security schemes			296 075
Transfer of operating result			279 665
Section 2: Capital section			
Transfer of operating result	(Article 6000)	279 665	
Part II - Pension and Social Security System			
Section 1: Operating section			
Office contributions to pension and social security schemes		296 075	
Transfer of operating results			54 620
Section 2: Capital section			
Transfer of operating results	(Article 6600)	54 620	
Net Total		2 732 960	2 732 960

2. Authorisation budget

- Office**
- Pension and social security schemes**
- Office and pension and social security schemes**
 - consolidated**

Authorisation Budget under Article 25(1)a) FinRegs - Office

Income								
in € '000								
Chapter/Group	Accounts 2021	Budget 2022	Forecast 2022	Budget 2023	2024	Estimates 2025	2026	2027
Section 1: Operating section								
500 Income from filing and search (EPC)	258 883	238 170	264 010	284 310	306 725	316 330	332 225	341 640
501 Income from filing and search (PCT)	127 573	116 380	128 255	129 650	133 820	136 165	140 925	142 615
509 Income from other search work	58 502	63 890	63 415	63 890	63 890	63 890	63 890	63 890
510 Income from examination, grant and opposition (EPC)	381 207	359 210	393 905	390 645	417 515	428 965	448 770	458 660
511 Income from examination (PCT)	9 354	9 360	9 740	8 880	9 350	9 630	10 050	10 285
52 Appeal fees	5 214	4 400	6 695	5 890	6 390	6 390	6 540	6 435
530 Designation and renewal fees (EPC)	1 185 910	1 217 525	1 238 365	1 280 425	1 351 140	1 395 780	1 435 450	1 472 235
532 Renewal fees (UPP)	0	2 830	0	4 880	14 460	29 640	49 710	72 900
535 Extension and validation fees	1 821	1 640	1 640	1 865	1 930	2 295	3 440	3 440
540 Patent information products	7 383	7 690	7 640	7 790	7 910	7 910	7 910	7 910
55 General operating income	232 612	220 255	219 495	254 010	255 380	255 670	255 700	255 655
57 Third-party project funding	0	130	130	130	130	130	130	130
58 Financial income	750	113 500	0	139 200	149 400	159 100	174 100	194 100
50-58 Sub-total	2 269 209	2 354 980	2 333 290	2 571 565	2 718 040	2 811 895	2 928 840	3 029 895
Total operating section	2 269 209	2 354 980	2 333 290	2 571 565	2 718 040	2 811 895	2 928 840	3 029 895
Section 2: Capital section								
60 Operating section, surplus	417 193	304 320	452 107	279 665	400 319	453 607	507 985	580 026
650 Repayment of staff home loans	14 537	16 800	14 000	16 800	16 800	16 800	16 800	16 800
Total capital section	431 730	321 120	466 107	296 465	417 119	470 407	524 785	596 826
Expenditure								
Chapter/Group	Accounts 2021	Budget 2022	Forecast 2022	Budget 2023	2024	Estimates 2025	2026	2027
Section 1: Operating section								
30 Staff	1 567 663	1 617 570	1 561 711	1 803 405	1 835 896	1 863 583	1 906 250	1 914 904
31 Property and equipment maintenance	39 811	50 690	49 042	63 635	57 930	55 115	53 015	46 895
32 IT operating expenditure	149 230	127 350	145 761	142 730	142 605	140 000	140 000	140 000
33 Co-operation and meetings	19 441	41 235	32 863	39 175	39 045	46 980	54 190	66 130
34 Patent information and communication	15 572	20 630	18 673	24 140	21 300	21 225	20 750	20 765
35 General operating expenditure	60 299	81 035	73 003	83 585	80 715	76 155	76 420	75 945
37 Project expenditure funded by third parties	0	130	130	130	130	130	130	130
38 Financial expenditure	0	112 020	0	135 100	140 100	155 100	170 100	185 100
30-38 Sub-total	1 852 016	2 050 660	1 881 183	2 291 900	2 317 721	2 358 288	2 420 855	2 449 869
Operating section, surplus	417 193	304 320	452 107	279 665	400 319	453 607	507 985	580 026
Total operating section	2 269 209	2 354 980	2 333 290	2 571 565	2 718 040	2 811 895	2 928 840	3 029 895
Section 2: Capital section								
410 Land and buildings	9 751	40 920	38 087	48 035	47 375	12 815	5 855	3 605
411 Furniture and equipment	111	400	255	300	185	235	185	235
42 IT tangible and intangible assets	23 664	28 605	22 884	16 320	4 000	0	0	0
45 Loans and advances to third parties	12 297	16 800	14 000	16 800	16 800	16 800	16 800	16 800
40-48 Sub-total	45 823	86 725	75 226	81 455	68 360	29 850	22 840	20 640
49 Authorisation budget, surplus	385 908	234 395	390 881	215 010	348 759	440 557	501 945	576 186
Total capital section	431 730	321 120	466 107	296 465	417 119	470 407	524 785	596 826

Authorisation Budget under Article 25(1)a FinRegs

Pension and Social Security Schemes

Income

		in € '000						
Chapter/Article	Accounts 2021	Budget 2022	Forecast 2022	Budget 2023	2024	Estimates		2027
						2025	2026	
Section 1: Operating section								
5600 Pension contributions	237 711	266 030	247 700	285 730	302 030	318 920	336 350	354 340
<i>thereof Office compensation pension scheme</i>	3 069	30 115	20 230	20 760	37 120	55 240	74 245	92 895
5601 Salary Savings Plan (SSP)	17 821	16 420	15 705	21 610	23 145	24 685	26 305	26 940
5605 Healthcare	91 901	94 525	85 795	113 785	116 000	117 870	119 695	121 575
5605 Long-term care insurance	19 657	18 420	17 620	16 845	17 115	17 370	17 620	17 890
5605 Death insurance	1 884	2 265	2 195	2 505	2 520	2 520	2 520	2 520
5605 Incapacity contributions	119	195	195	195	240	300	360	360
Total operating section	369 092	397 855	369 210	440 670	461 050	481 665	502 850	523 625
Section 2: Capital section								
66 Net income pension and social security schemes	46 444	36 895	28 360	54 620	54 820	55 255	55 350	50 805
Total capital section	46 444	36 895	28 360	54 620	54 820	55 255	55 350	50 805

Expenditure

Chapter/Article	Accounts 2021	Budget 2022	Forecast 2022	Budget 2023	2024	Estimates		2027
						2025	2026	
Section 1: Operating section								
3600 Pension payments	237 711	266 030	247 700	285 730	302 030	318 920	336 350	354 340
3601 Salary Savings Plan (SSP)	1 678	2 030	1 960	4 550	4 060	2 780	1 630	3 980
3605 Healthcare	75 049	83 660	81 960	86 050	90 360	94 870	99 620	104 600
3605 Long-term care	6 258	6 780	6 840	7 020	7 020	7 020	7 020	7 020
3605 Death	1 884	2 265	2 195	2 505	2 520	2 520	2 520	2 520
3605 Incapacity payments fixed-term	69	195	195	195	240	300	360	360
<i>Sub-total</i>	<i>322 649</i>	<i>360 960</i>	<i>340 850</i>	<i>386 050</i>	<i>406 230</i>	<i>426 410</i>	<i>447 500</i>	<i>472 820</i>
Operating section, surplus	46 444	36 895	28 360	54 620	54 820	55 255	55 350	50 805
Total operating section	369 092	397 855	369 210	440 670	461 050	481 665	502 850	523 625
Section 2: Capital section								
46 Transfer of DC plan surplus to SSP fund	16 143	14 390	13 745	17 060	19 085	21 905	24 675	22 960
Transfer of surplus to reserve funds	30 301	22 505	14 615	37 560	35 735	33 350	30 675	27 845
Total capital section	46 444	36 895	28 360	54 620	54 820	55 255	55 350	50 805

Authorisation Budget under Article 25(1)a FinRegs
Office / Pension and Social Security Schemes
(consolidated, adjusted for transferrals within the budget)

Income		in € '000							
		Accounts	Budget	Forecast	Budget	Estimates			
Chapter/Group		2021	2022	2022	2023	2024	2025	2026	2027
Section 1: Operating section									
500	Income from filing and search (EPC)	258 883	238 170	264 010	284 310	306 725	316 330	332 225	341 640
501	Income from filing and search (PCT)	127 573	116 380	128 255	129 650	133 820	136 165	140 925	142 615
509	Income from other search work	58 502	63 890	63 415	63 890	63 890	63 890	63 890	63 890
510	Income from examination, grant and opposition (EPC)	381 207	359 210	393 905	390 645	417 515	428 965	448 770	458 660
511	Income from examination (PCT)	9 354	9 360	9 740	8 880	9 350	9 630	10 050	10 285
52	Appeal fees	5 214	4 400	6 695	5 890	6 390	6 390	6 540	6 435
530	Designation and renewal fees (EPC)	1 185 910	1 217 525	1 238 365	1 280 425	1 351 140	1 395 780	1 435 450	1 472 235
532	Renewal fees (UPP)	0	2 830	0	4 880	14 460	29 640	49 710	72 900
535	Extension and validation fees	1 821	1 640	1 640	1 865	1 930	2 295	3 440	3 440
540	Patent information products	7 383	7 690	7 640	7 790	7 910	7 910	7 910	7 910
55	General operating income	232 612	220 255	219 495	254 010	255 380	255 670	255 700	255 655
56	Pension and social security schemes	128 905	157 330	120 890	144 595	146 020	146 920	147 720	148 490
57	Third-party project funding	0	130	130	130	130	130	130	130
58	Financial income	750	113 500	0	139 200	149 400	159 100	174 100	194 100
Total operating income		2 398 114	2 512 310	2 454 180	2 716 160	2 864 060	2 958 815	3 076 560	3 178 385
Section 2: Capital section									
60/66	Operating section, surplus	463 637	341 215	480 467	334 285	455 139	508 862	563 335	630 831
650	Repayment of staff home loans	14 537	16 800	14 000	16 800	16 800	16 800	16 800	16 800
Total capital section		478 174	358 015	494 467	351 085	471 939	525 662	580 135	647 631

Expenditure		Accounts	Budget	Forecast	Budget	Estimates			
Chapter/Group		2021	2022	2022	2023	2024	2025	2026	2027
	Section 1: Operating section								
30	Staff	1 327 475	1 377 045	1 313 390	1 507 330	1 520 866	1 528 838	1 551 120	1 539 769
31	Property and equipment maintenance	39 811	50 690	49 042	63 635	57 930	55 115	53 015	46 895
32	IT operating expenditure	149 230	127 350	145 761	142 730	142 605	140 000	140 000	140 000
33	Co-operation and meetings	19 441	41 235	32 863	39 175	39 045	46 980	54 190	66 130
34	Patent information and communication	15 572	20 630	18 673	24 140	21 300	21 225	20 750	20 765
35	General operating expenditure	60 299	81 035	73 003	83 585	80 715	76 155	76 420	75 945
36	Pension and social security schemes	322 649	360 960	340 850	386 050	406 230	426 410	447 500	472 820
37	Project expenditure funded by third parties	0	130	130	130	130	130	130	130
38	Financial expenditure	0	112 020	0	135 100	140 100	155 100	170 100	185 100
30-38	Sub-total	1 934 477	2 171 095	1 973 713	2 381 875	2 408 921	2 449 953	2 513 225	2 547 554
	Operating section, surplus	463 637	341 215	480 467	334 285	455 139	508 862	563 335	630 831
	Total operating section	2 398 114	2 512 310	2 454 180	2 716 160	2 864 060	2 958 815	3 076 560	3 178 385
	Section 2: Capital section								
410	Land and buildings	9 751	40 920	38 087	48 035	47 375	12 815	5 855	3 605
411	Furniture and equipment	111	400	255	300	185	235	185	235
42	IT tangible and intangible assets	23 664	28 605	22 884	16 320	4 000	0	0	0
45	Loans and advances to third parties	12 297	16 800	14 000	16 800	16 800	16 800	16 800	16 800
40-48	Sub-total	45 823	86 725	75 226	81 455	68 360	29 850	22 840	20 640
	Consolidated surplus	432 352	271 290	419 241	269 630	403 579	495 812	557 295	626 991
	Total capital section	478 174	358 015	494 467	351 085	471 939	525 662	580 135	647 631

3. IFRS results

1. Plan IFRS statements of comprehensive income
European Patent Organisation

(in € '000)

	IFRS Forecast 2022	IFRS Plan 2023	IFRS Plan 2024	IFRS Plan 2025	IFRS Plan 2026	IFRS Plan 2027
Revenue						
Revenue from patent and procedural fees						
Ch. 50 Filing and search	456 495	458 170	481 570	500 565	518 975	534 840
51 Examination, grant and opposition	271 230	330 660	348 005	362 030	380 065	388 925
52 Appeal	6 620	6 325	6 065	5 775	5 630	4 395
53 Designation, renewal, extension and validation	1 238 770	1 283 330	1 358 845	1 411 170	1 461 165	1 509 545
54 Other revenue	10 640	10 790	10 910	10 910	10 910	10 910
Other operating income						
Ch. 55 General operating income	3 605	5 280	5 400	5 520	5 590	5 655
57 Third party project funding	130	130	130	130	130	130
Work performed and capitalised	0	5 000	5 000	5 000	5 000	5 000
Total Revenue	1 987 490	2 099 685	2 215 925	2 301 100	2 387 465	2 459 400
Expenses						
Employee benefit expenses						
Ch. 30 Staff/personnel expenses	1 437 955	1 676 365	1 700 185	1 702 400	1 706 725	1 693 740
Depreciation and amortisation expenses						
Ch. 39 Depreciation	66 000	64 000	64 000	64 000	64 000	64 000
Other operating expenses						
Ch. 31 Property and equipment maintenance	46 850	61 135	55 430	52 615	50 515	44 395
32 IT operating expenditure	127 350	127 730	127 605	125 000	125 000	125 000
33 Co-operation and meetings	27 330	29 435	24 440	24 475	20 785	21 110
34 Patent information and public relations	18 675	24 140	21 300	21 225	20 750	20 765
35 General operating expenditure	73 005	83 585	80 715	76 155	76 420	75 945
37 Project expenditure funded by third parties	130	130	130	130	130	130
Total Expenses	1 797 295	2 066 520	2 073 805	2 066 000	2 064 325	2 045 085
Operating result	190 195	33 165	142 120	235 100	323 140	414 305
Finance revenue						
Ch. 58 Finance income	-1 574 025	508 345	539 705	577 205	618 710	663 030
Finance costs						
Ch. 38 Finance expenditure	601 520	656 030	683 930	711 830	739 735	767 235
Financial result	-2 175 545	-147 685	-144 225	-134 625	-121 025	-104 205
Profit/(Loss) for the year	-1 985 350	-114 520	-2 105	100 475	202 115	310 110
Total comprehensive income for the year	-1 985 350	-114 520	-2 105	100 475	202 115	310 110

2. Plan IFRS statements of financial position European Patent Organisation

(in € '000)	Estimated opening statement of financial position per 1.1.2023 and Plan IFRS statement of financial position per 31.12.2023		Plan IFRS statements of financial position per 31.12.2024 - 31.12.2027			
	IFRS Plan 1.1.2023	IFRS Plan 31.12.2023	IFRS Plan 31.12.2024	IFRS Plan 31.12.2025	IFRS Plan 31.12.2026	IFRS Plan 31.12.2027
Non-current assets						
Property, plant and equipment	650 105	663 650	668 370	651 215	628 455	604 660
Intangible assets	44 040	52 590	53 650	52 810	50 555	47 130
RFPSS assets	10 965 048	11 597 193	12 300 873	13 078 068	13 931 093	14 811 608
EPOTIF	3 464 620	3 674 190	3 896 990	4 163 000	4 454 230	4 820 845
Home loans to staff	73 345	73 345	73 345	73 345	73 345	73 345
Salary Savings Plan asset	216 810	240 870	267 755	298 360	332 735	366 395
<i>Total</i>	<i>15 413 968</i>	<i>16 301 838</i>	<i>17 260 983</i>	<i>18 316 798</i>	<i>19 470 413</i>	<i>20 723 983</i>
Current assets						
Trade and other receivables	180 910	187 440	189 210	191 310	193 460	195 010
Home loans to staff	7 585	7 585	7 585	7 585	7 585	7 585
Other financial assets	26 330	29 120	28 160	27 990	28 390	28 830
Cash and cash equivalents	90 047	70 278	66 358	55 293	52 358	48 738
<i>Total</i>	<i>304 872</i>	<i>294 423</i>	<i>291 313</i>	<i>282 178</i>	<i>281 793</i>	<i>280 163</i>
Total assets	15 718 840	16 596 260	17 552 295	18 598 975	19 752 205	21 004 145
Equity						
Retained earnings	-3 114 510	-3 229 030	-3 231 135	-3 130 660	-2 928 545	-2 618 435
Other reserves	-2 895 265	-2 895 265	-2 895 265	-2 895 265	-2 895 265	-2 895 265
Total equity	-6 009 775	-6 124 295	-6 126 400	-6 025 925	-5 823 810	-5 513 700
Non-current liabilities						
Defined benefit obligation	19 836 755	20 672 355	21 502 095	22 327 595	23 147 055	23 961 285
Salary Savings Plan obligation	216 810	240 870	267 755	298 360	332 735	366 395
Trade and other payables	63 085	71 260	71 640	71 715	71 730	71 725
Finance lease liabilities	27 720	25 720	23 720	21 720	19 720	17 720
Prepaid fees	741 370	815 170	902 730	981 080	1 063 980	1 144 330
<i>Total</i>	<i>20 885 740</i>	<i>21 825 375</i>	<i>22 767 940</i>	<i>23 700 470</i>	<i>24 635 220</i>	<i>25 561 455</i>
Current liabilities						
Trade and other payables	396 530	438 840	445 190	449 260	455 710	461 200
Finance lease liabilities	16 545	17 380	18 215	19 050	19 885	20 720
Provisions	6 640	7 340	7 100	7 060	7 160	7 270
Prepaid fees	423 160	431 620	440 250	449 060	458 040	467 200
<i>Total</i>	<i>842 875</i>	<i>895 180</i>	<i>910 755</i>	<i>924 430</i>	<i>940 795</i>	<i>956 390</i>
Total liabilities	21 728 615	22 720 555	23 678 695	24 624 900	25 576 015	26 517 845
Total equity and liabilities	15 718 840	16 596 260	17 552 295	18 598 975	19 752 205	21 004 145

4. 2023 table of posts

BUDGET

Job Group	Office (DGs 0, 1, 4, 5)		Boards of Appeal		TOTAL EPO	
	2022	2023	2022	2023	2022	2023
JG1	5	5	1	1	6	6
JG2	31	34	29	29	60	63
JG3	338	335	177	177	515	512
JG4	4999	5001	18	18	5017	5019
JG5	227	230	5	5	232	235
JG6	1206	1201	39	39	1245	1240
Total	6806	6806	269	269	7075	7075

Notes

Art. 25(2) a) FinRegs

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

Employees on fixed-term

Employees on fixed-term appointments may account up to 20% of the total of budgeted posts at the European Patent Office.

Job Groups

- 1 Includes grades G16 - G17
- 2 Includes grades G15 - G16
- 3 Includes grades G13 - G15
- 4 Includes grades G7 - G13
- 5 Includes grades G7 - G10
- 6 Includes grades G1 - G9

5. Attachment A – Boards of Appeal

Budgetary outlook on the EPO Boards of Appeal (BOA)

Income (in € '000)		2023
Direct budgetary income		
Class 5		
Article 5200	Appeal fees	5 890
IFRS adjustment (prepaid fees)		435
Revenue for product Appeal		6 325
Cost (in € '000)		2023
Direct budgetary operating expenditure		
Class 3		
Group 300	Salaries and allowances	69 510
Group 301-303	Other staff costs	630
Chapter 31	Property and equipment maintenance	3 810
Chapter 32	IT operating expenditure	500
Chapter 33	Cooperation and meetings	20
Chapter 34	Patent information and communication	55
Chapter 35	General operating expenditure	1 305
Subtotal		75 830
Forecast allocation of other costs under the Unit Cost methodology: incl. standardisation at 3.3% discount rate		36 670
Cost for product Appeal		112 500
Capital Expenditure (in € '000)		2023
Direct budgetary capital expenditure		
Class 4		
Chapter 41	Property and equipment	70
Total capital expenditure		70

6. Attachment B – Unitary Patent Protection (UPP)

Budget appropriations for the European patent with unitary effect*

	2023	2024
Income (in € '000)		
UPP fees collected by EPO		
- Renewal fees for granted patents (Article 5320)	4 480	14 320
- Additional fees for belated payment of renewal fees (Article 5320)	50	140
- Administrative fees (Article 5520)	50	70
Deduction of administrative fees collected on behalf of the participating member states	-50	-70
A. Total EPO UPP budgetary income	4 530	14 460
B. Member states share of UPP income (50%)	2 265	7 230
Costs based on authorisation budget expenditure (in € '000)		
Direct operational costs and share of indirect operational costs**	1 930	1 830
Deduction of administrative fees collected on behalf of the participating member states	-50	-70
Cost of EPO in management of UPP	1 880	1 760
Translation compensation (Article 3320)	160	180
C. Costs attributable to UPP according to Article 146 EPC**	2 040	1 940
Shortfall to be recovered in future year***	0	0
Shortfall recovered from previous year***	0	0
D. = (B. - C.) Net UPP income to be distributed to participating member states (Article 3325)***	225	5 290
Total EPO UPP budgetary costs (incl. net UPP income to be distributed to participating member states)	2 265	7 230
E. = (A. - B.) EPO share of UPP income	2 265	7 230

Notes

* The overview presents the budget appropriations foreseen in the Authorisation Budget and is based on the fee amounts fixed in Article 2 of the Rules relating to Fees for Unitary Patent Protection (RFeesUPP), the assumed Base UP Penetration rate 2022 as presented in SC/7/22 and an entry into operation of the European patent with unitary effect assumed as at 1 April 2023.

** The expenses attributable to the European patent with unitary effect according to Art. 146 EPC are part of the Office's annual Budget to be submitted to the BFC and adopted by the AC. Pursuant to Article 1(2) BFR, they have to be submitted beforehand to the Select Committee (SC) for opinion. In the case of expenses not immediately and directly attributable to the administration of the European patent with unitary effect the share of such costs to be charged to the European patent with unitary effect is determined on the basis of the cost accounting methodology of the Office.

*** As per the current RFeesUPP, in case a shortfall appears in the first years of operation of the European patent with unitary effect, it is foreseen to recover it in the following years. The relevant lines are shown in the table for sake of completeness, even though they might not be applicable, taking into account that under the underlying assumptions a surplus is expected already in the first year.