



**INTELLECTUAL**  
PROPERTY OFFICE

# **The Patent Office Annual Report and Accounts 2008-2009**



# The Patent Office Annual Report and Accounts 2008-2009

## THE PATENT OFFICE

Presented to Parliament pursuant to section 121 of the Patents Act 1977, section 42 of the Registered Designs Act 1949 and section 71 of the Trade Marks Act 1994, and as required by article 6 of the Patent Office Trading Fund Order 1991 pursuant to section 4(6B) of the Government Trading Funds Act 1973 as amended by the Government Trading Act 1990.

The Patent Office was an Executive Agency of the Department of Trade and Industry then following machinery of government changes announced on 5 June 2009 the Office became an Executive Agency of the Department for Business, Innovation, and Skills.

### **2008/2009 Annual Report & Accounts**

**Ordered by The House of Commons to be printed 16 July 2009**

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ISBN: 9780102961652

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# Chapter One

## Chief Executive's Introduction

I am once again very pleased to introduce this, my second Annual Report and Accounts as Chief Executive of the Intellectual Property Office.

Intellectual Property (IP) remains an essential component in ensuring the UK's future economic prosperity. The translation of knowledge and creativity into value through innovation is one of the key factors which impact on economic growth. The current economic difficulties and the need for businesses to cope with the economic downturn suggest that it is more important than ever for them to continue to invest in their future. It is vital they are provided with an effective IP system which stimulates innovation and growth.

During the year we continued to maintain the delivery of high quality and timely statutory services to our customers whilst ensuring that through our policy work we contribute to the creation of the right legal framework for businesses to extract value from their ideas, to survive and continue to grow in demanding times. We also looked to get our message across to new generations with the successful launch of an exhibition on IP at the Science Museum with Aardman Animations. None of this would have been possible without the commitment and dedication of staff to whom I would like to extend my sincere gratitude and thanks for all their hard work.

Of course, we are not immune to changes in the economy ourselves, and many of the challenges that are affecting our customers are also affecting us directly as an organisation, for example, in terms of demand for our services. We have and will continue to closely examine the skills and resources required in an evolving world.

These are without doubt some of the most challenging times facing UK businesses and the Office. However I am confident that despite difficult decisions being required the Office will continue to succeed.



**IAN FLETCHER**  
Chief Executive and  
Accounting Officer







# Chapter Two

## Management Commentary

### INTRODUCTION

The Patent Office<sup>1</sup> was established in the mid-nineteenth century with responsibility for the granting of patents of invention. During the 1870s it acquired the responsibility for registering trademarks and industrial designs, when the Trade Mark Registry and Designs Registry were transferred to it. At that time it was part of the Board of Trade.

The Patent Office became an Executive Agency of the then Department of Trade and Industry in 1990 and acquired trading fund status on 1 October 1991. The Patent Office took on the operating name of the UK Intellectual Property Office on 2nd April 2007. Following machinery of government changes on 28th June 2007 the Office became an Executive Agency of the Department for Innovation, Universities and Skills (DIUS). Further machinery of government changes announced on 5th June 2009 have meant the Office has become an executive agency of the Department for Business, Innovation and Skills (BIS).

### STATUTORY BACKGROUND

Major UK legislation under which the Office operates includes:

the Patents Act 1977 as amended by the Copyright, Designs and Patents Act 1988, the Patents Act 2004 and the Regulatory Reform (Patents) Order 2004; the Trade Marks Act 1994; and the Registered Designs Act 1949 as amended by the Copyright, Designs and Patents Act 1988.

The accounts have been prepared in accordance with a generic direction issued by Treasury on 18th December 2008 under section 4(6) (a) of the Government Trading Funds Act 1973. The direction requires compliance with the relevant edition of the Government Financial Reporting Manual (FRoM).

### PRINCIPAL ACTIVITIES

The Office facilitates the growth creativity and innovation of industry and commerce through the development and exploitation of intellectual property rights relating to copyright, patents, trademarks and registered designs. These rights play a key role in fostering innovation and competitiveness and are governed by a complex framework of national and international law. Seeking further international harmonisation of rules and procedures is a principal objective of the Office, as is the modernisation and simplification of intellectual property law.

For the period under review, the Office's core objectives contribute to the achievement of the DIUS objectives in the following areas:

- Accelerating the commercial exploitation of creativity and knowledge, through innovation and research, to create wealth, grow the economy, build successful businesses and improve quality of life.
- Pursue global excellence in research and knowledge, promote the benefits of science and society, and deliver science, technology, engineering and mathematics skills in line with employer demand.
- Encourage the better use of science in Government, foster public service innovation, and support other Government objectives which depend on DIUS expertise and remit.

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<sup>1</sup> From 1st December 2008 the Intellectual Property Office has been the operating name of the Patent Office. Prior to this the operating name was the UK Intellectual Property Office.

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## Management Commentary

### DEVELOPMENT AND PERFORMANCE

The reporting period of 2008/09 has been very busy and productive for the Intellectual Property Office.

It began with the introduction of the Trade Mark fast track service which was introduced on 6th April 2008. In October we introduced consolidated Trade Mark Rules that enables our ratification of the Singapore Treaty on Trade Mark Law, and made the tribunal system more flexible, efficient and proportionate.

Work to introduce the Company Names Tribunal (CNT) ended in 2008 with the Tribunal also beginning operations on 1 October. The establishment of the Tribunal has been welcomed by business and the legal profession as a quick, administratively efficient and low cost alternative to pursuing company name offenders through the courts.

The world-wide economic slowdown has led to fewer companies and individuals registering and protecting trademarks and designs than hitherto. In the circumstances we conducted a major piece of customer research to better understand how we could adapt our services and fees to help businesses to continue to register in these changed trading conditions. The resulting proposals are now being consulted on. The Trade Marks directorate are also working on the renewal of their Registry IT systems (TM10 project).

The London Agreement, which removes the requirement to file patent language translations associated with European Patents, came into force on 8th May 2008. It is expected to significantly reduce the cost of patenting through the EPO by almost halving the current translation costs associated with European Patents. UK businesses will save an estimated £10million every year by not having to file unnecessary patent translations, which currently account for 25% of the cost of an average European patent application.

The Strategic Advisory Board for Intellectual Property Policy (SABIP) was established as an advisory non-departmental public body with the Intellectual Property Office as its sponsor agency. The Strategic Advisory Board for Intellectual Property (SABIP) was officially established on 2 June 2008. Its role is to advise Ministers and the Chief Executive on the development of intellectual property policy. Details of SABIP and its members can be found at [www.sabip.org.uk](http://www.sabip.org.uk).

The area of copyright continues to be challenging and we are aware of the tremendous issues posed by changes in technology which means that there are other concerns from a variety of stakeholders which also need to be considered. During the year, The Minister for Intellectual Property set out a framework of consultation to underpin the development of the UK's copyright policy for the 21st century with input from key players in the creative industries.

On the related issue of enforcement of IP, which applies to other areas of IP too, there is a growing strategic challenge. Partnership with enforcement bodies is an expanding area of activity for the Office, involving our acquisition of new skills, building on existing and developing new relationships, and raising awareness and understanding of IP by others, thereby supporting effective enforcement through police, Trading Standards' Officers, and other agencies.

During the reporting period the Office hosted a seminar on 'Counterfeiting and Enforcement'. The event was part of a Europe wide project funded by the European Commission. The aim of the initiative was to raise awareness of IP crime issues. To further understand the effect and attitude towards IP crime in the business community we undertook research with UK business. There was a noted complacency towards IP crime and businesses were not fully protecting their IP. The Intellectual Property Office also played an active role with the Global Prosecutors' E-Crime Network (GPEN) which consists of a database of e-crime prosecutors, a forum for exchanging advice, and e-crime material, to overcome intellectual property crime. We worked in partnership with the Crown Prosecution Service to provide a portfolio of IP training material for customers. In June for 'World Counterfeiting Day' our IP Crime team led a successful awareness session. This was followed by another session in November to tie in with National Consumer week.

Following the Department for Culture, Media and Sport's strategic document "Creative Britain: New Talents for the New Economy" publication in February 2008, The Fake Free London Pilot Project in partnership with Trading Standards was successfully completed in November.

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The Intellectual Property Office launched its refreshed website and new logo from 1 December 2008. Enhancements to the website have been introduced as a result of extensive user consultation. Our diverse customer groups wanted to find the information they want quickly and easily. The new look website is more interactive, easier to navigate and flexible to cope with any changes. To be consistent with the logo and brand identity, our operating name was also changed from 1 December to “Intellectual Property Office”.

The Customer Relationship Management Unit (CRM) carried out a customer satisfaction survey early in the reporting period. Customer satisfaction levels with the Intellectual Property Office hit a 5 year high according to the results of this customer survey published 9th April 2008 at 97.9%.

The Office has established an economics capability to review, develop and improve the economic evidence base of its work. Without a strong up-to-date evidence base we are unlikely to get our policy judgements right, give full support to the Government’s wider innovation agenda, or be able to provide appropriate support and engagement for our direct customers on innovation related issues. It is clear that this will be a significant area of new activity. In view of this the Office has established a programme to develop and make effective use of economic evidence about the role of IP and wider intellectual assets in the modern UK economy.

We have also been engaged in a cross departmental initiative to develop an overall Government framework for maximising UK value from the public sector’s intangible assets. This work will be taken forward by BIS.

The Office is focussed to connect more effectively with the Government’s wider innovation policy and business support activities. A key challenge again this year has been to raise the awareness and understanding of British business and society about how to make the best use of the IP system. We also link IP to education in schools and make a connection with the Skills Agenda. The Intellectual Property Office continued its outreach programmes for Small and Medium Enterprises, innovators and those wishing to learn more about protecting their IP, with a series of seminars and road shows around the UK. These events offered free advice on a range of intellectual property matters. We also produced a free booklet for businesses to help them unlock the value of their innovation called “How Licensing Intellectual Property Can Help Your Business”.

On 13th March 2008 the Government published its White Paper called ‘Innovation Nation’ which set out what Government will do to ensure innovation can flourish across every area of the economy. This stressed the role of the Office in helping to bring about best use of IP in the economy and undertook that amongst other things the Office would train all UKTI export advisers and Business Link advisers in IP management, provide online resources for IP licensing between businesses and develop those for university-business collaborations (‘the Lambert resources’), and promote exploitation of IP in universities. As a result of this work, the Office in partnership with AURIL and Universities UK produced A Guide to Managing Intellectual Property: Strategic Decision-Making in Universities. We have continued our work with the ‘Lambert Tool Kit’ for collaborative research to facilitate contract negotiations involving publicly-funded research organisations (e.g. universities) and companies. Also, in partnership with the Welsh Assembly Government and Coventry University, we developed the IP master class, offering a 3 day interactive and intensive course, covering the practical and legal aspects of IP.

The Office continued its success working with Oscar® winners Aardman Animations to develop a programme designed to excite and inspire children to innovate. The Cracking Ideas® initiative fronted by Wallace and Gromit® uses lesson plans, a nationwide competition, teaching resources and a dedicated website to bring innovation into lessons for Key Stage 2 as part of the National Curriculum. This year’s overall winners were treated to a premier viewing of the new Wallace and Gromit® short film ‘A Matter of Loaf and Death’. The collaboration between the Intellectual Property Office and Aardman Animations continued with the opening of an exhibition focussing on innovation at the Science Museum, London on 27th March 2009. The event was launched by the Right Honourable David Lammy MP, **Minister of State for Higher Education and Intellectual Property** on 26th March 2009. Current visitor numbers are exceeding expectations and it is anticipated that the exhibition will go on tour around the country when the six months residency at the Science Museum is completed.

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His Royal Highness the Duke of York visited the Office on 10 July 2008 as the UK's Special Representative for International Trade and Investment. The visit highlighted the important role intellectual property has to play in enabling the UK to compete in today's global economy.

The Office exceeded its financial and nearly all of its non financial targets in 2008/09 (see Key Performance Indicators). Turnover for the year ended 31 March 2009 was £61.1 million, down from £63.3 million the previous year. This reflects both fewer trademarks being available for renewal and a more general decline in demand offset by increasing renewal income from patents.

The Office made an operating deficit on ordinary activities of £7.1 million. After charging interest of £0.2 million and declaring a dividend of £7.2 million on public dividend capital, a net deficit for the year of £14.5 million remained. The latter has been transferred from reserves. The movement from surplus to deficit arose from planned expenditure on Voluntary Early Retirement and Voluntary Severance Schemes to help rebalance the Office skill set, as well as major promotional spend including the Science Museum Exhibition.

The Office has also made significant progress to transfer its financial reporting to International Financial reporting Standards (IFRS) in line with central government targets.

The Office represents the UK Government as a member of the governing councils of both the European Patent Office (EPO), and the Office for harmonisation of the Internal market (OHIM) which offer European Patents and EU Trade Marks and Designs respectively. In addition we represent the UK Government as a member of WIPO which administers both the Patent Co-operation Treaty and arrangements under the Madrid Protocol, alongside a number of international IP treaties. These bodies also offer IP right holders an alternative to the Office as a way of obtaining IP rights in the UK. This competition ensures we maintain focus on service delivery.

During the reporting period we supported the European Patent Office (EPO) reform agenda to tackle productivity and backlogs, which are a major strategic issue for the Intellectual Property Office. The Office is involved in the review of the Community Trade Mark (CTM) and its relationship to national trade marks offices. We are still seeking to bring the OHIM budget into better long term balance and working on how to deal appropriately with their surplus funds, but have worked hard to agree a new fee structure which will be implemented early in 2009/10. During the year we signed a Memorandum of Understanding with the Chinese Patent Office on trademarks and agreed an action plan on the mutual use of Patent search reports.

There are also significant IP interests embedded in the rules and work of organisations such as the World Trade Organisation (WTO) and the World Intellectual Property Organisation (WIPO). The Office is actively engaged in seeking to resolve the difficulties faced by these organisations to ensure that we achieve ambitious and pro development policy outcomes with WTO and position WIPO so that it has good governance systems in place and is supported in its institutional reform.

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## Management Commentary

### OBJECTIVES

Our medium term objectives are to:

*Continue to offer high quality, cost effective and timely access to Intellectual Property Rights in the UK and internationally.*

*Understand the extent to which UK firms and institutions are making the best decisions on creating, exploiting and managing IP.*

*Develop and implement a comprehensive outreach strategy to improve the performance of UK business in turning IP into value.*

*Agree a strategy for international level action so that copyright is fit for purpose in the 21st century.*

*Drive up consumer compliance with IP law, with the aim of moving towards setting the agenda across the spread of enforcement agencies on action against IP crime.*

*Ensure the Community Trade Mark system is seen to be working in dynamic balance with national trade mark arrangements and financial surpluses are used to support innovation in the European Union (EU).*

*Contribute to improved efficiency and financial governance of international organisations, and ensure their governing bodies provide effective supervision and oversight.*

Our broad strategy to achieve our aims is for the Office to play a central role in the support that Government provides business. We want to do this by giving appropriate advice to our immediate customers and the wider business community. This will be complemented by excellent policy advice and support to Ministers, and strong advocacy of the UK interests in IP thinking, policy development and rule making in Europe and around the world.

The Office has recently established an economics capability to develop and improve the economic evidence base of its work. Without a strong up-to-date evidence base we are unlikely to get our policy judgements right, give full support to the Government's wider innovation agenda, or be able to provide appropriate support and engagement for our direct customers on innovation related issues. It is clear that this will be a significant area of new activity.

The area of copyright continues to be challenging as advances in new technology make it far easier for internet users to copy, share and illegally download content. Our priority is to take forward our work on developing a copyright strategy fit for the 21st Century, whilst continuing to play a leading role in enforcement and education.

It is clear that the IPO needs to connect more effectively with the Government's wider innovation policy and business support activities. A key challenge again this year is raising the awareness and understanding of British business and society about how to make the best use of the IP system. We will also need to link IP to education in schools and make a connection with the Skills Agenda.

The concept of mutual recognition continues to be seen as a potential means by which the ever increasing global backlog of unexamined patents can be reduced. We will ensure that the IPO has developed a coordinated strategy on mutual recognition and will promote that strategy with key international partners. We will sign agreements on work sharing with Korea & China in 2009 and a further agreement with Japan by March 2010;

To encourage the further development and application of clean technology, an essential factor in tackling climate change, we will launch a "Green Channel" for patent applications which will enable applicants to request accelerated processing of their application if the invention has an environmental benefit.



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## Management Commentary

We intend to continue the process of continuously improving the arrangements for registering and protecting trademarks and designs in the UK and in the EU. We will ensure that the services IPO offers, and the fees we charge for them, meet business needs both now and as they emerge from recession. Significant changes will be implemented in October 2009. Through our membership of the oversight board of OHIM, we aim to work with the OHIM leadership, Commission and other Member States to ensure that arrangements for registering Community Trade Marks meet the needs of business.

It is clear that the now dated IT systems with which the IPO Trade Marks registry works constrain how quickly and cheaply we provide services to business. In 2008 we launched a project to refresh our IT - the TM10 Project - and this should lead to decisions, and the beginning of replacement work, in this financial year.

We have implemented a business monitoring process based on a balanced scorecard to measure progress in a more systematic manner. This allows us to monitor our performance in all areas of the Office and is intended to underpin effective delivery. We have further developed our measures for 2009/10.

### **POLICY**

Keeping the UK policy framework relevant is a constant challenge within a framework of International, EU and domestic law. We will be working closely with other Government departments to develop and agree a cross-governmental international intellectual property strategy by February 2010.

We will agree a package of measures on IP and Climate Change across government, some or all of those measures will be included in the outcomes of the United Nations Framework Convention on Climate Change (UNFCCC) meeting in Copenhagen in December 2009.

The importance of the creative industries in the UK economy and the problems associated with Copyright infringement remain a priority. The role of effective enforcement is essential if we are to meet this ever growing threat. The Office is continuing to liaise with the Police and partnership agencies in the UK and abroad to provide a more effective policing framework supported by public administration.

### **RESOURCES AND LIQUIDITY**

Our reputation for quick and high quality granting of IP rights is fundamental to the Office's business.

For this we rely heavily on the skills and professionalism of our staff. It remains a challenge to align resources with demand while taking a prudent view of future conditions. As a Trading Fund the Office is self financing and must meet any investments from its own resources. This has become particularly difficult in the last quarter of the financial year with the global economic downturn affecting demand and revenue. The Office is making plans to reduce staff numbers by not filling vacancies, running a further VER/VES scheme for patent examiners and transferring surplus staff to other government departments. In addition, the Office is reducing non-staff expenditure where possible while minimising any impact on service levels.

While these plans are still to be evaluated the Office has strong cash and liquid assets to cover prudent investment plans. The Office generated a cash outflow of £5.6 million (£9.9 million cash inflow 2007/08) from its operating activities, caused by additional expenditure on VER/VES and lower interest receipts. The Office, however, will pay a dividend of £7.2m to BIS and this represents more than the 4% return on capital with the remainder being payment of previous unplanned surpluses. The Office retains over £70m in cash. These funds are invested with the Debt Management Office and are currently earning around 0.3%. This is a significant fall on previous years. In June 2009 the Government decided that the Intellectual Property Office would make a special payment of £25m to the Department for Business Innovation and Skills. This funding is to further advance the innovation agenda lead by the Department.

In addition we have fixed assets of over £22.9 million mostly connected with our ownership of Concept House which was valued at £19.0 million at 31st March 2009.

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## Management Commentary

### RISKS AND UNCERTAINTIES

We have adopted an approach to risk management that seeks to ensure new policies and activities are made with due consideration of associated risks, the Board's tolerance for risk in those areas, and potential mitigating actions. Our management of risk therefore relates to all aspects of our operations. We have categorised all of our activities for risk management purposes and defined our risk tolerance for each. We record, and actively manage risks using our strategic, directorate and project risk registers.

As the Office is dependent on customer demand we have to continually review the risks to our income and this is why we are acting quickly to adjust to the current circumstances. Since becoming a Trading Fund we have consistently reduced fees in real terms and on several occasions in nominal terms as well, but we must continue to provide a quality cost effective service.

There was a possibility that, when OHIM joined the Madrid Protocol, substantial amounts of trade mark business would be diverted there with a corresponding loss of income to the Office. However, there has been no substantial evidence of this. OHIM plans to reduce its fees again in May 2009 and this will be kept under review. A key part of our fee review and TM10 programme is to ensure we remain competitive.

The Office is heavily dependent on income from European (EP (UK)) Patent Renewals whereby national offices keep approximately 50% of the national renewal fee relating to EP (UK) patents and the rest is remitted to the EPO. If this were reduced to say 40% it would cost the Office over £5.3 million. There is no suggestion that this arrangement is likely to be reviewed in the short term. However, the EPO has recently disclosed a further increase in the deficit in its reserves, to which we continue to pay close attention.

### INFORMATION SECURITY

Against a background of continued high profile data losses in other parts of government, information security remains a high priority. We continue to monitor and audit procedures and are working towards achieving ISO27001 Information Security Management System Standard by the end of 2009. In January 2009, the Cabinet Office published its Security Policy Framework (SPF) which has 70 mandatory controls and contains guidelines which are underpinned by implementation instructions. We are linking this to our work on ISO27001.

We have published tables, detailing all personal data related incidents since April 2005. Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

**TABLE 1:  
SUMMARY OF PROTECTED PERSONAL DATA RELATED INCIDENTS FORMALLY  
REPORTED TO THE INFORMATION COMMISSIONER'S OFFICE IN 2008/09**

Date of incident (month)	Nature of Incident	Nature of data involved	Number of people potentially affected	Notification steps
	None	N/A	N/A	N/A

#### Further action on information risk

The Office continues to review and update its information security procedures.

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## Management Commentary

**TABLE 2:**  
**SUMMARY OF OTHER PROTECTED PERSONAL DATA RELATED INCIDENTS IN 2008-09**

Incidents deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office but recorded centrally within the Department are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures.

Category	Nature of incident	Total
I	Loss on inadequately protected electronic equipment, devices or paper documents from secured Government premises	Nil
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside Government premises	Nil
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	Nil
IV	Unauthorised disclosure	Nil
V	Other	Nil

**TABLE 3:**  
**YEAR-ON-YEAR TOTAL NUMBERS OF PROTECTED PERSONAL DATA RELATED INCIDENTS PRIOR TO 2008-09**

Total number of protected personal data related incidents formally reported to the Information Commissioner's Office by category number

	I	II	III	IV	V	Total
2007-08	0	0	0	0	0	0
2006-07	0	0	0	0	0	0
2005-06	0	0	0	0	0	0

Total Number of other protected personal data related incidents, by category number

	I	II	III	IV	V	Total
2007-08	0	0	0	0	0	0
2006-07	0	0	0	0	0	0
2005-06	0	1	0	0	0	1

### KEY PERFORMANCE INDICATORS

The Key Performance Indicators (KPIs) are set within a balanced scorecard framework and allocated to 4 perspectives. These KPI's are agreed with Ministers and published in our annual strategy document.

The KPIs for 2008/09 and our performance against them is set out below, and summarised with previous years' performance in Chapter 5.



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## Management Commentary

### CUSTOMERS AND STAKEHOLDERS PERSPECTIVE

There are ten measures specifically relating to the customers and stakeholders perspective. Four of the targets specifically relate to the delivery of services. The first two (in the patent area) set an expectation that 90% of searches and accelerated examinations should be completed within specified periods. Searches are one chosen focus as they are a key requirement for users. The target was set at 4 months from request; this was a major challenge we were setting ourselves but a key stimulus to delivering a better service to our customers. The outturn for the full year was 92%. For accelerated examinations, the target period is calculated from the date of the allowable request for accelerated examination, and was set this year to respond within 2 months. Performance this year resulted in an outturn of 96%.

Trade Marks Directorate aim "To register 90% of processed Trade Mark class applications, to which no substantive objections have been raised or oppositions filed, within 7 months of application". Both the OPTICS and TMAD IT systems provide a breakdown each month showing how many applications have been registered and within how many days. The systems do not show how many days each individual case took to register but confirm the number of cases which are registered within a variety of time periods. The Agency Target is 210 days and our systems tell us precisely the percentage of applications each month which are registered within 7 months (210 days). For this financial year, 98% of Trade Mark applications that were not the subject of substantive objection or opposition were registered within 7 months of filing.

Our Designs' Target aims "To register 95% of all correctly filed design applications, to which no substantive objections have been raised, within 2 months of the date of application". This ensures all designs applications that fall into that category are processed quickly through the system and are not subject to any undue delay. We calculate this by considering all designs filed in the period 2 months earlier than when the target date is due to be recorded. The status of each design application is taken from our ACORD IT system and calculated, so that the target achievement figure is only given on those that have been recorded as correctly filed and with no substantive objection raised. This is done month by month, and the annual achievement figure is calculated by taking the performance over the whole year, which was 97% for this financial year.

Trade Marks directorate also aim to resolve 55% of Trade mark disputes in one year. This is calculated by entering all the *inter partes* cases on a log. On the anniversary each case is checked to see if it has been disposed of for any reason. If so, this is recorded as part of the outturn %. The outturn figure for 2008/09 is 59%.

To add a focus on measurement of policy work a target was introduced to meet 80% of agreed milestones in development of policy initiatives. The outturn for the year is 83%.

To ensure our customers are content with our service a measure was set to receive an overall 'good' or 'satisfactory' rating in at least 80% of responses in customer surveys. This year 96% of our customers in our surveys measured us as good or satisfactory.

By March 2009, the Office committed to train 66% of business advisors (UKTI export and Business Link advisors and their devolved counterparts) in advising businesses on intellectual property management. Three groups of advisors were identified for training: UKTI export advisors, business link advisors in England, and their counterparts in the devolved administrations. Discussions with these advisors indicated that they had different needs and thus required different forms of training. In particular, business link advisors wanted online interactive training which had to be designed for the purpose and so could not be rolled out until the end of the financial year. 100% of UKTI and devolved advisors (over 320 and 70 people respectively) were trained by the end of the year, and 33% of business link advisors (400 people) were trained. The target was therefore met for two out of the three groups giving a result of 67%.

The Office also planned to define its role in relation to IP crime, working in partnership with other agencies and to have developed the resources, expertise and authorisations to fulfil that role credibly and effectively. This has been achieved and measured in terms of the following milestones. The Intellectual Property Office has agreed a framework which formalised its powers to capture and disseminate IP crime related intelligence and procured a database to perform these tasks. The Office has also established information sharing agreements with the key government and industry enforcement bodies.

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The final customer and stakeholder perspective target is to refine copyright policy and improve its relevance in the digital age and to make visibly perceived progress in the eyes of stakeholders through the chain from producers to end users. The Office has achieved this by publishing a number of consultations which it is analysing the results of. It has submitted letters to the European Commission setting out the UK's position on copyright. We have also strengthened the staffing of the Copyright Tribunal in October and launched the recruitment of new lay members in January 2009. This work was to be completed in April 2009. We have also supported the Minister in his launch of the work to build a long term vision for copyright in the UK, which has included publication of a paper and stakeholder roundtable events.

### INTERNAL PROCESSES PERSPECTIVE

Looking at the internal processes perspective it was identified that to provide good service we need reliable access to IT systems. It was agreed that IT would be targeted to achieve 99% or more of the agreed monthly service levels for key IT systems. Each key IT system was reviewed and an appropriate service level (in terms of hours available) agreed. The target was achieved for 2008/09.

We aim to "make the correct decision on registrability for at least 98.5% of Trade Mark applications". To determine performance against this target, all marks published in the Trade Marks Journal are reviewed at a senior level to decide whether the marks have been correctly accepted. Any marks felt to be 'wrongly accepted (WA)' are offset against the total number of published marks. We also sample approximately 50% of all refused applications to assess whether they have been correctly refused. Any cases which are considered to be 'wrongly refused (WR)', are offset against the sample number of refused cases. Adding together the published and refused cases and offsetting the WA and WR cases mentioned above provides an extremely accurate record of the level of decision making, with 99% of all registrability decisions considered to be correct for this financial year. Where wrong decisions are identified, corrective action is taken.

The third patent-specific target requires that 95% of quality-assured cases will be assessed as having delivered good customer service. This target recognises that our services should be delivered not only quickly, but also to a high quality. We are pleased to have achieved a 97% return, which is equivalent to other patent offices which publish data on quality.

As a good employer and to ensure we provide good service to our customers, the Office feels it is important to ensure that our staff are healthy and regularly attend work. In order to monitor this, a target was set that 97.0% of the staff were able to attend work during the year. This was calculated by dividing the number of days worked by the number of potential work days. The Office narrowly missed this target with an outturn of 96.7%.

The Office is committed to ensuring that all staff performance is appraised regularly and to monitor that it is completed in a timely fashion implemented a target to complete, sign off and return 95% of Performance Management Forms (PMF) to HR by 31 May 2008. Only employees who fall into the formal PMF process are included so employees on probation or who are under formal disciplinary procedures are not included. All employees currently on long term sick absence or who dispute their performance mark are eliminated from the figures. 97% of forms were completed on time, an improvement of 2% on the previous year.

A target was introduced to measure the Office's efforts to reduce its effect on the environment. A target of a 2% reduction in consumption of water, energy, travel and waste was set and this was achieved. We averaged a 6% reduction across the four areas of consumption.

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## Management Commentary

### CHANGE AND DEVELOPMENT PERSPECTIVE

To assist in the management of change and development of the organisation a measure was introduced to achieve 80% or more of agreed milestones for key business-change projects within the reporting year. This was monitored by the project office and we achieved an outturn of 80%.

The Office is committed to employing a highly trained workforce and to monitor its achievement of this aim has set a target to ensure 90% of people who have identified a legitimate training need will have received their training. The outturn for the year is 92% calculated by analysing the number of authorised requests for training which were satisfied or planned within the year.

The final change and development perspective measure is to embed 'UK-IPO Together', which deals with our management values, into the office culture and for 80% of staff to know and understand the Office's management values by March 2009. This has been measured by achievement of IIP, assessment of the management by a review of their performance via their PMF objective, and recording staff attendance at management values drama workshops. The outturn for 2008/09 is 84%.

### FINANCE PERSPECTIVE

The Treasury Minute at Appendix A to the accounts requires the Patent Office to achieve for the period from 1 April 2004 to 31 March 2009 a return, averaged over the period as a whole, of 4% in the form of a surplus on ordinary activities before interest payable and dividends payable expressed as a percentage of average capital employed. The average capital is the average of the opening and closing balance sheet position adjusted for the payment of the special dividend in year.

The return achieved for the year ended 31 March 2009 was -9.5% (year ended 31 March 2008 15.6%).

The return achieved for the period 1 April 2004 to 31 March 2009 was 9.0%, with the capital averaged using the mean of each year's capital and the average surplus.

The second financial target was to deliver £2.5m of direct benefit to customers and stakeholders, through a combination of the implementation of new or expanded services and reductions in Office statutory fees. The Office was able to exceed this target by delivering £2.9m of direct benefits through the Science Museum exhibition project, the new website including new IP professional portal and the activities of the new SABIP committee.

### FUTURE KEY PERFORMANCE INDICATORS

For 2009/10 the KPI's are :

- Develop a cross-government international IP strategy which has been agreed by Whitehall ministerial or senior official group by February 2010.
- The IPO Intelligence Hub will be seen by industry and enforcement agencies as the lead player in coordination and dissemination of IP crime-related intelligence.
- Industry and law enforcement agencies will give positive feedback on awareness raising and training activities.
- To increase the understanding of British business and society about how to make the best use of the IP system a third venue for the Science Museum exhibition will have been identified and agreement for an exhibition be in place by December 2009.
- Evaluation of the Science Museum exhibition will demonstrate positive impact and value for money and provide information for future outreach work.
- Extend our outreach to business through use of our online IP Health Check, and over 66% of respondents will report it as useful.
- To demonstrate we deliver high quality services to our customers we will receive "good" or "satisfactory" ratings in at least 80% of responses to customer surveys.

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## Management Commentary

- We will demonstrate we are able to maintain a sustainable trading fund by delivering a 4% return on capital employed.
- Deliver a 5% cost efficiency with reference to 2008/09 cost outturn (excluding VER/VES scheme and Science Museum IP exhibition sponsorship one-off costs).
- A substantive response to an allowable request for accelerated patent examination to be issued within 2 months of receipt in 90% of searched applications.
- Give good customer service in processing patent applications in 95% of quality assured cases.
- Issue 80% of patent searches within 4 months of request.
- The correct decision on registration will be made on at least 98.5% of Trade Mark applications.
- 90% of Trade Mark applications (to which no substantive objections have been raised or oppositions filed) to be registered within 7 months.
- 95% of correctly filed design applications to be registered within 2 months.
- Complete 95% of staff performance reviews (to ensure everyone understands how their work contributed to the 2008-09 corporate plan and how they will be expected to perform to enable delivery of the 4 pillars in 2009/10) signed off and returned to HR by 31 May 2009.
- To reduce our impact on the environment, increase proportion of waste recycled to 60%.
- To reduce our impact on the environment reduce carbon emissions by 10% compared to 2008/09 figures.
- Promote a healthy environment and reduce numbers of sick absence days per person to 7.0 days.
- To enable business effectiveness through reliable IT systems, achieve 99% of the agreed monthly service levels for key IT systems.
- Positive feedback from participants of international Forum on the economic value of IP.
- A plan will be agreed by SABIP and IPO for commissioning items of research.
- Two of these SABIP research projects to be completed and reports received.
- Contracts to be awarded on a further two of these SABIP research projects.
- Introduce new Trade mark fees and services in October 2009 to maintain registration in the UK as an attractive option vis-à-vis registration at OHIM.
- National and international stakeholders will report increased awareness of our work on copyright strategy.
- Ensure that the IPO has developed a coordinated strategy on mutual recognition and promote that strategy with key international partners. Gain agreement on mutual recognition with Japan by March 2010.
- Memorandums of Understanding on work sharing signed with Korea and China in 2009.
- Policy skills audit will be carried out and a targeted training and development programme devised by autumn 2009.

### ENVIRONMENTAL POLICIES

The Office is committed to sustainable development following an Environmental Management Strategy. We have extensive recycling programmes and information on resources consumed and recycled is monitored quarterly by the IPO Board and by the Steering Board. We achieved full ISO 14001 Environmental Management System accreditation in November 2008.

In light of our commitment to reducing our impact on the environment, we are working to reduce our carbon footprint in the coming year and are reviewing our printing strategy to move away from personal printers to more efficient multi function devices.

### CORPORATE AND SOCIAL RESPONSIBILITY

We encourage staff to participate in a wide range of community events and fundraising activities such as Prince's Trust, being a Justice of the Peace or forging links with schools. We take part in local community initiatives, working with voluntary organisations such as **Business in the Community**. We also work with the **South East Wales Employers Network (SEWEN)** and **South East Wales Racial Equality Council (SEWREC)**, improving awareness of equality in the community. Our Schools Intellectual Property Support (SIPS) team visits local schools promoting Intellectual Property (IP) and encouraging pupils to be creative. We are involved with local Careers offices, and offer work experience to local school children. We give staff that are school governors paid leave, and encourage staff to assist with reading classes in local schools.

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## Management Commentary

### **DAYS LOST DUE TO ABSENCE**

The Office encourages a culture where good attendance is expected and valued. However, it recognises that from time to time absences for medical reasons may be unavoidable. The Office aims to treat its staff who are ill with sympathy and fairness and where possible to provide them with support which will enable them to recover their health and attend work regularly. In 2008-09, the percentage of working days lost was 3.3 per cent or 8.4 days per annum per employee. The public sector average is 9.4 days per annum per employee.

### **CREDITOR PAYMENT POLICY**

During the year the Office has adhered to the government standard by aiming to settle bills within 30 days of receipt of goods or services or a valid invoice, whichever is the later. The 30 day standard is incorporated in contracts with suppliers. We recognise the importance to SMEs in particular, and paid 98% of valid invoices within 30 days in 2008/09 (98.2% in 2007/08).

In light of the difficult economic climate during 2008/09, the government standard to settle bills was reduced to payment within 10 working days of receipt of goods or services or a valid invoice whichever is later.

### **EQUALITY AND DIVERSITY**

The Intellectual Property Office remains committed to building a culture where employees are offered flexibility and development, where everyone's contribution is recognised and diversity is genuinely valued. The Office is also committed to ensuring that unlawful discrimination is not tolerated.

Recruitment and selection at the Office is carried out in a manner that is systematic, efficient and effective, and promotes equality of opportunity. The Job Centre Plus "Positive about Disability" symbol is used in all job advertisements and guarantees interviews to all those applicants who meet the minimum criteria for a job vacancy. The Office is committed to providing access to a range of initiatives that help staff to work in an understanding, flexible and creative environment.

### **EMPLOYEE INVOLVEMENT**

The Office has an extensive and well established structure for communicating with staff at all levels. Among the methods of communication in regular use are a weekly electronic Office newsletter (The Link) which addresses all aspects of Office activities, the Office Intranet, oral briefings from senior management, a staff magazine and a weekly letter from the Permanent Secretary of DIUS. The annual strategy document is available electronically to all staff, as is the Annual Report and Accounts. A staff suggestion scheme is in operation, and there is a facility to allow staff to raise concerns or issues directly with the Board. Formal contact between senior Office management and the local trade union occurs through the Whitley Committee, supplemented by informal contact on an ongoing basis as issues arise.

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## Management Commentary

### STEERING BOARD

The role of our Steering Board is to advise Ministers, through our Director General, on our Corporate Plan and performance (including targets). It also provides guidance from a commercial standpoint on our operation and development across a range of issues.

In addition to the Chief Executive, the Steering Board members at 31st March 2009 were:

Prof Adrian Smith	DIUS member
Zina Etheridge	DIUS member
Kathryn Bishop	External member
Mary Champion	External member
Geoffrey Drage	External member
David Richards	External member
David Roberts	External member

Alun Evans was appointed DIUS member from 1st April 2008. Professor Adrian Smith replaced Alun Evans on 1st September 2008, when he took up his post as Director General. Phillip Rycroft replaced Professor Adrian Smith on 11th May 2009 as a result of the Intellectual Property Office moving into the Business and Innovation Directorate of DIUS. Zina Etheridge stood down from the Steering Board in May 2009. A replacement has not yet been identified. The term of office of Kathryn Bishop and Geoffrey Drage will come to an end in July 2009. Sir Anthony Piggot and Gary Austin have been appointed from 15 July 2009 to replace them.

### AUDIT COMMITTEE

The Audit Committee members at 31st March 2009 were:

Mary Champion	External member
Geoffrey Drage	External member
David Roberts	External member

Geoffrey Drage will step down as Chairman of the Audit committee when his term of office ends in July. David Roberts replaced David Richards on the audit committee on 24 June 2008.



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## Management Commentary

### INTELLECTUAL PROPERTY OFFICE BOARD

At 31st March 2009 the Directors of the Office were:

Ian Fletcher	Chief Executive
Sean Dennehey	Assistant Comptroller and Patents Director
Peter Holland	International Policy Director
Andrew Layton	Trade Marks and Designs Director
Gillian Pratt	Finance Director
Louise Smyth	Business Support Director
Robin Webb	Innovation Director
Edmund Quilty	Copyright and IP Enforcement Director
Mark Pacey	Corporate and Social Responsibility Director

As a result of changes in the way the policy work was dealt with Liz Coleman stood down from the board of directors on 18th August, when Peter Holland joined the Office as International Policy Director. During the year responsibility for the Information Systems Directorate was transferred to Louise Smyth and Mark Pacey took up the new role of Director of Corporate and Social Responsibility. Mark Pacey took voluntary early severance on 30th April 2009.

Kevin Woodrow took up a secondment in HM Treasury on 12th September 2008. Gillian Pratt joined the Board on a secondment from the Environment Agency on 13th October 2008. Gillian Pratt returned to the Environment Agency on 9th April 2009. Sean Dennehey took on interim responsibility at Board level for the Finance Directorate from this date.

### STATEMENT OF COMPLIANCE

These are all the matters which I, as Accounting Officer, consider relevant and this Management Commentary has been compiled in accordance with Reporting Standard 1.

I have taken all necessary steps to make myself aware of information relevant to the audit of the accounts that accompany this Management Commentary, and to ensure that my auditors are informed. So far as I am aware there is no relevant information of which my auditors are unaware.



**IAN FLETCHER**  
Chief Executive and  
Accounting Officer  
1 July 2009





# Chapter Three

## Accounts 2008-2009

### STATEMENT OF PATENT OFFICE'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under section 4(6)(a) of the Government Trading Funds Act 1973 the Treasury has directed the Patent Office Agency to prepare a statement of accounts for each financial year in the form and on the basis of the generic accounts direction issued by the Treasury on 18 December 2008. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- make judgements and estimates on a reasonable basis;

- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and to disclose and explain any material departures in the financial statements; and

- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

The Treasury has appointed the Chief Executive of the Patent Office as the Accounting Officer for the Agency. His relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances for which he is answerable, for the keeping of proper records and for safeguarding the Agency's assets, are in Managing Public Money published by HM Treasury.

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## Accounts 2008-2009

### STATEMENT ON INTERNAL CONTROL IN THE PATENT OFFICE

#### 1. Scope of responsibility

As Chief Executive and Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Patent Office's policies, aims and objectives, as agreed with Ministers of the Department for Innovation Universities and Skills (DIUS), whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money. The Patent Office's policies, aims and objectives are agreed with Ministers annually as part of our Corporate Planning process and reflect on-going close liaison and risk mitigation action with departmental officials.

#### 2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Patent Office policies, aims and objectives; to evaluate the likelihood of those risks materialising and the impact should they materialise; and to manage them efficiently, effectively and economically. This system includes management of all risks including operational (delivery and policy), financial and reputational risk. The system of internal control has been in place in the Patent Office for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

#### 3. Capacity to handle risk

The main elements of the risk management processes in place in the Patent Office are:

- An internal Board that meets monthly on a formal basis to consider the plans, progress and strategic direction of the Office (the Board comprises the Chief Executive and Directors)
- A Steering Board that meets quarterly to discuss strategic issues (the Steering Board comprises senior management representatives of DIUS, the Chief Executive and five external independent members, with Patent Office Directors as attendees)
- An Audit Committee that meets at least four times each year to assist the Chief Executive on audit and Corporate Governance issues (throughout the year the Committee comprised three external independent members, who are also members of the Steering Board, the Chief Executive and Finance Director as obligatory attendees with Patent Office Directors and senior representatives from Internal and External Audit as attendees).

Training has been provided to key managers and staff in risk identification, evaluation and management, based on best practice guidance from the Departments and Treasury. Individual directorates have extended this training as part of their risk management processes.

- Any event that occurs highlighting a significant risk or control weakness is followed through to ensure that appropriate action is taken to manage the risk and reduce future risks and improve controls.

#### 4. The risk and control framework

In the Patent Office the main processes which we have in place for identifying, evaluating, and managing risk are:

- development and operation of the Office's risk management strategy and procedures are reviewed regularly by the Audit Committee
- a strategic risk register compiled from discussions with individual Directors and consideration of Directorate risk registers is debated and agreed by the Patent Office Board

# Chapter Three

## Accounts 2008-2009

- high profile events and associated risks are discussed by the Steering Board at each meeting
- the risk registers of individual directorates of the Office
- raising awareness of risk management and risk appetite during this financial year
- risk registers for all programmes within the Office
- a cross-Directorate risk group that coordinates production of the strategic and Directorate risk registers and is a forum for feedback and corporate learning
- a risk register format that requires the identification of both internal and external risks, assignment of a risk owner and actions to be taken to manage the risk
- risk evaluation performed by source, type (reputation, financial, operational), likelihood, impact, effectiveness of controls, and comparison with risk appetite
- guidance on the compilation of Directorate risk registers both bottom-up by team members and top-down from Directors
- review of an assurance matrix to provide confirmation that the Accounting Officer's roles and responsibilities have been discharged adequately with all necessary controls and systems in place to support delivery of the Office's aim and objectives
- monitoring of operational and financial performance on a monthly basis with remedial action taken as appropriate
- regular reports by Internal Audit on the adequacy and effectiveness of the Office's systems of internal control based on a risk-based audit programme. One audit, a review of our Document Reception and Cashiers, made four urgent recommendations regarding physical document receipt. Three of these have since been addressed and the urgency of the fourth has reduced as a result and action is in hand
- an annual statement of opinion from Internal Audit on the Office's systems of control and risk management framework – a satisfactory opinion for this year
- the Internal and External Audit arrangements and follow up of recommendations overseen by the Audit Committee
- confirmation provided at Directorate level of the internal control arrangements and identification of areas for improvement
- procedures for planning, approving and monitoring major projects, including a requirement to use risk registers
- revised processes for managing information risk, including the compilation of an Information Asset Register, awareness sessions for staff, and a Security Working Group to monitor measures taken.

Our procedures for Directorate and other risk registers, together with our implementation of formal project management procedures for major projects, are embedding risk management in our policy making, planning and delivery activities.

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### 5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Patent Office who have responsibility for the development and maintenance of the internal control framework, by our ISO 9001:2000 certification of some of our internal processes, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and plans to address weaknesses and ensure continuous improvement of the system is in place.

During the year periodic reviews of the strategic, directorate and long term risk registers have been conducted by the Board, Steering Board and Audit Committee, as well as management boards and staff teams. Internal Audit spent 174 audit days conducting audits, including reviews of internal controls, and giving specialist IT consultancy during the year. In addition Directors took part in a peer review exercise led by Internal Audit to provide additional assurance to me on their exercise of operational and financial controls in the year. The conclusion of these reviews is that there is no indication of any major control weakness that would lead me to qualify this statement on internal control and that risk management awareness is good. I conclude that we continue to progress embedding effective risk management across the organisation and throughout all of its operations.



**Ian Fletcher**  
**Chief Executive and Accounting Officer**  
1 July 2009

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## Accounts 2008-2009

### THE PATENT OFFICE 2008-09

#### THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statements of The Patent Office for the year ended 31 March 2009 under the Government Trading Funds Act 1973. These comprise the Operating Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

#### Respective responsibilities of The Patent Office, Accounting Officer and Auditor

The Patent Office and its Chief Executive as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Patent Office's and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder. I report to you whether, in my opinion, the information, which comprises the Management Commentary, included in the Annual Report, is consistent with the financial statements. I also report whether, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if The Patent Office has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects The Patent Office compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of The Patent Office corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the remaining parts of the annual report and the unaudited part of the remuneration report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

#### Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by The Patent Office and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to The Patent Office circumstances, consistently applied and adequately disclosed.

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## Accounts 2008-2009

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

### Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Trading Funds Act 1973 and directions made thereunder by HM Treasury, of the state of The Patent Office affairs as at 31 March 2009 and of its deficit for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder; and
- information, which comprises the Management Commentary, included within the Annual Report, is consistent with the financial statements.

### Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### Report

I have no observations to make on these financial statements.

**Amyas C. E. Morse**

**Comptroller and Auditor General**

**National Audit Office**

**151 Buckingham Palace Road**

**Victoria**

**London**

**SW1W 9SS**

**Date 6 July 2009**

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## Accounts 2008-2009

### OPERATING ACCOUNT

For the year ended 31 March

		2009	2008
	Notes	£000	£000
Turnover	2	61,139	63,335
Staff costs	5	(39,772)	(36,753)
Depreciation	9	(1,973)	(2,330)
Other operating charges		(29,117)	(15,770)
<b>Operating (deficit) / surplus before interest and dividend</b>		<b>(9,723)</b>	8,482
Interest receivable	6	2,651	3,968
<b>Operating (deficit) / surplus on ordinary activities</b>	3	<b>(7,072)</b>	12,450
Interest payable	7	(177)	(203)
(Deficit) / surplus for the year	2	(7,249)	12,247
Dividend	8	(7,200)	(3,032)
<b>Retained (deficit) / surplus for the year</b>		<b>(14,449)</b>	9,215
<b>Retained surplus brought forward</b>		<b>68,116</b>	58,533
<b>Other reserve movements</b>	15	<b>997</b>	368
<b>Retained surplus carried forward</b>		<b>54,664</b>	68,116

All of the operations are classed as continuing.

### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March

		2009	2008
	Notes	£000	£000
(Deficit) / Surplus for the year	2	(7,249)	12,247
Deficit on revaluation of fixed assets	15	(3,919)	(2,369)
<b>Total recognised gains and losses relating to the year</b>		<b>(11,168)</b>	9,878

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## Accounts 2008-2009

### BALANCE SHEET

As at 31 March		2009	2008
	Notes	£000	£000
Fixed assets			
Tangible fixed assets	9	22,930	28,488
<b>Current assets</b>			
Debtors	10	2,636	2,441
Short term investments	11	67,000	75,500
Cash at bank and in hand	11	3,272	1,588
		<b>72,908</b>	79,529
<b>Creditors: amounts due within one year</b>	12	<b>(28,572)</b>	(23,921)
<b>Net current assets</b>		<b>44,336</b>	55,608
<b>Total assets less current liabilities</b>		<b>67,266</b>	84,096
Provision for liabilities and charges	13	(2,377)	(673)
<b>Net Assets</b>		<b>64,889</b>	83,423
<b>Financed by:</b>			
Capital and reserves			
Public dividend capital		6,325	6,325
Loans from Secretary of State, Department for Innovation, Universities and Skills	14	1,497	1,663
Revaluation reserve	15	2,403	7,319
General reserve	15	54,664	68,116
<b>Total financing</b>		<b>64,889</b>	83,423



Ian Fletcher  
Chief Executive and Accounting Officer  
1 July 2009



# Chapter Three

## Accounts 2008-2009

### CASH FLOW STATEMENT

For the year ended 31 March

		<b>2009</b>	<b>2008</b>
	Notes	£000	£000
Net cash (outflow) / inflow from operating activities	17	<b>(5,598)</b>	9,958
Returns on investments and servicing of finance	18	<b>(510)</b>	947
Capital expenditure	19	<b>(542)</b>	(1,530)
<b>Cash outflow before management of liquid resources and financing</b>		<b>(6,650)</b>	9,375
Management of liquid resources	20	<b>8,500</b>	(10,500)
Financing	21	<b>(166)</b>	(167)
<b>Increase / (Decrease) in cash in the period</b>		<b>1,684</b>	(1,292)
<b>Reconciliation of net cash flow to movement in net funds</b>			
Increase / (Decrease) in cash		<b>1,684</b>	(1,292)
Cash (inflow) / outflow from movement in liquid resources		<b>(8,500)</b>	10,500
Cash outflow from decrease in debt		<b>166</b>	167
<b>Movement in net funds</b>	22	<b>(6,650)</b>	9,375
<b>Net funds at 1 April</b>		<b>75,425</b>	66,050
<b>Net funds at 31 March</b>		<b>68,775</b>	75,425

# Chapter Three

## Accounts 2008-2009

### NOTES TO THE ACCOUNTS

#### 1 Accounting policies

##### 1(a) Accounting convention

The accounts have been prepared in accordance with the historical cost convention modified to include revaluation of fixed assets, in a form determined by the Treasury in accordance with section 4(6)(a) of the Government Trading Funds Act 1973. The accounts conform, insofar as it is practicable and appropriate, with United Kingdom Accounting Standards, the Companies Act 1985 and specific Treasury guidance.

##### 1(b) Patents and designs

In pursuit of the Government's policy of encouraging innovation, the Office charges patent and design application fees at a lower level than required to meet the full costs of processing the applications, searches and examinations necessary to determine whether grant/registration is possible. The differences are recovered from renewal fees on granted patents and registered designs. The costs of processing the applications, searches and examinations are charged to the operating account as incurred.

##### 1(c) Software development

Software development expenditure (covering the costs of third party work and the direct costs of in house IT staff effort) is capitalised when it is both material and incurred on projects which will deliver economic benefits over a number of years.

##### 1(d) Fixed asset valuation

Land and buildings are valued on the basis of existing use.

Other fixed assets acquired before the start of the year have been valued at net current replacement costs using appropriate indexation or, if lower, the recoverable amount. Assets acquired during the year have been capitalised at cost of acquisition and installation.

##### 1(e) Depreciation

Depreciation is provided on tangible fixed assets, except freehold land, at rates calculated to write off the cost or valuation of each asset on a straight line basis over its expected useful life as follows:

Freehold buildings	60 years
Computers and office equipment	5 years
Plant and machinery	5 years
Software development	5-10 years

A full year's depreciation is charged in the year of acquisition or, for software developments, in the year the asset is brought into use.

##### 1(f) Turnover

Turnover, which is exclusive of VAT, comprises fees earned from the grant of patents, trade marks and designs; sales of Office publications; and fees earned from other commercial services.

##### 1(g) Deferred income (prepayment)

In many instances the Office collects fees and charges for services before those services are performed. Therefore, at any point in time a prepayment situation exists in respect of unperformed services. Income relating to those services is recorded as prepaid income (see note 12) and is only recognised in the operating account when the services are performed.

# Chapter Three

## Accounts 2008-2009

### 1(h) Value Added Tax (VAT)

The Office is not registered separately for VAT, but falls within the Department for Innovation Universities and Skills (DIUS) registration. Irrecoverable VAT on revenue expenditure is charged to the operating account and on capital expenditure to the balance sheet.

### 1 (i) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the time of the transaction. All exchange differences (see note 3) are taken to the operating account.

### 1 (j) Operating lease rentals

Operating lease rentals are charged to the Operating Account on a straight line basis over the period of the lease.

### 1 (k) Pension costs

Employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded. The Office recognises the expected cost of providing pensions on a systematic basis over the period in which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. Further information is given in note 5.

### 1 (l) Financial Instruments

The Office does not use Financial Instruments to change the risks the Office faces in undertaking its activities. The Office has very limited powers to borrow or to invest surplus funds, and financial assets and liabilities are generated by day-to-day operational activities. Any such instruments are held to maturity and are not held for sale.

Further details are given in note 27.

## 2 Turnover and results

The following information on the main activities of the Office is produced for fees and charges purposes and does not constitute full segmental reporting under Statement of Standard Accounting Practice 25 since net assets are not disclosed (the integrated nature of Office operations makes it impractical to apportion by segment certain assets of substance, principally cash):

	Turnover		Cost of service		(Deficit) / Surplus	
	2009	2008	2009	2008	2009	2008
	£000	£000	£000	£000	£000	£000
Patents	39,948	39,128	45,359	34,935	(5,411)	4,193
Trade marks	18,658	20,982	22,399	17,283	(3,741)	3,699
Designs	1,334	1,728	1,357	981	(23)	747
Publications	216	239	148	137	68	102
Commercial services	983	1,258	1,599	1,517	(616)	(259)
Unallocated (interest receivable net of interest payable )	-	-	(2,474)	(3,765)	2,474	3,765
	61,139	63,335	68,388	51,088	(7,249)	12,247

# Chapter Three

## Accounts 2008-2009

Common costs (excluding interest) are apportioned largely on either staff employed or space occupied ratios to arrive at the (deficit) / surplus.

The financial objective for Office services is given in the Treasury Minute of 26 February 2004 (Appendix A to these accounts), and the performance against this is referred to in note 4.

### 3 (Deficit) / surplus on ordinary activities

This is stated after charging, or making provision for:

	2009	2008
	£000	£000
- hire of office machinery	429	419
- property lease payments	619	631
- exchange rate gains	(252)	(243)
- audit fee	36	34

The National Audit Office were also paid £8,000 for auditing the opening balance sheet under IFRS.

### 4 Performance against financial objective

The Treasury Minute at Appendix A requires the Office to achieve for the period from 1 April 2004 to 31 March 2009 a return, averaged over the period as a whole, of 4% in the form of a surplus on ordinary activities before interest payable and dividends payable expressed as a percentage of average capital employed.

The return achieved for the year ended 31 March 2009 was -9.5% (year ended 31 March 2008 15.6%).

The return achieved for the period 1 April 2004 to 31 March 2009 was 9.0% with the capital averaged using the mean of each year.

### 5 Staff costs and employee information

#### 5(a) Staff costs

	2009	2008
	£000	£000
Salaries and wages	28,879	27,170
Social security costs	2,226	2,041
Pension costs	5,601	5,236
Agency/Contract staff	3,066	3,084
Capitalised staff costs included above	-	(778)
	<b>39,772</b>	<b>36,753</b>

5(b) The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Office is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

# Chapter Three

## Accounts 2008-2009

For 2008-09 employer contributions of £5,591,774 were payable to the PCSPS (2007-08 £5,227,365) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2009-10, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2008-09 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £7,766.60 were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £540.93, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £871.65. Contributions prepaid at that date were zero.

- 5(c) The average number of persons employed (including agency and contract staff and excluding staff on secondment to other organisations) during the period is analysed below:

	Directors	Staff	Seconded in staff	Agency /Contract	Seconded out staff	2009	2008
Patents	1	364	0	1	4	370	377
Trade marks	1	169	0	1	4	175	186
Designs	0	4	0	0	0	4	5
Other	7	391	8	34	1	441	422
						<b>990</b>	990

In 2008/09 no staff or contract staff were working on capital projects (2007/08 3.5 staff and 6.3 contract staff).

Of the people employed by the Office in 2008/09, 944 were civil servants.

- 5(d) The in year provision for early retirement and severance schemes (see note 13) of £7,533,000 is shown under other operating charges.

### 6 Interest receivable

	2009	2008
	£000	£000
Short term deposits - operating activities	<b>2,651</b>	3,968

The interest derives from deposits with the Office of the Paymaster General and from short term investments with the Debt Management Office.

# Chapter Three

## Accounts 2008-2009

### 7 Interest payable

	2009	2008
	£000	£000
Interest on loans (see note 14)	155	172
Unwinding of discount on early retirement provision (see note 13)	22	31
	<b>177</b>	<b>203</b>

### 8 Dividends

A dividend of £7,200,000 will be paid in July 2009 to the Consolidated Fund. This has been agreed with the Department and is in excess of 4% return on capital and represents payment of earlier excess surpluses.

### 9 Tangible fixed assets

	Land and buildings	Buildings under Construction	Plant and machinery	Computer and office equipment	Software in use	Software under development	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>							
At 1 April 2008	23,500	0	155	3,979	9,378	0	37,012
Additions	-	-	34	300	-	-	334
Assets brought into use	-	-	-	-	-	-	0
Revaluation	(4,500)	-	2	4	248	-	(4,246)
Disposals	-	-	-	(79)	-	-	(79)
At 31 March 2009	19,000	0	191	4,204	9,626	0	33,021
<b>Depreciation</b>							
At 1 April 2008	0	0	91	3,088	5,345	0	8,524
Provided during the year	300	-	29	362	1,255	-	1,946
Surplus on revaluation	(300)	-	-	-	-	-	(300)
Disposals	-	-	-	(79)	-	-	(79)
At 31 March 2009	0	0	120	3,371	6,600	0	10,091
<b>Net book value at 31 March 2009</b>	<b>19,000</b>	<b>0</b>	<b>71</b>	<b>833</b>	<b>3,026</b>	<b>0</b>	<b>22,930</b>
<b>Net Book Value at 1 April 2008</b>	<b>23,500</b>	<b>0</b>	<b>64</b>	<b>891</b>	<b>4,033</b>	<b>0</b>	<b>28,488</b>

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## Accounts 2008-2009

The land and buildings referred to are freehold and were revalued at £19 million by the District Valuer, Newport, South Wales on 31 March 2009 on the basis of existing use. The open market valuation, provided by the District Valuer, of £14.5 million is £4.5 million lower than the existing use valuation. The former reflects the expected difficulty in finding a replacement single occupier, and the consequent impact on the valuation of multi occupancy with potentially slow take up. Both valuations were prepared in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Standards, sixth edition.

All other assets are revalued annually by reference to the most appropriate price indices.

Depreciation in the operating account (£1,973,000) is made up of the in-year provision (£1,946,000) and the diminution in value of computer equipment arising from indexation (£27,000).

### 10 Debtors

	2009	2008
	£000	£000
Trade debtors	177	623
Other debtors	308	258
Prepayments and accrued income	2,151	1,560
	<b>2,636</b>	2,441

Sums included above which fall due after more than one year are:

Other debtors	20	34
Prepayments and accrued income	58	8
	<b>78</b>	42

### 11 Short term investments and cash at bank

	2009	2008
	£000	£000
Short term investments	67,000	75,500
Cash at bank - at Office of HM Paymaster General	2,776	674
Cash at bank - in Commercial Banks	495	913
Cash in hand	1	1
	<b>3,272</b>	1,588

# Chapter Three

## Accounts 2008-2009

### 12 Creditors - amounts falling due within one year

	<b>2009</b>	<b>2008</b>
	£000	£000
User deposit accounts	<b>3,765</b>	3,519
Trade creditors	<b>7,985</b>	8,419
Deferred income - prepayment	<b>3,578</b>	5,014
Early retirement provision (see note 13)	<b>1,824</b>	328
Taxation and social security	<b>717</b>	716
Superannuation	<b>520</b>	517
Other creditors	<b>39</b>	38
Dividend payable	<b>7,200</b>	3,032
Accruals	<b>2,944</b>	2,338
	<b>28,572</b>	23,921

### 13 Provision for liabilities and charges

Treasury guidance requires that the full cost of early retirement and severance schemes should be recognised in the accounts when early departure decisions are made. The operating account is charged with the full liability of new decisions taken and a balance sheet provision made, against which is offset the amount paid to retirees in respect of pension and related payments as they fall due between 2009 and 2018. The provision has been assessed at current prices at the balance sheet date, and, in accordance with Financial Reporting Standard 12, has been discounted at a real rate of 2.2%, with the unwinding of the discount treated as an interest charge on the operating account (see note 7). The discount factor is unchanged from 2007/08.

	£000
At 1 April 2008	<b>1,001</b>
Provision made in year	7,533
Unwinding of discount on provision	22
Payments offset against the provision	(4,355)
At 31 March 2009	<b>4,201</b>
Less amount payable within one year (included in Creditors - see note 12)	(1,824)
Amount payable after one year	<b>2,377</b>



# Chapter Three

## Accounts 2008-2009

### 14 Loans

14(a) The Secretary of State for the then Department of Trade and Industry made available loans at the fixed rates and terms shown below:

Amount	Date Issued	Period	Interest	Weighted Average interest	Book Value 2009	Fair Value 2009
£000					£000	£000
2,161	1.10.91	26 years	9.625%	} 9.813%	748	916
2,164	31.03.92	26 years	10.000%		749	912
					<b>1,497</b>	<b>1,828</b>

In accordance with Treasury guidance, the fair value has been calculated by discounting future cash flows at the 31 March 2009 interest rate of 3.74%: this is the rate applicable to loans of 26 years.

Under machinery of government changes these loans are now deemed to have been made by BIS.

14(b) All loans are unsecured and the sums outstanding at 31 March 2009 are repayable as follows:

	2009	2008
	£000	£000
Within one year	166	166
Between one and two years	166	166
Between two and five years	499	499
More than five years	666	832
	<b>1,497</b>	1,663

Equal instalments of principal are repayable on the 6 month anniversary of issue (see 14(a) above).

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## Accounts 2008-2009

### 15 Other reserves

	<b>General Reserve</b>	<b>Revaluation Reserve</b>
	£000	£000
At 1 April 2008	<b>68,116</b>	<b>7,319</b>
Revaluation surplus/(deficit) during the year on:		
land and buildings		(4,200)
other tangible fixed assets		281
Transfer of realised/(excess) depreciation between reserves	997	(997)
Transfer from operating account	(14,449)	
At 31 March 2009	<b>54,664</b>	<b>2,403</b>

### 16 Reconciliation of Movements in Government Funds

		<b>2009</b>	<b>2008</b>
		£000	£000
(Deficit) / Surplus for the year		(7,249)	12,247
Dividend	8	(7,200)	(3,032)
Retained (deficit) /surplus for the year		<b>(14,449)</b>	9,215
Deficit on revaluation of fixed assets	15	<b>(3,919)</b>	(2,369)
Loan repayments		<b>(166)</b>	(167)
Net decrease in Government funds		<b>(18,534)</b>	6,679
Opening Government funds		<b>83,423</b>	76,744
Closing Government funds		<b>64,889</b>	<b>83,423</b>

# Chapter Three

## Accounts 2008-2009

### 17 Reconciliation of operating surplus to net cash inflow from operating activities

	<b>2009</b>	<b>2008</b>
	£'000	£'000
Operating (deficit) / surplus before interest and dividend	(9,723)	8,482
Depreciation charges	1,973	2,330
Gain on disposal of fixed assets	-	-
(Increase) / Decrease in debtors (excluding interest receivable) - see note 10	(225)	224
Increase / (Decrease) in creditors (excluding interest payable, dividend and capital expenditure) - see note 12	2,377	(1,078)
<b>Net cash (outflow) / inflow from operating activities</b>	<b>(5,598)</b>	<b>9,958</b>

### 18 Returns on investments and servicing of finance

	<b>2009</b>	<b>2008</b>
	£'000	£'000
Interest received - operating activities	2,681	3,935
Interest paid	(159)	(175)
Dividend paid on public dividend capital	(3,032)	(2,813)
<b>Net cash (outflow) / inflow from returns on investments and servicing of finance</b>	<b>(510)</b>	<b>947</b>

### 19 Capital Expenditure

	<b>2009</b>	<b>2008</b>
	£'000	£'000
Payments to acquire tangible fixed assets	(542)	(1,530)
<b>Net cash outflow from capital expenditure</b>	<b>(542)</b>	<b>(1,530)</b>

### 20 Management of liquid resources

	<b>2009</b>	<b>2008</b>
	£'000	£'000
Increase / (decrease) in short term investments	<b>8,500</b>	(10,500)

# Chapter Three

## Accounts 2008-2009

### 21 Financing

	<b>2009</b>	<b>2008</b>
	£'000	£'000
Net cash outflow from repayment of loans	<b>(166)</b>	(167)

### 22 Analysis of changes in net funds

	<b>01-Apr-08</b>	<b>Cash Flow</b>	<b>31-Mar-09</b>
	£000	£000	£000
Cash at bank and in hand	1,588	1,684	3,272
Short term investments	75,500	(8,500)	67,000
Loan repayments due within 1 year	(166)	-	(166)
Loan repayments due after 1 year	(1,497)	166	(1,331)
<b>Total</b>	<b>75,425</b>	<b>(6,650)</b>	<b>68,775</b>

### 23 Capital commitments

	<b>2009</b>	<b>2008</b>
	£000	£000
Contracted	<b>74</b>	0

### 24 Operating lease commitments

Operating lease rentals due within the next year:

	<b>2009</b>	<b>2009</b>	<b>2008</b>	<b>2008</b>
	£000	£000	£000	£000
	Buildings	Other	Buildings	Other
Leases expiring:				
within 1 year	85	126	-	32
between 1 and 5 years	194	24	363	301
after 5 years	68	157	265	-
	<b>347</b>	<b>307</b>	<b>628</b>	<b>333</b>

# Chapter Three

## Accounts 2008-2009

### 25 **Contingent liabilities**

The Directors are not aware of any contingent liabilities at 31 March 2009.

### 26 **Related party transactions**

The Office is an executive agency of the Department for Innovation, Universities and Skills. The Department is regarded as a related party. During the year, the Office had various material transactions with the Department. These were the dividend, loans payments and some payments for central services provided by the Department. In addition, the Office had a small number of material transactions with other Government Departments and other central government bodies. Most of these transactions were with the Statistics Authority, the Department for Business, Enterprise and Regulatory Reform and the Cabinet Office for services such as accommodation and legal services.

None of the Steering Board members, Office Directors or other related parties has undertaken any material transactions with the Office during the year.

### 27 **Financial instruments**

We are required to disclose the role which financial instruments have had during the period in creating or changing the risks the Office faces in undertaking its activities. The key risk for the Office arising from financial instruments is interest rates. Financial instruments play a more limited role in creating or changing risk than would be typical of the listed companies to which this mainly applies. The Office has very limited powers to borrow or to invest surplus funds, and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Office in undertaking its activities.

#### Liquidity risk

The Office is not exposed to liquidity risk given the present net liquid asset position.

#### Interest rate risk

All of the Office's financial liabilities carry nil or fixed rates of interest.

Interest bearing financial assets (see note 11) comprise cash balances which are held at floating rates of interest. Given that cash is available on demand or is placed on short term deposit at fixed rates and given that interest is budgeted conservatively, interest rate risk is limited but remains a factor because of the level of cash balances held.

#### Foreign currency risk

All fees are denominated in sterling with the exception of certain international trade mark business. The Madrid Protocol element (4.12% of turnover), denominated in Swiss Francs and payable by the World Intellectual Property Organisation, is managed by offsetting this against the sums due to the Organisation in respect of Patent Co-operation Treaty fees. The European Community Trade Mark Office search work (0.44% of turnover), denominated in Euros, is closely monitored and the Office is exposed to minimal exchange risk.

Other foreign currency transactions are de minimis.

# Chapter Three

## Accounts 2008-2009

### 28 Intra-government balances

	2009	2009	2008	2008
	£000	£000	£000	£000
	Debtors	Creditors	Debtors	Creditors
Balances with:				
Central government bodies	452	9,393	271	5,228
Local authorities	-	69	-	29
Public corporations and other trading funds	-	9	-	-
Total at 31 March	452	9,471	271	5,257

All balances fall due within one year.

### 29 Post Balance Sheet Events

The financial statements were authorised for issue on 6 July 2009.

Following machinery of government changes announced on 5 June 2009 the Office became an Executive Agency of the Department for Business, Innovation, and Skills.

In June 2009 the Government decided that the Intellectual Property Office would make a special payment of £25m to the Department for Business, Innovation and Skills. This funding is to further advance the innovation agenda lead by the Department.

# Chapter Three

## Accounts 2008-2009

### Appendix A

#### THE PATENT OFFICE TRADING FUND

##### TREASURY MINUTE DATED 26 FEBRUARY 2004

1. Section 4(1) of the Government Trading Funds Act 1973 provides that a trading fund established under that Act shall be under the control and management of the responsible Minister and in discharge of his function in relation to the fund it shall be his duty:

(a) To manage the funded operations so that the revenue of the fund:

(i) Consists principally of receipts in respect of goods or services provided in the course of the funded operations, and

(ii) is not less than sufficient, taking one year with another, to meet outgoings which are properly chargeable to revenue account; and

(b) to achieve such further financial objectives as the Treasury may from time to time, by Minute laid before the House of Commons, indicate as having been determined by the responsible Minister (with Treasury concurrence) to be desirable of achievement.

2. A trading fund known as The Patent Office was established on 1 October 1991 in pursuance of The Patent Office Trading Fund Order 1991 (S.I. 1991 No. 1796).

3. The Secretary of State for Trade and Industry, being the responsible Minister, has determined (with Treasury concurrence) that a further financial objective desirable of achievement by The Patent Office Trading Fund for the 5-year period from 1 April 2004 to 31 March 2009 shall be to achieve a return, averaged over the period as a whole, of 4.0 per cent in the form of a surplus on ordinary activities before interest payable and dividends payable expressed as a percentage of average capital employed. Capital employed shall equate to the capital and reserves, i.e. the Public Dividend Capital, long-term element of Exchequer loans and reserves.

4. This Minute supersedes that dated 11 May 2001.

5. Let a copy of this Minute be laid before the House of Commons pursuant to section 4(1) (b) of the Government Trading Funds Act 1973.





# Chapter Four

## Remuneration

### REMUNERATION REPORT FOR SENIOR STAFF AT THE PATENT OFFICE

#### REMUNERATION POLICY

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits;
- The Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at <http://www.ome.uk.com/index.cfm>.

Directors comprise mainly members of the senior civil service (SCS) or those whose pay and conditions, although delegated to the Office are determined by analogy with the SCS in the Department for Innovation Universities and Skills (DIUS).

Performance is assessed by line management into three tranches: top, middle and bottom. The percentage of staff that can be accepted in each category is established centrally by DIUS. Performance pay of up to 5% of the pay bill is available to reward top and middle tranche performers. For SCS members the line management assessment is combined with those for all other DIUS SCS and the outcome moderated by the DIUS pay committee.

For SCS analogues the Chief Executive, and Kathryn Bishop, an independent member of the Steering Board, form a remuneration committee and moderate the final performance distribution. The committee met on 10 June 2008 to moderate the 2008/09 award.

#### SERVICE CONTRACTS

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments, which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at [www.civilservicecommissioners.gov.uk](http://www.civilservicecommissioners.gov.uk).

# Chapter Four

## Remuneration

### SALARY AND PENSION ENTITLEMENTS

The following tables provide details of the remuneration and pension interests of the Chief Executive and Directors of the Office and are audited.

#### REMUNERATION

	2008-09		2007-08	
	Salary £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
Ian Fletcher <sup>1</sup> Chief Executive from 30.04.07	155 - 160	Nil	125 - 130	Nil
Kevin Woodrow <sup>2</sup> Director to 12.09.08	45 - 50 (85 - 90 full year equivalent)	Nil	85 - 90	Nil
Sean Dennehey <sup>2</sup>	115 - 120	Nil	115 - 120	Nil
Robin Webb <sup>1</sup>	65 - 70	Nil	70 - 75	Nil
Louise Smyth <sup>2</sup>	70 - 75	Nil	60 - 65	Nil
Mark Pacey <sup>1</sup>	60 - 65	Nil	60 - 65	Nil
Liz Coleman <sup>2</sup> Director to 18.08.08	25 - 30 (65 - 70 full year equivalent)	Nil	65 - 70	Nil
Peter Holland <sup>1</sup> Director from 18.08.08	35 - 40 (60 - 65 full year equivalent)	Nil	N/A	N/A
Andrew Layton <sup>1</sup>	60 - 65	Nil	15 - 20 (60 - 65 full year equivalent)	Nil
Gillian Pratt <sup>4</sup> Director from 13.10.08	N/A	N/A	N/A	N/A
Edmund Quilty <sup>1</sup>	75 - 80	Nil	10 - 15 (60 - 65 full year equivalent)	Nil

<sup>1</sup> is a member of the Senior Civil Service.

<sup>2</sup> is a member of the Senior Civil Service by analogy.

<sup>3</sup> is not a member of the Senior Civil Service.

<sup>4</sup> Gillian Pratt joined the Office on a secondment from the Environment Agency. A fee of £40-45 thousand was paid to them to cover her pay, NI and contributions to the Environment Agency's final salary pension scheme. This scheme is part of the Local Government Pension Scheme.

# Chapter Four

## Remuneration

### SALARY

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; and any other allowance to the extent that it is subject to UK taxation. Ian Fletcher's salary includes £49,145 in reimbursement for gross taxable expenses relating to his detached duty in South Wales.

### BENEFITS IN KIND

There were no benefits in kind in 2008/09.

### PENSION BENEFITS

	Accrued pension at age 60 as at 31/3/09 and related lump sum	Real increase / (decrease) in pension and related lump sum at age 60	CETV at 31/3/09 or leaving office	CETV at 31/3/08 or taking office	Real increase/ (decrease) in CETV
	£'000	£'000	£'000	£'000	£'000
Ian Fletcher Chief Executive from 30.04.07	30 – 35 plus 95 - 100 lump sum	0 – 2.5 plus 2.5 - 5 lump sum	544	491	10
Kevin Woodrow	15 – 20 plus 45 - 50 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	255	239	4
Sean Dennehey	40 – 45 plus 120 - 125 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	751	693	5
Robin Webb	15 – 20 plus 45 - 50 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	230	208	6
Louise Smyth	15 – 20 plus 45 - 50 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	223	201	7
Mark Pacey	10 – 15 plus 10 - 15 lump sum	0 – 2.5 plus -2.5 – 0 lump sum	161	152	-6
Liz Coleman Director to 18.08.08	15 – 20 plus 55 - 60 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	341	314	2
Peter Holland Director from 18.08.08	15 - 20 plus 25 - 30 lump sum	0 – 2.5 plus -2.5 – 0 lump sum	215	204	-2
Andrew Layton	10 - 15 plus 35 - 40 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	162	144	7
Edmund Quilty	20 - 25 plus 65 - 70 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	383	347	10

# Chapter Four

## Remuneration

Gillian Pratt is a member of the Environment Agency's final salary pension scheme. This is part of the Local Government Pension Scheme.

The factors used in calculating CETVs were updated in October 2008. As a result of this the opening CETV of the 2008/09 calculations are different to the closing CETV from the 2007/08 calculations.

### CIVIL SERVICE PENSIONS

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (**classic, premium or classic plus**); or a 'whole career' scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic, premium, classic plus** and **nuvos** are increased annually in line with changes in the Retail Prices Index (RPI). Members who joined from October 2002 could opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (**partnership** pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium, classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is up rated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted, is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic, premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)

### CASH EQUIVALENT TRANSFER VALUES

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

# Chapter Four

## Remuneration

### REAL INCREASE IN CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

### COMPENSATION FOR LOSS OF OFFICE

Mark Pacey left under Voluntary Severance Terms on 30 April 2009. He received a compensation payment of between £145,000 - £150,000.

### STEERING BOARD MEMBERS

Professor Adrian Smith (Director General) appoints independent Board members for a fixed term, which may be renewed. In addition both he and Zina Etheridge (representing the strategy and communications directorate of the DIUS) held appointments without a fixed term. Alun Evans was appointed DIUS member from 1st April 2008. Professor Adrian Smith replaced Alun Evans on 1st September 2008.

The Independent Board members and their remuneration are:

	2008- 09 Remuneration £'000	2007- 08 Remuneration £'000
Kathryn Bishop Reappointed 9 March 2006 to 14 July 2009	5 – 10	5 – 10
Mary Champion Reappointed 1 September 2007 to 31 August 2010	5 – 10	5 – 10
Geoffrey Drage Reappointed 15 July 2008 to 14 July 2009	5 – 10	5 – 10
David Roberts Appointed 16 April 2007 to 15 April 2010	5 – 10	5 – 10
David Richards Reappointed 9 March 2006 to 5 February 2010	Not Applicable	Not Applicable

Alun Evans, Professor Adrian Smith, Zina Etheridge and David Richards are civil servants and are not remunerated by the Office.

Geoffrey Drage was separately appointed to the Audit Committee of the World Intellectual Property Organisation (WIPO) in January 2006 and receives fees from the Patent Office for his work in this context. If this was included his overall remuneration would have been in the range £20 - £25 thousand.



**Ian Fletcher**  
Chief Executive and Accounting Officer  
1 July 2009



# Chapter Five

## Performance against Agency Targets

### 2008/2009 BALANCED SCORECARD

#### MEASURE

To receive an overall "good" or "satisfactory" rating in at least 80% of responses in customer surveys

Issue 90% of patent search reports within 4 months of request

To issue a substantive response to an allowable request for accelerated patent examination within 2 months of receipt in 90% of searched applications

To register 90% of processed trade mark applications, to which no substantive objections have been raised or oppositions filed, within 7 months of application

To register 95% of all correctly filed design applications within 2 months

Meet 80% of agreed milestones in development of policy initiatives

By 31 March 2009, 66% of business advisors (UKTI export and Business Link advisors and their devolved counterparts) will have received training from the UK-IPO in advising businesses on intellectual property (IP) management. (Contributing to the Science and Innovation Strategy goal for all business advisors [UKTI export and Business Link advisors and their devolved counterparts] to have received this training by summer 2009)

By 31 March 2009, to have a defined role for UK-IPO in relation to IP crime, working in partnership with other agencies, and to have developed the resources, expertise and authorisations to fulfil that role credibly and effectively

Refine copyright policy and improve its relevance in the digital age and to make visibly perceived progress in the eyes of stakeholders through the chain from producers to end users

To resolve 55% of Trade Mark disputes in 1 year

Achieve the target of 4% on Return on Capital Employed

The Office will deliver direct benefits to customers and stakeholders of £2.5m through a combination of the implementation of new or expanded services, and reductions in Office statutory fees

Make the correct decision on registerability in at least 98.5% of trade mark applications

Give good customer service in processing patent applications in 95% of quality assured cases.

Promote a healthy workforce where people are fit and able to come to work 97% of the time

Complete, sign off and return 95% of Performance Management Forms to Personnel by 31 May 2008

To achieve 99% of the agreed monthly service levels for key IT systems

Reduce consumption of water, energy, travel and waste by 2%

Develop a highly trained workforce where 90% of people who have identified a legitimate training need will have received their training

To achieve 80% or more of agreed milestones for key business-change projects within the reporting year

By March 2009, UK-IPO Together will be embedded in the office culture and 80% of staff know and understand the management values

TARGET	OUTCOME
80	96
90	92
90	96
90	98
95	97
80	83
66	67
	Achieved
	Achieved
55	59
4	9.0
2.5	2.9
98.5	99
95	97
97	96.71
95	97
99	100
2	6
90	92
80	80
80	84

# Chapter Five

## Performance against Agency Targets

### 2007/2008 BALANCED SCORECARD

#### MEASURE

	TARGET	OUTCOME
Issue 90% of patent search reports within 4 months of request	90	90
Grant 90% of patents within 2½ years of request	90	89
To register 90% of processed Trade Mark applications, to which no substantive objections have been raised or oppositions filed, within 8 months of application	90	95
To examine 95% of all Design applications within 3 months	95	100
To achieve 99% or more of the agreed monthly service levels for key IT systems	99	99
To achieve 80% or more of agreed milestones for key projects within the reporting year	80	84
To resolve 55% of Trade Mark disputes in one year	55	57
Develop 6 Target profiles, using Telpat intelligence	6	11
Make the correct decision on registerability in at least 98.5% of Trade Mark applications	98.5	99
Give good customer service in patent search and examination in 95% of quality assured cases	95	97
Meet 80% of agreed milestones in development of policy initiatives	80	70
The number of businesses taking action to improve the management of their IP will increase by 20% above baseline in targeted groups	20	60
Generate a 10% increase in demand for non-statutory innovation support services	10	14.1
To receive an overall "good" or "satisfactory" rating in at least 80% of responses in customer and Ministerial surveys	80	97.9
Achieve the target of 4% on Return on Capital Employed	4	15.60
Reduce total current expenditure on the operations of the trading fund compared with the baseline of the Corporate Plan 2004/05, in line with the DTI's published Efficiency Technical Note. Cumulative savings target for 2005/06, 2006/07 and 2007/08 is £2.7M	2.7	5.4
Achieve positive outcomes on 100% of ISO and Charter Mark healthchecks	100	100
Reduce number of days sick absence per person to	9	8.08
9 days by March 2008		
8.5 days by March 2009		
8 days by March 2010		
Complete, sign off and return 100% of Performance Measurement Forms to Personnel by 31 May 2008	95	95
95% by 31 May 2007		
100% by 31 May 2008		
80% or more of internal customers are "satisfied" or "very satisfied" with the provision of internal IT customer services	80	100
Apply for initial assessment of our Environmental Management System by the ISO Accreditation body by the end of March 2008.	100	100
Achieve a minimum of 75% "No actions required" recommendations in follow up Internal Audit reports where initial recommendations were "Necessary Actions Required" or "Urgent Actions Required"	75	77
80% of completed TREFs to contain positive feedback from Line Manager on the improved competences of staff.	80	100
Ensure that applications from black and minority ethnic people are running at 5% of applications for A-B1 level posts by end March 2008.	5	6.8



# Chapter Five

## Performance against Agency Targets

### AGENCY TARGETS 2006 – 2007

	TARGET (%)	OUTTURN (%)
1 Issue 90% of patent search reports within 4 months of request.	90%	86%
2 Grant 90% of patents within 2½ years of request.	90%	93%
3 Give good customer service in patent search and examination in 95% of quality assured cases.	95%	95%
4 Register 90% of processed trade mark class applications, to which no substantive objections are raised or oppositions filed, within 8 months of application.	90%	96%
5 Make the correct decision on registrability for at least 98.5% of trade mark applications*.	98.5%	99.4%
6 To examine 95% of all Design Applications within 3 months**.	95%	99%
7 To dispose of all trade marks <i>inter partes</i> cases within 3 years achieving at least 30% within one year and at least 70% in two years.	30% 70% 100%	58% n/a n/a
8 Reduce total current expenditure on the operations of the trading fund compared with the baseline of the Corporate Plan 2004/05, in line with the DTI's published Efficiency Technical Note. Cumulative savings target for 2005/05 and 2006/07 is £2.3m.	£2.30M	£5.38m
9 Adoption of our educational resource, THINK kit version II. In UK secondary schools - with not less than 80% penetration.	80%	82%

### In addition to these key targets

Meet our Customer Service Standards as reported in the Annual Report and on our website [www.ipo.gov.uk](http://www.ipo.gov.uk)

92.96%

Pay 100% of bills within 30 days of receipt of goods or services or a valid invoice, whichever is the later

98.33%

Reply within 10 working days to all letters from members of Parliament delegated for Chief Executive's reply

100%

\*This target, which relates to the final examination side decision on the application, refers to bad refusals on relative or absolute grounds, and bad acceptances on absolute grounds only.

\*\*This target came into effect on 1 October 2006, to co-incide with the implementation of the Designs Modernisation legislation.

# Chapter Six

## Glossary

### GLOSSARY

BERR	Department for Business, Enterprise and Regulatory Reform
BIS	Department for Business, Innovation and Skills
CETV	Cash Equivalent Transfer Value
DIUS	Department for Innovation, Universities and Skills
EU	European Union
EPO	European Patent Office
FReM	Financial Reporting Manual
IP	Intellectual Property
ISO	International Standards Organisation
KPIs	Key Performance Indicators
OHIM	Office for Harmonisation in the Internal Market
PECS	Patents Electronic Case Files Programme
PSA	Public Service Agreement
SCS	Senior Civil Service
SMEs	Small and Medium Enterprises
IPO	Intellectual Property Office
WA	Wrongly Accepted
WR	Wrongly Refused
WIPO	World Intellectual Property Organisation

# ANNUAL REPORT AND ACCOUNTS

## Concept and Design

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Printed by

**Intellectual Property Office Design and Print Services**

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