

Supplementary 1
Q & A: Program and Budget
(resulting from pre-PBC briefing sessions)

1. Q: Provide updated figures for actual income/expenditure as of end July 2011, together with an updated projection for the biennium and the analysis of the impact of tail income and foreign exchange impact as a result of the recent significant impact of the strengthening of the Swiss franc.

A 1.1: Overall income/expenditure as of end July 2011:

Overall Financial Situation as of end July 2011
As of July 31, 2011
(in millions of Swiss francs)

BUDGETARY BASIS

	Total 2008 Actual	Total 2009 Actual	Total 2008/09 Actual	2010/11 Approved Budget ²	2010/11 Allocations ²	Actual Jan 2010- July 2011			Jan 10-July 11 as % of Allocations ³
						2010 Jan-Dec	2011 Jan-July	Total	
1 Income	313.9	293.5	607.4	618.6	618.6	292.5	166.7	459.2	74.2%
2 Expenditure (Regular Budget ¹)									
Personnel	194.3	202.5	396.8	399.4	396.1	198.2	111.7	309.9	78.2%
Non-personnel	87.4	92.6	180.0	212.7	221.6	91.2	53.9	145.1	65.5%
Unallocated (personnel and non-personnel)	--	--	--	6.4	0.9	--	--	--	0.0%
Total, Expenditure, Regular Budget	281.7	295.1	576.8	618.6	618.6	289.4	165.6	455.0	73.6%
3 Result after Regular Budget Expenditure (1-2)	32.2	(1.5)	30.6	(0.0)	(0.0)	3.1	1.1	4.2	n/a
4 Expenditure Special Projects	--	6.0	6.0	n/a	n/a	5.8	11.8	17.5	n/a
5 Result after Regular Budget & Special Projects (1-2-4)	32.2	(7.5)	24.6	n/a	n/a	(2.7)	(10.7)	(13.3)	n/a

¹ Includes an estimated amount of Sfr1.4 million of accrued expenditure under the Regular budget, of which Sfr0.2 million is under Travel and Fellowships, Sfr0.6 million under Contractual Services, Sfr0.5 million under Operating Expenses. Not included is the amount of Sfr1.4 million of Staff Travel Advances, some of which will relate to the period under review.

² As of July 31, 2011. For 2010/11 biennium all SSA are treated as non-personnel expenditures. Accordingly, the budget has been adjusted to show SSA under non-personnel costs.

³ For guidance - Utilization of allocations on a linear basis would be around 79.2% (19 months elapsed out of 24 biennial months).

A 1.2: Projected income for the biennium:

PCT filings are expected to experience strong growth in 2011, due to increased filings by applicants from China, the Republic of Korea and Japan. They will likely hit a new record, as the recovery in PCT filings is now observed across all countries. This growth, in 2011, came in the face of slowing economic activity. Actual PCT revenue in 2011 will experience lower than anticipated growth due to the unexpectedly strong appreciation of the Swiss franc during 2011. Longer-term forecast of PCT revenue points to 3% growth per year.

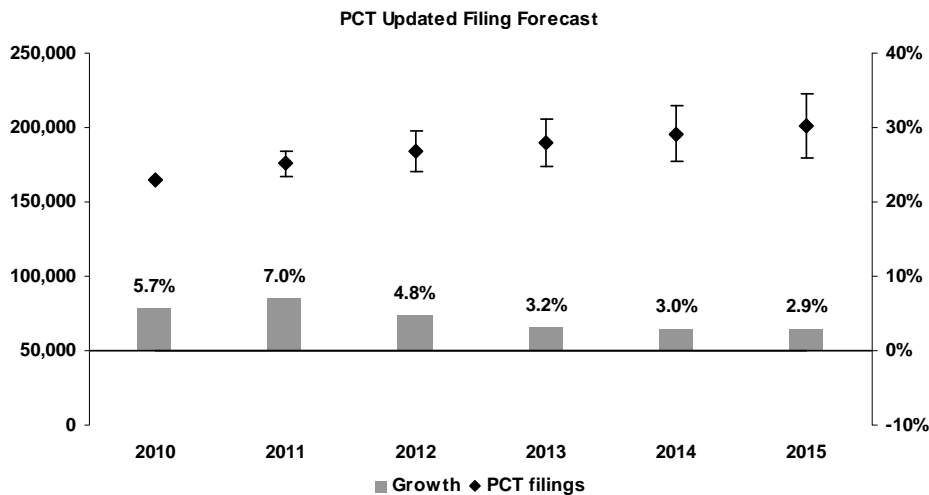
The PCT's income forecast assumes that all fees are paid within the same year of filing and that all fees are converted to Swiss francs according to certain exchange rates fixed in the PCT Gazette. Accordingly, the income forecast indicates the theoretical revenue generated by the filings, without considering when the money is paid and its actual conversion into Swiss francs. The calculation takes into account all the major elements of the PCT fee structure: withdrawals, e-filing reductions and fee reductions for low-income countries.

It is recalled that for budgeting purposes, the resulting figures are then adjusted downward by 1.5% as a risk adjustment measure. Therefore this adjustment represents a prudent approach to the financial forecast.

Please see PCT Trends and Forecast presentation attached as Annex I.

PCT Forecast Summary (in millions of Swiss francs)						
Year	Budgeted Estimate		Updated Forecast at July 2011			Percent difference
	PCT filings	Budgeted Income	Biennial Budgeted income	PCT filings	Adjusted Income	
2010	163,800	219.8		164,274	216.0	
2011	170,100	226.4	446.2	175,700	222.0	438.0
2012	180,800	236.5		184,100	241.7	
2013	187,200	244.1	480.6	189,900	247.7	489.4
2014	193,500	n/a		195,600	254.2	
2015	199,600	n/a	n/a	201,200	260.5	514.7

Note: the "Budgeted Income" figures include a downward adjustment of 1.5% on PCT's base case as presented in the respective Program and Budget documents

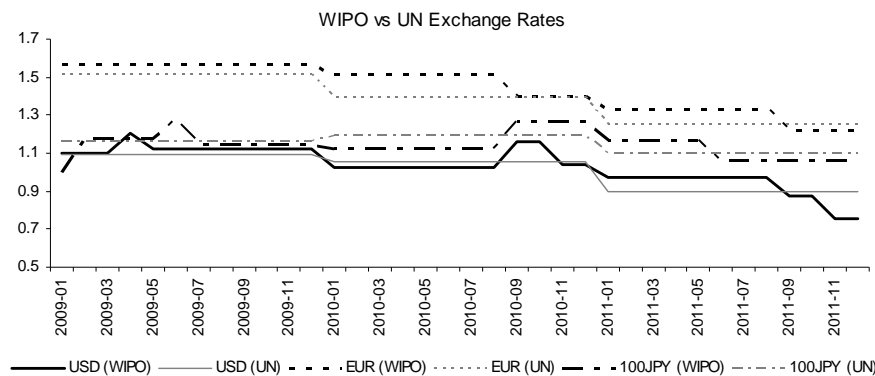


A 1.3: Impact of Exchange Rate Fluctuations and Tail Income

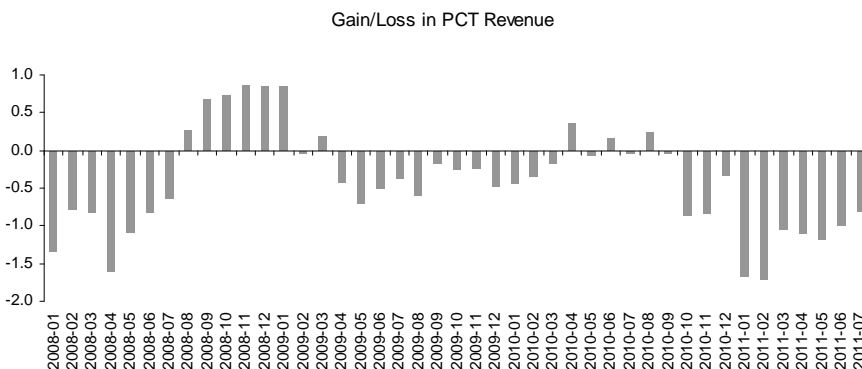
While the PCT International filing fee (the main source of PCT fee income) is fixed in Swiss franc, it is usually not paid in Swiss franc but in the local currency accepted the receiving Office with which the international application is filed. For that purpose, the Director General of WIPO establishes official "equivalent amounts" of the international filing fee in many of the local receiving Office currencies accepted worldwide. Where the equivalent amount of the international filing fee is paid in a local receiving Office currency which is a "freely convertible" currency, the receiving Office simply transfers that equivalent amount in the local currency to the International Bureau. Where the equivalent amount of the international filing fee is paid in a currency which is not "freely convertible", the receiving Office is required to convert the amount received in the local currency into Swiss franc, Euro or US dollar and to transfer the full amount of the international filing fee (not the amount resulting from the conversion) to the International Bureau. The International Bureau establishes equivalent amounts according to the Directives adopted by the PCT Assembly: (1) the exchange rates on the first Monday of October are taken as the new exchange rates for setting the equivalent amounts for the following year; (2) if for more than four consecutive Fridays the exchange rates are by more than 5% higher or lower than previously set, the Director General of WIPO initiates consultations with Offices

concerned to determine new equivalent amounts, which will become effective two months after the date on which they will have been published in the PCT Gazette.

Applicants pay the international filing fee in the local receiving Office currency according to the equivalent amount applicable on the date of filing. However, due to delays in the transfer of those fees to the International Bureau and, where applicable, due to the relatively slow process to establish new equivalent amounts, the exchange rates to be achieved by the International Bureau when converting those fees into Swiss franc (based on the “UN exchange rates”) are likely to be different from the officially established equivalent amounts (“WIPO exchange rates”) resulting in gains or losses of PCT income. The following graph depicts the “WIPO exchange rates” and the “UN exchange rates” for the three major currencies which cover 80% of PCT payments: USD (36%), Euro (25%) and Yen (20%).



The difference between the equivalent amounts applicable on the date of filing and the amount converted to Swiss franc on the date of payment under UN exchange rates constitutes “theoretical” gain or loss of the PCT revenue. The following graph shows the monthly theoretical gain/loss of the PCT income. Note, however, that this graph assumes that the payments in other currencies are converted to Swiss franc on the day of payment under UN exchange rates; in reality, the conversion is neither immediately done on the date of payment nor under UN rates.



Due to the exceptional strength of the Swiss franc since the end of 2010, PCT income suffered higher than expected loss in 2011. This loss reached 8.96 million Swiss francs in the first 8 months of this year. A more detailed explanation is contained in the accompanying slides (see Annex II).

Another factor which can contribute to the difference between simple calculated income (volume multiplied by fees) and actual revenue received relates to the fact that every year some of the fee income, especially in the first few months of the year, relates to the filings from the previous year (“tail income”). The 2010 filing recovery implied a negative tail income effect, as actual income fell short of the income forecast – this is seen to be because a portion of 2010

fee payments still related to the 2009 crisis year, and a smaller than average share 2009 filings was paid in 2010.

PCT Updated Forecast Summary at July 2011				
<i>(in millions of Swiss francs)</i>				
Year	Estimated Tail Income	Exchange Rate Impact	Income	Growth
2010	-2.0	-2.4	216.0	2.2%
2011	-2.0	-9.0 *	222.0	2.7%
2012	-0.9		241.7	8.9%
2013	-1.0		247.7	2.5%
2014	-0.9		254.2	2.6%
2015	-0.8		260.5	2.5%

* 2011 Exchange rate impact calculated between January and August of the year.

2. Q: What is the estimated volume of foregone revenue resulting from the fee reductions accorded under the international registration systems for applicants from developing countries?

A: The volume of the fee reductions is estimated at approximately 11 million Swiss francs for the current biennium and approximately 13 million Swiss francs for 2012/13.

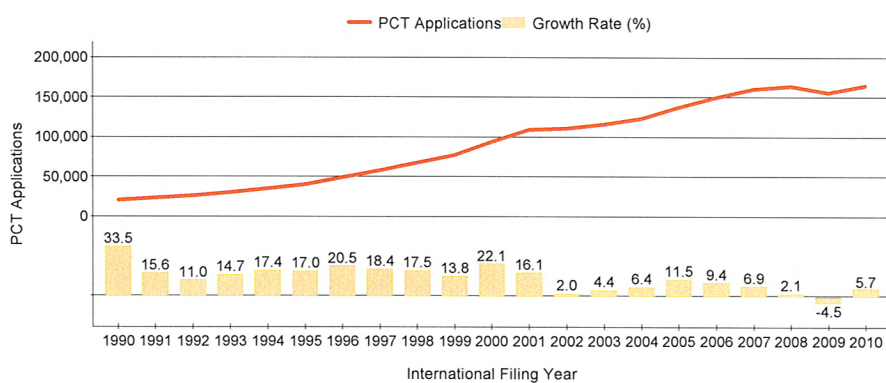
[Annexes follows]



PCT trends and forecast

Geneva
September 12, 2011

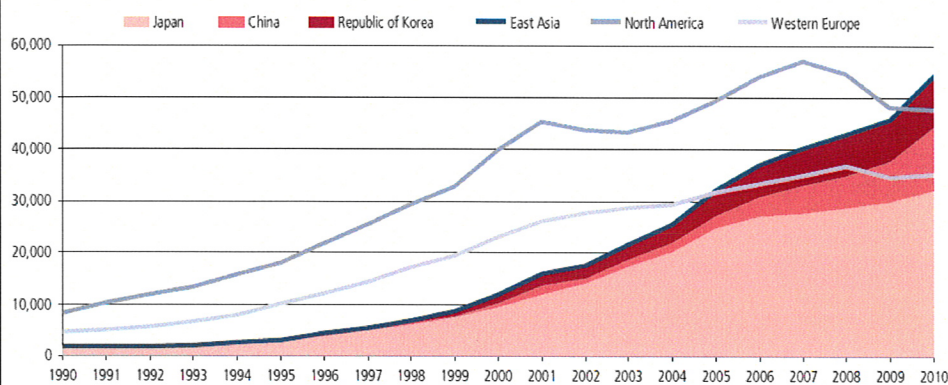
Long term trend



Average annual growth of 11.2 percent since 1990

Source: WIPO Statistics Database

Shifting geography of PCT system



Source: WIPO Statistics Database

WIPO
WORLD
INTELLECTUAL PROPERTY
ORGANIZATION

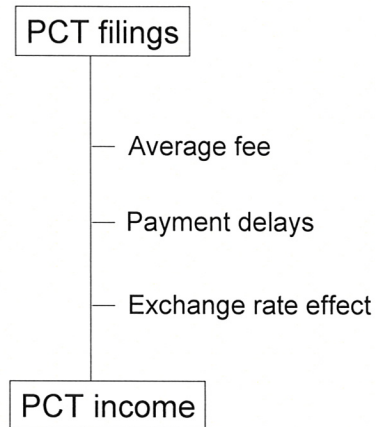
Relative use of the PCT system

Share of PCT national phase entries in total filings abroad

	2000	2009
US	44%	73%
Japan	17%	40%
Germany	35%	57%
China	17%	36%
Republic of Korea	9%	28%

WIPO
WORLD
INTELLECTUAL PROPERTY
ORGANIZATION

PCT filings and income



Performance in 2009

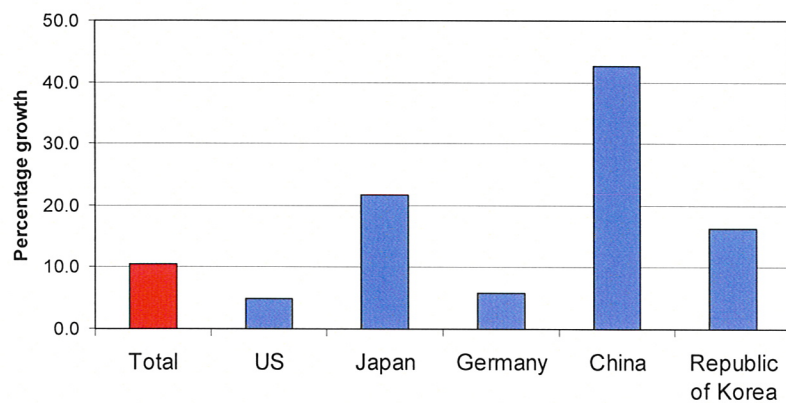
- First ever drop in PCT filings by 4.5 percent
 - Drops in most high income countries, though often by less than resident filings
 - Japan as big exception: 10.5 percent fall in domestic filings, but 3.6 increase in PCT filings
 - Continued fast growth in China and the Republic of Korea
- Decline in income by 6.7 percent
 - Largely due to new fee structure effective as of mid-2008
 - Payment delays: 3.8 percent gain
 - Exchange rate effect: 1.9 percent loss

Performance in 2010

- Overall growth in PCT filings of 5.7 percent; total filings (164,210) slightly above 2008 level
 - Continued decline in US by 1.6 percent; mixed performance in Europe with 4.5 percent growth in Germany
 - Fast filing growth in Japan (8 percent)
 - Very fast filing growth in China (55.6 percent) and the Republic of Korea (20.3 percent)
- Stagnant income
 - Average fee remained largely unchanged
 - Payment delays: 2.9 percent loss
 - Exchange rate effect: 0.6 percent loss

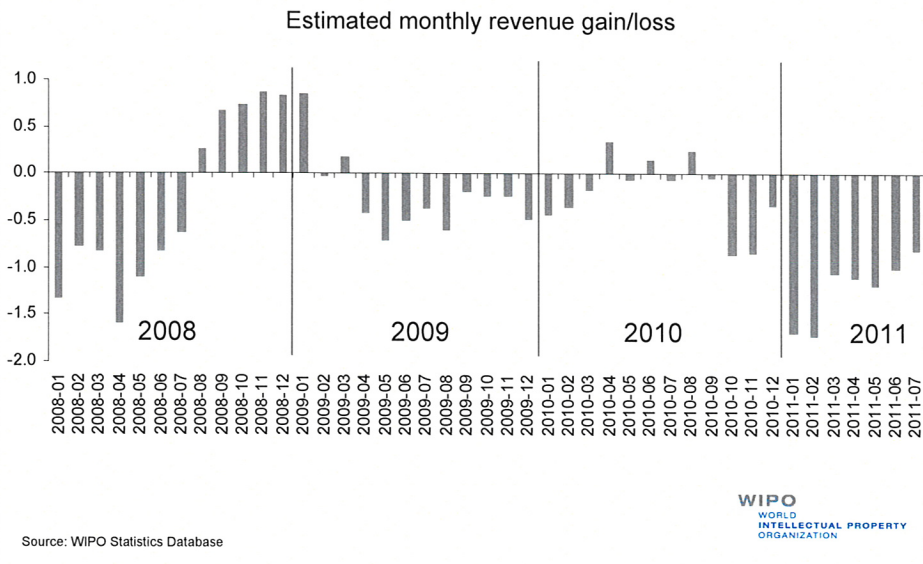
Performance in 2011 so far

PCT filing growth, Jan-May 2011 compared to Jan-May 2010



Source: WIPO Statistics Database

Exchange rate effect



Our forecast model

1. Forecast filing levels for major PCT filing jurisdictions through two models:
 - Deterministic/stochastic trend models
 - Econometric model relying on IMF's GDP forecasts
2. Forecast use of fee reductions:
 - Trend model
3. Apply fee structure to the above to produce income forecast
4. Adjust for payment delays from previous year

July 2011 forecast

		2011	2012	2013
PCT filings	# of filings	175,700	184,100	189,900
	growth	7.0%	4.8%	3.2%
Adjusted income	million Sfr.	222.0	241.7	247.7
	growth	2.8%	8.9%	2.5%



PCT Fees

- Three different PCT fees payable:
 - transmittal fee (receiving Office (RO))
 - search fee (International Searching Authority (ISA))
 - international filing fee (International Bureau (IB))
- All fees payable to the RO, which transfers the search fee to the ISA and the international filing fee to IB
- In general: all fees payable to RO are to be paid in RO currency (currency accepted by RO)

PCT International Filing Fee

- International Filing Fee (IFF) is fixed in CHF (1,330 CHF)
- Step 1: IFF payable in CHF (RO currency = CHF)? (yes/no)
- Step 2: if no, RO currency = freely convertible? (yes/no)

Step 1: IFF payable in CHF?

- Yes: applicant pays IFF in the amount of 1,330 CHF to RO and RO transfers 1,330 CHF to IB
 - Note: some RO accept (only for the purposes of paying the IFF) CHF as a RO currency and require the applicant to pay the IFF in CHF although the “local” RO currency is not CHF
- No: applicant pays to the RO the official equivalent amount (as established by the DG and published in the PCT Gazette) of 1,330 CHF in the currency accepted by the RO (there are exceptions, see below)

Step 2: RO currency = freely convertible? (1)

- Yes:
 - RO transfers the official equivalent amount (as established by the DG and published in the PCT Gazette) of 1,330 CHF in RO currency to the IB
 - IB bears risk of exchange rate fluctuations between date on which the official equivalent amount of IFF was last set and the date of receipt of IFF by the IB
 - Note: some RO accept (only for the purposes of paying the IFF) USD as a RO currency and require the applicant to pay the IFF in USD although the “local” RO currency is not USD

Step 2: RO currency = freely convertible? (2)

- No:
 - RO responsible for conversion of RO currency into CHF, USD or EURO
 - RO required to transfer IFF to the IB in one of those currencies, in the full amount (i.e., 1,330 CHF or equivalent thereof in USD or EURO as published in the PCT Gazette)
 - RO bears risk of exchange rate fluctuations between the date of payment in the RO currency and date of transferring IFF to IB in Swiss franc, EURO or USD
 - IB bears risk of exchange rate fluctuations of EURO or USD against CHF between the date on which equivalent amount of IFF in EURO and USD was last set and the date of payment of IFF to IB where RO transfers IFF in EURO or USD
 - Note: some RO whose local currencies are not freely convertible require the applicant to pay an equivalent amount of the IFF in the RO currency as determined locally by the RO on the date of filing

7

Example 1: RO Currency = Freely Convertible

- Equivalent amount of IFF (1,330 CHF) in RO currency "XX" (freely convertible) set on 5 October to be 10,000 "XX", with entry into force on 1 January
- Applicant files IA on 1 March
- Applicant pays fees on 31 March
- RO transfers fees to IB on 15 May
- Between 5 October and 15 May, value of CHF against "XX" has increased
- 10,000 "XX" transferred by RO converts to CHF = 1,250 CHF
- Loss of 80 CHF to be borne by the IB

WIPO | PCT
The International
Patent System

8

Example 2: RO Currency = Not Freely Convertible

- Equivalent amount of IFF (1,330 CHF) in RO currency "YY" (not freely convertible) set on 5 October to be 10,000 "YY", with entry into force on 1 January
- Applicant files IA on 1 March
- Applicant pays fees on 31 March
- RO ready to transfer fees to IB on 15 May
- Between 5 October and 15 May, value of CHF against "YY" has increased
- RO converts 10,000 "YY" into CHF = 1,250 CHF (less than full amount of 1330 CHF)
- RO nevertheless required to transfer 1,330 CHF to IB
- Loss of 80 CHF to be borne by the RO

WIPO | PCT
The International
Patent System

PCT Search Fee

- Similar process applies to the PCT search fee (payable to the benefit of the ISA)
- RO bears the risk of exchange rate fluctuations where search fee is payable in a RO currency which is not freely convertible
- IB bears the risk of exchange rate fluctuations where the search fee is payable in a RO currency which is freely convertible

Establishment of Equivalent Amounts of PCT Fees

- Process governed by Directives adopted by the PCT Assembly (most recent revision: 2010)
- DG establishes new equivalent amounts
- After consultations with Offices concerned
- Regular and irregular adjustments

Regular adjustments

- Once a year
- According to exchange rate prevailing on first Monday in the month of October
- Entry into force: first day of subsequent calendar year (unless otherwise decided)

Irregular adjustments

- Consequential on important changes in exchange rates
- If, for more than four consecutive Fridays, the exchange rate between the CHF and the RO currency is at least 5% higher or lower than the last exchange rate applied
- New equivalent amount is fixed according to the exchange rate prevailing on the first Monday following the expiration of the “four consecutive Fridays” period
- Entry into force: two months after the date of its publication in the PCT Gazette (unless agreement on earlier date)

Irregular adjustments: Example

- 5 August: 4th consecutive Friday on which exchange rate between CHF and RO currency "XX" is by at least 5% higher than last exchange rate applied
- 8 August: Establishment of proposed new equivalent amount based on latest CHF/"XX" exchange rate
- 11 August: Consultation Circular sent
- 29 August: Deadline for Offices to comment
- 1 September: Publication of new equivalent amounts in the PCT Gazette
- 1 November: Entry into force of new equivalent amount in currency "XX"

IB losses due to ...

- CHF appreciation against freely convertible RO currencies
- Delays can exacerbate IB losses:
 - in the case of exchange rate fluctuations within 5% margin:
 - delays in the receipt by the IB of the IFF (late payment by applicant; late processing and transfer by RO; processing by banks)
 - in the case of exchange rate fluctuations beyond 5% margin:
 - relatively slow adjustment process:
 - technical implementation
 - consultative process + legal certainty vs. quick reaction
 - note: if during "four consecutive Fridays" period exchange rate is less than 5% higher or lower on just one of those Fridays, "four consecutive Fridays" period starts again