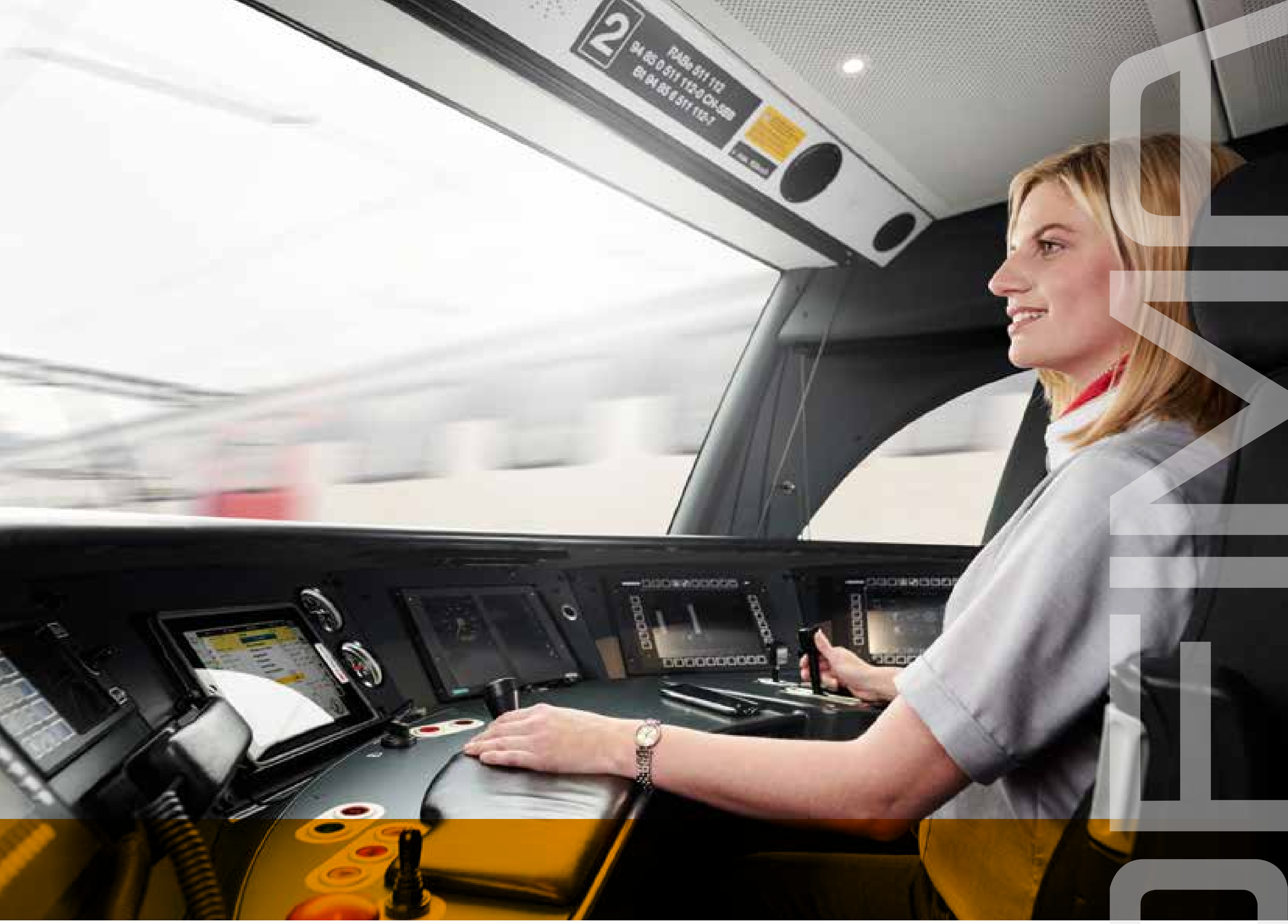

EUROFIMA

Annual Report 2017

EUROFIMA

European Company for the Financing of Railroad Rolling Stock

Contents

Key figures

Financial data: amounts in million CHF
Railway equipment: in units

	2017	2016	2015	2014	2013
Balance sheet					
Total	19 897	20 900	22 801	26 089	27 577
Assets					
Liquid assets [1]	4 262	3 624	3 916	4 305	4 093
Equipment financing contracts	13 731	14 377	15 508	18 275	20 932
Derivative financial instruments	1 890	2 884	3 361	3 493	2 533
Liabilities					
Outstanding borrowings [2]	17 639	18 400	20 164	23 300	24 634
Derivative financial instruments	600	817	1 023	1 186	1 380
Equity					
Equity + Callable share capital	3 712	3 695	3 677	3 664	3 625
Net profit and appropriation to reserves					
Net profit for the financial year	17	21	29	33	34
Appropriation to statutory reserves	18	24	28	30	30
Ratios in %					
Total operating expense / Total operating income	41.0	37.1	16.1	20.4	23.6
Net profit / Average equity	1.0	1.3	1.8	2.1	2.3
(Equity + Callable share capital) / Outstanding borrowings	21.0	20.1	18.2	15.7	14.7
(Sound share capital [3] + Shareholder guarantee AAA/AA) / Outstanding borrowings	28.6	27.3	24.8	21.4	20.1
(Sound share capital [4] + Shareholder guarantee Aaa/Aa) / Outstanding borrowings	28.3	27.0	24.6	21.2	19.9
Borrowings and repayments during the financial year					
Borrowings	6 261	6 474	5 210	3 700	3 438
Repayments	7 486	7 953	7 205	6 240	4 682
Repayment rate in %	120	123	138	169	136
Railway equipment financed during the financial year					
Locomotives	0	49	43	15	46
Multiple-unit trains					
- Motor units	124	637	264	199	12
- Trailer cars	120	612	133	268	12
Passenger cars	80	158	277	16	149
Freight cars	0	0	7	0	3

[1] Cash and cash equivalents and financial investments
[2] Amounts due to credit institutions and customers and debts evidenced by certificates
[3] Equity and callable share capital AAA/AA
[4] Equity and callable share capital Aaa/Aa

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Report of the Board of Directors to the General Assembly

EUROFIMA is a supranational organization. Its shareholders, which are also its customers, are the railways of its member States. EUROFIMA fulfills a task of public interest. It is located in Basel, Switzerland.

CONSTITUTION AND MISSION

EUROFIMA was established on November 20, 1956, based on an international treaty (the “Convention”) between sovereign States. It is governed by the Convention signed by its member States, its articles of association (“Statutes”) and in a subsidiary manner by the law of the country in which it is located. It was originally founded for a period of 50 years. The decision taken by the extraordinary General Assembly of February 1, 1984, to extend this period for an additional 50 years, until 2056, was approved by all member States. EUROFIMA’s shareholders are railways of the European member States which are parties to the Convention. EUROFIMA’s mission is to support the development of rail transportation in Europe and to support the railways which are its shareholders, as well as other railway bodies, in renewing and modernizing their equipment.

ACTIVITY

EUROFIMA finances railway equipment through borrowings or equity capital. EUROFIMA secures title to or obtains security interests deemed equivalent (in particular pledges) on or in respect of equipment. The general principles of EUROFIMA’s activity are defined in an agreement (the “Basic Agreement”) between the railways and EUROFIMA. The Basic Agreement remains valid for the entire duration of EUROFIMA’s existence and can only be altered with the consent of all the railways and EUROFIMA. EUROFIMA’s equity is primarily used for investments in liquid assets and, to a limited extent, for equipment financing contracts.

EQUIPMENT

EUROFIMA either holds title to the equipment until the financing has been completely reimbursed or it holds a direct or indirect security interest deemed equivalent, particularly pledges. The equipment is recorded in the company’s register with its number and type. Each railway is responsible for maintaining the equipment. In case of damage or loss, the equipment must be replaced without delay and at the railway’s expense. If a railway does not fulfill its obligations, EUROFIMA has the right to repossess the equipment to cover its exposure. The railway continues to assume responsibility for all contracts into which it has entered with the company. EUROFIMA has never experienced a loss due to the failure of a railway to assume its contractual obligations.

GUARANTEE RESERVE AND SUBSIDIARY SHAREHOLDER GUARANTEE

In the event of a default by a railway, the guarantee reserve, as outlined in Article 29 of the Statutes, may be called upon. According to this article, the yearly allocation to the guarantee reserve corresponds to the balance of the annual profit, after allocation to the ordinary reserve of 5% of the net profit and the eventual payment of a dividend, statutorily limited to a maximum of 4% of the paid-in share capital. After appropriation of the 2017 surplus, the guarantee reserve reached CHF 726.5 million. In addition, pursuant to Article 26 of the Statutes, each shareholder guarantees the fulfillment of all equipment financing contracts in proportion to its participation in EUROFIMA’s share capital and up to a maximum amount equal to its participation in EUROFIMA’s subscribed share capital. This subsidiary shareholder guarantee can only be called when (i) a railway and its guaranteeing member State have not discharged obligations under equipment financing contracts and (ii) the guarantee reserve, as outlined by Article 29 of the Statutes, is not sufficient to cover the loss resulting from such non-payment.

SHAREHOLDERS' DISTRIBUTION

Shareholder		Number of shares	in % of share capital	Subscribed share capital (in CHF)		Callable share capital [1] (in CHF)	
				2017	2016	**2017**	2016
Deutsche Bahn AG	DB AG	58 760	22.60%	**587 600 000**	587 600 000	**470 080 000**	470 080 000
SNCF Mobilités	SNCF	58 760	22.60%	**587 600 000**	587 600 000	**470 080 000**	470 080 000
Ferrovie dello Stato Italiane S.p.A.	FS	35 100	13.50%	**351 000 000**	351 000 000	**280 800 000**	280 800 000
SNCB	SNCB	25 480	9.80%	**254 800 000**	254 800 000	**203 840 000**	203 840 000
NV Nederlandse Spoorwegen	NS	15 080	5.80%	**150 800 000**	150 800 000	**120 640 000**	120 640 000
RENFE Operadora	RENFE	13 572	5.22%	**135 720 000**	135 720 000	**108 576 000**	108 576 000
Swiss Federal Railways	SBB	13 000	5.00%	**130 000 000**	130 000 000	**104 000 000**	104 000 000
Luxembourg National Railways	CFL	5 200	2.00%	**52 000 000**	52 000 000	**41 600 000**	41 600 000
CP-Comboios de Portugal, E.P.E.	CP	5 200	2.00%	**52 000 000**	52 000 000	**41 600 000**	41 600 000
ÖBB-Holding AG	ÖBB	5 200	2.00%	**52 000 000**	52 000 000	**41 600 000**	41 600 000
Hellenic Railways	OSE	5 200	2.00%	**52 000 000**	52 000 000	**41 600 000**	41 600 000
Näringsdepartementet, Sweden		5 200	2.00%	**52 000 000**	52 000 000	**41 600 000**	41 600 000
Akcionarsko društvo Železnice Srbije	ŽS	2 800	1.08%	**28 000 000**	28 000 000	**22 400 000**	22 400 000
České dráhy, a.s.	ČD	2 600	1.00%	**26 000 000**	26 000 000	**20 800 000**	20 800 000
HŽ Putnički prijevoz d.o.o.	HŽ	2 122	0.82%	**21 220 000**	21 220 000	**16 976 000**	16 976 000
Hungarian State Railways Ltd.	MÁV	1 820	0.70%	**18 200 000**	18 200 000	**14 560 000**	14 560 000
Bosnia and Herzegovina Railways	ŽFBH	1 326	0.51%	**13 260 000**	13 260 000	**10 608 000**	10 608 000
Železničná spoločnosť Slovensko, a.s.	ŽSSK	1 300	0.50%	**13 000 000**	13 000 000	**10 400 000**	10 400 000
Slovenske železnice d.o.o.	SŽ	1 092	0.42%	**10 920 000**	10 920 000	**8 736 000**	8 736 000
Holding Balgarski Darzhavni Zheleznitsi EAD	BDZ	520	0.20%	**5 200 000**	5 200 000	**4 160 000**	4 160 000
Javno pretprijatie Makedonski Železnici-Infrastruktura	MŽI	243	0.09%	**2 430 000**	2 430 000	**1 944 000**	1 944 000
Željeznički Prevoz Crne Gore AD	ŽPCG	156	0.06%	**1 560 000**	1 560 000	**1 248 000**	1 248 000
Turkish State Railways	TCDD	104	0.04%	**1 040 000**	1 040 000	**832 000**	832 000
Makedonski Železnici - Transport AD	MŽT	61	0.02%	**610 000**	610 000	**488 000**	488 000
Danish State Railways	DSB	52	0.02%	**520 000**	520 000	**416 000**	416 000
Norwegian State Railways	NSB	52	0.02%	**520 000**	520 000	**416 000**	416 000
Total		**260 000**	**100.00%**	**2 600 000 000**	**2 600 000 000**	**2 080 000 000**	**2 080 000 000**

[1] As per Article 21 of the Statutes the callable share capital may be called in unconditionally at any time by decision of the Board of Directors

STATE GUARANTEE

The railway shareholders' obligations towards EUROFIMA benefit from a double guarantee. Firstly, each member State is either directly liable for or guarantees the obligations of its railway under the equipment financing contracts. Secondly, each member State is either directly liable for or guarantees the obligations of its railway in such railway's capacity as a shareholder of EUROFIMA. In addition, pursuant to Article 9 of the Convention, the member States take the necessary measures to ensure the transfer of funds arising from the company's activity. As at December 31, 2017, the equity and the sum of the uncalled capital, and the shareholder guarantee, both taking into account only shareholders from member States rated AAA/Aaa or AA/Aa, corresponded to 28.6% and 28.3% respectively of outstanding borrowings based on Standard & Poor's and Moody's ratings.

Ratings of the member States at December 31, 2017 and 2016

	2017		2016	
	Standard & Poor's	Moody's	Standard & Poor's	Moody's
Germany	**AAA**	**Aaa**	AAA	Aaa
France	**AA**	**Aa2**	AA	Aa2
Italy	**BBB**	**Baa2**	BBB-	Baa2
Belgium	**AA**	**Aa3**	AA	Aa3
Netherlands	**AAA**	**Aaa**	AAA	Aaa
Spain	**BBB+**	**Baa2**	BBB+	Baa2
Switzerland	**AAA**	**Aaa**	AAA	Aaa
Luxembourg	**AAA**	**Aaa**	AAA	Aaa
Portugal	**BBB-**	**Ba1**	BB+	Ba1
Austria	**AA+**	**Aa1**	AA+	Aa1
Greece	**B-**	**Caa2**	B-	Caa3
Sweden	**AAA**	**Aaa**	AAA	Aaa
Serbia	**BB**	**Ba3**	BB-	B1
Czech Republic	**AA-**	**A1**	AA-	A1
Croatia	**BB**	**Ba2**	BB	Ba2
Hungary	**BBB-**	**Baa3**	BBB-	Baa3
Bosnia and Herzegovina	**B**	**B3**	B	B3
Slovakia	**A+**	**A2**	A+	A2
Slovenia	**A+**	**Baa1**	A	Baa3
Bulgaria	**BBB-**	**Baa2**	BB+	Baa2
FYR Macedonia	**BB-**	**-**	BB-	-
Montenegro	**B+**	**B1**	B+	B1
Turkey	**BB**	**Ba1**	BB	Ba1
Denmark	**AAA**	**Aaa**	AAA	Aaa
Norway	**AAA**	**Aaa**	AAA	Aaa

Rating of EUROFIMA at December 31, 2017

	Standard & Poor's	Moody's
Long term	AA+	Aa1
Short term	A-1+	P-1
Outlook	stable	stable

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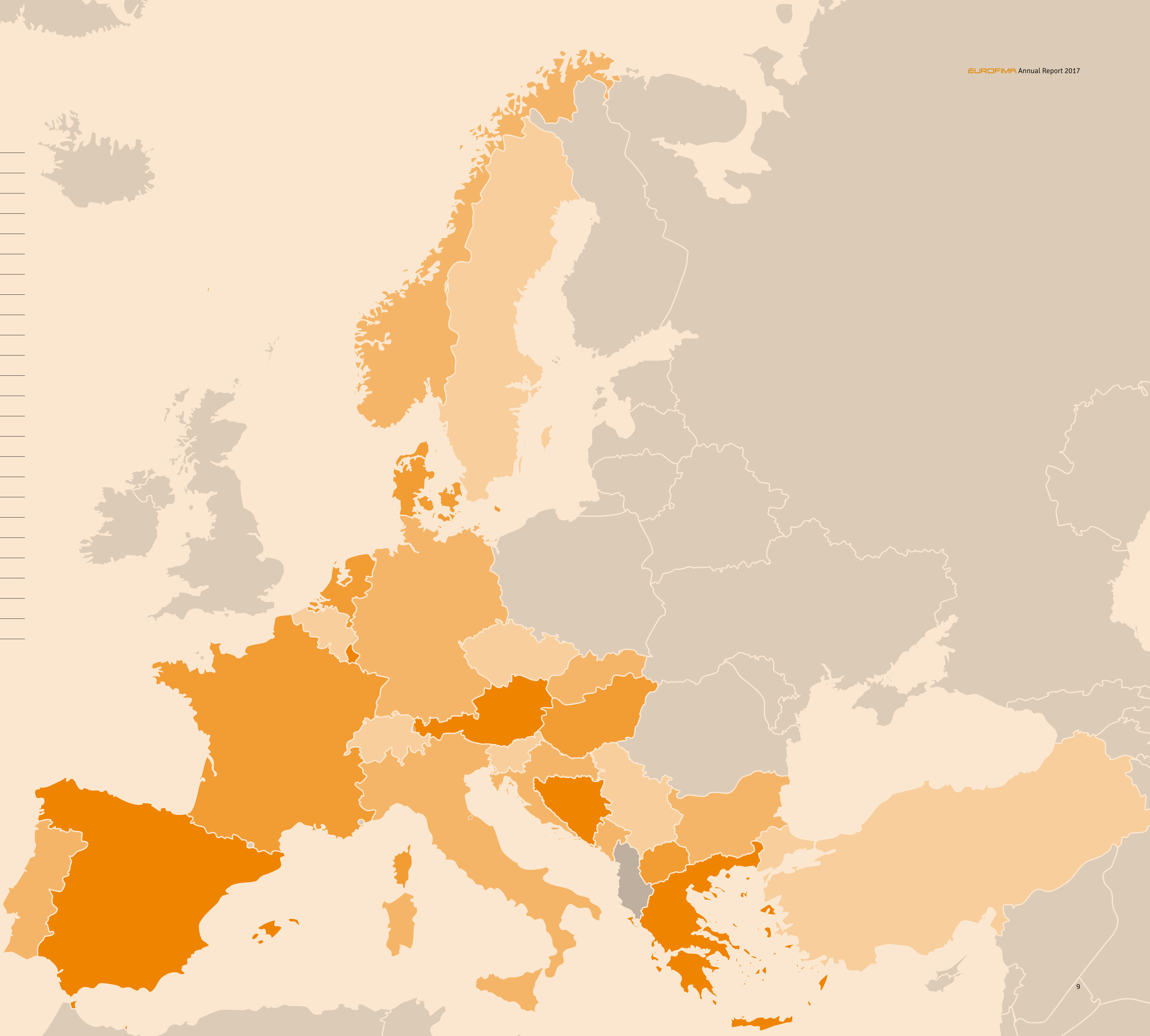
Country	Member since
Austria	1955
Belgium	1955
Denmark	1955
France	1955
Germany	1955
Italy	1955
Luxembourg	1955
Netherlands	1955
Norway	1955
Portugal	1955
Serbia	1955
Spain	1955
Sweden	1955
Switzerland	1955
Greece	1957
Turkey	1957
Hungary	1991
Croatia	1993
Slovenia	1993
Bosnia and Herzegovina	1996
FYR Macedonia	1996
Bulgaria	1998
Slovakia	2000
Czech Republic	2002
Montenegro	2006



EUROFIMA's annual report
covers the period
from January 1 to December 31.
It is also available at
www.eurofima.org

41.3%

Basel III ratio
(2016: 36.2%)

3.8%

Non-investment grade exposure
in EUROFIMA's loan book
(2016: 5.4%)

0

Loan losses
in EUROFIMA's history

4.8

Leverage ratio
(2016: 5.0)

Message from the Chairman

EUROFIMA

Message from the Chairman

Climate change continued making news headlines in 2017 due to the array of environmental instabilities and devastating global impacts which threaten development and demand resolution through a multi-stakeholder effort. Consequently, the increasing number of challenges have inspired global initiatives like the 2017 Paris Climate Agreement which strengthened international partnerships and solidified the integration of the UN Sustainable Development Goals into local and national structures. Global unity was further improved at the COP 23 in Bonn in November 2017 when countries reaffirmed their dedication to combat climate change.

Transportation represents nearly a quarter of Europe's greenhouse gas emissions, emphasizing the need to increase efficiency. Investment to spur innovation in the greenest option, the train, has the potential to vastly reduce environmental impacts and ensure the EU's achievement of its climate goals. While 2017 has seen important improvements that have heightened the competitiveness of the railway sector, our agenda has prioritized further collaborative advancements to ensure sustainable growth and optimal service.

In November 2017, EUROFIMA published its Green Bond Framework with a qualified second party opinion provider, confirming that the Framework is transparent, robust, and aligned with the Green Bond Principles defined by the International Capital Market Association (ICMA). This new documentation will enable EUROFIMA to issue green bonds on the international capital markets. Providing attractive investment opportunities for green bond investors around the globe fits perfectly into EUROFIMA's mission.

The 4th Railway Package, a critical initiative currently being implemented by the European Union, aims at creating a single European rail network by encouraging public-private collaboration to enhance markets and inspire innovation. In turn, such a structure will foster equitable competition and produce a safer, more reliable and cohesive rail network throughout Europe. Additionally, competition driven development that incorporates international standards and processes will further aid in improving the quality of service, key for attracting passengers from less environmentally friendly methods. Accordingly, EUROFIMA reinforces its public interest mandate and is determined to support the rollout of the 4th Railway Package.

In 2017, EUROFIMA provided railway financings amounting to CHF 283 million to SBB and EUR 55 million to SNCB. The outstanding lending amount was CHF 13.7 billion as of December 31, 2017. Net redemptions on the loan book amounted to CHF 1 262 million. The loan book faced no past due impairments.

With regards to capital markets, EUROFIMA raised a total of USD 600 million in 2017. Gains were initiated in March when EUROFIMA raised USD 100 million for its first SRI issuance in a private placement with a 10 year maturity and a fixed rate format. This was followed by an issuance of a 2 year floating rate note for an amount of USD 500 million. In addition, EUROFIMA tapped the AUD market 6 times for a total of AUD 175 million in the 2025 and 2027 maturities. Regarding redemptions, a USD 10 year 1 billion benchmark bond and a 3 year floating rate note USD 500 million bond both matured in April 2017 while a CHF 270 million fixed rate 8 year bond was redeemed in October 2017. In 2017, EUROFIMA adopted market standards in collateral management using two-way CSAs by replacing securities with cash as collateral posted by derivative counterparties.

With a long-term view towards fully liberalized railway markets in Europe, as envisaged by the 4th Railway Package, the Board of Directors has asked the new management team of EUROFIMA to begin the strategic development of "Project Horizon", a comprehensive initiative that focuses on opening EUROFIMA to public authorities and private rail operators under certain conditions, while preserving its importance to current shareholders. No new railway financings are planned until the completion of Project Horizon, which is expected to take place within the business year 2018. During this time EUROFIMA will concentrate on managing its loan book. EUROFIMA expects to resume its railway financing activities once it has implemented this important strategic initiative.

EUROFIMA strives to continue upholding its reputation as a reliable, non-bureaucratic and attractive source of funding for railway investments that benefits the public by supporting sustainable and equitable development.

Alain Picard
Chairman of the Board

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Corporate Governance

Governing bodies

As a public international body, EUROFIMA is governed first by its constitutive documents and only subsidiarily by Swiss law. Its constitutive documents are the Convention, the Statutes and the Basic Agreement. The organization's legal framework sets out the structure for EUROFIMA's governance. In addition to the constitutive documents, EUROFIMA's activities are governed by a set of policies, guidelines and rules of procedures adopted by the General Assembly, the Board of Directors or the Management. As a supranational organization, EUROFIMA is not subject to any national or international regulatory authority.

The member States have reserved extensive corporate governance rights over EUROFIMA. The following changes to EUROFIMA's organization require the consent of the member States: head office, objective, duration, conditions for admission of shareholders, quorums applicable to important shareholders' resolutions, equal voting rights of directors, all terms dealing with the shareholders' liability and the establishment of branches. EUROFIMA has to report annually on its development and its financial position to its member States. Such reporting is done through the International Transport Forum, an intergovernmental organization within the OECD family.

EUROFIMA is managed and administered by the General Assembly, the Board of Directors and the Management.

GENERAL ASSEMBLY

The General Assembly convenes at least once annually. It approves the annual report of the Board of Directors, the audited financial statements, the appropriation of the annual surplus, the discharge of the acts of the Management and the Board of Directors, and it appoints the External Auditor. It also approves the maximum amount of borrowings and the organization regulations. Decisions are taken by the majority of votes of the shares represented. However, in order to amend the Statutes, to reduce or to increase the subscribed share capital, to transfer shares and subscription rights, to dissolve the organization, to appoint liquidators, and to extend the organization's duration, a supermajority representing at least seven-tenths of the subscribed share capital is required. The General Assembly decides upon any other questions which are submitted to it by the Board of Directors.

In 2017, the General Assembly convened on five occasions. The main subjects examined by the General Assembly on which it took decisions were: the annual report and the appropriation of 2016 surplus, the discharge of members of the Board of Directors and the Management for the financial year 2016, reappointment of the External Auditor for the financial year 2017, the maximum amounts of borrowings which may be concluded, the updated organization regulations and the partial renewal of the Board of Directors.

BOARD OF DIRECTORS

The Board of Directors is responsible for EUROFIMA's strategy and its financial success. It sets the overall direction and assumes supervision and control of the organization and its Management.

It meets at least once quarterly. Each director has one vote. A majority of directors present or represented constitute a quorum. Decisions are taken on the basis of the majority of the directors present or represented except for the conclusion of borrowings where a three-fourths majority is required. In urgent cases, decisions may be reached according to a written procedure.

With the exception of certain reserved powers, the Board of Directors is authorized to entrust all or part of the management of the institution to one or several of its members ("representatives") or third persons who need not necessarily be directors ("members of the Management"). As a result, the executive management is delegated to members of the Management. In this regard, the General Assembly has established organization regulations determining the rights and responsibilities of the Board of Directors and the Management.

The Board of Directors authorizes all equipment financing contracts and all borrowings within the limits laid down by the General Assembly. It is responsible for the financial statements as well as the existence and maintenance of the internal control system on financial reporting. The Board of Directors is the competent body to call-in the not paid-in share capital.

The Board members, including the Chairman, Vice Chairmen and Vice Chairwoman are appointed by the General Assembly, with one Board member for each shareholder holding at least 2% of the share capital. They are appointed for a period of three years and are eligible for re-election. As at January 1, 2018, the Board of Directors consisted of 11 members.

The Chairman calls the Board meetings with sufficient notice and draws up the agenda. Any other Board member has the right to call an additional meeting, if deemed necessary. Minutes are kept of the proceedings and decisions of the Board of Directors.

In order to ensure an efficient interaction with the Board of Directors, the meetings are also attended by the Management. The Chairman works with the Management in between the meetings.

The Board of Directors established two advisory bodies: the Chairman's Committee (until October 2017) and the Audit and Risk Committee. In October 2017, the BoD decided to dissolve the Chairman's Committee.

» The Chairman's Committee deals with a broad variety of topics in preparation for meetings of the Board of Directors. It further determines objectives, reviews appraisals and decides terms of engagement of the Management within the principles set by the Board of Directors. It consists of the Chairman, the Vice-Chairmen and two other Board members.

» The Audit and Risk Committee supports the Board of Directors in its comprehensive supervisory role with respect to financial control, risk control, audit and compliance management. In this respect, it oversees the activities of both Internal and External Audit. It consists of four Board members.

The Board of Directors met on 7 occasions in 2017. On average, Directors' attendance was 86%. The main subjects examined by the Board of Directors on which it took decisions were: the quarterly financial reports, the annual financial statement, the annual budget, the general authorization to carry out borrowing transactions and associated treasury and derivative transactions, the annual report to the General Assembly, the main internal policies, the report to the Governments parties to EUROFIMA's Convention, the assessments of the financial position, risk and capital adequacy, and the future strategy of the company in regard to the foreseeable liberalization of the railway markets.

The members of the Board of Directors and its advisory bodies are listed on page 21.

MANAGEMENT

Under the authority of the Chief Executive Officer and the supervision of the Board of Directors, the Management is responsible for managing the business, overseeing the day-to-day operations of the organization, and preparing decisions for the Board of Directors. The Management consists of the Chief Executive Officer, the Chief Financial Officer and the Chief Strategy Officer who joined the company in July 2017. The Management meets as and when required by the operations of the organization. In 2017, 12 meetings were held. The Chief Executive Officer chairs the meetings of the Management. The members of the Management are appointed by the Board of Directors. In the year 2017 the position of the Chief Strategy Officer was added to the Management in order to ensure a smooth transition when Management changed and to add focus on the strategic work that required full attention. As per Board decision of December 2017 the composition of the Management was newly determined towards a Chief Executive Officer position being responsible for the strategic work and the financial soundness and a Chief Operating Officer position in charge of the lending, investing and borrowing activities, as well as the IT operations.

The members of the Management are listed on page 21.

Controlling bodies

EXTERNAL AUDIT

The External Auditor is appointed annually by the General Assembly in accordance with Article 10 of the Statutes. The responsibility of the External Auditor is to audit the financial statements, to report the results of the audit to the General Assembly and to the Board of Directors, and to express an opinion concerning the financial statements. The External Auditor also verifies the existence of an internal control system designed for the preparation of the financial statements. The audit is carried out in accordance with Swiss Auditing Standards and International Standards on Auditing.

The amounts paid to the External Auditor are disclosed in note 7 to the financial statements.

INTERNAL AUDIT

The Internal Auditor reports to the Audit and Risk Committee of the Board of Directors. Based on its independent risk assessment, Internal Audit develops an internal audit plan which is reviewed and approved by the Audit and Risk Committee. Its audit scope includes, but is not limited to, EUROFIMA's risk management system, the internal control system, and the policies and procedures adopted by its governing bodies.

Further information on risk management is included in note 3 to the financial statements.

INTERNAL CONTROL

The objective of internal control is to ensure a proper functioning of business operations. EUROFIMA's internal control is focused on the financial reporting process and the management of risks. It covers the entire range of policies, procedures, systems and controls for managing and monitoring the organization's operations, risk exposure and financial reporting process.

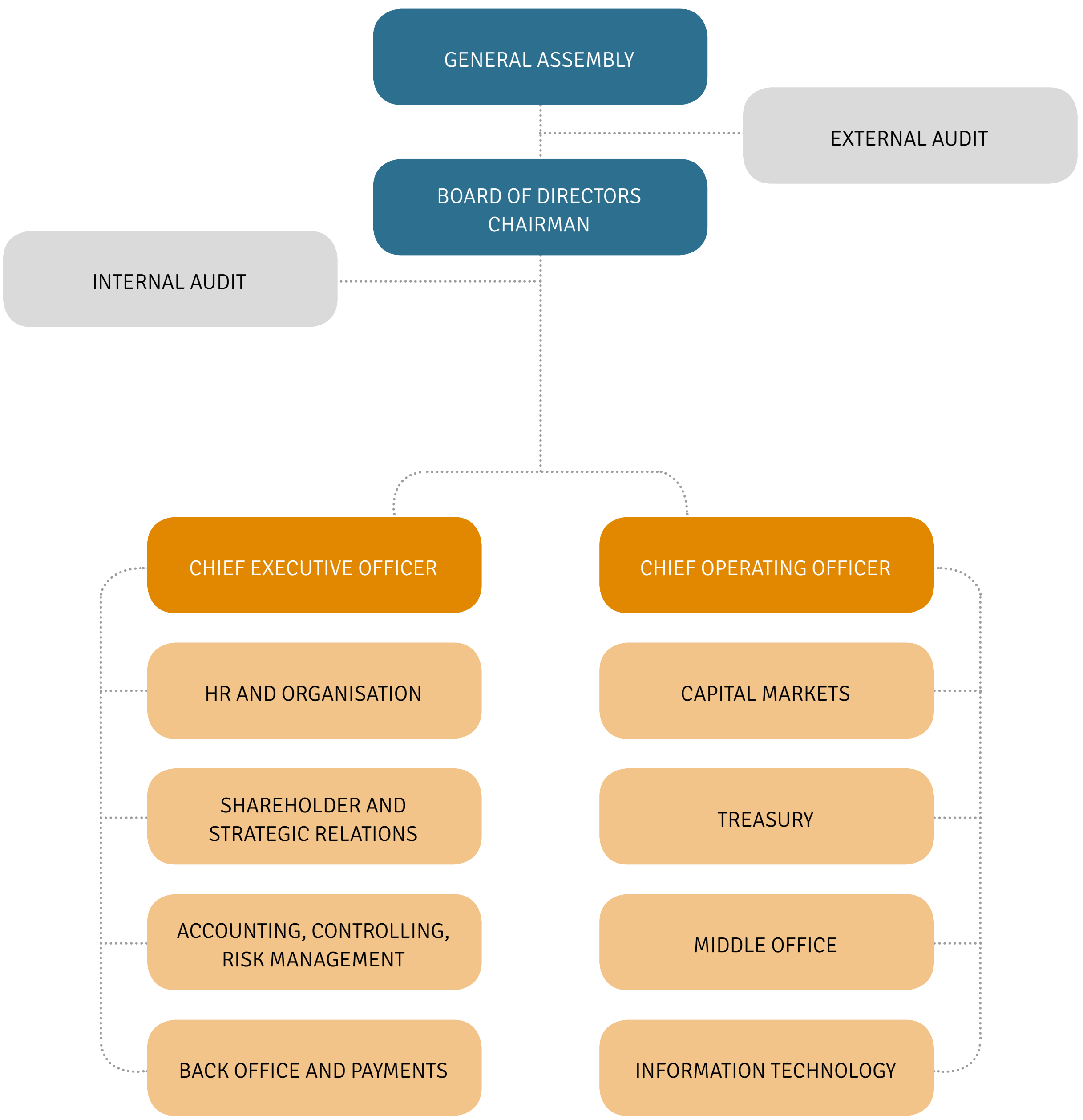
EUROFIMA strives for a balanced mix of both preventive and detective controls taking place at the process levels and at the entity level. The main principle for organizing EUROFIMA's workflows and reducing the risk of error or inappropriate actions is segregation of duties.

The ultimate responsibility for the existence and maintenance of the internal control system is with the Board of Directors. The Management is responsible for its implementation and execution. On behalf of the Board of Directors, the Audit and Risk Committee assesses the quality of the internal control system's performance over time.

The External Auditor is responsible for verifying the existence and the implementation of the internal control system on financial reporting. The Internal Auditor verifies the internal control system with periodic internal reviews of the organization's activities and ensures that they comply with the policies and procedures adopted by the governing bodies. Further information on risk management is included in note 3 to the financial statements.

No advance or credit is granted to members of EUROFIMA's administrative, managerial, and supervisory bodies and no commitment is entered into on their behalf by way of guarantees of any kind by EUROFIMA.

Organizational chart as at January 1, 2018



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Members of governing and controlling bodies as at January 1, 2018

BOARD OF DIRECTORS

Chairman		
Alain Picard	(1963, FR)	Chief Executive Officer of SNCF Logistics, Paris
Vice Chairmen / Vice Chairwoman		
Ann Lauwereys	(1967, BE)	Corporate Treasurer of SNCB, Brussels
Stefano Pierini	(1965, IT)	Head of Finance and Real estate, Ferrovie dello Stato Italiane S.p.A., Rome
Wolfgang Reuter [1]	(1950, DE)	Senior Advisor, Deutsche Bahn AG, Berlin
Members		
Othmar Frühauf [1]	(1972, AT)	Head Controlling and Accounting, ÖBB-Infrastruktur AG, Vienna
Lars Erik Fredriksson	(1964, SE)	Investment Director, State Ownership, Ministry of Enterprise and Innovation, Stockholm
Juan Miguel Bascones Ramos	(1969, ES)	Chief Financial Officer, RENFE Operadora, Madrid
Ana Maria dos Santos Malhó	(1972, PT)	Chief Financial Officer, CP-Comboios de Portugal, E.P.E., Lisbon
Ronald Klein Wassink	(1966, NL)	Corporate Treasurer at NS Groep NV, Utrecht
Konstantinos Petrakis	(1952, GR)	Chief Executive Officer of OSE, Hellenic Railways, Athens
Marc Wengler [1]	(1967, LU)	Chief Executive Officer, Luxembourg National Railways, Luxembourg
Secretary		
Susanne Honegger	(1961, CH)	Head of Human Resources and Organisation, EUROFIMA

MANAGEMENT

Alfred Buder	(1969, AT)	Chief Executive Officer
Harry Müller	(1959, DE)	Chief Operating Officer

[1] Member of the Audit and Risk Committee

STATUTORY AUDITOR

PricewaterhouseCoopers AG
St. Jakobs-Strasse 25
CH-4002 Basel
Tel: + 41 58 792 51 00

CHANGES IN THE BOARD OF DIRECTORS

The following members resigned in 2017:
Alfred Buder
Manuel Fresno
Olivier Henin
Harry Müller

The outgoing members were sincerely thanked for their active service.

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Activity Report

2017 activities

2017 results and outlook for 2018

2017 activities

During the first month of 2017, EUROFIMA signed its first two-way CSA agreement with derivative counterparties, which require a daily exchange of cash collateral. Throughout 2017, it signed several other two-way CSA agreements. This resulted in a material increase in the liquid assets and short-term debt held by EUROFIMA.

In order to better assess the creditworthiness of Swiss local authorities, EUROFIMA decided to rely on the credit ratings assigned by an additional credit rating agency, fedafin, when investing in this segment. This is the third rating agency whose ratings are used in the investment decision process. The other two are Standard & Poor's and Moody's. The credit ratings assigned by fedafin to Swiss local authorities are recognized by FINMA.

As in the previous years, EUROFIMA continued its deleveraging strategy in order to consolidate its capitalization and to reduce the credit risk to which it is exposed. Its non-investment grade exposure from equipment financing contracts has been reduced by 32% and its derivative financial assets by 34%.

LENDING POLICY

EUROFIMA's core activity and public mission consist of supporting the development of rail transportation in Europe by providing its shareholders, 25 national railway operators, and other railway bodies with cost-effective financing to renew and modernize their railway equipment. The eligibility criteria and general procedures for granting this support are outlined in the constitutive documents (Basic Agreement, Convention, Statutes) as well as the Internal Policy Guide.

The conservative lending policy paired with the various layers of support granted in the constitutive documents result in a high quality and resilient loan portfolio, which has never suffered a loss in the entire history of EUROFIMA.

Requests for financing are evaluated through a thorough approval process consisting of three phases:

» *Internal due diligence:* EUROFIMA's internal teams appraise the economic, financial, legal, and technical aspects of each railway project and evaluate any potential risk related to it. Particular emphasis is put on the technical and economic evaluation of the rolling stock that collateralizes the requested financing. If deemed necessary, external consultants are involved to support the internal due diligence.

» *Approval from governing bodies:* The General Assembly sets the amounts that can be borrowed and subsequently used for lending purposes. The Board of Directors approves the financing requests.

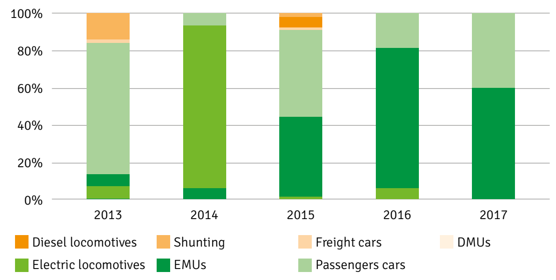
» *Monitoring:* Upon conclusion of the financing, EUROFIMA monitors the implementation of each railway project, the status of rolling stock collateral and any systemic risk that may deteriorate its position as lender.

LENDING ACTIVITY AND DISTRIBUTION OF EQUIPMENT IN 2017

EUROFIMA concluded five contracts with two shareholders, or their affiliates, for the financing of railway equipment. The railway equipment and the related financing amounts are given below.

Member State	Railway	Locomotives			Multiple-unit trains			Passenger cars	Freight cars	Financing (in million CHF)
		main-line		shunting	motor units		trailer cars			
		diesel	electric		diesel	electric				
Belgium	SNCB							80		62
Switzerland	SBB					124	120			283
Total						**124**	**120**	**80**		**345**

EUROFIMA holds title or securities deemed equivalent (in particular pledges) to the railway equipment until the funds have been fully reimbursed. For the distribution of the railway equipment see page 25.



With most of the funds being dedicated to electric multiple-unit trains and passenger cars, 2017 marked another example of EUROFIMA's commitment to fulfilling its public mission for sustainable mobility. EUROFIMA managed to raise part of these funds through an "Environmentally Friendly Railway Bond", EUROFIMA's first sustainable bond, which was issued in March 2017 in the form of a 10-year private placement in the USD market.

As at year end 2017, EUROFIMA had CHF 13.7 billion in development related loans outstanding, which are distributed among 17 member States. The following table indicates the equipment of each shareholder, or their affiliates, to which the company holds title or in which it has direct or indirect security interests deemed equivalent, in particular pledges.

Equipment at December 31, 2017

Member State	Railway	Locomotives			Multiple-unit trains			Passenger cars	Freight cars	Other equipment
		main-line		shunting	motor units		trailer cars			
		diesel	electric		diesel	electric				
Germany	DB AG					50				
France	SNCF		18			70	336			
Italy	FS	15	413		73	429	336	1 702		
Belgium	SNCB	60	114		112	445	311	354		27
Netherlands	NS					6	6			
Spain	RENFE	60	100			398	434			
Switzerland	SBB		54	49		469	485	46		
Luxembourg	CFL					66		46		
Portugal	CP				22	159	163			
Austria	ÖBB	6	173	48	40	308	337	395	2 316	
Greece	OSE		12		15		14			
Serbia	ŽS		2		24					
Hungary	MÁV	14	27	10	8			13		
Slovakia	ŽSSK							28		
Slovenia	SŽ		32							
Montenegro	ŽPCG	4	1			2	2			
Denmark	DSB					20	10			
Total		**159**	**946**	**107**	**294**	**2 422**	**2 434**	**2 584**	**2 316**	**27**

SUSTAINABILITY

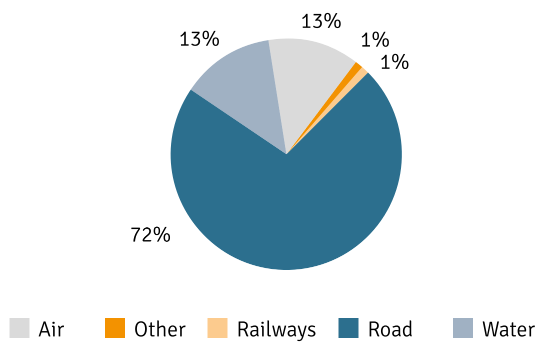
Establishing a low-carbon future has become an increasing point of geopolitical focus. The COP21 conference in Paris in 2015 marked a milestone of international cooperation in which 196 representatives in attendance reached an agreement on the reduction of climate change. The center of the agreement focused on reducing global warming to less than two degrees Celsius compared to pre-industrial levels and for zero net greenhouse gas emissions to be reached during the second half of the 21st century. On April 22, 2016, 174 countries signed this agreement and began to take steps to implement these measures into their own legal systems.

The goal of promoting sustainability is at the core of EUROFIMA's public mission. Supporting the growth and development of passenger rail transport is key to addressing the problem of CO^2 emissions attributable to the transportation sector. As countries across Europe work to meet the sustainability targets outlined by Europe 2020 and by the COP21 agreement, EUROFIMA is determined to serve as partner to its Member States in fulfilling their objectives.

Transport Greenhouse Emissions

The transportation sector accounts for nearly 23% of energy- based CO^2 emissions according to the International Energy Agency, being the leading culprit attributable to road, maritime and air transport. Despite efforts to make airplanes more energy efficient, the increasing use of air travel has offset the benefits realized per aircraft according to the European Environment Agency. In the automobile sector, the use of hybrid and electric vehicles has continued to increase, but automobiles still account for 12% of the total EU CO^2 emissions.

Rail passenger transportation offers a viable solution to counteract these high levels of CO^2 emissions. The International Union of Railways indicates that greenhouse gas emissions from rail transport is 85% lower than the average emission from road and air transport. In terms of land usage per passenger-km, rail is 3.5 times lower than for automobiles. In assessing the external costs of transport (i.e. the costs of the negative effects from transport not borne by the company but by society), rail usage has four times less the cost than roads for passenger transport and six times less for freight services.



Green Bond Framework

In 2017, EUROFIMA developed a Green Bond Framework aligned with the Green Bond Principles 2017 published by the International Capital Markets Association (ICMA). Green Bonds are any type of bond instrument where the proceeds will be exclusively used to finance or re-finance new or existing projects that meet the eligibility criteria defined in the issuer's Green Bond Framework.

The Green Bond Principles have been developed to set a common standard that enables capital-raising and investment for new and existing projects with environmental benefits. Through their four core components (Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds, Reporting) the principles provide guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market.

The principles cover the entire investment and issuance process and are intended for broad use by the different market participants as they:

» provide guidance to issuers in structuring and launching a credible Green Bond

» support investors by promoting availability of the information they require to assess and estimate the environmental impact of their investments

» assist underwriters by moving the market towards expected disclosures that will facilitate transactions.

It is recommended and it became standard practice to have Green Bonds reviewed externally. These external reviews have to be independent and aim at assessing and ensuring alignment of a Green Bond with the Green Bond Principles. Furthermore, the Green Bonds Principles advocate the public disclosure of external reviews.

Following such an independent review by a leading international provider of environmental and social rating services, EUROFIMA published the framework in November 2017. The framework as well as the independent second party opinion are publically available on EUROFIMA's website.

Social Mobility

The rail transportation sector plays a key role in furthering social cohesion, which in turn contributes to the overall betterment of people's lives. Further development of international and regional rail lines aides in promoting increased cross-border and domestic trade and in a more sustainable manner. Rail development, particularly regional and suburban, also aides in furthering labour mobility and social integration in an increasingly interconnected and diverse Europe. Lastly, according to the European Union Agency for Railways, rail transport represents one of the safest modes of transport with only 0.13 fatalities per billion passenger/km as compared to 3.14 for automobiles and 48.94 for motorcycles.

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Sustainability at EUROFIMA

EUROFIMA views its approach to sustainability with an inward-outward mentality. While it fulfills its public mission in supporting the development of a sustainable form of transport, EUROFIMA also aims to enact internal measures that ensure its business practices are in-line with its mission to support a low-carbon future and social integration. Therefore, EUROFIMA has internal policies in place that support the following:

» Low-carbon transport: employees receive annual passes for local public transportation and an annual allowance for travelling by railway worldwide.

» Diversity: the staff of EUROFIMA consists of eight different nationalities with more than 50% of the staff being non-Swiss.

» Low employee turnover: EUROFIMA has a consistent record of low employee turnover with the average tenor of employment being 8.8 years per end of 2017.

» Continuing education: EUROFIMA views education as a life-long process and it has measures in place to encourage and to provide financial assistance to employees in advancing their professional competencies.

» Business behavior: In line with best practices, internal and external control systems are in place to ensure proper functioning of business operations. In particular, EUROFIMA has Anti-Money Laundering and Anti-Financial Crime policies in conformity with applicable law.

CAPITAL MARKETS BORROWING STRATEGY

The borrowing operations provide long-term funds via bond issuances in the international capital markets to support EUROFIMA's core lending business and liquidity position. The borrowing strategy is built on two pillars.

» *USD and EUR benchmark issuance*: EUROFIMA has issued tenors of 2, 3, 5 and 10 years in USD in both fixed and floating rate formats. Currently it has one outstanding USD 1 billion benchmark as at December 31, 2017. In EUR, it has one outstanding 1 billion benchmark maturing in 2021.

» *Strategic commitment to the Australian dollar and Swiss franc bond markets*: EUROFIMA regularly pursues issuances in the domestic AUD and CHF markets, where it offers complete curves up to 2027 and 2030 respectively.

BORROWING ACTIVITY IN 2017

Total issuance volume in the gobal SSA market amounted to USD 652.7 billion in 2017 unchanged compared to 2016 with 37.2% (35.4% in 2016) for Sovereigns, 31.9% (31.7%) for Agencies and 30.9% (32.8%) for Supranationals.

The Euro has become the key funding currency in 2017 with USD 353.0 billion followed by the US dollar with USD 209.8 billion and the British pound with USD 50.0 billion of issuance. The ECB's PSPP program, the hunt for yield pick-up and duration were the main drivers. The increase in EUR denominated bonds was further supported by a narrowing of the EUR-USD cross-currency basis. Short dated volumes were the highest in USD since 2012 due to opportunistic short end USD-funding as the European Central Bank continued its monetary policy keeping the cross-currency basis persistently wider in the shorter maturities.

In this environment, EUROFIMA successfully raised CHF 725 million in the debt capital markets and CHF 5 123 million in the money market. Primary issuance in the debt capital markets focused on AUD and USD. In the money market, issuance was primarily in USD with an average weighted tenor of two months.

In the AUD domestic market, EUROFIMA consistently tapped the primary market six times during the first half of 2017, including one increase of the Dec 2025 outstanding bond and five taps of the Jan 2027 bond. Total volume reached AUD 175 million, which, however, represents a 50% decrease from the previous year.

With two issuances in USD, EUROFIMA successfully returned to the USD market in 2017. EUROFIMA issued its inaugural SRI (Socially Responsible Investment) bond in the form of a fixed-rate USD 100 million private placement maturing in March 2027. In the second quarter, EUROFIMA placed a USD 500 million two-year note in a floating format. The issuance attracted strong investor demand and was well oversubscribed. The final distribution included, as in the past, strong participation from central banks and official institutions (86%), followed by asset managers (10%) and banks (4%).

REDEMPTIONS IN 2017

Redemptions reached the equivalent of CHF 7 486 million, CHF 5 654 million of which were due to repayments of short-term borrowings.

2017 results and outlook for 2018

2017 RESULTS

EUROFIMA's net profit for the financial year amounted to CHF 16.7 million, CHF 4.3 million below the level of 2016 (CHF 21.0 million). The still challenging market condition was the main cause for this decrease.

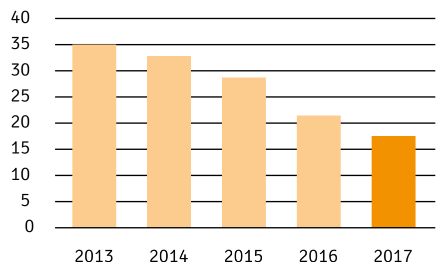
Income statement

The 1% increase in net interest income, from CHF 17.1 million to CHF 17.2 million, was the result of specific investment opportunities that helped offsetting the impact of the low interest rate environment.
Commission income and fees received decreased to CHF 12.5 million, CHF 0.2 million (2%) below the level of 2016. This resulted mainly from EUROFIMA's reduced loan book.

Net other operating expense, mainly consisting of realized and unrealized fair value gains and losses on financial instruments, deteriorated to a level of CHF 0.2 million (2016, net other operating income: CHF 4.9 million). This decrease was mainly driven by unrealized losses resulting from changes in interest rates.

Total operating expenses, at CHF 11.6 million, were CHF 0.7 million below the level of 2016. This difference was largely the result of lower other general administrative expenses.

Net profit for the financial year
(in CHF million)

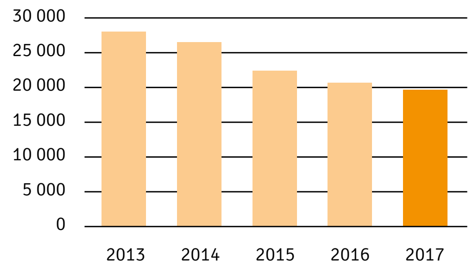


Balance sheet

EUROFIMA's balance sheet total was reduced by CHF 1.0 billion (-4.8%) to CHF 19.8 billion. The balance sheet contraction was largely driven by net loan redemptions and a reduction in derivative financial instruments and liquid assets.

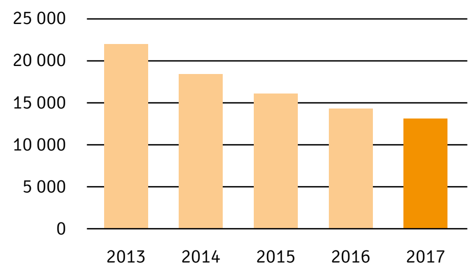
No impairments were recognized during the year. As per December 31, 2017, all assets were fully performing and there was no indication of impairment.

Total assets
(in CHF million)



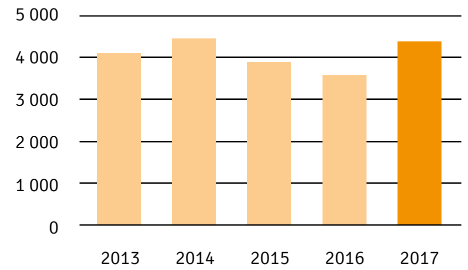
The loan book was reduced by an amount of CHF 0.6 billion (-4.5%) to a level of CHF 13.7 billion. Net redemptions of CHF 1.2 billion were accompanied by fair value changes and exchange rate effects of CHF 0.2 billion and CHF 0.8 billion respectively.

Equipment financing contracts
(in CHF million)



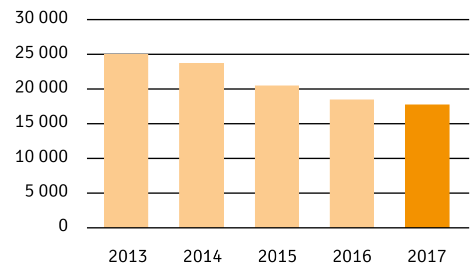
During the year of 2017, the volume of liquid assets (consisting of cash and cash equivalents and financial investments) increased by more than CHF 0.6 billion. This increase was mainly driven by the received cash collaterals from two-way credit support annex (CSA) collateral agreements, which were entered in 2017 with most major derivative counterparties.

Liquid assets
(in CHF million)



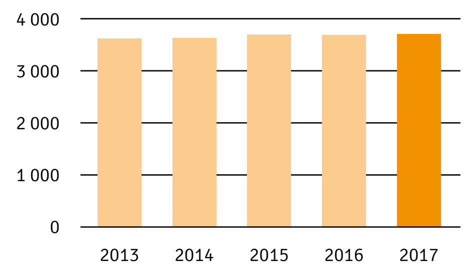
EUROFIMA's leverage, measured as the ratio of outstanding borrowings to the sum of equity plus callable capital, further improved during the year to a level of 4.8 per December 31, 2017 (2016: 5.0).

Outstanding borrowings
(in CHF million)



As per December 31, 2017 total equity amounts to CHF 1 631 million. As a result of the decreased balance sheet exposures and the increase in equity over the year 2017, EUROFIMA's capitalization as measured by the Basel III ratio improved to 41.3% per December 31, 2017, up from 36.2% the year before.

Equity + Callable share capital
(in CHF million)



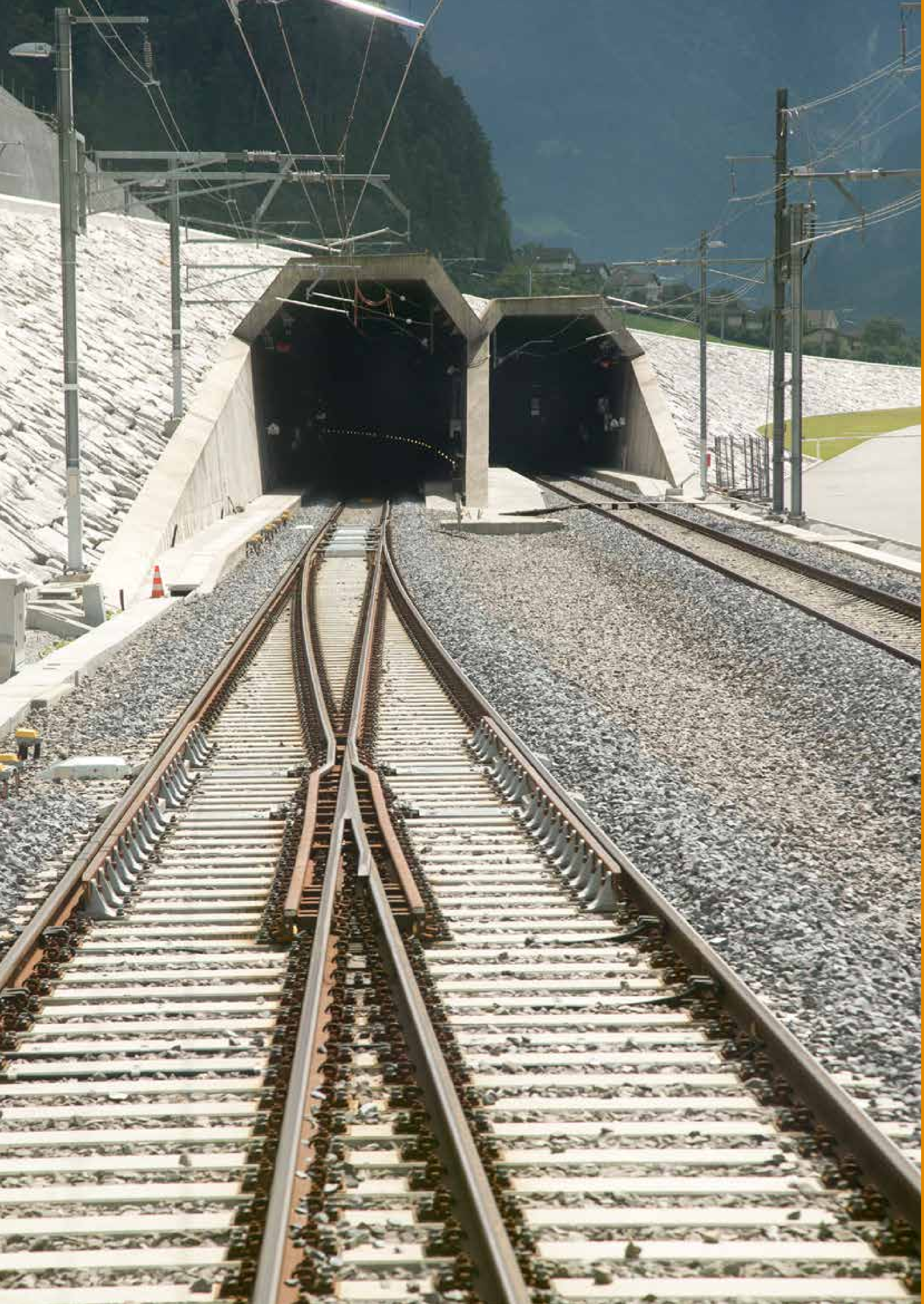
OUTLOOK FOR 2018

The outlook for 2018 is promising: Global economic data keep coming in as very robust. Growth numbers keep getting revised higher, especially in the Eurozone while political issues are perceived as potentially having a much lower impact on the economy, compared to last year. Both economic data and policies in place are expected to support the strengthening of the momentum.

While currently inflations remains weak, inflation figures going forward could be higher than expected, as the increase in the core CPI print was encouraging. Nevertheless, a spike in inflation in US is unlikely given global disinflationary factors and headwinds from non-cyclical inflation components. Most of the market participants assume three hikes this year by the Fed.

In the Eurozone, the ECB could lower or even stop the Quantitative Easing (QE), but a rate increase is not anticipated in 2018. The Swiss Franc interest rates are still kept in negative territory by the Swiss National Bank in order to counter the monetary effects of the strong CHF currency and no rate hike in Switzerland is expected.

With its strong capitalization and solid balance sheet, EUROFIMA is well prepared for the upcoming strategic challenges. In the year ahead, EUROFIMA will also continue its deleveraging strategy.



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Financial Statements

EUROFIMA

Income statement

(amounts in CHF '000)	Notes	2017	2016
Interest and similar income	4	612 492	692 438
Interest and similar charges	4	-595 257	- 675 347
Net interest income		**17 234**	**17 091**
Commission income and fees received	5	12 489	12 749
Commission expenses and fees paid	5	-1 234	- 1 414
Net commission income		**11 255**	**11 335**
Net gains/(losses) on financial instruments	6	- 384	4 889
Foreign exchange gains/(losses)		16	- 66
Other operating income/(expense)		168	60
Net other operating income/(expense)		**- 200**	**4 882**
Total operating income		**28 290**	**33 309**
General administrative expenses	7	-10 959	- 11 382
Depreciation/amortization on fixed assets	13	- 648	- 961
Total operating expense		**-11 607**	**- 12 344**
Net profit for the financial year		**16 683**	**20 965**

The accompanying notes form an integral part of the financial statements.

Statement of comprehensive income

(amounts in CHF '000)	Notes	2017	2016
Net profit for the financial year		**16 683**	**20 965**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Fair value adjustments on available-for-sale financial assets	16	735	-2 697
Items that will not be reclassified to profit or loss:			
Remeasurements on post-employment benefit liability	15,16	- 8	- 650
Other comprehensive income for the financial year		**727**	**-3 347**
Total comprehensive income for the financial year		**17 410**	**17 618**

Balance sheet

(amounts in CHF ’000)	Notes	December 31, 2017	December 31, 2016
Assets			
Cash and cash equivalents	8	1 808 469	1 151 588
Financial investments	8	2 453 750	2 472 421
Placements with credit institutions		775 308	596 669
Debt securities		1 678 442	1 875 752
Equipment financing contracts	9	13 730 802	14 377 491
Derivative financial instruments	10	1 889 881	2 884 035
Other assets		3 590	3 358
Accrued income and prepaid expenses	12	4 516	4 323
Tangible fixed assets	13	6 160	6 391
Intangible fixed assets	13	195	520
Total assets		**19 897 364**	**20 900 127**
Liabilities			
Amounts due to credit institutions and customers	14	1 890 052	1 421 837
Debts evidenced by certificates	14	15 749 228	16 978 503
Debt securities in issue		14 096 006	15 202 935
Others		1 653 221	1 775 568
Derivative financial instruments	10	600 349	817 434
Other liabilities		20 813	62 192
Accrued expenses and deferred income		339	1 466
Post-employment benefit liability	15	4 647	4 169
Total liabilities		**18 265 428**	**19 285 601**
Equity			
Paid-in capital		520 000	520 000
Subscribed share capital		2 600 000	2 600 000
Callable share capital		-2 080 000	-2 080 000
Statutory reserves	16	791 767	774 218
Fund for general risks		308 029	304 612
Other reserves	16	- 161	- 888
Retained earnings		12 302	16 584
Net profit for the financial year, before appropriation		16 683	20 965
Effects from transition to IFRS		- 4 381	- 4 381
Total equity		**1 631 936**	**1 614 526**
Total liabilities and equity		**19 897 364**	**20 900 127**

Statement of changes in equity

(amounts in CHF ’000)	Subscribed share capital	Callable share capital	Statutory reserves	Fund for general risks	Other reserves	Retained earnings	Total
Balance at January 1, 2016	**2 600 000**	**-2 080 000**	**749 784**	**299 907**	**2 459**	**24 759**	**1 596 909**
Net profit for the financial year						20 965	**20 965**
Other comprehensive income for the financial year					- 3 347		**- 3 347**
Appropriation of surplus			24 434	4 706		- 29 140	**0**
Balance at December 31, 2016	**2 600 000**	**-2 080 000**	**774 218**	**304 612**	**- 888**	**16 584**	**1 614 526**
Balance at January 1, 2017	**2 600 000**	**-2 080 000**	**774 218**	**304 612**	**- 888**	**16 584**	**1 614 526**
Net profit for the financial year						16 683	**16 683**
Other comprehensive income for the financial year					727		**727**
Appropriation of surplus			17 549	3 416		- 20 965	**0**
Balance at December 31, 2017	**2 600 000**	**-2 080 000**	**791 767**	**308 029**	**- 161**	**12 302**	**1 631 936**

Statement of cash flows

(amounts in CHF '000)	Notes	2017	2016
Cash flows from operating activities			
Disbursements of equipment financings		-693 510	-2 257 838
Repayments of equipment financings		1 819 360	3 317 681
Interest paid		-709 411	-818 882
Interest received		724 174	827 888
Commission and fees paid		-1 648	-1 797
Commission and fees received		12 797	12 679
Other operating cash flows paid		-13 064	-12 763
Other operating cash flows received		922	444
Net cash from operating activities		**1 139 622**	**1 067 411**
Cash flows from investing activities			
Financial investments			
Purchases of debt securities		-436 844	-779 654
Redemptions of debt securities		360 350	1 021 155
Sales of debt securities		284 910	299 127
Placements with credit institutions		-1 263 315	-1 640 746
Repayments of placements with credit institutions		1 102 288	1 529 860
Other items			
Purchase and disposal of fixed assets		-92	-238
Net cash from investing activities		**47 298**	**429 504**
Cash flows from financing activities			
Issue of debt evidenced by certificates	14	5 847 211	5 973 717
Redemption of debt evidenced by certificates	14	-7 094 685	-7 470 458
Placements with credit institutions and customers	14	413 369	499 852
Redemptions of placements with credit institutions and customers	14	-391 674	-482 941
Net cash flow from derivative financial instruments		159 063	100 954
Net cash flow from cash collaterals	8, 14	455 876	0
Net cash from financing activities		**-610 840**	**-1 378 876**
Net foreign exchange rate difference		80 802	17 709
Increase/(decrease) in cash and cash equivalents		**656 882**	**135 748**
Cash and cash equivalents at the beginning of the year		1 151 588	1 015 839
Cash and cash equivalents at the end of the period		1 808 469	1 151 588

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Notes to the financial statements

1. GENERAL INFORMATION

EUROFIMA ('the entity') was established on November 20, 1956, as a joint stock company, based on an international treaty (the "Convention") between sovereign States. EUROFIMA is a single entity domiciled in Basel, Switzerland. The general principles of EUROFIMA's activity are defined in an agreement (the "Basic Agreement") between the railways and EUROFIMA. The Basic Agreement remains valid for the entire duration of EUROFIMA's existence and can only be altered with the consent of all the railways and EUROFIMA.

EUROFIMA finances railway equipment through borrowings in the international capital markets and through the use of a part of its equity. EUROFIMA either holds title to the equipment it finances until the financing has been completely reimbursed or it holds a direct or indirect security interest deemed equivalent, particularly pledges.

EUROFIMA's equity is primarily used for liquidity management purposes, i.e. investments in money market paper or bonds and, to a limited extent, for financing railway equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

The financial statements of EUROFIMA have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared on a historical cost basis, except for available-for-sale investments, derivative financial instruments and financial assets and liabilities designated at fair value through profit or loss, all of which have been measured at fair value.

The financial statements are presented in CHF.

2.2. Presentation of financial statements

The entity presents its balance sheet generally in order of liquidity.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a current legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation.

2.3. Significant accounting judgments and estimates

In preparing the financial statements, EUROFIMA is required to make certain critical accounting estimates and assumptions that affect the reported profits, financial position and other information disclosed in the financial statements. These estimates are based on available information and judgments made by EUROFIMA. Actual results in the future could deviate from such estimates and the difference may be material to the financial statements.

The most significant judgments and estimates are:

<u>*Fair values of financial instruments*</u>
Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data. Only in the very infrequent situation that observable market data is not available, judgment is required to establish fair values. Further information can be found in note 2.5.8.

<u>*Impairment losses on financial assets*</u>
EUROFIMA reviews its individually significant financial assets at least at each balance sheet date to assess whether there is objective evidence of impairment as a result of one

or more events. When determining a potential impairment loss, EUROFIMA's judgment is required in the estimation of the amount and timing of future cash flows. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to an allowance for impairments.

Pension obligation
The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long–term nature of these plans, such estimates are subject to significant uncertainty. See note 15 for the assumptions used.

2.4. Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"), which is the Swiss franc. The financial statements are presented in Swiss francs ("the presentation currency").

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the translation of all assets and liabilities denominated in foreign currencies are recognized in the income statement under the heading 'Foreign exchange gains/(losses)'.

Monetary assets and liabilities denominated in currencies other than Swiss franc are translated into Swiss francs at the exchange rate prevailing at the balance sheet date. The gain or loss arising from such translation is recorded in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

2.5. Financial instruments

2.5.1. Initial recognition, subsequent measurement and derecognition

Regular way purchases are recognized and derecognized in the balance sheet on the trade date, i.e. the date that the entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the entity has transferred substantially all rights and rewards of ownership. Financial liabilities are derecognized when the obligations specified in the contract are discharged or have expired.

Financial instruments are initially recognized at fair value plus, in the case of financial instruments not carried at fair value through profit or loss, transaction costs. Available-for- sale financial assets and financial instruments at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, held-to-maturity assets and financial liabilities at amortized cost are carried at amortized cost using the effective interest rate method.

Realized and unrealized gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise under the heading 'Net gains/(losses) on financial instruments'.

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or differs based on a valuation technique whose variables include only data from observable markets, the entity immediately recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in "Net gains/(losses) on financial instruments". In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the income statement when the inputs become observable, or when the instrument is derecognized.

Unrealized gains and losses arising from changes in the fair value of available-for-sale debt instruments, excluding foreign currency translation gains and losses, are recognized in other comprehensive income and are accumulated in the other reserves until such instrument is sold, collected or otherwise disposed of. Currency translation effects on available-for-sale debt instruments are recognized in the income statement. Interest earned on available-for-sale financial investments is recognized as interest income and calculated in accordance with the effective interest rate method.

When securities classified as available-for-sale are sold, collected, disposed of, or impaired, the unrealized gains or losses are included in the income statement.

2.5.2. Financial instrument categories

Financial assets or financial liabilities at fair value through profit or loss
This category has two sub-categories: financial assets or financial liabilities held for trading, and those designated as at fair value through profit or loss at initial recognition.

A financial asset or financial liability is classified as held for trading if acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if so classified by EUROFIMA. Derivatives are used by EUROFIMA for risk reduction purposes only. In accordance with IAS 39, derivatives are classified as held for trading.

For financial assets or financial liabilities designated as at fair value through profit or loss, the criteria for designating such financial assets or financial liabilities at initial recognition is that the currency and/or interest rate risk in all of these positions are economically hedged using derivatives. The cash flows on a set of financial instruments are matched together offsetting the changes in fair values in the income statement. In such instances, the application of the Fair Value Option results in more relevant information, as accounting mismatches are significantly reduced in the sense that the same accounting valuation can be applied to all involved financial instruments. Without the use of the Fair Value Option, an accounting mismatch would arise as only some of the instruments would be measured at fair value through profit or loss (i.e. derivatives).

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when EUROFIMA provides money or services directly to a debtor with no intention of trading the receivable.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that EUROFIMA has the positive intention and ability to hold to maturity.

Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets (debt instruments) that are either designated in this category or not classified in any of the other categories.

Available-for-sale financial assets may be sold in anticipation of or in response to changes in interest level, creditworthiness or liquidity needs.

Financial liabilities at amortized cost
Financial instruments issued by the entity that are not designated at fair value through profit or loss, are measured at amortized cost. After initial measurement at fair value, debt issued and other borrowings are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

2.5.3. Cash and cash equivalents

Cash and cash equivalents ("CCE") comprise cash deposits held at call with banks and other short-term investments with an original contractual maturity of three months or less, calculated from the date the placement or the acquisition was made. In the balance sheet, bank overdrafts are included in amounts due to credit institutions and customers. Cash deposits held at call are classified as loans and receivables. Other short term investments that comprise cash and cash equivalents are classified as either financial assets at fair value through profit or loss or loans and receivables. The classification depends on the purpose for which the instruments were acquired.

2.5.4. Financial investments

EUROFIMA classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. It determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

2.5.5. Equipment financing contracts

Equipment financing contracts are measured at amortized cost if the Fair Value Option is not applied. In most cases the equipment financing contract meets the criteria for applying the Fair Value Option and EUROFIMA designates the equipment financing contract irrevocably on initial recognition as financial asset at fair value through profit or loss. The matching of the equipment financing contracts, swaps and borrowings is one key criterion for the application of the Fair Value Option and for the designation at fair value of all involved financial instruments.

2.5.6. Derivative financial instruments

Derivative financial instruments are initially recognized in the balance sheet at fair value and are subsequently measured at fair value. They are recorded in the balance sheet as an asset in cases of positive fair value and as a liability in cases of negative fair value.

Even though EUROFIMA only uses derivatives to effectively mitigate currency and exchange risks in accordance with its risk management policies, it does not apply hedge accounting. However, it applies the Fair Value Option, with which a natural hedge (offset) can be achieved. Due to the principle of cash flow matching, opposite changes in fair values of financial assets and liabilities and related derivative instruments tend to offset each other. As a result, an accounting mismatch is reduced.

2.5.7. Amounts due to credit institutions and customers and debts evidenced by certificates

Outstanding borrowings are carried at amortized cost using the effective interest rate method if the Fair Value Option is not applied. In most cases, borrowings involved in the financing of railway equipment are designated as at fair value through profit or loss (see section above). The matching of the equipment financing contracts, swaps and borrowings is the reason for the designation at fair value through profit or loss of all involved financial instruments. Borrowings carried at amortized cost are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowing using the effective interest rate method.

2.5.8. Determination of fair value

The fair values of liquid assets quoted in an active market are determined based on the instruments' quoted market prices or dealer price quotations, without any deduction for transaction costs. According to the fair value measurement hierarchy stated in note 17, these instruments are classified as "Level 1".

For all other financial instruments, EUROFIMA establishes the fair values by using valuation techniques. These may include the use of recent arm's length transactions, reference to other instruments that are substantially the same and a discounted cash flow model that maximizes the use of independently sourced market parameters, for example yield curves and currency rates. Most market parameters are either directly observable or are implied from instrument prices. The model may perform numerical procedures in the pricing, such as interpolation, when input values do not directly correspond to the most actively traded market trade parameters. With the exception of one investment, no valuations include significant unobservable inputs.

The valuation process involves the determination of future expected cash flows based on the contractual agreements and the computation of their present value using currently observable money market yield curves, swap yield curves and foreign exchange rates.

Valuation models and techniques are reviewed regularly for model performance and calibration. Current year valuation methodologies were consistent with the prior year unless otherwise noted.

As valuation techniques are used, the estimated fair value of financial instruments may not be realizable in the market and deviate significantly under different assumptions and parameters. If the measurement is mainly based on observable market data, the instruments are classified as "Level 2". In cases where fair value determination is not based on observable market data, the instruments are classified as "Level 3".

2.5.9. Impairment of financial assets

At each balance sheet date, EUROFIMA assesses whether there is objective evidence that a financial asset or a group of financial assets might be impaired.

Objective evidence may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganization; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount or net present value of expected future cash flows calculated using the original effective interest rate.

If any such evidence exists for available-for-sale debt instruments, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) is removed from equity and recognized in the income statement.

If, in a subsequent period, the fair value of a financial instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

2.6. Fixed assets

Fixed assets include the entity's premises "Ritterhof", office equipment and other tangible and intangible fixed assets owned by the entity.

Tangible and intangible fixed assets are stated at historical cost less accumulated depreciation and amortization less any accumulated impairment in value. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement. Assets

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purchased at a price below CHF 20 000 are not recognized on balance, but expensed directly based on materiality.

Depreciation is calculated using the straight-line method to write down the cost of the fixed assets to their residual values over their estimated useful lives. The estimated useful lives are:

» Buildings	40 years
» Land	Indefinite useful life
» Furniture, equipment and vehicles	2 to 10 years
» Computer hardware & licenses	3 to 5 years

Fixed assets are derecognized on disposal or when no future economic benefits are expected from their use.

2.7. Impairment of fixed assets

The entity assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, the entity estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized in the income statement.

2.8. Post-employment benefit liability

Under IFRS, EUROFIMA's pension plan qualifies as a defined benefit plan. It is governed by Swiss law. The plan is a group administration plan managed and administered by a third party under contractual agreements with the entity. Plan assets held in trust are governed by Swiss regulations and practice, as is the nature of the relationship between the entity and the trustee. Contributions to the pension plan are paid by the employer and the employees.

The liability recognized in the balance sheet in respect of this defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds denominated in Swiss francs (the currency in which the benefits will be paid) and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurements arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognized immediately in income.

Interest expense (income) on the net defined benefit obligation are presented in the income statement as part of the "interest and similar expenses" ("interest and similar income").

2.9. Provisions

Provisions are recognized when (i) the entity has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.10. Equity

The subscribed share capital is made up of 260 000 registered shares with a nominal amount of CHF 10 000 each, 20% of which is paid-in. The unpaid subscribed share capital may be called in unconditionally at any time by decision of the Board of Directors, as described in Article 21 of the Statutes.

The statutory reserves are made up of the ordinary reserve and the guarantee reserve. In the event of a default under an equipment financing contract, the guarantee reserve, as described in Article 29 of the Statutes, may be called upon.

The fund for general risks includes amounts which the entity decides to put aside to cover risks associated with equipment financing contracts and other financial operations, such as swaps, having regard to the particular risks attached to such operations.

The other reserves include the reserve for other value adjustments due to changes in the fair value of available-for-sale financial assets. Furthermore, the other reserves include that part of other comprehensive income that is attributable to the entity's defined benefit pension plan.

2.11. Dividends

Dividend distribution to the entity's shareholders is recognized as a liability after the dividends are approved by the General Assembly.

2.12. Accrued income, prepaid expenses, accrued expenses and deferred income

Accrued income and prepaid expenses comprise income related to the current financial year, to be received in a subsequent financial year, and expenditures, incurred during the financial year but relating to a subsequent financial year.

Accrued expenses and deferred income comprise expenses related to the current financial year, to be paid in a subsequent financial year and income received at or before the balance sheet date but relating to a subsequent financial year.

2.13. Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The below specific recognition criteria must also be met before revenue is recognized.

2.13.1. Interest and similar income and expense

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The entity may act as an agent in a limited number of financing transactions. Where this is the case, only the net amount earned will be presented in interest and similar income.

2.13.2. Fees and commission income

Issuance fees and redemption premiums or discounts are accrued over the period to maturity of the related borrowings. Any early redemption fees are recognized when a contract is early terminated.

Commission income on equipment financing contracts is recorded on an accrual basis.

2.13.3. Net gains/losses on financial instruments

The entity recognizes both realized and unrealized gains and losses on debt securities and other financial instruments including the results from the sale of available-for-sale financial assets in Net gains/losses on financial instruments.

2.14. Taxation

As a public international body set up by a large number of States, the entity benefits from comprehensive tax exemptions pursuant to the Additional Protocol to the Convention. In Switzerland, besides being exempt from any income and capital taxes otherwise levied on corporations, such provisions include the following privileges relevant to the capital market: exemption from stamp duties on any issuance of debt instruments by the entity and exemption of the entity's debt instruments issued outside Switzerland from turnover taxes, and finally exemption of debt instruments issued outside Switzerland from Swiss withholding taxes.

2.15. Segment reporting

EUROFIMA is a single entity without subsidiaries and operates as a one segment entity, which is in accordance with the internal reporting structure to the Management and the Board of Directors.

2.16. Related parties

Germany and France hold 22.6% of EUROFIMA's share capital each through their fully owned state railways DB AG and SNCF. Consequently, these countries qualify as related parties together with their railways.

EUROFIMA has identified members of the Board of Directors, the Management Committee and the Unit Heads as key management personnel.

2.17. New standards, amendments and interpretations adopted by the entity

EUROFIMA did not identify any standards, amendments and interpretations, which are effective for the financial year beginning on January 1, 2017, which are material to the entity.

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2.18. Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the entity's financial statements are disclosed below. The entity intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments
IFRS 9, as issued, reflects the IASB's work on the replacement of IAS 39. The complete version of IFRS 9 was issued in July 2014 and addresses the classification, measurement and recognition of financial assets and financial liabilities and hedge accounting.

IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements.

IFRS 9 introduces an expected credit loss (ECL) model which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method.

The hedge accounting model under IFRS 9 replaces the rule-based hedge accounting requirements in IAS 39 to more closely align the accounting with risk management activities. Because of the application of the Fair Value Option, EUROFIMA does not apply hedge accounting.

The standard is effective for accounting periods beginning on or after January 1, 2018. EUROFIMA has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of IFRS 9:

» Loans and receivables (2017: CHF 2.1 billion) only includes instruments that cannot be traded. They are therefore foreseen to be classified at amortised cost (AC). As at December 31, 2017, CHF 0.4 billion of equipment financing contracts fell in this category.
» Due to very restrictive rules set out in IAS 39, the positions classified as held to maturity (2017: 0.7 billion) could only be sold in specific situations. Upon transition to IFRS 9, a business model change for these assets is not intended; therefore all positions are classified as amortised costs.
» The instruments classified as available-for-sale (2017: CHF 0.6 billion) fit in the business model of held to collect contractual cash flows and held for sale. Consequently, they are classified at fair value through other comprehensive income (FVOCI) under IFRS 9.
» The instruments at fair value through profit or loss (FVPL, 2017: CHF 16.4 billion) were designated in this category to prevent an accounting mismatch and are foreseen to remain in this category under IFRS 9.

EUROFIMA invests in liquid assets of high credit quality. All of its liquid assets have an investment grade credit rating or, when not rated, are issued by Swiss local authorities or regional governments with a high credit standing. Consequently, the 12-month expected credit loss of these assets will be recognized.

As at December 31, 2017, a small portion of the loan book (CHF 0.4 billion) was measured at amortized cost under IAS 39, and will continue to be measured at amortized cost under IFRS 9. Part of these assets were disbursed to railways with a low credit quality. However, their credit quality did not decrease significantly since the initial recognition of the related assets. As a result, the 12-month expected credit loss of these assets will be recognized.

As at December 31, 2017, the following expected credit losses were estimated:

» Liquid assets at AC: CHF 0.6 million (recognized as allowance, lowering the value of the assets)
» Liquid assets at FVOCI: CHF 0.1 million (deducted from OCI, adjusting the OCI balance of an instrument)
» Equipment financing contracts at AC: CHF 0.2 million (recognized as allowance, lowering the value of the assets)

EUROFIMA uses an exception for the recognition of gains and losses financial liabilities designated at fair value through profit or loss. To prevent an accounting mismatch (group of asset and liabilities) the full fair value change of a liability is recognized in income, including the effect from the change in EUROFIMA's own credit risk.

IFRS 15 Revenue from contracts with customers
IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The standard is effective for annual periods beginning on or after January 1, 2018, and earlier application is permitted. EUROFIMA does not anticipate IFRS 15 will have a material impact on future financial statements.

IFRS 16 Leases
The new Leases standard aims to improve the quality and

comparability of financial reporting by providing greater transparency about leverage, the assets an organization uses in its operations and the risks to which it is exposed from entering into leasing transactions.

IFRS 16 will be effective from January 1, 2019. EUROFIMA does not anticipate the new Leases standard will have a material impact on future financial statements.

3. RISK AND CAPITAL MANAGEMENT

The identification, measurement, monitoring and control of risks are key management responsibilities. The principles and policies for risk management are established by the Board of Directors. The compliance with these guidelines and the implementation of controls are the Management's responsibility. Risk management within the entity is based on a risk management framework that provides the overarching principles for the risk management activities and the detailed risk policies and limit framework. This framework also incorporates the risk appetite as defined by the Board of Directors.

Within the normal course of its activities, EUROFIMA is exposed to a variety of financial risks, mainly credit risk, market risk and liquidity risk. EUROFIMA's risk management focuses on the unpredictability of financial markets and aims at minimizing potential adverse effects on its financial position and performance. EUROFIMA's risk management seeks to appropriately identify, measure, monitor and report all types of risks inherent in the entity's operations. The risk management and control processes are reviewed and refined on a regular basis.

3.1. Managing financial risk

The Board of Directors approves the policies regulating the entity's capital market, lending and treasury activities. These policies cover the management of credit risk, market risk and liquidity risk. In this regard, systems and procedures are in place to control and report on the main financial risks. Exposure to credit risk, market risk and liquidity risk is controlled by a system of pre-approved risk limits. Such limits are reviewed and adjusted periodically in light of external developments and experience. Compliance with established limits and policies is monitored by controlling and internal audit which are independent from the units carrying out the transactions. The results of such compliance checks are periodically reviewed by the Management and the Audit and Risk Committee.

On a quarterly basis, the Board of Directors receives from the Management both a risk report and a status report on the financial results of the entity. The risk report provides the Board of Directors with the status of various quantitative risk parameters, including a mapping of risks in a risk matrix where these risks are assessed for their likelihood of occurrence and potential impact.

Quantitative key risk figures that are regularly monitored and reported upon are, among other things, the following:

» Credit risk:
- Credit risk concentration/Credit exposure per consolidated obligor
- Breakdown of assets per external credit rating provided by various rating agencies
- Composition of the derivatives book and the collateral coverage
- Risk weight of assets

» Market risk:
- Sensitivity analysis, with a specific focus on long-term financial assets and available-for-sale financial assets
- Interest rate reset risk analysis
- Net foreign currency position

» Liquidity risk:
- Debt service coverage ratio
- Liquidity stress tests
- Liquidity forecasts

» Equity risk:
- Basel III ratio
- Leverage and capitalization ratios

The Management also provides the Board of Directors with regular updates on key financial risk issues and other significant events deemed appropriate or requested.

A review of the major risks which could affect the entity's balance sheet and income statement is included in the agenda of every quarterly Board meeting. The latest assessment of risks by the Board of Directors was performed on December 12, 2017.

EUROFIMA is an end-user of derivative financial instruments. It does not perform any proprietary trading activities and uses derivative financial instruments solely for hedging of market risk exposures. It predominantly uses interest rate and cross currency swaps. It does not use any credit derivatives.

3.2. Credit risk

Credit risk is the risk of financial loss resulting from a counterparty failing to honor its payment obligation. Credit risk is the main financial risk in EUROFIMA's operations. It primarily originates from EUROFIMA's core lending activities. EUROFIMA is also exposed to credit risk from treasury investments held to manage its liquidity and market risks.

EUROFIMA follows a prudent approach towards credit risk. Policies approved by the Board of Directors set out minimum credit quality levels for counterparties on the basis of the ratings attributed to counterparties and/or instruments by the rating agencies Standard & Poor's and Moody's. Furthermore, other observable information is used to assess and monitor the credit risk.

Individual counterparty limits are set and reviewed on a monthly basis by the Management. Credit exposure is reported to the Board of Directors quarterly on an obligor basis, i.e. the exposure to connected individual counterparties is consolidated. The entity's maximum exposure to credit risk, before taking into account any collateral or other credit enhancements, is represented by the carrying amounts of its financial assets.

As at December 31, 2017, all financial assets were fully performing (2016: fully performing). No impairment was recognized in 2017 (2016: none). No amount was overdue as per December 31, 2017 (2016: none).

<u>*Equipment financing contracts*</u>
For each financial year, the General Assembly determines the maximum amount of borrowings which may be concluded for the purpose of equipment financing. The Board of Directors decides a financing budget within such maximum amount. Financing limits can be adjusted within a financial year in response to credit relevant developments.

Equipment financing contracts are secured by railroad rolling stock. The entity either holds title to equipment or has a direct or indirect security interest deemed equivalent, in particular pledges, until all contractual obligations are fulfilled. Where rolling stock provided as collateral does no longer meet the requirements laid down in the financing contract, it is substituted. The collateral is administered by the entity. The regular verification of technical and accounting information assures that the entity keeps track of the rolling stock collateral and initiates collateral substitutions in a timely manner.

Moreover, EUROFIMA may engage independent experts to support its recurring technical and economic evaluations of the rolling stock collateral and to perform onsite examinations as necessary.

In its years of operation, EUROFIMA has never needed to take physical possession of any rolling stock collateral or to redeem a pledge.

Pursuant to Article 26 of the Statutes, each shareholder guarantees the fulfillment of all equipment financing contracts on a pro rata basis of its participation in EUROFIMA's subscribed share capital and up to a maximum amount equal to its participation in EUROFIMA's share capital. Such shareholder guarantee can only be called where (i) a railway and its member State have not discharged obligations under equipment financing contracts and (ii) the guarantee reserve, as stipulated by Article 29 of EUROFIMA's Statutes, is not sufficient to cover the loss resulting from such non-payment. As at December 31, 2017, taking into account only shareholders from member States rated AAA/Aaa or AA/Aa, the shareholder guarantee amounted to CHF 1.89 billion and CHF 1.87 billion based on the ratings of Standard & Poor's and Moody's respectively.

The credit risk inherent in the portfolio of equipment financing contracts is reviewed and monitored on an ongoing basis. A breakdown of the equipment financing contracts by counterparty and by credit rating is provided in note 9.

<u>*Derivatives*</u>
The net positive replacement value of derivatives concluded with financial counterparties amounted to CHF 1 592 million as at December 31, 2017 (2016: CHF 2 623 million). The International Swaps and Derivatives Association ("ISDA") Master Agreement is the entity's preferred agreement for documenting derivatives activity. It provides the contractual framework within which the over-the-counter products are concluded, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other contractually defined termination events occur.

In order to reduce the credit exposures of derivatives, EUROFIMA has entered into ISDA Master Agreements with one-way and two-way credit support annex (CSA) collateral agreements with most major derivative counterparties. One-way CSA agreements require that security collateral be posted by the derivative counterparty once the exposure exceeds a contractually defined threshold. Securities received as collateral are held on an account to which the entity holds legal title. Two-way CSA agreements require that cash collateral be posted either by EUROFIMA or by the derivative counterparty depending on whether the exposure is positive or negative.

The net fair value of the collateral received by EUROFIMA under its CSA's as at December 31, 2017, amounted to CHF 1 119 million (2016: CHF 2 003 million). As at year end 2017, 69% of the net positive replacement value of all derivatives concluded with financial counterparties was covered by collateral (2016: 74%). This collateral consisted exclusively of cash and bonds issued by governments with a high credit rating. All derivatives are valued at their net present value and the positions per counterparty are monitored on a daily basis.

Liquid assets
Liquid assets comprise of cash and cash equivalents and financial investments. For investments in securities with maturities greater than one year, the minimum rating at the time of purchase is A-/A3 (based on Standard & Poor's and/or Moody's ratings) or similar credit quality. For instruments maturing in less than one year, a prerequisite minimum rating is A-1/P-1 or similar credit quality.

The breakdown by rating of the financial investments is provided in note 8. 17% of the liquid assets, that were rated neither by Standard & Poor nor by Moody's, were deposits and debt securities issued by Swiss cantonal banks. 77% of the remaining part was rated at least Aa- by fedafin.

3.3. Market risk

Market risk is the risk that movements in market factors, including foreign exchange rates and interest rates, will reduce the income and value of the entity's portfolio of financial instruments. The entity does not invest in equity instruments. In its core activities, EUROFIMA is exposed to foreign exchange and interest rate fluctuations primarily from the fact that debt is often issued in a currency and with interest rate structures differing from those of the equipment financing contracts. Without hedging, this would result in currency and interest rate mismatches between assets and liabilities. The key risk management principle adopted by EUROFIMA is a systematic hedging of such mismatches so that the potential adverse effect of foreign exchange and interest rate fluctuations is effectively reduced to nil. In order to hedge such mismatches, EUROFIMA utilizes interest rate and currency swaps. These instruments are used within the ambit of economic micro-hedging with their cash flows matching those of related assets and liabilities. As a result, the currency and interest rate profile of the borrowings is matched with the profile of equipment financing contracts.

A residual exposure to market risk arises almost exclusively from the investment of the funded liquidity and the investment of the entity's own equity. EUROFIMA applies a framework of limits to control and manage such residual market risk exposure. Maximum exposure limits are set by the Management and the Board of Directors. Such limits include both notional limits (e.g. maximum exposure to a certain currency) and limits to the sensitivity of the entity's results to changes in market variables (e.g. maximum allowed effect from a 1 basis point change in interest rates, ceteris paribus). Compliance with these limits is assessed on a regular basis by controlling and internal audit.

Investments of the funded liquidity and of the equity are exposed to changes in market interest rates. Firstly, the future interest income derived from such investments is influenced by the level of market interest rates prevailing at the time of their investment or reinvestment. Secondly, the institution's net profit and equity (in case of investments classified as "at fair value through profit or loss" or "available-for-sale") are also affected by the fluctuations in the fair value of such investments caused by changes in market interest rates and credit spreads. EUROFIMA measures its exposure to interest rate risks through sensitivity analysis. Such an analysis indicates the sensitivity of the fair value of financial instruments classified as "at fair value through profit or loss" and "available-for-sale" to parallel shifts in all yield curves.

A parallel shift in the yield curve for each respective currency would have had the following impact on the entity's equity and net profit, based on all positions the entity had:

Sensitivity to changes in interest rates

	December 31, 2017		December 31, 2016	
(amounts in CHF million)	Impact on Equity	Impact on net profit	Impact on Equity	Impact on net profit
+100bps	**- 16.1**	**- 0.3**	- 33.7	0.2
-100bps	**17.2**	**0.3**	36.4	- 0.2

The interest rate sensitivity in equity is solely due to the available-for-sale debt securities held as part of the entity's liquid assets. EUROFIMA measures and manages its foreign exchange risk in terms of the difference between assets and liabilities per currency on a daily basis. It aims at keeping such foreign exchange risk as close as possible to zero. The net currency gain incurred by the entity amounted to less than CHF 0.1 million. Future net interest income and commission income in foreign currencies are not hedged. As at December 31, 2017, the counter value in Swiss francs of all net foreign exchange positions amounted to CHF 0.6 million (2016: CHF 0.8 million).

The net foreign currency position at each balance sheet date is as follows:

December 31, 2017

(amounts in CHF million)	EUR	USD	AUD	JPY	CAD	Other	Total
Assets							
Liquid assets	1 236	656	0	40	0	0	1 933
Equipment financing contracts	9 958	1 294	0	0	0	0	11 252
Derivative financial instruments	-4 639	470	2 752	523	484	310	- 100
Accrued income and prepaid expenses	3	0	0	0	0	0	4
Total assets	**6 559**	**2 420**	**2 752**	**564**	**484**	**310**	**13 088**
Liabilities and equity							
Borrowings	5 260	3 187	2 964	864	484	310	13 069
Derivative financial instruments	1 295	- 766	- 213	- 301	0	0	15
Other liabilities & Post-employment benefit liability	0	0	0	0	0	0	0
Reserve for available-for-sale financial instruments	4	- 1	0	0	0	0	3
Total liabilities and equity	**6 559**	**2 420**	**2 752**	**564**	**484**	**310**	**13 088**
Net currency position	**0**	**0**	**0**	**0**	**0**	**0**	**1**

December 31, 2016

(amounts in CHF million)	EUR	USD	AUD	JPY	CAD	Other	Total
Assets							
Liquid assets	850	286	8	118	0	41	1 303
Equipment financing contracts	10 119	1 394	0	0	0	0	11 513
Derivative financial instruments	-6 529	3 099	2 643	530	497	261	501
Accrued income and prepaid expenses	3	0	0	0	0	0	3
Total assets	**4 444**	**4 779**	**2 651**	**648**	**497**	**302**	**13 321**
Liabilities and equity							
Borrowings	4 469	4 469	2 791	883	497	301	13 410
Derivative financial instruments	- 91	314	- 139	- 235	0	0	- 151
Other liabilities & Post-employment benefit liability	59	0	0	0	0	0	59
Reserve for available-for-sale financial instruments	6	- 5	0	0	0	0	2
Total liabilities and equity	**4 444**	**4 778**	**2 651**	**648**	**497**	**302**	**13 320**
Net currency position	**0**	**0**	**0**	**0**	**0**	**0**	**1**

3.4. Liquidity risk

Liquidity risk is the risk that the entity is unable to meet, from available funds, all payment obligations as they fall due, or will have access to such funds only at disproportionate cost.

The main objective of liquidity management is to make sure that EUROFIMA can meet its payment obligations punctually and in full. The planning of liquidity takes into account all known future cash flows, especially the need to service debts, disbursements and repayments from equipment financing contracts as well as cash flows from derivative financial instruments. The projected liquidity position is reported and monitored daily.

The tables below show the undiscounted contractual cash flows of the entity's financial assets and liabilities. The entity's derivatives are generally gross settled instruments. Therefore, the entity shows the contractual cash inflows and outflows of these gross settled derivatives on a gross basis.

For floating rate instruments, the entity used the implied forward rates at the balance sheet date to calculate the future cash flows.

Maturity analysis
December 31, 2017

(amounts in CHF million)	0-6 months	6-12 months	1-2 years	2-3 years	3-5 years	5-10 years	More than 10 years	Total	Difference to book value	Book value
Assets										
Liquid assets	2 598	296	214	319	325	410	105	4 267	- 5	4 262
Equipment financing contracts	136	1 577	1 655	2 357	2 995	3 851	1 658	14 229	- 498	13 731
Other financial assets	8	8	12	11	16	11	1	67	- 59	8
Total	**2 742**	**1 881**	**1 881**	**2 688**	**3 336**	**4 271**	**1 764**	**18 564**	**- 563**	**18 001**
Liabilities										
Borrowings	-1 186	-2 124	-2 343	-3 380	-2 960	-4 659	-1 107	-17 760	121	-17 639
Other financial liabilities	- 1	0	0	0	0	0	0	- 1	- 20	- 21
Total	**-1 187**	**-2 124**	**-2 343**	**-3 380**	**-2 960**	**-4 659**	**-1 107**	**-17 761**	**101**	**-17 660**
Cash flows from gross settled derivative assets										
Contractual amounts receivable	539	1 753	1 609	2 212	1 492	3 723	579	11 907		
Contractual amounts payable	- 377	-1 426	-1 364	-1 773	-1 271	-3 050	- 569	-9 829		
	162	**328**	**246**	**439**	**220**	**673**	**10**	**2 078**	**- 188**	**1 890**
Cash flows from gross settled derivative liabilities										
Contractual amounts receivable	457	451	462	1 888	524	1 601	82	5 465		
Contractual amounts payable	- 462	- 346	- 544	-1 899	- 743	-1 488	- 649	-6 133		
	- 5	**104**	**- 82**	**- 11**	**- 219**	**113**	**- 567**	**- 667**	**67**	**- 600**
Net during the period	1 712	189	- 298	- 264	377	398	100	**2 214**		
Cumulative net during the period	**1 712**	**1 901**	**1 602**	**1 339**	**1 715**	**2 113**	**2 214**			

Maturity analysis
December 31, 2016

(amounts in CHF million)	0-6 months	6-12 months	1-2 years	2-3 years	3-5 years	5-10 years	More than 10 years	Total	Difference to book value	Book value
Assets										
Liquid assets	1 725	378	323	79	451	555	159	3 671	- 47	3 624
Equipment financing contracts	1 251	309	1 554	1 528	3 795	4 335	2 028	14 799	- 421	14 377
Other financial assets	7	8	12	11	18	15	2	72	- 65	8
Total	**2 984**	**695**	**1 888**	**1 618**	**4 264**	**4 905**	**2 188**	**18 542**	**- 533**	**18 009**
Liabilities										
Borrowings	-2 935	- 531	-2 290	-1 758	-4 940	-5 076	-1 509	-19 040	639	-18 400
Other financial liabilities	- 3	0	0	0	0	0	0	- 3	- 59	- 62
Total	**-2 938**	**- 531**	**-2 290**	**-1 758**	**-4 940**	**-5 076**	**-1 509**	**-19 043**	**580**	**-18 463**
Cash flows from gross settled derivative assets										
Contractual amounts receivable	2 928	461	2 142	1 518	4 275	3 251	868	15 444		
Contractual amounts payable	-2 439	- 212	-1 586	-1 224	-3 645	-2 373	- 801	-12 280		
	490	**249**	**556**	**294**	**630**	**878**	**67**	**3 164**	**- 280**	**2 884**
Cash flows from gross settled derivative liabilities										
Contractual amounts receivable	691	22	397	73	1 283	1 541	184	4 190		
Contractual amounts payable	- 841	- 48	- 325	- 141	-1 345	-1 664	- 775	-5 140		
	- 150	**- 26**	**72**	**- 69**	**- 62**	**- 123**	**- 592**	**- 951**	**133**	**- 817**
Net during the period	385	387	226	86	- 108	583	154	**1 713**		
Cumulative net during the period	**385**	**772**	**998**	**1 084**	**976**	**1 559**	**1 713**			

EUROFIMA maintains a pool of liquidity and spreads the maturities of its placements taking into account the forecasted liquidity needs. The pool of liquidity is invested in highly rated debt instruments and placements with credit institutions.

EUROFIMA has access to a repo trading platform, where it can enter into repurchase transactions. This access provides it with a strong and proven liquidity back-up facility should liquidity concerns arise. EUROFIMA has introduced limits as to the minimum level of repo eligible securities it needs to hold at any point in time.

EUROFIMA applies several liquidity risk measures, including stress tests. EUROFIMA strives to secure a level of net liquidity that meets its liquidity targets for a period of 12 months under stressed economic conditions. To compute such liquidity targets, a default probability of 100% is applied to assets below the long-term rating A- or A3 according to Standard and Poor's or Moody's respectively. Furthermore, EUROFIMA is assumed to have no access to the financial markets for the same period of time (together called "stressed economic conditions"). In addition, a haircut to the liquid assets is applied and reviewed on a regular basis.

3.5. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events.

EUROFIMA continuously identifies, assesses, and manages operational risk in order to minimize potential adverse impacts. The key operational risk management principles are laid out in the operational policies and guidelines. They comprise of, among other things, the internal control system, the limit system, the IT management policy, the public communication policy and the security directives. EUROFIMA's systems of internal control, checks and balances, segregation of duties and supervision are designed to cover the most significant aspects of operational risk. Emphasis is placed on the continuous upgrading of information systems, business continuity planning, and the cross-training and development of staff.

3.6. Capital Management

As a supranational institution, EUROFIMA is not subject to regulatory capital requirements. However, the adequacy of the capital base is assessed and monitored monthly and reported to the Board of Directors quarterly.

The Basel III capital ratio is one of the tools used to estimate the capital requirements for each major risk. The Standardized Approach is adopted to calculate the capital requirement for the credit risk. The Standardized Measurement Method is used to calculate the capital requirement for market risk and the Basic Indicator Approach is adopted to estimate the operational risk charge.

One specific element of EUROFIMA's credit backing system also taken into account in the assessment of the capital base is the subsidiary shareholder guarantee.

The most important ratios that are monitored by the Management and reported to the Board of Directors with respect to the entity's capital are the following:

(ratios in %)	December 31, 2017	December 31, 2016
(Sound share capital [1] + shareholder guarantee AAA/Aaa and AA/Aa) / Outstanding borrowings	28.6 / 28.3	27.3 / 27.0
Non-investment grade exposure from equipment financing contracts/Equity	32.3	48.0
Estimated Basel III ratio	41.3	36.2

[1] Equity and callable share capital AAA/AA and Aaa/Aa

4. NET INTEREST INCOME

Net interest income

(amounts in CHF '000)	2017	2016
Financial investments	12 937	12 626
Equipment financing contracts	168 301	181 406
Derivative financial instruments	431 254	498 405
Total interest and similar income	**612 492**	**692 438**
Cash and cash equivalents	- 2 684	- 2 154
Amounts due to credit institutions and customers	- 46 090	- 46 798
Debt evidenced by certificates	- 462 833	- 537 678
Debt securities in issue	- 435 171	- 514 315
Others	- 27 662	- 23 363
Derivative financial instruments	- 83 586	- 88 625
Other interest expenses	- 64	- 91
Total interest and similar expenses	**- 595 257**	**- 675 347**
Net interest income	**17 234**	**17 091**

Net interest income presented per financial instrument category

(amounts in CHF '000)	2017	2016
Derivatives	347 668	409 780
Assets designated at fair value through profit or loss	155 687	167 949
Available-for-sale	7 967	9 772
Loans and receivables	9 373	8 505
Held-to-maturity	5 470	5 611
Liabilities designated at fair value through profit or loss	-498 194	-573 883
Financial liabilities at amortised cost	-10 700	-10 593
	17 271	**17 141**
Other interest income	53	73
Other interest expenses	- 89	- 122
Net interest income	**17 234**	**17 091**

5. NET COMMISSION INCOME

(amounts in CHF '000)	2017	2016
Commission on equipment financing contracts - designated at fair value through profit or loss	11 577	11 729
Commission on equipment financial contracts - loans and receivables	912	990
Upfront fees	0	30
Commission expenses and fees paid	-1 234	-1 414
Net commission income	**11 255**	**11 335**

6. NET GAINS/LOSSES ON FINANCIAL INSTRUMENTS

(amounts in CHF '000)	2017	2016
Gains/(losses) on the sale of available-for-sale financial assets	- 502	3 500
Gains/(losses) on derivative financial instruments	- 213 776	- 97 007
Gains/(losses) on financial assets designated as at fair value through profit or loss	- 113 465	- 143 738
Gains/(losses) on financial liabilities designated as at fair value through profit or loss	327 359	242 133
Net gains/(losses) on financial instruments	**- 384**	**4 889**

7. GENERAL ADMINISTRATIVE EXPENSES

(amounts in CHF '000)	2017	2016
Personnel costs	-4 888	-4 967
Social security	- 482	- 384
Defined benefit pension plan income/(costs)	-1 540	- 931
Office premises costs	- 207	- 207
Other general administrative expenses	-3 842	-4 893
Total general administrative expenses	**-10 959**	**-11 382**

The item "Other general administrative expenses" includes in its majority IT related expenses, legal counsel fees, representation expenses and independent auditors fees.

Auditing and additional fees

The external auditor charged the following fees for professional services rendered for the financial year:

(amounts in CHF '000)	2017	2016
Audit services	- 187	- 184
Audit-related services	0	- 9
Total	**- 187**	**- 193**

Audit services are defined as the standard audit work performed each year in order to issue an opinion on the entity's financial statements.

Audit-Related Services include those other assurance services provided by the independent auditor but not restricted to those that can only be provided by the auditor signing the audit report. They comprise amounts for services such as audits of IT infrastructure and consultation regarding new accounting pronouncements.

8. LIQUID ASSETS

The portfolio of liquid assets is composed of and measured as follows:

(amounts in CHF '000)	December 31, 2017	December 31, 2016
Cash at banks	115 834	83 188
Collaterals	21 947	0
Placement with credit institutions	775 308	596 669
Debt securities - bonds	1 678 442	1 875 752
Other liquid assets	1 670 688	1 068 399
Total liquid assets	**4 262 219**	**3 624 009**
of which		
Cash and cash equivalents at fair value	617 082	675 475
Cash and cash equivalents at amortised cost	1 191 388	476 112
Total cash and cash equivalents	**1 808 469**	**1 151 588**
Financial investments at fair value	1 225 696	1 282 430
Financial investments at amortised cost	1 228 055	1 189 991
Total financial investments	**2 453 750**	**2 472 421**

Credit rating structure of liquid assets

Below, the liquid assets are shown with their long-term rating (amounts in CHF '000). If a specific rating is not available, the issuer, guarantor or obligor rating is applied, whichever is stronger.

EUROFIMA groups the Standard & Poor's ratings as follows: AAA, AA for ratings from AA+ to AA-, A for ratings from A+ to A-, BBB for ratings from BBB+ to BBB-, and <BBB for ratings below BBB-.

EUROFIMA groups the Moody's ratings as follows: Aaa, Aa for ratings from Aa1 to Aa3, A for ratings from A1 to A3, Baa for ratings from Baa1 to Baa3, and <Baa for ratings below Baa3.

Cash at banks

Standard & Poor's	December 31, 2017	December 31, 2016
AAA	1	0
AA	914	1 015
A	114 861	82 067
BBB	57	106
<BBB	0	0
N.R.	0	0
Total	**115 834**	**83 188**

Moody's	December 31, 2017	December 31, 2016
Aaa	7	4
Aa	0	0
A	114 861	82 067
Baa	57	106
<Baa	0	0
N.R.	909	1 011
Total	**115 834**	**83 188**

Placement with credit institutions

Standard & Poor's	December 31, 2017	December 31, 2016
AAA	0	94 818
AA	277 621	55 615
A	35 111	211 416
BBB	0	0
<BBB	0	0
N.R.	462 576	234 821
Total	**775 308**	**596 669**

Moody's	December 31, 2017	December 31, 2016
Aaa	0	94 818
Aa	120 074	76 748
A	0	0
Baa	0	0
<Baa	0	0
N.R.	655 235	425 104
Total	**775 308**	**596 669**

Debt securities - bonds

Standard & Poor's	December 31, 2017	December 31, 2016
AAA	535 583	726 589
AA	502 275	577 459
A	223 422	190 913
BBB	0	20 516
<BBB	0	0
N.R.	417 162	360 275
Total	**1 678 442**	**1 875 752**

Moody's	December 31, 2017	December 31, 2016
Aaa	840 983	1 035 407
Aa	380 057	411 599
A	158 407	205 229
Baa	17 560	16 095
<Baa	0	0
N.R.	281 434	207 421
Total	**1 678 442**	**1 875 752**

Other liquid assets

Standard & Poor's	December 31, 2017	December 31, 2016
AAA	0	0
AA	170 687	19 999
A	1 079 487	802 809
BBB	0	0
<BBB	0	0
N.R.	442 461	245 591
Total	**1 692 635**	**1 068 399**

Moody's	December 31, 2017	December 31, 2016
Aaa	0	0
Aa	560 294	338 137
A	693 143	565 349
Baa	0	0
<Baa	0	0
N.R.	439 198	164 913
Total	**1 692 635**	**1 068 399**

Liquid assets neither rated by Standard & Poor's nor Moody's

	December 31, 2017	December 31, 2016
Placement with credit institutions	372 618	234 821
Debt securities - bonds	64 090	50 194
Other liquid assets	243 690	144 914
Total	**680 398**	**429 929**

As at December 31, 2017 liquid assets rated by neither Standard & Poor's nor Moody's consisted of fixed income instruments issued by Swiss local authorities, agencies and cantonal banks (2016: solely Swiss local authorities).

9. EQUIPMENT FINANCING CONTRACTS

Equipment financing contracts were concluded exclusively with shareholders and their guaranteed affiliates.

(amounts in CHF '000)	December 31, 2017	December 31, 2016
Equipment financing contracts at fair value	13 364 856	14 006 667
Equipment financing contracts at amortized cost	365 947	370 824
Total equipment financing contracts	**13 730 802**	**14 377 491**

Credit rating structure of equipment financing contracts

The equipment financing contracts are shown with the long-term rating of the respective member State (amounts in CHF '000).

EUROFIMA groups the Standard & Poor's ratings as follows: AAA, AA for ratings from AA+ to AA-, A for ratings from A+ to A-, BBB for ratings from BBB+ to BBB-, and <BBB for ratings below BBB-.

EUROFIMA groups the Moody's ratings as follows: Aaa, Aa for ratings from Aa1 to Aa3, A for ratings from A1 to A3, Baa for ratings from Baa1 to Baa3, and <Baa for ratings below Baa3.

Standard & Poor's	December 31, 2017	December 31, 2016
AAA	2 936 983	3 286 626
AA	5 844 924	5 992 231
A	147 101	161 743
BBB	4 585 640	4 161 270
<BBB	216 154	775 620
N.R.	0	0
Total	**13 730 802**	**14 377 491**

Moody's	December 31, 2017	December 31, 2016
Aaa	2 936 983	3 286 626
Aa	5 844 924	5 960 076
A	28 313	82 365
Baa	4 393 443	4 294 240
<Baa	527 140	754 183
N.R.	0	0
Total	**13 730 802**	**14 377 491**

Distribution of equipment financing contracts

(amounts in CHF '000)						Principal at December 31, 2017	
Member State	Railway	Principal at January 1, 2017	Exchange rate difference	Financing	Redemptions	CHF	%
Germany [1]	DB AG [1]	214 500	19 541	0	0	234 041	1.8%
France [1]	SNCF [1]	712 299	38 264	0	- 15 907	734 656	5.7%
Italy	FS	2 160 199	190 555	0	- 23 500	2 327 254	18.2%
Belgium	SNCB	2 409 298	126 536	16 968	- 233 146	2 319 656	18.2%
Netherlands	NS	63 492	2 845	0	- 31 231	35 106	0.3%
Spain	RENFE	1 866 259	168 488	0	- 209 108	1 825 639	14.3%
Switzerland	SBB	2 700 850	10 952	582 999	- 908 817	2 385 985	18.7%
Serbia	ŽS	52 000	0	0	- 9 000	43 000	0.3%
Luxembourg	CFL	85 800	7 816	0	0	93 617	0.7%
Austria	ÖBB	2 051 809	162 926	0	- 104 797	2 109 937	16.5%
Portugal	CP	268 125	24 426	0	0	292 552	2.3%
Greece	OSE	337 838	9 576	0	- 223 255	124 159 [2]	1.0%
Czech Republic	ČD	32 175	- 113	0	- 32 062	0	0.0%
Hungary	MÁV	37 538	3 420	0	0	40 957	0.3%
Slovakia	ŽSSK	50 093	2 270	0	- 24 153	28 209	0.2%
Croatia	HŽ	16 088	- 57	0	- 16 031	0	0.0%
Slovenia	SŽ	111 657	7 230	0	0	118 887	0.9%
Bulgaria	BDZ	21 450	233	18 070	- 39 753	0	0.0%
Montenegro	ŽPCG	14 500	0	0	- 4 500	10 000 [3]	0.1%
Denmark	DSB	56 105	4 887	0	- 4 310	56 682	0.4%
Total principal		**13 262 074**	**779 795**	**618 036**	**-1 879 569**	**12 780 337**	**100.0%**
Difference to book value		1 115 416				950 465	
Total book value		**14 377 491**				**13 730 802**	

[1] Germany and France hold 22.6% of EUROFIMA's share capital each through their fully owned state railways DB AG and SNCF and are thus related parties together with their railways
[2] all of which assumed by Greece
[3] all of which assumed by Montenegro

10. DERIVATIVE FINANCIAL INSTRUMENTS

	December 31, 2017			December 31, 2016		
(amounts in CHF '000)	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
Cross currency swaps	1 629 391	- 485 850	9 861 209	2 522 134	- 685 414	10 853 336
Interest rate swaps	258 208	- 108 712	4 696 400	335 729	- 121 090	4 987 659
Currency swaps	2 278	- 5 787	558 650	26 155	- 10 929	1 154 223
Forward foreign exchange	4	0	213	16	- 1	3 475
Total	**1 889 881**	**- 600 349**	**15 116 472**	**2 884 035**	**- 817 434**	**16 998 693**

Derivative financial instruments are carried at fair value net per contract.

In accordance with its risk management policy, EUROFIMA uses derivatives for risk mitigation purposes only. It does not apply hedge accounting. Where hedged positions are not valued at fair value, the "Fair Value Option" is applied to accurately reflect the effects from the economic hedging performed by the entity in the income statement.

Derivatives most commonly used by the entity are:

Swaps
Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate and foreign currency rate.

Forward contracts
Forward contracts are contractual agreements to buy or sell a specified financial instrument, currency or interest rate at a specific price and date in the future. Forwards are customized contracts transacted over-the-counter.

11. OFFSETTING

The entity offsets amounts in the balance sheet when a legal right of offset exists and the parties involved intend to settle the cash flows on a net basis or settle the asset and liability simultaneously. Under some contracts, the entity has only a conditional right of set-off, for example in the case of a default of a counterparty. Even though such contractual arrangements limit the credit risk to the entity, amounts that can only be netted conditionally are not offset in the balance sheet.

The table below shows the collateral held and conditional netting for different positions:

	December 31, 2017		December 31, 2016	
(amounts in CHF '000)	Derivative financial assets	Derivative financial liabilities	Derivative financial assets	Derivative financial liabilities
Amount presented in the balance sheet	1 889 881	- 600 349	2 884 035	- 817 434
Value of derivatives to be offset in case of default of a counterparty	263 043	- 263 043	260 589	- 260 589
Coverage by cash and securities held or pledged as collateral	1 247 701	- 19 232	1 945 189	0
Net amount	**379 137**	**- 318 073**	**678 257**	**- 556 846**

12. ACCRUED INCOME AND PREPAID EXPENSES

(amounts in CHF '000)	December 31, 2017	December 31, 2016
Commissions on equipment financing contracts	4 516	4 323
Total accrued income and prepaid expenses	**4 516**	**4 323**

13. TANGIBLE AND INTANGIBLE FIXED ASSETS

(amounts in CHF '000)	Land and buildings	Hardware, vehicles and other equipment	Software and licenses	Total
January 1, 2016				
Cost	7 250	290	3 612	11 152
Accumulated depreciation/amortization	- 851	- 178	-2 489	-3 518
Net book value	**6 399**	**112**	**1 123**	**7 634**
At January 1, 2016	**6 399**	**112**	**1 123**	**7 634**
Additions	0	114	124	238
Disposals	0	- 53	0	- 53
Depreciation/amortization	- 138	- 95	- 727	- 961
Reversal of accumulated depreciation/amortization due to disposals	0	53	0	53
December 31, 2016	**6 261**	**131**	**520**	**6 911**
At December 31, 2016				
Cost	7 250	351	3 736	11 338
Accumulated depreciation/amortization	- 989	- 220	-3 216	-4 426
Net book value	**6 261**	**131**	**520**	**6 911**
At January 1, 2017	**6 261**	**131**	**520**	**6 911**
Additions	0	0	92	92
Disposals	0	0	0	0
Depreciation/amortization	- 139	- 92	- 417	- 648
December 31, 2017	**6 121**	**39**	**195**	**6 355**
At December 31, 2017				
Cost	7 250	351	3 828	11 429
Accumulated depreciation/amortization	-1 129	- 312	-3 633	-5 074
Net book value	**6 121**	**39**	**195**	**6 355**

Land and buildings of the entity comprise the “Ritterhof” at Rittergasse 20 in Basel.

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14. BORROWINGS

EUROFIMA’s borrowings comprise of the following

(amounts in CHF '000)	December 31, 2017	December 31, 2016
Amounts due to credit institutions and customers	1 890 052	1 421 837
Loans	1 374 444	1 421 837
Collaterals	515 609	0
Debt evidenced by certificates	15 749 228	16 978 503
Debt securities in issue	14 096 006	15 202 935
Others	1 653 221	1 775 568
Total borrowings	**17 639 280**	**18 400 340**

Borrowings per financial instrument category

(amounts in CHF '000)	December 31, 2017	December 31, 2016
Borrowings at fair value through profit or loss	16 315 823	17 876 764
Borrowings at amortised cost	1 323 458	523 576
Total borrowings	**17 639 280**	**18 400 340**

The entity’s borrowings are not subject to any financial covenants.

Maturity structure of borrowings

(amounts in CHF '000)	December 31, 2017	December 31, 2016
0-6 months	967 709	2 671 586
6-12 months	1 860 167	276 246
1-2 years	1 957 258	1 836 466
2-3 years	3 062 735	1 394 843
3-5 years	2 541 000	4 417 043
5-10 years	4 120 228	4 435 915
More than 10 years	977 614	1 339 310
Total principal	**15 486 710**	**16 371 409**
Total borrowings principal	15 486 710	16 371 409
Difference to book value	2 152 571	2 028 931
Total borrowings	**17 639 280**	**18 400 340**

The maturity structure is based on the contractual settlement dates of the borrowings.

Debt securities in issue - listed bonds

Maturity	Interest rate in %	Year of issuance	December 31, 2017 Principal in issue currency '000	December 31, 2017 Book value in CHF '000	December 31, 2016 Principal in issue currency '000	December 31, 2016 Book value in CHF '000
AUD						
28.12.2018	6,250	2003	1 650 000	1 310 617	1 650 000	1 312 497
29.01.2019	4,000	2014	250 000	197 808	250 000	194 065
30.06.2020	5,500	2005	750 000	618 152	750 000	609 259
30.03.2022	6,000	2007	200 000	176 396	200 000	173 298
19.12.2025	3,900	2015	500 000	413 943	475 000	375 884
13.01.2027	2,600	2016	325 000	247 306	175 000	125 619
CAD						
13.12.2019	5,150	2004	250 000	206 177	250 000	211 380
30.03.2027	4,550	2007	300 000	277 815	300 000	285 534
CHF						
10.11.2017	2,125	2009	0	0	270 000	277 397
28.12.2018	3,250	2003	450 000	467.644	450 000	485 184
03.08.2020	2,375	2005	595 000	628 796	595 000	640 634
29.12.2020	3,375	2004	365 000	406 402	365 000	421 515
30.06.2021	0,625	2014	280 000	290 139	280 000	293 838
22.05.2024	3,000	2007	600 000	727 838	600 000	748 946
15.05.2026	3,000	2006	1 000 000	1 258 403	1 000 000	1 292 869
04.02.2030	2,875	2005	450 000	596 013	450 000	610 442
EUR						
12.09.2018	FRN	2013	30 000	35 137	30 000	32 216
05.11.2018	FRN	2010	32 500	38 116	32 500	35 030
21.10.2019	4,375	2004	650 000	829 868	650 000	791 141
28.11.2019	2,730	2011	6 800	7 997	6 800	7 338
23.11.2020	3,000	2010	40 000	51 038	40 000	48 115
27.10.2021	4,000	2009	1 000 000	1 351 133	1 000 000	1 284 328
15.11.2022	3,125	2010	800 000	1 068 524	800 000	1 009 919
25.04.2023	0,250	2016	800 000	932 452	800 000	860 527
28.06.2023	2,050	2013	15 000	19 338	15 000	18 129
28.07.2023	3,250	2010	50 000	68 599	50 000	64 877
15.10.2030	FRN	2015	80 000	95 289	80 000	87 457
GBP						
07.06.2032	5,500	2001	150 000	310 109	150 000	301 205
USD						
03.04.2017	5,000	2007	0	0	1 000 000	1 066 476
13.04.2017	FRN	2014	0	0	500 000	510 314
11.04.2019	FRN	2017	500 000	489 328	0	0
29.05.2020	1,750	2015	1 000 000	975 631	1 000 000	1 027 503
Total listed bonds				**14 096 006**		**15 202 935**

Debt evidenced by certificates - Other

(amounts in CHF '000)	December 31, 2017	December 31, 2016
Unlisted stand-alone issues	233 411	257 805
Unlisted issues under the Programme for the Issuance of Debt Instruments	478 488	365 731
Commercial paper	941 322	1 152 032
Total other debts evidenced by certificates	**1 653 221**	**1 775 568**

Reconciliation of liabilities arising from financing activities

(amounts in CHF '000)	Long-term borrowings	Short-term borrowings	Total
December 31, 2015	**19 693 748**	**469 823**	**20 163 571**
Issues / Placements	1 126 870	5 346 698	6 473 569
Redemptions	-3 221 337	-4 732 062	-7 953 399
Foreign exchange movements	- 44 437	53 834	9 397
Fair value changes	- 306 537	13 739	- 292 798
December 31, 2016	**17 248 308**	**1 152 032**	**18 400 340**
Issues / Placements	724 699	5 535 880	6 260 580
Redemptions	-1 772 811	-5 713 548	-7 486 359
Foreign exchange movements	417 866	- 36 424	381 442
Fair value changes	- 435 712	518 990	83 278
December 31, 2017	**16 182 350**	**1 456 931**	**17 639 280**

15. POST-EMPLOYMENT BENEFIT LIABILITY

EUROFIMA participates in a group administration post-employment benefit plan in Switzerland. The plan qualifies as a defined benefit plan under IFRS. The entity has a full insurance coverage solution with a Swiss insurer. The insurance coverage is not taken into account in the below computations.

The amount recognized in the balance sheet for this defined benefit pension plan is determined as follows:

(amounts in CHF '000)	December 31, 2017	December 31, 2016
Present value of funded obligations	13 631	12 958
Fair value of plan assets	-8 984	-8 788
Liability recognized on the balance sheet	**4 647**	**4 169**

The movement in the net defined benefit obligation over the year is as follows:

(amounts in CHF '000)	Present value of funded obligation	Fair value of plan assets	Total
As at January 1, 2016	**11 207**	**-7 813**	**3 394**
Service cost for the year 2016	931	0	931
Interest expense/(income)	101	- 70	31
	12 239	**-7 883**	**4 356**
Remeasurements:			
Return on plan assets, excluding amounts included in interest expense/(income)	0	124	124
Experience (gains)/losses	478	0	478
(gain)/loss from change in demographic assumptions	- 543	0	- 543
(gain)/loss from change in financial assumptions	592	0	592
	526	**124**	**650**
Past service costs and settlements			
Contributions by:			
Employer	0	- 824	- 824
Participants	1 098	-1 098	0
Benefit payments	- 906	893	- 13
Past service cost	0	0	0
As at December 31, 2016	**12 958**	**-8 788**	**4 169**

(amounts in CHF '000)	Present value of funded obligation	Fair value of plan assets	Total
As at January 1, 2017	**12 958**	**-8 788**	**4 169**
Service cost for the year 2017	1 006	0	1 006
Interest expense/(income)	78	- 53	25
	14 042	**-8 841**	**5 201**
Remeasurements:			
Return on plan assets, excluding amounts included in interest expense/(income)	0	- 63	- 63
Experience (gains)/losses	201	0	201
(gain)/loss from change in demographic assumptions	0	0	0
(gain)/loss from change in financial assumptions	- 130	0	- 130
	71	**- 63**	**8**
Past service costs and settlements			
Contributions by:			
Employer	0	-1 082	-1 082
Participants	1 774	-1 774	0
Benefit payments	-2 790	2 777	- 13
Past service cost	533	0	533
As at December 31, 2017	**13 631**	**-8 984**	**4 647**

Allocation of plan assets

Plan assets are comprised of the following:

(in %)	December 31, 2017	December 31, 2016
Fixed interest, cash and cash equivalents, time deposits	67.9%	77.1%
Mortgages and other claims on nominal value	7.4%	6.4%
Equities and units in investment funds	8.1%	2.5%
Private equity and hedge funds	0.1%	0.1%
Investment in participations and associated companies	0.2%	0.5%
Real estate	15.2%	12.1%
Other investments	1.2%	1.4%
Total	**100.0%**	**100.0%**

Significant assumptions

Significant assumptions applied in the calculation of the defined benefit liability:

	December 31, 2017	December 31, 2016
Discount rate	0.7%	0.6%
Pension growth rate	0.0%	0.0%
Salary growth rate (including inflation)	1.5%	1.5%
Retirement age		
men	65	65
women	64	64
Demographic assumptions	bvg 2015 GT	bvg 2015 GT

Sensitivity analysis

The sensitivity of the liability recognized for the post employment benefit plan to changes in the principal assumptions is depicted in the table below. The present value of funded obligations and service cost are recalculated to include the effect from the changed assumption:

		December 31, 2017		December 31, 2016	
(amounts in CHF '000)	Change in assumption	Recalculated Present value of funded obligations	Recalculated service cost	Recalculated Present value of funded obligations	Recalculated service cost
Discount rate	+ 50 basis points	**12 428**	**1 001**	11 807	1 158
	- 50 basis points	**15 025**	**1 232**	14 291	1 408
Salary increase	+ 50 basis points	**13 761**	**1 129**	13 088	1 302
	- 50 basis points	**13 498**	**1 085**	12 834	1 246
Life expectancy	+ 1 year	**13 862**	**1 123**	13 163	1 291
	- 1 year	**13 394**	**1 091**	12 748	1 255

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the statement of financial position.

Other information

The expected contribution to the post-employment benefit plan to be paid by EUROFIMA for the year ending December 31, 2018, amounts to CHF 752 000.

The projected benefits that are expected to be paid for the following years are as follows:

(amounts in CHF '000)	December 31, 2017
2018	595
2019	554
2020	519
2021	493
2022	474
2023-2027	3 495

The weighted average duration of the defined benefit obligation is 19.0 years.

16. EQUITY

Statutory reserves & fund for general risk

(amounts in CHF '000)	December 31, 2017	December 31, 2016
Ordinary reserve	78 767	77 718
Guarantee reserve	713 000	696 500
Total statutory reserves	**791 767**	**774 218**

According to Article 29 of the Statutes, 5% of the annual profit is to be allocated to the ordinary reserve until the ordinary reserve has reached 20% of the paid-in share capital.

In the event of a default by a railway, the guarantee reserve, as outlined in Article 29 of the Statutes, may be called upon. According to this article, the yearly allocation to the guarantee reserve corresponds to the balance of the annual profit, after allocation to the ordinary reserve of 5% of the net profit and the eventual payment of a dividend, statutorily limited to a maximum of 4% of the paid-in share capital, unless the General Assembly decides otherwise.

Other reserves

The other reserves contain the reserve for available-for-sale financial instruments and the reserve for remeasurements on the entity's defined benefit pension plan.

Reserve for available-for-sale financial instruments

(amounts in CHF '000)	
January 1, 2016	**5 138**
Changes in fair value	803
Reclassification to income statement	-3 500
December 31, 2016	**2 441**
Changes in fair value	233
Reclassification to income statement	502
December 31, 2017	**3 176**

Reserve for remeasurements of the post-employment benefit liability

(amounts in CHF '000)	
January 1, 2016	**-2 679**
Actuarial gains & losses	- 526
Return on plan assets	- 124
December 31, 2016	**-3 330**
Actuarial gains & losses	- 71
Return on plan assets	63
December 31, 2017	**-3 338**

17. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT

The table below shows the allocation of the entity's financial instruments to the different financial instrument categories and to the different fair value levels. Furthermore, the fair value for all instruments is disclosed, including those measured at amortized cost.

The three-level hierarchy used for financial instruments measured at fair value is the following:
Level 1: quoted prices in active markets for identical assets or liabilities
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: inputs for the asset or liability that are not based on observable market data

	Financial instrument categories						Carrying amount December 31, 2017	Fair value December 31, 2017	Fair value level		
(amounts in CHF million)	DFVPL	FVPL	AFS	HTM	LaR	FLAC			Level 1	Level 2	Level 3
Financial assets											
CCE at amortized cost	0	0	0	0	1 191	0	1 191	1 192	0	1 192	0
CCE at fair value	617	0	0	0	0	0	617	617	0	617	0
Financial investments at amortized cost	0	0	0	671	557	0	1 228	1 240	709	515	15
Financial investments at fair value	528	0	697	0	0	0	1 226	1 226	945	281	0
Derivative financial instruments - assets	0	1 890	0	0	0	0	1 890	1 890	0	1 890	0
EFC contracts at amortized cost	0	0	0	0	366	0	366	399	0	399	0
EFC contracts at fair value	13 365	0	0	0	0	0	13 365	13 365	0	13 365	0
Other financial assets	4	0	0	0	4	0	8	8	0	8	0
Total assets							**19 891**	**19 936**	**1 654**	**18 267**	**15**
Financial liabilities											
Borrowings at amortized cost	0	0	0	0	0	1 323	1 323	1 353	0	1 353	0
Borrowings at fair value	16 316	0	0	0	0	0	16 316	16 316	0	16 316	0
Derivative financial instruments - liabilities	0	600	0	0	0	0	600	600	0	600	0
Other financial liabilities	0	0	0	0	20	1	21	21	0	21	0
Total liabilities							**18 260**	**18 290**	**0**	**18 290**	**0**

	Financial instrument categories						Carrying amount December 31, 2016	Fair value December 31, 2016	Fair value level		
(amounts in CHF million)	**DFVPL**	**FVPL**	**AFS**	**HTM**	**LaR**	**FLAC**			**Level 1**	**Level 2**	**Level 3**
Financial assets											
CCE at amortized cost	0	0	0	0	476	0	476	477	0	477	0
CCE at fair value	675	0	0	0	0	0	675	675	0	675	0
Financial investments at amortized cost	0	0	0	570	620	0	1 190	1 205	773	420	13
Financial investments at fair value	478	0	804	0	0	0	1 282	1 282	1 069	213	0
Derivative financial instruments - assets	0	2 884	0	0	0	0	2 884	2 884	0	2 884	0
EFC contracts at amortized cost	0	0	0	0	371	0	371	414	0	414	0
EFC contracts at fair value	14 007	0	0	0	0	0	14 007	14 007	0	14 007	0
Other financial assets	4	0	0	0	4	0	8	8	0	8	0
Total assets							**20 893**	**20 952**	**1 842**	**19 098**	**13**
Financial liabilities											
Borrowings at amortized cost	0	0	0	0	0	524	524	562	0	562	0
Borrowings at fair value	17 877	0	0	0	0	0	17 877	17 877	0	17 877	0
Derivative financial instruments - liabilities	0	817	0	0	0	0	817	817	0	817	0
Other financial liabilities	59	0	0	0	0	3	62	62	0	62	0
Total liabilities							**19 280**	**19 319**	**0**	**19 319**	**0**

There were no transfers between any of the levels of the fair value hierarchy during the year 2017 (2016: none).

DFVPL Financial instruments designated as at fair value through profit or loss by the company
FVPL Held for Trading: Fair value through profit or loss
AFS Available-for-sale
HTM Held-to-maturity
LaR Loans and receivables
FLAC Financial liabilities at amortized cost

Financial assets and liabilities designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss
The carrying amount at December 31, 2017, of financial assets designated at fair value through profit or loss was CHF 842 million higher (2016: CHF 892 million higher) than the contractual amount at maturity. The change in fair value of financial assets designated at fair value through profit or loss that is attributable to changes in credit risk for the year 2017 amounts to CHF 51 million loss (2016: CHF 18 million loss).

Financial liabilities designated at fair value through profit or loss
The carrying amount at December 31, 2017, of financial liabilities designated at fair value through profit or loss was CHF 2 018 million higher (2016: CHF 1 765 million higher) than the contractual amount at maturity. The change in fair value in financial liabilities designated at fair value through profit or loss that is attributable to changes in credit risk for the year 2017 amounts to CHF 35 million gain (2016: CHF 32 million gain).

18. RELATED PARTIES

Transactions and outstanding balances with related party shareholders (DB AG and SNCF) are disclosed in Note 9 - Equipment financing contracts.

Salaries and other benefits paid to key management personnel are included within general administrative expenses and amounted to CHF 3.9 million in 2017 (2016: CHF 2.8 million).

There are no outstanding amounts due to key management personnel per year end 2017 (2016: none).

19. POST BALANCE SHEET EVENTS

On proposal from the Management, the Board of Directors adopted the Financial Statements on March 6, 2018, and authorized their submission to the General Assembly for approval on the same date. The General Assembly approved the financial statements.

20. PROPOSED APPROPRIATION OF THE SURPLUS

The net profit for the financial year 2017 of CHF 16 682 593 equals the surplus to be distributed. In accordance with Article 29 of the Statutes, the Board of Directors proposes the following allocation of the surplus to the General Assembly:

	CHF
Appropriation to the ordinary reserve	835 000
Dividend of 0% (statutory maximum is 4%) on the paid-in share capital of 520 million	0
Appropriation to the guarantee reserve	13 500 000
Appropriation to the fund for general risks	2 347 593

Auditor's Report

EUROFIMA European Company for the Financing of Railroad Rolling Stock

Basel

Report of the statutory auditor to the General Assembly

on the financial statements 2017

Report of the statutory auditor

to the General Assembly of EUROFIMA European Company for the Financing of Railroad Rolling Stock, Basel

Report on the audit of the financial statements

Opinion

We have audited the financial statements of EUROFIMA European Company for the Financing of Railroad Rolling Stock, which comprise the balance sheet as at December 31, 2017 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements (pages 32 to 67), including a summary of significant accounting policies.

In our opinion the financial statements as at December 31, 2017 present fairly, in all material respects, the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Furthermore, the financial statements comply with the international Convention for the establishment of the Company and the Statutes.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall materiality: CHF 65'600'000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matters the following areas of focus have been identified:

- Valuation of level 2 financial instruments
- Capital market transactions and Equipment Financing Contracts

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Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	CHF 65'600'000
How we determined it	0.33% of total assets
Rationale for the materiality benchmark applied	We have applied this benchmark based on our analysis of the common information needs of users of the financial statements. As there is no profit maximization and no distribution of retained earnings, we believe that total assets are an important metric for the financial performance of the company and it is a generally accepted benchmark.

We agreed with the Audit and Risk Committee that we would report to them misstatements above CHF 3'200'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of level 2 financial instruments

Key audit matter	*How our audit addressed the key audit matter*
As described in Note 17 to the financial statements, the majority of financial assets and liabilities are recorded at fair value in the statements of financial positions. As at December 31, 2017, CHF 16.2 billion or 81 % (assets) and CHF 16.9 billion or 93 % (liabilities) of the financial instruments held at fair value were classified as level 2 instruments in accordance with IFRS 13. Level 3 instruments were immaterial. We focused on this area because of the complexity of the valuation models used to fair value the financial instruments. We identified and assessed the following risks that could result in inaccurate fair values: • EUROFIMA uses a number of model types to value its level 2 financial instruments. Model deficiencies or inaccurate model parameters could lead to material differences. • Whilst the majority of the model inputs used to price financial instruments are observable, there are indirectly observable inputs, which could lead to valuation variances. On a financial instrument basis these variances are negligible; however once extrapolated over the entire population of financial instruments they could lead to material differences. See Notes 2.5 and 17 to the financial statements on pages 38 - 40 and 65 - 66.	We assessed and tested the design and existence of the key controls related to financial reporting including the process over contract approval, the control over accuracy of contract components in the system, and the control over the review of the models and model parameters. Additionally, we performed on a sample basis the following: • We performed an independent recalculation using our own model of fair value and amortised cost valuation within the treasury system for all financial instruments categorised as level 2 instruments covering the relevant supported features such as the appropriate valuation model, adequate parameters and correct calculations. • We tested the market input data (interest rates, foreign exchange rates) with external information and challenged the indirectly observable inputs for market consistency with observable market data and/or instrument prices. • We checked sensitivities to changes in interest rates and yield curves of currencies for all instruments in the sample that are booked under fair value. The differences identified between our valuations and the EUROFIMA valuations were within the acceptable thresholds defined above allowing us to accept the EUROFIMA's fair value calculations.

Capital market transactions and Equipment Financing Contracts

Key audit matter	*How our audit addressed the key audit matter*
EUROFIMA's core activity and public mission consists of supporting the development of rail transportation in Europe by providing its shareholders, 26 national railway operators, and other railway bodies with cost-effective financing to renew and modernise their railway equipment. The borrowing operations (consisting of equipment financing contracts and debts evidenced by certificates, including derivatives), which represent CHF 15.6 billion or 79 % (assets) and CHF 16.3 billion or 90% (liabilities) as at December 31, 2017, provide long-term funds via bond issuances in the international capital markets, to support EUROFIMA's core lending business and liquidity position. The matching of the equipment financing contracts, derivatives and borrowings is one key criterion for the application of the Fair Value Option and for the designation at fair value of the related financial instruments. We focused on this area because it represents the core activity and public mission of EUROFIMA.	We assessed and tested the design and existence of the key controls related to financial reporting including the process over requests for financing from railway operators. Additionally, we performed the following: • We reviewed all borrowings, swaps and railway contracts signed in the period to ensure that they comply with internal policies and meet the matching principles. We also considered the key elements of the contracts to ensure that they met the criteria necessary for the use of the Fair Value Option. • We performed a reconciliation of the contract data for new borrowings, derivatives and equipment financing contracts to the treasury system data as per December 31, 2017 in order to ensure they are correctly reflected in the financial statements. • We circularised all the counterparty rail operators to confirm the balances they owed and reconciled these results to the underlying data in the treasury system.

We identified and assessed the following risks that could lead to inaccurate financing matters:

• The equipment financing contracts may be identified as inappropriate, incorrect or incomplete.

• The matching principle regarding duration, interest rates and currencies between equipment financing contracts, financings and derivatives may be inappropriate or incorrect.

See Notes 3.3 and 9, 10 and 14 to the financial statements on pages 46 - 47 and 55 - 61.

• We reconciled and compared market input data (interest rates, foreign exchange rates) with external data.

The substantive tests that we carried out and described above gave us sufficient audit evidence to address the aforementioned risks.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the financial statements of EUROFIMA European Company for the Financing of Railroad Rolling Stock and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS, the accounting and valuation principles described in the annual report, the requirements of the international Convention for the establishment of the Company and the Statutes, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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As part of an audit in accordance with ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 SCO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

pwc

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Ray Kunz	Marco Tiefenthal
Audit expert Auditor in charge	Audit expert

Basel, March 6, 2018

Milestones in development

Milestones in development

1957 First issue in Swiss francs
1961 First issue in Dutch guilders
1962 First share capital increase from 50 to 100 million Swiss francs
1964 First issue in Deutsche Mark
1967 First issue in US dollars
1970 Second share capital increase from 100 to 300 million Swiss francs
1971 First issue in French francs
First issue in Luxembourg francs
1972 First issue in Belgian francs
1976 Third share capital increase from 300 to 500 million Swiss francs
1978 First issue in Yen in the "Samurai" market
1979 First issue in Austrian shillings
1982 First issue in Sterling
1984 Extension of the duration of the company for another 50 years, until 2056
Fourth share capital increase from 500 to 750 million Swiss francs
1986 First issue in Italian lira
1987 EUROFIMA opens the Spanish "Matador" market
First issue in Australian, Canadian and New Zealand dollars
1989 First issue in Swedish krona
First issue in Portuguese escudos
1990 Fifth share capital increase from 750 to 1 050 million Swiss francs
1992 Admission of the Hungarian State Railways (MÁV)
1993 Sixth share capital increase from 1 050 to 2 100 million Swiss francs
1994 Admission of the Croatian (HŽ) and the Slovenian (SŽ) Railways
1995 First issue in Hong Kong dollars
1996 Admission of the Railways of Bosnia and Herzegovina (ŽBH) and the Railways of the Former Yugoslav Republic of Macedonia (CFARYM)
1997 First issue in South African rand
Seventh share capital increase from 2 100 to 2 600 million Swiss francs
1998 First issue in Czech koruna
First issue in Polish zlotys
First issue in Greek drachmas
1999 First issue in euro
Admission of the Bulgarian State Railways (BDZ)
2001 Admission of the Railways of the Slovak Republic (ŽSSK)
First domestic "Kangaroo" issue in Australian dollars
2002 First issue in Norwegian krona
Admission of the Railways of the Czech Republic ČD)
2004 First US dollar 1 billion benchmark issue
2005 First issue in Mexican pesos
First issue in Turkish lira
First domestic "Maple" issue in Canadian dollars
2006 First issue in Icelandic krona
2007 First Swiss franc 1 billion benchmark issue
2008 First domestic "Kauri" issue in New Zealand dollars
First issue in the Japanese "Uridashi" market
2010 First euro 1 billion benchmark issue
2013 First US dollar FRN 1 billion benchmark issue
2017 First issue in Socially Responsible Investment (SRI) format

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