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## SUMMARY

### **Summary of Report 18/2017, relating to Catalan Railway Infrastructures (IFERCAT), years 2011-2014**

*Barcelona, 19 December 2017*

The Public Audit Office for Catalonia has issued Report 18/2017, relating to the public enterprise Catalan Railway Infrastructures (IFERCAT), financial years 2011-2014, in accordance with its Annual Programme of Activities.

The report, which was presented by Board Member Mr Miquel Salazar, was approved by the Audit Office Board at its meeting on 24 October 2017, with two concurring votes.

The regularity audit included a review of IFERCAT's annual accounts for the given years to check that they had been drawn up in accordance with the relevant financial reporting regulatory framework and, in particular, according to the accounting principles and criteria contained in that framework. It also included verifying that in the audited period IFERCAT carried out its activities in accordance with applicable legislation.

IFERCAT is the administrator for Line 9 (L9) of Barcelona's Metro and is in charge of building and maintaining it. From a financial perspective, the L9 project, with a total budget of €5,923.90m excluding VAT, according to the Business and Financial Plan (PEF – *Pla economicofinancer*) approved by the Catalan Government on 6 July 2010 and modified by another Cabinet decision on 9 December 2010 (the amendment consisted in redistributing €27.81m between various undertakings included in the PEF), was IFERCAT's main activity.

Line 9, currently under construction, has a planned length of 48 km (30 miles) with fifty-two stations. It is divided into four sections:

- Section I: between Airport Terminal 1 and the forked junction between the stations Gornal and Amadeu Torner (currently called Europa/Fira), with a total of 17 km (10.5 miles) and thirteen stations.
- Section II: between Zona Franca and Zona Universitària, with a total of 11 km (7 miles) and fifteen stations.
- Section III: between Zona Universitària and La Sagrera, with a total of 9 km (5.5 miles) and eleven stations.
- Section IV: between La Sagrera and Can Zam, plus the branch line between Bon Pastor and Gorg, with a total of 11 km (7 miles) and thirteen stations (the section between Bon Pastor and Gorg is identified for commercial purposes as L10, although it is part of the L9 infrastructure project).

During the period covered by the audit (2011-2014) only Section IV was operating, with a total of 11 km (7 miles) and twelve of the thirteen planned stations, because the Sagrera – High Speed Train station had still not been put into service. The Santa Rosa station in this section was put into operation on 19 September 2011.

Subsequently, in February 2016, Section I was brought into service, with a total of 17 km (10.5 miles) and eleven stations (all the stations for this section except Eixample Nord and Ciutat Aeroportuària), and part of Section II, from Zona Universitària to Gornal, with a total of 3 km (2 miles) and four stations (Zona Universitària, Collblanc, Torrassa and Gornal). In addition, 6 km of track in Section II was brought into use (but not the passenger transport service) to provide access from Gornal station to the train depot and repair facility in Zona Franca.

The construction of the metro stations for L9 sections I, II and IV was contracted out by IFERCAT in 2008 and 2010 by awarding three build-and-operate concessions; the remaining infrastructures and construction of the L9 tunnel were contracted out by the public enterprise GISA (renamed Infraestructures de la Generalitat de Catalunya, SAU as from 3 April 2012) on behalf of IFERCAT.

IFERCAT's Balance Sheet as at 31 December 2014 showed a total of €7,572.09m; this was an increase of €1,411.06m (22.9%) on the 31 December 2010 figure.

The L9 capital investments (whether carried out using concessions or not) registered in Tangible Assets were financed by capital grants and equity payments from the Catalan Government and by long term loans from the European Investment Bank (EIB). The amounts owed to the concession awardees of the L9 stations, registered in the accounts under the heading of Financial Leasing, were to be financed by future contributions from the Catalan Government, and were registered under the asset heading of Long Term Financial Investments. Non-current resources to complete the funding for L9 came from withdrawals using the overdraft facilities available through the Catalan Government's Corporate Treasury (cash-pooling), which were registered on the books under the heading Other Short Term Debts.

Bearing in mind the aim, scope and methodology used for this report, as specified in the Introduction, the Audit Office's opinion is that, except for the matters described in findings 1 to 5 below and for the possible effects of the limitation described in finding 6, the annual accounts represent in all significant aspects a true and fair view of the assets and financial position of IFERCAT as at 31 December 2014, and also of its results and budget outturn corresponding to the financial year ending on that date, in accordance with the financial reporting regulatory framework used and, in particular, the accounting principles and criteria contained in that framework.

The findings are as follows:

1. A special emphasis is given to the change in the criterion used to account for the governmental concessions awarded by IFERCAT; this change was applied in financial year 2011 and led to restating the annual accounts for year 2010 for comparison purposes. However, this matter does not modify the Audit Office's opinion.

2. As at 31 December 2014 the books showed €10.11m of over-capitalised interest payments (€0.73m for year 2014 and €9.38m for years 2012 and 2013) relating to the concessions; they corresponded to two building projects for the concession-built stations in sections II and IV. No new capital investments occurred during the 2011-2014 period in relation to these particular building projects. The Audit Office considers that these financing costs should not have been put on the balance sheet, because these building projects were not in their construction period.

3. Accumulated depreciation of tangible fixed assets as at 31 December 2014 showed an excess of €7.76m (€1.59m recorded in year 2014 and €6.17m over the 2011-2013 period) corresponding to building works and technical installations in Section IV, some of which were concession-build and some not, as described below:

- There was €4.56m excess depreciation from applying a useful life to certain construction work and technical installations which was different to the one described in note 4.c in the Notes to the Annual Accounts for years 2011-2014 (which remained constant and consistent with that given in the Notes to the Annual Accounts for previous years), and from errors in calculating the number of days of depreciation to be applied to the Santa Rosa station.
- There was €3.20m excess depreciation from having incorrectly classified €67.33m as completed buildings when this was the cost of a tunnel which should have been shown as work in progress, because it corresponded to the part which had not been put into operation and so should not have been depreciated.

4. In the Profit and Loss Account for year 2014 the revenues (€15.69m) and expenditures (€15.69m) under the heading of maintenance of concession-held stations were duplicated: these were revenues collected from the metropolitan railway company Ferrocarril Metropolità de Barcelona, SA (FMBSA) already included in the charges it paid to cover the maintenance costs invoiced by the concession awardees, which were also already included in the concession operating payments. This duplication was corrected in the annual accounts for year 2015.

5. In the Profit and Loss Account for year 2014, the operating grants received from the Department for Territory and Sustainability (€200.71m) were incorrectly recorded under capital grants applied to the results for the year. In the annual accounts for year 2015, these operating grants were correctly classified as other operating revenues.

The budget outturn for year 2014 did not report the recognised expenditures corresponding to governmental concessions: €13.04m under the heading of new investments, €1.73m as financial costs and €0.05m under the heading of substitutionary maintenance costs, which should have been shown in expenditure budget sections 6, 3 and 2 respectively.

IFERCAT did not carry out the credit risk analysis required by international financial reporting standard IFRS 13 to value derivatives. If this had led to a material adjustment, it would have needed to be included in the value of derivatives as at 31 December 2014,

according to the reply given by Spain's Accounting and Auditing Institute (ICAC) on 4 June 2013 to the request for clarification on the matter presented by the Spanish Institute of Auditors (*Instituto de Censores Jurados de Cuentas*) on 24 April 2013.

In addition, regarding procurement:

The modifications to the concession contracts led to a reduction in short term costs borne by IFERCAT, by reducing the technical tariff; this saving allowed the construction work to be completed and for all of Section I and part of Section II to be put in operation in 2016. However, the downside to this was a new requirement for IFERCAT to pay interest on delayed payments and to compensate the concession holder in the event of deferring payments for substitutionary maintenance more than six months; this was fixed for the combination of both items as an amount equivalent to 20% of the payments that would otherwise have been made.

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| <p>This summary is solely for information purposes. The audit report (in Catalan and Spanish) can be consulted at <a href="http://www.sindicatura.cat">www.sindicatura.cat</a>.</p> |
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