

Report of the Audit Committee



Dear shareholder,

I am pleased to present the Report of the Audit Committee (the Committee) for the year ended 31 December 2022. I have served on the Committee since August 2022 and was appointed as Chair in November 2022. On behalf of the Committee and the Board, I would like to thank my predecessor, John Sheehan, for his service as Chair of the Audit Committee.

The Committee plays an important role in ensuring the Group's financial integrity for shareholders through oversight of the financial reporting process, including the risk and control systems which underlie that process. This report sets out how the Committee fulfilled its duties under its Terms of Reference, the UK Corporate Governance Code, the Irish Annex and relevant legislation.

Composition

The Audit Committee membership during the year is set out in the table below which also details attendance and tenure.

At 31 December 2022, the Committee comprised of three non-executive Directors, all of whom have been determined by the Board to be independent. The members bring significant professional expertise to their roles gained from a broad level of experience gained outside of the Group. This, together with their experience as Directors of the Company, assures that the Committee as a whole has competence relevant to the sector in which the Group operates. The members' biographies are set out on pages 76 to 77. The Board has determined that Éimear Moloney has recent and relevant financial experience. Éimear is a qualified chartered accountant and has experience of audit committee membership at other listed companies. The other members of the Committee have wide experience of corporate financial and risk matters. Overall, the Committee is independent and possesses the skills and knowledge to effectively discharge its duties under the Committee's Terms of Reference. The Company Secretary acts as secretary to the Committee.

There were three scheduled meetings during the year at which all the then current members attended. In addition, where requested, the Chief Executive Officer, the Chief Financial Officer, Board Chair and other members of the Risk Management Committee also attended. The scheduled meetings normally take place on the same day as Board meetings. The Chairman provides updates to the Board on key matters discussed and minutes are circulated to the Board.

Member	A	B	Tenure
E. Moloney (appointed Chair: 14 November 2022) (appointed to Committee: 25 August 2022)	1	1	0.5 years
J. Sheehan (resigned, 11 November 2022)	3	3	9 years
L. Williams	3	3	1.7 years
D. Clague	3	3	1.5 years

Column A: the number of scheduled meetings held during the year where the Director was a member of the Committee.

Column B: the number of scheduled meetings attended during the year where the Director was a member of the Committee.

Role and Responsibilities

The role, responsibilities and duties of the Audit Committee are set out in written terms of reference which are reviewed annually. The Terms of Reference are available on the Group's website www.icg.ie.

The principal responsibilities of the Committee cover the following areas;

- Supporting the Board in fulfilling its responsibilities in relation to the integrity of the financial reporting process including assessment of key estimates, critical accounting judgements, going concern and viability statements.
- Advise whether the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provide the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy.
- Overseeing the functioning of the internal audit function.
- Monitor the effectiveness of the Group's internal controls and risk management systems, including structures and arrangements supporting the Directors' Compliance Statement.
- Managing the relationship with the external auditor, including consideration of the appointment of the external auditor, the level of audit fees, and any questions of independence, provision of non-audit services, resignation or dismissal.

Work Performed

The principal work undertaken by the Committee during the period under review was focused on the following areas;

Financial Reporting

The Committee reviewed the Group's Half Yearly Financial Report for the six months ended 30 June 2022, the Preliminary Statement of Results and Annual Report and Financial Statements, for the financial year ended 31 December 2022 and the two Trading Statements issued during the year. These reviews considered;

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- Assessment of the effects of new standards effective for reporting in financial year 2022;
- Other than for any new standards, the consistency, appropriateness and application of the Group's accounting policies;
- The clarity and completeness of disclosures and compliance with financial reporting standards, legislative and regulatory requirements;
- Whether these reports, taken as a whole, were fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- A comparison of these results with management accounts; and
- The critical accounting judgements and key sources of estimation applied in the preparation of the Financial Statements.

In assessing if the Financial Statements have dealt appropriately with each area of judgement, the Committee challenged the key assumptions and methodologies used by management in formulating estimates. The key sources of estimation uncertainty and critical accounting judgements applied in the preparation of the Financial Statements for the financial year ended 31 December 2022 are set out below and also discussed on pages 140 to 142.

Key Estimates

- **Post-employment benefits**
The Group operates a number of Group sponsored pension schemes and is also a participating employer in the Merchant Navy Officers Pension Fund, a multi-employer scheme. Details of these schemes are set out in note 31 to the Financial Statements. The size of the pension obligations at €91.6 million (2021: €140.5 million) are material to the Group and sensitive to actuarial assumptions. The Committee has reviewed actuarial advice received from the Group's external actuary on the assumptions used by the scheme actuary in estimating the outstanding pension obligations

at the year end. The Committee was satisfied that the assumptions used were reasonable and that the obligations set out in the Financial Statements are consistent with the assumptions and fairly presented.

The Committee also noted that for certain schemes, assets exceeded liabilities resulting in a pension surplus at 31 December 2022 of €33.6 million (2021: €6.7 million). The Committee made inquiries of management to ensure that this amount represented a fair estimate of the unconditional right of a refund the Group may expect in the future either by way of a contribution holiday or refund.

- **Useful lives for property, plant and equipment and intangible assets**

Long-lived assets comprising primarily of property, plant and equipment and intangible assets represent a significant portion of total assets. Changes in the useful lives may have a significant impact on the annual depreciation and amortisation charge. The Committee reviewed the useful life estimates of significant assets including technological developments, regulatory developments, operating performance and industry scrapping cycles and were satisfied that the estimates used were reasonable.

The Committee noted that in respect of one vessel which had reached 25 years from date of construction, that management had reviewed the remaining estimated useful life from 5 years (from an original estimate of 30 years original useful life) to 10 years. While provision for this revision to useful life is set out in the accounting policy for property, plant and equipment, the Committee queried management on the robustness of the reasoning for this extension. Following explanation, the Committee were satisfied with the change in useful life.

Critical Accounting Judgements

- **Impairment**

The Group does not have assets which are required to be tested annually for impairment. In relation

to other significant assets, the Committee made inquiries of management to determine whether there were any indications of impairment.

The Committee noted that the profitability of the Irish Ferries branded operations had been materially affected in financial years 2021 and 2020, due to the imposition of government travel restrictions. This decline in profitability had been subsequently assessed as an indication of impairment. Following the lifting of all travel restrictions in early 2022, passenger carryings recovered but remained behind pre-pandemic 2019 levels, which was in line with management expectations as previously modelled in the prior year recoverability assessments.

The Committee discussed with management their assessment that the declining trends in market charter rates in the second half of 2022 amounted to an indication of impairment of the Group's fleet. While the Committee noted that these charter rates remained higher than average 2021 rates, they agreed with management's decision to perform a recoverability assessment.

The Committee reviewed management's calculations of the recoverable value estimates which were prepared based on the conditions and information available at 31 December 2022. The Committee examined the methodology, key assumptions and key judgements used including the limitations of the independent vessel valuations, the rationale for treating the ferry fleet as a single cash generating unit, growth rates and the discount rate used in the value in use calculations. The Committee also considered management's views on the likely effect of environmental regulations on premature obsolescence and operating costs.

The Committee was satisfied that the recoverability assessment performed at the reporting date was robust, comprehensive and supported the carrying value of the

ferry fleet as at 31 December 2022. The Committee agreed that no provision for impairment against the carrying value of the Group's fleet was required at 31 December 2022.

• **Going concern**

The Committee reviewed the appropriateness of using a going concern assumption for the preparation of the Group Financial Statements.

The Committee noted that with the removal of travel restrictions in early 2022, that the profitability of ferry operations had recovered and that the overall Group was reporting a profit attributable to equity holders of €59.8 million, a level which had exceeded budget expectations and which compared to a loss of €4.9 million in 2021.

The Committee reviewed and challenged management on their going concern modelling including assumptions and sensitivities in a number of trading scenarios including the possible effects of reduced volumes over budget levels and higher fuel prices. The Committee also considered existing and future financial resources which could reasonably be expected to be available to the Group on normal market terms. The going concern modelling covered a period of 12 months from the date of approval of the Financial Statements.

Following completion of the above, the Committee were satisfied that the Group will have adequate financial resources to continue in operational existence for the foreseeable future and the use of the going concern basis remained appropriate in the preparation of the financial statements. The Going Concern Statement is set out on page 142.

Viability Statement

The Committee reviewed and challenged management's assumptions and scenarios together with the calculations supporting the Viability Statement set out on page 110. The Committee also considered

the appropriateness of the five year assessment time frame and that the Group's principal and emerging risks had been appropriately considered. The Committee was satisfied that a robust assessment had been completed and reported this to the Board.

Fair, balanced and understandable

The Committee reviewed the 2022 Annual Report and Financial Statements to ensure that in its opinion taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Recommendations to the Board

Based on the work undertaken, the Committee reported to the Board that the Annual Report and Financial Statements for the year ended 31 December 2022 taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy and recommended that the Annual Report and Financial Statements be approved by the Board.

The Committee had also recommended the approval of the Half Yearly Financial Report for the six months ended 30 June 2022 and the Trading Statements issued during 2022.

Engagement with Regulators

The Committee oversaw management's engagement with the Irish Auditing and Accounting Supervisory Authority (IAASA) regarding their inquiries into certain aspects of the Annual Report and Financial Statements for the year ended 31 December 2021. While no adverse findings were assessed, the Company provided undertakings regarding additional clarification on certain sustainability metrics and reconciliation of certain APM measures in future financial statements. The Committee believes that it has addressed these undertakings in this 2022 Annual Report.

Risk Management and Internal Control

The Board is responsible for the Group's risk management and system of internal control. The Board's approach to risk management is set out in the Risk Management Report at page 60. The Committee, on behalf of the Board, reviews the effectiveness of the Group's control environment including internal controls and risk identification and management systems.

The Risk management report describes the principal risks and uncertainties faced by the Group. Risks are grouped under strategic, operational, IT system and cyber and financial risks. The risk management system is dynamic and monitors for signals of new emerging risks. During 2022, two areas were being actively monitored; the effect of the war in eastern Europe and Increasing Regulations Over Seafarer Working Conditions. Further details on these are set out in the Risk Management Report at page 60.

The Committee oversees the work of the Risk Management Committee (RMC) which coordinates a unified system of ongoing identification, monitoring and reporting of risks throughout the Group. The activities of the RMC are undertaken alongside the activities of Internal Audit.

During the year, the Committee met with members of the RMC and presentations were made outlining the work undertaken in managing risk monitoring systems, procedures for ensuring the Group Risk Register is being updated for new and emerging risks and the management of exposure to principal risks. The work of the RMC is also central in putting consideration of risk to the fore in business decision making throughout the Group. The Committee reviewed the updated Risk Appetite Statements prepared by the RMC which were then presented to the Board for approval. The Committee also received regular reports throughout the year including internal audit reviews, operational and safety risk reviews including information technology and cyber security. In addition, the Chairman meets regularly with Group Internal Audit and the Committee approved the 2022 Internal Audit Plan.

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The Committee undertook a review of the RMC and Internal Audit activities. The Committee noted that the internal audit function had not been resourced in the latter part of the year due to management changes. However, the Committee was satisfied that management had rectified the resourcing issue in early 2023. In the intervening period, existing finance personnel had been used to a limited extent to address any ad-hoc matters which arose. Notwithstanding the internal audit matter, the Committee was satisfied that all other risk management and internal control systems had been in place throughout the financial year. In conducting the review, the Committee acknowledges that the risk management and internal control system is designed to manage and mitigate rather than eliminate risk. The Committee was satisfied that the RMC and Internal Audit (for part of the year) were achieving their objectives and that the Group control environment remains appropriate and effective. This assessment has been reported to the Board.

The Committee also reviewed the effectiveness of the arrangements and structures which the Company has designed and put in place to secure material compliance with its Relevant Obligations as defined under Companies Act 2014. Relevant obligations comprise compliance with certain company law and tax obligations. The Committee reported to the Board that the arrangements and structures were sufficient to secure material compliance with its Relevant Obligations.

External Audit

The Committee is responsible for managing the relationship with the Group's external auditor and monitoring their performance, objectivity and independence. The Committee evaluates on an annual basis, at the conclusion of the audit, the effectiveness of the external audit process.

2022 Audit Process

The Committee met with KPMG prior to the commencement of the audit of the Financial Statements for the financial year ended 31 December 2022.

The Committee considered KPMG's internal policies and procedures for maintaining independence and objectivity and their approach to audit quality. The Committee assessed the quality of the external audit plan as presented by KPMG and satisfied itself as to the expertise and resources being made available. The Committee also reviewed the terms of the Letter of Engagement and approved the level of remuneration.

KPMG reported their key audit findings to the Committee in March 2023 prior to the finalisation of the Financial Statements. This report, which included a schedule of unadjusted errors and misstatements, significant judgements and estimations and key areas of risk, was considered by the Committee in forming their recommendation to the Board. The Committee also considered the representations sought by KPMG from the Directors.

KPMG's key audit findings report included control weaknesses noted during their audit, none of which were considered significant deficiencies so as to cause KPMG to amend the scope of their original audit plan. The Committee has considered these and, having discussed with management, have directed remedial action be taken where considered appropriate. The Committee has also considered feedback from management involved in the audit process regarding interaction with and level of preparedness of the audit team. The Committee also meet with the audit team without the presence of management.

The Committee evaluated KPMG's performance which included an assessment of KPMG's communication process with the Committee and senior management, knowledge of the Group and industry sector and resource commitment to the external audit and the Committee is satisfied that in conducting the audit of the 2022 Financial Statements, KPMG were effective, objective and independent.

As auditor, KPMG confirmed to the Company that they comply with the

Ethical Standards for Auditors (Ireland) 2020 as issued by IAASA and that, in their professional judgement, they and, where applicable, all KPMG network firms are independent and their objectivity is not compromised.

KPMG confirmed to the Company that the lead partner will be rotated every five years to ensure continued objectivity and independence. Mr. Colm O'Sé (who was appointed in 2021) has acted as lead partner for the audit of the 2022 Financial Statements.

Auditor Independence

The Committee permits the external auditor to provide non-audit services where they are permitted under Part 27 of the Statutory Audits of Companies Act 2014 and are satisfied that they do not conflict with auditor independence. The Committee's policy on the provision of non-audit services requires that each engagement for the provision of non-audit services requires approval of the Committee. The Committee approved the engagement of the external auditor to provide certain tax compliance services and reporting accountant services in respect of certain pension scheme in respect of the 2022 financial year. This approval was granted on the basis of procedural efficiency. The Committee must also give approval for the employment of any person who was previously employed by the external auditor within the previous two years of proposed employment by the Group.

The Audit Committee has considered all relationships between the Company and the external audit firm, KPMG, including the provision of non-audit services as disclosed in note 9 to the financial statements which are within the thresholds set out in Part 27 of the Statutory Audits of Companies Act 2014. The Committee does not consider that those relationships or the level of non-audit fees impair the auditor's judgement or independence.

Based on consideration of the above the Committee concluded that it was satisfied with the performance, objectivity and independence of the external auditor.

Éimear Moloney

Chair of the Audit Committee