



IRISH CONTINENTAL GROUP

**2017**

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# **Annual Report and Financial Statements**



# OPERATING AND FINANCIAL REVIEW

## - CONTINUED

### RISK MANAGEMENT

#### Risk Appetite and Strategy

The ICG Board holds overall responsibility for the Group’s risk management and internal control systems, including the setting of acceptable risk levels to achieve its strategic objectives. The Board communicates its appetite for various risk areas through the adoption of Risk Appetite Statements. These provide context to which the Group’s strategy is pursued.

#### Risk Culture

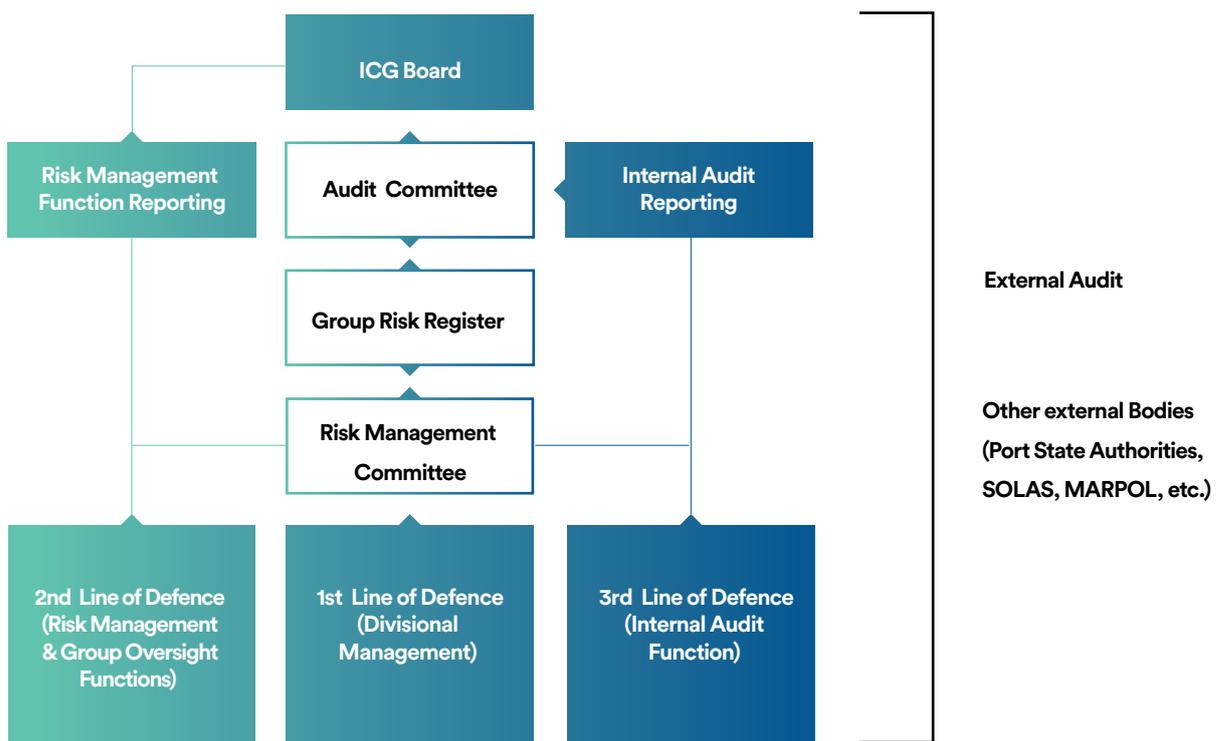
The nature of the Group’s business, which is primarily the operation of ships and provision of related services, is such that operational safety is paramount. Significant risks include risks to operational safety as well as financial risks. Controls systems to address risks to operational safety are designed with minimal capacity for risk. This strong safety culture contributes to the overall risk culture of the Group.

#### Risk Management Framework

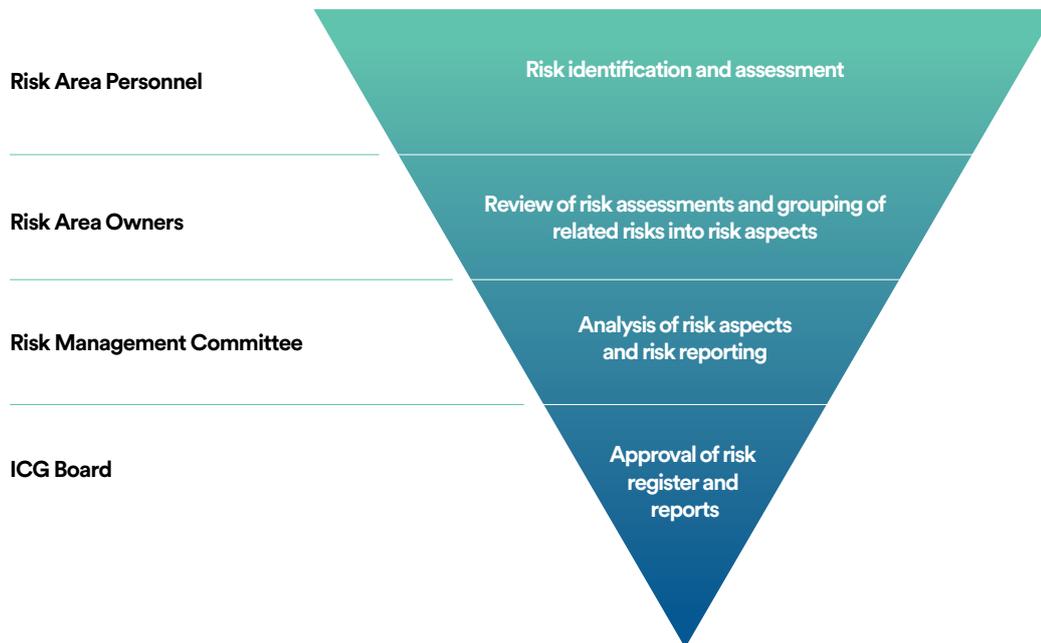
The Group adopts a variant of the ‘three lines of defence’ risk management framework incorporating Divisional Management (first line of defence), Group Risk Management and other oversight functions (second line of defence) and Internal Audit (third line of defence). This model allows for input across all levels of the business to help manage current risks and to keep abreast of emerging risks.

The first line function design and execute the application of internal control measures on a daily basis. The second line function undertakes an oversight and compliance role and include the Group Risk Management function which report directly on risk matters to the Board. The third line, consisting of the Group Internal Audit function, performs independent oversight of the first two lines and reports directly to the Audit Committee on matters of internal control, compliance and governance.

A key component of the Group’s framework is the Risk Management Committee (the “RMC”), comprised of members from all three lines of defence as well as having Board representation. The RMC is tasked with developing the Group’s



### Bottom-up Risk Assessment process



risk management policy and keeping it up to date, coordinating risk management activities, and monitoring Key Risk Indicators. Key Risk Indicators are metrics used to help monitor the level of risk taking in an activity and can provide an early signal of increasing risk exposure in various areas of the Group, enabling corrective action to be taken before the risk materialises. The Committee is also responsible for the maintenance of the Group Risk Register and works with the Audit Committee to ensure the register is robust, current and consistent across all Group operating areas.

The Group Risk Register is the central repository for documenting, assessing and prioritising risks and for measuring the effectiveness of related controls. These risks are prioritised in terms of likelihood of occurrence, estimated financial impact and the Group's ability to reduce the incidence and impact on business operations should any risk materialise. This prioritisation is determined through the use of a traffic light scoring system. Risks are coloured green, amber or red in order of seriousness. The likelihood and impact of each risk is scored on a 5 x 5 scale. The Group Risk Register is reviewed on an ongoing basis by the RMC. Any necessary changes to the Group Risk Register are identified throughout the year from the occurrence of a risk event, via regular RMC meetings or through alerts prompted by a Key Risk Indicator. Reporting by management on key risks is covered within the regular Board meeting agenda. These activities form the basis for the continuous risk monitoring process. The significant risks and uncertainties facing the Group are set out on pages 44 to 47. The Board acting through the Audit Committee conducts an annual assessment of the significant risks and uncertainties and the adequacy of the monitoring and reporting system maintained by management. No material weaknesses were noted by the Board during the year.

During the reporting period, the RMC commenced a process of updating its risk identification methodology by moving to a bottom-up approach to risk identification and assessment, utilising the knowledge and skills of staff at varying levels to create a positive risk culture and environment. Coupled with the input, control and monitoring from the Board fosters a collective ability to identify, understand, openly discuss and act on the Group's current and future risks. Risk Assessment Forms, which feed into the Group Risk Register will be completed by personnel within each risk area and then reviewed by the relevant risk area owner. The completed risk assessments will be used by the risk area owners to identify Risk Aspects. Risk Aspects are a grouping together of related risks, with reference back to the source Risk Assessments. The risk area owners report on these Risk Aspects directly to the RMC, providing the RMC with a tool to maintain an overview of the broader Risk Aspects affecting the Group. The RMC's review of Risk Aspects feeds directly into its risk reporting to the Board. This redesign was undertaken to standardise the risk reporting across the Group and enhance the culture of risk awareness and ownership at all levels of the Group. This project is expected to be completed in 2018.

The Audit Committee has been delegated by the Board with the task of assessing the Group's internal control and risk management systems. This assessment is carried out through the review of regularly produced reports by the RMC and Group Internal Audit, which includes the Group Risk Register. Presentations were also made to the Audit Committee by the RMC and Group Internal Auditor. Full details of the activities performed by the Audit Committee can be found on pages 69 to 72. The risks and uncertainties set out on the following pages are broadly unchanged from the previous year.

## OPERATING AND FINANCIAL REVIEW

### - CONTINUED

#### Principal Risks and Uncertainties

##### Operational Risks

	Description	Impact	Mitigation	Outlook
<b>Serious accident / incident</b>	A serious accident or incident (e.g. collision, fire, grounding explosion) could occur to a vessel at sea or at Group operations ashore.	Loss of life, personal injury, significant vessel damage or damage to plant and machinery, cargoes, environment, reputation significant financial loss and reduced growth prospects.	<p>Defined operating safety and quality policies and procedures in place, including, a system of hazard identification and risk assessment and performing regular accident and emergency exercises and debriefs.</p> <p>Group compliance with all external regulatory health and safety standards and requirements is subject to regular audits both internally and externally.</p> <p>Comprehensive insurance policies are in place for the consequences of such events.</p>	The Group is committed to monitoring, identifying and addressing safety trends and opportunities for improvement where they may arise.
<b>Mechanical and other failure</b>	Disruption to schedules due to mechanical or electrical failure, or loss of critical port installations, labour disputes or failure of key suppliers.	Financial loss, cancelled sailings and late delivery of cargos resulting in diminished reputation.	<p>There are policies and procedures in place for maintaining and protecting critical infrastructures and equipment.</p> <p>Close relationships are maintained with port infrastructure providers. Contingency plans are in place in case of loss of infrastructure.</p> <p>There are comprehensive procedural agreements in place for processing disputes with all labour representation bodies using appropriate third parties as required.</p> <p>Multiple supplier contracts for fuel are in place at ports servicing our vessels.</p>	Continued investment in quality assets including the MV W.B. Yeats (delivery 2018), a second new vessel (delivery 2020), upgrade of Westpac Express and the installation of new terminal equipment will reduce the likelihood of technical failures.
<b>Hazardous accidents</b>	Accidents in the transportation of hazardous materials, dangerous goods and waste.	Personal injury, marine pollution, reputational damage, financial loss.	<p>Compliance with the International Maritime Dangerous Goods Code, audited on a regular basis.</p> <p>Ongoing monitoring of procedures and training.</p>	The Group continually ensures best practice is followed and appropriate personnel are adequately trained.
<b>Fuel contamination</b>	Contamination to the fuel consumed by Group vessels.	Significant engine damage, pollution, financial loss.	<p>Random testing of fuel samples to ensure supply is within specification.</p> <p>Fuel quality is monitored through combustion in main and auxiliary engines and boilers.</p> <p>Use of a surveyor at each bunkering to monitor performance of supplier and crew.</p>	Ongoing monitoring and identifying any opportunities for improvement where they may arise.

## Commercial and Market Risks

	Description	Impact	Mitigation	Outlook
<b>Competitive activity</b>	Increases in competitor activity through pricing or capacity additions.	Decrease in customer base, reduced profitability and growth prospects.	<p>A dynamic pricing approach is adopted, utilising pricing initiatives in the passenger market to mitigate against these risks.</p> <p>Commercial arrangements are in place with freight customers which mitigates the immediate effects of additional market capacity but there remains medium term exposure to decreases in customer base.</p>	<p>Continuous monitoring of competitor activity to make adjustments as appropriate.</p> <p>Continued focus on maintaining strong relationships and process integration with freight customers. Investment to maintain reliability and expected customer standards.</p>
<b>Fuel prices</b>	Fluctuation in fuel prices	Increase in cost base, reducing profitability.	Group policy has been to purchase these commodities in the spot markets and to remain unhedged. The Group operates surcharge mechanisms with the Group's freight customers which allows for prearranged price adjustments in line with Euro fuel costs. In the passenger sector, changes in bunker costs are included in the ticket price to the extent that market conditions will allow.	<p>Group fuel costs will remain largely determined by global factors beyond our control.</p> <p>The Group will continue to seek efficiencies to reduce fuel consumption across all ships including adoption of the latest proven designs and technologies.</p>
<b>Economic and political</b>	Economic and political conditions, in particular the effect of 'Brexit' could adversely impact demand for ferry travel, international trade and the strength of the Sterling relative to the Euro.	Delays to scheduling and vessel turnaround times, reduced profitability and growth prospects.	<p>Liaison with various associations and Government bodies to share Group views on the manner of Brexit.</p> <p>Close monitoring of currency exchange movements and adoption of a matching policy to reduce exposure.</p>	There remains uncertainty over the expected manner of Brexit and its impact on Group operations. This uncertainty could create both threats and opportunities for the Group. Developments up to the current effective date in April 2019 will continue to be closely monitored.

## OPERATING AND FINANCIAL REVIEW

### - CONTINUED

#### Principal Risks and Uncertainties - continued

##### IT Systems & Cyber Risks

	Description	Impact	Mitigation	Outlook
<b>IT systems failure</b>	IT systems may be disrupted by internal failures, outages at third-party service providers or by environmental events, such as storms or flooding.	Business interruption, including interruption to booking systems, resulting in financial loss, customer ill will.	<p>IT standards and policies are subject to on-going review to ensure they conform to appropriate best practices.</p> <p>Third-party technologies and service providers are regularly appraised to ensure the infrastructure in place is effective and reliable.</p> <p>IT disaster recovery and crisis management plans are in place and tested.</p>	Continuous review of IT systems and policies, ensuring alignment with best practice in supporting current operations and decision making.
<b>Data breach</b>	Sensitive data and information held by the Group, as well as Group networks and systems are at risk of being targeted by cyber criminals.	Business interruption resulting in financial loss. Depending on the form of attack; financial loss to the Group, customers, suppliers or to third-party service providers. Loss of personal data of staff or customers. Reputational damage.	A holistic approach to IT governance and security is adopted. This includes; dedicated IT security personnel with direct reporting to the Board, regular management meetings on information security, external collaboration with industry participants on matters of information security, the use of various applications to protect Group systems and networks from breaches, appropriate staff training in relation to information security awareness and incident response plans for the main attack scenarios.	Following a number of high-profile, coordinated ransomware attacks globally in 2017, cyberattacks are now considered the new normal in business today. The introduction of the EU's General Data Protection Regulation in May 2018 reinforces the need to have robust systems in place for protecting personal data. As such, information security remains an area of key focus for the Group.

## Financial Risks

	Description	Impact	Mitigation	Outlook
<b>Volatility</b>	Financial risk arises in the ordinary course of business, specifically the risk of default by debtors, fluctuations in both foreign exchange rates and interest rates, and availability of financing.	Potential financial loss to the Group.	The Group has credit insurance in place, where available, mitigating default of debtors. The Group uses interest rate swaps and forward foreign currency contracts. Financing facilities are in place to ensure secure access to finance if required.	The Group has robust policies and controls in place to minimise the financial risks detailed.
<b>Fraud Risk</b>	Material financial misstatement may arise due to fraud or error, in the form of misappropriation of assets or inaccurate financial reporting.	Reputational damage may arise from misstatement in financial reports and financial loss to the Group may occur as a result of misappropriation of assets.	<p>Key financial controls include clear segregation of duties within the business with regular monitoring of financial performance against targets.</p> <p>The risk of misappropriation of funds is mitigated by the Group's Treasury and Finance functions who continuously monitor bank accounts, cash floats and cash takings and returns both on-board and at port.</p> <p>There is restricted access to bank accounts and mandated dual authorisation controls for payment approvals as well as rigorous checks of the settlement instructions received to effect payment.</p>	<p>We have policies in place to manage these risks from a treasury and financial reporting perspective.</p> <p>We adopt recommendations arising from internal and external audits and reviews as appropriate.</p>
<b>Retirement Benefit Scheme Risks</b>	<p>The Group's defined benefit obligations are exposed to the risks arising from changes in interest and inflation rates, life expectancy and changes in the market value of investments.</p> <p>The Group also has joint and several liability risk exposure to the obligations of other participating employers in the multi-employer Merchant Navy Officer Pension Fund.</p>	Decreases in scheme asset values, or increases in scheme obligations which may result in deficits impacting on balance sheet strength.	<p>Use of balanced investment strategies which are integrated to deficit recovery plans and supported by appropriate funding through ongoing and deficit contributions.</p> <p>Closure of the MNOPF to future accrual.</p> <p>Operation of Group defined contribution schemes for new employees.</p> <p>Regular meetings with the investment managers to monitor performance relative to agreed benchmarks.</p>	The Scheme investment strategy continues to be reviewed formally on a regular basis by the Trustee with regular consultation with the Group with recovery plans on target.



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