

NEW VESSEL PROJECT UPDATE

JULY 2023

On 18th April this year we announced we had secured private funding to replace the Scillonian III, Gry Maritha and Lyonesse Lady by March 2026. Since then much has happened as we progress the specification of the new vessels and the appointment of a shipyard (or shipyards) to build them. This is the first in a series of regular newsletter updates that we will share with the community and we very much welcome any feedback and questions that we can address in future editions. Below is a summary of some of the main areas of work as we progress the vessel replacement project.



SHIPYARDS

SHIPYARD INVITATION



On 7th May 2023 we issued a Best and Final Offer (BAFO) invitation to our shortlist of shipyards, asking them to submit their BAFO proposals by 30th June. These proposals have now been received and the project team will evaluate each of the shipyard submissions by using a score matrix system which has been shared with each shipyard. We are expecting to announce our preferred shipyard by the end of July.

SHIPYARD VISITS



During the BAFO process the project team has been responding to technical questions from the shipyards and we have conducted further visits to shipyards. Shipyards have also sent technical and management teams to Penzance to visit our current vessels to ensure bids are compliant and deliver new vessels which improve the service to the Isles of Scilly.

NEXT STEPS

CONTRACTS

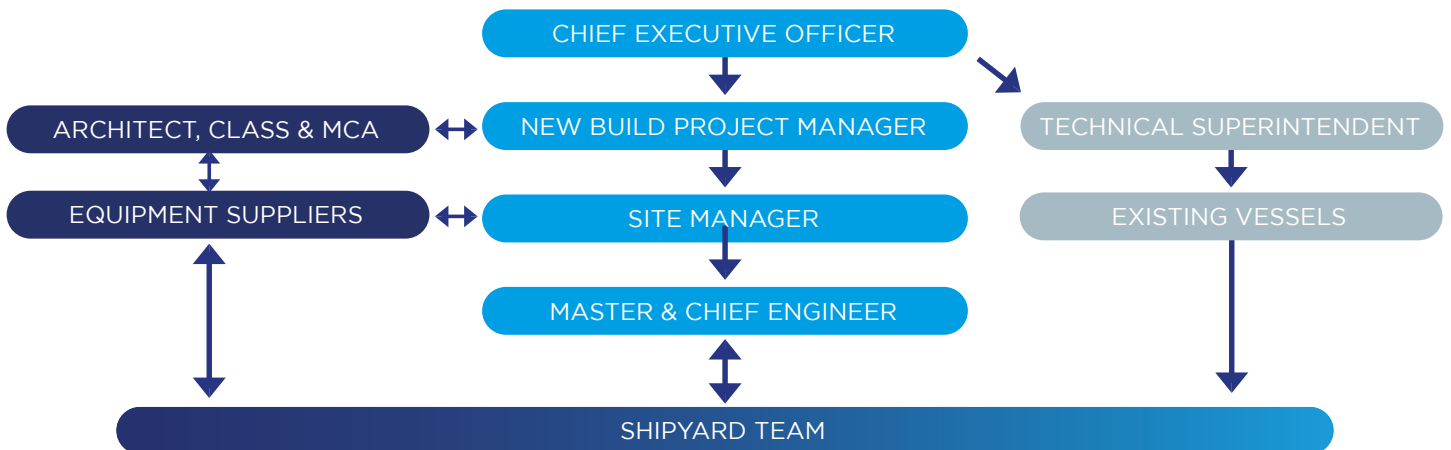


Following the announcement of the preferred shipyard we will then commence contractual discussions. Our legal team HFW will be supporting us through this critical part of the project.

HFW LLP is a specialist shipping legal firm with offices in London and internationally. HFW will ensure that our interests are protected. We are targeting contractual completion by the end of September 2023.

SHIPYARD PROJECT MANAGEMENT

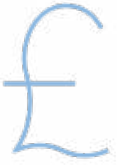
Project management is another critical area. It is essential that we have representation at the shipyard at all stages of the project to ensure that the build programme remains on budget and on time for delivery of all three vessels by March 2026. We are recruiting for two new positions - a project manager and a site manager. The project manager will have overall responsibility for the project and provide reports to the Executive Team and the Board of Directors. The project manager will work with naval architects on technical areas to ensure that the vessels are delivered to the agreed specification. The site manager will be based at the shipyard for the duration of the build programme. The project manager and site manager will work day-to-day with the shipyard team to ensure that the project remains to plan and on budget by resolving issues promptly.



PROJECT TEAM & REPORTING STRUCTURE

Since we commenced our project in 2019, we have maintained a reporting structure which ensures that key decisions on our three new vessels are considered by the project team and then submitted to a new vessel committee for final approval. The committee is made up of five nominated Directors from our Board. Their role is to ensure that decisions, and ultimately recommendations, are discussed and challenged before issuing an approval to the project team to proceed. This process provides a level of scrutiny to the new vessel project with the objective of delivering new vessels, which will improve the sea link service for the community and the UK visitor market.

SCILLONIAN IV FARES & FREIGHT PRICES



On 18th April we announced that we had secured private financing of £33.6m through Lombard NatWest. This announcement will ensure that three new vessels will be delivered which will improve sea-link services to the Isles of Scilly, with all three vessels being introduced into service by March 2026. As part of this announcement, we committed to keeping fares and freight prices as low as possible but stated that an element of increase would be necessary. As we explained on 18th April, it is difficult to commit to an exact increase in fares and freight prices due to the variable nature of our operating costs. Fuel, harbour dues, crew costs and insurance can all fluctuate each year and will impact on prices. However, the agreement we have with Lombard NatWest is competitive and the project team has worked hard to deliver the best possible financing package. Taking the above items into account, our current modelling is predicting an annual 5% (pre-inflation) increase in ticket prices over each of the next three years. Freight prices will raise by a similar amount of 5% annually over each of the next three years (pre-inflation) but will be dependent on volume. If volumes are higher than anticipated freight prices will be lower.

To put this into context, the average price of an adult Scillonian III ticket will increase by £4 per year (pre-inflation) for each of the next three years.

We continue to commit to maintaining our travel club for the residents of the Isles of Scilly and that any travel club fare increases will not exceed inflation.

CONSULTATION EVENT



We will be holding a summer consultation event on the Isles of Scilly to discuss the new vessel designs, present details on our preferred shipyard and explain more about our vessel project.

FUTURE NEWSLETTERS

We will continue to update you on the progress of the new vessels and newsletters will be issued at specific milestones. The frequency of newsletters will depend upon developments with the project, rather than being at set intervals. We hope you enjoy reading this newsletter and would welcome your views, feedback and questions (email: vesselprojectteam@issg.co.uk) to ensure that future newsletters meet the needs and interest of the community.



NEW VESSEL DESIGNS

