

NEW VESSEL PROJECT UPDATE

OCTOBER 2023

Last month we named Piriou as our preferred shipyard to build and deliver two new vessels for the Group, marking another important milestone for the project.

Our focus remains on our vessel replacement programme, which has already been four years in the planning, is fully funded and will deliver new vessels in time for the 2026 season. This will safeguard the lifeline sea link to Scilly long into the future and also the hundreds of jobs employed directly by the Group on the islands and in West Cornwall.

If you have any queries for the project team, please let us know and we will happily address any questions. We will continue to keep you updated on progress with the new vessels project, and key milestones.



PREFERRED SHIPYARD | PIRIOU PROJECT TEAM VISIT TO VIETNAM



In August 2023, our project manager, supported by senior members of Piriou's management team, conducted a four day visit to Piriou's production facilities in Ho Chi Minh City, Vietnam where construction of both vessels will begin in spring 2024. Piriou began operations in Vietnam in 2006 building high quality ships at competitive prices thanks to its strategic location within one of the world's most dynamic business zones.

25,000m² of quay level capacity
5,000m² of production facilities
1 dry dock measuring 120m x 21m with a 240-tonne gantry crane
1 synchrolift 90 x 20m – lifting capacity 2300 tonnes
400m fitting quay



The shipyard has a production team of 225 highly-skilled employees, with a further 75 managers and other staff.

The team toured the yard's facilities, including projects currently being worked on; met the workforce and reviewed the yard's quality management and HSE procedures.

Piriou Vietnam is based on the same principles and work processes as its shipyard in Concarneau, France, with the same level of experience, technical expertise, quality and professionalism.

PIRIOU SEPTEMBER VISIT



In September, we welcomed back six representatives from Piriou to our head office in Penzance and to the Isles of Scilly. The purpose of the three day visit was to spend time reviewing detailed plans of the new vessels. Whilst with us, they watched our operations and had in-depth tours of both Scillonian III and Gry Maritha in Scilly and took part in further detailed discussions on the build in Penzance.

Scillonian IV discussions included: improved passenger embarkation and disembarkation, propulsion systems, increased cargo carrying capacity and freight loading and the increase and positioning of outdoor seating.

Cargo vessel discussions included: positioning of hatch covers to maximise vessel deck space, chilled storage systems to maximise transport of food provisions to Scilly and flower exports, propulsion systems to improve transit time and comfortable passenger lounge for up to 12 passengers.

This is all in preparation for the expected signing of contracts in the coming weeks.



CHRIS LINGHAM APPOINTMENT



The build will be managed by the Isles of Scilly Steamship Group's two on-site project managers, to make sure there is constant representation at the shipyard in Vietnam and to ensure that the build program remains on budget and on time for delivery.

We have now appointed Chris Lingham as our new build project manager and are recruiting for an additional site manager.

Chris joined the Isles of Scilly Steamship Group as Technical Superintendent in May 2021 and has been part of the vessel replacement project team ever since. Prior to this, Chris worked at sea for 30 years, including two decades as chief engineer on offshore service vehicles. He has been involved in two new-build vessel projects and many shipyard refits.

Chris has helped develop the specifications for the new vessels, working with our naval architects BMT, Piriou shipyard and various equipment suppliers. Chris was also part of the team visiting Piriou Vietnam in August.

VISIT TO NORWAY AND PLYMOUTH PROPULSION SYSTEMS AND ELECTRIC CONTAINERS

The project team is travelling to Norway this week for meetings with SEAM and EKNES.

SEAM



Seam is a leading manufacturer and supplier of zero emission technology, and we are aiming to discuss and review a hybrid power and control system for Scillonian IV.

EKNES



Eknes is a leading manufacturer of seating for the marine and transportation industries. Together with Piriou shipyard, we are meeting with Eknes to review the products that they can offer for our vessels.



NEW CARGO VESSEL

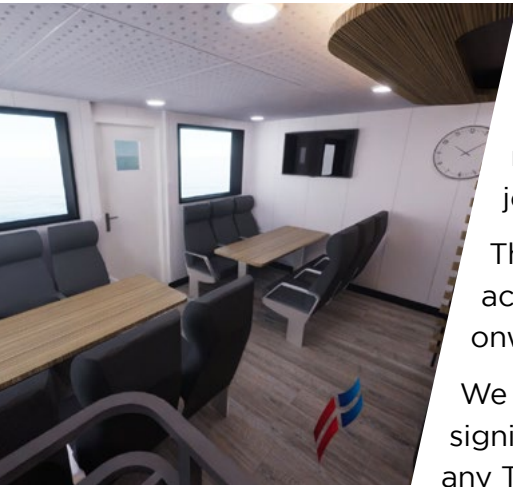
PASSENGER AREA



We understand the concerns of the island community regarding transport services during the winter months. Skybus will continue to operate lifeline flights throughout the winter, offering discounted Travel Club tickets.

However, we understand from our community engagement events the need for a low-cost option, particularly when Scillonian IV is out of service.

We are pleased to announce that design work is progressing on a new dedicated comfortable passenger area on our new cargo vessel with capacity for up to 12 passengers. Tickets will be at the Travel Club rate.



The new passenger area will offer reclinable chairs, complimentary drink and snack options and TV screens. We are aiming for the new cargo vessel to have an increased speed of 10 knots and the journey to take around four hours.

This would allow passengers using this additional new service to access transport options in Penzance by early afternoon for an onward journey.

We continue to commit to maintaining our Travel Club, providing significant discounts for the residents of the Isles of Scilly and that any Travel Club fare increases will not exceed inflation.

LYONESSE LADY II

The off-island freight service is a critical part of the Isles of Scilly freight network. It is something we are as equally passionate about as the service between Penzance and St Mary's. We are continuing to work with UK shipyards on the delivery of Lyonesse Lady II and remain engaged with naval architects and shipyard management teams.

The Lyonesse Lady II 17m catamaran design will be constructed of aluminium with a shallow draft. The benefits of a lightweight aluminium design will be an increase in speed to 12 knots. The combination of increased speed and shallow draft will allow improved access to tidal restricted quays on Bryher and Tresco.

The vessel construction will include sufficient fendering and rub-bars to protect the vessel against surging winter seas whilst berthing, loading and unloading. This will be of an equivalent standard to that found on off-shore windfarm crew vessels.

Lyonesse Lady II will have tier III engines and its lightweight design will see a reduction in fuel consumption of 50% compared to the existing vessel, making it more environmentally friendly.

The new design will also have an increased cargo capacity, the equivalent of 38 pallets, providing a 60% increase in capacity, ensuring freight is delivered at the earliest opportunity and cutting down on the number of follow up trips to complete freight distribution.

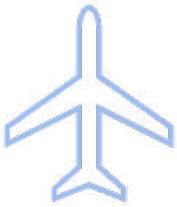
SOCIAL MEDIA RUMOURS



We are well aware of some of the recent speculation and rumours circulating on social media about replacement vessels for Scilly. We are also aware of some of the statements made by one of the shipbuilding companies which was unsuccessful in bidding to build our new vessels.

Our intention is not to respond to these messages or engage in debates on social media - our focus remains on our vessel replacement programme, which is fully funded and will deliver new vessels in time for the 2026 season. We will be providing regular updates through our new vessel newsletters and will be holding community engagement events to listen to views of the community and provide further updates on the project.

As set out in our letter to the community (dated 13th September), we decided not to proceed with Levelling Up for the following reasons:



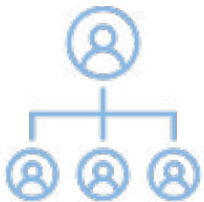
- Risks to the Skybus operation. The Government was clear that the SPV (Special Purpose Vehicle) model which would be used to own and operate the new vessels would not allow the ship operation to support Skybus. The inter-relationship between the shipping and air links is a key strength of our business and creates resilience on the route. If there can be no inter-relationship, air fares would have to increase by at least 25% in order for Skybus to remain viable. It would also threaten the medical and other lifeline services Skybus provides. We do not believe it to be in both the islanders' and the Group's interests to lose this vital lifeline link.



- Risk of legal challenges and further delays. Both the DfT and the Council signalled that there would be a high risk of legal challenge to the procurement process proposed under the SPV. Any legal challenge would result in long delays to the build programme which would significantly increase vessel build costs.



In contrast, private finance offers certainty and a clear timeline to introduce the new vessels in 2026 in order to continue the lifeline link services.



We started the shipyard selection process with the assistance of industry experts with a list of 30 shipyards including some from the UK. Shipyards were assessed using a fair and transparent process. The evaluation process was based on reviewing technical expertise, experience of building vessels, in-house design capability and the competitiveness of the cost to build.

In conclusion Piriou offered a very competitive bid, has a strong balance sheet and more than 50 years' experience building more than 600 technical vessels.

NEW VESSEL DESIGNS



Proposed Scillonian IV concepts for internal passenger areas, including onboard cafe.



ONBOARD CAFE



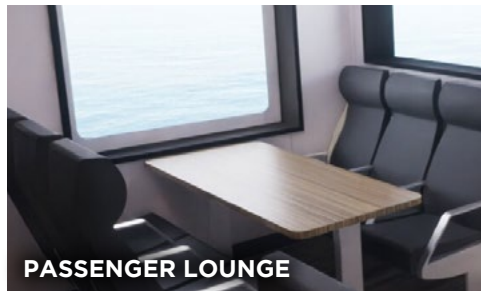
RECEPTION



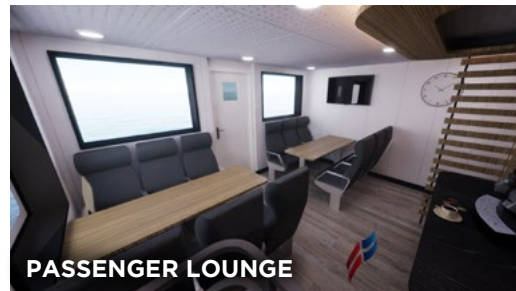
INSIDE SEATING AREA



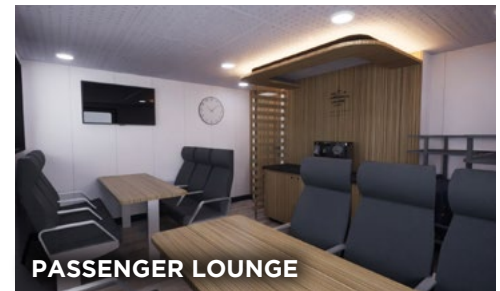
Proposed new cargo vessel concepts for internal passenger area, including refreshment facilities.



PASSENGER LOUNGE



PASSENGER LOUNGE



PASSENGER LOUNGE

COMMUNITY ENGAGEMENT EVENTS

Throughout the life of our vessel replacement project, we will be hosting a series of community engagement events on the islands and mainland and we invite you to come along and ask us anything.

These events are open to everyone and are your chance to ask us any questions you may have about the new vessels – whether that be about the designs; finances and ticket prices; the shipyards; the environment or the overall project plan and timings. Your views are important to us.

The first community engagement event will be held on the islands on:

11TH OCTOBER | 13:00 - 15:00 | ST MARY'S, ON THE QUAY RESTAURANT

Our next events will be taking place on the off-islands in November 2023.

Later in the year we are planning a series of mainland events. Further details to follow.