



Falkland Islands Holdings plc
Interim Report 2006

Chairman's Statement and Review of Operations

FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2006

Overview

We are pleased to report satisfactory interim results for the half year to 30 September 2006. Underlying profits before tax, and before the amortisation of goodwill and charges for share based payments were in line with our expectations at £696,000 (2005: £747,000).

Profits on ordinary activities before taxation (after goodwill amortisation, share based payment charges and in the prior year, profits on the sale of discontinued operations) were £549,000 (2005: £699,000). Earnings per share, on reported profits were 4.0p per share (2005: 5.2p) and earnings per share on underlying profits before tax excluding exceptional items the amortisation of goodwill, and share based payment charges were 5.6p per share (2005: 6.1p). As in previous years no interim dividend is proposed.

Group turnover from continuing activities was down 4.4% at £7.3 million (2005: £7.6 million). The reduction was largely accounted for by timing differences on fleet vehicle sales in the Falklands and the absence of maritime festivals in Portsmouth.

Operations

In the Falklands the year started encouragingly with much improved illex squid catches in April and May which had a positive impact on the fishing agency. In retail operations sales in the Group's flagship West Store continued to make progress but the Homecare business was impacted by a reduction in new housing starts and increased competition. The Group's financial services operations, insurance broking and property rental activities all performed well. Motor vehicle sales were low in the first half with over 80% of sales expected in the second half of the year. Underlying profits before tax from Falkland operations fell back from £340,000 to £316,000 in the 6 months to 30 September 2006 on turnover of £5.5 million (2005: £5.8 million).

The Portsmouth Harbour Ferry Company achieved a good result and despite the absence of the maritime festivals of 2005 generated underlying profits before tax of £380,000 compared with £407,000 in 2005. Turnover declined by 3.7% in the absence of the boost provided by the IFOS and Trafalgar events. However selective fare rises in June 2006 mitigated the impact on profits. In August we were successful in winning a 3 year contract to operate a water taxi service across the harbour on behalf of Berkeley Homes and this made a small contribution in the current period.

Investments

The Group also owns strategic stakes in the AIM listed exploration companies, Falkland Oil and Gas and Falkland Gold and Minerals.

Falkland Oil and Gas ('FOGL')

The key exploration objectives for FOGL in 2006/7 are to define and prioritise the top prospects for drilling. The analysis of the results of the seismic work carried out over the last Austral Summer has been completed and exploration work is shortly to commence in the Falklands. That analysis continues to support the presence of hydrocarbons in FOGL's licence area and work is now focussed on the best prospects which will generate the targets for drilling in 2008.

TRACS International have also recently published an independent technical report indicating that in their opinion FOGL's top 10 prospects have an unrisks resource potential of 10 billion barrels and the risks reserves attributable to FOGL were 863 million barrels. This report which is available on FOGL's web site gives an indication of the huge potential upside which exists for us as shareholders.

The Summer field work, which will start later this month, comprises a programme of Electro-magnetic logging ("CSEM") and further 2D which will be guided by the CSEM results. CSEM is fairly new technology which has

proved effective in confirming the presence of hydrocarbons in prospects identified by positive seismic results. The analysis of this further work will become available during 2007 and will provide the data necessary for further farm out discussions and rig acquisition negotiations.

FOGL secured additional financing in December when RAB, their largest shareholder, agreed to subscribe a total of £8 million for 5 year 6% convertible loan notes. Their commitment means that FOGL will have sufficient cash to finance the current exploration programme and additional work through 2007. The notes are convertible into FOGL shares at 80p per share and RAB was also issued with 6 million warrants to subscribe for new FOGL shares at 100p per share. Full exercise of these securities would increase the issued capital of FOGL by 16 million shares (17%).

The market value at 30 September 2006 of the Group's 15 million shares in FOGL (16.3%) at 30 September 2006 was £12.1 million compared to a book value of £2.4 million.

Falkland Gold and Minerals ('FGML')

Exploration drilling and sampling have continued through the Austral winter and efforts are now being concentrated on three distinct areas of interest known as Target 11 (Glorious Hill) Black Shale and Target 25. They are all on the East Falklands and within easy reach of FGML's Goose Green base.

FGML had cash balances of £5.8 million at 30 September 2006 and exploration expenditure is continuing at a cash cost of some £150,000 per month.

The market value at 30 September 2006 of the Group's shareholding of 11,250,000 shares in FGML (14.4%) at 30 September 2006 was £928,000 compared to cost of £200,000.

Balance Sheet and Cash Flow

With the new shipping arrangements with the Ministry of Defence and DHL in place since October 2005 we were able to take advantage of the more frequent supply schedule to reduce stock levels from £3.5 million to just over £2.7 million at 30 September 2006. As a result the Group's cash resources increased to over £4.1 million at 30 September 2006 (2005: £1.2 million) and bank loans were reduced by £116,000 to £3.2 million.

Outlook

The Group has a strong cash position and we continue to search for suitable opportunities to make acquisitions to increase shareholder value. Little change is expected in economic conditions in the Falklands and for the Group underlying profits for the full year are expected to be at a similar level to those achieved in 2005/6.

David Hudd

Chairman

6 December 2006

John Foster

Managing Director

The Story of The Falkland Islands Company

Shareholders will be interested to know that an illustrated history of The Falkland Islands Company covering the 155 years since incorporation has recently been published. Entitled 'The Company' the book written by Michael Wright is available to shareholders for £5 including postage by application to the company's offices in Bishop's Stortford.

Unaudited Interim Consolidated Profit and Loss Account

FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2006

<i>Notes</i>	Unaudited 6 months to 30 September 2006 £'000	Unaudited 6 months to 30 September 2005 As restated £'000	Audited year ended 31 March 2006 As restated £'000
Turnover:			
Continuing operations	7,285	7,619	15,209
Discontinued operations	–	527	527
	7,285	8,146	15,736
Cost of sales	(4,521)	(5,271)	(9,855)
Gross profit	2,764	2,875	5,881
Administrative expenses	(2,167)	(2,101)	(4,471)
Amortisation of goodwill	(102)	(102)	(204)
Administrative expenses - exceptional costs	–	–	(487)
Total administrative expenses	(2,269)	(2,203)	(5,162)
Other operating income	124	78	344
Continuing operations	619	749	1,062
Discontinued operations	–	1	1
1 Group operating profit	619	750	1,063
Profit on sale of discontinued operations	–	84	84
Profit on sale of fixed asset investment	–	–	2,135
2 Net interest	(70)	(135)	(264)
Profit on ordinary activities before taxation	549	699	3,018
4 Taxation on profit on ordinary activities	(208)	(268)	(374)
Profit on ordinary activities after taxation	341	431	2,644
5 Earnings per share:			
Basic	4.0p	5.2p	31.8p
Fully diluted	4.0p	5.1p	31.3p

Unaudited Consolidated Balance Sheet

AT 30 SEPTEMBER 2006

<i>Notes</i>	Unaudited 30 September 2006 £'000	Unaudited 30 September 2005 £'000	Audited 31 March 2006 £'000
Fixed assets:			
Intangible assets	3,877	4,034	3,979
Tangible assets	7,929	8,520	8,042
6 Investments	2,610	2,900	2,610
	14,416	15,454	14,631
Current assets:			
Stocks	2,751	3,519	3,107
Debtors	1,466	1,553	1,837
Cash at bank and in hand	4,160	1,222	3,601
	8,377	6,294	8,545
Creditors: amounts falling due within one year	(3,442)	(4,989)	(4,797)
Net current assets	4,935	1,305	3,748
Total assets less current liabilities	19,351	16,759	18,379
Creditors: amounts falling due after more than one year	(3,193)	(2,964)	(2,765)
Provisions for liabilities and charges	(855)	(882)	(853)
Net assets excluding pension liabilities	15,303	12,913	14,761
Net pension scheme liabilities	(1,918)	(1,714)	(1,909)
Net assets	13,385	11,199	12,852
Capital and reserves:			
Called up share capital	847	838	838
Share premium account	7,207	7,061	7,064
Other reserves	703	703	703
Revenue reserves	4,628	2,597	4,247
Equity shareholders' funds	13,385	11,199	12,852

Unaudited Consolidated Cash Flow

FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2006

<i>Notes</i>	Unaudited 6 months to 30 September 2006 £'000	Unaudited 6 months to 30 September 2005 £'000	Audited year ended 31 March 2006 £'000
10 Cash flow from operating activities	722	465	1,665
Returns on investment and servicing of finance:			
Interest received	21	14	38
Interest paid	(51)	(94)	(203)
Taxation:			
UK Corporation tax	(53)	(82)	(250)
Overseas taxation paid	–	–	(141)
Capital expenditure:			
Purchase of tangible fixed assets	(116)	(242)	(505)
Purchase of investments	–	(2,000)	(2,000)
Receipts from sale of tangible fixed assets	–	5	15
Receipts from sale of investment	–	–	2,427
Acquisitions:			
Sale of subsidiary undertaking	–	158	178
Dividends paid	–	–	(502)
Cash (outflow)/inflow before financing	523	(1,776)	722
Financing:			
Shares issued	152	–	3
Repayment of secured loan	(116)	(102)	(524)
Repayment of loan notes	–	–	(43)
New secured loan	–	2,409	2,609
10 Increase in cash	559	531	2,767

Statement of Total Recognised Gains and Losses

FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2006

<i>Notes</i>	Unaudited 6 months to 30 September 2006 £'000	Unaudited 6 months to 30 September 2005 £'000	Audited year ended 31 March 2006 £'000
Profit for the period after taxation	341	431	2,644
Actuarial (loss)/gain	(7)	–	(31)
Tax on actuarial (loss)/gain	–	(53)	–
Movement on deferred tax asset relating to pension scheme	2	–	(123)
Total gains and losses recognised in the period	336	378	2,490
Prior year adjustment FRS 20	(70)		
Total gains and losses recognised since last annual report	266		

Notes to the Unaudited Interim Statements

FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2006

1 Adoption of FRS 20

The Board has adopted FRS 20 'Share Based Payments' for the first time. The impact on the profit and loss account is as follows:

	6 Months to 30 September 2006 £'000	6 Months to 30 September 2005 £'000	Year ended 31 March 2006 £'000
Increase in administrative expenses	45	30	70
Decrease in operating profit and profit transferred to reserves	45	30	70
Total FRS 20 adjustments	45	30	70

2 Interest

In addition to bank interest payable, the net interest cost includes the net financing cost of the Company's defined benefit pension schemes.

3 Segmental information

	General trading in the Falkland Islands		Ferry services in the United Kingdom		Total		Year ended 31 March 2006		
	6 months to 30 September		6 months to 30 September		6 months to 30 September		Falkland	Ferry	Total
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2006 £'000	2006 £'000
Turnover:									
Continuing operations	5,487	5,753	1,797	1,866	7,284	7,619	11,902	3,307	15,209
Discontinued operations: Cobham Travel	–	–	–	527	–	527	–	527	527
	5,487	5,753	1,797	2,393	7,284	8,146	11,902	3,834	15,736
Segment operating profit before exceptional items	351	395	268	355	619	750	1,043	507	1,550
Exceptional costs	–	–	–	–	–	–	(435)	(52)	(487)
Segment operating profit	351	395	268	355	619	750	608	455	1,063
Profit on sale of fixed asset investments	–	–	–	–	–	–	2,135	–	2,135
Profit on sale of discontinued operations	–	–	–	84	–	84	–	84	84
Net interest payable	(75)	(82)	5	(53)	(70)	(135)	(212)	(52)	(264)
Group profit before taxation	276	313	273	386	549	699	2,531	487	3,018
Net assets	11,754	7,394	1,631	3,805	13,385	11,199	8,941	3,911	12,852
Underlying profit before tax:									
Segment profit before tax as above	276	313	273	386	549	699	2,531	487	3,018
FRS 20 charge re share options	40	27	5	3	45	30	62	8	70
Amortisation of goodwill	–	–	102	102	102	102	–	204	204
Exceptional costs	–	–	–	–	–	–	435	52	487
Profit on sale of fixed asset investments	–	–	–	–	–	–	(2,135)	–	(2,135)
Profit on sale of discontinued operations	–	–	–	(84)	–	(84)	–	(84)	(84)
Underlying profit before tax	316	340	380	407	696	747	893	667	1,560
EPS on underlying PBT:									
Basic					5.6p	6.1p			12.7p
Fully diluted					5.6p	6.0p			12.5p

Notes to the Unaudited Interim Statements

FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2006 CONTINUED

4 Taxation

The taxation charge has been estimated at 32.0% (2005: 32.0%).

5 Earnings per share

Earnings per share has been calculated on profit after tax of £341,000 (2005: £431,000) based on the weighted average number of shares in issue, excluding shares held in the Employee Share Ownership Plan of 8,453,324 (2005: 8,324,063). The fully diluted earnings have been further adjusted by the dilutive outstanding share options resulting in a weighted average number of shares of 8,470,867 (2005: 8,459,491).

6 Investments

The Group has investments in AIM quoted businesses, Falkland Oil and Gas Limited and Falkland Gold and Minerals Limited.

	30 September 2006 £'000	30 September 2005 £'000	31 March 2006 £'000
The investments are stated at cost:			
Falkland Gold and Minerals Limited	200	200	200
Falkland Oil and Gas Limited	2,410	2,700	2,410
	2,610	2,900	2,610
The market value of the investments was:			
Falkland Gold and Minerals Limited	928	2,194	1,800
Falkland Oil and Gas Limited	12,113	18,903	21,500
	13,041	21,097	23,300
The value per FIH share of these investments was:	pence/share	pence/share	pence/share
Falkland Gold and Minerals Limited	11	26	21
Falkland Oil and Gas Limited	143	226	257
	154	252	278

7 Reconciliation of movement in shareholder funds

	30 September 2006 £'000	30 September 2005 As restated £'000	31 March 2006 As restated £'000
Opening shareholder funds as previously reported	12,852	10,791	10,791
Profit for the period	341	431	2,644
Dividends paid	–	–	(502)
Issue of shares	152	–	3
Provision for share based payments	45	30	70
Other recognised gains and losses	(5)	(53)	(154)
Net addition to shareholder funds	533	408	2,061
Closing shareholder funds	13,385	11,199	12,852

- 8 The interim report has been prepared on the basis of the accounting policies set out in the Group's 2006 Annual Report as amended.
- 9 The results for the year ended 31 March 2006 as shown in the statement do not constitute statutory accounts but are an abridged version of the Company's 2006 accounts as amended which have been filed with the Registrar of Companies and upon which the audit report was unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985. The Interim Report was approved by the Board on 6 December 2006.

10 Notes to the Unaudited Consolidated Cash Flow

	Unaudited 6 months to 30 September 2006 £'000	Unaudited 6 months to 30 September 2005 As restated £'000	Audited year ended 31 March 2006 As restated £'000
Reconciliation of net cash flow to movement in net debt:			
Increase in cash in the period	559	531	2,767
Cash outflow from decrease in debt	116	102	–
Cash inflow from increase in debt	–	(2,409)	(2,042)
Movement in net debt in period	675	(1,776)	725
Change in net debt resulting from acquisitions	–	(143)	–
Net cash/(debt) at start of period	293	(432)	(432)
Net (debt)/cash at end of period	968	(2,351)	293
Reconciliation of operating profit to operating cash flows:			
Group operating profit	619	750	1,063
Profit on sale of fixed assets	–	–	(12)
Amortisation of goodwill	102	102	204
Depreciation and impairment charges	234	210	838
(Increase)/decrease in stocks	356	(211)	201
(Increase)/decrease in debtors	371	94	(12)
(Decrease) in creditors and provisions	(1,005)	(510)	(687)
Provision for share based payments	45	30	70
Net cash inflow from operating activities	722	465	1,665

Analysis of change in net debt

	As at 1 April 2006 £'000	Cash flows £'000	As at 30 September 2006 £'000
Cash at bank and in hand	3,601	559	4,160
Debt due within one year	(542)	116	(426)
Debt due after one year	(2,766)	–	(2,766)
Total	293	675	968

Company Information

Directors

David Hudd
Chairman

John Foster
Managing Director

Leonard Licht
Senior Independent Non-Executive Director

Sir Harry Solomon
Non-Executive Director
Chairman of the Remuneration Committee

Mike Killingley
Non-Executive Director

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