12 April 2016

Falkland Islands Holdings plc

("FIH" or "the Group")

Pre-Close Trading Update

Falkland Islands Holdings plc ("FIH"), the AIM quoted international specialist services group with businesses in the Falkland Islands and UK, is pleased to provide the following update on trading for the year ended 31 March 2016.

- **Trading in the second half was satisfactory; profitability, although lower compared to H2 last year, was broadly in line with expectations, albeit the Full Year Underlying Profit before Tax is likely to be some 10-15% lower than the prior year at c £3.0-£3.2million, principally due to the reduced contribution from Momart.**
- **The Group's cash flow was strong and FIH ended the year with record cash balances of £14.0million, an increase of over £6million compared to 31 March 2015 (£7.4million).**

Operational Highlights:

- **Falkland Islands Company** – In the Falklands, trading was buoyant with FIC's contribution at record levels as the business took advantage of the significant boost to the economy from the offshore oil exploration drilling.

  Momart – At the Group's art handling and logistics business, Momart, profitability improved in H2, compared to the first half, helped by modest sales growth, although profits were still markedly lower for the full year, following significant investment in marketing and sales infrastructure and continuing competitive pressure in a slowing global art market.

- **Portsmouth Harbour Ferry Company** – Passenger numbers were 3.3% lower than in the prior year, but trading at the Group's passenger ferry business was broadly satisfactory, at levels only slightly below 2014-15.

- **Group Trading performance** – The Group's overall trading performance for the year to 31 March 2016 (i.e. underlying pre-tax profits, before amortisation and non-trading items), is expected to show a 10-15% decrease in comparison to the prior year, principally due to the reduced contribution from Momart.

- **At a non-trading level, restructuring** in the UK and Falklands, designed to reduce ongoing overheads, was more than offset by the £0.4million of profits generated in the first half from the sale of the Group's residual holding of 5million shares in Falkland Oil and Gas in April 2015.

- **Cash and Bank Borrowings** – At 31 March 2016, the Group had cash balances of £14.0 million and bank borrowings of £3.3million, i.e. net cash of £10.7million (£6.7million at 31 March 2015)

Strategic Highlights:

- The impact of low oil prices and market backdrop has delayed oil development in the Falklands, resulting in the Group shifting its strategic growth focus in the near term towards developing its UK operations through further investment in existing businesses and through the pursuit of high quality acquisitions.

- Strategy is aimed at creating a larger quoted entity with a wider appeal to investors that will in turn enhance shareholder liquidity and the Group's rating.

- Execution of this strategy will be aided by the Group's record cash reserves of £14million (£1.13 per share) and the Group's solid existing earnings base which provides untapped borrowing capacity.

Operational detail:

Falkland Islands Company ("FIC") – As expected, the Group's Falklands business continued to benefit from the uplift in economic activity linked to the exploration drilling programme seen in the first half. Although drilling was brought to an end in February 2016, support company activity continued through to 31 March and will not tail off until early in the next financial year. Retail demand grew and sales at FIC's flagship West Store increased to record levels. Property income was boosted by corporate oil related lets and vehicle hire and new vehicle sales also reached record levels. Construction activity remained buoyant and although the Group's construction Joint Venture, "SAtCO" had largely completed oil related construction contracts in the prior year, equipment rental to support the drilling programme and local work for government and Ministry of Defence lead contractors at MPA helped SAtCO's contribution remain at healthy levels. Some limited restructuring of the local management team was undertaken at the end of the financial year in order to right-size the business for the quieter trading period that will follow the departure of the oil rig next year.

Momart – After a first half with flat sales and profits impacted by the effects of increased investment spend on marketing, business development and improved systems, Momart saw a modest increase in revenue in H2 and this helped lift profitability. However the fiercely competitive UK and international art market saw a continued squeeze on margins. This, coupled with a lower level of lucrative, high added value, overseas sales, meant that Momart's H2 contribution, although showing some improvement on the first half, remained lower than the prior year. For the full year, the impact of increased investment, a less lucrative sales mix and continuing competitive pressure saw a marked fall in full year profitability. Despite this dip, prospects for future growth over the medium term remain positive, and construction is now well advanced on a new state of the art storage facility at the company's Leyton site which will add 33% to capacity. Completion is scheduled for mid-summer 2016 and Momart's pre-letting of this additional space is now underway.

Portsmouth Harbour Ferry Company ("PHFC") – Ferry trading performance was satisfactory. Revenues were essentially flat, with a continuing 3.3% decline in passenger numbers, caused by the increased appeal of car travel linked to cheap petrol, a subsidised Park & Ride scheme, and the passenger disruption caused by Portsmouth Council's modernisation and reshaping of the passenger interchange at Portsmouth Hard. However these negative factors were largely offset by the 3% fare increase put through in June 2015. Additional activity from the highly successful Americas Cup racing off Portsmouth Harbour helped boost cruising income in summer 2015. Increased wage costs and additional depreciation from the company's newly commissioned ferry, "Harbour Spirit", were partially offset by a fall in marine diesel fuel costs. Overall operating costs increased by 2-3% in the year leading to a small decrease in profitability.

Outlook:

For the year ahead, we anticipate a quieter period in the Falklands. The squid catch this Spring has dropped back from the exceptional levels seen in the previous two years and in retailing, FIC's principal competitor has recently launched a 33% expansion of its store. Given this and the conclusion of exploration drilling for the foreseeable future, FIC will face significant headwinds in the coming year and profits at FIC are expected to revert to the more normal "pre-oil" levels seen in prior years.

At PHFC, in the coming year the emphasis will be on tight cost control, in the face of short term pressures on passenger numbers caused by cheap petrol and physical disruption caused by the reconfiguration of the passenger interchange at the Portsmouth ferry terminal. In the longer term, plans to expand the Portsmouth naval base and new proposals to redevelop the harbour at Gosport should help to reverse the decline seen in recent years.

At Momart, we anticipate a stabilising of the core trading position as we see the benefit of the recent investment in sales and marketing feed through to underpin continued sales growth and shore up margins. Initially though, the warehouse expansion will be a drag on profits, with an increase in fixed costs not fully covered by new storage revenue in the first year. Over the medium term however, as Momart's new facilities reach capacity, prospects for a steady and sustained recovery in profitability are good.

Future Group Strategy

The low price of oil means that the development of proven oil reserves in the Falklands will now be delayed and although the board of FIH remains confident that oil production and dramatic economic growth will ensue in the Falklands in due course, the timing of this remains uncertain. However, following the substantial capital and human investment in FIC seen in the past few years, the company is well placed to take full advantage of the growth that will ultimately emerge.

With further growth in the Falklands now delayed, the Group's focus in the near term has shifted to developing its UK operations through further investment in its existing businesses and through the pursuit of high quality acquisitions. This strategy, to create a platform for sustainable long term growth, is aimed at creating a larger quoted entity with a wider appeal to investors that will in turn enhance shareholder liquidity and the Group's rating. Execution of this strategy will be aided by the Group's record cash reserves of £14million (£1.13 per share) and the Group's solid existing earnings base which provides untapped borrowing capacity.

The Board's policy of re-investing profits to support accelerated growth will continue and the Group currently has no plans to reintroduce the payment of a dividend.

The Group's Preliminary Results for the year ended 31 March 2016 are expected to be released on Tuesday 14th June 2016.

Chairman of FIH, Edmund Rowland, commented:

"The Group has delivered another solid trading performance, in line with expectations, and with strong positive cash flow closing the year with record cash balances of £14million, giving cash per FIH share of £1.13.

"As Chairman, I remain keen to build on the secure foundations already established and to build the Group's long term success with a focus on growth through investment and selective acquisitions. The Group's strong cash position and significant borrowing capacity will be key factors facilitating this growth.

"In the Falklands, we remain confident about FIC's exceptional long term potential following a recovery in the oil price and in the near term we have a healthy profitable business that has little immediate need for heavy further investment.

"In the UK, the Group continues to benefit from its two established specialist services businesses, Momart and PHFC, and beyond this solid base we see further opportunities to develop the scale of the Group's activities through selective, focussed acquisitions and organic growth. I look forward to updating the market on our growth strategy as the year progresses, as we seek out opportunities that will create an enhanced platform for sustainable long term growth."

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