

OPSEC SECURITY GROUP PLC
(“OpSec” or “the Group”)

Interim results for the six months ended 30th September 2010

OpSec Security Group plc, the supplier of anti-counterfeiting technologies and services, announces interim results for the six months ended 30th September 2010.

Highlights

	2010 unaudited	2009 unaudited
Group revenue	£19.7m	£16.3m
Adjusted operating profit*	£1,384,000	£645,000
Loss before tax	(£394,000)	(£337,000)
Basic earnings per share	(0.8p)	(0.7p)
Adjusted basic earnings per share*	0.3p	0.4p

* Adjusted for the effects of share based payments and the charge for intangible amortisation (see notes 3 and 8).

- Strong first half performance;
- Adjusted operating profit up by 115% to £1.384 million;
- Group revenue increased by 21% to £19.7 million;
 - Banknote and High Security Document revenues up 77%
 - Brand Protection revenues up 23%
 - ID Solutions revenues down by 18%
- New business secured in the Banknote and High Security Document and Brand Protection markets;
- Gross margins of 41.8% compared to prior year of 39.4%;
- Higher overheads reflect increased turnover and exchange rate movements;
- Interest charges higher due to new funding arrangements and amortisation of fees.

David Mahony, Chairman, said:

“The Board remains confident as to the Group’s prospects and the outlook for the current year. The new contracts we have secured in the Banknote and High Security Document market sector and the continuing strong order levels in our Brand Protection market should lead to further growth in the second half of the current financial year. In addition, ID Solutions’ traditional bias towards a stronger second half would be reinforced by the successful conversion of a proportion of its significant sales pipeline.

Further progress on operational performance is expected as we continue to implement a number of cost saving and efficiency measures throughout the Group. We remain committed to accelerating growth and further improving operating performance by reinvesting in the Group’s facilities and capabilities and will continue to consider small add on acquisitions which support our existing market sectors.”

- Ends -

For further information, please contact:

OpSec Security Group plc

Mark Turnage, Chief Executive/Mike Angus, Finance Director

0191 417 5434

Weber Shandwick Financial

Nick Osborne/Stephanie Badjonat

020 7067 0700

Oriel Securities Limited

Michael Shaw/Neil Langford

020 7710 7600

OPSEC SECURITY GROUP PLC
("OpSec" or "the Group")

Interim results for the six months ended 30th September 2010

Chairman's Statement

The encouraging results for the first half of the current financial year reflect improved trading conditions, the benefit of our previous cost reduction efforts and the impact of the new financing arrangements that were put in place at the end of the prior financial year.

Group revenue for the six months increased by 21% to £19.7 million (2009: £16.3 million). Revenue in the first half benefited from new customers in both the Brand Protection and Banknote and High Security Document ("BNHS") sectors and record ordering in the first quarter from our Brand Protection customers.

Adjusted Operating Profit (see note 3) more than doubled from £645,000 to £1,384,000.

The impact of our new financing arrangements meant that the net interest charge increased from £412,000 to £1,202,000. This included a non-cash charge for amortisation of fees of £300,000 and foreign exchange translation losses of £170,000 on the Group's cash deposits. The result after taxation was a loss of £401,000 (2009: loss of £358,000).

Cash on the balance sheet as at 30th September 2010 amounted to £4,621,000 (2009: £2,716,000).

Banknote and High Security Documents

A number of new customers were secured in this market sector during the first half of the financial year. In particular, a new banknote customer in Asia and a new tax stamp programme in Africa contributed to revenue increasing by 77% over the corresponding period of the previous year. Strong ordering from an Eastern European government also benefitted the first half.

Brand Protection

Revenue in this market sector, which is the largest of our three market segments, increased by 23% compared to the same period in the prior year. The first quarter saw record order levels from existing customers as they refilled their supply chain and maintained levels of consumer spending have led to subsequent order levels being robust. We are continuing to win significant numbers of new Brand Protection customers, particularly in the online segment of this sector.

ID Solutions

Revenue in the ID solutions market fell by 18% compared to the same period in the prior year, due mainly to slow ordering from an Eastern European and a North American Government. This segment has a historical bias towards the second half of the financial year which, coupled with a significant pipeline of potential future business, leads us to expect an improved revenue performance by this segment in the balance of the current year.

3dcd

The contribution from our joint venture 3dcd in the period was ahead of expectations at \$376,000 (2009: \$182,000). Our major software customer has placed a one off order for equipment incorporating a new technology developed by the joint venture. The benefit of this order will be realised across the year as a whole.

Operations

Revenue in our American operations increased by 7% to \$17.7 million in the first half of the financial year with operating profit increasing by 13% in local currency (23% in sterling). The cost saving measures which we have implemented progressively over the past two years have led to an increase in gross margins from 37.4% to 38.5%.

The UK operations in the period enjoyed the full impact of the new BNHS customers and consequently revenue was up by 44% compared to the corresponding period of the prior year. Gross margins improved from 33.8% to 40.8% and operating profit increased by 405% to £964,000.

Revenue in our German operations was flat at €1.6 million. Operating profits fell from €511,000 to €251,000 due to costs incurred in software development and the relocation of certain employees to Munich. The restructuring of the management team following the departure of the vendors of P4M post the earn-out period has now been completed successfully.

Prospects

The Board remains confident as to the Group's prospects and the outlook for the current year. The new contracts we have secured in the BNHS market sector and the continuing strong order levels in our Brand Protection market should lead to further growth in the second half of the current financial year. In addition, ID Solutions' traditional bias towards a stronger second half would be reinforced by the successful conversion of a proportion of its significant sales pipeline.

Further progress on operational performance is expected as we continue to implement a number of cost saving and efficiency measures throughout the Group. We remain committed to accelerating growth and further improving operating performance by reinvesting in the Group's facilities and capabilities and will continue to consider small add on acquisitions which support our existing market sectors.

DA Mahony
Chairman
11th November 2010

OPSEC SECURITY GROUP plc
Consolidated Income Statement

	Six months ended 30-Sept-10 Unaudited £'000	Six months ended 30-Sept-09 Unaudited £'000	Year ended 31-Mar-10 Audited £'000
Revenue	19,659	16,287	34,992
Cost of sales	(11,441)	(9,868)	(19,978)
Gross profit	8,218	6,419	15,014
Distribution and selling costs	(2,336)	(1,690)	(3,763)
Administrative expenses	(4,992)	(4,418)	(9,417)
Intangible amortisation	(326)	(350)	(654)
Total administrative expenses	(5,318)	(4,768)	(10,071)
	564	(39)	1,180
Share of profit of jointly controlled entities	244	114	468
Operating profit	808	75	1,648
Finance income	(168)	(67)	(161)
Finance expense	(1,034)	(345)	(1,749)
Loss before income tax	(394)	(337)	(262)
Income tax	(7)	(21)	155
Loss for the period attributable to equity holders of the parent	(401)	(358)	(107)
Earnings per share (pence)			
Basic eps	(0.8)	(0.7)	(0.2)
Diluted eps	(0.8)	(0.7)	(0.2)
Consolidated statement of comprehensive income			
Loss for the financial period	(401)	(358)	(107)
Other comprehensive income			
Foreign exchange translation differences	(1,196)	(2,970)	(1,684)
Effective portion of changes in fair value of cash flow hedges	-	-	528
Net change in fair value of cash flow hedges	-	76	57
Other comprehensive income for the financial period	(1,196)	(2,894)	(1,099)
Total comprehensive income attributable to equity holders of the parent	(1,597)	(3,252)	(1,206)

OPSEC SECURITY GROUP plc
Consolidated statement of changes in equity
For the 6 months ended 30th September 2010

	Share Capital unaudited £'000	Share premium unaudited £'000	Translation reserve unaudited £'000	Hedging reserve unaudited £'000	Retained earnings unaudited £'000	Total equity unaudited £'000
Balance at 1st April 2010	2,802	29,685	4,429	-	(5,938)	30,978
Loss for the period	-	-	-	-	(401)	(401)
Other comprehensive income/(expense)	-	-	(1,196)	-	-	(1,196)
Total comprehensive income/(expense) for the period	-	-	(1,196)	-	(401)	(1,597)
Transactions with owners recorded directly in equity						
Share based payments	-	-	-	-	250	250
Own shares sold	-	-	-	-	28	28
Own shares purchased	-	-	-	-	(239)	(239)
Total contributions by and distributions to owners	-	-	-	-	39	39
At 30th September 2010	2,802	29,685	3,233	-	(6,300)	29,420

Additional breakdown of other comprehensive income is provided in the Statement of Comprehensive Income.

OPSEC SECURITY GROUP plc
Consolidated statement of changes in equity
For the 6 months ended 30th September 2009

	Share Capital unaudited £'000	Share premium unaudited £'000	Translation reserve unaudited £'000	Hedging reserve unaudited £'000	Retained earnings unaudited £'000	Total equity unaudited £'000
Balance at 1st April 2009	2,669	29,309	6,113	(585)	(5,530)	31,976
Loss for the period	-	-	-	-	(358)	(358)
Other comprehensive income/(expense)	-	-	(2,970)	76	-	(2,894)
Total comprehensive income/(expense) for the period	-	-	(2,970)	76	(358)	(3,252)
Transactions with owners recorded directly in equity						
Share based payments	-	-	-	-	220	220
Own shares sold	-	-	-	-	15	15
Own shares purchased	-	-	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-	235	235
At 30th September 2009	2,669	29,309	3,143	(509)	(5,653)	28,959

Additional breakdown of other comprehensive income is provided in the Statement of Comprehensive Income.

OPSEC SECURITY GROUP plc
Consolidated statement of changes in equity
For the year ended 31st March 2010

	Share Capital audited £'000	Share premium audited £'000	Translation reserve audited £'000	Hedging reserve audited £'000	Retained earnings audited £'000	Total equity audited £'000
Balance at 1st April 2009	2,669	29,309	6,113	(585)	(5,530)	31,976
Loss for the period	-	-	-	-	(107)	(107)
Other comprehensive income/(expense)	-	-	(1,684)	585	-	(1,099)
Total comprehensive income/(expense) for the period	-	-	(1,684)	585	(107)	(1,206)
Transactions with owners recorded directly in equity						
Share based payments	-	-	-	-	213	213
Issuance of shares (net of costs)	133	376	-	-	-	509
Own shares sold	-	-	-	-	90	90
Own shares purchased	-	-	-	-	(604)	(604)
Total contributions by and distributions to owners	133	376	-	-	(301)	208
At 31st March 2010	2,802	29,685	4,429	-	(5,938)	30,978

Additional breakdown of other comprehensive income is provided in the Statement of Comprehensive Income.

OPSEC SECURITY GROUP plc
Consolidated Balance Sheet

	30-Sept-10 unaudited	30-Sep-09 unaudited	31-Mar-10 audited
	£'000	£'000	£'000
ASSETS			
Non-current assets			
Property, plant and equipment	8,113	10,039	9,015
Intangible assets	25,465	26,484	26,679
Investment in jointly controlled entity	87	274	337
Other investments	17	17	18
Deferred tax assets	3,850	4,070	3,903
Total non-current assets	37,532	40,884	39,952
Current assets			
Inventory	2,878	2,691	3,187
Trade and other receivables	7,926	7,069	7,712
Cash and cash equivalents	4,621	2,716	7,376
Assets held for sale	926	-	1,031
Total current assets	16,351	12,476	19,306
Total assets	53,883	53,360	59,258
LIABILITIES			
Current liabilities			
Interest-bearing loans and borrowings	-	(1,391)	-
Deferred government grants	(36)	(51)	(52)
Provisions	(38)	(232)	(66)
Income tax payable	-	(344)	(3)
Trade and other payables	(9,202)	(10,975)	(11,240)
Total current liabilities	(9,276)	(12,993)	(11,361)
Non-current liabilities			
Interest-bearing loans and borrowings	(14,604)	(10,356)	(16,359)
Deferred government grants	(360)	(213)	(337)
Derivative financial instruments	-	(509)	-
Deferred tax liabilities	(223)	(330)	(223)
Total non-current liabilities	(15,187)	(11,408)	(16,919)
Total liabilities	(24,463)	(24,401)	(28,280)
Net assets	29,420	28,959	30,978
EQUITY			
Capital and reserves			
Issued capital	2,802	2,669	2,802
Share premium	29,685	29,309	29,685
Translation reserve	3,233	3,143	4,429
Hedging reserve	-	(509)	-
Retained earnings	(6,300)	(5,653)	(5,938)
Total equity attributable to equity holders of the parent	29,420	28,959	30,978

OPSEC SECURITY GROUP plc
Condensed Consolidated Statement of Cash Flows

	Six months ended 30-Sept-10 unaudited £'000	Six months ended 30-Sept-09 unaudited £'000	Year ended 31-Mar-10 audited £'000
Cash flows from operating activities			
Loss for the period	(401)	(358)	(107)
Depreciation	1,025	1,025	2,074
Amortisation/impairment of intangible assets	326	350	654
Profit on sale of property, plant and equipment	-	-	(1)
Release of government grants	(22)	22	(14)
Equity settled share based expense	250	220	213
Share of profit of jointly controlled entities	(244)	(114)	(468)
Finance income	168	67	161
Finance expenses	1,034	345	1,749
Income tax expense	7	21	(155)
Movement in inventory	213	798	449
Movement in trade and other receivables	(646)	(14)	806
Movement in trade and other payables	(1,891)	(1,481)	483
Cash flows from operating activities	(181)	881	5,844
Interest paid	(326)	(359)	(644)
Income tax paid - overseas	(89)	(79)	(76)
Net cash (outflow)/inflow from operating activities	(596)	443	5,124
Cash flows from investing activities			
Acquisition of subsidiary undertaking ⁽¹⁾	(223)	(1,777)	(3,715)
Acquisition of property, plant and equipment	(369)	(374)	(901)
Proceeds from sale of investment	-	1	-
Proceeds from sale of property, plant and equipment	-	-	1
Proceeds from government grants	47	-	153
Dividends received from jointly controlled entity	473	310	629
Interest received	(168)	(67)	(161)
Net cash outflow from investing activities	(240)	(1,907)	(3,994)
Cash flows from financing activities			
Payment of finance lease liabilities	(104)	(103)	(208)
Drawdown of borrowings	-	199	16,138
Repayment of borrowings	(1,282)	-	(14,252)
Proceeds from issuance of new shares (net of costs)	-	-	509
Proceeds from sale of own shares	28	16	90
Purchase of own shares	(239)	-	(604)
Net cash (outflow)/inflow from financing activities	(1,597)	112	1,673
Net (decrease)/increase in cash and cash equivalents	(2,433)	(1,352)	2,803
Cash and cash equivalents at the start of the period	7,376	4,244	4,244
Effect of exchange rate fluctuations on cash	(322)	(176)	329
Cash and cash equivalents at the end of the period	4,621	2,716	7,376

(1) The acquisition of subsidiary undertakings numbers represent deferred earn out payments

OpSec Security Group plc
Notes to the Interim Statement

1. Basis of preparation

This interim financial information has been prepared applying the accounting policies that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31st March 2010.

For the year commencing 1st April 2010 the following standards, amendments and interpretations became effective and were adopted by the Group:

Revised IFRS 3 *Business Combinations*

Amendments to IAS27 *Consolidated and Separate Financial Statements*

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

Amendments to IAS 32 *Financial Instruments: Presentation – Classification of rights issue*

Amendments to IFRS 2 *Group Cash-Settled Share-based payments transactions*

Improvements to IFRSs 2009

The adoption of the above has not had a significant impact on the Group's results or equity.

2. Status of financial information

The interim information for the six months ended 30th September 2010 has not been audited or reviewed by the auditors.

The comparative figures for the financial year ended 31st March 2010 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The interim report has been sent to all shareholders. Further copies are available to members of the public from the Company's registered office, 40 Phoenix Road, Crowther, District 3, Washington, Tyne & Wear, NE38 0AD. The interim report is also available on the Company's website, www.opsecsecurity.com.

OpSec Security Group plc
Notes to the Interim Statement

3. Segment Information

	Six months ended 30-Sep-10 unaudited	Six months ended 30-Sep-09 unaudited	Year ended 31-Mar-10 audited
	£'000	£'000	£'000
a) Revenue by geographic segment			
American operations	11,661	10,304	21,780
UK operations	7,376	5,117	12,136
German operations	1,366	1,444	2,842
Intersegment sales	(744)	(578)	(1,766)
	<u>19,659</u>	<u>16,287</u>	<u>34,992</u>
b) Revenue by market sector			
Banknote and High Security Documents	3,831	2,162	5,925
Brand Protection	12,892	10,524	22,410
ID Solutions	2,936	3,601	6,657
	<u>19,659</u>	<u>16,287</u>	<u>34,992</u>
c) Operating profit by geographic segment			
American operations	1,015	828	2,577
UK operations	964	191	1,188
German operations	211	448	544
Jointly Controlled Entity	244	114	468
Corporate costs	(1,626)	(1,506)	(3,129)
Operating profit	<u>808</u>	<u>75</u>	<u>1,648</u>
Exclude intangible amortisation	326	350	654
Exclude equity settled share based payments	250	220	213
Adjusted operating profit	<u>1,384</u>	<u>645</u>	<u>2,515</u>
d) Adjusted operating profit by geographic segment			
American operations	1,015	828	2,577
UK operations	964	191	1,188
German operations	211	448	544
Jointly Controlled Entity	244	114	468
Corporate costs	(1,050)	(936)	(2,262)
Adjusted operating profit	<u>1,384</u>	<u>645</u>	<u>2,515</u>

OpSec Security Group plc
Notes to the Interim Statement

4. Operating expenses

	Six months ended 30-Sep-10 unaudited	Six months ended 30-Sep-09 unaudited	Year ended 31-Mar-10 audited
	£'000	£'000	£'000
<i>Distribution and Selling Costs</i>			
Selling and marketing costs	<u>2,336</u>	<u>1,690</u>	<u>3,763</u>
<i>Administrative Expenses</i>			
Technical support	582	498	1,058
Research and development costs	1,093	840	1,732
Administrative expenses	3,317	3,080	6,627
Intangible amortisation	326	350	654
	<u>5,318</u>	<u>4,768</u>	<u>10,071</u>
<i>Total Operating Expenses</i>	<u><u>7,654</u></u>	<u><u>6,458</u></u>	<u><u>13,834</u></u>

5. Share of operating profit of jointly controlled entity

The share of operating profit of joint ventures represents the Group's share of the results of 3dcd for the six months ended 30th September 2010. The operating profit of 3dcd is subject to taxation in the accounts of its partners.

OpSec Security Group plc
Notes to the Interim Statement

6. Finance income and expense

	Six months ended 30-Sep-10 unaudited	Six months ended 30-Sep-09 unaudited	Year ended 31-Mar-10 audited
	£'000	£'000	£'000
<i>Financial income</i>			
Interest income	2	4	6
Foreign exchange gains on foreign currency deposits	(170)	(71)	(167)
	<u>(168)</u>	<u>(67)</u>	<u>(161)</u>
<i>Financial expenses</i>			
Interest expense	(734)	(309)	(743)
Net change in fair value of cash flow hedges transferred from equity	-	-	(57)
Amortisation of bank fees	(300)	(38)	-
Exceptional cost of debt advisor fees written off	-	-	(949)
Foreign exchange gains on foreign currency borrowings	-	2	-
	<u>(1,034)</u>	<u>(345)</u>	<u>(1,749)</u>

7. Taxation

The charge for taxation is calculated by applying the Directors' best estimate of the annual effective tax rate to the profit/(loss) for the period.

8. Earnings per share

The calculations of earnings per share are based upon the following earnings and numbers of shares.

	Six months ended 30-Sep-10 unaudited	Six months ended 30-Sep-09 unaudited	Year ended 31-Mar-10 audited
	£'000	£'000	£'000
<i>Earnings</i>			
Earnings for the financial period	(401)	(358)	(107)
Exceptional items	-	-	949
Intangible amortisation	326	350	654
Share-based payments	250	220	213
Adjusted earnings for the financial period	<u>175</u>	<u>212</u>	<u>1,709</u>
<i>Weighted average number of shares</i>			
	No. of shares	No. of shares	No. of shares
For Basic earnings per share	52,110,473	51,015,602	51,525,262
Effect of share options and other awards	1,934,832	1,551,485	2,002,807
For Diluted earnings per share	<u>54,045,305</u>	<u>52,567,087</u>	<u>53,528,069</u>