

Annual Results

March 2010

Highlights

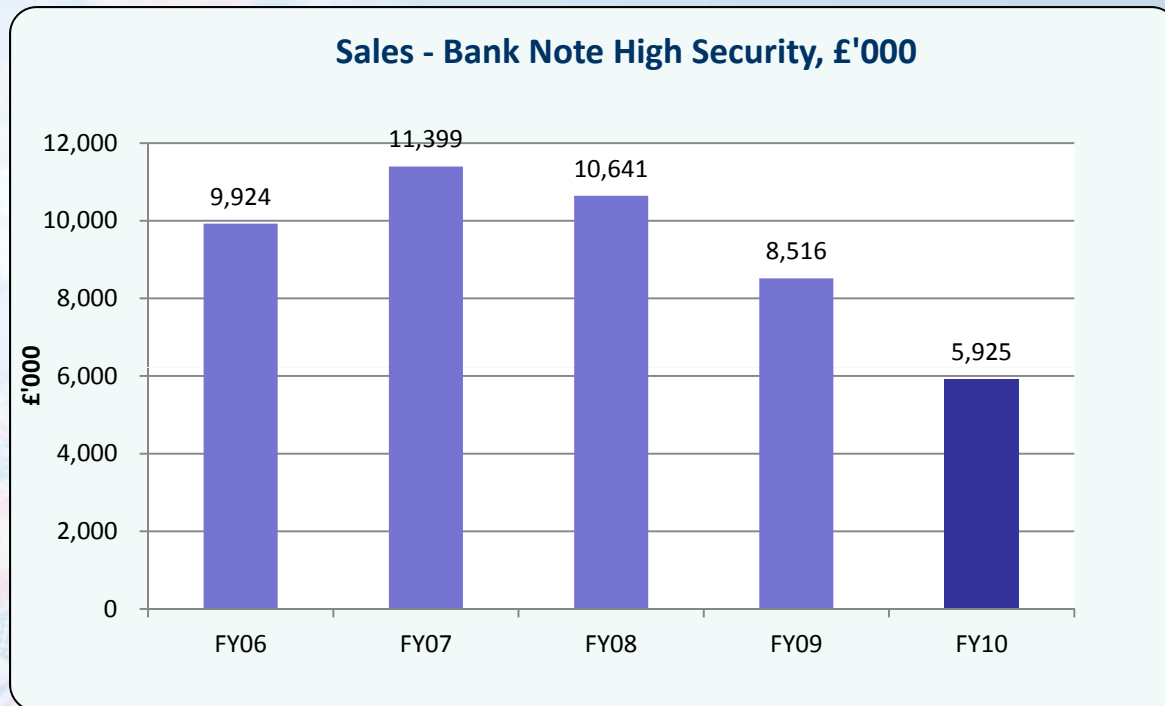
- The second half of the year was substantially stronger than the first half and the improved trading has continued into the early part of the current year;
- The significant cost saving measures implemented have improved the operating leverage in the business and are benefiting profits;
- Gross margins increased from 41.1% to 42.9%;
- Group revenue decreased by 11% to £35.0 million with adjusted operating profits down to £2.5 million, reflecting the impact of global economic conditions in the first half of the year;
- Cash generated from operating activities improved to £5.1 million (2009: £3.5 million)
- New funding arrangements secured with Investcorp.

Group Revenue by Market

	Actual FY 2010 £'000	Actual FY 2009 £'000	Variance FY 2009/10 £'000	Variance FY 2009/10 %
BNHS	5,925	8,516	(2,591)	-30.4%
Brand Protection	22,410	22,568	(160)	-0.7%
ID Solutions	6,657	8,255	(1,598)	-19.4%
Total Revenue	34,992	39,339	(4,349)	-11.1%

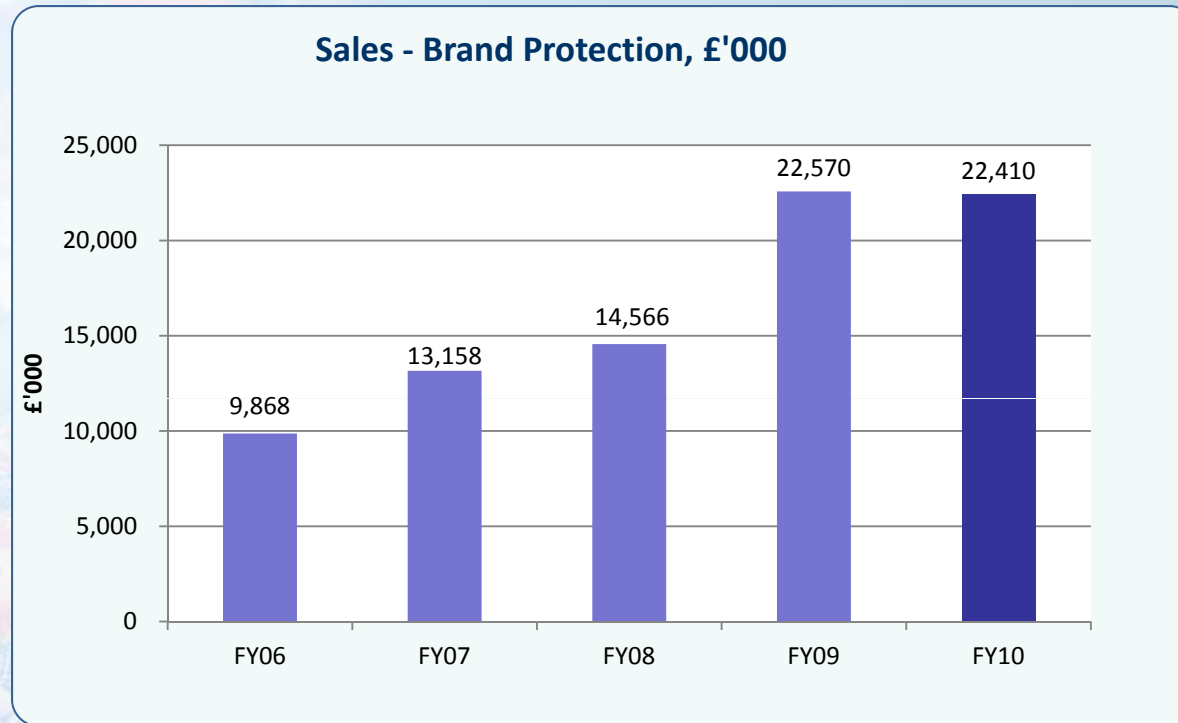
Note that the average dollar exchange rate during FY 2010 was 1.59 (FY2009: 1.72)

Bank Note & High Security Documents



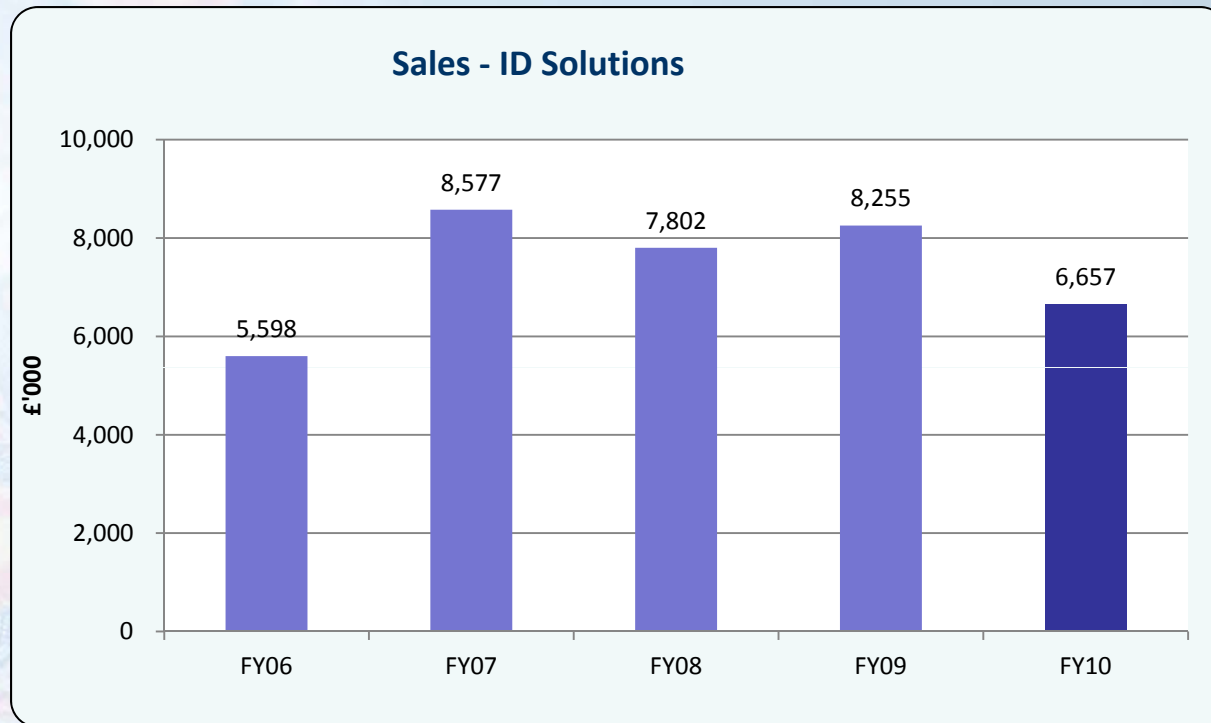
- Turnover down by 30% - £2.6 million
- Loss in prior year of tax stamp customer in Middle East - £1.7 million
- Slow down in temporary tag business in the USA - £0.6 million
- Slow sales to Russia in first half but strong second half sales
- Strong pipeline and new business secured in China, Russia, Asia and the USA

Brand Protection



- Turnover broadly flat
- Global economic conditions impacted the early part of the year but volumes have returned closer to historical levels
- Additional programs and cross-selling success with existing customers
- A number of new customers secured
- Disappointing year for sales to China and the Studios

ID Solutions

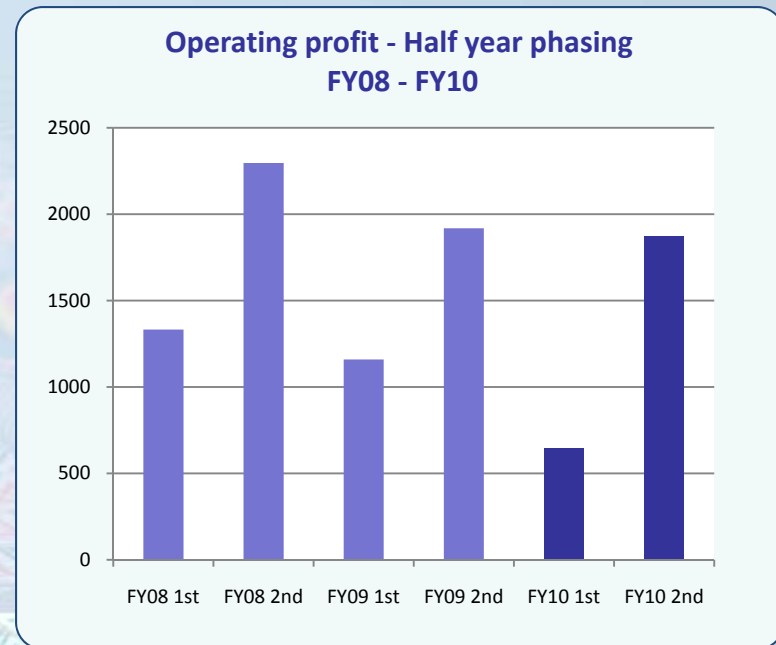
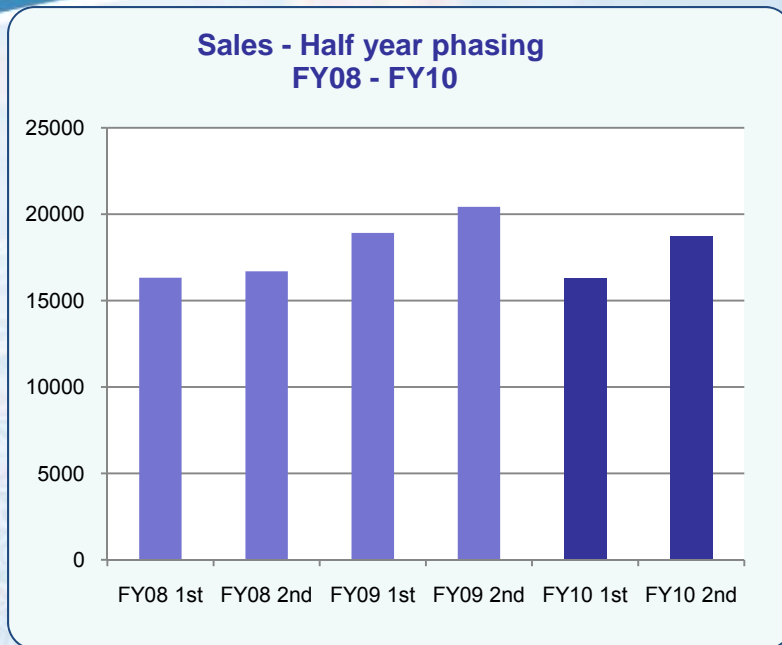


- Sales decreased by 19% - £1.6 million
- Impact of loss of one major customer in Asia - £1.7 million
- Strong sales to the US and Canadian governments
- Weaker sales of laminate for the British passport
- Large pipeline of significant opportunities

Group Operating Profit

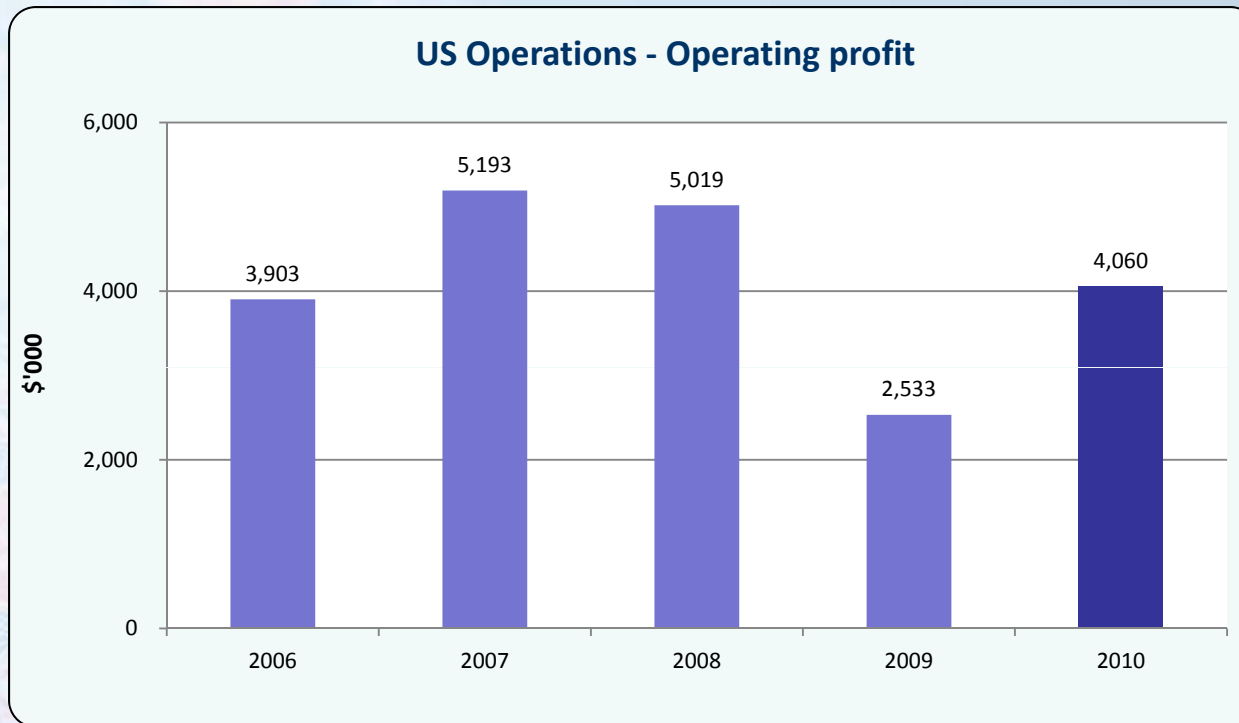
	Actual FY 2010 £'000	Actual FY 2009 £'000	Variance FY 2009/10 £'000	Variance FY 2009/10 %
Adjusted Operating Profit				
US	2,577	1,550	1,027	66.3%
Europe (inc. LI)	1,188	1,871	(683)	-36.5%
P4M	544	888	(344)	-38.7%
3dcd	468	678	(210)	-31.0%
Corporate	(2,262)	(1,910)	(352)	-18.4%
Adjusted Operating Profit	2,515	3,077	(562)	-18.3%
Goodwill / SBP / Exceptionals	(867)	(2,506)	1,639	
Operating Profit	1,648	571	1,177	188.6%
<i>Growth %</i>	188.6%			

Group Operating Profit



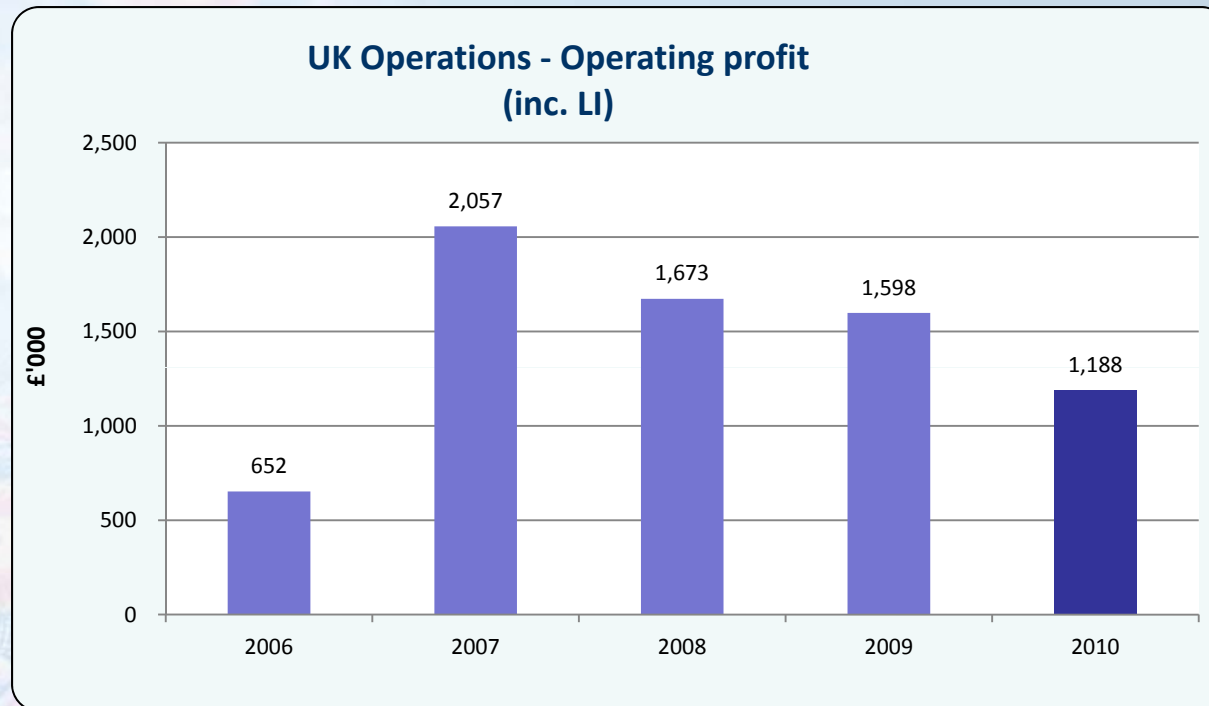
- Traditionally OpSec's second half Government turnover is stronger than its first half
- This year this has been reinforced by the recovery in the Brand Protection business
- Sales in the second half accounted for 53% of the annual total
- Operating profit in the second half accounted for 75% of the annual total which demonstrates the new operating leverage in the business following the implementation of a number of cost saving programmes

American Operations



- Operating profits increased by 60%
- Turnover shrinkage of 7% due to the loss of a significant ID contract and the slow down in sales of temporary license plates
- Slow first half sales in Brand Protection but a strong second half
- Very strong cost control and working capital management
- Gross margins increased from 39.0% to 40.3%
- Overheads reduced by 17% to accommodate the reduced turnover

UK Operations



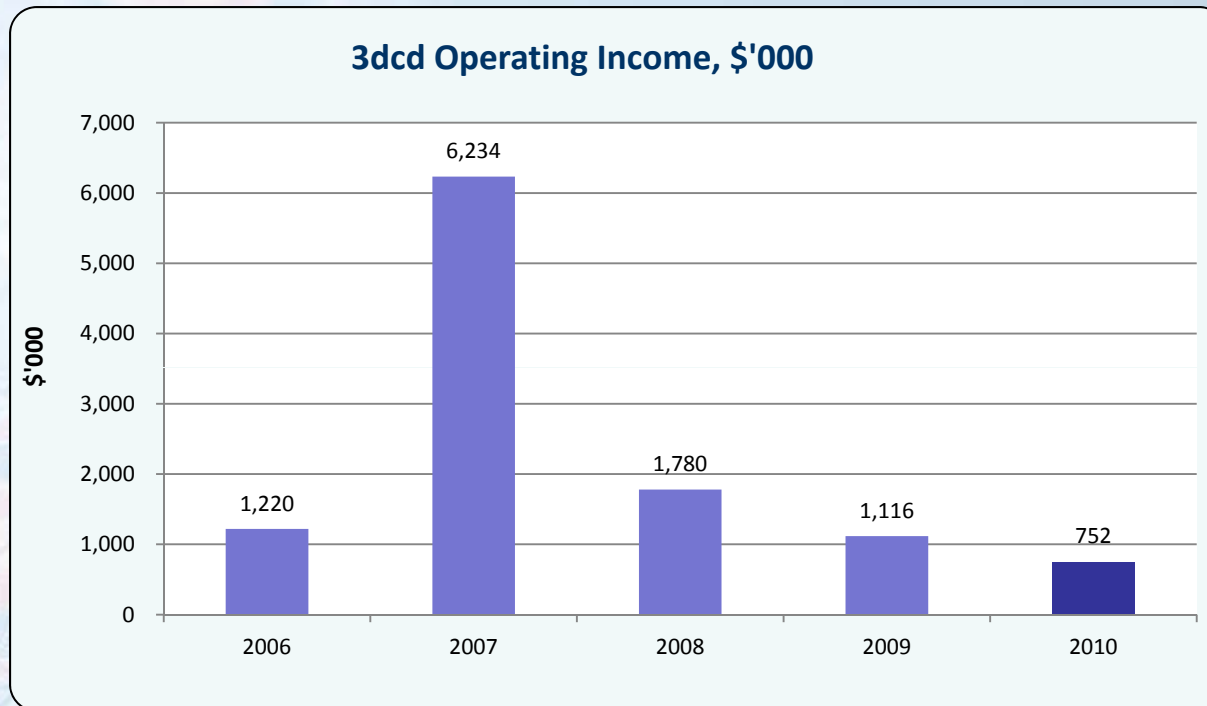
- Turnover fell by 24% due primarily to prior year loss of Middle Eastern tax stamp contract
- Gross margins increased from 37.7% to 41.1% as a result of efficiency savings and improved sales mix
- Overheads reduced by 15%

German Operations



- Turnover grew by 5% despite the economic conditions in the Brand Protection market
- Gross margins decreased from 82.6% to 81.7% as a result of investments made in automation software which will benefit future years
- Overheads increased by 30% due to investment in sales and marketing and duplication of overheads during transition of management from the founders who have amicably left the business

3dcd



- Contribution slightly below expectations
- Lower volumes with principle software customer
- Additional development costs on new CDI technology
- New long term contract signed with major customer

Corporate Costs



- Covers all centrally controlled costs including; legal, intellectual property, public company costs and management incentive schemes
- Salary sacrifice scheme in place throughout the year was unwound at the end of the year
- Increase in bonuses payable due to achievement of cash based bonus targets
- Professional fees associated with original RBS refinancing - £90,000
- Significant foreign exchange impact - £166,000

Goodwill/Share Based Payments/Exceptional items

	Actual FY 2010 £'000	Actual FY 2009 £'000	Variance FY 2009/10 £'000
Share based payments	(213)	2	(215)
Goodwill amortisation	(654)	(800)	156
Goodwill impairment	-	(851)	851
Exceptional items	-	(857)	857
Total	(867)	(2,506)	1,639

- Low charge for share based payments due to certain schemes lapsing
- Goodwill amortisation represents charge on P4M and Light Impressions acquisitions
- No goodwill impairment
- No exceptional items

Cash Flow Statement

- Net cash inflow from operating activities of £5.1 million (2009: £3.5 million)
- Strong working capital management led to net cash inflow of £1.7 million
- Purchase of subsidiaries of £3.7 million (2009: £9.0 million) related to earn out payments
- Reduced capital expenditure of £0.9 million (2009: £2.3 million)
- Net increase in borrowings of £1.8 million (2009: £9.0 million) due to new funding structure with Investcorp which replaced RBS
- Net cash at end of period of £7.4 million (2009: £4.2 million)

Investcorp Funding

- OpSec signed an investment and loan agreement with Investcorp Technology Partners
- The transaction raised £15.7 million gross proceeds through:
 - £0.64 million placing of ordinary shares
 - £7.0 million issue of preferred shares
 - \$13.0 million debt financing
- Approved at a General Meeting on 18 February 2010
- Capital raised allowed OpSec to repay its existing RBS facility and improve cash flow flexibility

Outlook

- Strong second half performance has continued into the current year
- Customer volumes returning to higher historical levels
- New customers secured and a strong pipeline of prospects
- Improved operating leverage within the manufacturing facilities
- New Capital structure with increased cashflow flexibility
- Sophisticated new investment partner