

19th November 2008

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

Interim results for the six months ended 30th September 2008

OpSec Security Group plc, the supplier of anti-counterfeiting technologies and services, announces interim results for the six months ended 30th September 2008.

Highlights

	2008	2007
	unaudited	unaudited
Group revenue	£18.9m	£16.3m
Profit before tax	£367,000	£859,000
Profit after tax*	£217,000	£4,126,000
Basic earnings per share*	0.4p	8.2p
Adjusted basic earnings per share**	1.4p	2.6p

* Including £3,284,000 deferred tax credit in 2007, on recognition of deferred tax assets in the UK operations.

** Adjusted for the effects of the 2007 deferred tax credit, share based payments and the charge for intangible amortisation (see note 9).

- Group revenue up by 16% (down 4% excluding acquisitions)
- Successfully completed the acquisition of both Light Impressions and P4M
- Brand protection revenue up by 56% (12% excluding acquisitions)
- Slower ordering from major customers in the government sector
- Significant cost saving and rationalisation programmes put in place

David Mahony, Chairman, said:

“Due to our significant and largely completed investment programmes in both the UK and America we are now able to implement plans to reduce operating costs whilst retaining the ability to service all existing customers and expand production in areas when and where this is required. We expect to see some of the benefits of these investments and the associated cost reduction programmes in the second half of the current year with the full benefit impacting subsequent years.”

- 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/Rebecca Stonham

020 7067 0700

Oriel Securities Limited

Andrew Edwards/Neil Langford

020 7710 7600

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OPSEC SECURITY GROUP plc
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Interim results for the six months ended 30th September 2008

Chairman’s Statement

In the first half of the current financial year we experienced mixed trading conditions.

The impact of the two recent acquisitions meant Group revenue for the six months was up 16% to £18.9 million (2007: £16.3 million). Operating profit of £679,000 (2007: £875,000) was down due to the impact of goodwill amortised in respect of these acquisitions. The result after taxation was a profit of £217,000 (2007: profit of £4,126,000 due largely to a taxation credit of £3,284,000 arising from the recognition of a deferred tax asset in the Group’s UK based companies).

Cash in the balance sheet at 30th September 2008 amounted to £2,771,000 (2007: £1,265,000) with further headroom available under the facilities agreement with The Royal Bank of Scotland.

Brand Protection

The largest of our three market segments achieved growth in revenue of 56% aided by the successful integration of our two acquisitions: P4M, an online monitoring company based in Munich and Light Impressions, a holographic supplier based in the South of England. Revenue growth excluding the impact of the acquisitions was 12%. We did not see any appreciable downturn in orders received from customers in the first half of the current year due to declining consumer demand but we continue to monitor the position closely.

A number of innovative products have helped to strengthen and secure our contractual position with major current customers. A number of significant new opportunities are being pursued.

ID Solutions

Customers in this sector are predominantly government bodies with the top ten customers accounting for the majority of revenue. Consequently, revenue in this market sector is heavily dependent on the timing of orders received from this concentrated customer base. Turnover in the ID Solutions market was down 10% on the same period in the prior year.

We have invested significant resources developing a new comprehensive cost effective product range to service both our existing customer base and potential new customers. This investment includes a new card facility at our Lancaster plant which is now operational. Historically the receipt of orders in this market has been biased towards the second half of our financial year. This, coupled with the availability of the new card production facility, leads us to expect a much stronger revenue performance in the second half of the current financial year.

Banknote and High Security Documents

As with ID Solutions this segment of our business is heavily dependent on a relatively small number of public sector clients in the UK and overseas. Turnover in the Banknote and High Security Documents market was down 20% on the same period in the prior year. Orders from one of our current overseas clients, based in the Middle East, were significantly behind expectations in the period and we have been notified that some or the entire requirement for supplies we make to them may be diverted to a local supplier. To the extent that this does happen it will impact the final quarter of the current year.

As with the ID business BNHS is benefiting from past development and capital expenditures in relation both to the range and the cost of products it is able to offer.

Operations

During the period we have been able to reduce our operating costs in the UK without impacting our ability to service existing customers and to win new contracts. This process is ongoing and further cost saving measures are now being implemented. The potential loss of the business in the Middle East referred to above would impact the European operations. However, the Light Impressions acquisition and other business that is currently being pursued would to some extent offset the impact of this.

In America the investments we have made over the preceding two years have enabled us to advance our plans to combine our two manufacturing operations onto one site without adversely impacting supplies to customers. This integration is scheduled to be completed by the middle of 2009 and, coupled with the implementation of associated programmes for the improved sourcing of some raw materials and services, will result in significant operational efficiencies.

The contribution from our joint venture, 3dcd, was in line with expectations but below the prior year which benefited from the final part of a customer's major software launch. Significant progress has been made developing the next generation of technology for this joint venture.

Prospects

The first half of the current financial year coincided with a period of severe instability for the world economy and we expect that instability to continue. Given the world wide interest in security in all its forms we regard it as unlikely that the markets which we serve will not continue to grow relative to other economic sectors. That said it is probable that there will be areas where budget constraints or general uncertainty lead to the timing of programmes being revised. By its nature this is difficult to predict in regard to any particular contract.

We operate in a number of markets but report our results in sterling. Given the significance to the Group of American revenues the recent marked changes in the exchange rate will, if maintained, have a positive impact on the current year which will help to offset any downturn in business or slippage in the receipt of expected contracts which we may experience.

Due to our significant and largely completed investment programmes in both the UK and America we are now able to implement plans to reduce operating costs whilst retaining the ability to service all existing customers and expand production in areas when and where this is required. We expect to see some of the benefits of these investments and the associated cost reduction programmes in the second half of the current year with the full benefit impacting subsequent years.

DA Mahony
Chairman
19th November 2008

OPSEC SECURITY GROUP plc
Consolidated Income Statement

	Six months ended 30-Sept-08 unaudited	Six months ended 30-Sept-07 unaudited	Year ended 31-Mar-08 Audited
	£'000	£'000	£'000
Revenue	18,912	16,319	33,009
Cost of sales	(11,035)	(9,503)	(19,030)
Gross profit	7,877	6,816	13,979
Distribution and selling costs	(2,613)	(1,994)	(4,225)
Administrative expenses	(4,493)	(4,460)	(7,799)
Intangible amortisation	(353)	(63)	(126)
Total administrative expenses	(4,846)	(4,523)	(7,925)
	418	299	1,829
Share of profit of jointly controlled entity	261	576	884
Operating profit	679	875	2,713
Financial income	4	37	65
Financial expenses	(316)	(53)	(133)
Profit before income tax	367	859	2,645
Income tax	(150)	3,267	1,964
Profit for the period attributable to equity holders of the parent	217	4,126	4,609
Earnings per share (pence)			
Basic eps	0.4	8.2	9.2
Diluted eps	0.4	7.6	8.4
Non-GAAP measures			
Adjusted basic eps	1.4	2.6	5.9
Adjusted diluted eps	1.3	2.4	5.4
* Adjusted for the effects of the 2007 deferred tax credit, share based payments and the charge for intangible amortisation (see note 9)			

OPSEC SECURITY GROUP plc
Consolidated Statement of Recognised Income and Expense

	Six months ended 30-Sept-08 unaudited	Six months ended 30-Sept-07 unaudited	Year ended 31-Mar-08 audited
	£'000	£'000	£'000
Foreign exchange translation differences	2,248	(731)	(271)
Net income/(expense) recognised directly in equity	2,248	(731)	(271)
Profit for the period	217	4,126	4,609
Total recognised income for the period attributable to equity holders of the parent	2,465	3,395	4,338

OPSEC SECURITY GROUP plc
Consolidated Balance Sheet

	30-Sept-08 unaudited	30-Sep-07 unaudited	31-Mar-08 audited
	£'000	£'000	£'000
ASSETS			
Non-current assets			
Property, plant and equipment	10,619	7,243	8,668
Intangible assets	24,017	10,375	10,576
Investment in jointly controlled entity	421	670	396
Other investments	18	18	18
Deferred tax assets	5,266	6,359	4,965
Total non-current assets	40,341	24,665	24,623
Current assets			
Inventory	4,026	2,596	3,549
Trade and other receivables	8,853	5,590	5,908
Cash and cash equivalents	2,771	1,265	875
Total current assets	15,650	9,451	10,332
Total assets	55,991	34,116	34,955
LIABILITIES			
Current liabilities			
Interest-bearing loans and borrowings	(829)	(34)	(108)
Deferred government grants	(20)	-	(20)
Income tax payable	(368)	-	(73)
Trade and other payables	(15,310)	(6,753)	(6,182)
Total current liabilities	(16,527)	(6,787)	(6,383)
Non-current liabilities			
Interest-bearing loans and borrowings	(10,099)	(2,185)	(1,810)
Deferred government grants	(169)	-	(179)
Total non-current liabilities	(10,268)	(2,185)	(1,989)
Total liabilities	(26,795)	(8,972)	(8,372)
Net assets	29,196	25,144	26,583
EQUITY			
Capital and reserves			
Issued capital	2,669	2,669	2,669
Share premium	29,309	29,309	29,309
Translation reserve	726	(1,982)	(1,522)
Retained earnings	(3,508)	(4,852)	(3,873)
Total equity attributable to equity holders of the parent	29,196	25,144	26,583

OPSEC SECURITY GROUP plc
Consolidated Statement of Cash Flows

	Six months ended 30-Sept-08 unaudited £'000	Six months ended 30-Sept-07 unaudited £'000	Year ended 31-Mar-08 audited £'000
Cash flows from operating activities			
Profit for the period	217	4,126	4,609
Depreciation	766	635	1,326
Amortisation of intangible assets	353	63	126
Release of government grants	(10)	-	-
Share based payment expense	126	394	789
Share of income from jointly controlled entity	(261)	(576)	(884)
Finance income	(4)	(37)	(65)
Finance expenses	316	53	133
Income tax	150	(3,267)	(1,964)
	1,653	1,391	4,070
Cash flows from operating activities before working capital movements			
Movement in inventory	(95)	63	(832)
Movement in debtors	(946)	(56)	(176)
Movement in creditors	543	(1,865)	(1,736)
	1,155	(467)	1,326
Interest and bank fees paid	(999)	(53)	(133)
Income tax paid - overseas	(22)	(17)	(278)
	134	(537)	915
Net cash inflow/(outflow) from operating activities			
Cash flows from investing activities			
Acquisition of subsidiary undertaking	(6,000)	5	-
Acquisition of property, plant and equipment	(1,964)	(919)	(3,195)
Proceeds from sale of investment	-	-	6
Proceeds from government grants	-	-	199
Dividends received from jointly controlled entity	274	786	1,163
Interest received	4	37	65
	(7,686)	(91)	(1,762)
Net cash outflow from investing activities			
Cash flows from financing activities			
Payment of finance lease liabilities	-	-	(34)
Proceeds from borrowings	9,122	715	350
Proceeds from sale of own shares	83	3	102
Dividends paid	-	(506)	(504)
Purchase of own shares	(61)	(1,266)	(1,266)
	9,144	(1,054)	(1,352)
Net cash inflow/(outflow) from financing activities			
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at the start of the period	793	3,073	3,073
Effect of exchange rate fluctuations on cash	386	(126)	(81)
	2,771	1,265	793
Cash and cash equivalents at the end of the period			

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 2008.

2. Status of financial information

The interim information for the six months ended 30th September 2008 has not been audited or reviewed by the auditors.

The comparative figures for the year ended 31st March 2008 are not the Company's statutory financial statements 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 unqualified, did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

3. Segment Information

	Six months ended 30-Sep-08 unaudited	Six months ended 30-Sep-07 unaudited	Year ended 31-Mar-08 audited
	£'000	£'000	£'000
a) Revenue by geographic segment			
American operations	9,880	9,155	19,649
European operations	9,781	8,015	15,196
Intersegment sales	(749)	(851)	(1,836)
	<u>18,912</u>	<u>16,319</u>	<u>33,009</u>
b) Revenue by market sector			
Banknote and High Security Documents	4,240	5,307	10,640
Brand Protection	11,194	7,153	14,567
ID Solutions	3,478	3,859	7,802
	<u>18,912</u>	<u>16,319</u>	<u>33,009</u>
c) Operating profit by geographic segment			
American operations	518	733	2,375
European operations	1,399	1,163	1,673
Jointly Controlled Entity	261	576	884
Corporate costs	(1,146)	(1,534)	(2,093)
Intangible amortisation	(353)	(63)	(126)
	<u>679</u>	<u>875</u>	<u>2,713</u>

OpSec Security Group plc
Notes to the Interim Statement

4. Operating expenses

	Six months ended 30-Sep-08 unaudited	Six months ended 30-Sep-07 unaudited	Year ended 31-Mar-08 audited
	£'000	£'000	£'000
<i>Distribution and Selling Costs</i>			
Selling and marketing costs	<u>2,613</u>	<u>1,994</u>	<u>4,225</u>
<i>Administrative Expenses</i>			
Technical support	476	421	828
Research and development costs	880	938	1,796
Administrative costs	3,137	3,101	5,175
Intangible amortisation	<u>353</u>	<u>63</u>	<u>126</u>
	<u>4,846</u>	<u>4,523</u>	<u>7,925</u>
<i>Total Operating Expenses</i>	<u><u>7,459</u></u>	<u><u>6,517</u></u>	<u><u>12,150</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 2008. The operating profit of 3dcd is subject to taxation in the accounts of its partners.

6. Acquisitions

On 3rd April 2008 the Company acquired 100% of the equity of Light Impressions International Ltd (Light Impressions), a provider of holographic product based in Leatherhead, U.K. The acquisition contributed £2,193,000 to turnover and made a net profit of £304,000 for the period.

On 15th May 2008 the Company acquired 100% of the equity of P4M Partners 4 Management GmbH, ("P4M"), a leading provider of online brand protection and monitoring services in Europe. The acquisition contributed £1,092,000 to turnover and made a net profit of £312,000 for the period.

OpSec Security Group plc
Notes to the Interim Statement

7. Finance income and expense

	Six months ended 30-Sep-08 unaudited	Six months ended 30-Sep-07 unaudited	Year ended 31-Mar-08 Audited
	£'000	£'000	£'000
<i>Financial income</i>			
Interest income	-	33	61
Foreign exchange gains on foreign currency deposits	<u>4</u>	<u>4</u>	<u>4</u>
	<u>4</u>	<u>37</u>	<u>65</u>
<i>Financial expenses</i>			
Interest expense	(263)	(64)	(145)
Amortisation of bank fees	(53)		
Foreign exchange gains on foreign currency borrowings	<u>-</u>	<u>11</u>	<u>12</u>
	<u>(316)</u>	<u>(53)</u>	<u>(133)</u>

8. Taxation

Charges for taxation relate to State taxes of £22,000 in America and income tax charges of £128,000 in Europe.

9. Earnings per share

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

	Six months ended 30-Sep-08 unaudited	Six months ended 30-Sep-07 unaudited	Year ended 31-Mar-08 audited
	£'000	£'000	£'000
<i>Earnings</i>			
Earnings for the financial period	217	4,126	4,609
Intangible amortisation	353	63	126
Share-based payments	126	394	789
Deferred tax credit	<u>-</u>	<u>(3,284)</u>	<u>(2,583)</u>
Adjusted earnings for the financial period	<u>696</u>	<u>1,299</u>	<u>2,941</u>
<i>Weighted average number of shares</i>			
	No. of shares	No. of shares	No. of shares
For Basic earnings per share	<u>50,388,803</u>	<u>50,375,875</u>	<u>50,251,184</u>
For Diluted earnings per share	<u>54,869,754</u>	<u>54,180,401</u>	<u>54,634,469</u>

OpSec Security Group plc
Notes to the Interim Statement

10. Share capital and reserves

Reconciliation of movement in capital and reserves attributable to equity shareholders

	Attributable to equity shareholders				
	Share capital £'000	Share premium £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
At 31 st March 2008	2,669	29,309	(1,522)	(3,873)	26,583
Total recognised income and expense	-	-	2,248	217	2,465
Share based payments	-	-	-	126	126
Own shares sold	-	-	-	83	83
Own shares purchased	-	-	-	(61)	(61)
At 30th September 2008	2,669	29,309	726	(3,508)	29,196

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.