

In The Boardroom With...

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SecurityStockWatch.com: Thank you for joining us today, Mr. Schaefer. Please give us an overview of your background and a brief company history Digital Identification Solutions ("DISO").

Gerd Schaefer: Being the CEO of the Digital Identification Solutions Group, I have the pleasure to manage one of the fastest growing companies in this business segment. Having gained more than 28 years of experience in international operations in the world's largest imaging company; thereof more than 20 years of leadership in the electronic identification business, helps a lot to develop this extremely successful business.

The roots of the majority of our current management team come from the Identification and Security Systems Division, a business unit within Eastman KODAK, previously located in Stuttgart, Germany.

The majority of our management and key employees started there two decades ago, and gained their knowledge and experience in designing, building, implementing, and supporting identity solutions for governments and large enterprises.

On October 1, 2003, Digital Identification Solutions was formed as an independent private company. Since May 2006, the company has been listed on the German stock exchange. Due to its strong and solid capitalization, Digital Identification Solutions, with its head office in Germany, has now subsidiaries in Europe, the Middle East, Asia-Pacific (Singapore), China, and Latin America, as well as in the United States. Recently, vps ID Systems (Germany), a highly specialized software-development and integration company, has been added to the group.

SecurityStockWatch.com: We understand that you recently introduced IDEXpert™ SmartACT at CeBIT 2008, a completely new system for the management of different proofs of identity. Please tell us about IDEXpert™ SmartACT and may we also have an overview of the DISO product line.

Gerd Schaefer: IDEXpert™ SmartACT is the newest member of the IDEXpert™ product family and was designed specifically to meet the changing market requirements. The innovative system enables personalization and management of all credentials for different groups of persons. The SmartACT target groups are companies and organizations of any size with complex problems and high security requirements. IDEXpert™ SmartACT will extend the product portfolio with its new powerful software package integrating all functions of a "traditional" card personalization and management system with new tasks, such as the management of certificates or the support of new generations of credentials (e.g. USB sticks, NFC mobile phones).

Digital Identification Solutions is a leading supplier of advanced identification solutions, marketed and supported under the EDIsecure® and IDExpert™ brand names. Our product line offers identification software in 10 languages – including Arabic and Chinese – biometric enrollment and unique image capture modules, an extensive selection of card printers, encoding options, and lamination modules, as well as a wide range of certified consumables, supplies, and card materials. The ICAO compliant EDIsecure® ePassport and Visa program completes our solutions portfolio.

SecurityStockWatch.com: What are your target markets and what is your perspective on the market drivers for DISO solutions at this time?

Gerd Schaefer: Digital Identification Solutions serves customers in a variety of markets. We empower retailers, universities, hospitals, airports, hotels, corporations, and government agencies to provide their customers, students, patients, clients, guests, employees and citizens with high quality transaction and identification cards. We help corporations to protect their business and property, and to control access and resources with multi-application cards. Our solutions, with innovative technology and anti-counterfeiting features, enable government authorities to make identification cards and passports even more secure.

SecurityStockWatch.com: It seems that no matter how hard we try to authenticate a person's true identity, "bad guys" are still able to obtain legitimate looking, but still "fake" ID. How does this happen? What are the flaws in the system in your opinion?

Gerd Schaefer: First of all, the initial identification has to prove that the person is the one she/he states to be. "Identity Theft" is the single largest problem in this industry. This is especially critical in certain parts of the world where you cannot trust birth certificates, drivers licenses etc. Due to such false "breeder documents", finally, legal credentials are produced with wrong data.

Another big problem is the integrity of the staff, which is responsible for data capturing and personalization. An ID does not have to be manipulated; very often there are ways around the whole process by manipulating the staff, and/or corrupting officers at checkpoints etc.

Therefore, a completely secure process of data capturing, -processing, -personalization and delivery has to be set up and maintained:

- 1.presentation of correct documents by the owner
- 2.secure capturing, data-entry and personalization by trusted staff
- 3.production of secure credentials with visible and/or non-visible security features against manipulation and duplication

As long as just one of these stages cannot be controlled, companies and/or governments have to implement counteractions so that such manipulation is not possible, respectively will be discovered immediately. Just let me mention some of the procedures which have been already successfully implemented by our customers:

- personal interviews of the ID applicant
- defined operating responsibilities for staff which are monitored and documented regularly
- matching of bio-data with public databases from registration offices, birth- and death register, etc....

One of our solutions to support customers in these difficult tasks is our EDIsecure® ProACT software tool which is a workflow management software for secure credentials.

SecurityStockWatch.com: Congratulations on the DISO "wins" in connection with Mexico's ID Card, U.K.'s travel system, and in Australia for desktop ID card solutions. May we have an overview of the solutions DISO is providing in these success stories?

Gerd Schaefer: The Mexican federal project, in particular, provides tremendous opportunities for us: The client – a government agency – uses our systems to produce ID cards of superior versatility, quality and durability. A contactless high-capacity chip card, made of 100 per cent polyester and equipped with



EDIsecure® **XID Card Printers**

a crypto-processor as well as special Mifare emulation enables the agency not only to store a large number of personal details on this card but also to use it in a multi-application environment. This is one of the world's most comprehensive card solutions in which we not only implemented state-of-the-art technology but were also able to support the client with our wealth of experience in complex chip applications. With this prestigious order we demonstrate the full range of our capabilities: As part of the new project, we did not only supply SYSCE, the local system integrator with the leading-edge EDIsecure® SDK (Software Developer's Toolkit), including a variety of training and consultation services, but we also provided our state-of-the-art real-time biometric enrollment systems and the renowned EDIsecure® Retransfer-Printers for the final ID card personalization. Various additional visible and invisible security technologies are also in use

during the personalization process, so that these cards are providing utmost security against tampering and counterfeiting.

In the UK, a long-term business partner and card service provider had purchased 180 EDIsecure® XID Retransfer Printers and associated consumables for card personalization.

It had been contracted to print, personalize and encode four million cards for the English national concessionary travel scheme. Apart from the EDIsecure® XID Retransfer Printer Units, the supply of ribbons and consumables had also been awarded to our partner. All of the printers are prepared to accommodate the special ITSO™ certified contact less encoding modules developed by our local partner. The same partner is already using more than 100 EDIsecure® XID Retransfer Printers for other service applications, both in its card center and on-site. This new order is further testimony for the great product quality and reliability as well as the superior service and support provided by Digital Identification Solutions. With this order, our partner became the single largest customer of our company in Europe with an annual print volume of more than 10 million cards.

In Australia Digital Identification Solutions signed a new agreement with a leading company in the desktop ID market, Practical Peripherals Corporation (PPC). The volume of this contract is expected to exceed US \$ 1 million during 2008. The previous working relation between our two companies, the outstanding reliability of our products and support did encourage our partner to expand its business engagement significantly. Especially the launch of the new EDIsecure® XID5xxie Retransfer Printer Series in fall of last year, combined with the latest UV security features and the fact that we are one of the few real solution providers in this industry, will give our partner a much improved competitive edge in this attractive market.

SecurityStockWatch.com: Are there any other "wins" you'd like to talk about?

Gerd Schaefer: We are getting major orders for both projects and regular customers on a frequent basis, so that to mention all of them would exceed the frame of this interview. However, the award of the first major drivers' license order by the South Carolina Government has been a major breakthrough for us in the USA. Also, the recent signing of two major country distributors in both Turkey and Russia are significant enough to be mentioned, as well as the award of a contract for more than 60 print systems by the Abu Dhabi government just last week. In this case we had been in head to head competition with another major printer manufacturer, however, we were able to convince the customer that the proven reliability of our print solutions, in combination with the strong local service by our local partner, which is directly supported by our own Dubai branch is by far the better solution for him.

SecurityStockWatch.com: Does DISO have any particular strategic relationships that you'd like to mention?

Gerd Schaefer: We are currently working with more than 10 different technology partners worldwide, with which we jointly develop products and have them made for us under OEM agreements. Since most of them are of confidential nature, I cannot disclose too many details. However, it is a known fact that we are the single largest international OEM partner of JVC in Japan and that we are the most focused and successful provider of printing solutions using the state of the art retransfer technology. In combination with our extremely powerful printer driver- and print management- software, our Advanced Chip Encoding Framework and our JAVA based application software and tool-kits, all of which were developed

in-house, we can provide solutions which are years ahead of other players in this industry. Together with our strategic partners we are already developing new and exiting products which should be on the market in the next 18 to 36 months which will put us even further ahead of the competition.

On the distribution side, we are now working with more than 160 authorized partners worldwide and provide some of the most renowned systems integrators in the government and financial card personalization business with our solutions. These partners, together with our 7 companies in 6 countries on 4 continents currently supply to and support more than 6.800 installations worldwide.

The aforementioned technological leadership in combination with our strong local presence in the most important growth markets confirms that one of our company slogans: "We are miles ahead but just around the corner" is not only a marketing gimmick but a true representation of where our group of companies stands today.

SecurityStockWatch.com: Let's turn to a financial overview for a moment. How were the results for DISO in 2007? May we have an overview of your top line and bottom line 2007 achievements? Any comments about 2008 and your recent developments?

Gerd Schaefer: The results in Million US \$ were as follows: Sales 28.5 (+24%), Gross Margin 14,4 (+52%), EBIT 0.2 (>200%)

This growth was supported by all product groups and further accelerated by the acquisition of vps ID Systems which was consolidated as of August 2007. Organic growth amounted to 17%.

The launch of more than 10 new products in the second half of 2007, currency fluctuations, product delays from our OEM factories in combination with the one off charge for migrating to IFRS did have an impact on the bottom line. Without these special factors, the EBIT numbers would have been about US \$ 1.6 Million higher.

For the first quarter in 2008 we had a jump start with increased sales of 61% and improved EBIT by 21% compared to the same period in 2007. For the remainder of the financial year 2008, the company expects another double digit growth in sales and a significantly improved profit.

SecurityStockWatch.com: Thanks again for joining us today, Mr. Schaefer, are there any other subjects you'd like to discuss?

Gerd Schaefer: We will continue to develop new and exiting products again in 2008 and onwards. Some of the new solutions we are working on will change the way how customers produce secure credentials.

During the CeBIT Fair in Hanover another 11 new products had been already introduced. You can rest assured that we will use the upcoming industry events during the remainder of this year not only to maintain, but to expand our competitive edge. While we were present last year at 43 international trade fairs, conferences, symposiums and other events in 21 countries, you can expect to see us brake the "50 Event Mark" this year. For the first time ever, an international partner training took place in Puerto Rico, where both, newcomers and advanced learners, were trained in parallel training streams during one full week. More than 60 participants were trained which was another record attendance for us. Furthermore, the highly acknowledged "Digital Identification Solutions Academy" did go live online via the Internet, providing the latest product trainings, product specifications and support manuals, Q & A sections, product- and service-videos and other valuable information for our authorized partners independent of regional calendars and time-zones. All of these activities will support our distribution partners and clients right in the heart of their countries and regions in order to support another Digital Identification Solutions slogan: "Our Solutions are as individual as Mankind is Diverse".

