

May 3, 2020

Key aspects of the KPMG report on the independent special review of Wirecard AG

1. Third Party Acquiring Business (TPA)

The existence and amount of revenues from the TPA business relationships with the respective partner companies (TPA partners) have been verified for the years 2016-2018 in the sense of an audit of annual accounts.

The following documents were made available to KPMG:

- Contracts, conditions, statements of account, invoices, annual financial statements
- Balance confirmations (TPA partners and trustees)

It is important to note that Wirecard does not generate sales through the TPA partners, but de facto via the individual customers. The TPAs are partners who have agreements with licensed acquiring banks.

However, in a forensic investigation such as the one conducted by KPMG, all transaction-related data of all TPAs involved, as well as all related contracts and agreements, are also mandatory in order to trace the process of an individual transaction from beginning to end.

The following overview shows the main differences that in our view exist between an annual audit (currently conducted by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft) and a forensic special investigation (as conducted by KPMG AG Wirtschaftsprüfungsgesellschaft):

Annual audit	Forensic special investigation
<ul style="list-style-type: none"> ▪ The annual audit is a regular, non-event-related review of whether the annual financial statement and management report comply with the relevant legal regulations, standards and principles of proper accounting. ▪ The objective of an annual audit is legally standardized in § 317 (1) of the German Commercial Code (HGB): The audit shall be conducted in such a way that inaccuracies and violations of the provisions listed in sentence 2, which have a material effect on the statement of the situation of the net worth, financial state and the earnings performance of the company according to § 264 (2) HGB, can be detected if the audit is done conscientiously. ▪ The concept of materiality of the audit requires that the audit of the annual financial statement and the management report aims to detect – with reasonable certainty – false statements due to inaccuracies or infringements which, by reason of their scale or significance, have an impact on the informative value of the financial reporting or the financial statement as a whole. ▪ As regards the annual audit, the auditor defines a non-eligibility limit below which inaccuracies and infringements are unequivocally immaterial, as it can be expected that these amounts would not have any significant impact on the financial statement as a whole. ▪ Substantive audit procedures within the audit of the annual financial statement can be conducted on a case-by-case basis and complemented individually by additional audit procedures such as process and IT system audits. ▪ An audit ends with remarks such as: "In our opinion, based on the findings of our audit, the financial statements comply in all material respects...". 	<ul style="list-style-type: none"> ▪ A forensic special investigation is an investigative measure related to a specific case with the aim of fully clarifying a potential (not necessarily criminally relevant) violation or misconduct. ▪ The aim of a forensic special investigation is a comprehensive clarification of the facts in order to determine a (potential) violation or (potential) misconduct and, if necessary, to sanction it as well as to define preventive measures in order to prevent similar violations or misconduct in the future or, alternatively, to eliminate those in order to prevent harm. ▪ With the aim of a comprehensive clarification of the facts, no materialities are defined in a forensic special investigation. Every underlying working hypothesis is examined fully and independently of materiality considerations. ▪ The ultimate goal of a special forensic investigation is to examine an investigation topic into the finest detail - even below-materiality deviations will be mentioned and enquired into. Compared to an annual audit, a significantly larger amount of audit matters and documents are included and tested in order to verify the investigation topic. ▪ With regard to specific issues, special forensic investigations constitute full inspections, not sample inspections. ▪ Due to the fact that a potential violation or misconduct constitutes the grounds for a special forensic investigation, clarification of said facts necessarily transcends a mere fundamentally critical attitude. ▪ Every forensic special investigation ends with remarks such as: "be neither confirmed nor disproved", "investigation topic cannot be confirmed".

Due to regulatory and data protection requirements, payment data must be stored and processed in encrypted form under particularly high security standards, both at Wirecard and at our partners and customers. Due to these regulatory restrictions, Wirecard has no direct access to data stored in partner systems. Wirecard is therefore not in a position to guarantee third parties access to such data not directly held by Wirecard.

KPMG has requested transaction data for the years 2016 to 2018 as part of the forensic investigation. These could not be made available for the reasons stated above. Since Wirecard AG has meanwhile implemented its claim to data sovereignty for relevant transaction data from the TPA area by transferring this data to its own platform, we were able to provide KPMG with over 200 million transaction data records from December 2019 for its forensic investigation at short notice. Following a preliminary analysis of the data by KPMG, Wirecard considers it possible to confirm that the evidence submitted by Wirecard for December 2019 provides concrete proof of the amount and existence of sales revenues for this month, even under forensic standards.

The data analysis conducted by KPMG relative to December 2019 provided no grounds to doubt the authenticity of the data provided.

KPMG conducted forensic background research on the basis of customer lists provided by Wirecard which contain an overview of the (abbreviated) names used in the statements of account of a TPA partner in 2019 and the companies linked to them.

In the process of its forensic audit, KPMG was able to prove beyond doubt the existence of 97 percent of the clients.

Wirecard does its accounting correctly: accounting for our third-party business is confirmed as being in accordance with IFRS by external legal opinions from a highly-renowned major international law firm as well as by an expert opinion with regard to our trust accounts.

Furthermore, the TPA business has already been a focus of the group auditors since 2017 (key audit matter) and is described in the Annual Report for the years 2017 to 2018 within the audit opinion. There were no objections.

2. Merchant Cash Advance / Digital Lending

The information communicated by Wirecard regarding Merchant Cash Advance was intended to explain their business models. These were partly based on statistically-derived average values. These average values, in turn, were documented in full by Wirecard to KPMG.

Accusations whereby the structuring of the "Merchant Cash Advance" business of the Wirecard companies in Turkey and Brazil was illegal, was refuted. Wirecard's business model is legally permissible.

In 2018, Wirecard Asia Holding Pte. Ltd. Singapore granted loans totaling EUR 115 million to a business partner in Asia for its "Merchant Cash Advance" business. Further background information was provided in the 2018 Annual Report (page 168, 2nd paragraph).

During the investigation, KPMG did not find any evidence to support the assumption that loan amounts were used for round tripping.

3. Singapore

In spring 2018, the Compliance Department of Wirecard AG received the note from a whistleblower claiming that there were indications of fraudulent acts at Wirecard AG subsidiaries in Singapore. According to the whistleblower, revenues are said to have been reported as too high. Connected to those claims, there are allegations of backdating contracts and round tripping. Following the first of several articles in the Financial Times published on January 30, 2019, the accusations were also discussed in various other articles in the press throughout the year 2019.

At that time, EY Audit, together with specialists from their Forensic & Integrity Services team, had examined the allegations contained in the press coverage in their audit of the 2018 financial statement (IDW Auditing Standards 210) and subsequently presented the results.

The results from an independent review by the law firm Rajah & Tann Singapore LLP were presented to the public on March 26, 2019 and did not reveal any evidence of round tripping or corruption.

KPMG has no further findings regarding Singapore beyond those already taken into account in the 2018 financial statements and noted by EY audit in its annual audit. According to KPMG,

a further investigation of these matters is no longer necessary due to the documents provided to KPMG.

The official investigations in Singapore are still ongoing.

4. India

With regard to the companies acquired in India in 2015, the purchase price for those companies was particularly questioned and criticized.

The purchase price for the acquisition of the "payment business" from the GI Retail Group was determined on the basis of various objective factors, such as financial due diligence of the payment business, corporate transactions by third parties, avoidance of minority shareholdings and the strategic interest in the market launch in India in line with the Group's globalization strategy.

Wirecard AG has made all payments related to the acquisition of the "payment business" from the GI Retail Group exclusively to the seller, a private equity fund, whose beneficial owner could not be identified by KPMG. KPMG did not find any indication of involvement on the part of Wirecard management members or employees in the fund, either in interviews, documents submitted or through ongoing investigations. It is common that the UBOs and/or investors of a private equity fund are not known or cannot be identified.

Within the scope of the special investigation, there were no indications of round tripping in India.

CONCLUSION

In numerous parts of the KPMG report, internal processes and deficiencies in governance, amongst others, were criticized, particularly regarding previous years. We take these points of criticism very seriously and have already invested in our compliance in 2018/2019 and improved the structure of our organization. Find out more on this [here](#).

Following the investigation conducted by KPMG, in addition to the aforementioned compliance and organizational deficiencies, which were justifiably stated, it must be noted that none of the accusations and suspicions circulating publicly since January 30, 2019, have been confirmed.

- The amount as well as the existence of the revenues from the TPA business relations were confirmed for the years 2016 to 2018, in accordance with an audit of annual accounts.
- In the course of its forensic research, KPMG was able to verify beyond doubt the existence of 97 percent of client relationships.
- Based on the data analysis conducted by KPMG for December 2019, there is no reason to doubt the authenticity of the data provided.
- Wirecard does its accounting correctly: accounting for our third-party business is confirmed as being in accordance with IFRS by external legal experts as well as an expert opinion with regard to trust accounts.
- KPMG found no indication during the investigation that credit amounts were used for round tripping.
- KPMG has not made any further findings with regard to Singapore beyond those already taken into account in the 2018 annual financial statement and noted by EY Audit in its audit of the annual financial statement. According to KPMG, a further investigation of these matters is no longer necessary at this time – with regard to the documents made available to KPMG.
- According to the documents provided to KPMG and the investigation activities conducted, there were no indications of round tripping in India.