**Downplaying the scope of KPMG investigation?**

Friday 24th April

Ahead of the publication of the twice-delayed KPMG audit, Wirecard stated on Wednesday evening that, "No evidence has been found for the publicly raised allegations of balance sheet manipulation." This completely avoids the issue of the accusations of fraud, roundtripping, miscommunication and lies to investors, and more, none of which are necessarily apparent if the balance sheet is examined in isolation. Instead the underlying transactions, movement of cash and providence of supposed profits are being questioned.

**What is the scope?**

While Wirecard has never released the full scope of the KPMG investigation, published information implies it should include a much more thorough vetting than yesterday's "balance sheet manipulation" suggests. If balance sheet manipulation is the limit of the investigation, then not only have previous statements regarding the scope of the audit been false, but the chance of any real insight will be low.

For credibility, it is critical that on Monday Wirecard publishes both the full scope of the investigation and the full report.

**Balance sheet "accuracy" vs underlying fraud concerns**

Fraud with related party transactions is difficult to detect specifically because it does not have obvious balance sheet implications. In fact, often a fraud is perpetuated in order to ensure the balance sheet can pass inspection. We set out below a few important examples where the balance sheet may be accurate, but the underlying transactions/figures still require investigating.

**Senjo – OCAP & India – the quasi-related-party round-trips**

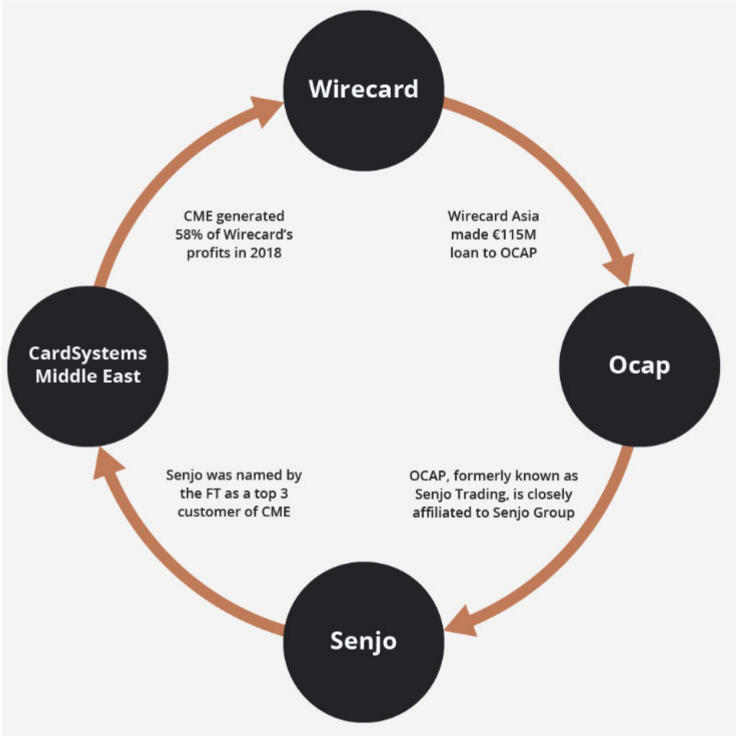
Wirecard has made several transactions with Senjo-related parties that do not seem to have been done at "arms-length", but the transactions existed, and do not represent clear "balance-sheet manipulation".

**Ocap**

We have previously provided ample evidence that Wirecard Asia made a €115M loan to Ocap for the stated purpose of merchant cash advance, despite repeated denials from Wirecard investor relations that Wirecard lent money to Ocap. Auditors account for merchant cash advance in the same way, whether it is lent to one party or to thousands of small merchants.

The critical question then is not "did they lend the money and account for it correctly", it is whether any transactions with real economic purpose took place, and whether the capital has returned to Wirecard via other means. If any portion of the €115M flowed back to Wirecard via Senjo (a Third-Party Partner) and through Cardsystems Middle East, it represents a round-trip transaction and potential fraud. Any balance sheet inaccuracy (driven by overstated round-trip profits) could not be seen from Wirecard accounts in isolation.

Ocap, formerly known as Senjo Trading, is closely linked to both Senjo and Wirecard. The beneficial owner is carefully hidden from public view, although this should be an important step in any due-diligence.




In addition to the balance sheet, the KPMG report should be examining:

1) Was the €115M lent to individual merchants or to Ocap?
2) When they see it was actually lent to Ocap, was it appropriate and what due diligence was performed prior to the transaction? The relationship with Ocap is uncomfortably close, with Ocap's CEO a long-term previous employee of Wirecard, while his wife remains a senior long-time EVP.
3) Who is the beneficial owner of Ocap?

**India**

As reported multiple times in the media, Wirecard paid €340M to a Mauritian entity – EMIF – to purchase an asset that EMIF had bought at a fraction of the price only weeks earlier. EMIF then "invested" some of those proceeds into Indian companies that subsequently bought high-margin software from Wirecard subsidiaries. The preliminary Rajah & Tann report in Singapore cast doubt on the substance of some of those revenues.

However, from a balance sheet perspective, there is no clear manipulation. Baker-Tilly did "due-diligence" on the acquisition, the cash left Wirecard accounts and went to the beneficial owner, and some cash returned to Wirecard subsidiaries as software revenue. Merely determining that the number on the balance sheet is accurate fails to answer key questions.


**Al Alam data**

Late last year the FT published a story in which it released volume/revenue/EBITDA data from Al Alam in Dubai. The data showed Al Alam to be a material driver of profitability for Wirecard. Our concern is not whether this was adequately accounted for on the balance sheet but rather whether the underlying data is accurate. Close examination of some of the merchant data suggests it is fabricated. This means the transactions, and supposed profitability, are also fake. This is far more than balance sheet manipulation.

- 80% of the merchants show identical consecutive monthly average transaction values. Statistically this is essentially impossible and ignores normal ebbs and flows of sales for individual merchants – this data cannot represent real-world transactions for online businesses.
- Many of the customers listed by Al Alam are no longer in business or claim to have no relationship with the firm. Wirecard has claimed this is because the company names do not refer to individual customers but "labels of customer clusters". Using out of business real companies or ones that could be clients for such clusters seems unlikely. Importantly however, KPMG should be easily checking this by sampling transaction data within these "clusters".

Are these transactions real? Having had 6 months to review the data, including two extensions, it should have been easy for KPMG to verify, using their "unrestricted access to information on all levels of the Group". They should have been able to see all on-boarding information for each customer including KYC, customer support emails and ongoing business communications. If they cannot find this information or have not in fact been given access to it, this raises grave questions about the veracity of the revenue being booked.

Recall that the preliminary Rajah & Tann report in Singapore questioned the economic substance behind certain transactions, suggesting that certain revenues were fictional. Here we have a similar case where the transaction data is highly suspect. A lack of information regarding where transactions and the corresponding revenues come from is, at the very least, cross-border money-laundering and a very serious offence. If the underlying data is fabricated, this is outright fraud. It is imperative all customer data is thoroughly checked.

Separately, we have recently learned that Al Alam has ceased operations. If Al Alam is such a material driver of profitability for Wirecard, the fact that it may no longer be trading at all should be of major concern for the company and its shareholders. It is surprising that an announcement has not been made regarding how Wirecard plans to process these volumes without the "technical connection to 9 acceptance partners" that Al Alam provided.

**Brazil**

Very little investigation would have been needed by KPMG to confirm Wirecard's Brazil MCA lending. A couple of phone calls to Wirecard Brazil management would be sufficient to prove that Wirecard was not lending any material volumes from their balance sheet back in 4Q18 when they first claimed that MCA was "mainly in Brazil". It is unclear to us how they accounted for this at the time, or to whom the money went. But this is a simple point on which Wirecard management has directly and repeatedly misled investors for over a year. Has KPMG been able to verify where that money has gone?