Digitise Now

Annual Report 2017

wirecard

KEY FIGURES

WIRECARD GROUP	2017	2016	
Revenues	**1,489,954**	1,028,358	kEUR
EBITDA	**412,613**	307,363	kEUR
EBIT	**314,699**	235,188	kEUR
Earnings after taxes*	**259,719**	176,888	kEUR
Earnings per share (undiluted)*	**2.10**	1.43	EUR
Shareholders´equity	**1,635,183**	1,474,963	kEUR
Total assets	**4,527,521**	3,482,062	kEUR
Cash flow on ordinary transactions (adjusted)	**375,693**	283,030	kEUR
Employees (average)	**4,449**	3,766	
of which part time	**329**	296	

* 2016 adjusted for Visa Europe

SEGMENTS		2017	2016	
Payment Processing & Risk Management	Revenues	**1,069,779**	782,420	kEUR
	EBITDA	**328,689**	251,335	kEUR
Acquiring & Issuing	Revenues	**484,863**	304,064	kEUR
	EBITDA	**82,951**	55,262	kEUR
Call Center & Communication Services	Revenues	**9,891**	8,506	kEUR
	EBITDA	**1,003**	775	kEUR
Consolidation	Revenues	**– 74,578**	– 66,632	kEUR
	EBITDA	**– 30**	– 9	kEUR
Total	Revenues	**1,489,954**	1,028,358	kEUR
	EBITDA	**412,613**	307,363	kEUR

“Digitalisation – and thus also the digitalisation of payment processes – is a global driver of growth in all sectors.”

Dr. Markus Braun, CEO

CONTENT

Management Board

left to right:
Alexander von Knoop (CFO), **Dr. Markus Braun** (CEO), **Susanne Steidl** (CPO), **Jan Marsalek** (COO)

Letter from the CEO

Dear Shareholders,

Dear Ladies and Gentlemen,

We look back with pleasure at 2017, a year in which we pushed forward the digitalisation of payment processes very successfully across the world and greatly enhanced our competitive advantage through the continuous expansion of our digital platform.

Business performance 2017

The volume of transactions processed increased significantly by 47.5 percent to EUR 91.0 billion in comparison to the 2016 fiscal year.

Consolidated revenues increased by 44.9 percent to EUR 1.5 billion. Organic growth stood at 24.7 percent. Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 34.2 percent to EUR 412.6 million. As a result of the pleasing developments, we will propose to the Annual General Meeting that a dividend of EUR 0.18 per share is paid to shareholders.

The customer portfolio now comprises about 227,000 companies. Alongside clear growth in the number of new customers in all industries and sectors, we were also able to significantly expand the existing business at the same time.

Innovative products and value added services in 2017

Wirecard AG is one of the world's fastest growing digital platforms in the area of financial commerce. As part of an integrated approach, global acquiring (digital payment acceptance for retailers) and issuing (the issuing of innovative digital payment solutions to consumers) will be linked with digital value added services that are constantly being expanded in the areas of data analytics and digital/transaction banking to create a comprehensive ecosystem.

Important innovations in the area of payment acceptance in 2017 involved, for example, ongoing expansion to include international payment solutions for the North and South American and African regions, as well as the Europe-wide roll out of Asian payment solutions for Asian tourists through innovative digital technology in all sales channels. The Wirecard Analytics Suite, which provides retailers with self-learning algorithms in the areas of payment default and fraud prevention and also the latest data-driven methods based on machine learning for the improvement of conversion rates, was also expanded. Other innovations were made to supplement and enhance value added services in the area of digital finance technology. For example, we expanded the digital functions for account management, international clearing and dynamic currency translation and also integrated new solutions in the area of instalment credits, purchase on account and working capital financing into the platform.

Important activities in the issuing of new payment solutions in 2017 included the integration of solutions for the Asian and American markets, the international roll out of digital mobile payment apps (boon), payout cards and multi-currency travel cards, as well as expanding the range of digital loyalty and couponing solutions. Alongside comprehensive data analysis functions, this area was expanded to include value added services in the area of digital finance technology. For example, digital peer-to-peer transfers and digital micro loan functions were integrated into the platform.

Linking innovative acquiring and issuing services to create completely new digital products and solutions will play an important role in the future. In particular, the advancing digitalisation of the Point-of-Sale and the integration of all sales channels (Point-of-Sale/ online/ mobile) into one digital platform will open up completely new overarching digital business models. In this context, important developments were made in 2017 to generate a new purchasing experience for end customers at the Point-of-Sale. Wirecard can thus already offer mobile apps that enable users to directly identify products on the shelf via an NFC and QR code, receive valuable additional information about the products in real time and pay for them via the app. In addition, special offers for supplementary products, like e-coupons or instalment credit options, can be integrated into the app. This purchasing experience of the future means that the customer will no longer need to pay at a physical cash till, while the retailer can dynamically adjust their pricing policy to the purchasing behaviour of consumers in real time. The result is an innovative, integrated ecosystem that for the first time combines digital issuing and acquiring functions with data-driven loyalty and couponing services, as well as digital financial services, for consumers and retailers in an approach that provides added value.

International expansion of the Wirecard platform

Following the successful entry onto the US market in the first quarter of 2017, Wirecard is now represented worldwide in most of the strategic target markets in Europe, the Asia-Pacific region, North and South America and the Middle East and Africa and can organically push forward the expansion of its digital platform strategy in the remaining countries. The focus was also placed in 2017 on the technical migration of the acquired North American customer portfolio to the Wirecard platform. In addition, the migration of the first portion of the acquiring portfolio comprising in total around 20,000 retailers in eleven Asia-Pacific countries was successfully started.

Outlook

Although digitalisation – and thus also the digitalisation of payment processes – is constantly gathering pace around the world, it is still only at the very beginning in many sectors. Around 80 to 85 percent of all global transactions are still made in cash. Both the use of digital technologies to improve business processes and also the development of completely new, purely digital business models will fundamentally change all sectors, whether the fashion trade, food retail trade, banking or insurance, travel/mobility or home entertainment. Wirecard has focussed on this trend from the very beginning and has established an outstanding competitive position as a result to continue to benefit from the accelerating trend towards the digitalisation of payment process in all sales channels in the future.

I am thus not only convinced that 2018 will be an exceptionally successful fiscal year and have forecast operating earnings before interest, tax, depreciation and amortisation (EBITDA) of between EUR 510 million and EUR 535 million, but also that the whole Wirecard Group is set to experience strong, sustainable growth. This growth forecast is based, amongst other things, on the market growth of digital payment transactions across all sales channels as well as the continuous expansion of our comprehensive portfolio of products and services via our integrated global platform solution.

I would like to especially thank our almost 5,000 employees, who once again did a fantastic job in the last fiscal year and superbly mastered the challenges associated with our impressive growth.

We thank our shareholders, customers and partners for their trust, loyalty and good cooperation.

Yours sincerely,

Dr. Markus Braun
CEO Wirecard AG

11 April 2018

Wulf Matthias (Chairman of the Supervisory Board)

Report of the Supervisory Board

Dear Shareholders,

We were able to further expand our global growth strategy with the entry onto the US market in 2017. The Wirecard Group is now represented on all continents. In order to achieve this goal, we have invested extensively in both new technologies and also in acquisitions in the last few years. In the 2017 fiscal year, we also experienced strong, predominantly organic growth, which was reflected in the pleasing development of all important key indicators. It was announced in March 2017 that Wirecard was acquiring a comprehensive customer portfolio from the Citigroup in the APAC region. This transaction is a further indicator that the company's goal of becoming a globally active provider is being realised operationally in an outstanding manner.

In the following report, we want to inform you about the main focus of the Supervisory Board's activities over the last fiscal year. The Supervisory Board of Wirecard kept itself continuously and intensively informed about the development, position and perspectives of the Wirecard Group in the 2017 fiscal year. The Supervisory Board performed the tasks incumbent upon it pursuant to the law, the Group's Articles of Incorporation and the rules of business procedure, and consulted with and supervised the Management Board on an ongoing basis in compliance with the German Corporate Governance Code and applicable laws. The Management Board always directly involved the Supervisory Board in considering the company's strategic orientation at an early stage and promptly submitted to them any significant corporate decisions, specific transactions, corporate acquisitions and significant cooperation ventures that require Supervisory Board approval due to legal regulations, the Articles of Incorporation or the Management Board's rules of business procedure.

In order to exercise our monitoring function, we maintained intensive contact with the Management Board. The Management Board reported to us regularly, promptly and comprehensively in verbal and written form both during and outside of the Supervisory Board meetings about all relevant themes related to the management of the business of Wirecard. This included, in particular, written monthly reports on the most important business figures, reports and explanations on the corporate strategy and planning, the business performance and current status of the Group and the accounting process and effectiveness of the company's internal control and risk management system and the risks to the Wirecard Group identified by the Management Board, as well as all relevant business transactions and preparations to implement strategic intentions. Matters requiring approval, planned investments and fundamental questions about corporate policy and strategy were covered in particular detail, and the respective decisions were taken on the basis of extensive documentation and intensive and detailed discussions with the Management Board. Additional control measures, such as an inspection of the company's documentation and the appointment of special experts, were not necessary.

The Supervisory Board convened for twelve meetings in the year under review. On numerous occasions between meetings, important or urgent information was also conveyed in writing, or in the context of telephone conferences, and resolutions were issued in writing or by telephone. The Chairman of the Supervisory Board was also in close contact with the Management Board between meetings and was kept informed about the current business performance and important business transactions.

Participation in the meetings by the members was also at a high level in 2017. All members of the Supervisory Board participated in significantly more than half of the meetings of the Supervisory Board in the 2017 fiscal year.

The Supervisory Board of Wirecard AG did not form committees due to its small size.

Focal points of consultations

Regularly during the year under review, the Supervisory Board concerned itself intensively with the revenues and earnings performance of the company and the Group, as well as with significant investment projects and risk management. The following key topics were also discussed at the individual meetings:

The focus of the first meeting of the Supervisory Board on 26 January 2017 were discussions on the business performance in the 2016 fiscal year and the business and budget plan for the 2017 fiscal year. In addition, the Supervisory Board discussed M&A themes and transactions, especially those in the Asia-Pacific region and South Africa. The Management Board also provided a summarised overview of the key data for the acquisitions since 2014 and the post-merger integration process.

At the meeting on 22 February 2017, we mainly dealt with personnel issues, especially the possible expansion of the Management Board of Wirecard AG and the personnel planning at the level below the Management Board. In addition, organisational themes related to the work of the Supervisory Board were discussed.

At the meeting on 29 March 2017, we discussed corporate governance issues including an update to the rules of procedure for the Management Board and Supervisory Board and the plans for the subsequent work of the Supervisory Board in the 2017 fiscal year. In the second part of the meeting, the auditor reported on the status of the auditing work for the 2016 fiscal year.

At the meeting on 5 April 2017, we mainly dealt with the separate financial statements of Wirecard AG and the consolidated financial statements as of 31 December 2016, the Report of the Supervisory Board, the Corporate Governance Report and the proposal for the appropriation of profit. The financial statements and reports were intensively discussed and examined with the auditor

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The audited consolidated financial statements and management report for the Group that had been issued with unqualified audit opinions were approved at the meeting on 5 April 2017, while the audited separate financial statements and management report for Wirecard AG that had been issued with unqualified audit opinions were approved after the meeting during a telephone conference on 26 April 2017.

The subject of the meeting on 3 May 2017 was, in particular, the successor for the outgoing CFO and a possible expansion of the Management Board of Wirecard AG. In addition, this meeting was used to discuss the status of the strategic projects, especially in relation to the IT structure and M&A transactions including the transaction pipeline 2017, as well as the human resources development within the Wirecard Group and corporate governance themes.

At the meeting on 24 May 2017, we also focussed on the issue of succession planning for the Management Board and a possible expansion of the Management Board. In addition, the general personnel situation at the company was discussed.

The focus of the meeting of the Supervisory Board on 8 June 2017 was the latest business performance of the Wirecard Group. In addition, the Management Board reported on the completed M&A transactions in North America and South Africa, as well as on the strategic developments and personnel issues at the company.

At the meeting on 19 June 2017, which was continued after the ordinary Annual General Meeting on 20 June 2017, we intensively discussed the possible candidates for the position of CFO and another member of the Management Board and also spoke with possible candidates.

The main subjects of the meeting on 8 September 2017 were, in particular, corporate governance themes such as the size of the Supervisory Board and its internal organisation and a possible amendment to the rules of procedure for the Supervisory Board, as well as the business performance in India. In addition, we discussed agreeing a consulting contract with Burkhard Ley for the period after he stepped down from the Management Board.

The focus of the meeting on 10 November 2017 were the new Management Board employment contracts as of 1 January 2018.

At the meeting of the Supervisory Board on 22 November 2017, the Management Board reported on the business performance in the first nine months. Other main subjects discussed at the meeting were the status of the M&A transactions and the M&A pipeline for 2018, ongoing FinTech projects and new product developments, the Management Board employment contracts as of 1 January 2018 and preparations for the efficiency review of the Supervisory Board.

At the last meeting in the fiscal year on 7 December 2017, the Management Board reported on the current regulatory environment, the status of the preparations for the audit, including the amendments to the IFRS accounting standards relevant for Wirecard, as well as the personnel planning in relation to the acquisitions in Asia. Another key focus of the meeting was the efficiency review of the Supervisory Board, as well as discussing and resolving the targets for the composition of the Supervisory Board and the competency profile for the Supervisory Board in its entirety, as well as a diversity concept for the Management Board.

Corporate governance

In the 2017 fiscal year, the Supervisory Board once again intensively discussed the issues related to corporate governance in the Wirecard Group and dealt in depth with the recommendations contained in the German Corporate Governance Code.

On 30 March 2017, the statement of compliance with the German Corporate Governance Code in the version from 5 May 2015 was submitted. At the beginning of the 2018 fiscal year, the Supervisory Board also dealt with the preparations for the statement of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) with the German Corporate Governance Code, paying particular attention to the amendments resolved by the Government Commission on the German Corporate Governance Code on 7 February 2017, which came into force on 24 April 2017. Following in-depth discussions, the Management Board and the Supervisory Board passed a resolution to issue the current statement of compliance pursuant to Section 161 of the AktG on 28 March 2018. The current statement of compliance, as well as all previous statements of compliance since 2005, can be found on the company's website.

The Supervisory Board regularly examines the efficiency of its activities. In order to complete the efficiency review, we developed an extensive company-specific questionnaire in the reporting year with the help of external consultants. The questionnaire was answered by the members of the Supervisory Board and evaluated on an anonymous basis. The results were intensively discussed at the meeting of the Supervisory Board in December 2017. The work of the Supervisory Board and the cooperation with the Management Board were given a positive assessment overall by the members of the Supervisory Board. In order to further increase the efficiency of the duties performed, we resolved isolated improvements to the organisation of the meetings of the Supervisory Board.

At the meeting of the Supervisory Board in December 2017, we also discussed and resolved the targets for the composition of the Supervisory Board and the competency profile for the Supervisory Board in its entirety, as well as a diversity concept for the Management Board.

Finally, we defined new targets in the 2017 fiscal year for the proportion of women on the Supervisory Board and Management Board with implementation deadlines in each case of 30 June 2022.

No conflicts of interest relating to members of the Supervisory Board, which must be disclosed immediately to the Supervisory Board and included in the Report of the Supervisory Board for the Annual General Meeting, arose during the 2017 fiscal year.

The Corporate Governance Report that is combined with the Corporate Governance Statement contains further in-depth information on corporate governance at Wirecard.

Consolidated financial statements

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft audited the consolidated financial statements as of 31 December 2017 and the management report for the Group, and issued unqualified audit opinions thereon. The consolidated financial statements and the Group management report were prepared in accordance with the International Financial Reporting Standards (IFRS) as well as the additional requirements of German law pursuant to Section 315e (1) of the German Commercial Code (HGB).

At the meeting on 11 April 2018, the Supervisory Board intensively discussed and examined the aforementioned financial statements and reports, the auditor's reports and the Management Board's proposal for the appropriation of profit. The required documents were submitted to the members of the Supervisory Board in good time before the meeting so that they had sufficient opportunity to examine them. The auditor participated at this meeting of the Supervisory Board, reported on key audit results and was available to the members of the Supervisory Board to provide supplementary information. The auditor also explained his findings on the company's control and risk management system relating to the financial accounting process. The auditor stated his independence and provided information about services that had been rendered in addition to the auditing services in the 2017 fiscal year.

The Supervisory Board approved the results of the audit carried out by the auditor and concluded that no objections needed to be raised based on the final results of its examination. With a resolution dated 11 April 2018, the Supervisory Board approved the consolidated financial statements of Wirecard AG prepared according to IFRS for the 2017 fiscal year. The Management Board plans to propose to the Annual General Meeting the distribution of a dividend of EUR 0.18 per share to shareholders and to carry forward Wirecard AG's remaining unappropriated retained earnings to a new account. The Supervisory Board concurs with this proposal. In addition, this meeting was used by the Supervisory Board to resolve on the Report of the Supervisory Board and the Corporate Governance Report that is combined with the Corporate Governance Statement. The Supervisory Board will issue a special report on the results of the audit of the separately prepared non-financial Group report pursuant to Section 315b of the HGB. The separate non-financial Group report that has to be prepared for the first time in 2017 will be published on the website of Wirecard AG within the statutory 4 month deadline (i.e. by 30 April 2018 at the latest).

Personnel-related details

The appointment of and the Management Board contract for the long-standing member of the Management Board and CFO Burkhard Ley expired as of 31 December 2017. In his 12 years as the CFO of Wirecard AG, Burkhard Ley has made a significant contribution to the expansion of Wirecard into a worldwide leading Internet Group in the area of payment processing and will remain connected to the company from 1 January 2018 through a consulting contract.

Following in-depth discussions, the Supervisory Board appointed Alexander von Knoop as the successor to Burkhard Ley in July 2017 as an ordinary member of the Management Board and as Chief Financial Officer with effect from 1 January 2018 and up until 31 December 2020. Furthermore, Susanne Steidl was appointed as an additional member of the Management Board and as Chief Product Officer (CPO) with effect from 1 January 2018 and up until 2020. In this position, she is responsible for the operation and technological development of core products at Wirecard. The Supervisory Board wishes both new members of the Management Board great success.

We also resolved in July 2017 to extend the Management Board mandates of the Chief Executive Officer (CEO), Dr. Markus Braun, and the Chief Operational Officer (COO), Jan Marsalek, in each case by a further three years up until 31 December 2020. These personnel decisions took into account their outstanding achievements and aim to maintain continuity on the Management Board.

In the 2017 fiscal year, there were no changes to the composition of the Supervisory Board. As Tina Kleingarn resigned her post as a member of the Supervisory Board due to family responsibilities as of 31 December 2017, the Supervisory Board of Wirecard AG currently consists of only four members. The Supervisory Board will propose the election of a new member of the Supervisory Board as the successor to Tina Kleingarn at the ordinary Annual General Meeting 2018.

Outlook

Wirecard fulfils all the conditions to continue growing on a global level in the next few years and to exploit the immense potential for synergies. We will all pursue this path to success together.

The Supervisory Board thanks the Management Board and especially Mr. Ley for their fantastic work. We warmly thank all employees and recognise their extraordinary commitment in the 2017 fiscal year.

Aschheim, 11 April 2018

On behalf of the Supervisory Board

Wulf Matthias
Chairman of the Supervisory Board

Corporate Governance Report

Corporate Governance Statement

Pursuant to Section 3.10 of the German Corporate Governance Code in its version dated 7 February 2017, the Management Board – also on behalf of the Supervisory Board – issues the following statement concerning the corporate governance and, pursuant to Sections 289f, 315d of the German Commercial Code (HGB), the corporate management of Wirecard AG and the Wirecard Group. Accordingly, the following statements apply to Wirecard AG and the Wirecard Group, unless otherwise stated.

1. Statement of compliance with the German Corporate Governance Code pursuant to Section 161 of German Stock Corporation Act (AktG)

The Management and Supervisory Boards of Wirecard AG submitted their last statement of compliance on 30 March 2017. For the period since the submission of last year's statement of compliance up to 23 April 2017, the following statement of compliance refers to the German Corporate Governance Code (**"Code"**) in the version from 5 May 2015. For the period from 24 April 2017, the following statement of compliance refers to the version of the Code from 7 February 2017 that was published in the German Federal Gazette (Bundesanzeiger) on 24 April 2017.

The Management and Supervisory Boards of Wirecard AG declare that the company has complied and is complying with the recommendations of the Government Commission on the German Corporate Governance Code with the following exceptions:

1) Committees of the Supervisory Board (Sections 5.3.1 – 5.3.3 of the Code)

Sections 5.3.1 - 5.3.3 of the Code contain recommendations on committees of the Supervisory Board. According to the Articles of Incorporation, the Supervisory Board of the company consists of five members. Due to its relatively small size, the Supervisory Board does not find it appropriate to form any committees. All tasks performed by the Supervisory Board are handled by the plenary Supervisory Board.

2) Targets for the composition of the Supervisory Board and the competency profile for the whole Supervisory Board (Section 5.4.1 (2) and (3) of the Code in the version from 5 May 2015 and Section 5.4.1 (2) and (4) of the Code in the version from 7 February 2017)

Section 5.4.1 (2) of the Code recommends that the Supervisory Board should specify targets regarding its composition which take appropriate account of the company's international activities, potential conflicts of interest, the number of independent Supervisory Board members within the meaning of Section 5.4.2 of the Code, an age limit to be specified for the members of the Supervisory Board, a maximum time limit to be specified for the period of service on the Supervisory Board and diversity. In accordance with Section 5.4.1 (3) of the Code in the version from 5 May 2015, these targets should be taken into account by the Supervisory Board in election proposals, while the targets and the progress made towards their implementation should be published in the Corporate Governance Report. The recommendations for specifying targets regarding the composition of the Supervisory Board were supplemented by the Code in the version from 7 February 2017 so that the Supervisory Board should also develop a competency profile for the whole Supervisory Board and election proposals made to the Annual General Meeting should also seek the fulfilment of the competency profile for the whole Supervisory Board. According to Section 5.4.1 (4) Clauses 2 and 3 of the Code in the version from 7 February 2017, the progress made towards the implementation of these recommendations should be published in the Corporate Governance Report, which should now also provide information on what the Supervisory Board considers to be an appropriate number of independent members by specifically naming the independent members.

Except for defining targets for the proportion of women on the Supervisory Board, the Supervisory Board originally did not intend to define any further specific targets for its composition because it considered these inappropriate due to its relatively small size. Accordingly, a divergence from the recommendations in Section 5.4.1 (2) and (3) of the Code in the version from 5 May 2015 was declared in the last statement of compliance. After the Supervisory Board was enlarged to include five members, the Supervisory Board issued specific targets for its composition and – in accordance with the new recommendations in the Code – agreed a competency profile for the whole Supervisory Board in December 2017 and has since then complied with the recommendations in Section 5.4.1 (2). The targets for the composition and the competency profile will be taken into account for future election proposals and the progress made towards their implementation will also be published in the Corporate Governance Report (for the first time for the 2017 fiscal year). The Corporate Governance Report now also includes information on what the Supervisory Board considers to be an appropriate number of independent members and specifically names these independent members so that it now fully complies with the recommendations.

3) Publication deadlines for consolidated financial statements and interim financial information (Section 7.1.2 Clause 4 of the Code in the version from 5 May 2015 and Clause 3 of the Code in the version from 7 February 2017)

Section 7.1.2 Clause 4 (Code in the version from 5 May 2015) and Clause 3 (Code in the version from 7 February 2017) recommend that the consolidated financial statements and Group management report be made accessible to the public within 90 days and interim financial information within 45 days of the end of the respective reporting periods. The legal regulations currently stipulate that the consolidated financial statements and group management report be published within a period of four months after the end of a fiscal year and the six-monthly reports be published within a period of three months after the end of the period under review. According to the regulations of the Frankfurt Stock Exchange applicable to the Prime Standard, quarterly reports should be provided to the management of the stock exchange within a period of two months after the end of the period under review. The company has to date adhered to these periods since the Management Board considers this time regime appropriate. The company may publish the reports at an earlier date if internal procedures allow this to be done.

The company now complies with the new recommendation included in the Code from 7 February 2017 in Section 4.1.3 Clause 2 that the fundamental features of the Compliance Management System of the company be made public; the fundamental features of the Compliance Management System are published on the website of Wirecard AG. Since the publication of the Code in the version from 7 February 2017, a whistleblowing contingency has also been added to the Compliance Management System in accordance with the new recommendation in Section 4.1.3 Clause 3.

This statement of compliance as well as the outdated versions of the statements of compliance from previous years are available on the website of Wirecard AG at ir.wirecard.com/corporate-governance.

2. Shareholders and Annual General Meeting

Transparent information for shareholders and the public

We keep our shareholders, analysts, shareholder associations, the media and interested members of the general public informed of important dates for the company on our website ir.wirecard.com under the "Financial Calendar" menu item and in our annual report, six-monthly report and the quarterly statements. As part of our investor relations activities, we conduct regular meetings with both analysts and institutional investors. In addition to the annual analysts' conferences on the annual financial statements, telephone conferences for analysts and investors are held on the publication of the six-monthly reports and quarterly statements. Wirecard also participates in many capital market conferences. Important presentations are freely available on our website.

The annual reports, six-monthly reports and quarterly statements, as well as all press releases and ad-hoc statements of Wirecard AG, are available on our website in both German and English.

Annual General Meeting

The way the Annual General Meeting is organised and held has the aim of effectively providing all shareholders with comprehensive information prior to and during the meeting. Information on the Annual General Meeting, together with the documentation to be made accessible to those present at the Annual General Meeting, is readily accessible on the website along with the invitation to the meeting. In order to make it easier for shareholders to personally exercise their rights or to use a proxy, Wirecard AG appoints, amongst others, proxies to exercise voting rights in accordance with the instructions issued by shareholders.

3. Composition and working methodologies of the Management and Supervisory Boards

As a German public stock corporation (Aktiengesellschaft / “AG”), Wirecard AG operates under a dual management and control structure consisting of two bodies – the Management Board and Supervisory Board, each with its own set of competences. The Management Board and the Supervisory Board cooperate very closely and on the basis of mutual trust in the company’s interests. The critical joint objective is to sustainably boost the company’s market position and profitability.

Management Board

The Management Board of Wirecard AG consists of one or more members in accordance with the Articles of Incorporation. The precise figure is defined by the Supervisory Board. The Management Board consisted of three members as of 31 December 2017, while the Management Board has had four members since 1 January 2018.

In accordance with the “Law for the equal participation of women and men in leadership positions”, the Supervisory Board has defined a target for the proportion of women on the Management Board and a deadline for achieving it. Further information can be found in the dedicated section about this subject (Section 6 of the Corporate Governance Report). In addition, the Supervisory Board has developed a diversity concept with regards to the composition of the Management Board. The details are also summarised in a dedicated section about this concept (Section 7 of the Corporate Governance Report).

Information on the areas of responsibility and the CVs for the members of the Management Board can be found on the website of Wirecard AG at www.wirecard.com/company/management/.

The Management Board manages Wirecard AG and the Wirecard Group and in doing so is bound to uphold the interests of the company. The Management Board develops the company’s strategic orientation, agrees it with the Supervisory Board and ensures its implementation. The members of the Management Board hold joint responsibility for the overall management of the company. The Supervisory Board has issued rules of procedure for the work of the Management Board, which govern, amongst other things, the division of duties between the members of the Management Board. The members of the Management Board generally have individual responsibility for their specific areas. Insofar as a measure will affect multiple areas of responsibility, agreement with the other members of the Management Board should be sought, with the Supervisory Board taking any necessary decisions in the event of a difference of opinion. Certain matters of fundamental or significant importance, which are specified in more detail in the rules of procedure, require a resolution by the Management Board in its entirety. The Supervisory Board must also approve significant business transactions. The Management Board makes regular, comprehensive and timely reports to the Supervisory Board on all relevant questions of corporate planning and further strategic development, on the course of business and the Group’s position, as well as on questions relating to its risk situation and risk management. Reporting by the Management Board also extends to include compliance, in other words, the activities instituted by Wirecard AG or in the Wirecard Group to observe legal and regulatory parameters, as well as internal corporate guidelines.

Supervisory Board

The Supervisory Board of Wirecard AG consists of five members in accordance with the Articles of Incorporation, who are elected by the Annual General Meeting without being bound by any election proposals. The CVs of the members of the Supervisory Board, as well as information on their main activities in addition to their Supervisory Board mandate at Wirecard AG are available on the website of Wirecard AG at www.wirecard.com/company/management/.

In accordance with the “Law for the equal participation of women and men in leadership positions”, the Supervisory Board has defined a target for the proportion of women on the Supervisory Board and a deadline for achieving it. Further information can be found in the dedicated section about this subject (Section 6 of the Corporate Governance Report). In addition, the Supervisory Board has developed specific targets for its own composition and a competency profile for the Supervisory Board in its entirety which also acts as the diversity concept for the Supervisory Board. The details and the latest progress made towards their implementation are also summarised in a dedicated section (Section 7 of the Corporate Governance Report).

The Supervisory Board advises the Management Board on its management of the company and monitors its management activities. The Supervisory Board receives regular, comprehensive and timely reports on all important issues for the company from the Management Board and agrees the corporate strategy and its implementation with it. The Chairman of the Supervisory Board is also in constant contact with the Management Board outside of the meetings of the Supervisory Board. The Chairman visits the company on a regular basis in order to obtain information on-site concerning business performance and to consult with the Management Board on its decisions.

The Supervisory Board examines and approves the separate financial statements and consolidated financial statements of Wirecard AG and the Group. The Supervisory Board has created rules of procedure to govern its own activities. In the event that a vote by the Supervisory Board is tied, the Chairman of the Supervisory Board has the casting vote. In addition, the Supervisory Board regularly examines the efficiency of its activities– at least once after half of the regular period of office of its members. Due to its small size, the Supervisory Board has dispensed with creating an audit committee or other Supervisory Board committees.

4. Important corporate governance practices

Corporate governance – good and responsible management of the company

The standards of good and responsible corporate governance, acknowledged both internationally and in Germany, are accorded high priority throughout the Wirecard Group. Compliance with these standards forms an essential prerequisite for qualified and transparent corporate governance with the aim of achieving long-term success for the Group as a whole. In this context, we wish to affirm the confidence of our investors, the financial markets, business associates, the general public and our employees.

Detailed information on corporate governance in the Wirecard Group can be found on our website.

Compliance as a managerial function

We view compliance with the law, regulations and internal company guidelines within the Group as a permanent and ongoing managerial function. For this purpose, we continuously and rigorously work to improve our Group-wide compliance programme. Information on our compliance management system can be found on our website at ir.wirecard.com/corporate-governance.

Responsible risk management

Responsible risk management constitutes an important basis for good corporate governance. The Management Board must ensure there is appropriate risk management and risk controlling within the company. The Management Board notifies the Supervisory Board on a regular basis of existing risks and trends in these risks. Details relating to risk management can be found in the risk report (part of the management report).

Financial accounting and audit of the financial statements

The consolidated financial statements of Wirecard AG and the six-monthly reports for the Group are prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted in the European Union, as well as the additional regulations of German commercial law. The separate financial statements of Wirecard AG are produced in accordance with the accounting regulations of the German Commercial Code (HGB).

In addition, Wirecard AG publishes quarterly statements in accordance with Section 53 of the regulations of the Frankfurt Stock Exchange. The consolidated financial statements and Group management report are made accessible to the public within four months of the end of the fiscal year, while six-monthly reports and quarterly statements are made accessible to the public within two months of the end of the reporting period.

At the Annual General Meeting 2017, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, was appointed as the auditor for the separate financial statements of Wirecard AG and the consolidated financial statements. The responsible auditor has been Mr. Andreas Loetscher since the 2015 fiscal year. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft has been the sole auditor of Wirecard AG and the Group since 2011 and was previously the joint auditor together with RP Richter GmbH Wirtschaftsprüfungsgesellschaft since 2009.

It was agreed with the auditor of the financial statements that he/she would report to the Supervisory Board without delay all findings and events material to the duties of the Supervisory Board as determined in the course of its audit. In addition, the auditors are required to inform the Supervisory Board and/or to make a note in the audit report if they encounter facts in the course of the audit that are irreconcilable with the statement of compliance issued by the Management Board and Supervisory Board in accordance with Section 161 of the AktG.

Corporate social responsibility

Wirecard believes that exercising corporate social responsibility (CSR) makes a major contribution to the company's sustained growth. We are convinced that Wirecard will not be able to achieve long-term economic success in the future unless it acts in a responsible ecological, ethical and social manner.

In its sustainability strategy, the Wirecard Group aims to define objectives for the orientation of its core business activities – for example, minimum standards for energy consumption, assessment of environmental risks, etc. Through sustainability management, the company will stringently pursue the targets defined in the sustainability strategy.

The Wirecard Group respects internationally recognised human rights and strives to ensure they are observed. We base our activities on the relevant requirements of the International Labour Organisation and are compliant at least with the respective national minimum standards of the respective economic branches. We ensure equal opportunities and equal treatment, irrespective of ethnic origin, skin colour, gender, disability, religion, citizenship, sexual orientation, social origin, religious or philosophical viewpoints or political attitude.

Further information on corporate social responsibility, economic responsibility, employee issues and the management of resources in the Wirecard Group are published pursuant to Section 315b of the German Commercial Code (HGB) in the special non-financial report on the website of Wirecard AG.

Leadership culture and cooperation

We have set ourselves the objective of offering our employees personal and professional prospects to promote outstanding performance and results. As a consequence, the Wirecard Group invests in the qualification and competence of its employees and also expects all employees to make exacting demands of themselves, their performance and their health, as well as to engage proactively in their own development.

5. Managers' transactions

Persons who perform management duties (at Wirecard AG this means the members of the Management Board and Supervisory Board), as well as persons closely related to them, are obligated in accordance with Article 19 of the Market Abuse Directive to report to the Federal Financial Supervisory Authority and the company their own dealings in the shares of the company or the debt instruments of the company or any associated derivatives or other associated financial instruments within three business days. However, this reporting obligation only applies if the total volume of the business dealings carried out by the affected person exceeds EUR 5,000 within one calendar year.

The transactions reported to Wirecard AG in the 2017 fiscal year can be found on the website: ir.wirecard.com/corporate-governance.

In total, the members of the Management Board directly or indirectly held a 7 percent equity interest in the company as of 31 December 2017. Members of the Supervisory Board held no shares in the company as of 31 December 2017.

6. Regulations for promoting the participation of women in management positions in accordance with Sections 76 (4) and 111 (5) of the AktG

According to the “Law for the equal participation of women and men in leadership positions in the private and public sectors”, the Supervisory Board of Wirecard AG must define targets for the proportion of women on the Management Board and Supervisory Board, while the Management Board of Wirecard AG must define targets for the proportion of women in the two management levels below the Management Board. If the proportion of women at the time that each target is defined is less than 30%, the target value in each case for the proportion of women must not be lower than the level already achieved. At the same time, deadlines for the achievement of the targets must be defined, which must not be longer than five years; the deadline for the achievement of the first target must not extend beyond 30 June 2017.

In September 2015, the Supervisory Board and the Management Board of Wirecard AG defined targets for the proportion of women on the Supervisory Board, Management Board and the first two management levels below the Management Board respectively with a deadline of 30 June 2017. The achievement of these targets will be reported on below. Following the expiry of the deadlines, new targets were defined with a deadline of 30 June 2022.

Targets for the proportion of women in leadership functions

	Target for 30 June 2017	Level achieved by 30 June 2017	New target for 30 June 2022
Supervisory Board	1 woman	2 women	2 women
Management Board	0	0	1 woman
1st management level	30%	30%	30%
2nd management level	30%	42%	30%

Susanne Steidl was appointed as a member of the Management Board with effect from 1 January 2018. The current target of one female member of the Management Board has thus now been achieved. Tina Kleingarn resigned her Supervisory Board mandate due to personal reasons with effect from the end of the 2017 fiscal year so that there is currently only one female member of the Supervisory Board.

7. Requirement profile and diversity concept for the composition of the Management Board and Supervisory Board

Management Board

a) Requirement profile and diversity aspects

The Supervisory Board of Wirecard AG works together with the Management Board to ensure there is a long-term plan for succession on the Management Board. When examining candidates, the most important eligibility criteria in the opinion of the Supervisory Board are their professional qualifications for the position to be filled, convincing leadership qualities, previous performance and knowledge of the company and its business activities.

As part of this assessment to decide which personality will best complement the Management Board as a corporate body, the Supervisory Board also focuses on diversity. The decision-making criteria of diversity is understood by the Supervisory Board to mean, in particular, different and mutually complementary profiles, professional and personal experience – also in the international arena – and appropriate representation of women. The Supervisory Board also strives to maintain an appropriate mix of ages on the Management Board as it believes that this is another aspect of diversity that will complement the Management Board as a corporate body.

The requirement profile for the Management Board includes, in particular, the following aspects which are taken into account by the Supervisory Board when making an appointment to a specific position on the Management Board:

- The members of the Management Board should possess long-standing leadership experience, also at an international level where possible.
- The Management Board in its entirety should possess long-standing experience in the areas of electronic payment systems, sales, finance and human resources.
- At least two members of the Management Board should have technical training and qualifications in the area of IT.
- At least one member of the Management Board should have proven expertise and experience in the area of finance.
- To comply with the regulations in the “Law for the equal participation of women and men in leadership positions”, the Supervisory Board defined a target in the 2017 fiscal year for the proportion of women on the Management Board as one women and the deadline for achieving this target as 30 June 2022.
- In accordance with the recommendations of the German Corporate Governance Code, the general age limit for members of the Management Board has been defined as 62. An exception can be made in justified individual cases, e.g. to provide support for orderly succession planning.

When deciding which personality to appoint to a specific position on the Management Board, the Supervisory Board acts in the company’s interest and takes appropriate account of all factors relevant to the circumstances in each individual case.

b) Aims of the requirement profile

The aim of the requirement profile for the Management Board of Wirecard AG is to guarantee the most diverse and mutually complementary composition possible for a Management Board offering strong leadership. The Management Board in its entirety should possess the sound industry expertise and leadership experience that is required for the management of a globally active technology and financial services company so that it can optimally fulfil its duties and obligations according to the law, Articles of Incorporation and rules of procedure.

Alongside complementary educational and career backgrounds and specialist qualifications, the Supervisory Board believes that the diversity accomplished through a range of different personal qualities and experiences – which are also influenced by gender and age – and the different perspectives these will bring is a decisive factor for the sustainable success and continuous development of the company.

c) Implementation method

In accordance with the legal regulations, the Supervisory Board is responsible for making appointments to the Management Board and for personnel and succession planning. The requirement profile described above and the diversity concept that it follows were agreed by the Supervisory Board in the 2017 fiscal year and act as the basis for the Supervisory Board to take decisions on appointments to specific Management Board positions and for long-term succession planning. In this context, the Supervisory Board is in continuous contact with the Management Board and actively monitors management personnel and their development with a view to their suitability as potential candidates for filling Management Board positions. In addition, the Supervisory Board monitors national and international markets with a view to identifying possible candidates outside of the company. When making specific appointments to Management Board positions, the Supervisory Board also holds, in particular, interviews with potential candidates to gain a personal impression of their professional and personal suitability. The aspects of diversity play an important role in the decision-making process. However, the most important consideration when making an appointment to a specific Management Board position is always the company's interest while taking account of all factors relevant to the circumstances in each individual case.

d) Results achieved in the 2017 fiscal year

In July 2017, the Supervisory Board appointed Susanne Steidl (born in 1971) as a member of the Management Board and as Chief Product Officer (CPO) with effect from 1 January 2018. As a business management graduate and long-standing manager and Executive Vice President who was responsible over the last few years for, amongst other things, the successful expansion of the company on the American market, Susanne Steidl possesses the best qualifications and international experience for the position. Alexander von Knoop was also appointed as a member of the Management Board and as Chief Financial Officer (CFO) with effect from 1 January 2018 as the successor to Burkhard Ley who left the Management Board at the end of the 2017 fiscal year. The Supervisory Board believes that Alexander von Knoop (born in 1972) is an ideal addition to the Management Board due to his business degree in the USA, his long-standing expertise in the area of accounting and his contribution to the expansion of the digital value added services of Wirecard Bank AG. The appointments of Susanne Steidl and Alexander von Knoop not only contribute greater gender diversity but also add fresh impetus and lower the average age of the members of the Management Board. The average age is currently 45 years old. By extending the appointments to the Management Board of the long-standing CEO Dr. Markus Braun and the long-standing Chief Operational Officer (COO) Jan Marsalek, it has also been ensured that Wirecard can continue to benefit from their performance and experience at the same time. In the opinion of the Supervisory Board, the current composition of the Management Board conforms to the requirement profile developed by the Supervisory Board for the composition of the Management Board.

Supervisory Board

a) Requirement profile and diversity aspects

The Supervisory Board of Wirecard AG must be comprised in such a way that it can guarantee the provision of competent and qualified supervision of and advice to the Management Board.

For this purpose, the Supervisory Board has defined the following specific goals for its composition while taking into account the recommendations in the German Corporate Governance Code. These goals also include a competency profile developed by the Supervisory Board for the Supervisory Board in its entirety. In addition, they describe a concept that can be followed in order to achieve a diverse overall composition of the Supervisory Board.

(I) Requirements for the composition of the Supervisory Board in its entirety

(1) Competency profile for the Supervisory Board in its entirety

- The members of the Supervisory Board in their entirety must be familiar with the sector of Wirecard AG in the sense of Section 100 (5) of the AktG.
- The Supervisory Board in its entirety must possess the knowledge, skills and specialist experience to properly perform the duties required of a Supervisory Board for a listed and globally active technology and financial services company.

In particular, this includes in-depth experience and knowledge in the following areas:

- Electronic payment systems
- IT and digitalisation
- Financial services
- Controlling/risk management
- Experience with mergers & acquisitions
- Board experience, ideally at a listed company
- Corporate and operational experience

It is not necessary that every individual member of the Supervisory Board possess all of the required specialist knowledge and experience. However, at least one of the members of the Supervisory Board should possess specialist knowledge and experience in every area.

- At least one member of the Supervisory Board must have specific expertise in the area of accounting or auditing in the sense of Section 100 (5) of the AktG.

(2) Independence and potential conflicts of interest

- The Supervisory Board should have an appropriate number of independent members. Taking into account the current ownership structure, a least half of the members should be independent in the sense of Section 5.4.2 of the German Corporate Governance Code, i.e. they especially do not have any business or personal relationship with Wirecard AG or its corporate bodies, with a controlling shareholder or one of its associated companies that could constitute a material and not just temporary conflict of interest.
- In addition, the Supervisory Board must not have as members more than two former members of the Management Board of the company.

(3) International experience

In light of the international business activities of Wirecard, an appropriate number of members of the Supervisory Board, although at least two members, must have long-standing international experience.

(4) Appropriate proportion of women

To comply with the regulations in the “Law for the equal participation of women and men in leadership positions”, the Supervisory Board defined a target in the 2017 fiscal year for the proportion of women on the Supervisory Board as two women and the deadline for achieving this target as 30 June 2022.

(5) Diversity

In the search for qualified personalities for the Supervisory Board, focus should also be placed on diversity so that the Supervisory Board is able to call on the broadest possible range of personalities, experience and specialist knowledge. When preparing election proposals for the Annual General Meeting, the extent to which different, mutually complementary specialist knowledge, educational backgrounds, professional and personal experiences and an appropriate mix of ages will benefit the work of the Supervisory Board should be taken into account in each individual case.

II. Requirements for the individual members of the Supervisory Board

(1) General requirement profile

- Every member of the Supervisory Board should possess general knowledge of the technology and financial services business or related sectors.
- Every member of the Supervisory Board must possess the required personality and integrity to perform their duties properly and be prepared to engage with the content to an appropriate extent.

(2) Availability

- Every member of the Supervisory Board must ensure that they can dedicate the required amount of time to properly perform their duties according to their Supervisory Board mandate. In particular, it is important to take into account that at least four, although generally at least six, ordinary meetings of the Supervisory Board are held each year. These require appropriate preparatory work in each case. Sufficient time must also be made available for examining the separate and consolidated financial statements. If required, additional extraordinary meetings may be necessary to handle special topics and pass resolutions outside of the ordinary meetings. The members are also required to be present in person at the Annual General Meeting.
- Members of the Supervisory Board who are also members of a management board at a listed company should generally not hold more than three supervisory board mandates in listed companies that are not in the group of companies in which they hold a management board function.

(3) Avoidance of potential conflicts of interest

Members of the Supervisory Board are not permitted to hold any board functions at or provide advisory services to any main competitor of the Wirecard Group.

(4) Length of service

In general, a member of the Supervisory Board should not hold their position without interruption for longer than 15 years. An exception to this general limitation can be made if it is in the company's interest, e.g. to follow one of the appointment objectives such as the appropriate representation of women, diversity within the specialist profiles or professional or personal experience.

(5) Age limit

Candidates for the Supervisory Board should generally not yet have reached 75 years of age at the time of their election. An exception can be made in justified cases, e.g. to provide support for orderly succession planning and if the candidate holds key functions or qualifications.

The Supervisory Board has defined a deadline of 30 June 2022 for the achievement of the diversity targets.

b) Aims of the requirement profile

The Supervisory Board in its entirety must by law be familiar with the sector in which the company is active.

The aim of the requirement profile for the Supervisory Board of Wirecard AG is also to guarantee the most diverse, mutually complementary and balanced composition possible for the Supervisory Board. The Supervisory Board in its entirety should understand the business model of Wirecard and possess the required knowledge, skills and experience, especially in the previously mentioned specialist areas, to properly provide qualified supervision of and advice to the Management Board. Overall, the specialist knowledge and professional experience of the members of the Supervisory Board should complement each other so that the Supervisory Board can call on the broadest possible pool of experience and different specialist expertise. As a result, the Supervisory Board should be capable of critically questioning and assessing the strategy of the Management Board and its decisions. By stipulating that at least half of the members of the Supervisory Board should be independent, the independent performance of the advisory and supervisory duties will be promoted, unencumbered by any special interests and in compliance with international, and also domestic, expectations of good governance. The same objective is also served by the objective that no more than two former members of the Management Board should serve on the Supervisory Board and that members of the Supervisory Board should not hold any board functions or provide advisory services to any main competitor of the Wirecard Group. As is also the case for the composition of the Management Board, the Supervisory Board believes that a diverse range of different personal qualities and experiences and the different perspectives associated with them are a decisive factor for the competent and sound performance of the duties of the Supervisory Board. Against this background, the Supervisory Board of Wirecard AG has set an ambitious target of at least two women members of the Supervisory Board, which corresponds to a ratio of 40 percent in a Supervisory Board consisting of five members.

By setting a limit for the length of service on the Supervisory Board and also an age limit, the aim is to ensure that the regular replacement of members will enrich the Supervisory Board with new impetus, perspectives and experience and thus make a contribution to the continuous growth of the company.

c) Implementation method

In accordance with the legal regulations, the Supervisory Board must present its election proposals for the election of members of the Supervisory Board to the Annual General Meeting. The Supervisory Board takes into account the requirement profile described above and the diversity concept that it follows when making each of its election proposals. However, the most important consideration when proposing a particular candidate for election to the Supervisory Board is always the company's interest while taking account of all factors relevant to the circumstances in each individual case. In accordance with the recommendation in Section 5.4.1 Clause 8 of the DCGK, the progress made in the implementation is published annually in the Corporate Governance Report for all interested stakeholders.

d) Results achieved in the 2017 fiscal year

The composition of the Supervisory Board did not change in the 2017 fiscal year.

The Supervisory Board believes that its composition as of 31 December 2017 fulfils the requirement profile described above for the Supervisory Board in its entirety and the individual members, especially in relation to the in-depth experience and knowledge of the specialist areas.

All members of the Supervisory Board are independent in the sense of the definition found in the German Corporate Governance Code. As of 31 December 2017, the Supervisory Board did not have any former members of the Management Board as members nor any members that hold any board functions or provide advisory services to any main competitor of Wirecard.

None of the current members of the Supervisory Board is older than 74 years old. No member of the Supervisory Board has held their position for longer than 15 years.

As of 31 December 2017, there were two female members of the Supervisory Board in Tina Kleingarn and Vuyiswa M‘Cwabeni. Tina Kleingarn resigned her post on the Supervisory Board due to personal reasons at the end of the fiscal year so that there is currently only one female member of the Supervisory Board. The Supervisory Board will take account of the requirement profile when making its election proposals to the Annual General Meeting 2018 for the by-election.

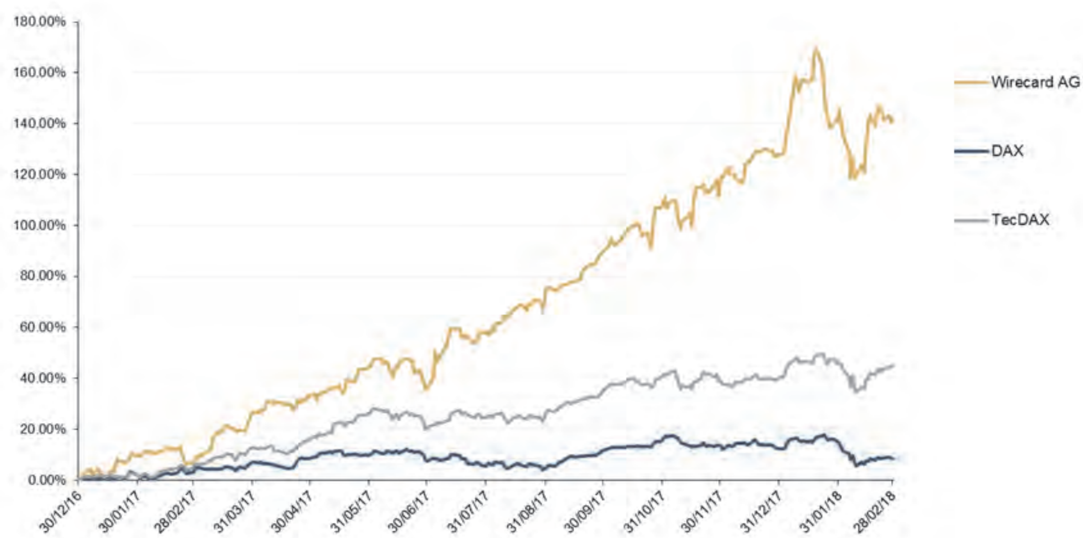
Wirecard stock

The German stock market improved considerably in the fiscal year. The leading German DAX index continued to grow, rising by 12.5 percent (2016: 6.9 percent). Following a fall in 2016, the TecDAX grew by 39.6 percent (2016: -1.0 percent).

The Wirecard stock increased by 127.6 percent in the 2017 fiscal year (2016: -12.1 percent) and reached an all-time high of EUR 94.60 on 20 December 2017. After taking into account the dividends paid out in June 2017 for the 2016 fiscal year of EUR 0.16 per share (2015: EUR 0.14), there was a total shareholder return of 128.2 percent (2016: -11.8 percent).

Around 132 million (2016: 175 million) Wirecard shares were traded in total on the electronic XETRA trading platform. This corresponds to an average trading volume of 521 thousand (2016: 685 thousand) shares per day.

Development of the Wirecard stock during the year



Performance in percent

	1 year 2017	5 years 2013 – 2017	10 years 2008 – 2017
Wirecard AG (excluding dividend)	+127.6	+400.4	+906.4
DAX (performance-index)	+12.5	+69.7	+60.1
TecDAX (performance-index)	+39.6	+205.4	+159.6

Dividends

The Management and Supervisory Boards will propose to this year's Annual General Meeting that a dividend of EUR 0.18 per share is paid to shareholders (2016: EUR 0.16). This corresponds to kEUR 22,242 (2016: kEUR 19,770).

Annual General Meeting

Wirecard AG’s ordinary Annual General Meeting was held on 20 June 2017 in the Conference Centre of the Hanns Seidel Foundation in Munich. All of the agenda items were passed with a large majority.

Further information and details about the Annual General Meeting are available on the Internet at the following address: ir.wirecard.com

KPIs for Wirecard’s shares

		2017	2016
Number of shares (31.12.) – all dividend-entitled		123,565,586	123,565,586
Share capital (31.12.)	kEUR	123,566	123,566
Market capitalisation (31.12.)	bnEUR	11.50	5.05
Year-end price (31.12.)	EUR	93.07	40.89
Year-high	EUR	94.60	48.10
Year-low	EUR	40.65	29.40
Earnings per share (basic and diluted)	EUR	2.10	1.43*
Shareholder’s equity per share (basic and diluted)	EUR	13.31	11.95
Dividend per share	EUR	0.16	0.14
Total dividend payout	kEUR	19,770	17,299

*Adjusted for Visa Europe

Price data: XETRA closing prices

Investor Relations

In 2017, the main topics of communication with the capital markets included Wirecard’s innovation and growth strategies. Alongside the organic growth of the Wirecard Group and the M&A activities in the past fiscal year, the focus was placed in particular on the company's entry onto the North American market and the expansion of the business in the Asia-Pacific region.

Alongside the core business of the company, new innovations such as the Wirecard Omnichannel ePOS Suite continued to be the focus of numerous discussions with analysts and investors. The Management Board and Investor Relations of Wirecard AG took part in numerous conferences and roadshows in both Germany and abroad during the year under review.

At the end of the period under review, a total of 24 analysts from renowned banks and independent research institutions were closely observing the Wirecard share. The overwhelming majority (15 analysts) issued a recommendation to buy, 7 a recommendation to hold and only 2 a recommendation to sell.

Further information is available online at: ir.wirecard.com

Shareholder structure

Most of the 93.0 percent free float as of the reporting date of 31 December 2017 continues to comprise institutional investors from the Anglo-American region and Europe.

Other information

The Management and Supervisory Boards of Wirecard AG undertake to comply with the principles of the German Corporate Governance Code and endorse the principles of transparent and sustainable corporate governance, as is also expressed in our Corporate Governance Statement. Other special measures in this regard are the listing on the Prime Standard and reporting according to IAS/IFRS.

Basic information on Wirecard stock

Year established:	1999	
Market segment:	Prime Standard	
Index:	TecDAX	
Type of equity:	No-par-value common bearer shares	
Stock exchange ticker:	WDI; Reuters: WDIG.DE; Bloomberg: WDI GY	
WKN:	747206	
ISIN:	DE0007472060	
Authorised capital, in number of shares:	123,565,586	
Group accounting category:	exempting consolidated financial statements in accordance with IAS/IFRS	
End of fiscal year:	31 December	
Total share capital as of 31 December 2017	kEUR 123,566	
Beginning of stock market listing:	25 October 2000	
Management Board as of 31 Dec 2017:	Dr. Markus Braun	CEO, CTO
	Burkhard Ley until 31 Dec	CFO
	Jan Marsalek	COO
Supervisory Board as of 31 Dec 2017:	Wulf Matthias	Chairman
	Alfons W. Henseler	Deputy Chairman
	Tina Kleingarn	Member
	Stefan Klestil	Member
	Vuyiswa V. M'Cwabeni	Member
Shareholder structure* as of 31 December 2017		
*Shareholders holding more than 3% of voting rights	7.0% MB Beteiligungsgesellschaft mbH	
	93.0% free float (according to Deutsche Börse's definition) of which	
	6.27% Jupiter Asset Management Ltd. (UK)	
	5.12% BlackRock Inc (US)	
	4.99% Artisan Partners LP (US)	
	4.93% Citigroup Inc (US)	
	4.92% Alken Luxembourg S.A. (LU)	

CONTENT
MANAGEMENT REPORT

III. FORECAST AND REPORT ON OPPORTUNITIES AND RISKS 123

Wirecard AG is one of the world's fastest growing digital platforms in the area of financial commerce. As part of an integrated approach, global acquiring and issuing will be linked with digital value added services that are constantly being expanded in the areas of data analytics and digital/transaction banking to create a comprehensive ecosystem.

36,000 large and medium sized merchants

191,000 small merchants

I. Foundations of the Group
1. GROUP STRUCTURE, ORGANISATION AND EMPLOYEES

1.1 Group structure

Wirecard AG is a global technology group (hereafter also referred to as the Wirecard Group) that supports companies in accepting electronic payments from all sales channels. As an internationally leading independent provider, the Wirecard Group offers outsourcing and white label solutions for electronic payments. International payment acceptances and methods with supplementary fraud prevention solutions can be provided via a global platform.

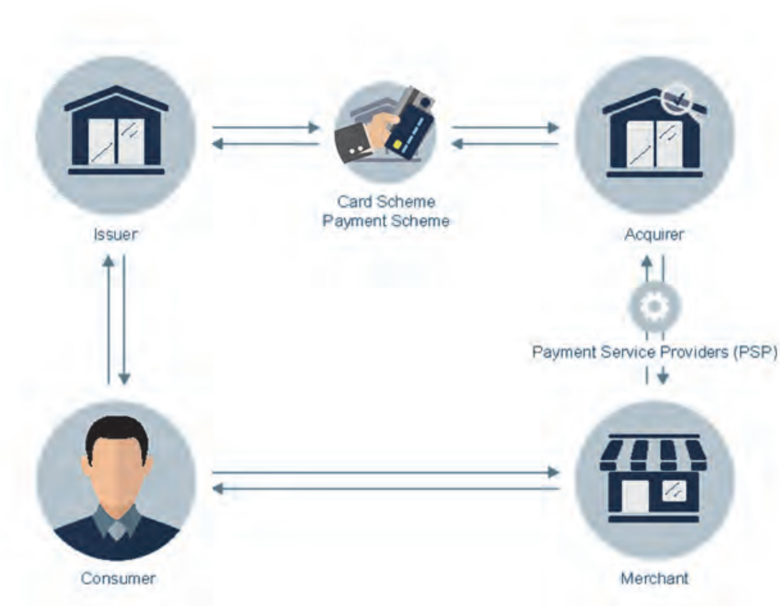
Acquiring and issuing services are linked to one another via the integrated platform which is based on Internet technology. With regard to issuing own payment instruments in the form of cards or mobile payment solutions, the Wirecard Group provides companies with an end-to-end infrastructure, including the requisite licences for card and account products. The uniform platform approach and additional value added services such as data analytics, customer loyalty programmes or retail and transaction banking services support the customers and partners of the Wirecard Group to meet the challenges posed by digitalisation.

Payment industry

Wirecard plays a part in the payment industry as a service provider in the area of electronic payment processing. The business model of the industry is to enable transactions to be completed between customers and retailers by means of secure payment processes. Transactions between consumers and retailers can be processed via all sales channels in real time with the aid of credit card networks or alternative payment processes such as direct debit, invoice and hire purchase or e-wallets. Alongside consumers, retailers and card networks or suppliers of alternative payment systems, this process involves above all payment service providers (PSP), financial services institutions for the acceptance of card payments and card issuing institutions.

The competition and the interrelationships in the industry can be illustrated in simplified form using the four-party model. Credit card companies or suppliers of alternative types of payment provide secure networks or solutions for electronic transactions. Customers want to simply and securely conclude their transactions in real time and possess for this purpose a card product from a card issuing institution (issuer) or use an alternative payment method. It is important for retailers to offer their target groups their favoured type of payment and to keep the number of cancelled purchases and payment defaults as low as possible. In order to process transactions via card networks and distribute money to the retailer's account, the retailer requires an acquirer. Only licensed financial services companies are permitted to offer issuing or acquiring services and thus to carry out the associated transfers of funds. A payment service provider is responsible for the technical processing of electronic payments and supplements these services mostly with risk management and fraud prevention solutions.

Four-party model



Competitive position

Irrespective of the sales channel, Wirecard offers services across all areas of electronic payments to its customers and partners. While there are numerous local and regional competitors around the world who cover individual subsections of the value added chain, Wirecard stands out on the market due to its provision of a full portfolio of services and by combining all services on an integrated platform solution. International customers with complex business models can be supported in all areas of electronic payment transactions. Wirecard enables retailers to reduce the complexity of electronic payment to a minimum and to optimise sales processes by integrating all services from payment processing through to risk management and fraud prevention, value added services and card acceptance via its own and third party financial institutions through to banking services such as treasury and currency management. Valuable additional digital services in the area of data analytics, loyalty programmes and financial services provide retailers with an insight into consumer behaviour and allow them to develop personalised offers.

Furthermore, Wirecard offers physical and virtual issuing products to, amongst others, companies and consumers. The range of services is rounded off with technical processing services for credit card networks and banks, as well as with software solutions for mobile banking applications and mobile and bricks and mortar card acceptance, especially in Asia. Products, services and value added services in the area of payment issuing and payment acceptance can be combined to reduce the complexity of the electronic payment process and all downstream processes to a minimum for retailers.

Software platform

Wirecard's products and services in the area of electronic payment processing, risk management and additional value added services are made available and managed via a global software platform. Wirecard's unique selling point is the combination of innovative payment technology and licensed financial services.

The modular and flexible software platform covers the complete value added chain in the areas of both issuing and acquiring and links the services to create a full payment ecosystem. In combination with modular and globally available technology services and the available licences, Wirecard can offer its customers a comprehensive or tailor-made range of products and services from one source and continuously enhance it to include additional digital and innovative services such as data analytics or financial services:

Reporting segments

Wirecard AG reports on its business performance in three segments. The three segments and their services are highly interconnected at an operational level.

Payment Processing & Risk Management (PP&RM)

The largest segment in the Wirecard Group is Payment Processing & Risk Management (PP&RM). It accounts for all products and services for electronic payment processing, risk management and other value added services.

The business activities of the companies in the Wirecard Group included in the Payment Processing & Risk Management reporting segment exclusively comprise products and services that are involved with acceptance or transactions and the processing of electronic payments and associated processes.

Acquiring & Issuing (A&I)

The Acquiring & Issuing (A&I) segment completes and extends the value chain of the Wirecard Group. In the acquiring business, retailers are offered settlement services for credit card sales for online and terminal payments.

In addition, retailers can process their payment transactions in numerous currencies via accounts kept with Wirecard Bank AG.

In issuing, prepaid cards and debit cards are issued to private and business customers. Private customers are additionally offered current accounts combined with prepaid cards and EC/Maestro cards.

Call Centre & Communication Services (CC&CS)

The complete scope of the value added services offered by our call centre activities in the area of language and text-based dialogue systems (Interactive Voice Response and Chatbots) is reported in the Call Center & Communication Services (CC&CS) segment. In addition, Call Center & Communication Services are also included in the range of cardholder services offered for Wirecard solutions such as boon, mycard2go, Orange Cash, etc. and also for after sales care of our customers or for mailing activities.

Organisational structure

The organisational structure of the Wirecard Group reflects the interconnection of technology and financial services.

The Group parent company Wirecard AG, Aschheim (Germany), assumes responsibility for strategic corporate planning and central tasks involved with corporate management, as well as the strategic guidance and control of the subsidiaries.

The operation and further development of the platform is a core task within the Group and is handled by the technology-oriented subsidiaries. The global availability of Internet technology makes it possible to operate and further develop the technology services to customer and market requirements in a decentralised and modular manner with no or minimal adjustments to the core platform.

In combination with the Group's own licences or in partnership with financial institutions and card networks, Wirecard processes credit card payments (acquiring processing) and handles the technical processing of issuing services (issuing processing). Processing services are a modular component of the software platform and are also handled by the technology-oriented subsidiaries.

These technology services are closely linked to the acceptance of card payments, the issuing of card products and additional financial services. As an innovative partner for global credit card companies, Wirecard possesses the required licences from Visa, MasterCard and others including Unionpay, Amex, DinersClub, JCB and Discover International. This enables it to issue physical and virtual card products (issuing) and accept card payments for retailers and companies (acquiring). In addition to numerous local licenses such as a licence for incoming and domestic money transfers in India (Authorized Dealer, Cat. II) or a Turkish e-money licence, Wirecard also possesses within the Group an e-money licence from the British Financial Conduct Authority (FCA) and a full German banking licence and can offer customers other banking services in addition to acquiring and issuing. Furthermore, credit cards and card-based payments are issued and accepted via third party banking licences and there are acceptance agreements for numerous alternative payment processes.

Wirecard markets its products and solutions via its locations worldwide, whereby the sales and technology-oriented subsidiaries are closely interconnected with the subsidiaries specialising in financial services. The sales activities are structured around the target sectors of consumer goods, digital goods and travel and mobility. Experts in each sector are based at the Group headquarters in Aschheim and provide support to their colleagues at the globally distributed branches during the sales process. Due to the combination of sector and market expertise, the sales structure makes it possible to directly address customers in a targeted manner and thus increases sales success. The local subsidiaries give access to important regions and markets around the world.

The value added chain served by the Wirecard Group is completed by Wirecard Communication Services GmbH based in Leipzig, Germany. This subsidiary offers call centre and communication services internally within the Group and sells these to the customers of Wirecard AG.

A list of the subsidiaries within the Group can be found in the section "Scope of consolidation" in the consolidated financial statements.

Global presence

As a result of its global presence, the Wirecard Group can not only provide its customers and partners who are active worldwide with globally available technology services via its integrated and modular platform solution but also with local support through its regional locations for technology, services and sales. The global presence of Wirecard covers, in particular, the regions of Europe, the Asia-Pacific region, Latin America, North America and the Middle East/Africa. The core European markets are Germany, United Kingdom, Ireland, Austria and Romania. In the Asia-Pacific region, the operational units in the region are managed from the Asian head office in Singapore. The North American market is served from our office in the United States of America. The remaining regions are addressed by subsidiaries in the United Arab Emirates, India, South Africa and Brazil.

Changes to the Group structure

During the course of the 2017 fiscal year, the group structure changed mainly as a result of corporate acquisitions.

On 9 March 2017, the acquisition of Citi Prepaid Card Services, Conshohocken (Pennsylvania/USA), a leading issuer and programme manager in the area of institutional prepaid cards within the Citigroup, was successfully concluded.

All shares in the leading payment service provider (PSP) MyGate Communications Pty Ltd., Cape Town (South Africa) were acquired and consolidated on 6 March 2017.

On 13 March 2017, Wirecard AG and the Citigroup subsidiaries CITIBANK, N.A. and CITIBANK OVERSEAS INVESTMENT CORPORATION agreed the acquisition by Wirecard AG of the customer portfolios of Citi's credit card acceptance business in eleven Asian-Pacific markets (Singapore, Hong Kong, Macau, Malaysia, Taiwan, Indonesia, the Philippines, Thailand, India, Australia and New Zealand). The closing and the integration of the individual countries will take place by the end of the current fiscal year.

As part of the organic expansion of the company's global presence, additional strengthening of sales activities and the organisational and technical restructuring within the Wirecard Group, the following companies were newly founded in the 2017 fiscal year: Wirecard (Thailand) Co. Ltd., Bangkok (Thailand), Wirecard E-Money Philippines Inc., Manila (the Philippines), Wirecard Issuing Technologies GmbH, Aschheim (Germany), Wirecard Service Technologies GmbH, Aschheim (Germany) and Wirecard Acceptance Technologies GmbH, Aschheim (Germany).

Please refer to the notes to the consolidated financial statements for further details on the legal structure of the Wirecard Group, the changes in the Group structure and a full list of all consolidated subsidiaries in the Group.

Organisation, management and supervision

The Group parent company Wirecard AG, headquartered in Aschheim near Munich, assumes responsibility for strategic corporate planning and the central tasks of human resources, legal, treasury, controlling, accounting, M&A, strategic alliances and business development, risk management, corporate communications and investor relations and facility management. The holding company also manages the acquisition and management of participating interests. The Management Board of Wirecard AG is responsible for the management of the Group.

The Management Board of Wirecard AG remained unchanged as of 31 December 2017 compared to the previous year, consisting of three members:

- Dr. Markus Braun, CEO, CTO
- Burkhard Ley, CFO
- Jan Marsalek, COO

Burkhard Ley stepped down from the Management Board of Wirecard AG with effect from 31 December 2017. On 1 January 2018, his successor Alexander von Knoop became the new Chief Financial Officer and Susanne Steidl became the Chief Product Officer on the Management Board of Wirecard AG.

The Supervisory Board of Wirecard AG remained unchanged as of 31 December 2017 compared to the previous year, consisting of five members:

- Wulf Matthias, Chairman
- Alfons Henseler, Deputy Chairman
- Tina Kleingarn, Member
- Stefan Klestil, Member
- Vuyiswa V. M’Cwabeni, Member

Tina Kleingarn stepped down from the Supervisory Board of Wirecard AG with effect from 31 December 2017.

The remuneration scheme for the Management Board consists of fixed and variable components, while the remuneration scheme for the Supervisory Board consists of fixed components. Further information can be found in the Corporate Governance Report.

1.2 Employees

Personal responsibility, motivation, commitment and the will to achieve mutual success characterise the global Wirecard team.

The highly qualified and international employees of Wirecard AG play a significant role in the success of the business across all areas of the Group. Their effort and commitment make it possible for Wirecard to be a driver of innovation and thus position itself as the leading specialist for services within the entire payment ecosystem.

Wirecard as an attractive employer

Wirecard is a young, dynamic and ambitious technology company that is a popular employer due to its spirit of a high growth start-up and its position as a global TecDax company.

Wirecard offers its employees long-term perspectives and promotion prospects in a rapidly growing, successful company. In addition, the company provides a modern working environment at its headquarters, with extra company services such as a canteen, fitness area, incentives and employee events. The HR strategy focuses on continuously increasing employee satisfaction, while the “trust flexi-time”, which was introduced several years ago, allows employees to work flexible hours in accordance with those working hours required in the relevant departments. Due to Wirecard's culture of mobile attendance, employees are able to balance child care with their working hours in the best way possible. The option of taking a three to six-month sabbatical is also offered.

Human resources strategy

Key points of the HR strategy include bringing out the best in existing employees, unleashing talent, potential and expertise and fostering the loyalty of employees to the company, as well as ensuring the availability of personnel that are required both currently and in the future. Furthermore, the company has the goal of promoting diversity irrespective of origin and gender. Therefore, the strategy places its focus on HR marketing, the selection of personnel, human resources development, the retention of personnel and diversity.

Human resources marketing

To ensure the sustainable growth of Wirecard AG, the future availability of qualified employees and talent must be guaranteed, especially in the areas of research and development and IT. Alongside graduates and young professionals, it is also very important to attract experienced specialists. In order to satisfy the high demands placed on the quality of new employees and also to cover the great need for personnel, Wirecard works closely together with recruitment agencies and service agencies that focus on the placement of IT specialists.

Selection and integration of personnel

An important factor for the quick and successful integration of new personnel is their selection based on requirements at the company. As an employer, Wirecard wants to enable its new employees to tap into their full potential as quickly as possible. In cooperation with service providers and also in its independent selection of candidates, the focus is primarily placed, alongside the character and social skills of the applicants, on matching their profile as closely as possible to the requirements of the position to be filled. The selection process, especially in the areas of research and development and IT, thus involves not only personal interviews but also an intensive evaluation of the candidate's specialist knowledge and skills.

An individual induction process for new employees, which is adapted to the area of the company and the field of employment, is then provided by superiors and colleagues. Central introductory events organised by the HR department and individual operating units within the Group offer new employees the opportunity and possibility to integrate quickly, as well as to establish an internal network and build up knowledge specific to the company.

Human resources development

The HR department supports management in helping employees develop optimally based on their skills and qualifications. Adherence to fundamental social principles and taking action based on entrepreneurial thinking are indispensable to Wirecard AG managers. They are broad-minded from an intercultural perspective and deploy a management style that fosters an open climate in which employees become more strongly integrated into decision-making processes, as well as promoting a team approach with the objective of developing ideas and advancing innovations.

The development of our employees through measures tailored to suit each individual and in harmony with our corporate objectives is one of the essential tools in our HR development strategy. Here, the personal development of each individual is considered in the context of entrepreneurial success, in order to explore developmental perspectives tailored to the requirements of each employee.

Regular development discussions between managers and employees, together with the performance targets that are agreed at these meetings, help our employees to bring their skills, performance and personal potential to bear to our mutual advantage. This is accompanied by HR development activities to further develop our employees' strengths. As far as possible, Wirecard offers its employees interesting perspectives for further development in other areas of the business where desired.

Diversity

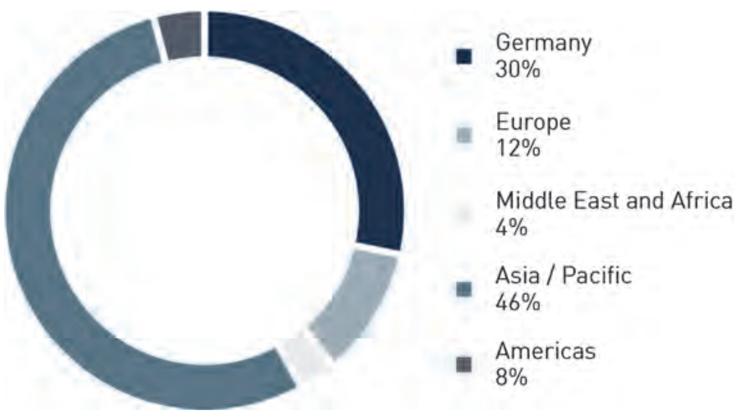
Wirecard supports equal opportunities in all areas and places great importance on offering all people the same opportunities irrespective of their origin, their cultural or religious affiliations, their gender or their age. Wirecard is proud of this diverse personnel structure and considers diversity a core element of its corporate culture. Wirecard has employees from more than 83 different nations throughout the world. As a young, innovative and interculturally broad-minded company, Wirecard integrates employees into decision-making processes. As an employer, Wirecard is characterised by flat hierarchies and an open, respectful working environment based on mutual appreciation.

Wirecard deploys specific employer branding activities to position itself as an attractive employer, in order to recruit specialists from all areas worldwide. Due to the dynamic growth in the year under review and the expected level of demand in the future, the activities associated with resource planning and the acquisition of talent are being internationalised and diversified. Alongside globally distributed development centres whose employees make a significant contribution to the Group's overall research and development activities, there will also be increased recruitment of international experts at the Group headquarters in Aschheim.

The Wirecard Group employed an average of 4,449 employees (2016: 3,766), excluding members of the Management Board of Wirecard AG and trainees, during the course of the 2017 fiscal year, of which 75 (2016: 61) were employed by a subsidiary as members of the Management Board or as managing directors. The increase in the average number of employees is due to corporate acquisitions in Europe, South Africa, South America, North America and the APAC region, as well as to the organic growth of the Wirecard Group. The 4,692 employees of the Wirecard Group were distributed across the following regions on the reporting date of 31 December 2017:

- Germany: 1,388 (2016: 1,145)
- Europe excluding Germany: 567 (2016: 452)
- Asia Pacific (APAC): 2,173 (2016: 2,106)
- Middle East and Africa (MEA): 194 (2016: 118)
- Americas (AMER): 370 (2016: 181)

Employees according to region (values rounded)



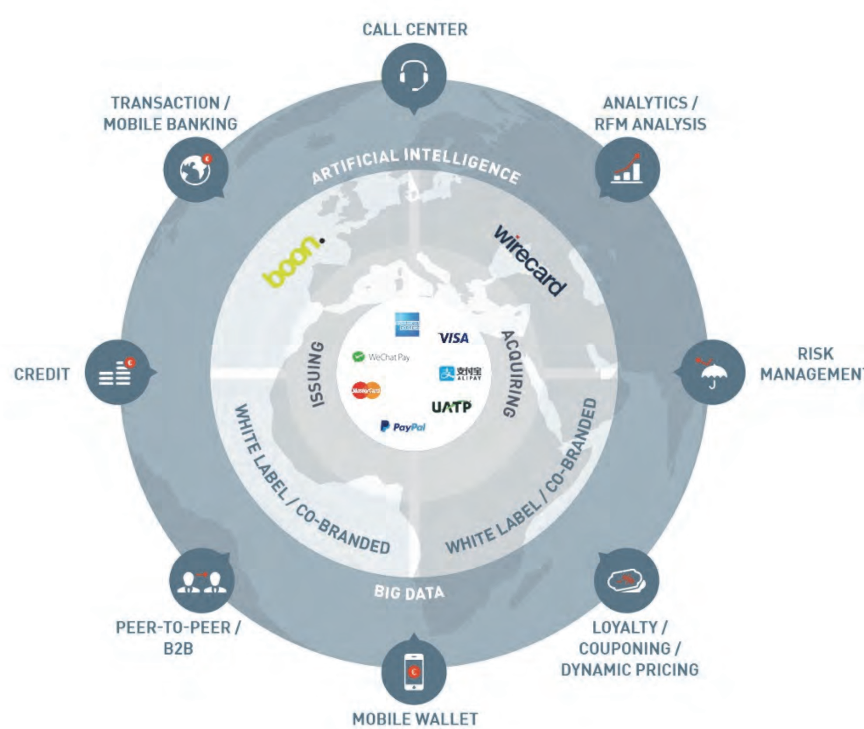
In Germany, the number of female employees at the Wirecard Group was 621 as of 31 December 2017, comprising around 45 percent of the total employees (31 December 2016: 520 female employees, around 41 percent). At the first management level (directly reporting to the Management Board), a total of 6 women and 12 men were employed in Germany in the year 2017 as of the reporting date (2016: women: 5, men: 10). At the second management level, a total of 13 female and 31 male managers were employed in Germany (2016: women: 13, men: 25). With respect to comparability with the previous year's figures, it should be added that the operating site in Slovakia (Europe region) for Wirecard Technologies GmbH (Europe region) was allocated to the Germany region in the 2016 fiscal year; the figures for the previous year that were published in the 2016 fiscal year have been presented.

2. BUSINESS ACTIVITIES AND PRODUCTS

2.1 Business activities

Overview

As one of the world's leading technology companies for electronic payment processing and payment solutions, Wirecard relies on the constant development of its own innovations so as to successfully accompany its customers and partners in the realisation of their international digitalisation strategies. For this purpose, tailor-made and comprehensive digital solutions within the entire payment ecosystem are created for all sales channels:



Through its diverse range of products and services along the entire value added chain and the combination of software technology and banking products, Wirecard covers it core business in the area of electronic payment processing and acceptance and also links this with new, innovative products that are being continuously developed in the area of issuing. We provide our customers, in particular, with innovations for the digitalisation of bricks and mortar trade and expanded mobile payment functions. Associated, digital value added services such as data analytics tools or transaction and retail banking services round off the range of services for creating a global, integrated payment ecosystem on the integrated platform which is based on Internet technology.

In the area of payment processing and acceptance, the global multi-channel platform provides local and international payment methods in all important currencies together with corresponding fraud-prevention solutions. We use our technological expertise and our integrated, digital platform to support our customers and partners to reproduce and set up their payment infrastructure in all sales channels and integrate further innovative value added services.

In the business area dealing with the issuing of own payment instruments in the form of physical or digital payment solutions, Wirecard provides companies with an end-to-end operational infrastructure, which optionally includes the requisite issuing licences from Visa and MasterCard for card and financing services as well as for account and bank products.

Furthermore, new functions and value added services are being continuously added to our own mobile payment solution boon, which is available in various European countries and is not tied to any bank. Newly developed functions include, for example, the integration of virtual cards as payment methods in e-commerce, the use of touch IDs and the provision of micro loans.

Business model

Central to the Wirecard Group's business model are transaction-based fees for the use of services in the area of electronic payment processing. End-to-end solutions along the entire value chain are offered both for payment and acquiring services and for issuing solutions. The flexible combination of our technology and banking services, as well as other services, is what makes Wirecard a unique partner for customers of all sizes and from all sectors.

USPs

Wirecard's unique selling points include the combination of technology with financial products, the global orientation of the payment platform and innovative and digitalised solutions that allow payments to be processed efficiently and securely for retailers. Wirecard can thus offer sector-specific complete solutions to customers from all industries that comprise card issuing, payment processing, risk management, card acceptance and additional banking and value added services.

The major share of consolidated revenues is generated on the basis of business relations with providers of both goods and services on the Internet who outsource their electronic payment processes to Wirecard AG. As a result, technical services for the processing and risk analysis of payment transactions, as performed by a payment services provider, and payment acceptance performed by licensed entities, are closely interlinked.

As well as the core business in the area of e-commerce, coverage of the entire payment value chain within the Group makes it possible to address additional business fields. Wirecard AG is in an ideal position to enter into strategic partnerships and business relationships with banks and FinTech companies due to the Group's two licensed financial services providers Wirecard Bank and Wirecard Card Solutions. Alongside the relevant licences and legal framework, Wirecard also offers, in particular, products and solutions from the areas of electronic payment processing, Internet-based banking services, risk management and technological expertise.

Alongside the core services from the transaction-oriented business model, Wirecard also finances loans in individual cases. The lenders are generally external third parties, i.e. private consumers or companies, but not FinTech companies themselves. The loans are issued according to strict rules and internal bank guidelines. The risk of default is minimised using loan collateral such as guarantees.

Core sectors

The Wirecard Group's operating activities in its core business are structured according to three key target industries and are addressed by means of cross-platform, industry-specific solutions and services, as well as various integration options:

– Consumer goods: This includes retailers who sell physical products to their target group (B2C or B2B). This customer segment comprises companies of various dimensions, from e-commerce start-ups through to major international corporate groups. They include Internet pure players, multi-channel retailers, teleshopping retailers and purely bricks and mortar retailers. The industry segments are highly varied: from traditional industries such as clothing, shoes, sports equipment, books, entertainment systems, computer/IT peripherals, furniture/fittings, tickets, cosmetics and so on, through to multi-platform structures and marketplaces.

– Digital goods: This sector comprises business models such as Internet portals, download sites, app software companies, career portals, dating portals, gaming providers, telecommunications providers, Internet telephony, sports betting and gambling such as poker.

– Travel and mobility	The customer portfolio in this sector primarily comprises airlines, hotel chains, travel portals, tour operators, travel agents, car rental companies, ferries and cruise lines, as well as transport and logistics companies.

2.2 Products and solutions

Wirecard supports companies across all areas of electronic payment processing and acceptance, the issuing of payment instruments and through valuable, associated additional services such as data analytics or transaction and retail banking services. All of the services required for this purpose are offered worldwide within the Wirecard Group. Wirecard's global platform solution based on Internet technology enables acquiring and issuing services to be linked with digital value added services according to individual needs. As a result, it is possible to offer customers and partners a full range of products and services within the payment ecosystem that has been individually tailored to their requirements. Payment processing and the issuing of payment instruments can be offered across all sales channels, whether online, mobile or digitally in the bricks and mortar trade, and combined with risk management and additional services. Thanks to the flexible structure of the platform, Wirecard is the ideal partner for supporting customers when taking on the challenges posed by digitalisation.

Multi-Channel Payment Gateway – global payment processing

Wirecard's Payment Gateway, which is linked to more than 200 international payment networks (banks, payment solutions, card networks), provides technical payment processing and acquiring acceptance via the Wirecard Bank and global banking partners, including integrated risk and fraud management systems.

In addition, country-specific, alternative payment and debit systems as well as industry-specific access solutions such as BSP (Billing and Settlement Plan in the airline sector), or the encryption of payment data during payment transfers (tokenisation), can also be provided. Furthermore, Wirecard offers its customers call centre services around the clock with trained native speakers in relevant languages and thus assists retailers in taking orders and providing customer support.

Thanks to modular, service-oriented technology architecture, Wirecard can flexibly adapt its business processes to fit the market conditions at any time and hence respond quickly to new customer requirements. In particular, the omnichannel approach is being continuously implemented in the platform. Transactions will be processed via the software-based platform irrespective of the location of the payment (retail store, Internet shop, mobile application, telephone, e-mail, etc.). Retailers can thus flexibly design all of their business processes from the various sales channels and monitor and optimise them with the help of real-time reporting and business intelligence tools. As the platform architecture is Internet-based, it is possible to carry out individual process steps centrally at a single location or, alternatively, to distribute them across the various subsidiaries and process them at different locations around the world.

Wirecard supports all sales channels with payment acceptance for credit cards and alternative payment solutions (multi-brand), technical transaction processing and settlement in several currencies, and offers mobile solutions at the point-of-sale, in-app payment software solutions and PoS terminal infrastructure based on IP technology, as well as numerous other services.

Payment acceptance solutions – payment acceptance/credit card acquiring

The technical services that retailers use for payment processing and risk management are mostly used in combination with the acquiring services offered by Wirecard Bank AG, other licensed entities within the Wirecard Group or third party financial services partners.

In addition to the Principal Membership held with the credit card companies Visa and MasterCard, acquiring licence agreements are also in place with JCB, American Express, Discover/Diners and UnionPay. Furthermore, our acquiring licensing agreements for alternative payment methods will be further expanded to offer customers the most personalised and convenient payment process possible. Banking services such as foreign exchange management supplement the outsourcing of financial processes.

Issuing solutions

Wirecard has issuing licences from Visa and MasterCard, an e-money license and a full banking licence for the SEPA region, as well as an e-money licence for Turkey. In addition, the company possesses long-standing experience in the issuing of various card products such as credit, debit and prepaid cards. This comprehensive range of products and services also includes the management of card accounts and the processing of card transactions (issuing processing). Alongside its own card products, Wirecard also enables its customers and partners to issue credit cards in the form of physical card products (non-NFC-enabled and contactless cards, as well as NFC stickers) or virtual cards for use in e-commerce. Moreover, Wirecard offers mobile and digital solutions for payment in the bricks and mortar trade or for in-app payments.

Mobile solutions

Wirecard offers its customers and partners the opportunity to play a leading role in the acceptance and issuing of mobile payment solutions. Alongside the acceptance of payments via mobile devices in the area of mPOS, the company also offers solutions in the area of mobile banking and innovative issuing products for the use of mobile devices such as smartphones to make payments in the bricks and mortar trade.

The term mPOS describes the acceptance of card-based payments via mobile devices. This is made possible, for example, through the use of a mobile card reader that is combined with a smartphone, allowing the smartphone to be used as a mobile electronic card terminal.

Wirecard enables customers to seamlessly integrate payment processing into applications for mobile devices and ensures the secure processing of the corresponding transactions. The in-app payment services offered by Wirecard make it possible for retailers to deliver a consistent sales process for goods and services directly via a mobile application.

Mobile wallets or mobile payment apps enable contactless payment via smartphones using near field communication technology (NFC). The encrypted card data is usually stored in the issuer's secure server environment using the host card emulation process available on the device itself via an Apple, Google or Samsung wallet. In order to make a payment, the user holds their device against an NFC-enabled card terminal. An app on the user's device can be used, for example, to view transaction data in real time, manage the card and add additional services such as customer loyalty programmes or coupons. Wirecard supplements mobile payment applications by offering technical payment processing, management of customer accounts and other functionalities such as peer-to-peer money transfer functions or value added services such as data analytics tools.

Using software developer kits (SDK), Wirecard enables retailers, financial service providers and other companies to integrate mobile payment processes into their own mobile applications and devices.

New functions and value added services are being continuously added to “boon.” – Wirecard’s mobile payment app and Europe’s fastest growing mobile payment solution. Following its launch in 2015, the “boon.” app is now available in Belgium, Germany, Ireland, the Netherlands, Austria and Spain via Android and in the United Kingdom, France, Ireland, Italy, Switzerland and Spain also in the Apple Pay Wallet via iOS as a fully digital credit card. Newly developed functions include, for example, the integration of virtual cards as payment methods in e-commerce, the use of touch IDs and the provision of micro loans in Spain in the Android version.

Value added services/card linked offers/couponing and loyalty

Value added services provide retailers and partners with opportunities for personally addressing customers, target group-oriented advertising, messages about customised offers and vouchers and customer loyalty programmes. Fully in line with the trend towards digitalisation and converging sales channels and payment systems, solutions are offered that enable customers to participate in value added services across sales channels with a payment method that only needs to be registered once. The Integrated Couponing & Loyalty System in the software platform supports various different types of campaign and redemption mechanisms, such as goal-driven campaigns, stamp cards, coupons and cashback. In the couponing and loyalty area, other value added services are currently being developed that will enable specific groups of customers to be targeted on the basis of their purchasing behaviour. The central platform solution for integrated payment processing enables bricks and mortar retailers to digitalise numerous areas such as payments, data collection or couponing and loyalty and access them in real time.

Wirecard’s Omnichannel ePOS Suite offers a fully integrated solution for self-learning analyses in the areas of customer conversion optimisation and risk management technology. The solution provides, for example, information on customer value and customer migration rates. Wirecard’s Business Intelligence Tool enables operators of online shops to individually adapt their risk management settings to user-specific templates and follow all relevant key performance indicators (KPI) in real time.

The mobile digital platform Wirecard ePos app enables bricks and mortar retailers to access a broad range of international payment options and digital value added services. Retailers can integrate the payment methods into their existing infrastructure using smartphones and tablets and benefit from real time reporting and methods for customer analysis.

Risk/fraud management solutions – risk management

Wide-ranging tools are available to implement risk management technologies in order to minimise the scope for fraud and prevent fraud (risk/fraud management). The Fraud Prevention Suite (FPS) utilises rules and decision-making logic based on artificial intelligence. Decisions about the acceptance or rejection of transactions are taken in milliseconds based on historical data in combination with dynamic real-time checks. Wirecard provides comprehensive reports, e.g. on what proportion of transactions are rejected and why, as well as corresponding tools, to assist retailers in optimising the set of rules for the decision-making logic. Age verification, KYC (Know Your Customer) identification, analysis via device fingerprinting, hotlists and much more are included in the risk management strategies. An international network of service providers specialising in creditworthiness checks can be additionally integrated into the analysis, depending on the retailer's business model. Wirecard's risk and fraud prevention technologies are utilised both during payment processing and acceptance and also during the issuing and application of issuing products. Wirecard enables its customers to securely process payments irrespective of the sales channel and thus to minimise the number of cancelled purchases and increase the proportion of successful transactions.

3. CORPORATE MANAGEMENT, OBJECTIVES AND STRATEGY

3.1 Financial and non-financial targets

Wirecard's technology-driven services and our goal to be at the forefront of dynamically progressing technological developments make it possible for our customers and partners to benefit from the digitalisation of the payment process. By linking payment processing and acceptance with innovative and digital issuing solutions and associated value added services such as data analytics, currency conversion services, other digital banking services in the retail sector and transaction banking and loyalty programmes, Wirecard is able to offer its customers a full range of products and services within the entire payment ecosystem irrespective of the sales channel, all from one source.

Sustainable, income-oriented company growth lies at the heart of all of our financial and non-financial targets – growth which likewise has a positive impact on the value of the company. The central operating financial performance indicator is earnings before interest, tax, depreciation and amortisation (EBITDA).

In the 2018 fiscal year, we expect an EBITDA of between EUR 510 million and EUR 535 million. This forecast is based on, amongst other things, the continued dynamic growth of the global e-commerce market, the trend towards digitalisation in bricks and mortar retailing, the acquisition of new customers, cross-selling effects with existing customers and the continuous expansion of the value added chain to include valuable additional services such as data analytics, loyalty programmes or financial services. As the result of the continuously rising number of customer relationships and growing transaction volumes, we expect further economies of scale from our transaction-oriented business model.

In addition, an important part of our financing policy is retaining a comfortable level of equity and keeping liabilities at a moderate level. Our goal is to finance the operating business and the associated organic growth from our own resources.

Additional financial objectives are presented in the Management Report, III. Forecast and report on opportunities and risks.

We strive to support the global expansion of our existing customers and to integrate all relevant payment methods and technologies into the global Wirecard platform. This involves pushing forward both the expansion of connections to existing international banking networks and also the convergence of all sales channels – whether online, mobile or at the POS – that is being driven by digitalisation. At the same time, our aim is to guarantee our customers products and services with an above-average level of quality, a goal which management controls through constant contact with its customers.

Furthermore, our employees form the foundations for our pronounced innovative strength and the resulting growth. The motivation of employees and developing the personal skills of individual employees are thus an integral component of our corporate strategy. Employee development is based on individually agreed targets that are not only measured against the success of the company but also from the perspective of the person's own personal development.

The Wirecard Group continuously assesses its strategic decisions according to the aspects outlined above. The aim is to leverage Wirecard AG's fundamental strengths in order to continue to increase earnings in the next two years. At the same time, we are committed to deploying innovative solutions to support our customers in handling an increasingly complex environment so that they can increase and simultaneously secure their revenues. In doing so, we keep a close eye on market developments, so that we can react flexibly and responsibly with regard to costs, regulations and future events.

Sustainability

Wirecard AG is a globally oriented Group pursuing a primarily organically led growth strategy. Sustainable corporate management, which alongside strategic development pays particular attention to the Group's social responsibility as well as the needs of its employees, customers, investors and suppliers, and also those groups associated with the company, consequently plays an increasingly significant role in upholding stakeholder value, as well as the company's corporate social responsibility (CSR).

A non-financial declaration must be published for the first time for the 2017 fiscal year. It will focus on non-financial aspects important to the Wirecard Group and describe the company's goals in relation to economic, environmental and social issues in more detail. This non-financial declaration will be available from 30 April 2018 on our website: https://ir.wirecard.com/financialreports

3.2 Group strategy

Strategic developments in the 2017 fiscal year

With operating earnings before interest, tax, depreciation and amortisation of EUR 412.6 million, Wirecard AG achieved its targets. The strategy based principally on organic growth, as well as targeted expansion in global growth markets, was successfully implemented. The Management Board and employees have exploited scaling potential, maximised value added and continued to push forward the internationalisation of the company. As a result, it was possible to increase the EBITDA margin in the 2017 fiscal year. The EBITDA margin describes EBITDA in relation to revenues and stood at 27.7 percent for the full 2017 fiscal year (2016: 29.9 percent).

As part of the global growth strategy, Wirecard is striving to establish a worldwide network of service and technology locations. Through the acquisition of the prepaid card business of Citigroup in the USA and the customer portfolio for card acceptance of Citigroup in the Asia-Pacific region (APAC), the Wirecard Group has come a significant step closer to realising this vision. These two transactions significantly extend the company's geographical reach and also the available licensing framework. In future, the goal is to further expand the existing licences for the issuing of card instruments and payment acceptance in selected countries and to push forward the expansion of our digital platform solution.

Strategic orientation of the Group and further development of the business model

The Management Board of Wirecard plans, implements and monitors the strategy. Based on the financial and non-financial targets described in the previous chapter, the strategy focuses on the further sustainable and value-oriented growth of the Group. The orientation of the Group and the further development of the business model are based on the following strategic pillars: Provision of a flexible platform, integration and expansion of the payment value added chain to include innovative value added services and the globalisation of the business model.

Provision of a flexible platform

As a technology company whose products and services are based entirely on Internet technology, Wirecard benefits to a disproportionate extent from the development described above. As a result of the strategic course set in previous years and followed since then, Wirecard can today offer its customers integrated solutions from one technological platform. The integrated multi-channel platform acts as an interface for payment acceptance, issuing, value added services and financial services.

Wirecard provides its partners and retailers with a full range of services. Irrespective of the sales channel, payment processing and the acceptance of credit cards and alternative payment methods are handled through one source. This also opens up the additional potential in the growth market of e-commerce for Wirecard to manage some of the transaction volumes processed in bricks and mortar retailing via software-based mobile payment and mobile payment acceptance solutions. Which end device is used or whether the transaction is completed in a bricks and mortar store, online, mobile or even by self-checkout will play a subordinate role in the future.

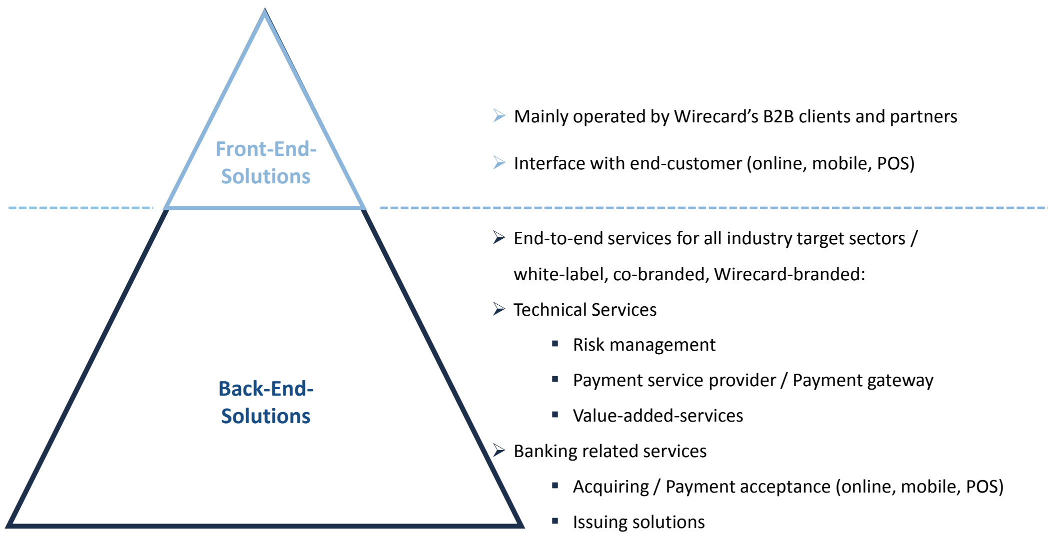
It will be possible to offer customers a diverse range of payment instruments such as (credit) cards or other mobile payment methods by linking these with innovative issuing solutions. Additional value added services such as voucher cards, bonus points or customer loyalty programmes that are handled in real time together with the transaction offer bricks and mortar or online retailers the opportunity of communicating directly with their customers. Combining these services with financial services for end consumers as well as retailers also promotes long-term customer loyalty.

Furthermore, the flexible technology platform acts as the basis for the Bank-as-a-Service solution in which Wirecard creates an interface between traditional banks and FinTech start-ups.

Integration and expansion of the payment value added chain to include innovative value added services

Wirecard offers its customers the full value added chain through its products and solutions based on Internet technologies, across all areas of electronic payment processing and acceptance, and through the issuing of card products. The resulting complete range of services based on Internet technologies for all industries makes it possible to significantly reduce the complexity of electronic payment for the customers of Wirecard. By integrating all back-end processes in the Group and via front-end solutions offered primarily on a white label basis, the conditions are created for utilising synergy effects and reducing costs. The extensive scope of the Group's value added activities will also make a major contribution to profitability in the coming years.

End-to-end services



Anticipating future developments and advancing innovations is anchored in the Wirecard strategy. The comprehensive range of products and solutions is based on a highly scalable software platform that is linked to banking services, risk management services and value added services such as data analytics and financial services. The area of research and development remains an important pillar for also achieving above-average growth in the future as a driver of innovation.

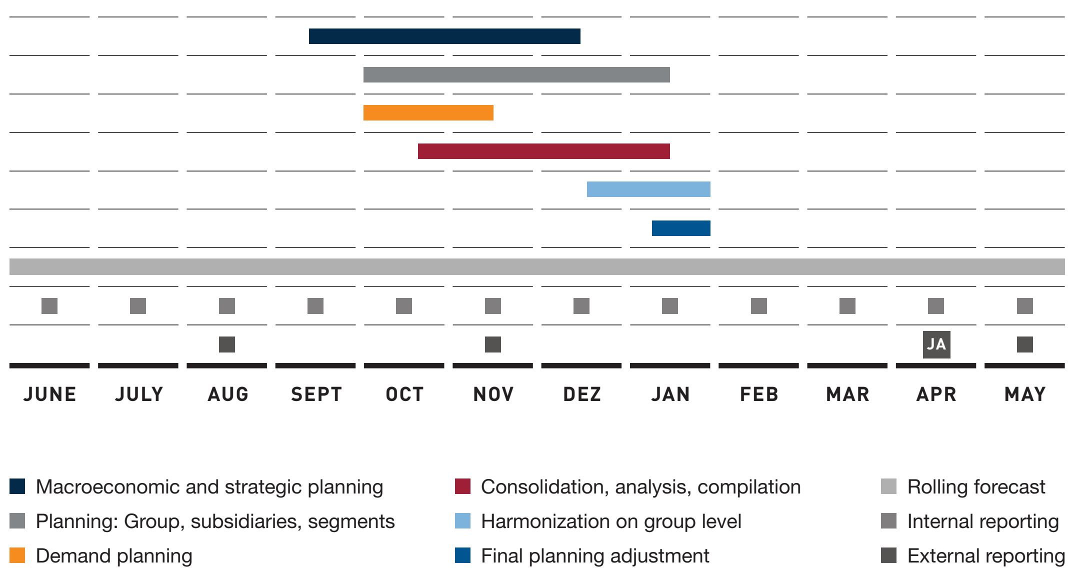
Globalisation of the business model

The internationalisation of e-commerce and the associated level of complexity and risk in the payment area are constantly rising across all target sectors. Globally active companies require a partner who can guarantee the acceptance of globally and locally relevant payment methods including connections to local banking networks, who at the same time can minimise fraud and risk for retailers and who can offer full payment solutions all from one source.

Wirecard enjoys an international presence with locally networked units and integrates all relevant payment methods into its global platform. The geographical growth strategy is closely linked with the objectives of supporting customers and partners globally in the best way possible through secure payment processing and acceptance and further increasing Wirecard's expertise in the area of risk management. The Wirecard Group will continue to pursue primarily organic growth in its core markets. In the past, acquisitions were used to develop a global network of service and technical locations. Following the company's entry onto the US market which was completed in early 2017, Wirecard now has a global presence. Alongside the continued organic development of Wirecard's global presence, selected acquisitions will form part of the growth strategy in future in order to also strengthen some international markets and complete the existing regional payment value chain. Acquisition opportunities will be reviewed according to a conservative M&A strategy.

In particular, acquisitions could serve to achieve the goal of processing significant additional transaction volumes via the Wirecard platform. The strategy envisages providing customers of the Wirecard Group with excellent quality and access to technology and services that can be readily provided through the company's presence on all continents.

3.3 Corporate management



In order to achieve the company's targets (Management Report, I. Foundations of the Group, Chapter 3.1), the planning and reporting system of Wirecard AG supports and secures the successful implementation of the strategy formulated by the Management Board (Management Report, I. Foundations of the Group, Chapter 3.2).

Short and medium-term targets are set on the basis of the company's long-term strategy. Targets are set based on a detailed analysis of relevant market trends, the economic environment, the development and planning of the product portfolio and the company's strategic positioning on the market.

The annual plans at the levels of the overall Group, its subsidiaries and individual segments are prepared by analysing the financial position in the past as well as by future planning and target values. The planning system and its methodology are supplemented to reflect new accounting standards, new product developments and changes to the Group structure. Careful and precise planning is performed based on the individual specialist departments. The targets are finalised at Group level taking into account expected market growth and including all internal departmental planning results. New acquisitions are integrated seamlessly into the budgeting process and the management system. This methodology ensures demand-oriented budgeting and detailed coordination with the Management Board.

The Wirecard Group's in-house management system serves, in particular, to determine and evaluate the achievement of these targets. It is based on independent control models for each business segment. Defined key performance indicators are controlled and monitored continuously. The central indicators for corporate management are predominantly quantitative in nature, such as transaction and customer numbers or revenues and minute volumes, as well as additional indicators such as the profitability of customer relationships. Here, the focus is on profitability measured using EBITDA, as well as the relevant statement of financial position ratios.

The key performance indicators are consolidated at Group level and entered into a rolling forecast of future business growth together with the financial results. The individual key performance indicators make it possible to measure whether the various corporate targets have been or will be achieved.

Monthly reporting and ongoing analyses are the central steering elements used in controlling. Changes in business trends are identified at an early stage through continuous monthly comparisons of the reported key indicators with business planning. This allows corresponding countermeasures to already be adopted in the early stages of a deviation from the plan. The Management Board and business area managers are constantly informed of the status of the key performance indicators as part of company-wide reporting.

The internal management system enables management to respond flexibly to changes within a dynamic market environment. It is thus an important component underlying Wirecard AG's sustainable growth.

4. RESEARCH AND DEVELOPMENT

Wirecard's technology-driven services across the entire payment ecosystem enable our customers and partners to benefit from the digitalisation of the payment process. Our goal is to be at the forefront of dynamically progressing technological developments, supporting our business partners with innovative solutions. The customer-oriented and innovative research and development activities – a central operational component of the Wirecard Group – ensure Wirecard's success and lay the foundations for the future growth of the Group.

The customer portfolio of the Wirecard Group comprises a cross-section of all relevant industries. A deep understanding of the requirements of customers, as well as of the respective market environment, enables us to further develop products and services based on these requirements and use innovation to push forward the markets. A global presence guarantees a special understanding of the characteristics particular to local regions and their market-specific requirements.

Wirecard relies on a central planning strategy, whose rigorous and decentralised implementation at the development centres at most Wirecard locations is based on internal research and development networks. The modular approach enables the efficient implementation and further development of our technology services to incorporate regional customer and market requirements with no or minimal adjustments to the core platform.

Due to a modular and scalable platform, the Wirecard Group is able to offer its customers innovative solutions along the entire payment value chain that can be adapted flexibly to meet specific requirements. The efficient use of resources in a highly dynamic market environment is guaranteed through the use of the latest technologies and innovative software solutions, primarily developed internally within the company and astutely supplemented by services offered by third party providers, as well as by agile development methods.

4.1 Research and development results

In the 2017 fiscal year, research and development activities focussed on expanding and implementing innovative solutions in mobile payment in the linked areas of payment acceptance, issuing and value added services along the entire payment value chain, as well as on advanced developments for the fully automated integration of small and medium-sized customers through to large customers. In addition, the research and development activities focussed on the area of data analytics.

In the 2017 fiscal year, the company continued the technical consolidation of Wirecard India Private Limited. In addition, the technical consolidation of the new subsidiary in the USA, Wirecard North America Inc., and the integration of the international platforms from the acquisition of Citi

Prepaid Card Services in the USA were started. The first steps for migrating the customer portfolio acquired from the Citigroup have been taken in the APAC region.

As in the previous fiscal year, the integration and consolidation of technical platforms plays an important role in the leveraging of synergies. As a consequence, Wirecard customers worldwide have access to an extensive, constantly growing and standardised portfolio of products and solutions within the payment ecosystem via an integrated platform.

The predominant megatrends in the payment industry are also having an impact on our research and development activities. New technologies and trends are investigated at an early stage in our Wirecard Labs where we transform them into innovative product solutions. In this context we refer you to our detailed explanations in the Forecast in Chapter 1.3 Global megatrends and positioning of Wirecard.

Payment acceptance

In the core area of payment acceptance, Wirecard's omnichannel solutions are being continuously expanded in order to provide customers with a homogeneous payment infrastructure. Wirecard offers its customers all of the necessary national and international payment functions, as well as corresponding services in all important units of currency.

In the reporting period, alternative payment processes such as WeChat Pay, Pay by Bank app, barzahlen.de, Klarna, Payolution, Safety Pay and Paydirekt were integrated into the global portfolio of services. Wirecard is now also offering the possibility of making payments in South Africa via the instalment option MobiCred.

Wirecard has also enhanced the digital product portfolio at the point-of-sale and now offers a “cash@pos” solution, which is also described as a “purchase with cashback function”. The solution provides cardholders with the possibility of withdrawing cash from their card account directly on-site from a retailer. The payment solution Alipay Spot Pay enables Chinese tourists to pay directly at the retailer's point-of-sale via barcode using their Alipay app. This barcode solution is also available to users of WeChat Pay.

Based on our own terminal software, end-to-end services from Wirecard can be integrated into the terminal solutions offered by numerous external manufacturers. Terminal management is offered in combination with the processing of the payment transactions via the Wirecard Multi-Channel Gateway. The use of Internet technology, also in the area of payment processing at the point-of-sale, enables the seamless integration of backend processes and provides the foundations for our retailers to implement a successful omnichannel strategy.

Shop systems

Wirecard expanded its cooperation with many important shop systems and the integration of payment processing into them during the reporting period. As a result, retailers can use Wirecard as a payment service provider within their shop system in future with a fully functional and ready-to-use solution. Wirecard currently supports more than 34 shop systems with shop integrations and shop plug-ins. In addition, Wirecard offers its retailers supplier support during the entire lifecycle of their online shop.

In accordance with Wirecard's global strategy of providing an international and uniform platform solution, all of the newly developed shop functions and shop plug-ins are integrated into this central platform. Corresponding adaptations with respect to local payment methods, currencies, documentation, languages and regional characteristics are possible.

Payment pages and seamless integration

The payment page solutions from Wirecard offer retailers an easy way to provide customers with a smooth, user-friendly and secure payment process without any technical effort. These solutions are ready to integrate into their online shops. Wirecard handles both the development and also hosting of the payment page, supports and activates the necessary backend payment methods using the modular principle and at the same complies with security requirements in the Payment Card Industry Data Security Standards (PCI-DSS) for all integration options. Other functionalities cover the automatic detection of card brands and secure processing of the transaction using the 3D Secure method. Wirecard offers three different integration options here so that the retailer can select the best solution for their customer requirements.

As payment information is exchanged between the retailer's system, the end customer's browser and Wirecard's Omnichannel Payment Gateway, the main priority is placed on the protection of transferred data and the avoidance of man-in-the-middle attacks.

Digital value added services

In the area of mobile payment services, the 2017 fiscal year was characterised by the rigorous further development of the omnichannel product strategy.

For example, the cooperation with the leading Chinese payment service provider Alipay has been significantly expanded. At the same time, Wirecard also opened up the possibility in 2017 for European retailers to accept payments via WeChat Pay – one of the leading mobile payment solutions in China.

In the area of mobile added value services, Wirecard has developed its own fully digital voucher platform for issuing and accepting gift vouchers in real time. The ÖBB – the largest mobility service provider in Austria – is using this platform, for example, to design a quality service that is more comprehensive and technically innovative.

A significant development was also achieved in the area of mobile payment acceptance. The mobile digital platform Wirecard ePos app enables bricks and mortar retailers to access a broad range of international payment options and digital value added services. Retailers can integrate the payment methods into their existing infrastructure using smartphones and tablets and benefit from real time reporting and methods for customer analysis.

In addition, Wirecard has established a fully integrated solution for self-learning analyses in the areas of customer conversion optimisation and risk management technology with the Omnichannel ePOS Suite. The Omnichannel ePOS Suite provides, for example, information on customer value and customer migration rates. Wirecard's Business Intelligence Tool enables operators of online shops to individually adapt their risk management settings to user-specific templates and follow all relevant key performance indicators (KPI) in real time.

Issuing

In the area dealing with the issuing of card products and mobile payment solutions, research and development focussed on the migration of the Citi prepaid customer portfolio so that all of the issuing services offered by Wirecard, especially in the area of mobile payment, could also be offered to this customer group. The most important future benefits of these migrations will not only be that existing customers in Europe, South Africa, Mexico and the United Arab Emirates will be supported by our solutions but also that the full product portfolio offered by Wirecard will be available in these countries for new customers and partnerships.

In line with Wirecard's business intelligence and artificial intelligence strategy, corresponding solutions were enhanced further and data analytics portals were offered to business customers.

Innovative modules for speeding up the integration of new and local payment processes were developed. The first payment methods such as “Barzahlen topup/cashout” have already been integrated. This comprises a barcode that, after being scanned by the cashier or presented in printed form, enables the selected amount to be credited to or withdrawn from the account.

A second method was the integration of the Pay by Bank app from Vocalink.

As a result of the PSD2 Directive, Wirecard has created interfaces (APIs) to allow certified third parties the respective access to user accounts. In preparation for the migration of Wirecard's new real time core banking system, corresponding interfaces were integrated into the issuing platform so that information can be called up in real time and also bookings made in real time.

Other R&D activities were carried out in the area of automatically adding new business customers. This task can now also be carried out with just a few clicks by employees in the back office. As part of our digital banking strategy, the functionalities have not only been developed for the issuing of cards but also to provide the user with a fully functional bank account. An example is bankomo that has been developed for the customer Reisebank.

In the reporting period, the payout card itself as a product and its diverse range of applications (e.g. as an incentive card, a tool for wage and salary payments or an expenses card) have been further enhanced to optimise the processes of our customers and develop new card programmes.

Multi-currency travel cards have been introduced for various partner banks in several different countries. These cards offer travellers the possibility of conveniently and independently paying in different currencies using separate wallets that contain the currencies at a guaranteed exchange rate and thus using just one card.

New functions and value added services are being continuously added to “boon.” – Wirecard's mobile payment app and Europe's fastest growing mobile payment solution.The “boon.” app is available in the Apple Pay Wallet via iOS as a fully digital credit card and in Belgium, Germany, Ireland, the Netherlands, Austria and Spain via Android. Newly developed functions include, for example, the integration of virtual cards as payment methods in e-commerce, the use of touch IDs and the provision of micro loans in Spain in the Android version.

Research and development expenditure

In the 2017 fiscal year, expenditure on research and development was increased to EUR 80.3 million (2016: EUR 52.9 million). The proportion of research and development expenses to total revenues (R&D ratio), was 5.4 percent in the period under review (2016: 5.1 percent). The share of total research and development costs accounted for by capitalised development costs (capitalisation ratio) amounted to 56.4 percent (2016: 57.1 percent).

These expenses are included in the personnel expenses of the respective departments (Payment & Risk Services, Issuing Services, Mobile Services, etc.) as consultancy costs and other costs. The regular amortisation and depreciation of capitalised development costs amounted to kEUR 20,111 in the year under review (2016: kEUR 12,391).

Employees in research and development

Employees in research and development departments comprise one of the key pillars of the Wirecard Group through their contributions to the success and profitability of its business. An average of 2,151 employees were employed during the year (2016: 1,786 employees). They were responsible for product and project management, architecture, development and quality assurance. Expressed as a proportion of the average number of all employees in 2017 of 4,449, this corresponds to 48 percent (2016: 47 percent). Alongside organic growth, the increase in the number of employees in the area of research and development is also due to acquisitions.

The qualifications, experience and dedication of employees represent key factors for driving the success of our research and development activities. Our competitive advantage from a technological perspective is ensured by an open culture that allows employees the scope to unfold their creativity and innovative strengths.

4.2 Outlook

In the 2018 and 2019 fiscal years, research and development activities will also focus on improving existing products and services and using innovative new products to implement the corporate strategy of expanding the value added chain and growing the company's global technological footprint.

In the area of payment processing, the focus in 2018 will be on expanding the supported relevant payment processes in different markets and also on delivering innovative solutions to support retailers in optimising their processes and in processing payments in the most efficient way possible. Supplementing existing payment methods at the point-of-sale (PoS) with additional local payment methods will enhance Internet technology-based PoS payment processing. As part of the global expansion of card acceptance and issuing under our own licences or by partner banks, the functionalities of our own processing services will also be greatly expanded. In this context, instalment payments made via card and other additional payment options for retailers are particularly noteworthy.

The migration of the Citi acquiring portfolio in the APAC region in eleven countries will be pushed forward in the next fiscal year in order to enable the integration of corresponding customers from the eleven countries in the APAC region into the Wirecard platform.

The main focus in the area of issuing will be placed on the migration of the Citi Prepaid Card Services portfolio to the central issuing platform. Amongst other things, this includes integrating it into local networks in the United States of America, the United Arab Emirates and the Philippines. Another key aspect of the development activities will be the enhancement of account functionalities. These will not only be made available to consumers but also to retailers in an integrated payout mechanism.

In the area of value added services, the focus will continue to be placed on the data-driven automation of campaigns and services. The platform for value added services will be gradually opened up to external services to allow the potential offered by the dynamic market in this area to be exploited even better than before. Furthermore, self-service reporting functionalities will be expanded to include business intelligence and merchant analytics. Other data-driven services will be developed to provide added value for retailers, particularly in the core area of payment processing. In particular, the area dealing with alternative, digital payment processes at the POS will be intensively expanded and also enhanced with the development of retailer-specific (closed-loop) solutions.

Wirecard has launched a fully integrated solution for self-learning analyses onto the market with the Omnichannel ePos Suite. Highly specific customer profiles can be generated by combining payment data with customer or product data. This enables important information about the individual purchasing behaviour of customers to be obtained and utilised to successfully implement sales campaigns and pricing strategies. We will also continuously develop value added services in this area.

The security of all processed customer and payment data remains the key focus and forms a central theme during all product developments and the application of all solutions.

Alongside the integration of innovative and digital solutions in the areas of payment acceptance and issuing, the intensive research and development activities carried out by our global team also focus on the development of valuable, associated additional services such as data analytics, currency conversion services, digital banking services in the retail sector and transaction banking and loyalty programmes within the payment ecosystem.

5. CORPORATE GOVERNANCE STATEMENT, REMUNERATION REPORT AND TAKEOVER LAW DISCLOSURES

5.1 Corporate governance statement

The corporate governance statement pursuant to Section 289f (1) and Section 315d of the German Commercial Code (HGB) forms part of the management report. The corporate governance statement can be found in the section “To our shareholders”, corporate governance report.

5.2 Remuneration report

The remuneration report summarises the principles for the remuneration schemes for the Management Board and Supervisory Board of Wirecard AG in the 2017 fiscal year, explains the structure and amount of the remuneration in the 2017 fiscal year and provides an overview of the remuneration scheme for the Management Board from the 2018 fiscal year.

Management Board

Remuneration scheme for the Management Board in the 2017 fiscal year

The remuneration scheme for the Management Board of Wirecard AG is designed to create an incentive for long-term corporate governance based on sustainability. The system and extent of the remuneration paid to the Management Board are determined and reviewed on a regular basis by the Supervisory Board. The members of the Management Board are paid on the basis of Section 87 of the German Stock Corporation Act. Remuneration comprises fixed and variable components.

In the 2015 fiscal year, the Supervisory Board concluded the Management Board contracts for a fixed term until 31 December 2017. The remuneration scheme for the Management Board stipulated in the contracts was unchanged in the 2017 fiscal year. The remuneration scheme comprises the following components: (1) fixed annual remuneration, (2) an annual bonus (Variable Remuneration I), which is calculated based on Wirecard AG’s share price performance, (3) long-term variable remuneration (Variable Remuneration II), which is linked to the multi-year performance of Wirecard AG’s share price and (4) a fixed amount as a contribution to a retirement pension scheme (Dr. Markus Braun and Jan Marsalek) or a contribution-based company retirement, invalidity and survivor’s pension scheme (Burkhard Ley). In addition, it is possible for the members of the Management Board to receive the following performance-related remuneration if certain conditions are fulfilled: (5) an extraordinary bonus for sustainable and particularly extraordinary performance by the Management Board and (6) a special bonus in the event of a change of control. Furthermore, non-cash perquisites and other benefits in kind exist, such as private use of a company car and refund of expenses, including business-related travel and hospitality costs.

Remuneration for the Management Board in the 2017 fiscal year

The members of the Management Board received a total of kEUR 3,250 as a fixed salary in the reporting period as in the previous year. The remainder of the remuneration paid to the Management Board in the 2017 fiscal year was as follows:

Variable remuneration has two components, Variable Remuneration I and Variable Remuneration II. It is calculated in each case on the basis of Wirecard AG's share price performance. In this regard, the basis price is the average price in the month of December, weighted for revenues, for Wirecard AG shares traded on the regulated market of the Frankfurt Stock Exchange (Xetra trading, ISIN DE0007472060), as registered by the stock market information service Bloomberg. The contracts set maximum limits for the basis price as follows: a maximum limit of EUR 41.00 in 2015, 45.00 in 2016 and EUR 49.00 in 2017. If the basis price should fall during the bonus years, the respective part of the bonus lapses and no (return) claim exists against the member of the Management Board.

The annual variable remuneration is capped by a maximum amount. The maximum amount is kEUR 1,100 for Dr. Markus Braun, kEUR 1,500 for Burkhard Ley and kEUR 1,200 for Jan Marsalek.

Variable Remuneration I is calculated as follows: The Management Board receives an annual bonus for each calendar year (bonus year I). This bonus is calculated as 49 percent or 49.2667 percent (only Burkhard Ley) of the difference between the basis price of Wirecard AG shares in bonus year I and the basis price in the previous year (basis year I), multiplied by a certain factor. This factor is 275,000 for Dr. Markus Braun and Burkhard Ley and 300,000 for Jan Marsalek. In addition, it has been contractually determined that the basis price for the respective previous year may not be less than EUR 33.00. If the basis price in the respective year following each bonus year I is higher than the basis price for bonus year I, the higher basis price in the following year also applies as the basis price for the bonus year I.

Variable Remuneration II is calculated as follows: The Management Board receives a sustainability bonus based on a two-year period (2015/2016, 2016/2017 and 2017/2018). This bonus is calculated as 51 percent or 50.7333 percent (only Burkhard Ley) of the difference between the basis price of Wirecard AG shares in the second calendar year of the two-year period (bonus year II) and the basis price in the year prior to the two year period (basis year II), multiplied by the factor stated above. Here too, it has been contractually determined that the basis price for the respective previous year (prior to the two-year period) may not be less than EUR 33.00. The sustainability bonus for 2015/2016 was due in January 2017 but had already been partially paid in the 2016 fiscal year.

Furthermore, the Management Board can also receive an extraordinary bonus in individual cases for sustainable and particularly extraordinary performance. The company's Supervisory Board has discretionary powers to decide on the granting and the level of the extraordinary bonus. These types of sustainable and particularly extraordinary performance include, above all, extraordinary contributions in the area of customer relations, contributions from corporate acquisitions and/or further advances in technology. No extraordinary bonuses were approved or awarded in the 2017 fiscal year.

The company also pays an annual contribution to a retirement pension scheme for the members of the Management Board Dr. Markus Braun and Jan Marsalek. This contribution totals kEUR 450 for Dr. Markus Braun and kEUR 300 for Jan Marsalek. This is paid in twelve monthly instalments. In the case of Burkhard Ley, the company has set up a pension account and pays an annual pension contribution of kEUR 420 into it at the end of each year for a company retirement, invalidity and survivor's pension scheme. In the event of the termination of the contract during the course of the year, it is reduced on a pro rate basis. If the balance held in the pension account represents less than ten annual pension contributions when the pension becomes payable, the balance will be increased by the company to a total of ten pension contributions. When the pension becomes payable, the balance held in the pension account will be paid out as a lump sum within one month. In addition, the company pays a monthly contribution of EUR 250 for a life insurance policy (direct insurance) for all members of the Management Board, which pays out as a retirement pension in the form of either a lump sum settlement or as a monthly pension. No other entitlement to a pension commitment or other retirement benefits exists.

In the event of a change of control, in other words, if one or more shareholders acting jointly are entitled to 30 percent or more of the company's voting rights, or if these are attributable to them, each member of the Management Board is entitled to payment of a special bonus depending on the company's value. This guideline was first agreed in 2006 and has been applied since then without alteration. It was also valid in the 2017 fiscal year.

The amount of the special bonus for Dr. Markus Braun and Burkhard Ley was 0.4 percent of the company's value and for Jan Marsalek 0.25 percent of the company's value. A company value exceeding the amount of EUR 2 billion is not taken into account for the purpose of calculating the special bonus. The special bonus is not paid if the purchase price in relation to all shares of Wirecard AG falls below EUR 500 million. The members of the Management Board are not entitled to extraordinary termination in the event of a change of control. In addition to the special bonus, the members of the Management Board are entitled to the following remuneration in the event of their contracts being terminated, i.e. when a reason for the termination exists, with the exception of a termination carried out by the company for a compelling reason: payment of fixed remuneration for the fixed duration of the contract, payable in one lump sum but discounted to the date of disbursement at an interest rate of 4 percent p.a. as well as payment of the market value in cash for stock options allocated but not yet exercised at the time of termination. Furthermore, standard rules are in place relating to company cars, refunds of out-of-pocket expenses and other business-related expenditure. Moreover, the company has committed itself to paying the fixed salary for a member of the Management Board for a period of six months or (in the case of Burkhard Ley) for the month in which the incapacity to work started and for a period of twelve further months from the commencement of an illness. In the event of the death of a member of the Management Board, any surviving dependants will receive the member's salary payments for six months or for the month in which the death occurred and for the six subsequent months (only Burkhard Ley), for a maximum period up to the end of the contractual term.

In addition to the life insurance policy with retirement benefits, the company has taken out the following for the members of the Management Board: (i) accident insurance in the event of death and invalidity and (ii) D&O insurance for the activities of the members of the company's Management Board including a deductible in accordance with legal regulations. The amount of the insurance premiums for these insurance policies totalled kEUR 184 in the 2017 fiscal year (2016: kEUR 121).

There were no loans, advances or other contingent liabilities entered into in favour of the members of the Management Board by the company or the subsidiaries in the 2017 fiscal year. In the 2017 fiscal year, the total emoluments of all members of the company's Management Board – in other words, the total remuneration during the fiscal year for the duration of the individual person's tenure on the Management Board, including amounts not yet disbursed for Variable Remuneration I, Variable Remuneration II and other payments – amounted to kEUR 11,506 (2016: kEUR 7,188).

The following remuneration was set for the individual members of the Management Board for the 2017 fiscal year (individualised using the tables in accordance with Section 4.2.5 of the German Corporate Governance Code):

Benefits

in kEUR	Dr. Markus Braun 2017	2017 (Min.)	2017 (Max.)	2016	Burkhard Ley 2017	2017 (Min.)	2017 (Max.)	2016	Jan Marsalek 2017	2017 (Min.)	2017 (Max.)	2016
Non-performancebased components												
Fixed remuneration	1,350	1,350	1,350	1,350	1,000	1,000	1,000	1,000	900	900	900	900
Fringe benefits	478	478	478	476	1,443	1,443	1,443	1,399	303	303	303	300
	1,828	1,828	1,828	1,826	2,443	2,443	2,443	2,399	1,203	1,203	1,203	1,200
Performance-based remuneration												
One-year variable compensation												
2016	343	0	343	196	483	0	483	256	374	0	374	214
2017	539	0	539		739	0	739		588	0	588	
Multi-year variable compensation												
2015/2016				53				85				58
2016/2017	296	−265	296	265	414	−347	414	347	323	−289	323	289
2017/2018	561	0	561		761	0	761		612	0	612	
	1,739	−265	1,739	514	2,397	−347	2,397	688	1,897	−289	1,897	561
Total	3,567	1,563	3,567	2,340	4,840	2,096	4,840	3,087	3,100	914	3,100	1,761

Allocation

in kEUR	Dr. Markus Braun 2017	2016	Burkhard Ley 2017	2016	Jan Marsalek 2017	2016
Non-performancebased components						
Fixed remuneration	1,350	1,350	1,000	1,000	900	900
Fringe benefits	478	476	43	27	303	300
	1,828	1,826	1,043	1,027	1,203	1,200
Performance-based remuneration						
One-year variable compensation	0	539	0	739	0	588
Multi-year variable compensation						
2014/2015	0	561	0	761	0	612
2015/2016	561		761		612	
	561	1,100	761	1,500	612	1,200
Total	2,389	2,926	1,804	2,527	1,815	2,400

Remuneration scheme for the Management Board from the 2018 fiscal year

In light of the fact that two new members of the Management Board have been appointed as of 1 January 2018, the remuneration scheme for the Management Board that had been in place since 2012 has been revised. An independent, external remuneration consultant was used to ensure, amongst other things, compliance with the latest legal and regulatory requirements of the German Stock Corporation Act and the German Corporate Governance Code (DCGK) and the appropriateness of the levels of remuneration using a market comparison.

The main focus of the revision to the remuneration scheme for the Management Board was the single-year and multi-year variable remuneration, as well as the commitments in the event of a change of control. For the variable remuneration, an operative, earnings-related performance target (EBITDA) will now be used in addition to the share price from 1 January 2018. For the multi-year variable remuneration, the relative development of the total shareholder return based on the stock market index will also be taken into account alongside the share price and the development of EBITDA. The special bonuses for Dr. Markus Braun and Jan Marsalek in the event of a change of control will remain unchanged. Instead of a special bonus, the Management Board contracts for the new members Alexander von Knoop and Susanne Steidl include the right of extraordinary termination and a severance agreement in the event of a change of control. Please refer to the takeover law disclosures under 5.3 for more details.

Remuneration for the Supervisory Board in the 2017 fiscal year

Remuneration of the Supervisory Board is governed by Section 14 of Wirecard AG's Articles of Incorporation. According to these rules, the members of the Supervisory Board receive fixed remuneration of EUR 120,000 for every full fiscal year serving on the Supervisory Board. The Chairman of the Supervisory Board will receive double and the Deputy Chairman of the Supervisory Board will receive one-and-a-half times this amount; an additional fee for activities on committees is not foreseen in the rules because the Supervisory Board has not currently formed any committees due to its relatively small size. The remuneration is payable in four equal instalments and is due in each case at the conclusion of a calendar quarter. Members of the Supervisory Board that are not part of the Supervisory Board for a full fiscal year or do not hold the positions of Chairman or Deputy Chairman for the full fiscal year receive pro rata remuneration after rounding up to the next full month of service. In addition, the members of the Supervisory Board receive an attendance fee of EUR 1,250 per day for plenary meetings of the Supervisory Board, which is payable after the conclusion of the calendar quarter in which the corresponding meeting took place.

Members of the Supervisory Board are also reimbursed for all expenses incurred in connection with the performance of their duties, as well as for the value added tax paid on the remuneration and reimbursed expenses. The company also reimburses the members of the Supervisory Board for all employer contributions for social insurance that are incurred in connection with their activities on the Supervisory Board according to foreign laws. The company has also taken out D&O

insurance for the members of the Supervisory Board, which includes a corresponding deductible in accordance with the recommendation in the German Corporate Governance Code.

The members of the Supervisory Board Wulf Matthias, Alfons W. Henseler and Stefan Klestil are also members of the Supervisory Board of the subsidiary Wirecard Bank AG. No other remuneration or benefits for personally rendered services, in particular consulting and agency services, were paid in the 2017 fiscal year.

As of 31 December 2017, no loans have been granted to members of the Supervisory Board.

Supervisory Board remuneration 2017

in kEUR	Function	from	up to	Fixed	Meeting fee	from subsidiaries	Total
Wulf Matthias	Chairman	1 Jan 2017	31 Dec 2017	240	14	65	319
Alfons W. Henseler	Deputy	1 Jan 2017	31 Dec 2017	180	14	60	254
Stefan Klestil	Member	1 Jan 2017	31 Dec 2017	120	13	55	188
Tina Kleingarn	Member	1 Jan 2017	31 Dec 2017	120	15	0	135
Vuyiswa V. M‘Cwabeni	Member	1 Jan 2017	31 Dec 2017	120	15	0	135
Total remuneration				**780**	**71**	**180**	**1,031**

Supervisory Board remuneration 2016

in kEUR	Function	from	up to	Fixed	Meeting fee	from subsidiaries	Total
Wulf Matthias	Chairman	1 Jan 2016	31 Dec 2016	240	9	65	314
Alfons W. Henseler	Deputy	1 Jan 2016	31 Dec 2016	180	9	60	249
Stefan Klestil	Member	1 Jan 2016	31 Dec 2016	120	9	55	184
Tina Kleingarn	Member	1 Jan 2016	31 Dec 2016	70	5	0	75
Vuyiswa V. M‘Cwabeni	Member	1 Jan 2016	31 Dec 2016	70	5	0	75
Total remuneration				**680**	**36**	**180**	**896**

In the 2017 fiscal year, remuneration for the Supervisory Board totalled kEUR 1,031 (2016: kEUR 896). This remuneration includes remuneration for activities as a member of the Supervisory Board at subsidiaries of kEUR 180 (2016: kEUR 180). An amount of kEUR 3 was recognised as a provision for the remuneration and will be paid in 2018.

5.3 Takeover law disclosures (pursuant to Sections 289a (1), 315a (1) of the HGB) and explanatory report

Composition of the subscribed capital

The subscribed capital of Wirecard AG as of 31 December 2017 amounted to EUR 123,565,586.00 and was divided into 123,565,586 no-par value bearer shares based on a notional share capital of EUR 1.00 per share. All shares confer the same rights and obligations. Each share confers one vote at the Annual General Meeting of Wirecard AG and an equal share of the profits.

Restrictions relating to voting rights or the transfer of shares

Restrictions to the voting rights of shares can arise, in particular, from the provisions of the German Stock Corporation Act (AktG) e.g. Section 136 of the AktG (exclusion of voting rights). Violations of the disclosure requirements under capital market law in the German Securities Trading Act (WpHG) could also result in the rights attached to shares, including voting rights, being at least temporarily revoked. The Management Board is not aware of any contractual restrictions relating to voting rights or the transfer of shares.

Shareholdings that exceed 10 percent of the voting rights

On the basis of the notifications of voting rights in accordance with Sections 33 and 34 of the WpHG (previously Sections 21 and 22 of the WpHG) received by the company as of 31 December 2017, there are no direct or indirect shareholdings in the company that exceed 10 percent of the voting rights.

Shares with special rights that grant controlling powers

No shares with special rights have been issued that grant controlling powers.

Control of voting rights if employees hold a share of the capital

Employees that hold a share of the capital of Wirecard AG exercise their control rights like other shareholders directly in accordance with the statutory regulations and the Articles of Incorporation.

Regulations about the appointment and recall from office of members of the Management Board and changes to the Articles of Incorporation

The statutory rules and regulations apply to the appointment and recall from office of the members of the Management Board. Accordingly, the Supervisory Board is generally responsible for such appointments and recalls from office.

Changes to the Articles of Incorporation require a resolution by the Annual General Meeting in accordance with Section 179 of the AktG. Insofar as the statutory regulations do not specify anything mandatory to the contrary, resolutions by the Annual General Meeting in accordance with Section 20 (1) of the Articles of Incorporation are passed with a simple majority of votes cast and, if applicable, with a simple majority of the share capital represented at the time the resolution is passed. According to Section 179 (2) of the AktG, a majority of 75 percent of the share capital represented is required for a change to the purpose of the company set out in the Articles of Incorporation. Changes to the Articles of Incorporation that only affect the wording can be approved by the Supervisory Board in accordance with Section 15 of the Articles of Incorporation. Furthermore, the Supervisory Board is authorised by resolutions passed by the Annual General Meeting to change Section 4 of the Articles of Incorporation (share capital) according to the respective use of the authorised and conditional capital after the expiry of the respective authorisation or utilisation deadline.

Authority of the Management Board to issue or buy back shares

According to the resolution made by the Annual General Meeting on 16 June 2016, the Management Board is authorised with the consent of the Supervisory Board to issue registered and/or bearer convertible bonds and/or option bonds, participating rights and/or profit participation bonds or a combination of these instruments (hereinafter referred to jointly as bonds) with a total nominal amount of up to EUR 300,000,000.00 with or without restriction on their maturity up to 15 June 2021 and to grant the holders or creditors of these bonds conversion or option rights to new bearer shares of the company with a proportionate amount in the share capital of up to EUR 12,356,558.00, according to the details in the terms for the bonds. The bonds can be issued against cash payment but also against contributions in kind, particularly against shareholdings in other companies. The respective terms of the bonds can also include a conversion or option obligation, as well as a right of a put option for the issuer to supply shares in the company at the end of the term or at another point in time (in any combination). The authorisation also includes the possibility to grant shares in the company, insofar as the holders or creditors of these bonds exercise their conversion or option rights, fulfil their conversion or option obligations or exercise their put options for the shares. The bonds may be issued once or several times, in whole or in part, or simultaneously in different tranches. The convertible bonds (partial debentures) can be issued in euro and also – as long as the corresponding value in euro is not exceeded – in an official currency of an OECD member country. They can also be issued by companies associated with Wirecard AG in the sense of Section 15 ff. of the AktG. In this case, the Management Board is authorised, with the consent of the Supervisory Board of the issuing company, to provide the guarantee for the bonds and to grant the holders or creditors of such bonds shares in Wirecard AG for the settlement of the conversion or option rights and conversion or option obligations conferred by these bonds, as well as to provide the required statements and take the necessary action for the successful issuing of the bonds. The Management Board is with the consent of the Supervisory Board, amongst other things, also authorised under certain circumstances and within defined limits to exclude the subscription rights of the shareholders of Wirecard AG to the bonds. No use has yet been made of this authorisation to issue bonds. In order to exercise the conversion and/or option rights issued under the aforementioned authorisation and to fulfil the corresponding conversion and/or option obligations or put option, the Annual General Meeting also resolved on 16 June 2016 to conditionally increase the share capital by up to EUR 12,356,558.00 by issuing up to 12,356,558 new no-par value bearer shares (Conditional Capital 2016). The specific details of the authorisation, especially the limit on the possibility of excluding subscription rights and the calculation modalities, can be found in the resolution passed by the Annual General Meeting and Section 4 (4) of the Articles of Incorporation.

According to the resolution made by the Annual General Meeting on 17 June 2015, the Management Board was authorised, with the consent of the Supervisory Board, to increase the share capital on one or more occasions up until 17 June 2020 by up to a total of EUR 30,000,000.00 in consideration for contributions in cash and/or kind (including mixed contributions in kind) by issuing up to 30,000,000 new no-par value bearer shares (Authorised Capital 2015) and in so doing to stipulate a commencement of the profit participation in derogation from the statutory provisions, also retrospectively to a fiscal year that has already expired, provided that no resolution on the profit of said expired fiscal year has yet been adopted. The shareholders must as a general rule be granted a subscription right. The new shares can also be assumed by one or more banks designated by the Management Board with the obligation of offering them to the shareholders (indirect subscription right). However, the Management Board is authorised with the consent of the Supervisory Board to exclude shareholders' statutory subscription rights in special cases. The specific details of the authorisation, especially the limit on the possibility of excluding subscription rights and the calculation modalities, can be found in Section 4 (2) of the Articles of Incorporation. No use was made of the Authorised Capital 2015 in the fiscal year. For further details on capital, please refer to the Notes.

According to the resolution passed at the Annual General Meeting on 20 June 2017, the Management Board was authorised, up to 19 June 2022, to acquire treasury shares up to the amount of 10 percent of the share capital of Wirecard AG existing at the time of the resolution or – if this value is lower – at the time this authorisation is exercised. The Management Board can choose to acquire treasury shares either on the stock market or by means of a public tender offer to all shareholders, whereby a public tender offer can also be carried out by means of an invitation to tender offers. In addition to selling the acquired treasury shares via the stock market or offering them to all shareholders, the Management Board was also authorised to use the shares for all purposes permitted by law. Amongst other things, the acquired treasury shares can, with the consent of the Supervisory Board, be withdrawn or also used as part of business combinations or company acquisitions with the exclusion of shareholders' subscription rights or sold to third parties in return for a cash payment, if the price at which the shares are sold is not significantly lower than the market price at the time of the agreement. In the event of a tender offer to all shareholders, the shareholders' subscription rights may also be excluded for fractional amounts with the consent of the Supervisory Board. The specific details of the authorisation can be found in the resolution passed by the Annual General Meeting. No use has yet been made of the authorisation to acquire treasury shares.

Significant agreements in the event of a change of control

In the event of a change of control of the company, the Management Board employment contracts that expired on 31 December 2017 for the members of the Management Board Dr. Markus Braun, Burkhard Ley and Jan Marsalek included an entitlement to a special bonus, which was dependent on the company's value. A change of control of the company was defined here as the point in time at which a notice pursuant to Sections 21, 22 of the WpHG (now Sections 33, 34 of the WpHG) is received or should have been received by the company to the effect that 30 percent or more of the company's voting rights in the meaning of Sections 21, 22 of the WpHG (now Sections 33, 34 of the WpHG) are assigned by way of entitlement or attributed to a natural or legal person or a body of persons. The amount of the special bonus for Dr. Markus Braun and Burkhard Ley was 0.4 percent of the company's value and for Jan Marsalek 0.25 percent of the company's value. The company's value was defined as the offer for the company in euros per share, multiplied by the total number of all shares issued at the time of publication of the offer. There was no entitlement to extraordinary termination in the event of a change of control. The prerequisite for an entitlement to a special bonus was that (i) the change of control is effected on the basis of an offer to all shareholders of the company, or if such change of control is followed by an offer to all shareholders, (ii) the company's value determined in this manner reaches at least EUR 500 million, whereby a company value in excess of EUR 2 billion shall not be taken into account in calculating the special bonus, and (iii) the offer becomes effective due to its acceptance by some of the shareholders.

The new Management Board employment contracts that are valid from 1 January 2018 for the members of the Management Board Dr. Markus Braun und Jan Marsalek still include an entitlement to a special bonus in the event of a change of control in accordance with the conditions described above, which is payable in three equal instalments. The entitlement to receive a special bonus also exists if the appointment to the Management Board is withdrawn or otherwise terminated by the Supervisory Board after a change of control or the Management Board employment contract is terminated with notice after a change of control. In this case, the Management Board employment contract can be terminated within two months after the announcement of the recall or other termination of the contract by both the member of the Management Board and also the company with immediate effect. Alongside the bonus payment, the members of the Management Board are also entitled in this case to the payment of the fixed remuneration for the remainder of the term of the contract (discounted to the date of disbursement), as well as to payment of the market value in cash for stock options allocated but not yet exercised at the time of termination. There is no entitlement to extraordinary termination in the event of a change of control.

Burkhard Ley stepped down from the Management Board as of 31 December 2017.

Alexander von Knoop and Susanne Steidl, the newly appointed members of the Management Board as of 1 January 2018, do not have any comparable entitlement to the payment of a bonus payment in the event of a change of control. However, the Management Board employment contracts for Alexander von Knoop and Susanne Steidl contain an extraordinary termination right for the member of the Management Board in the event of a change of control. The precondition for exercising the extraordinary termination right is that the change of control is associated with significant disadvantages for the member of the Management Board (especially due to recall, significant changes in responsibilities, tasks or place of work, a request to agree to a reduction in remuneration, early termination of the contract or delisting). A change of control exists if (i) a shareholder assumes control in the sense of Section 29 of the WpÜG through the acquisition or assignment of at least 30 percent of the voting rights, (ii) the company concludes a control agreement as a dependent entity in accordance with Section 291 of the AktG or (iii) the company was merged with a legal entity outside the Group in accordance with Section 2 of the UmwG, unless the value of the other legal entity according to the agreed exchange ratio is less than 50 percent of the value of the company. If an extraordinary termination right is exercised or the Management Board employment contract was mutually annulled within nine months of the change of control, there is an entitlement to the settlement of the remuneration entitlements for the residual term of the Management Board employment contract, although limited to a maximum of three years' remuneration.

The Management and Supervisory Boards have adopted a resolution to the effect that employees of Wirecard AG and of its subsidiaries can be awarded a special bonus on similar terms and conditions as those that apply for the Management Board. To this end, a total of 0.8 percent of the company’s value has been made available. The Management Board can grant special bonus awards to employees in the event of a change of control with the consent of the Supervisory Board in each instance. A precondition for such a special bonus payment is that the employee must be employed at the time the change of control occurs. Such special bonus payments shall also be made in three instalments.

Wirecard AG has concluded a contract for a fixed credit line with a total volume of EUR 1,000 million with a consortium bank. Each member of the consortium bank has the right, under certain circumstances, to cancel its share of the credit line as well as its outstanding share of the syndicated loan and demand repayment if a shareholder, or shareholders acting together with respect to Wirecard AG, acquire the control of the company and/or more than 50 percent of the share capital voting rights in Wirecard AG. Control is defined as the possibility of exercising decisive influence over the management of the company through shareholdings, cooperation or by any other manner.

Compensation agreements in the event of a takeover bid with members of the Management Board or employees

There are no compensation agreements with members of the Management Board or employees of Wirecard AG in the event of a takeover bid.

2017 transaction volume worldwide EUR 91.0 bn

Following the successful entry onto the US market in the first quarter of 2017, Wirecard is now represented worldwide in most of the strategic target markets in Europe, the Asia-Pacific region, North and South America and the Middle East and Africa and can organically push forward the expansion of its digital platform strategy in the remaining countries.

II. Economic Report

1. GENERAL CONDITIONS AND BUSINESS PERFORMANCE

1.1 Macroeconomic conditions

Global economic conditions

The International Monetary Fund (IMF) forecasts global economic growth of 3.7 percent in 2017. In the Asia-5 states (Indonesia, Malaysia, the Philippines, Thailand and Vietnam), the IMF expects growth of 5.3 percent. The forecast for India is growth of 6.7 percent. The Brazilian economy will grow by 1.1 percent according to the IMF, while it forecasts growth of 0.9 percent for South Africa. The IMF forecasts growth within the eurozone of 2.4 percent in 2017, with growth of 2.5 percent in Germany, 1.8 percent in France, 1.6 percent in Italy and 3.1 percent in Spain. For the emerging countries in Europe such as those in Eastern Europe or Turkey, the IMF forecasts growth of 5.2 percent for the reporting period. The IMF forecasts growth of 1.7 percent in 2017 for the United Kingdom (UK). According to estimates by Eurostat, the statistical office of the European Union, gross domestic product in the European Union and the eurozone grew by 2.5 percent in the 2017 fiscal year.

Sector-specific conditions

The expected growth rates for 2017 based on the company's own calculations for the e-commerce markets relevant to Wirecard AG of around 16 percent were achieved. This was confirmed by the average annual growth rates of around 11 percent (2017-2022) for Western Europe and the growth rates of around 23 percent worldwide published by Forrester Data.

1.2 Business performance in the period under review

General business performance

Through its diverse range of products and services and combination of software technology and banking products, Wirecard further expanded the core business in the area of payment acceptance and processing in the reporting period and also linked it more strongly with production innovations in the issuing area to bring new issuing solutions to the market. In this context, enhanced mobile payment functions and innovations to digitalise bricks and mortar trade are particularly noteworthy. Value added services in all areas round off the range of services for a global, integrated payment ecosystem with the Wirecard platform solution.

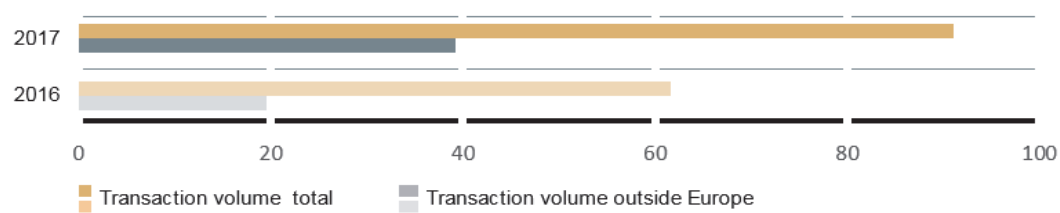
It was possible to further increase the customer portfolio of 36,000 large and medium-sized companies and almost 191,000 small companies in comparison to the previous year. Alongside clear growth in the number of new customers in all industries and sectors, it was also possible to significantly expand the existing business. Supplementing existing payment methods with innovative, mobile solutions, risk management services and value added services along the whole of Wirecard's value added chain are good examples of how business relationships have been expanded. At the same time, numerous important partnerships were concluded in various sectors in order to integrate specialist expertise into the network and also further expand the customer groups being addressed.

The major share of consolidated revenues is generated on the basis of business relations with providers of goods or services on the Internet who outsource their payment processes to Wirecard AG. We are able to closely integrate innovative services for the settlement and risk analysis of payment transactions – services performed by a payment service provider — with credit card acceptance (acquiring) performed by Wirecard Bank AG and third-party banks. By linking innovative and digital issuing solutions and associated value added services such as data analytics, currency conversion services, other digital banking services in the retail sector and transaction banking and loyalty programmes, Wirecard is able to offer its customers a diverse range of products and services within this entire payment ecosystem and create additional potential for revenue. As a result, it was possible to gain important new customers in the reporting period and also significantly expand the range of products and services for existing customers. In addition, scaling effects were achieved through processing higher transaction volumes via the technical platform.

Fee income from the core business of Wirecard AG, namely the acceptance and issuing of means of payment along with associated value added services, is generally proportionate to the transaction volumes processed. The transaction volume in the 2017 fiscal year was EUR 91.0 billion (2016: EUR 61.7 billion). This corresponds to growth of 47.5 percent.

The transaction volume generated within Europe, which accounts for 56.8 percent of the total transaction volume, grew by 22.8 percent to EUR 51.7 billion (2016: EUR 42.1 billion). The transaction volume generated outside Europe, also taking into account the acquisitions, grew by 100.4 percent to EUR 39.3 billion (2016: EUR 19.6 billion) and thus accounts for 43.2 percent of the total transaction volume.

Transaction volume 2016/2017 (in EUR bn)



Innovative developments in the fiscal year

Wirecard develops innovations by picking up on trends towards internationalisation and the demand for digital omnichannel solutions, and continuously enhances the existing portfolio of products and services to include valuable functions and value added services within the payment ecosystem through an integrated platform solution.

Our range of digital services based on our platform covers all customer touchpoints – whether via innovative solutions in traditional bricks and mortar trade, online on the Internet (e-commerce) or via a mobile end device (m-commerce). Alongside new types of issuing products and payment solutions, customers are provided with valuable associated digital services in the areas of financial services or data analytics. By developing product innovations tailored to specific customer groups such as the Wirecard Checkout Portal, we create customised and complete solutions within the payment ecosystem.

A selection of our diverse range of product innovations during the reporting period is presented below.

In the area of payment acceptance, Wirecard's omnichannel solutions that are based on integrated, digital platform solutions have been further expanded, while, amongst other things, new alternative payment methods have been integrated into the global range of services. National and international payment methods are now available in all important currencies. We use our technological expertise and our integrated, digital platform to support our customers and partners in emulating their payment infrastructure and expanding it across all sales channels and in integrating further value added services.

International

In the reporting period, Wirecard became, amongst other things, the first international acquirer for the Pay by Bank app from Mastercard. Online retailers in the United Kingdom are thus now able to integrate this new, fully digital payment solution as a new payment method. Users can make direct debit type payments for goods and services via their banking app that will be directly booked from their current account. In addition, users of Wirecard's mobile payment app boon will be able to use the Pay by Bank app in the future to load funds in real time directly from their Pingit banking app.

As part of the collaboration with Amway, one of the world's largest direct selling companies, Wirecard is providing an independent, integrated omni-channel payment platform for Brunei, Malaysia and Singapore so that everything can by processed via a single payment interface from now on – without the complex integration of multiple acquirers and various payment methods for in-store and online purchases.

Wirecard Turkey has started a cooperation with Startsub, the operator of Aydanaya.com and a supplier of subscription-based e-commerce services and goods. As the only company in Turkey to accept both credit card and direct carrier billing payments, Wirecard makes it easier for retailers to collect and manage payments while enabling end consumers to securely make purchases and set up subscriptions via credit card. As part of this business model, Wirecard also serves as a hub providing a payment infrastructure to all businesses that are members of Startsub.

Wirecard has also been able to continue its international success in the design of digital and mobile solutions at the point-of-sale. A new, mobile point-of-sale technology designed by Wirecard was launched by Performance Motors Limited (PML), the dealer for BMW cars and motorcycles in Singapore, in the reporting year. This technology, which is the first of its kind for the automobile industry in Singapore, enables quick and contactless payment transactions and has been certified by Visa and Mastercard. A customer visiting the BMW Service Centre is now able to directly pay the Customer Service Advisor (CSA) for services using an mPOS device without having to go to the payment counter.

Strong partners

Wirecard is collaborating with T-Systems International GmbH, a global operator of information and communication technology, to develop internet technology at the point-of-sale (POS). The aim of the collaboration is to bring the shopping experience into the age of the Internet of Things (IoT). A joint omnichannel showcase will be used at trade fairs and events. The customer can benefit from a "self-checkout" and personalised offers in the shop both via a smartphone or tablet. The two companies want to support the retail sector with the future-oriented digitisation of payment and purchasing processes. One solution is, for example, the ConnectedPOS platform from Wirecard.

After the end of the reporting period, a collaboration was agreed with SES-imagotag, the international leader in omnichannel solutions for physical retail. The jointly developed innovative solution will enable consumers to pay anywhere in the store. To shop and add items to their shopping basket, shoppers just need to hold their smartphones in front of a digital price tag from SES-imagotag and scan the product (via QR Code / NFC). In addition, it is possible to display rich content (i.e. interactive content), e-coupons and relevant product information during the process, giving customers access to all of the information available online. When they have finished shopping, customers can then select their preferred method of payment on their smartphone.

In individual regional markets, Wirecard supports the improvement of the technological infrastructure at the point-of-sale using digitalised solutions.

Wirecard Romania was able to announce a collaboration with Spire Payments and ServuS Romania to complete the comprehensive replacement of POS terminals across the whole of Romania and digitalise the payment process throughout the country. As a result, around 6,000 retailers can now securely accept card and NFC payments, while Wirecard is pushing forward Romania's development towards a cashless society.

Another example is the cooperation with Kyivstar, the largest telecommunications operator in the Ukraine and a subsidiary of VEON (a communications provider listed on the NASDAQ) to offer customers real-time transaction services. Wirecard is responsible for the entire technical processing for airtime top-up on the VEON platform in the Ukraine. Customers of the local mobile communications provider Kyivstar can top up and update their mobile payment accounts while on the go within a few seconds.

A white label solution to facilitate money transfers for mobile money operators has been launched with TransferTo – the leading cross-border B2B mobile payments network. By utilising the expertise of both Wirecard and TransferTo, mobile money operators in developing countries can concentrate on providing a smooth service for users who want to quickly and easily transfer money. Mobile money operators with over 400 million users in emerging markets can now offer mobile remittance services in Europe under their own brand names. Users who send money via their mobile telephone do not need to locate a shop or bank or fill out any forms. TransferTo is approved by the UK's Financial Conduct Authority and connects over 4.5 billion mobile users via partnerships with more than 400 mobile communications providers.

Data analytics

It was also possible to achieve further success in the area of data analytics during the reporting period. Wirecard brought an innovative solution for the future of bricks and mortar and online trade onto the market during the reporting year with the launch of the innovative Omnichannel ePOS Suite. Intelligent algorithms and smart data evaluations guarantee sustainable performance advantages throughout all levels of the retail supply chain. Data-driven real time overviews of overall customer behaviour for a certain retailer and increasing customer lifetime value – i.e. optimising customer loyalty – lie at the heart of this solution. Our evaluations help us to reduce risk and increase the probability of success for our partner.

Wirecard is thus the first payment services provider to offer a fully integrated suite of products for self-learning analyses using payment data in combination with other sources of data. The evaluations provide retailers with significant added value for increasing conversion rates, reducing migration rates, making predictions about the future behaviour of consumers and linking together the point-of-sale and online commerce sales channels. All parties benefit from decisive competitive advantages as a result. Wirecard confirmed its position as the leading company in the area of risk management solutions with the addition of Fraud Insights to the Omnichannel ePOS Suite during the fiscal year. Long-standing experience and leading products such as the Fraud Prevention Suite (FPS), which is based on technologies such as machine learning and artificial intelligence, can be combined with years of historical data to offer retailers significant increases in revenue and improved conversion rates. Wirecard's new Business Intelligence Tool enables operators of online shops to individually adapt their risk management settings to user-specific templates and follow all relevant key performance indicators (KPI) in real time.

Expanding the value added chain

Complete solutions within a payment ecosystem have also been created for individual target groups which were enhanced further during the reporting period.

For the e-commerce trade, Wirecard offers a fully automated solution for the rapid configuration and acceptance of all common international payment methods with the Wirecard Checkout Portal, enabling small and medium-sized retailers and startups to also participate in international e-commerce. The Wirecard Checkout Portal makes it possible for companies to access a broad range of products related to electronic payment transactions and value added services online within a short space of time and utilise the products, including social media widgets, via plug-ins and programming interfaces directly after registration.

Wirecard was also able to secure SendCloud, a tool for the optimisation of shipping processes, as a new cooperation partner in 2017 for the Checkout Portal in order to offer greater flexibility and customisation in the area of online shopping.

During the reporting period, Wirecard added Trusted Shops and kajomi MAIL as strategic partners for the Wirecard Checkout Portal to expand the range of value added services. Checkout Portal customers can now increase their sales due to a higher level of customer trust by using the Trusted Shops seal of approval.

Our long-standing partners from the area of e-commerce have been able to benefit, in particular, from the continuous further development of the Wirecard platform. For example, a collaboration with Elo7, the largest online marketplace for handmade goods in Brazil, was expanded further after the end of the reporting period. Elo7 uses Wirecard's new integration platform with technological and scalable value added services that make financial management easier for small businesses, improve the purchasing experience for customers and thus increase the payment and onboarding rates.

Global presence of Wirecard

Wirecard successfully pushed forward its expansion strategy in the fiscal year and now has a global presence in all important markets.

Wirecard successfully concluded its entry onto the US market in March with the acquisition of Citi Prepaid Card Services. A large customer portfolio consisting of telecommunication service providers, pharmaceutical companies, global IT and electronics manufacturers, Internet and consumer goods corporations and public sector clients was acquired. The range of services at the time of the acquisition comprised incentive and compensation cards, as well as corporate disbursement programmes for salaries or travel. In addition, we can now offer American customers our diverse range of services along the value added chain, especially completely digital prepaid cards and mobile payment solutions via our global platform.

The digitalisation of cards in mobile wallets is the latest innovation from our subsidiary that is now trading under the name Wirecard North America Inc. New mobile wallet functions such as these offer digitally aware customers an innovative payment experience and form an important component of Wirecard's global strategy to provide simple and innovative commerce solutions at every customer touchpoint. In the USA, users can add various different cards to the mobile wallets from Apple Pay®, Android Pay® and Samsung Pay®. Wirecard cardholders in the USA can add customer and incentive cards to their mobile smartphone wallets so that they can make secure purchases from millions of retailers – in retail stores and online.

The customer base in the Asia-Pacific region was also expanded during the reporting period, supported by the acquisition of the customer portfolio of the Citigroup credit card acceptance business in eleven markets. The transaction comprises a customer portfolio of more than 20,000 retailers, particularly from the travel and mobility sector, the financial services sector, luxury goods, retail trade and technology and telecommunications in the following countries: Singapore, Hong Kong, Macau, Malaysia, Taiwan, Indonesia, the Philippines, Thailand, India, Australia and New Zealand. This transaction reflects the trend in the area of acquiring of traditional banks either selling their technology-driven portion of their business as in this case or seeking close partnerships with technology companies, as the bank Crédit Agricole has done in its partnership with Wirecard.

Wirecard AG will further expand its leading market position in the APAC region with this acquisition. Especially in the rapidly developing regions of Asia, cash was the dominant payment method in the past. Current efforts to increase the proportion of digital payments and also boost the dynamic development of e-commerce support ambitious targets for increasingly replacing cash with card-based or alternative payment instruments. This process is being accelerated above all by the widespread distribution of mobile devices.

Alongside this acquisition and our efforts to secure new customers and further expand the range of services for existing customers, new partnerships and networks have also been concluded in the APAC region. In order to also create the technological infrastructure for the latest payment solutions, seven mobile wallets, acquirers and payment networks, including Diners Club, EZi Wallet, EZ-Link, Liquid Pay, Mastercard, UnionPay International and Wirecard, have formed a consortium, for example. The aim is to enable interoperable QR payments for consumers and retailers in Singapore. Mobile payments will thus be made easier for participating retailers, who from now on will be able to accept QR payments from within the consortium on one single retailer system.

The PSP business acquired in South Africa in March 2017 also offers enormous added value for Wirecard's regional portfolio of products and supplements the existing range of products and services offered by our subsidiary Wirecard South Africa. MyGate is a leading African acquiring bank and is connected to the Visa network. Wirecard's innovative IP-based payment processing and risk management technology will greatly benefit the acquired PSP business, which will also be expanded to include additional value added services. This business combination with accelerate the company's expansion in the international markets of Africa and also offers potential for additional synergy effects.

Business performance by segment

The integrated business model makes it possible to generate revenues in all three segments with one customer relationship. Therefore, business success is described in detail below subdivided by target sector and also in terms of geographical location and area of application.

Payment Processing & Risk Management

The PP&RM segment accounts for all products and services for electronic payment processing and risk management. The dynamic business growth in this segment is due to both an increase in European and also non-European transaction volumes. Alongside the transaction volumes processed by the company, the volume processed via the technical acquiring model by third-party banks, which are also allocated under the PP&RM segment, has also increased. Outside of its European licence area in particular, BIN sponsorship models with third party banks can be used to offer fully integrated acquiring solutions. The business with existing and new customers developed very positively during the period under review.

Business performance in acquiring, financial services and issuing

In the year under review, the acquiring volume increased in line with the growing core business of payment processing.

Wirecard Bank generates most of its revenues within the Group through the sales structures of its sister companies. This comprises financial services for companies via card acceptance contracts, business accounts and foreign currency accounts. The collaborations with FinTech companies have enabled Wirecard Bank, as well as Wirecard Card Solutions Ltd. in the UK, to exploit new potential for revenue by providing payment services in addition to its banking licence or e-money licence.

Foreign exchange management services for airlines and e-commerce providers who book incoming payments in various currencies as a result of their international business are also being increasingly utilised. These services provide a secure calculation basis, whether for the settlement of goods and services in a foreign currency or when receiving a foreign currency from concluded transactions.

Revenues in the issuing business area comprise B2B product lines such as the Supplier and Commission Payments solution, as well as B2C prepaid card products.

The company achieved a very good business performance in 2017 in both acquiring and issuing.

Business performance in Call Center & Communication Services

The services Wirecard Communication Services GmbH offers in this segment are mostly performed for the Wirecard Group but also for third party customers. The expansion of customer services and back office services for the Group has been pushed forward and new third party customers have been acquired. The project to expand operations into Romania (Bucharest) was also started.

It was thus possible to secure new customer service projects for Payout Cards (Western Europe) and the bankomo app from Reisebank. Other call centre services were also provided e.g. for the telecommunications provider Orange (France and Spain).

The hybrid service centre structure – meaning the combination of a bricks and mortar service centre with a virtual one – enables this area of the company to focus on third party customers who have very demanding requirements in terms of languages and skills. It also makes the targeted outsourcing of operations at peak times possible – a key area of expertise of Wirecard Communication Services GmbH.

Target sectors

Thanks to its direct sales in all the company's target sectors and its technological expertise and broad spectrum of services, Wirecard AG continued its operational growth in the 2017 fiscal year, while at the same time further broadening its customer base and extending its international network of cooperation and sales partners.

The centralisation of cash-free payment transactions from a variety of sales and procurement channels on one single platform is a unique selling point of the Wirecard Group. In addition to new business from taking over payment processing, as well as risk management and credit card acceptance in combination with ancillary and downstream banking services, significant cross-selling opportunities exist in business with existing customers that will contribute to consistent growth as business relationships expand. In particular, the new product innovations and features in the area of issuing/mobile payments achieved in the reporting year and the important value added services in the area of data analytics demonstrate Wirecard's broad range of services along the entire value added chain in the payment ecosystem and point to the further expansion of its business relationships.

Distribution of revenue by target sector

The development of Group revenues in the individual target segments was highly positive with numerous new customer acquisitions, as well as an expansion of the business relationships with existing customers. 50.4 percent of consolidated revenues in the 2017 fiscal year (2016: 51.2 percent) were generated in the consumer goods segment. Digital goods accounted for around 32.8 percent of consolidated revenues (2016: 33.6 percent), while travel and mobility accounted for 16.8 percent of consolidated revenues (2016: 15.2 percent).

Consumer goods

The acquisition of numerous new customers and the expansion of existing customer relationships demonstrate Wirecard's business success in all sales channels. As part of the global expansion of e-commerce, cross-border transactions are also becoming increasingly important for our customers. In the area of payment processing, we were able to secure important new customers not least due to our global presence and orientation. In addition, innovative, mobile solutions are growing in importance. The digitalisation of bricks and mortar trade is leading to new solutions that help to provide further insights into the purchasing behaviour of consumers.

Some examples of the customers and partners from the area of consumer goods are described below.

Through its cooperation with Wirecard, IKEA Southeast Asia is now able to improve online customer loyalty by offering multiple payment options. Customers in the online shop not only have the choice of credit, debit and alternative payment methods but can also choose to pay by instalment. These payment services are initially being offered in the Asian countries of Singapore, Malaysia and Thailand.

The family-run company Festo that is active in 176 countries and has 300,000 customers in more than 40 sectors has been a new customer since 2017. As an expert for electric and pneumatic automation technology, Festo has been relying on Wirecard to handle credit card processing for its online shops in France, the Netherlands and Mexico since the beginning of the fiscal year. Wirecard processes credit card payments and the company also uses Wirecard's innovative risk management solutions in the Fraud Prevention Suite to detect fraud. Another international rollout is currently at the planning stage.

Based on the collaboration with Sortimo, the market leader for in-vehicle equipment, Wirecard will in future handle all payment processing and risk management for the German online shop, as well as in eleven other European countries by 2018. In the process, a variety of payment methods will be integrated into the shops to offer end customers flexible and secure online payment. There are also plans for Sortimo's subsidiaries in the USA and Canada to set up their own online shops.

The collaboration with Alipay, the leading Chinese payment method, was expanded further in the current fiscal year. As a result, Chinese tourists can pay directly at the retailer's point-of-sale via barcode using their Alipay app and the retailer can benefit even more from the tourism boom from China. After renowned retailers such as Printemps, The Body Shop and WMF chose Wirecard to integrate the Chinese payment method into their systems in the previous year, it was also possible this year to secure other well-known customers and important partnerships, including Zwilling, Rossmann, Value Retail and Swarovski. In addition, payments via the Alipay app are now also possible at Gucci, MCM, Estée Lauder and Ralph Lauren. The long-standing collaboration with the international fashion company Schustermann & Borenstein with Wirecard's acquiring services on the renowned online platform Best Secret has now also been expanded to include the integration of Alipay for Chinese tourists at the POS in the fashion stores.

Wirecard has also provided support in the area of payment infrastructure solutions: In the cooperation between Wirecard and the National Bank of Greece (NBG), Alipay is being integrated into the technical infrastructure of the largest bank in Greece as a new payment method. As banks in Greece often provide the entire terminal infrastructure for local retailers, Wirecard has enabled NBG to integrate Alipay across the country in as many locations as possible: The aim is to give many Greek retailers the opportunity to offer Alipay as a new payment solution at the point-of-sale (POS) for their Chinese customers.

In the reporting period, a collaboration with Tencent for WeChat Pay was also announced. Wirecard is enabling European retailers to accept payments via WeChat Pay – one of the leading mobile payment solutions in China – at the point-of-sale. This new mobile payment method opens up a target group of 938 million active WeChat and Weixin users per month for European retailers. One new partner in this area is eurotrade Flughafen München Handels-GmbH, who will now be able to also accept payments via WeChat Pay in the future thanks to Wirecard, following the successful integration of Alipay into cash tills at their around 70 airport shops in July 2016.

In addition, there were two new collaborations to expand the portfolio of value added services on offer to Alipay and WeChat Pay customers: Together with Storymaker, specialists in marketing for China, and the company Premier Tax Free, the partners can now offer European retailers an integrated payment and marketing approach for the two leading mobile payment solutions in China.

As a result of the new partnership with globally active company PrestaShop, a leading provider of open source solutions for e-commerce and online shops, retailers will be able to offer a variety of popular payment methods in future, such as credit cards, PayPal or SOFORT transfers, as well as local payment methods such as iDeal and Przelewy24, via their online shops.

Wirecard also secured the two retail companies ALDI Nord and ALDI SÜD as new customers in the 2017 fiscal year. Both discount retail chains are simultaneously introducing their own gift cards for the first time, which can be used to pay in all ALDI stores across Germany. They are thus expanding their existing range of products to include their own e-money product.

Wirecard has developed an individual gift voucher platform for Kaufland to handle the issuing and payment processing of the gift cards as an omnichannel solution.

A gift card webshop has been launched in Germany for the long-standing customer Lidl for whom Wirecard handles the processing for its online shop. Wirecard is responsible for the entire distribution process, including logistics and handling, as well as for the issuing and technical payment processing for the cards which could only be purchased in store up to now. Comprehensive expertise in the area of digital payment systems, risk management and banking has facilitated this development.

Wirecard Brazil is taking over payment processing for Enjoei – one of the largest online marketplaces for clothing in Brazil.

Webasto, a global systems partner for almost all automotive manufacturers, is also placing its trust in Wirecard for payment processing for its new online shop. As part of the collaboration, the leading global payment service provider Wirecard is integrating four payment methods – Visa/Mastercard, iDeal, SOFORT transfers and PayPal – into the web shop, thereby covering the most important national and international payment methods.

Wirecard expanded long-standing business relationships during the reporting period with, amongst others, Rakuten Deutschland GmbH. Rakuten Deutschland GmbH is responsible for handling the complete transaction process from receipt of the order through to payment by the end customer on its e-commerce platform of the same name for the more than 7,000 connected retailers. Due to the collaboration with Wirecard as the payment service provider and acquiring bank, even more international payment methods such as JCB and Diners credit cards – including security and risk management functions – will be available to the digital marketplace provider in the future.

All of the customers named from the area of consumer goods provide examples of the positive development in the acquisition of new customers.

Digital goods

It was also possible to continue expanding the customer portfolio in the area of digital goods. Alongside the acquisition of new customers, another driver of growth is the expansion of existing business and customer relationships. A selection of the important business activities in the area of digital goods during the reporting period are described below:

Wirecard has concluded a global partnership with VEON for payment and processing services in ten different markets. VEON uses data analyses and artificial intelligence to offer users of its Internet platform a diverse range of new, personalised and contextual services from entertainment to financial services. Wirecard will take over responsibility from now on for the airtime top-up service for mobile telephones, as well as the processing of external payment services on VEON's Internet platform. More than two hundred million customers around the world can thus top up and update their mobile payment accounts while on the go within a few seconds.

The leading global telecommunications operator Orange, a strategic partner of Wirecard in the area of mobile payment, has now launched its payment service Orange Cash in France and Spain. Wirecard will provide the e-money and issuing licenses, as well as the technical platform for the mobile payment application. It is also responsible for the design, implementation and handling of all technical and financial processes for the Orange Cash payment application.

Orange Cash combines contactless mobile payments with loyalty and couponing deals from participating retailers in real time via Wirecard's Card-Linked Offers Platform. The new functions Orange Cash Joven in Spain and Orange Cash Jeune in France mean that young people can enjoy the benefits of Orange Cash for mobile payments on their smartphone. Parents can control the amounts of money loaded onto the account via the web interface and receive a real-time overview of any outgoing payments.

Since the end of 2017, Wirecard has supported TeamViewer with its international expansion into Asia by providing, amongst other things, the payment solutions China Union Pay and Alipay.

We are supporting the company Trekksoft, one of the largest online booking software solutions for travel agents, in the area of payment methods.

All of the customers named from the area of digital goods provide examples of the positive development in the acquisition of new customers.

Travel and mobility

In the target segment of travel and mobility, numerous partners and new customers, such as Europe's largest taxi booking portal taxi.eu, were also acquired, while existing business relationships, such as the collaboration with the ÖBB (Austrian Federal Railways), were expanded further.

In the airline sector, Wirecard secured the African national airline RwandAir as a new customer at the beginning of the reporting period and will now handle all payment services in the area of card acceptance (acquiring) for all sales channels.

The collaboration with Vistara – a large, scheduled airline in India and a joint venture between Tata Sons and Singapore Airlines (TATA SIA) – covers payment processing for Vistara bookings made by credit card via the Billing and Settlement Plan (BSP). Vistara will be able to quickly accept and process international bookings in future and thus promote the growing trend for tourism in India.

The long-standing partnership with Gulf Air, the national airline of the Kingdom of Bahrain has been extended. Wirecard is supporting the airline with full service digital solutions for online and PoS payments. The solutions are rounded off by GDS processing (via the Billing and Settlement Plan (BSP)), as well as flexible international acquiring services.

Following a successful start to the collaboration between Wirecard and the ÖBB (Austrian Federal Railways) in the area of payment processing in the previous year, the two companies are extending the cooperation to include new areas. As a leading provider of payment solutions and Internet technologies, Wirecard has developed its own fully digital voucher platform for the issuing and acceptance of gift vouchers. The ÖBB – the largest mobility service provider in Austria – is using this platform to design a quality service that is more comprehensive and technically innovative. The various different payment methods including gift vouchers can be combined in one transaction and processed online with one transaction ID.

During the reporting period, Wirecard acquired the new customer Shell Indonesia for its new fleet card solution that can be used for all purchases at Shell filling stations across Indonesia. The integration of digital finance processes enables the efficient management of fleets in real time.

The innovative fleet technology from Wirecard is secure and reliable for authorised vehicles thanks to the use of registered chip cards.

As part of the innovation partnership with evopark GmbH, the existing app offered by evopark will be linked with mobile payment and loyalty functions from Wirecard. evopark provides a contactless smart card which can be used to make cashless payments at 70 car parks across Germany. This service is supplemented by an app that informs users about free parking spaces in participating car parks and gives directions to them if desired. evopark plans to further develop this solution together with Wirecard. The aim is to enable users to pay via the app in future and also to receive cashback from retailers located near to the car parks. In addition, the companies want to work together in the area of electromobility. For example, a payment function for electric charging stations is being planned.

By handling the credit card acceptance business for the booking platform Travelstart, one of the largest online travel agents in Africa, Wirecard is addressing the African market to a greater extent. As a result, Travelstart customers can quickly and easily pay online for flights, hotels, car rentals and complete journeys.

The new partnership with Andaz Luxury Hotel by Hyatt Corporation in Singapore will enable the hotel to accept cashless payments from its guests via credit or debit card at all sales points in the hotel using the Wirecard platform. In addition, the Dynamic Currency Conversion (DCC) service is being offered as part of the payment service so that international guests can conveniently pay in their home currency.

All of the customers named from the area of travel and mobility provide examples of the positive development in the acquisition of new customers.

Business activities in the area of issuing

We are developing our broad range of solutions in the area of issuing and mobile payment for our customers and with our partners. In this area during the reporting period there were new product innovations, especially in the area of mobile payments. We also strengthened our position as a leading prepaid issuer – supported by the Citi acquisitions and the successful entry onto the North American market – and as a BIN sponsor and pushed forward our global expansion. Selected business activities are described below.

In its collaboration with Payment Card Solutions, Wirecard Card Solutions Ltd. based in Newcastle, UK is supporting the award winning Bread4Scrap prepaid Mastercard programme as the issuer. Due to legal restrictions and for better control, payments for scrap metal are not permitted in cash. The programme, which enables the secure issuing of the Bread Prepaid Mastercard® and its immediate use as a payment method for scrap metal dealers, already has more than 90 customers with volumes of between GBP 4-5 million per month.

Another collaboration with Payment Card Solutions, AFEX and Global Processing Services provides companies with a full end-to-end payment solution. The PayFEX Mastercard programme, issued by Wirecard Card Solutions, is a solution in the area of corporate cards that combines salary payments, expenses and other incentive services and integrates the management and control of multiple cards via the platform solution. The programme will be rolled out to companies in various different sectors across Europe and will be available as a physical or virtual card solution in the currencies EUR, USD and GBP.

After the reporting period, Wirecard was selected as the issuer for “The One Card” – an all-in-one season ticket and membership card with contactless payment functionality. Fortress GB – a company that currently has 7.5 million cards in circulation – is now working together with Wirecard to launch this first integrated contactless stadium season ticket card onto the UK sports market. Season ticket holders and members can use “The One Card” to gain entry to the stadium and use the same card for purchases at selected retailers at the point of sale or online. The first customers – the football clubs Reading FC and Aston Villa FC – have already been secured for the launch of this innovative digital card programme.

Wirecard has been working together with Singtel, the largest mobile communications provider in Southeast Asia, since this year. Singtel Dash is currently Singapore’s most widely used all-in-one digital wallet. The mobile payment platform allows customers to shop, pay transport fares and remit money. Singtel can now process mobile, virtual Visa payments with Wirecard as a Bank Identification Number (BIN) sponsor. This further strengthens our position as a leading global prepaid issuer and BIN sponsor.

Mobile payment / boon

boon is the only fully digitalised, bank independent mobile payment solution on the European market and combines innovative and secure payment functionalities with services in the area of personal finance and numerous other value added services.

Following its launch in 2015, the app is now available in Belgium, Germany, Ireland, the Netherlands, Austria and Spain via Android and also in the United Kingdom, France, Ireland, Italy, Switzerland and Spain via the Apple Pay wallet as a fully digital credit card.

Partnerships are continuously expanding the range of innovative services offered in this ecosystem. A collaboration started in the reporting period with bluesource - mobile solutions gmbh means that boon will be integrated into the customer card app mobile-pocket in European countries. By linking both applications, users can manage their customer cards and vouchers via mobile-pocket as well as make payments via boon – thus giving users an all-in-one shopping experience and promoting customer loyalty.

As part of a cooperation with mobilcom-debitel, the largest network-independent German mobile service provider, the mobile payment app boon is being preinstalled on Android smartphones that are sold via the company. As a result, mobilcom-debitel is one of the first telecommunications providers in Europe to use HCE (host card emulation) technology for mobile payment solutions. The boon app can be used to make mobile payments at any NFC-enabled POS terminal which accepts Mastercard contactless payments. The smartphone works here like a contactless credit card and simply needs to be held up to the terminal.

Innovative features were added to boon during the reporting period. For example, all iOS and Android boon users can now also use their virtual credit card to make payments in online shops via smartphone. Since November 2017, boon users can receive micro loans in real time and there are plans to roll out this function in other countries. Various different payment and banking options are combined in this service. For example, an innovative and intelligent scoring process will make it possible to verify a user's creditworthiness in the future within a matter of seconds so that users can be immediately provided with flexible overdrafts. This means that users can pay at any time using their boon app because the approved loan amount will be directly credited to the boon prepaid account.

The peer-2-peer transfer function was another value added service added after the reporting period. It allows all iOS and Android users to send money in real time easily and securely.

Business activities in the area of FinTech / financial services

FinTech companies combine banking products with the latest technologies to attract customers with innovative business models in the finance sector, often optimised for use on mobile end devices. Alongside the relevant licences and legal framework, Wirecard also offers, in particular, products and solutions from the areas of electronic payment processing, Internet-based banking services, risk management and technological expertise.

Wirecard views itself as a FinTech partner for traditional companies in the banking and financial services industries. We use our integrated platform solution and innovative value added services within the payment ecosystem to address and meet changing customer requirements together with our partners.

A selection of our new customer relationships and collaborations during the reporting period is presented below:

Wirecard has provided the digital infrastructure for the Finnish FinTech company Fellow Finance to enter the German market. Fellow Finance is a peer-2-peer lending platform which connects investors with borrowers. It thus provides an alternative solution for private customers who want to borrow money. Wirecard is supporting Fellow Finance by providing its full German banking licence and enabling a completely digital credit process. For example, the identification process for the borrower and the signature on the credit agreement are completed electronically.

Wirecard has also been collaborating with Twisto for a few months to provide contactless payments via credit cards and wearables at the point of sale (POS) in the Czech Republic. Twisto is the first FinTech company in the region that provides payments using physical credit cards. The company was honoured as the "Best European Payment & Transfer Company" at the European FinTech Awards 2017.

Wirecard has been an acquiring partner since 2017 for the Zabolis Partners Group and offers e-commerce payment processing for Mokipay – a joint investment in the FinTech sector by the Finish KESKO Group and Zabolis Partners. The solution is one of the most important components in the entire payment infrastructure for Mokipay, together with the issuing of smart loans, the collection of instalment payments or the secure encryption of credit card data.

Following on from the successful collaboration with Orange Cash, Wirecard has now become the official partner of Orange Bank for the provision of mobile payment and banking services in France. Orange Bank has launched a new complete mobile banking and payment solution which provides customers with a bank account, debit card, overdraft facility and savings account. The app also enables contactless mobile payments and provides real-time information on bank balances. Wirecard is providing all of the technical components that are required for managing the mobile payments via NFC-compatible smartphones using the Orange Bank platform. This includes, amongst other things, the issuing and payment processing of virtual Visa cards.

Wirecard has entered into an alliance with Capital Float – the largest digital lending platform in India. As part of the partnership, Capital Float will offer its recently launched *Proprietor Finance* product to all Wirecard agents comprising thousands of small retailers in India. The aim is to offer these retailers a unique revolving credit facility called *Pay Later*. This is a solution from Capital Float for providing working capital and supports small and medium-sized companies (SMEs) to complete supplier payments on time.

As part of the partnership with Weizmann Forex Ltd., a partner for Western Union with one of the most extensive sales networks in India, Wirecard is now offering a service that makes sending money to India from abroad easy and reliable. The service will be launched at thousands of locations in all major cities and districts in India. These locations include Wirecard's SmartShop Agent network in India with 150,000 SmartShops that offer access to affordable financial services and retail-assisted Internet solutions for people who have neither access to the Internet nor a smartphone or bank account. The SmartShop network will enable even those people who live in rural areas of India to quickly and reliably receive money transfers from Western Union in real time. Alongside the SmartShops, the locations where Wirecard will offer the money transfer services from Western Union in future will mainly include travel agents, currency traders and businesses that are currently still geared towards domestic money transfers. After the reporting period, the collaboration was expanded to give local consumers the possibility of receiving even more international money transfers at thousands of locations across India.

Another success factor is the recently signed strategic partnership with Crédit Agricole Payment Services. Crédit Agricole Payment Services is France's leading supplier of payment solutions with almost a 30 percent market share and more than 10 billion transactions processed in 2016. The letter of intent to enter into an exclusive partnership for payment acceptance and acquiring on the basis of differentiated real time technology and innovative services was signed by the companies in December 2017. The main features are the market launch of omnichannel payment acceptance and pan-European acquiring services to French retailers and market places and quick onboarding solutions for small and medium-sized companies in France.

2. RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

Wirecard AG generally publishes its figures in thousands of euros (kEUR). As a result of rounding, it is possible that the individual figures do not add up exactly to form the totals stated and that the figures and percentages do not give an exact representation of the absolute values to which they relate.

Results of operations

In the 2017 fiscal year, the Wirecard Group achieved further significant growth in both revenues and operating profit.

Revenue trends

In the 2017 fiscal year, consolidated revenues grew by 44.9 percent from kEUR 1,028,358 to kEUR 1,489,954.

Revenues generated in the 2017 fiscal year in the core segment of Payment Processing & Risk Management, arising from risk management services and the processing of online payment transactions, increased by 36.7 percent from kEUR 782,420 to kEUR 1,069,779.

The share of the total consolidated revenues accounted for by the Acquiring & Issuing segment grew by 59.5 percent in the 2017 fiscal year due to organic growth and the acquisition of the business of Citi Prepaid Card Services to reach kEUR 484,863 (2016: kEUR 304,064), of which the share accounted for by issuing in the 2017 fiscal year was kEUR 202,240 (2016: kEUR 70,831).

Revenues from Acquiring & Issuing in the 2017 fiscal year primarily comprised commissions, interest, financial investments and revenues from processing payments, as well as exchange rate gains from processing transactions in foreign currencies. The cooperation with FinTech companies e.g. peer-to-peer loan platforms for private borrowers and SMEs, mobile banking solutions or solutions for payment by instalment in the online shopping sector has assumed rapidly growing strategic importance for Wirecard in the last year. Wirecard does not only provide risk management, technology and banking services here but also sometimes provides the financing based on detailed individual assessments and suitable security measures – often in the form of cash securities. This enables Wirecard, on the one hand, to increase the added value from its cooperation with FinTech companies and, on the other, to also significantly increase interest income. Against this background, a significantly higher proportion of the customer deposits (31 December 2017: kEUR 973,178; 31 December 2016: kEUR 734,003) was invested in 2017 in suitable financing activities as well as in continued deposits held with the central bank, demand and fixed-term deposits and collared floaters.

The interest income generated by the Acquiring & Issuing segment in the 2017 fiscal year totalled kEUR 12,448 (2016: kEUR 9,689) and is recognised as revenues in the consolidated income statement. Accordingly, it is not contained in the Group's financial result. It comprises interest income on the investments of own funds as well as customer deposits (deposits and acquiring money).

The Call Center & Communication Services segment generated revenues of kEUR 9,891 in the period under review, compared with kEUR 8,506 in the previous year.

Trends in key expense items

The item own work capitalised primarily comprises the continued development of the core system for payment processing activities as well as investments in mobile payment projects. Capitalisations amounted to a total of kEUR 45,305 in the 2017 fiscal year (2016: kEUR 30,201).

The Group's cost of materials increased in the 2017 fiscal year to kEUR 788,755, compared to kEUR 530,761 in the previous year. The cost of materials mainly comprises charges by the credit card issuing banks (interchange), fees to credit card companies (for example, MasterCard and Visa), transaction costs as well as transaction-related charges to third-party providers (for example, in the area of risk management and acquiring). Expenses for payment guarantees are also included in the area of risk management. The area of acquiring also includes commission costs for external sales.

In the Acquiring & Issuing segment, the cost of materials relating to the areas of acquiring, issuing and payment transactions primarily comprises, besides interchanges, the processing costs of external service providers, production, personalisation and transaction costs for prepaid cards and the payment transactions realised with them, as well as account management and transaction charges for managing customer accounts.

Group gross profit (revenues including other own work capitalised less cost of materials) increased by 41.4 percent to kEUR 746,504 in the 2017 fiscal year (2016: kEUR 527,799).

Group personnel expenses rose to kEUR 186,003 in the 2017 fiscal year, up by 43.2 percent year on year (2016: kEUR 129,852). The increase in personnel expenses is due to corporate acquisitions which also render this item difficult to compare with previous years. The consolidated personnel expense ratio fell by 0.1 percentage points year on year to 12.5 percent.

Other operating expenses mainly comprise legal and financial statement costs as well as consulting expenses and consulting-related expenses, equipment and leasing, office expenses, impair ments, sales and marketing, and personnel-related expenses. These amounted to kEUR 159,443 within the Wirecard Group in the 2017 fiscal year (2016: kEUR 97,888). The increase was primarily due to the sharp increase in consulting expenses in relation to the completed acquisitions and the impairments in accordance with IAS 39. Other operating expenses were thus 10.7 percent (2016: 9.5 percent) of revenue. Due to the introduction of IFRS 9 as of 1 January 2018, Wirecard analysed the areas of classification and measurement, as well as the impairment of financial instruments, in accordance with the new requirements. In addition to the routine analyses based on the incurred loss model according to IAS 39, analyses based on the expected loss models according to IFRS 9 were carried out. On the basis of the analyses according to IAS 39, the impairments were increased accordingly as of 31 December 2017.

Other operating expenses

in kEUR	2017	2016
Legal and financial statement costs	17,871	10,583
Consulting expenses and consulting-related expenses	22,991	15,614
Office expenses	14,953	11,432
Equipment and leasing	21,871	12,242
Travel, sales and marketing	20,887	16,430
Personnel-related expenses	15,719	12,208
Insurance payments, contributions and levies	3,541	2,735
(General) bad debt allowances on trade and other receivables	18,897	6,143
Other	22,714	10,502
Total	**159,443**	**97,888**

Amortisation and depreciation is broken down in the consolidated income statement into two items for the purpose of better transparency. It is broken down so that the amortisation and depreciation of assets which result from business combinations and acquired customer relationships (M&A-related) can be presented separately. In the 2017 fiscal year, amortisation and depreciation adjusted for M&A amounted to kEUR 57,044 (2016: kEUR 39,042). The M&A-related amortisation and depreciation in the 2017 fiscal year was kEUR 40,870 (2016: kEUR 33,133). As the company has a high level of M&A activity, this differentiation makes it easier to compare this item.In the 2017 fiscal year amortisation and depreciation rose year on year, mainly due to investments realised in property, plant and equipment, the further development of the multi-channel platform, mobile payment projects and as a result of the acquisitions of companies and assets.

Amortisation and depreciation in the 2017 fiscal year included impairments totalling kEUR 4,495 (previous year: kEUR 0), which comprised impairment of customer relationships in the amount of kEUR 380 and impairments of internally-generated intangible assets in the amount of kEUR 4,115. These impairments were due, on the one hand, to a lower actual flow of benefits (revenue trend) from existing customer relationships than was originally planned, as well as, on the other hand, to the consolidation of existing software platforms, which will no longer be used by Wirecard in the future as originally planned because of constant ongoing developments and migration activities associated with purchased software solutions.

Other operating income of kEUR 11,770 (2016: TEUR 7,502) resulted from various smaller items, including income from the reversals of value adjustments to receivables, release of provisions and income from the revaluation of receivables and liabilities.

EBITDA trends

The pleasing growth in earnings is due to the increase in transaction volumes processed by the Wirecard Group, scaling effects from the transaction-oriented business model, the completed M&A transactions and from the increased use of our banking services.

Operating earnings before interest, tax, depreciation and amortisation (EBITDA) grew in the 2017 fiscal year in the Group by 34.2 percent from kEUR 307,363 in the previous year to kEUR 412,613. The EBITDA margin stood at 27.7 percent in the 2017 fiscal year (2016: 29.9 percent).

The EBITDA of the Payment Processing & Risk Management segment stood at kEUR 328,689 in the 2017 fiscal year and grew by 30.8 percent (2016: kEUR 251,335). The share of the EBITDA accounted for by the Acquiring & Issuing segment grew in the 2017 fiscal year to kEUR 82,951 (2016: kEUR 55,262), of which the share of the EBITDA accounted for by issuing in the 2017 fiscal year amounted to kEUR 41,080 (2016: kEUR 14,723).

Financial result

The financial result stood at kEUR – 18,195 in the 2017 fiscal year (2016: kEUR 67,651). Group financial expenses stood at kEUR 33,371 in the 2017 fiscal year (2016: kEUR 26,218) and resulted primarily from expenses from fair value measurements in relation to purchase price liabilities and the interest expenses from loans and leasing.

In the comparative period 2016, the most important effect on the financial result arose from the sale of all shares in Visa Europe Ltd. on 21 June 2016. As a result of this transaction, the financial result increased by kEUR 91,576. For further information, please refer to section 3.4 Financial and other assets / interest-bearing securities in this Annual Report.

The Group's financial result does not include interest income generated by Wirecard Bank and Wirecard Card Solutions Ltd., which must be reported as revenues in accordance with IFRS accounting principles.

Taxes

Owing to the international orientation of the business, the cash tax rate (excluding deferred taxes) amounted to 16.3 percent in the 2017 fiscal year (2016: 12.5 percent). Including deferred taxes, the tax rate came to 12.4 percent (2016: 11.9 percent). It is important to note for the previous periods that only 5 percent of the income from the sale of the shares in Visa Europe Ltd. was subject to tax in Germany. Therefore, the tax rate is not comparable with the current periods. Excluding the income from the sale of the shares in Visa Europe Ltd., the cash-relevant tax rate (excluding deferred taxes) would have been 17.1 percent for the 2016 fiscal year. Including deferred taxes, the tax rate would have been 16.3 percent.

Earnings after tax

Earnings after tax in the 2017 fiscal year decreased by – 2.6 percent year on year, from kEUR 266,749 to kEUR 259,719. Excluding the effect of the sale of the shares in Visa Europe Ltd. in the previous year, earnings after tax in the previous year would have been kEUR 176,888 and thus the increase in earnings after tax in comparison to the previous year would have been 46.8 percent.

Earnings per share

The average number of issued shares on an undiluted basis amounted to 123,565,586 shares in the 2017 fiscal year (2016: 123,565,586 shares). Basic (undiluted) earnings per share stood at EUR 2.10 in the 2017 fiscal year (2016: EUR 2.16). This was also influenced in the previous year by the effect of the sale of the shares in Visa Europe Ltd. Excluding this effect, basic (undiluted) earnings per share for the 2016 fiscal year would have been EUR 1.43.

Financial position and net assets

Principles and objectives of financial management

The primary objectives of financial management are to secure a comfortable liquidity situation at all times and maintain operational control of financial flows. The Treasury department is responsible for monitoring currency risks. Following individual inspection, risks are hedged by the additional deployment of financial derivatives. As in the previous year, currency options were deployed as financial derivatives to hedge revenues in foreign currencies in the period under review. It has been stipulated throughout the Group that financial derivatives should not be deployed for speculative purposes (see Management report, III. Forecast and report on opportunities and risks, Chapter 2.8 Financial risks of the 2017 Annual Report).

Capital and financing analysis

Changes of financial position

in kEUR	31 Dec 2017	31 Dec 2016	Changes in percent
EQUITY AND LIABILITIES			
I. Equity			
1. Subscribed capital	**123,566**	123,566	0%
2. Capital reserve	**494,682**	494,682	0%
3. Retained earnings	**1,069,234**	829,286	29%
4. Other components of equity	**- 52,298**	27,429	- 291%
Total equity	**1,635,183**	1,474,963	11%
II. Liabilities			
1. Non-current liabilities			
Non-current interest-bearing liabilities	**754,792**	579,475	30%
Other non-current liabilities	**85,406**	31,425	172%
Deferred tax liabilities	**76,916**	59,747	29%
	917,115	**670,648**	**37%**
2. Current liabilities			
Liabilities of the acquiring business	**422,640**	404,767	4%
Trade payables	**71,393**	34,920	104%
Interest-bearing liabilities	**311,611**	15,066	1968%
Other provisions	**2,403**	3,914	- 39%
Other liabilities	**149,401**	119,505	25%
Customer deposits from banking operations	**973,178**	734,003	33%
Tax provisions	**44,596**	24,276	84%
	1,975,223	**1,336,452**	**48%**
Total liabilities	**2,892,338**	**2,007,099**	**44%**
Total equity and liabilities	**4,527,521**	**3,482,062**	**30%**

Wirecard AG reports equity of kEUR 1,635,183 (31 December 2016: kEUR 1,474,963). Due to the nature of our business, the highest liabilities lie with retailers in the area of credit card acquiring and customer deposits in the banking business. These have a substantial effect on the equity ratio. The commercial banks that granted the Wirecard Group loans as of the 31 December 2017 amounting to kEUR 1,066,404 at interest rates of between 0.85 and 3.10 percent did not take these items into account in their equity capital calculations for the credit agreements concluded due to the nature of the business model. According to the Wirecard Group, this calculation is a good method for making comparisons with other companies possible. These banks determine the Wirecard Group's equity ratio by dividing the amount of liable equity capital by total assets. Liable equity capital is determined by subtracting deferred tax assets and 50 percent of goodwill from equity as reported in the statement of financial position. Any receivables due from shareholders or planned dividend payments must also be deducted. Total assets are identified by subtracting the customer deposits of Wirecard Bank and Wirecard Card Solutions Ltd., the acquiring funds of Wirecard Bank (31 December 2017: kEUR 240,913; 31 December 2016: kEUR 233,956) and the reduction in equity from the audited total assets, while lease liabilities are added back to these total assets. This calculation gives an equity ratio of 42.0 percent for the Wirecard Group (31 December 2016: 53.0 percent).

The increase in interest-bearing liabilities of kEUR 471,862 is related to acquisitions made by the company.

Investment analysis

The investments in strategic transactions/M&A mainly included the acquisitions made in North America and Asia. A portion was only paid after the reporting date. The securities reported under investments relate to securities that are not held by Wirecard Bank but by other Group companies. Securities held by Wirecard Bank are related to customer deposits that should not be included in cash and cash equivalents reported in the cash flow statement in accordance with IAS 7.22.

This mainly affects:

Substantial cash outflows for investments

in kEUR	2017	2016
Strategic transactions/M&A	264,970	69,650
Securities and medium-term financing agreements	0	3,305
Internally-generated intangible assets	45,305	30,201
Other intangible assets (software)	32,768	20,957
Property, plant and equipment	15,018	22,002

Liquidity analysis

The subsidiaries Wirecard Bank AG and Wirecard Card Solutions Ltd. hold customer deposits from the banking and card business. In the past, smaller portions of the cash and cash equivalents from customer deposits were mainly only invested in securities (collared floaters and short-term and medium-term interest-bearing securities). The remaining funds were held as deposits with the central bank and demand and short-term fixed-term deposits with banks. In the previous year, the additional funds resulting from customer deposits were deducted or reported as a reduction on the balance of cash and cash equivalents.

The cooperation with FinTech companies e.g. peer-to-peer loan platforms for private borrowers and SMEs, mobile banking solutions or solutions for payment by instalment in the online shopping sector has assumed rapidly growing strategic importance for Wirecard. Wirecard does not only provide risk management, technology and banking services here but also sometimes provides the financing based on detailed individual assessments and suitable security measures – often in the form of cash securities. This enables Wirecard, on the one hand, to increase the added value from its cooperation with FinTech companies and, on the other, to also significantly increase interest income.

Against this background, a significantly higher proportion of the cash and cash equivalents from customer deposits was invested in suitable financing activities – as well as in continued deposits held with the central bank, demand and fixed-term deposits and collared floaters.

While the cash flow from operating activities before the changes from the banking business shows the cash flow from the operating business of Wirecard, the cash flow from operating activities also takes into account the effect of the deposit business and the corresponding asset items.

As far as the liquidity analysis is concerned, it should also be noted that liquidity is influenced by reporting date effects because of the company's particular business model. The liquidity which Wirecard receives from its retailers' credit card revenues and which it will pay out to the same retailers in future is available to the Group for a transitional period. It should be especially noted in this context that a very sharp increase in the operational cash flow in the fourth quarter, which is mainly due to delayed payouts on account of the public holidays, will be offset by a countervailing cash flow trend in the first half of the following year.

Receivables and liabilities from acquiring are transitory in nature and subject to substantial fluctuations from one reporting date to another as, inherent to the business model, these statement of financial position items are significantly influenced by the overall transaction volume and the security reserves. Receivables from acquiring mainly comprise receivables from credit card organisations, banks and acquiring partners and liabilities exist to retailers. The customer deposits from the banking business and corresponding securities or receivables from the banking business likewise constitute items that can be eliminated for the adjusted cash flow. To simplify the identification and reporting of the cash-relevant portion of the company's own earnings, the Wirecard Group has decided to present a further statement in addition to the usual statement of cash flow from operating activities in order to eliminate these items. The cash flow from operating activities (adjusted) amounting to kEUR 375,693 (2016: kEUR 283,030) clearly shows that the Wirecard Group had a comfortable volume of own liquidity to meet its payment obligations at all times.

Interest-bearing liabilities are mainly non-current and were utilised for realised M&A transactions. The Group's interest-bearing liabilities to banks increased by kEUR 471,862 to kEUR 1,066,404 (31 December 2016: kEUR 594,541). The largest share of this increase was due to the acquisitions completed in North America and Asia. The Wirecard Group has approved credit lines of EUR 1,343 million (31 December 2016: EUR 991 million). Along with the loans recognised in the statement of financial position, additional credit lines from commercial banks totalling EUR 278 million are consequently available (31 December 2016: EUR 395 million). Lines for guarantee credit facilities are also available in an amount of EUR 16 million (31 December 2016: EUR 28 million), of which an unchanged amount of EUR 16 million has been utilised.

Net assets

Changes in net assets

in kEUR	31 Dec 2017	31 Dec 2016	Changes in percent
I. Non-current assets			
1. Intangible assets			
Goodwill	**675,768**	534,892	26%
Customer relationships	**484,941**	392,329	24%
Internally-generated intangible assets	**120,048**	99,224	21%
Other intangible assets	**109,012**	81,682	33%
	1,389,769	**1,108,127**	**25%**
2. Property, plant and equipment	**57,460**	44,656	29%
3. Investments accounted for using the equity method	**14,588**	14,803	- 1%
4. Financial and other assets / interest-bearing securities	**310,167**	216,196	43%
5. Tax credits			
Deferred tax assets	**9,118**	2,657	243%
Total non-current assets	**1,781,101**	**1,386,438**	**28%**
II. Current assets			
1. Inventories and work in progress	**13,349**	4,540	194%
2. Receivables of the acquiring business	**442,012**	402,423	10%
3. Trade and other receivables	**269,669**	190,185	42%
4. Tax credits			
Tax refund entitlements	**10,956**	9,353	17%
5. Interest-bearing securities and fixed-term deposits	**109,099**	156,493	- 30%
6. Cash and cash equivalents	**1,901,334**	1,332,631	43%
Total current assets	**2,746,420**	**2,095,624**	**31%**
Total assets	**4,527,521**	**3,482,062**	**30%**

Assets reported in the statement of financial position of the Wirecard Group increased by kEUR 1,045,459 in the 2017 fiscal year, rising from kEUR 3,482,062 to kEUR 4,527,521. In the period under review, both non-current and current assets grew. In addition to the investments and growth in the operating business, these changes are primarily due to the consolidation of the assets acquired and liabilities assumed as part of the acquisitions in the year under review. This has caused various statement of financial position items to increase substantially. As a result, comparisons can only be made to a limited extent. This comprises particularly the asset items under “intangible assets” of “goodwill” and “customer relationships”, as well as the “financial and other assets” and “cash and cash equivalents” items, and, on the equity and liabilities side of the statement of financial position, the items “other non-current liabilities” and “trade payables”.

The US dollar fell in value against the euro as a result of the political situation. The current situation in Turkey also led to a depreciation in the value of the country’s currency against to the euro. As the operating business is not affected by these situations and is performing positively, there is no need based on current assessments and calculations to impair the assets held there in addition to the currency translation adjustment.

In addition to the assets reported in the statement of financial position, the Wirecard Group also has unreported intangible assets, such as software components, customer relationships, human and supplier capital, amongst others.

Overall statement on the business situation

The Wirecard Group met its designated objective of achieving profitable growth in the 2017 fiscal year. With after-tax earnings of kEUR 259,719, earnings per share of EUR 2.10 (diluted and basic) and an equity ratio of 36.1 percent, the Wirecard Group has a solid financial and accounting basis for the current fiscal year. The company initially forecast operating earnings before interest, tax, depreciation and amortisation (EBITDA) of between EUR 382 million and EUR 400 million for the 2017 fiscal year. This forecast was adjusted on 11 July 2017 by the Management Board to an EBITDA of between EUR 392 million and EUR 406 million and on 26 November 2017 to an EBITDA of between EUR 398 million and EUR 415 million. The forecast was achieved with kEUR 412,613.

In 2018, the Wirecard Group plans to continue its return-oriented growth path. With a growing number of customer relationships and rising transaction volumes, additional economies of scale are expected to arise from the transaction-oriented business model, along with substantial synergies with our banking services. As a consequence, the company is forecasting operating earnings before interest, tax, depreciation and amortisation (EBITDA) of between EUR 510 million and EUR 535 million for the 2018 fiscal year.

3. REPORT ON EVENTS AFTER THE REPORTING DATE

After the end of the reporting period, no events occurred that would have required a significantly different presentation of the Group's net assets, financial position and results of operations.

The trend towards digitalisation of the entire payment ecosystem is continuing across all sectors and sales channels. Digital payment solutions are emerging along the whole value added chain that are characterised by innovation, efficiency, security and convenience for the customer.

Growth of mobile payment technologies
20.5 percent CAGR until 2024*

*Transparency Market Research

III. Forecast and report on opportunities and risks

1. FORECAST

1.1 Underlying macroeconomic conditions in the next two fiscal years

In its world economic outlook published on 22 January 2018, the International Monetary Fund (IMF) forecast a rise in global economic growth from 3.7 percent in the previous year to 3.9 percent in 2018 (2019: 3.9 percent). The positive growth prospects worldwide are due, above all, to increased investment by highly developed economies with a strong share of exports and increased production in Asia.

High growth rates have been forecast, in particular, for emerging markets in Asia such as India and the Asia-5 states (Indonesia, Malaysia, the Philippines, Thailand and Vietnam). Based on the growth rate of 6.7 percent in the previous year, the IMF expects a further increase in growth in India of 7.4 percent in 2018 and 7.8 percent in 2019. Disruptive governmental measures mean that the Indian market offers Wirecard many opportunities for implementing digital payment solutions and supporting the development there towards a cashless society. In the Asia-5 states, a constant rate of growth of 5.3 percent has been forecast for both 2018 and 2019. These countries are also important sales markets for Wirecard.

In the eurozone, a core market for Wirecard, economic growth of 2.2 percent (2019: 2.0 percent) is expected in 2018, based on growth of 2.4 percent experienced in the previous year. Due to strong domestic demand and higher foreign demand, the IMF has particularly highlighted its positive expectations for Germany, Italy and the Netherlands.

The vote in the United Kingdom (UK) to exit the European Union and its practical implementation is still associated with political and economic uncertainties. This is reflected in the annual growth forecasts from the IMF of 1.7 percent for 2017 and 1.5 percent for both 2018 and 2019, which are below the forecasts presented above for the eurozone.

Emerging European countries can expect growth of 5.2 percent in 2017, 4.0 percent in 2018 and 3.8 percent in 2019. In particular, these countries include Poland and Turkey. According to the IMF, the annual growth forecasts for the South African market in the years 2017 to 2019 stand at 0.9 percent each year due to political uncertainty. Growth of 1.1 percent is expected for the Brazilian market in 2017, followed by a significant increase to 1.9 percent in 2018 (2019: 2.1 percent).

In the United States of America, the reduction in corporation tax as part of the tax reforms is expected to result in increased investment by companies which is reflected in the positive growth forecasts up to 2020. Based on growth of 2.3 percent in 2017, the IMF expects an increase of 0.4 percentage points to 2.7 percent in 2018. The growth forecast for 2019 is 2.5 percent. An increase in domestic and foreign demand is expected and this also opens up growth opportunities for important trading partners such as Canada and Mexico.

A medium-term risk related to macroeconomic growth exists if there are any corrections made on the financial markets as a result of higher inflation and interest rates due to increased demand. Furthermore, the IMF believes overly inward-looking governmental policies, geopolitical tensions and political uncertainty in some countries to be further risk factors.

From a macroeconomic perspective, there are positive growth opportunities for the sales markets relevant to the Wirecard Group despite geopolitical and financial policy uncertainties. Due to the global market presence of Wirecard and its numerous international locations, a stable risk diversification in terms of regional political and economic uncertainties on the market has been achieved.

1.2 Sector forecasts and growth indicators in the business segments

Significant growth and a high level of innovation have also been forecast for the payment industry in the coming years. The sector is preparing for both structural changes in the individual markets and also innovations in products and services.

The trend towards digitalisation of the entire payment ecosystem is continuing across all sectors and sales channels. Digital payment solutions are emerging along the whole value added chain that are characterised by innovation, efficiency, security and convenience for the customer. Investment in new technologies is absolutely essential for service providers in the payment sector if they want to continue to survive on the market. The trend towards internationalisation, both amongst retailers and also end consumers, requires cross-border, digital solutions dealing with payment processing and associated services such as banking services or logistical value added services in the form of automated shipping of the purchased goods to the home country. Changes to the regulatory framework conditions, such as opening up access to traditional banking systems as part of the PSD2 Directive, will make it easier for alternative suppliers of payment solutions to enter the market.

As a global leader for innovation in the payment industry and a supplier of solutions for electronic payment transactions, the growth of the global digital payment market is crucially important to the Wirecard Group. The core sales markets are Europe and the Asia-Pacific region, supported by the acquisition of the customer portfolios of the credit card acceptance business of the Citigroup in eleven markets. Alongside locations in the United Arab Emirates, South Africa and

Brazil, Wirecard also entered the market in the United States of America in the reporting period. The international presence of the Wirecard Group means that the global payment market can now be addressed in the best possible way.

Growth indicators

In 2018 and 2019, the research company eMarketer expects an annual increase in global online retail sales of 21.1 percent and 19.1 percent respectively.

Forrester Research has forecast that online trade in Western Europe will grow on average by 11.3 percent annually up to 2022.

The sales of Wirecard's products and solutions are structured around the target sectors of consumer goods, digital goods and travel and mobility. The diversified customer portfolio covers a cross-section of the following digital business areas:

- Digital payments
- E-commerce
- Fintech
- Digital media
- E-services
- E-travel

The following forecasts are based on the data provided by the Statista portal (statista.com). Those forecasts for the business sectors relevant to Wirecard have been selected. All of the growth figures refer to the global market, even if Wirecard has not generated any significant transaction volumes to date in some parts of the world, such as China and large sections of South America. Nevertheless, the payment solutions offered by Wirecard and an active global network of partners have already contributed to the fact today that, for example, a high number of Chinese can pay in many different countries with one of their preferred domestic, mobile payment solutions such as Alipay or WeChat pay.

Digital payments

Digital payments covers all payment processes and payment systems carried out online via desktop computers or mobile devices ("digital commerce"), as well as "mobile payments" that are completed on a smart device at the point-of-sale. The transaction figures are recorded for each year.

Based on a total transaction volume of EUR 2,956.8 billion in 2018, a total transaction volume of EUR 4,900.2 billion is expected in 2022, which corresponds to average annual growth of 13.5 percent worldwide. Using the data provided by Statista, the trend towards digital POS payments using smart devices can be clearly identified: While 88 percent of digital payments will still be carried out online on the Internet (digital commerce) in 2018 and just 12 percent will be mobile payments via a smart device at the point-of-sale, mobile payments are already expected to account for 25 percent of digital payments in 2022. The forecasts for the number of users also shows the opportunities; average annual growth of 7.7 percent is expected in the area of digital commerce up to 2022 (2022: 2.6 million users), while average annual growth in user numbers of 20.2 percent is anticipated in the mobile payment sector (2022: 1.0 million users).

E-commerce

This market segment includes the sale of physical goods to private customers (B2C) via a digital channel, purchases via desktop computers, laptops and mobile end devices (e.g. smartphones). It does not include digital media, digitally-driven services such as airline tickets or B2B markets.

According to Statista, global revenue in the “e-Commerce” market will be around EUR 1,565.4 billion in 2018. A market volume of EUR 2,271.2 billion is expected in 2022, which corresponds to average annual growth of 9.8 percent. “Fashion” is the largest segment here with a volume of EUR 435.7 billion in 2018. The highest average annual growth rates up to 2022 are expected in the “Food & Personal Care” (13.4%), “Furniture & Appliances” (12.5%) and “Fashion” (12.3%) segments.

Fintech

This includes digital financial services and alternative forms of financing such as digital payments (mobile POS payments, digital commerce transactions), online crowdfunding, robo-advisors and automated asset management, as well as online marketplaces for loans (peer-to-peer loans) for private and commercial purposes.

The transaction volume in the FinTech market has been estimated at around EUR 3,854.7 billion for 2018. According to Statista, there will be a transaction volume in 2022 of EUR 7,220.6 billion, which corresponds to annual growth of 17.0 percent. The largest transaction volume of EUR 2,956.8 billion will be achieved in 2017 in the “Digital Payments” segment.

Digital media

In this segment, Statista includes audiovisual media sold to end users in a digital format via the Internet, digital videos in the form of downloads or streaming, music downloads and music streaming, digital games for various end devices and digital versions of books, magazines and newspapers.

Revenues of around EUR 97.5 billion are forecasted in the “Digital Media” market for 2018. The largest market segment is the “Video Games” segment with a volume of EUR 50.6 billion in 2018. At a global level, the forecast shows the most revenues being generated in the USA (EUR 34.5 billion in 2018).

E-services

This includes services booked online and the purchase of digital goods via the Internet in the form of tickets for sporting and music events, cinema tickets, fitness wearables and apps for recording/tracking/analysing and sharing health and fitness values, dating services such as partner matching services or singles sites, as well as food delivery services (online takeaways and restaurant deliveries). Booking or purchasing is carried out via a desktop PC or a mobile end device in the form of a smartphone or tablet.

Based on the data provided by Statista, revenues of around EUR 153.9 billion are expected in the business field “E-Services” in 2018, whereby the largest share will be accounted for by the area of “Food Delivery” with 71.7 percent. According to the forecast, there will be a market volume in 2022 of EUR 274.9 billion, which corresponds to an average annual growth in revenue of 15.6 percent. The area of “Food Delivery” is also expected to account for the largest share of the revenue at 77.2 percent in 2022.

E-travel

This segment includes holidays booked online i.e. hotels, private and holiday flats and package tours, mobility services and travel tickets booked online i.e. flight bookings, rental cars, coach travel and rail travel, and ride sharing services such as Uber.

According to Statista, global revenue in the “eTravel” market will be around EUR 669.4 billion in 2018, whereby the USA will account for the largest share of the revenues with EUR 207.2 billion. A market volume of EUR 928.2 billion is expected in 2022, which corresponds to annual growth of 8.5 percent.

Market growth of Wirecard

Due to its global diversification in sectors and customers, a variety of growth indicators are important for the Wirecard Group. This high level of diversification has resulted in stable growth prospects on the one hand and resilience to downturns in individual sectors or regions as well as macroeconomic changes on the other. Furthermore, the acquisition of multinational companies as customers in all business segments is also important with respect to processing higher transaction volumes in order to realise scaling effects.

To calculate a forecast for the organic market growth of Wirecard AG, growth forecasts from Statista have been weighted in accordance with target sectors. On the basis of these forecasts and taking into account the geographical and sector-specific orientation of Wirecard AG, the management anticipates market growth of 16 to 17 percent in the sectors relevant for Wirecard, which are described below, both for the core European market and the global market.

As a result of Wirecard's global acquisitions and international customer portfolio, a significant increase in the volumes processed worldwide is expected in the next two years.

1.3 Global megatrends and positioning of Wirecard

Six global megatrends can currently be observed in the payment industry, which flow into the research activities and development of new product solutions and features in order to secure the strong competitive position of Wirecard and its position as a global leader in payment innovations also in the long term. In the research and development teams in the Wirecard Group, the latest sector trends are identified at an early stage, research activities are initiated to find new technologies and assess their prospects for success and regular prototypes are developed and tested, also in cooperation with sector experts.

Decline in the use of cash in comparison to electronic payments

The global development towards a cashless society and advancing digitalisation within the payment ecosystem offer enormous opportunities for growth. In particular, developing countries are still highly dependent on cash. Regulatory measures and demonetarisation strategies, such as those in India, support our business activities and motivate us to develop innovative, cashless solutions for the global market.

According to a report from the Boston Consulting Group, the share of digital transactions will increase to account for 20 percent of all payment transactions by 2020, of which 40 percent of the transaction volume is forecast to be at the point-of-sale. Strong average annual growth of 20.5 percent for the use of global mobile payment technologies has been forecast between 2016 and 2024 by Transparency Market Research.

This trend will be supported by the changing regulatory framework conditions, such as the EU Directive PSD-2, which grants alternative payment service providers with their innovative digital solutions access to traditional banking systems, as well as the guidelines for SEPA Instant Credit Transfer, which will enable credit transfers in euros to be made in real time and allow retailers and end customers to make cost savings. The dynamic growth of virtual money is strengthening the development towards a cashless society. Blockchain technology and the potential it offers for our digital payment solutions is also being investigated by the research and development teams at Wirecard.

Artificial intelligence / machine learning

The use of technologies in the field of artificial intelligence to imitate human intelligence and behaviour is bringing about structural change in the economy and society. Using cognitive systems and machines, digital information is recorded and algorithms are used to draw conclusions, make decisions and take action. Machine learning is used to develop artificial neural networks that can complete tasks such as speech or face recognition using an almost endless amount of structured and unstructured data.

Artificial intelligence (AI) and machine learning are also of great significance for the services offered by Wirecard and will have an impact on almost all business fields in the coming years.

Wirecard has already gathered a decade of solid experience in the use of AI in the area of risk management and possesses an extensive pool of data and corresponding data analysis tools. The continuous development of fraud patterns enables the opportunities and risks relating to transactions to be appropriately assessed in order to safeguard and increase retailer revenues. This extensive knowledge can now be transferred to new product innovations in order to gain valuable insights into purchasing decisions and consumer behaviour so that our retailers can benefit from better conversion rates, cost optimisations and targeted, individualised campaign and pricing strategies.

Wirecard has launched a fully integrated solution for self-learning analyses onto the market with the Omnichannel ePos Suite. By combining payment data with other sources of data, it is possible to create highly specific customer profiles and gather important information about a person's purchasing behaviour. Offers can thus be created to match a customer's individual requirements, while sales strategies and customer loyalty programmes can also be developed to match them. It is thus possible to increase customer conversion rates and optimise products at the same time.

At the beginning of 2018, Wirecard integrated artificial intelligence into the area of customer interaction and support together with its partner Astute Solutions and their AI-based interaction channel. Next generation consumer touchpoints will be provided via chatbots in future in our mobile payment app boon. Based on deep learning technology, the chatbots will interpret what an individual consumer is intending and determine the best possible solution. The bots will continuously improve their skills by analysing consumer interactions and accessing Wirecard's internal knowledge base. Thanks to their natural language processing skills, chatbots are able to provide customised consumer support, avoiding complex bureaucratic processes and waiting times by giving feedback instantly. Boon users will soon be able to get answers to the most frequently asked questions by accessing the support section managed by the bot in their language and receiving automated, intuitive and quick answers via the platform. Boon will not only fulfil the needs of its customers in terms of service and support but boon customers will also be able to process basic transactions or commands within the boon ecosystem via the bot the future. The continuous enhancement of the services offered by the app mean that boon has become an advanced, mobile ecosystem, which can handle tasks far beyond just mobile payment.

Internet technology and the Internet of Things (IoT)

The Internet of Things is a wide-ranging network of smart devices that together collect and evaluate data. By combining hardware, software and communication systems, the objects can communicate with one another via sensors, receive orders and carry out their tasks independently of one another and without any external influences. Alongside the automation of production processes in the industrial sector, these digital, network-based technologies are bringing about a fundamental transformation of products, services, value added chains and business models in all segments, such as the household, health and consumer goods. Data is used to help recognise and understand behavioural patterns, opinions and preferences of customers. New ways of interacting with customers and new brand experiences become possible in which the consumer is made co-designer of their product. Product differentiation and individual pricing structures then also become possible.

It is expected that the number of connected and networked devices worldwide will increase to around 30 billion by 2020, with the highest share in the area of consumer goods. As a result of the increase in the number of connected devices, it is also anticipated that the number of IoT apps developed will increase to more than 200,000 in 2018.

Wirecard is also already working on innovative solutions and integrating IoT technologies into our payment ecosystem. Our open and flexible platform solution provides the successful basis for connecting all types of smart devices via interfaces and for integrating not only payment data but also corresponding user data into our ecosystem. IT security and data protection are key factors here for sustainable and long-term business success.

The latest technological findings will be resolutely and continuously implemented – especially into our mobile and digital solutions at the point-of-sale. For example, the new Wirecard ePOS app was launched at the beginning of 2018. It will offer bricks and mortar retailers a digital payment ecosystem via Android or iOS on mobile end devices that can also be easily integrated into the existing infrastructure at small and medium-sized companies. The new digital platform provides real-time access to internationally accepted payment methods, is compatible with existing Wirecard solutions and can also accept mobile NFC payments. In addition, the integration of digital value added services into the app is planned that will enable retailers to develop product and pricing strategies tailored to the customer's requirements by monitoring sales histories and thus increase sales rates as a result.

Wirecard is collaborating with T-Systems International GmbH, an operator of global information and communication technology, to develop Internet technology at the point-of-sale (PoS). The aim of the collaboration is to bring the shopping experience into the age of the Internet of Things

(IoT). In addition, the companies are developing a joint omnichannel showcase to be exhibited at trade fairs and events. The customer can benefit from a “self-checkout” and personalised offers in the shop both via a smartphone or tablet. The two companies want to support the retail sector with the future-oriented digitisation of payment and purchasing processes. One solution is, for example, the ConnectedPOS platform from Wirecard.

Internationalisation and cross-border payments

The dynamic trend towards the digitalisation of all sales channels and the internationalisation of business models, reinforced by the increased outsourcing of business activities abroad and internationally accessibly online shops, means the need for efficient, secure and fast cross-border payment solutions is also increasing.

Alongside the global tourism market, which has grown by almost 120 percent in the last two decades, there is also a need amongst over 150 million migrant workers – who make up around 4.4 percent of the working population – for cross-border, cashless payment transfers that include transparent fee and conversion structures. In a survey conducted by Statista to assess international online trade, 85 percent of respondents believe that international trade will play a decisive role in the future, while 76 percent believe that if local currencies were offered, the drop-out rates during the payment process will reduce significantly.

In our payment ecosystem, we are constantly working to develop new solutions that make cross-border payments more efficient, secure and convenient for our retailers and customers. Following the acquisition of the Citi prepaid portfolio in North America, we are offering our international customers, such as cruise line operators, corporate cards for their wage payments instead of cheques so that employees can conveniently withdraw their salaries or make cash payments in other countries. In the area of mobile payments, new solutions are constantly being added – such as peer-to-peer payments.

Thanks to our global licensing framework and our presence worldwide, we can offer cross-border services to our retailers and partners. In combination with the Group’s own licences such as its German banking licence and British e-money licence or in partnership with financial institutions and card networks via BIN sponsorships, Wirecard can process global credit card payments and issuing services via the platform. We are continuously working to add other local licenses and build further partnerships.

Financial inclusion

Financial inclusion describes providing individual people or companies with access to affordable financial services such as loans, financial investments, payment solutions and insurance services. Broader access and participation in the financial ecosystem can reduce income disparities, generate jobs, increase consumption and help poor societies to protect themselves better against financial risks.

According to estimates made by the World Bank, there are still around 2 billion people today with no access to a bank account. Despite the positive developments in the financial inclusion of underdeveloped countries, this problem still affects Asia, Africa and South America. Digital and mobile payment solutions offer the possibility of providing more people with access to financial services in the future. This development is being supported by the fact that – according to estimates made by the World Bank – around 1.6 billion people do not have a bank account but do possess a mobile phone, which especially in developing countries offers wide-ranging possibilities for alternative digital financial solutions.

Due to its global presence, Wirecard has set itself the goal of providing simple and innovative solutions to help private customers, as well as small and medium-sized companies, in underdeveloped countries to access the financial system.

In India, the partnership with Weizmann Forex, a partner for Western Union with one of the most extensive sales networks, will serve the largest remittance market in the world, for example. This service – which ensures the easy and secure transfer of money – will be offered at thousands of locations in all major cities and districts in India. The locations belong to the SmartShop network. As a result, people who have neither access to the Internet nor a smartphone or bank account will be able to access affordable financial services and Internet solutions that are supported by the retail sector, e.g. for paying invoices or booking bus, train or airline tickets. In addition, they can also receive money sent from abroad.

Seamless customer experience

It is assumed that the experience a customer has when purchasing a product will be a more crucial factor in the future than the price or quality of the product. Customers expect reliable products, a fair relationship between price and individual value, the fulfilment of their own individual requirements and needs and transparent information. New innovations to increase the purchasing experience such as augmented reality, expanding the real world to include virtual objects or virtual reality e.g. in video games, will enhance the individual value of a product beyond simply its product presentation.

Using innovative and digital solutions in the area of mobile payments through to the complete automation of payment processes, it will also be possible for brick and mortar retailers to develop more efficient and seamless payment processes in the future.

The digital solutions offered by Wirecard within the entire payment ecosystem and the processing of payments via integrated platform solutions will enable important payment data to be collected and analysed at all touchpoints for the customer, i.e. at the cash till or in the shop via a tablet or online. When paying using various different methods (prepaid or credit cards / mobile payment solutions), other value added services can be integrated into the payment process for the customer such as banking services or loyalty programmes. Data analytics solutions will make it possible to provide end customers with personalised offers and pricing models in the future.

After the end of the reporting period, a collaboration was agreed with SES-imagotag, the international leader in omnichannel solutions for physical retail. The jointly developed innovative solution will enable consumers to pay everywhere and at any time in the store and thus avoid long queues at the cash till. To shop and add items to their shopping basket, shoppers just need to hold their smartphones in front of a digital price tag from SES-imagotag and scan the product (via QR Code / NFC). In addition, rich content (i.e. interactive content), e-coupons and relevant product information can be displayed during the process, giving customers access to all of the information available online. When they have finished shopping, customers can then select their preferred method of payment on their smartphone. Wirecard provides users with a wide range of digital payment options, such as China Payment Solutions, which fulfil the needs of different target groups. The result is a completely new and seamless payment experience.

The flexible and open platform technology enables the integration of innovative value added services and technologies that will help our retailers and partners to position themselves more competitively and will also improve conversion rates and ensure that end customers are more satisfied.

1.4 Prospects in target sectors

Consumer goods

The area of consumer goods comprises the sale of physical goods to end consumers and other companies (B2C, B2B). Steady growth is also expected in future, especially in the area of online trade, which will continue to be driven by the convergence of the markets (online/offline) and also increasingly by the need to shift all sales channels to the omnichannel.

Wirecard has launched an innovative solution for the future of bricks and mortar and online trade onto the market with the innovative Omnichannel ePOS Suite. Intelligent algorithms and smart data evaluations guarantee sustainable performance advantages throughout all levels of the retail supply chain. Data-driven real time overviews of overall customer behaviour for a certain retailer and increasing customer lifetime value – i.e. optimising customer loyalty – lie at the heart of this solution.

Digital goods

Wirecard brings together all purely digital business models under the digital goods sector such as e.g. video streaming providers, suppliers of online games, Internet portals, apps and online gambling. In the area of software and gaming, the shift to exclusively digital business models, online downloaded content and “Software-as-a-Service” is continuing.

Wirecard can generate growth perspectives and new customers in this area due to the constant global expansion of its solution portfolio. In its core business, Wirecard also benefits in this target segment from the strong trend towards digitalisation, which can be seen across all sectors and is bringing an increasing number of new digital platform solutions, even in traditional business fields, to the market.

For example, a cooperation with TeleClinic – the first portal for remote treatment and digital consultations with doctors in Germany – was concluded after the reporting period. Wirecard is digitalising the online payment process for this supplier of telemedical services and fully processing all credit card payments and SEPA direct debits for the private patients.

Travel and mobility

The area of travel and mobility includes, in particular, airlines, hotels, travel agents, public transport, rental cars and travel portals. The omnichannel approach is increasingly establishing itself in the global travel industry. Services offered during the trip are, for example, an important factor for increasing customer satisfaction on the one hand and exploiting additional potential for revenue on the other.

According to the international research company Research and Markets, average annual growth of 10.8 percent up to 2023 is expected for online bookings in the travel sector, while an increase in the market volume of EUR 953.6 billion is also anticipated. An efficient and convenient booking process for consumers, secure payment solutions and the ability to compare offers via platforms and mobile apps are also the most important factors in this area.

Due to its diversified mix of customers from around 93 airlines – primarily operators of scheduled flights – and a mix of suppliers in the business and leisure travel segment, Wirecard will be able to exploit growth and scaling potential regardless of the forecasts for the online tourism market.

We will also work on new, innovative solutions for this target segment in the future. For example, the data analysis tool Omnichannel ePOS was expanded after the reporting period to include innovative technology tailored for the tourism sector. By using machine learning and artificial intelligence (AI), the ePOS Analytics Suite enables complex evaluations of data about the behavioural patterns of customers using highly modern analysis functions on one platform. A highly specific customer profile allows the range of services to be optimised for the traveller. In addition, the tool provides a precise overview of the purchasing behaviour of tourists, which can be used by companies to adjust their sales strategies and loyalty schemes.

E-commerce trends – connected commerce

Companies are increasingly placing their trust in omnichannel strategies and opening up to digitalisation at the point-of-sale. Omnichannel means the merging of all sales channels (online, mobile, POS, etc.) to guarantee customers the most seamless and convenient purchasing experience possible. Consumers will therefore no longer have to choose between making a purchase online or in a retail outlet in future but can expect to be addressed personally and offered a corresponding range of products and services by retailers that is adapted to today's technology. This trend is being supported by a networked global population via the Internet. According to the *Statista Digital Economy Compass* in 2017, the global penetration rate for the Internet stood at 55.4 percent, which is expected to rise worldwide to 63.9 percent in 2021. The mobile penetration rate is expected to rise from 41.6 percent in 2017 to 50.5 percent in 2021.

The convergence of the markets has led to some large e-commerce companies branching out into the bricks and mortar retail market. The consumer will no longer have to choose between online, mobile or the point-of-sale in future but will simply expect a convenient, target group-specific purchasing experience that stretches from the selection of goods through to their purchase and delivery. As a result, retailers face the challenge of offering their customers a barrier-free and pleasant omnichannel experience, while at the same time still being able to attract customers at every touchpoint. This requires payment solutions and also loyalty and couponing programmes to be integrated into the backend processes of the retailer's IT infrastructure. Wirecard addresses this requirement by offering flexible, digital solutions that take into account both sector and business-specific parameters.

FinTech trends and the financial services sector

As a result of the dynamic trend towards digitalisation in all sectors, the traditional banking sector and providers of finance-related services such as insurance are faced with technological challenges. In addition, an increasing number of competitors with innovative solutions and financial technology (FinTech) are entering the market.

By combining Internet-based, application-oriented technologies with financial services, fast, inexpensive and readily available services and new business models are being launched on the market. Innovative financial solutions such as crowdfunding or peer-to-peer loans are being used, for example, to bring together lenders and borrowers via digital lending platforms. In the area of payment transactions, national and also cross-border money transfers are being increasingly carried out via alternative service providers and alternative payment methods such as mobile payment solutions are gaining in importance.

According to the *Global FinTech Survey* of experts from the financial services sector published by PricewaterhouseCoopers in April 2017, 88 percent of all those who participated in the survey around the world are concerned that they will lose revenue to innovative service providers, 77 percent plan to invest in innovative approaches and 82 percent plan to increase their FinTech partnerships in the next few years. These partnerships are designed to speed up the development of innovative solutions and serve the already existing customer portfolio of traditional financial service providers. According to the survey, the majority of customers in the area of payment transactions (84 percent), money transfers (68 percent) and personal finance (60 percent) already use alternative FinTech services. Value added services are gaining in importance and innovative investments are due to be made in the next few years in the areas of data analytics (74 percent), mobile technologies (51 percent) and artificial intelligence (30 percent).

Structural changes in the payment industry are also expected due to, amongst other things, the changing regulatory framework conditions. The EU Directive PSD2, for example, will also give alternative payment service providers rights to access traditional banking systems via interfaces. Despite the still uncertain legal situation, increased competition that will offer opportunities for alternative payment solutions is expected.

As one of the earliest FinTech companies, Wirecard today already provides numerous young FinTech companies with licences, products and solutions to reduce the complexity of digital payment and the issuing of card products.

The consumer-friendly frontend solutions offered by FinTech companies are extremely popular with consumers. Through its bank and infrastructure, Wirecard can provide the necessary licence and legal framework and also a broad spectrum of additional services. Banks and financial institutions are strictly regulated in order to protect their customers' investments. Many FinTech companies do not have the necessary licences to actively operate on the financial services market. In this context, Wirecard Bank and Wirecard Card Solutions play a decisive role. They are well-positioned as licensed and regulated financial services institutions under the supervision of the German Federal Financial Supervisory Authority and the British FCA. We provide our FinTech partners with further innovative platform solutions in the areas of card issuing (prepaid, debit, credit), mobile wallets/mobile payment, white label banking and acceptance & acquiring in combination with important value added services such as loyalty programmes or transaction and retail banking services.

Due to our innovative, integrated platform solution and our many years of experience as a technology company, we are also a competent partner for traditional financial services institutions, helping them to strengthen their competitive position and retain their long-standing customer relationships using agile and quick digital solutions.

As part of the strategic partnership concluded with Crédit Agricole Payment Services, innovative and high-performance electronic payment services will be offered to retail customers of banks in France and Europe that belong to the Crédit Agricole Group. The main features are the market launch of omnichannel payment acceptance, pan-European acquiring services for French retailers, market places and quick onboarding solutions for small and medium-sized companies in France.

After the end of the reporting period, a cooperation was also announced with Mizuho Bank Ltd – one of the world's largest financial institutions. As part of the cooperation, Wirecard is providing card acceptance and card issuing services (acquiring and issuing) to Mizuho's corporate customers in the Asian region. In addition to financial and strategic services, Mizuho Bank will now be able to offer value added services to all its customers. For example, customers will be able to make use of the card acquiring services without having to open a bank account specifically for this purpose. Thanks to the cooperation with Wirecard as Asia's leading payment services provider, Mizuho Bank will be able to offer its customers a full payment ecosystem which has all services bundled within it.

These partnerships allow both parties, each with their own individual strengths, to benefit from the accelerating trend towards the digitalisation of payment processes.

We are not only convinced that the already existing projects with numerous FinTech companies will continue to develop positively but also that we will be able to enter into new partnerships – both with FinTech companies and also with traditional banks and insurance companies – in the next few years.

1.5 Prospects for selected product categories

Card business and mobile payment solutions

Cashless, contactless payment is being promoted around the world, whether by governments, such as in India, or by credit card organisations. In Europe, a core market for Wirecard, around 58 billion payment transactions were completed in 2016 using card payments according to a study carried out by McKinsey. Furthermore, over 50% of all cashless payments are completed using card payments. Sector experts expect annual growth of up to 10 percent in the next few years.

Medium-term drivers of this growth will be increased consumer demand, especially via digital channels, the trend towards cashless and digitalised payment at the point-of-sale and new, innovative card functions and payment methods. The new card functionalities will include value added services such as loyalty functions (e.g. gift cards) or innovations in the area of digital payment such as wallet solutions. Constant innovation in technologies for payment processing (e.g. virtualisation, tokenisation) and the fulfilment of security requirements will also be required.

Virtual card products (also known as digital cards or mobile cards) for companies in the form of corporate funded cards – products that can be topped up at any time – are more secure and practical then plastic cards.

The range of alternative payment methods and mobile payment solutions available on the market is developing rapidly, particularly in relation to speed and the user-friendliness of the solutions.

E-wallet systems are used to save information from various payment systems or also digital currencies so that this information does not have to be entered again after payment via a mobile telephone or on the Internet.

Consumers will use virtual cards as a matter of course in future to pay with smartphones. The successes achieved in this area by Wirecard with the mobile apps Orange Cash and its own product boon, as well as through the partnership with Alipay, clearly demonstrate the direction in which developments are currently headed.

boon.

New functions and value added services continue to be added to boon – Wirecard's mobile payment app and Europe's fastest growing mobile payment solution – to create an integrated ecosystem for all the app user's financial needs. Following the addition of the peer-2-peer function at the beginning of the new 2018 fiscal year, users can now access micro loans in real time and use a digital credit card for online shopping, while money transfers between users are now also possible which can be completed in real time.

The additional services range from financial and insurance services through to personalised services such as coupons, location-based services or offers as part of customer loyalty programmes and generate convincing added value and a special purchasing experience for the end consumer. We believe there are promising opportunities for growth in this area in combination with the global technology and licence portfolios available to Wirecard.

Not only is the Wirecard Group very well-positioned with its highly developed solutions for the issuing of innovative card products and mobile payment solutions but, following the acquisition in the USA, it is also represented on the global market and can deliver highly scalable solutions using existing technology.

1.6 Prospects for expansion

Using the diverse range of services within the payment ecosystem and the combination of software technology and banking products, the area of payment acceptance and processing will be further expanded and also increasingly linked with product innovations in the issuing area to bring new issuing solutions to the global market. In this context, enhanced mobile payment functions and innovations to digitalise bricks and mortar trade are particularly noteworthy. Value added services in all areas such as data analytics round off the range of services for a global, integrated payment ecosystem with the Wirecard platform solution. It will enable existing customers and also new customers and partners of all global representatives of Wirecard to be served and thus offers great potential for cross-selling activities.

Wirecard has achieved its goal of global expansion. The plan is to continue to use our foothold in each region to expand through sensible acquisitions. The Group-wide value added chain will also be introduced to international growth markets in future, insofar as the existing infrastructure and level of technology make this possible.

Alongside the technical consolidation of Wirecard India Private Limited and Wirecard North America Inc., we will also continue to push forward the integration of the international platforms from the acquisition of Citi Prepaid Card Services in the USA in the next fiscal year. Further steps for migrating the customer portfolio acquired from the Citigroup are planned in the APAC region.

As in the previous fiscal year, the integration and consolidation of technical platforms will play an important role in the leveraging of synergies. As a consequence, Wirecard customers worldwide have access to an extensive, constantly growing and standardised portfolio of products and solutions within the payment ecosystem via an integrated platform.

Wirecard AG anticipates additional potential for profitable growth in local markets over the next few years by linking acquiring and issuing services, while at the same time being able to expand its global payment platform to include mobile payment solutions and value added services such as the integration of transaction and retail banking services or a customer loyalty programme. The trend towards digitalisation in bricks and mortar trade also offers Wirecard good prerequisites for cross-selling activities for existing and new customers.

The common language of all business entities within the Wirecard Group is Internet technology, which guarantees the fast and efficient integration of new subsidiaries and customer portfolios via the digital platform solution.

1.7 Future Group orientation

Group orientation in the next two fiscal years

The future growth and positioning of the Wirecard Group is geared to a primarily organic growth strategy and will be based on the measures realised to date.

The core business area of electronic payment processing and acceptance will be continuously expanded to meet the needs of globally active retailers – by integrating, as previously, both international and also local payment systems. As the Group has based its end-to-end solutions on Internet technology and shapes the e-commerce market with its innovative products, Wirecard is well positioned for the future.

Planned changes to business policy

No major changes to business policy are planned for the current year or the following year. The activities of Wirecard AG focus on continuous investment to expand its portfolio of products and services, in order to extend the value chain of our core business.

Future sales markets

A large proportion of the growth of Wirecard AG is expected to be in its core markets of Europe and the Asia-Pacific region in 2018 and 2019. In addition, Wirecard has gained access to the largest e-commerce market in the world with the acquisition of the institutional prepaid card business of the Citigroup in the USA and major impetus for growth is expected here as a result. Once existing customers are already benefiting from Wirecard's innovative issuing services, payment processing and acquiring solutions will be made available to US retailers in the short to medium term. Furthermore, the now attained global market position will also be substantially expanded.

The strategy of achieving an international presence through locally networked entities and providing multinational card and payment acceptance agreements is the key to securing further globally active retailers as customers. The Wirecard platform offers locally and globally relevant payment methods. This product range will also be continuously extended. Due to the acquisition of the Asia-Pacific acquiring portfolio of the Citigroup that was announced at the beginning of 2017 and is due to be concluded in the middle of 2018, Wirecard will homogenise and expand its range of products and services for the entire APAC region. Regionally active and international retailers can already benefit today from the full payment value added chain offered by Wirecard.

Future application of new methods, products and services

Wirecard combines the latest software technology with bank products or services and also continuously expands its portfolio to include innovative payment technologies.

The Group manages product development activities internally along the product lines that are in place together with respective business analysts. These product lines include card-based or alternative payment methods, risk management and fraud prevention, as well as issuing (card products). New growth potential derived from existing technology and innovative new developments will be exploited through new business areas in mobile services, data analytics, financial services, couponing and loyalty. The development of new products and solutions, some in cooperation with partners, is being driven forward constantly. Innovative strength, a competitive range of products and services and the ability to quickly implement industry and customer-specific requirements remain the basis for organic growth.

As a technologically agnostic company, Wirecard AG operates flexibly across interfaces or transmission formats via its modular platform.

In order to ensure the constant expansion of our payment acceptance products – whether for card-based or alternative methods – market-relevant solutions will be constantly integrated into the platform.

1.8 Expected financial position and results of operations

Financial position

The financial position of Wirecard should continue to remain solid over the next two years. This includes an equity ratio that remains at a comfortable level. The equity ratio in 2017 is 42.0 percent compared to 53.0 percent in the previous year. The dividend payout of EUR 0.18 per share that is to be proposed to this year's Annual General Meeting has been taken into account in this statement. The retained profits will be invested in, amongst other things, research and development expenses and new technologies. These currently account for around six to seven percent of annual revenues per year.

The Management Board intends to continue to finance future investments and potential acquisitions in the future either from its own cash flow or an appropriate deployment of debt funding. A strategic objective is to utilise bank borrowings only to a moderate extent in relation to equity and total assets, mainly in connection with M&A transactions. For this purpose, we establish long-term relationships with banks in order to guarantee the necessary flexibility for both our operating business and M&A transactions in the form of master credit agreements.

Potential acquisitions are analysed and assessed under stringent conditions in this regard. During such reviews, the focus is on profitability and what sensible additions the acquisitions may bring to the existing product range and customer portfolio. We are convinced that our strategy of integrating providers of payment transaction services and technology services, as well as network operators, in high-growth economic regions in Asia into our corporate group will prove successful in the long term.

Results of operations

Earnings before interest, tax, depreciation and amortisation (EBITDA) is the central financial performance indicator for the operating business of Wirecard AG. This sets benchmarks across the entire company, from financial controlling through to assessing the profitability of individual divisions. For this reason, the 2018 earnings forecast is also based on the key performance indicator of EBITDA.

We forecast operating earnings before interest, tax, depreciation and amortisation (EBITDA) of between EUR 510 million and EUR 535 million for the 2018 fiscal year. This forecast is based on:

- the market growth in European e-commerce and the additional dynamic of global growth markets
- the dynamic trend towards digitalisation at the point-of-sale, combined with increased demand from retailers for digital ePos solutions, as well as demand from consumers for innovative payment solutions
- the increase in the transaction volume processed by the Wirecard Group for both existing and new customers
- economies of scale from the transaction-oriented business model
- cross-selling effects with existing customers
- linking digital acquiring and issuing services with banking services and value added services such as loyalty programmes to create completely new business models in the area of digitalisation
- the continuous expansion of our value added chain to include valuable additional services in the area of data analytics to allow personalised, digital pricing and product offers to be made at the point-of-sale
- the constant expansion of our portfolio with innovative financial services (transaction banking, retail banking services, insurance services, etc.)

The forecast does not include possible effects from further potential corporate acquisitions. We also forecast that revenues and the results of operations will continue to remain positive in 2018.

The high demand for international solutions, our competitive advantage due to the combination of technology and innovative banking services and our current customer projects and partnerships, as well as our ongoing global expansion, are the reasons we are convinced that the Wirecard Group will grow faster than the overall market in both 2018 and 2019.

By linking acquiring and issuing services with digital value added services across the entire payment ecosystem and utilising the resulting product innovations and enhancements, we believe that profitable areas of business and existing customer relationships can be expanded and new customers and partners from various different sectors and regions can be secured.

Due to the integration of our acquired companies and the migration of their customer portfolios onto our integrated technology platform, improvements in the efficiency of our operational processes, as well as disciplined cost management, we anticipate further positive effects on earnings.

2. REPORT ON OPPORTUNITIES AND RISKS

The following chapter explains the systems deployed by the Wirecard Group for risk management purposes and comprises a list of the essential areas of risk, as well as the relevant specific risks with which the Group perceives itself to be confronted.

2.1 Risk-oriented corporate governance

For the Wirecard Group, the deliberate assumption of calculable risks and the consistent exploitation of the opportunities associated with these risks form the basis for its business practices as part of the scope of value-based corporate management. With these strategies in mind, the Wirecard Group has implemented a risk management system that lays the foundations for risk-oriented and earnings-oriented corporate governance.

In the interests of securing the company's success on a long-term and sustainable basis, it is thus indispensable to identify, analyse, assess and document critical trends and emerging risks at an early stage. Where it makes economic sense, the aim is to adopt corrective countermeasures. In principle, it is possible to limit, reduce, transfer or accept risks in order to optimise the company's risk position relative to its earnings. The implementation and effectiveness of any approved countermeasures are continuously reviewed.

In order to minimise the financial impact of any potential loss, the Wirecard Group takes out insurance policies – insofar as they are available and economically justifiable. The Wirecard Group continuously monitors the level of cover that they provide.

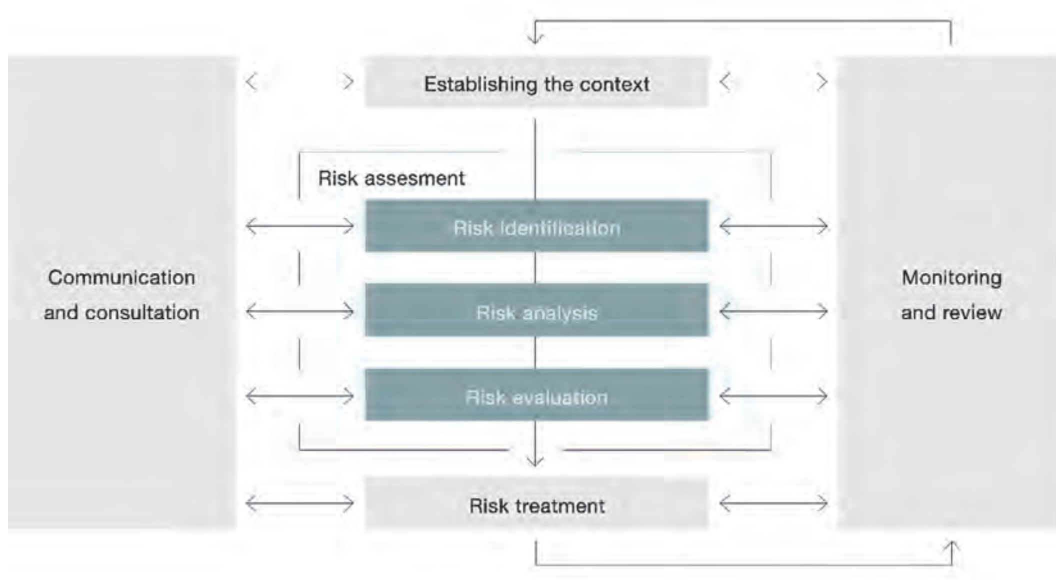
Equally, it is a company-wide policy to identify, evaluate and exploit opportunities in order to sustain growth trends and secure the Group's earnings growth.

2.2 Efficiently organised risk management system

For the Wirecard Group, risk management comprises the deployment of an extensive range of instruments for handling risks – the Enterprise Risk Management (ERM) system. The risk management system's organisation is derived from the ISO 31000:2009 standard. In addition, relevant regulatory requirements for risk management systems that go above and beyond this standard are implemented in some companies of the Wirecard Group.

The ERM system is standardised Group-wide and integrated into the business processes, as well as into the operating business units and Group companies. It enables opportunities and risks to be comprehensively and rapidly identified and assessed within a combined top-down and bottom-up process. Risks and opportunities are systematically derived from a top-down perspective and examined to ascertain their relevance. In a further-reaching bottom-up inspection, the viewpoint of the operating units and Group companies is supplemented by local or business-related components during both the identification and assessment of risks and opportunities.

Risk management system



Risks are assessed according to both probability of occurrence and level of potential loss (impact). Appropriate risk management measures are developed and pursued. Relevant risks, along with the measures adopted, are continuously recorded centrally for the Wirecard Group. Appropriate early warning systems provide support in monitoring risks and identifying potential problems at an early stage, thereby facilitating the timely planning of the required measures.

The centralised recording of risks using standardised risk metrics provides the Management Board with an up-to-date view of the overall risk situation of the Wirecard Group through a formal reporting system. The reporting system for relevant risks is controlled by predefined threshold values. Depending on the significance of the risks, reports are prepared regularly, although at least on a quarterly basis. The regular reporting process is augmented by ad hoc reporting.

On the basis of the hierarchical competencies in responsible areas and Group companies, risk management decisions are made decentrally within the limits of a predefined framework and are monitored by central risk controlling in Group Risk Management. Corresponding instructions and guidelines create a uniform framework for dealing with potential risks.

The Management Board is responsible for risk strategy, the appropriate organisation of risk management and the monitoring of risks associated with all business activities, as well as for risk management and controlling. The Management Board derives the risk strategy from its business strategy. The risk strategy serves as a point of reference for the management of risk in the form of corporate policy and risk strategy requirements. The Management Board provides regular reports to the Supervisory Board on any existing risks and their trends. The Chairman of the Supervisory Board remains in regular contact between Supervisory Board meetings with the Management Board, in particular with the CEO, and consults with him about current issues concerning the risk situation and risk management.

Risk management is centralised within the Wirecard Group and continually reviewed by the Internal Auditing department, as well as by process-independent bodies for its appropriateness, effectiveness and compliance with general statutory parameters. Where necessary, corrective measures are instigated in conjunction with the Group risk management system.

Within the scope of project risk management, corporate decisions are taken on the basis of detailed project outlines describing the related opportunities and risks, which are then integrated into centralised risk management once the project has been approved.

The Wirecard Group perceives risk management as an ongoing process because changes to the legal, economic or regulatory parameters, or changes within the organisation, may lead to new risks or to a reassessment of known risks.

2.3 Risk evaluation

In order to evaluate the relevance of risks to Wirecard AG, risks are assessed in the dimensions of “estimated probability of occurrence” and “potential impact on the net assets, financial position and results of operations, as well as reputation”. Both assessments classify the risks at one of five levels, which are shown below.

Probability of occurrence	Description	from (%)	to (%)
Very unlikely	Event occurs only under extraordinary circumstances	0.00	9.99
Unlikely	The occurrence of the event is comparatively unlikely	10.00	24.99
Likely	Event can occur within the observation period	25.00	44.99
Very likely	Event occurs within the observation period with a high degree of probability	45.00	79.99
Fast sicher	Event occurs within the observation period with a very high degree of probability	80.00	100.00

Wirecard AG calculates the potential impact of a risk on a net basis. In other words, the residual risk is reported by taking into account the countermeasures that have already been implemented.

Impact	Description	from (TEUR)	to (TEUR)
Immaterial	Negligible effect on the net assets, financial position and results of operations	0,00	39,999
Low	Limited effect on the net assets, financial position and results of operations	40,000	64,999
Moderate	Tangible effect on the net assets, financial position and results of operations	65,500	104,999
Considerable	Substantial effect on the net assets, financial position and results of operations	105,000	174,999
Significant	Up to critical effect on the net assets, financial position and results of operations	175,000+	–

Financial risks are quantified in terms of amounts. Further information about financial risks can be found in Chapter 7.2 (Notes).

Impact	Event probability				
	Very unlikely	Unlikely	Likely	Very likely	Certain
Significant	Medium	High	Very high	Very high	Very high
Considerable	Medium	Medium	High	High	Very high
Moderate	Low	Medium	Medium	High	High
Low	Very low	Low	Medium	Medium	High
Immaterial	Very low	Very low	Very low	Low	Medium

Using the evaluation of risks in terms of their probability of occurrence and level of impact, Wirecard AG derives a risk value for the significance of the risks based on a five-level scale – ranging from “very low” to “very high”.

2.4 Internal control and risk management system relating to the Group financial accounting process

The Wirecard Group has an internal control and risk management system also in relation to the (Group) accounting process, in which appropriate structures and processes are defined and then implemented within the organisation. This is designed to guarantee the timely, uniform and correct accounting of business processes and transactions. It ensures compliance with statutory standards, accounting regulations and the internal Group accounting directive, which is binding for all companies included in the consolidated financial statements. Any amendments to laws, accounting standards and other pronouncements are analysed for their relevance to, and impact on, the consolidated financial statements, and the internal directives and systems within the Group are adjusted to take account of the resulting changes.

The foundations of the internal control system, in addition to defined control mechanisms such as technical and manual reconciliation and coordination processes, lie in the separation of functions and ensuring compliance with directives and work instructions. The Group accounting process at Wirecard AG is managed by the Accounting and Controlling departments.

The Group companies prepare their financial statements locally and forward them to Wirecard AG. They are responsible for compliance with the directives and processes applicable throughout the Group, as well as for the due and timely execution of their accounting-related processes and systems. The employees involved in the consolidated accounting process are trained regularly on this topic. The local companies are supported by central contacts throughout the accounting process. Within the scope of the accounting process, measures have been implemented to ensure the regulatory conformity of the consolidated financial statements. These include access rules that are established for Group accounting in the IT-based accounting systems (a range of read and write privileges), along with a system of simultaneous double checks (dual-control principle) and random checks by the local accounting departments, the Group Accounting department, the Controlling department, and the Management Board. These measures serve to identify and assess potential risks and to mitigate and review any risks identified.

The consolidated financial statements are prepared on a centralised basis, using data from the subsidiaries included in consolidation. The Accounting and Controlling departments are responsible for consolidation measures, certain reconciliation work and for monitoring time and process-related parameters. Technical system controls are monitored by employees and augmented by manual audits. The principle of dual control is implemented as a minimum requirement. Certain approval processes must be applied throughout the accounting process. In addition, a group of experts that is not involved in the preparation process, including external advisers, is on hand for special functional questions and complex issues.

While reviewing the propriety of the accounting systems of the German and foreign companies, the following issues are taken into account:

- Compliance with statutory parameters and directives issued by the Management Board, as well as other guidelines and internal instructions
- Formal and substantive propriety of accounting and related reporting, including the IT systems deployed
- Functionality and effectiveness of internal control systems to avoid financial losses
- Propriety of task fulfilment and compliance with economic and business principles

Wirecard AG applies a method to monitor the effectiveness of the internal, accounting-related control system. This process is geared to the risks of possible erroneous reporting in the consolidated financial statements.

The effectiveness of the internal control system is monitored by the Supervisory Board of Wirecard AG.

2.5 Risk areas

The risk areas that are relevant to the Wirecard Group are shown in the diagram below. The sequence in which they are presented, however, does not imply any assessment of the probability of occurrence or possible impact of any loss.

Overall risk	Description
Business risks	Economic risks, risks arising from the general competitive situation for the Wirecard Goup and its customers
Operational risks	Personnel risks, risks of product innovations and risks arising from the use of third-party services
Information and IT risks	Risks arising from the operation and design of IT systems as well as risk in connection with the confidentiality, availability and integrity of data
Financial risks	Exchange-rate, interest-rate and liquidity risks
Debtor risks	Risks of return debits, risks arising from default in payment obligations of customers of the Wirecard Group as well as of card holders
Legal and regulatory risks	Risks arising from changes to the legal and regulatory framework as well as risks arising from litigation, license rights and liability
Other risks	Reputation risks and risks arising from emergencies

It should generally be noted that risks currently assigned a lower risk value can potentially cause greater damage than risks currently assigned a higher risk value. Additional risks of which the Wirecard Group is currently unaware, or which are still gauged as immaterial, could similarly have a great impact on the net assets, financial position and results of operations, as well as the reputation, of the Wirecard Group. These include natural hazard risks and other financial risks (e.g. risks arising from external tax audits).

2.6 Business risks

The Wirecard Group defines a business risk as the danger of a decline in earnings owing to unexpected changes in the volume of business and/or margins, as well as corresponding (purchasing) costs.

Business strategy risks

Business strategy risk exists in the medium and long-term risk of negative effects on the attainment of the Wirecard Group's strategic objectives, for example resulting from changes to the business environment conditions, and/or inadequate implementation of the Wirecard Group strategy.

Group strategy is subject to ongoing development as part of a structured strategy process that is used as the basis for Wirecard AG's annual planning process. This entails defining strategic approaches and guiding principles, as well as setting quantitative targets for the Wirecard Group, its operating units and Group companies. The results of this strategy development process are used as the basis for a sustainable business strategy comprising significant business activities and target attainment measures. Similarly, a risk strategy consistent with this business strategy is also determined.

In addition, external influencing factors such as market and competitive conditions in core markets (e.g. the use of cryptocurrencies such as Bitcoin), capital market requirements and regulatory changes, where relevant changes may require adaptation of the business strategy, are also continuously monitored. The strategy development process comprises the following: planning, implementation, appraisal and adaptation of the strategies. To ensure that the implementation of the Group strategy is aligned correctly with the business objectives, strategy controlling is conducted by means of regular monitoring of both quantitative and qualitative targets.

If Wirecard AG were to fail to efficiently handle changes in the conditions found in the business environment or to successfully implement the Wirecard Group strategy, there is a risk of an immaterial impact on the net assets, financial position and results of operations. Due to the measures that have been adopted and the experience gained over the past few years, the Management Board gauges the probability of occurrence as very unlikely and generally assumes that the risk is very low.

Market risk

Uncertainties relating to the global economy, financial markets and political circumstances could negatively impact the Wirecard Group's net assets, financial position and results of operations.

Legal and regulatory changes in the national and international environment could have a direct or indirect influence on the business performance of the Wirecard Group. An increased level of political uncertainty and the increasing appeal of populist parties for voters in a number of countries within the European Union could thus have an adverse impact on European integration. In countries outside of the European Union, in which the Wirecard Group is represented by subsidiaries, there could be far-reaching political changes. An escalation in the political risks could have unforeseeable political consequences and lead to a situation where, for example, certain transactions or their payment processing is only possible to a limited extent or in some countries no longer possible at all. Moreover, growth in those emerging markets where the Wirecard Group is active could weaken, stagnate or even decrease – resulting in a failure to meet business expectations in these countries which could thus have a direct impact on the planned international growth of the Wirecard Group. In addition, the transaction-based business model of the Wirecard Group may indirectly experience adverse effects due to consumer behaviour. In the event of a major deterioration in global economic conditions and a substantial decline in consumer spending, a negative impact on the course of business and performance of the Wirecard Group may be incurred. Moreover, the purchasing power of consumers may fall, thereby affecting the volume of transactions processed by retailers through the Wirecard Group.

The vote by the United Kingdom (UK) to leave the European Union and the concrete implementation of its exit are creating economic uncertainty and will play an important role for the development of both regions. As a result of the EU passporting model, banks based in an EU member state can provide cross-border financial services within all EU countries. Even in the event of a hard exit from the EU by the United Kingdom and the simultaneous loss of the passporting model for institutions based in the United Kingdom, the Wirecard Group does not expect any significant negative impact. Due to the Group's own full German banking licence and a British e-money licence, Wirecard is prepared for corresponding regulatory risks and still expects to be able to provide payment services at the current level in future both within the UK and also the EU. Opportunities could arise if competitors of the Wirecard Group do not possess an appropriate licensing network and are thus only able to conduct their business to a limited extent in the future within the EU or the UK. The current growth of trade and services on the Internet compared with traditional bricks and mortar stores could weaken or be reversed and thus lead to a decline in the Wirecard Group’s business.

Due to the fact that our business model is primarily transaction-oriented, the introduction and use of products and services provided by the Wirecard Group calls for only a very low level of initial investment by most customers. If customers’ propensity to spend were to be negatively affected due to changes in the overall economic situation, this could impact business performance at the Wirecard Group.

The Wirecard Group constantly monitors national and international developments in the political, economic and regulatory environments, as well as economic trends, so that if these factors should change in the short term it can take immediate measures to counter these risks and reduce any negative impact as far as possible.

For this reason, the Management Board gauges the occurrence of this risk as unlikely for the 2018 fiscal year. Nevertheless, a considerable impact on the net assets, financial position and results of operations of Wirecard AG, as well as an increase in the other risks described in this report, cannot be completely excluded. For this reason, the Management Board gauges this risk as medium.

Equally, transformational political changes such as the limits imposed on the use of cash in India or a significant improvement in the global economic situation, combined with a marked increase in consumer spending, as well as growth in trade and services on the Internet that outstrips present expectations, could signify an opportunity for the Wirecard Group’s net assets, financial position and results of operations.

Risks arising from existing customer business

Existing Wirecard Group customers could decide to cancel their contracts, license no further products, purchase no consulting and training services, or switch to competitor products or services.

The Wirecard Group generates a significant share of its revenues from its extensive portfolio of existing customers. The successful integration of the corporate acquisitions made over the previous years into the corporate network of the Wirecard Group has contributed to the positive growth of the portfolio of existing customers.

If a significant number of regular customers were to decide to discontinue their business relationships with the Wirecard Group, this would have a negative impact on the development of its business and also influence the value of the customer portfolio. This may result in impairments to recognised customer bases.

For this reason, the Wirecard Group continuously monitors levels of customer satisfaction relating to services and products that the Wirecard Group offers.

Given the high level of stability of the existing customer business over recent fiscal years and the range of competitive products and services, the Management Board gauges the occurrence of this risk, which would have a low impact on the net assets, financial position and results of operations, as being very unlikely in the 2018 fiscal year. As a consequence, and by way of summary, the Management Board assumes the existence of a very low associated risk.

Product development risks

Ensuring that the portfolio of products and services remains competitive in the long term calls for continuous product innovations. New product development is connected with many risks over which Wirecard AG frequently cannot exert any control.

Product development must generate customer-oriented and reliable products. In particular, corrections to product characteristics at a late stage of development, or products that fail to address customers or the market, result in considerable expenditure and lead to significant financial disadvantages. A trend reversal may also occur on the market, rendering the Wirecard Group's products unsuitable. Given its general positioning as an Application Service Provider (ASP), in other words as an outsourcing service provider or a provider of white label solutions, the Wirecard Group faces a general risk of a trend reversal towards the insourcing of development activities and/or the operation of IT infrastructure.

Deviations from the planned realisation of projects can delay the market roll-out of new products, resulting in both opportunity costs and a loss of reputation, or direct claims for damages. Additional factors, such as entering new market segments and contractually acquiring responsibility for new products with respect to customers could increase these risks.

In general, all activities carried out by the Wirecard Group especially in the area of "research and development" are subject to innovation risk (please refer to section 4. of this management report). If the Wirecard Group fails to realise investments made in the area of "research and development" for products in line with the market, anticipated earnings contributions and related-value added services may fall short of expectations.

The Wirecard Group's development processes, quality assurance processes and operating processes have been integrated into its Group-wide risk reporting system. Due to regular quality controls, the Wirecard Group avoids the manufacture of faulty products. Wherever possible, and whenever this makes sense, the Wirecard Group works hand in hand with its customers in order to be able to respond to possible changes in requirements at an early stage. Stringent project controlling ensures the compliance of all procedures with internal Group and external regulatory parameters and ensures the highest quality standards in our development activities and operations.

Moreover, a dedicated internal approval process for product developments means that the market potential of a product is examined and a suitable profit margin based on the corporate objectives is ensured when setting prices.

If the Wirecard Group were to fail to succeed in efficiently managing the development of its products, the risk exists that these developed products fall short of the expectations required of them, or that almost no related revenue is generated. This could have an immaterial impact on the net assets, financial position and results of operations during the period under review. In light of the stringent quality benchmarks in product development, the Management Board gauges the occurrence of this risk as very unlikely. The Wirecard Group consequently categorises this risk as very low.

Risks arising from intensified competition

Given intense competition, technical innovations and sector consolidation, market shares and revenues could shrink.

The Wirecard Group operates in a market environment characterised by intense consolidation amongst its provider base. Technical developments for end devices utilised for Internet payments or mobile payments also mean that hardware manufacturers and telecommunication and Internet companies are increasingly developing their own payment solutions and offering them on the market – in some cases supported by a large advertising budget. In addition, smaller payment providers are increasingly entering the market with innovative products. These developments may have a potentially negative impact on the business performance of the Wirecard Group due to increased competition from new or stronger rivals.

Our role as one of the leading European providers of payment processing and risk management solutions implies that the Wirecard Group is itself a driving force behind the current movement towards global consolidation, and consequently can play an active role in shaping it.

The Wirecard Group is convinced that it can retain its leadership position on the market through the further successful implementation of its innovation strategy, the further growth of the Wirecard Group and the targeted acquisition of competitors. The probability of occurrence for this risk, which may – should it materialise – have a low impact on the net assets, financial position and results of operations, is gauged by the Management Board as unlikely in the 2018 fiscal year. As a consequence, the Management Board assumes a low risk in this instance.

Equally, the emergence of new market participants may also generate opportunities for Wirecard AG's net assets, financial position and results of operations – for example, through new business partners, markets and products.

2.7 Operational risks

The Wirecard Group considers operational risks to mean the risk of losses resulting from the inappropriateness or failure of internal processes and systems, from human error or from external events which have not already been dealt with in other risk areas.

Personnel risk

Qualified and motivated employees are critical to sustained business success. The growth of the Wirecard Group's business depends to a decisive degree on our ability to foster the loyalty of our current employees and also on our continuing ability to recruit highly qualified employees in the face of intense competition for skilled personnel and managers.

The availability of highly qualified employees, and consequently our ability to adjust our capacities to meet demand, particularly affects the successful realisation of projects. The Wirecard Group plans to continue to expand its activities. Its future success also depends on whether the Wirecard Group proves sufficiently successful in recruiting highly qualified skilled personnel and managers for the company.

If the Wirecard Group cannot effectively manage its personnel resources at its locations, it may be unable to efficiently and successfully manage its business.

A proactive personnel risk management system in place within the Wirecard Group ensures that possible risks relating to motivation, employee attrition and shortages are identified and assessed, and – where necessary – suitable measures are adopted to mitigate the risk level. As a result of a proactive personnel policy based on the directives laid down by the Management Board, profit participation programmes, advanced vocational training opportunities and an attractive working environment, the Wirecard Group protects itself against the loss of key employees and counteracts a possible risk of a lack of motivation.

The positioning of the Wirecard Group as an attractive employer will continue to help foster the loyalty of qualified employees and attract new personnel. Over the past years, Wirecard AG has experienced only very low employee turnover amongst its managers. Due to the measures that have been adopted, the Wirecard Group gauges the occurrence of this risk as very unlikely. However, a low impact on the net assets, financial position and results of operations cannot be excluded. For this reason, the Management Board gauges the risk for the 2018 fiscal year as very low.

Project risks

Projects are generally connected with risks as delays to their realisation can result in higher costs and damage to reputation, or also to significant contractual penalties.

The successful realisation of a customer project depends on a large number of factors. Although some of these factors cannot be influenced or can only be partially influenced by the Wirecard Group, they can nevertheless negatively impact the company's business performance or jeopardise the realisation of a customer project through, for example, higher project expenditure and/or unexpected delays during implementation.

In addition, damage to the company's image and claims for compensation from customers may be caused by negative developments during the course of the project attributable directly to the Wirecard Group, for instance due to bottlenecks in resources.

The Wirecard Group's active project risk management and the targeted optimisation of the risk profiles of customer projects by experienced project managers at the Wirecard Group serve to mitigate project risks. Risk management of customer projects is fully integrated into the Wirecard Group's company-wide risk reporting system.

Although customer-specific solutions are implemented for some projects, the majority of customer projects involve standardised integration methods. For this reason, the Management Board gauges the occurrence of this risk as unlikely for the 2018 fiscal year given the overall risk structure of the project portfolio. However, a low impact on the Wirecard Group's net assets, financial position and results of operations cannot be completely excluded. As a consequence, the Management Board assumes a low risk overall.

Risks arising from the use of third-party services and technologies

Parts of the Wirecard Group's range of products and services call for the utilisation of external products and services. Qualitative deficiencies in the products supplied or services rendered, delayed or incomplete deliveries or services, or the total failure of these products or services may have a detrimental impact on the Wirecard Group's business performance.

Changes to the utilisation rights for third-party software and technologies – to the extent that they are integrated into the products of the Wirecard Group – may delay both the development and market launch of these products, as well as negatively impact their functionality, and may result in the payment of higher licence fees.

Furthermore, the risk exists that licences will no longer be available in the future for third-party technologies that are in use, or that these technologies will no longer be accessible or are not accessible at an acceptable cost. In the short term, this may also result in significantly higher development costs for the integration of alternative technologies.

The Wirecard Group relies on the services of external partners in order to make some of its range of products and services available. If a service includes the use of IT systems, there is a risk that customer and/or transaction data may be misused. If this leads, for example, to any damage being sustained by customers, this could not only result in economic damage for the Wirecard Group but also damage its reputation.

The Wirecard Group utilises third parties, in particular, to sell its prepaid products. In this regard, the Wirecard Group must monitor the reliability of these intermediaries and ensure that they comply with the law and directives. Any omissions could result in sanctions by the supervisory authorities and also – in the form of contractual penalties – by credit card organisations and other contractual partners.

The system of active supplier and sales partner management within the Wirecard Group provides far-reaching protection against the risks resulting from the use of third-party services and technologies. This system includes the targeted selection of suppliers according to stringent quality criteria, the integration of suppliers into the Wirecard Group's quality management system, proactive service-level management and the Wirecard Group's comprehensive redundancy concepts. The Wirecard Group selects its sales partners very carefully, provides them with ongoing training and monitors their activities via random checks.

Given the protective measures and safeguards described above, the Management Board gauges the occurrence of this risk as unlikely for the 2018 fiscal year. If this risk should materialise, it could have a low impact on the net assets, financial position and results of operations. As a consequence, the Management Board assumes a low overall risk in this instance.

Risks arising from acquisitions

The Wirecard Group has acquired various companies or parts of companies in the past. If the Wirecard Group were to be unable to efficiently integrate existing or future acquisitions, there is a risk of a negative effect on the business activities of the Wirecard Group.

Goodwill has resulted from the consolidation of various acquisitions. The Wirecard Group plans to continue to realise some of its growth from moderate acquisitions. A negative business performance by individual acquisitions could lead to a deterioration in the cash flows expected from the acquired company and consequently to a reduction in value due to goodwill impairment that would have a negative impact on the Wirecard Group's earnings.

The integration of acquisitions is generally challenging, as it comprises many risks arising from the integration of customers, employees, technologies and products. For this reason, target companies are always very carefully examined (in the form of extensive due diligence) by the Wirecard Group and advice is sought from consultants in the relevant specialist areas before acquisitions are realised. As far as possible, the Wirecard Group endeavours to obtain warranties relating to the correctness of information issued by sellers about target companies as part of the acquisition process. In addition, earnout components will secure expected cash flows as far as possible at a later point in time.

Based on the experience of the successful integration of past acquisitions, the Management Board gauges the occurrence of this risk in the 2018 fiscal year as very unlikely. Nevertheless, a significant impact on the net assets, financial position and results of operations due to the potential volume of such transactions cannot be excluded. As a consequence, Wirecard AG's Management Board gauges this risk as medium.

2.8 Information and IT risks

The Wirecard Group defines information and IT risks as the possibility that one or several weaknesses in IT systems or software will be exploited by a specific threat, causing confidentiality and integrity to be compromised or availability to be impaired.

Risk arising from impermissible publication and modification of data

Despite far-reaching security measures, the risk exists that both customer data and internal data are published or manipulated in an impermissible manner, thereby generating losses for the Wirecard Group.

Due to the nature of its business activities, extensive transaction data is held by the Wirecard Group, which includes information on both the business activities of corporate customers and the spending patterns and credit status of consumers. The publication of confidential customer data can have a substantial adverse impact on the Group's business performance, both through a loss in reputation and direct claims for damages or contractual penalties. The falsification of customer data may have a negative impact on the Wirecard Group's performance, through both a direct cash outflow due to erroneous payments made during the course of payment transactions of Wirecard Bank AG, and lost revenues due to incorrect statements in other business areas.

A security concept based on the industry standard PCI-DSS (Payment Card Industry – Data Security Standards) that is compulsory across the Group, directives on handling customer data, extensive quality assurance measures in the field of product development, as well as comprehensive technological backup and protective measures such as monitoring and early warning systems, all already serve to effectively counteract the risk of publication or falsification of customer data at the early stages of an attack being prepared. Wirecard Technologies GmbH is certified according to the PCI-DSS standard. In addition, the Wirecard Group counteracts internal misuse through a closed concept, starting with the selection of employees and a stringent "need-to-know" principle, through to the monitoring of all data access events. In close cooperation with the Wirecard Group's Data Protection Officer, experts ensure that personal data is processed solely in accordance with the rules and regulations of the applicable data protection laws. Moreover, the Wirecard Group arranges for third parties, who in turn are subject to a non-disclosure agreement, to audit the Group's procedures and infrastructure on an ongoing basis in order to detect any security loopholes, amongst other things.

If the Wirecard Group were to fail to sufficiently safeguard confidential internal data, for example about future products, technologies or strategies, there could be a negative impact on business performance due to the possible publication of confidential information about future strategic activities or through product defects as a result of the falsification of internal data. The Wirecard Group counters the risk of the publication of internal confidential data, for example, concerning future products, technologies or strategies, through the introduction of security standards that are binding across the Group and guidelines relating to internal and external communication, as well as through extensive protective measures and technological safeguards.

Due to the security measures that have been implemented, the Management Board gauges the occurrence of this risk in the 2018 fiscal year as unlikely. However, the Wirecard Group cannot fully exclude a moderate impact on its reputation, as well as on its net assets, financial position and results of operations, and thus assumes a medium risk in this instance.

Risks arising from the structure and operation of information systems

The risk exists that previously undiscovered security loopholes are exploited in the information systems developed and deployed by the Wirecard Group.

Information technology represents a strategic factor for success in the Wirecard Group's business activities. The quality and availability of information systems and the Wirecard Group's ability to respond speedily, flexibly and in a cost-efficient manner to changing market requirements are critical to its financial and business success. System outages, problems with quality or delays in developing or rolling out new products as a result of structural deficiencies in IT systems can have a significant negative impact on business performance. Attacks could result in the abuse of IT systems and a reduction in the availability of the Wirecard Group's services and products. The insufficient availability of IT systems could result in possible claims for damages from customers, reduce customer satisfaction and have a negative impact on business performance.

When designing its information systems, the Wirecard Group relies on modular and standardised technologies from renowned providers. Due to flexible processes and short product development cycles, the IT department at the company is justified in its role as a pioneer of new business models and facilitates the rapid market rollout of new products. A redundant infrastructure with high availability, such as e.g. in computer centres and the cloud, facilitates the continuous operation of the Group's systems and largely protects them from possible downtimes, for example as a result of sabotage. An extensive quality management system ensures that the quality standards necessary for the development and operation of banking-related IT systems are met. Continuous investment in the company's infrastructure also secures the future performance capabilities of the IT systems.

Even though successful attacks on IT systems or mistakes by employees cannot be excluded in principle, the Management Board gauges the occurrence of this risk in the 2018 fiscal year as unlikely. For this reason, the Wirecard Group cannot fully exclude a moderate impact on its reputation, as well as on its net assets, financial position and results of operations. Overall, the Management Board assumes a medium risk in this instance.

2.9 Financial risks

Exchange rate risk

Currency risk derives from the Wirecard Group's foreign currency positions and potential changes to corresponding exchange rates.

Currency risks exist, in particular, where assets, liabilities and revenues exist or arise in a currency other than the local currency of the company. This increasingly impacts the "Payment Processing & Risk Management" and "Acquiring & Issuing" segments, which transact a substantial part of their revenues in foreign currencies (mainly USD and GBP). A general risk exists with respect to the earnings of the Wirecard Group that are to be reported in euros if there is a weakening in the relevant foreign currency exchange rates. Equally, an increase in such exchange rates represents an opportunity.

In these segments, both receivables from and liabilities to retailers, banks and payment providers exist in foreign currencies. In order to avoid currency risk, the Group Treasury department tries to ensure that receivables and liabilities are held in the same currencies and at the same levels whenever possible. Foreign currency positions are also monitored continuously and surpluses and shortfalls are offset where required. Risks that cannot be compensated for in this process are hedged by the deployment of financial derivatives following an individual analysis. The use of derivative financial instruments is carried out subject to stringent controls based on mechanisms and uniform directives defined centrally. No forward exchange transactions or currency options are deployed with speculative intentions. If no hedging takes place, the residual risks of exchange rate fluctuations may influence the Wirecard Group's earnings that are to be reported in euros.

In addition, currency risks exist for major M&A transactions not processed in euros where there is a significant time period between the signing of the contract and the closing of the contract. The length of this period and any special events that may occur during it, such as possible political realignments due to elections, could influence the currency risk.

The Wirecard Group concludes the overwhelming majority of its M&A transactions in euros and thus avoids, wherever possible, the currency risk. If this is not possible for individual transactions, Wirecard AG uses a comprehensive risk analysis to check whether it is sensible to hedge the currency exchange rate for the period required for the fulfilment of the contract (using for example "deal contingent hedges") to minimise the risk. As the Wirecard Group does not deploy currency forward and option transactions for speculative purposes, the conclusion of the forward contract is contingent in these cases on the closing of the underlying M&A transaction.

There is no guarantee that the measures that have been taken will prove successful in all instances and that an immaterial impact on the Wirecard Group's net assets, financial position and results of operations will not arise. Due to the monitoring and control measures that have been adopted, the Management Board gauges the occurrence of this risk as unlikely and overall assumes a very low risk.

Interest rate risks

Interest rate fluctuations reflecting changes to market interest rates could negatively affect the Wirecard Group's operating activities.

The Wirecard Group has substantial liquidity at its disposal that is invested in demand and fixed-term deposits and/or overnight (call money) deposits with selected banks. The interest receivable on these investments is based on the interbank money market interest rate of the respective investment currency, less a standard banking margin. The interbank money market interest rate is subject to fluctuations that may impact realised earnings. As a result of the negative interest on deposits for banking in euros (as of 31 Dec 2017: -0.40 percent p.a.) introduced by the European Central Bank (ECB), minor costs for the holding of liquidity in euros in bank accounts may be incurred.

In order to optimise interest income from Wirecard Bank AG's base liquidity, the Wirecard Group has decided to enter into selective short or medium-term securities investments with maturities of up to five years. These investments comprise collared floaters (variable rate bearer bonds and borrower's note loans from various banks fundamentally with a minimum (A-) investment-grade rating and with a minimum interest rate) and also individual, selected investments in portfolios of fixed-interest commercial and consumer loans as part of cooperations between Wirecard Bank AG and individual FinTech companies.

As part of debt financing, the Wirecard Group has partially agreed fixed interest rates until maturity, or on the basis of 3, 6, 9 or 12-month EURIBOR, plus a margin agreed with the funding banks.

If the Wirecard Group has financing with variable interest rates based on international reference rates (EURIBOR, LIBOR), it monitors interest rate changes on an ongoing basis. When using this type of financing, a decision is made for each individual case as to whether and how the interest rate risk should be hedged using suitable instruments.

An increase in reference interest rates would incur the risk of an increase in interest expenses on debt financing. Equally, an increase in reference interest rates would result in an opportunity on the interest income side from existing bank deposits and securities.

There is no guarantee that there will not be an immaterial impact on the net assets, financial position and results of operations of the Wirecard Group. The Management Board gauges the occurrence of this risk as unlikely and overall assumes a very low risk.

Liquidity risk

The risk exists that cash requirements triggered by potential cash flow fluctuations cannot be covered or can only be covered at higher cost.

The Wirecard Group continually invests substantial amounts of non-required liquidity in demand deposits, fixed-term deposits and overnight (call money) deposits on a short-term basis. The base liquidity is invested by the Wirecard Group in both variable-rate bearer bonds and borrower's note loans from selected issuers fundamentally with a minimum (A-) investment-grade rating, and partly with a minimum interest rate, and also in a portfolio of fixed-interest commercial and consumer loans. Risks may arise due to a liquidity shortage on account of mismatches occurring between the fixed investment term or the loan period and the time at which liquidity is required.

The variable-rate bearer bonds and borrower's note loans are due to be repaid at maturity at 100.00 percent. If they are made available before maturity, a price risk exists (a deviation either above or below the 100.00 percent expected at maturity) depending on changes to the issuer's credit rating, the residual term to maturity and the current market interest rate level.

As only the base liquidity less a substantial security reserve is invested for a longer term and the investment in the loan portfolio is strictly limited, the Management Board gauges the occurrence of this risk as very unlikely and the potential impact as moderate on the net assets, financial position and results of operations, and overall assumes a low risk.

Further information about financial risks can be found in Chapter 7.2 (Notes).

2.10 Debtor risks

The Wirecard Group understands debtor risks to mean possible value losses that could be caused by a business partner being unable or unwilling to pay.

Risks from receivables

The risk exists of a loss of value from receivables arising from a contract with a business partner (e.g. retailers, private and business customers and other institutions).

Receivables from retailers may arise, for example, from chargebacks following retailer insolvency, violations of applicable rules and regulations by retailers, or fraud on the part of retailers.

In principle, the risk involved in trade receivables depends on the retailer's business model. There is an increased risk where there is no direct temporal link between goods supplied or services rendered and the transaction, in other words, where the goods or services are to be provided at a later date (e.g. booking of airline tickets or tickets for certain events). As the periods within which chargebacks can be realised by the cardholder only commence once the deadline for performance by the retailer has elapsed, this temporal decoupling results in an accumulation of open transactions. In the event of retailer insolvency, this may result, for example, in the risk of chargebacks.

A violation of the valid rules and regulations by a retailer may lead to a credit card organisation calling for penalties to be imposed on the retailer. These payments would be charged to the retailer by the Wirecard Group on the basis of existing agreements.

Retailers can act fraudulently in various ways and, as a result, harm the Wirecard Group in its role as an acquirer or as the party engaged in the payment process in some other role. Some examples include fraud in relation to credit notes, fraudulent insolvency, submitting third-party payment records, reutilisation of card data and offering bogus services to end customers.

In order to counteract the risk of business partners of the Wirecard Group defaulting on their contractual payment obligations, they are subjected to a comprehensive assessment of relevant data, such as their credit rating, liquidity, market positioning, management experience and other case-by-case criteria before the Group enters into a transaction with them. This also applies to the review of business relationships with commercial banks, acquiring partners and retailers. Moreover, once an account has been established, all business relationships are continually monitored for suspicious features or possible fraud patterns. Payment flows are monitored on a regular basis and outstanding receivables are continually tracked by the company's internal debtor and liquidity management system. Depending on the risk factors, the Wirecard Group also takes retailer default risk into account through individual reserves or, alternatively, delayed payment to retailers, as well as through payment commitments from banks or insurance companies. All measures are adjusted on a regular basis thanks to close monitoring of retailer business operations.

The predominant share of receivables results from the acquiring business. Transactions in acquiring are processed either via licensed acquirers belonging to the Wirecard Group or via external acquiring partners. In both cases, the Wirecard Group is subject to the main opportunities and risks associated with the transactions. Accordingly, receivables are due from credit card organisations for acquiring via the licensed acquirers who belong to the Wirecard Group or are due from the external acquiring partners if they have processed the transactions. The receivables of the Wirecard Group result from payment delays and the security reserve retained by the acquiring partner. The reserve held by the acquirer serves, as is customary in the sector, as a hedge against those financial risks resulting from the processing of the transactions. The reserve typically has a revolving character and exists for the length of the business relationship. The free liquidity invested in demand deposits and overnight (call money) deposits on a short-term basis, fixed-term deposits and bank bearer bonds outside the Wirecard Group could also be jeopardised if these credit institutions suffer from insolvency or financial difficulties. The Wirecard Group takes account of such risk through both stringent checks on the total amount of such deposits and a full review of the counterparties. In addition to specific credit-rating and profitability data relating to the relevant counterparties, external ratings, where available, are also included in the review carried out by the Wirecard Group.

The investments by the Wirecard Group in portfolios of commercial and consumer loans could be endangered by insolvency or financial difficulties experienced by counterparties. The Wirecard Group takes account of such risk through both limiting the overall level of investment and also by setting stringent lending criteria. Furthermore, the Wirecard Group transfers part of the default risk to cooperation partners.

In individual cases, Wirecard Bank AG directly issues loans to selected strategic partners on the basis of a risk assessment. The Wirecard Group takes account of any possible risk by strictly limiting the individual investments, the overall level of the investment and also by setting stringent lending criteria.

Further risks may exist due to cross-border receivables. For example, it may be impossible to realise existing receivables, or only do so with difficulty, as a result of different statutory regulations in other countries (regarding foreclosure, for instance). Similarly, a deterioration in the general economic conditions in individual countries – for example, as a result of political and social unrest, nationalisation and expropriation, non-recognition of foreign debts by the state, foreign exchange regulations, and the devaluation or depreciation of local currencies – could have a negative impact on the Wirecard Group's receivables position and consequently in individual cases on its net assets, financial position and results of operations. In particular, political and social unrest may suddenly lead to the destabilisation of a country or economic region that was previously considered to be stable. Therefore, significant financial investments abroad made as part of the inorganic growth of Wirecard AG, for example, could be neutralised by negative developments in these countries. Even though Wirecard AG investigates the opportunities and risks in a particular foreign market using internal and external risk analyses of the country, there can be no guarantees in individual cases surrounding the political situation in this country and its social, economic and legal environment, or about any expected future developments.

The Wirecard Group takes account of such risks by stipulating the applicable law and place of jurisdiction in contracts wherever possible. Moreover, receivables are also consistently collected in the international environment using the required measures while appropriate securities are agreed with contractual partners. There is nevertheless no guarantee that the measures that have been taken will prove successful in all instances. In accordance with the analyses due to the introduction of IFRS 9 as of 1 January 2018 (please refer to section 2.6 in our notes to the consolidated financial statements), we remain cautious and assume an impact on the Wirecard Group's net assets, financial position and results of operations that could reach a significant level. Due to the monitoring and control measures that have been adopted, the Management Board gauges the occurrence of this risk as very unlikely. Overall, the Wirecard Group assumes a medium risk in this instance.

2.11 Legal and regulatory risks

Regulatory risks

Current and future promulgations concerning regulatory conditions could negatively affect the business performance at the Wirecard Group.

The Wirecard Group understands legal and regulatory risks to mean the possible impact on business performance of a change to the national and/or international statutory and regulatory conditions for payment systems, the development and provision of software or the use of the Internet.

The Wirecard Group provides payment processing services and payment methods for a wide variety of goods and services both nationally and internationally. In addition to the regulations and laws for capital markets and public limited companies that apply to Wirecard AG, statutory and regulatory requirements for payment systems and payment products consequently impact the company's business performance in all countries in which the Wirecard Group operates. However, the legal and regulatory conditions and risks that apply to the products and services offered by our customers – in other words, for the most part the retailers and service providers operating on the Internet – also have a direct or indirect bearing on our business performance. Contractual conditions and issues relating to tax law are of particular significance in the cross-border segment. The expertise necessary for assessing day-to-day operations is possessed by the qualified employees of the Wirecard Group. To further mitigate risks, the Wirecard Group enlists the services of external legal and tax consultants when dealing with complex issues.

The underlying legal and regulatory conditions have a material impact on product design and the organisation of sales processes and sales structures. Future measures brought in by legislators, or a stricter interpretation of existing acts or regulations by courts or authorities, could significantly restrict the sales of various products – especially prepaid products. The risk exists that it may no longer be permissible to offer specific products or to offer them in their current form.

In particular, political and social unrest may suddenly lead to the destabilisation of a country or economic region that was previously considered to be stable. This may lead to the permanent deterioration of the framework conditions through to a ban on certain business models.

In parallel, statutory regulations governing the use of the Internet or guidelines concerning the development or provision of software and/or services can differ profoundly both on a national and international scale. For instance, customers in the field of online pharmacies and gambling are subject to a high degree of national or international regulation. The result may be that certain transactions or the processing of payments online may only be possible to a limited extent or not at all, depending on the countries in question. The Wirecard Group counteracts the associated risks to its business activities by cooperating closely with regional or specialised law firms that provide assistance both in launching new products and with ongoing business processes and business relations.

The Wirecard Group perceives compliance with national and international legislation as indispensable for sustained business development, and places a high priority on meeting all the relevant regulatory requirements as they apply both to internal operations and to its customers. Moreover, the Wirecard Group makes every effort to maintain a customer structure that is diversified, both regionally and with regard to its operations, in order to limit the risk to the Wirecard Group's business activities and earnings deriving from changes to underlying legal conditions and regulations.

In the Wirecard Group's business areas, risks deriving from regulatory changes that may have a low impact on net assets, financial position and results of operations, as well as on the company's reputation, cannot generally be excluded. However, Wirecard AG assumes a risk occurrence as unlikely from today's perspective. Overall, Wirecard AG's Management Board gauges this risk as low.

Risks from contractual violations

The risk exists that existing contractual relationships are terminated due to contractual obligations not being fulfilled, not being fulfilled on time, or not being fulfilled to their full extent, which will have a negative impact on business performance at the Wirecard Group.

Wirecard Bank AG is a member or licence holder of the credit card companies MasterCard and Visa, as well as JCB International Co. Ltd., and has licences for both issuing cards to private customers and retailer acquiring. Wirecard Bank AG also holds licences for acquiring for American Express, UnionPay and Discover/Diners Club and is a contractual partner of Universal Air Travel Plan (UATP), Inc. for issuing and acquiring. In the notional event of termination or cancellation of these license agreements, there would be a considerable impact on the business activities of the Wirecard Group or Wirecard Bank AG.

The Wirecard Group has, in some cases, used borrowing to finance the acquisition of companies or parts of companies. The Management Board has concluded credit agreements for the realisation of this strategy. In these agreements, the Wirecard Group has made standard undertakings to meet certain covenants. In addition, as part of the standard contractual conditions applied by the banks, a restriction has been imposed on the Wirecard Group's ability to encumber or sell assets, acquire other companies or participating interests, or perform conversions. The Wirecard Group fully complies with these contractual terms. The Management Board does not believe that these contractual conditions will have a negative impact on the Wirecard Group's business activities.

If Wirecard AG were to be unable to fully comply with its contractual obligations, the risk exists of an impact that could reach a significant level. Due to constant communication with the contractual partners and continuous monitoring of compliance with the contractual terms, the Management Board nevertheless regards the occurrence of this risk as very unlikely and consequently assumes the existence of a medium risk overall.

Litigation risks

As reported, a lawsuit was brought against the company, and against a specific Group company, in February 2015 for the payment of security reserves, as well as for the payment of damages. In March 2017, the lawsuit was completely dismissed. The legal proceedings have thus ended.

As reported, a lawsuit was brought against the company, and against a specific Group company, in April 2015 at the Munich Regional Court I for outstanding payments for an IT project. As Wirecard AG has accumulated corresponding reserves to the amount of the calculated risk, the Management Board assumes a low potential impact on the Wirecard Group's net assets, financial position and results of operations. At this point in time, Wirecard AG believes that losing this case is unlikely.

As reported, out-of-court claims were made against the company, and against a specific Group company, in August 2015 for the payment of security reserves. These claims are challenged by counterclaims from Wirecard for the payment of contractual penalties. As Wirecard AG has secured corresponding assets of the claimant to the amount of the calculated risk, the Management Board assumes a low potential impact on the Wirecard Group's net assets, financial position and results of operations. At this point in time, Wirecard AG believes that losing this case is unlikely.

In June 2016, a lawsuit was brought against the company, and against a specific Group company, for the payment of damages in connection with an outsourcing contract. The lawsuit was fully dismissed in the first instance in May 2017. The opposing party appealed against this verdict to the Higher Regional Court in Cologne. As Wirecard AG has accumulated corresponding reserves to the amount of the calculated risk, the Management Board assumes a low potential impact on the Wirecard Group's net assets, financial position and results of operations.

As reported, a lawsuit was brought against the company, and against a specific Group company, in July 2016 for the payment of security reserves, as well as for the payment of damages. This legal dispute was ended by way of a settlement in February 2017.

In summary, risks having an immaterial impact on the Wirecard Group's net assets, financial position and results of operations arising from current litigation cases cannot be completely excluded. The Management Board of Wirecard AG gauges the occurrence of this risk as very unlikely and generally assumes that the risk is very low overall.

2.12 Other risks

Reputation risk

The risk exists that the trust and confidence of customers, business partners, employees and investors is adversely impacted by a publicised report on a transaction, business partner or business practice involving a customer.

In particular, this risk arises from the intentional dissemination of false information, breach of contract by customers, misguided information, as well as communications by any dissatisfied employees or customers resulting in an adverse impact on the company's reputation. Other risks described in this report can also impact on the Wirecard Group's reputation.

The Wirecard Group is aware of this risk and therefore continually reviews the statements on its products, as well as reports on the Wirecard Group in the market (print media, television, Internet, forums, etc.), in order to quickly take suitable countermeasures where necessary. Furthermore, the registration of Internet domains with similar names that could potentially be used with fraudulent intent or to impair the reputation of the company are monitored in collaboration with a renowned external service provider, as is any misuse of the Wirecard logo.

Due to the multitude of potential loss scenarios, the quantification of reputation risk is difficult. If the Wirecard Group were to fail to rapidly counter the communication of erroneous information or misguided information, for example, there is a risk of a low impact on the Wirecard Group's net assets, financial position and results of operations, as well as a danger that other risks described in this report will be exacerbated. Despite the numerous preventative measures that have been taken, the Wirecard Group's Management Board cannot exclude the occurrence of this risk and assesses the overall reputation risk as medium.

2.13 Summary of overall risk

Despite its continuing growth, the Wirecard Group was able to keep the overall risk structure stable in the period under review at the same level as in the previous year. As a result of the ongoing optimisation of the risk management system, particularly with regard to managing the development of the volume and complexity of the business, which was closely modelled on acknowledged industry standards and the implementation of a multitude of risk-minimising measures, it proved possible to ensure that none of the risks identified within the scope of the Group-wide risk management system fall – in terms of their probabilities of occurrence and impact – within the category of risks likely to jeopardise the Wirecard Group as a going concern, irrespective of whether they are considered individually or in their entirety.

As far as the total number of identified risks is concerned, 63 (PY: 63) percent of all risks were classified as “low” or “very low”, while 37 (PY: 37) percent of all risks were classified as “medium”. No risk was classified as “high” or “very high”.

The Wirecard Group's Management Board remains confident that the Group's profitability forms a solid foundation for future business development and provides the requisite resources to allow the Group to pursue available opportunities. Given its leading position on the market, committed employees, strengths in innovative technology and structured processes for the early identification of risks, the Management Board is confident that it can counter the challenges arising from the aforementioned risks at all times.

In the area of risk management, the Wirecard Group thus considers itself well prepared to meet the challenges it will face in the 2018 fiscal year.

3. OVERALL STATEMENT ON THE GROUP'S EXPECTED DEVELOPMENT (OUTLOOK)

Although digitalisation and thus also the digitalisation of payment processes is gathering pace around the world, it is still only at the very beginning in many sectors. Around 80 to 85 percent of all global payments are still made in cash. Both the use of digital technologies to improve business processes and also the development of completely new, purely digital business models will fundamentally change all sectors, be it the fashion trade, food retail trade, banking or insurance, travel/mobility or home entertainment. Due to its outstanding market position, Wirecard AG will benefit sustainably from this accelerating trend and thus expects continuously strong or even accelerating growth of the Wirecard Group.

The basis for this growth over the next few years will be the strong growth worldwide of the online and mobile sectors. There will be an additional growth dynamic in the extensive digitalisation of bricks and mortar trade. In the future, all sales channels will be integrated into a digital infrastructure, via which the retailer's entire range of products and services will be directly offered to consumers.

As well as the continuous expansion of the core feature of the digital Wirecard platform – global acquiring and issuing – and linking these services to create completely new digital processes, Wirecard AG will also benefit strongly in the next few years from the permanent expansion of the value added chain in the areas of data-driven value added services, loyalty/e-couponing and digital banking. In addition, we also have considerable potential for growth due to the continuous expansion of our algorithms in the areas of artificial intelligence and machine learning, via which we can provide retailers with differentiated, data-driven processes to improve conversion rates and thus increase revenues.

We expect a highly successful business performance in 2018. The Management Board confirms its expectation that operating earnings before interest, tax, depreciation and amortisation (EBITDA) will reach between EUR 510 million and EUR 535 million.

Aschheim near Munich, 11 April 2018

Wirecard AG

Management Board

Dr. Markus Braun	Alexander von Knoop	Jan Marsalek	Susanne Steidl

CONTENT CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of financial position – assets

in kEUR	Notes	31 Dec 2017	31 Dec 2016
ASSETS	**(3.1.), (2.2.)**		
I. Non-current assets			
1. Intangible assets	(3.1.), (2.3.)		
Goodwill		**675,768**	534,892
Customer relationships		**484,941**	392,329
Internally-generated intangible assets		**120,048**	99,224
Other intangible assets		**109,012**	81,682
		1,389,769	1,108,127
2. Property, plant and equipment	(3.2.), (2.3.)	**57,460**	44,656
3. Investments accounted for using the equity method	(3.3.)	**14,588**	14,803
4. Financial and other assets / interest-bearing securities	(3.4.), (2.2.)	**310,167**	216,196
5. Tax credits			
Deferred tax assets	(3.5.), (2.4.)	**9,118**	2,657
Total non-current assets		**1,781,101**	**1,386,438**
II. Current assets			
1. Inventories and work in progress	(3.6.), (2.3.)	**13,349**	4,540
2. Receivables of the acquiring business	(3.7.), (2.2.)	**442,012**	402,423
3. Trade and other receivables	(3.8.), (2.2.)	**269,669**	190,185
4. Tax credits	(3.9.), (2.4.)		
Tax refund entitlements	(3.9.)	**10,956**	9,353
5. Interest-bearing securities and fixed-term deposits	(3.10.)	**109,099**	156,493
6. Cash and cash equivalents	(3.11.), (6.)	**1,901,334**	1,332,631
Total current assets		**2,746,420**	**2,095,624**
Total assets		**4,527,521**	**3,482,062**

Consolidated statement of financial position – equity and liabilities

in kEUR	Notes	31 Dec 2017	31 Dec 2016
EQUITY AND LIABILITIES			
I. Equity	**(4.)**		
1. Subscribed capital	(4.1.)	**123,566**	123,566
2. Capital reserve	(4.2.)	**494,682**	494,682
3. Retained earnings	(4.3.)	**1,069,234**	829,286
4. Other components of equity	(4.4.)	**–52,298**	27,429
Total equity		**1,635,183**	**1,474,963**
II. Liabilities	**(4.), (2.2.)**		
1. Non-current liabilities	(4.5.), (2.3.)		
Non-current interest-bearing liabilities		**754,792**	579,475
Other non-current liabilities		**85,406**	31,425
Deferred tax liabilities		**76,916**	59,747
		917,115	**670,648**
2. Current liabilities	(4.6.), (2.3.)		
Liabilities of the acquiring business		**422,640**	404,767
Trade payables		**71,393**	34,920
Interest-bearing liabilities		**311,611**	15,066
Other provisions		**2,403**	3,914
Other liabilities		**149,401**	119,505
Customer deposits from banking operations		**973,178**	734,003
Tax provisions	(2.4.)	**44,596**	24,276
		1,975,223	**1,336,452**
Total liabilities		**2,892,338**	**2,007,099**
Total equity and liabilities		**4,527,521**	**3,482,062**

Consolidated income statement

in kEUR	Notes	1 Jan 2017 – 31 Dec 2017		1 Jan 2016 – 31 Dec 2016	
Revenues	**(5.1.), (2.3.)**		**1,489,954**		**1,028,358**
Own work capitalised	(5.2.)		**45,305**		30,201
Cost of materials	(5.3.)		**788,755**		530,761
Gross profit			**746,504**		**527,799**
Personnel expenses	(5.4.)		**186,003**		129,852
Other operating expenses	(5.5.)		**159,443**		97,888
Other operating income	(5.6.)		**11,770**		7,502
Share of profit or loss from associates (at equity)	(1.1.), (3.3.)		**–215**		–197
EBITDA			**412,613**		**307,363**
Amortisation/depreciation	(5.7.)		**97,914**		72,175
EBIT			**314,699**		**235,188**
Financial result	**(5.8.)**		**–18,195**		*** 67,651**
Other financial income		**15,175**		* 93,869	
Financial expenses		**33,371**		26,218	
Earnings before tax **			**296,504**		*** 302,840**
Income tax expense	**(5.9.)**		**36,785**		**36,091**
Earnings after tax **	**(5.10.)**		**259,719**		*** 266,749**
Earnings per share (basic and diluted) in EUR	(5.10.)		**2.10**		* 2.16
Average shares outstanding(basic)	(5.10.), (4.1.)		**123,565,586**		123,565,586
Average shares outstanding(diluted)	(5.10.), (4.1.)		**123,565,586**		123,565,586

EBITDA			**412,613**		**307,363**
Amortisation and depreciation (M&A adjusted)***	(5.7.)		**57,044**		39,042
EBIT adjusted***			**355,569**		**268,322**
Amortisation and depreciation (M&A-related)	(5.7.)		**40,870**		33,133
EBIT			**314,699**		**235,188**

* By one-off visa effect greatly increased (financial result by Mio. EUR 91.575
** Attributable entirely to the shareholders of the parent company
*** Adjusted by amortisation of assets which result from business combinations and acquired customer relationships (M&A-related)

Consolidated statement of comprehensive income

in kEUR	1 Jan 2017 – 31 Dec 2017	1 Jan 2016 – 31 Dec 2016
Earnings after tax	**259,719**	**266,749**
Items to be reclassified to profit or loss		
Change from currency translation differences	**– 79,015**	17,742
Revaluation of available-for-sale financial assets with no effect on profit or loss	**4,125**	12,283
therein: tax effects	**– 89**	– 138
Cash flow hedge	**– 4,837**	4,837
therein: tax effects	**– 1,791**	1,791
Recycled to the income statement	**0**	– 89,861
Other comprehensive income, net of income taxes	**– 79,727**	– 55,000
Total comprehensive income	**179,992**	**211,748**

Consolidated statement of changes in equity

	Subscribed capital Nominal value/number of shares issued	Capital reserve	Retained earnings	Revaluation reserve	Translation reserve	Cash flow hedge reserve	Total consolidated equity
	kEUR / in '000 shares	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Balance as of 31 December 2015	123,566	494,682	579,837	78,799	3,630	0	1,280,513
Earnings after tax			266,749				266,749
Other comprehensive income, net of income taxes				– 77,579	17,742	4,837	– 55,000
Total comprehensive income	**0**	**0**	**266,749**	**– 77,579**	**17,742**	**4,837**	**211,748**
Dividends paid			– 17,299			0	– 17,299
Balance as of 31 December 2016	**123,566**	**494,682**	**829,286**	**1,221**	**21,371**	**4,837**	**1,474,963**
Earnings after tax			**259,719**				**259,719**
Other comprehensive income, net of income taxes				**4,125**	**– 79,015**	**– 4,837**	**– 79,727**
Total comprehensive income	**0**	**0**	**259,719**	**4,125**	**– 79,015**	**– 4,837**	**179,992**
Dividends paid			**– 19,770**				**– 19,770**
Balance as of 31 December 2017	**123,566**	**494,682**	**1,069,234**	**5,346**	**– 57,644**	**0**	**1,635,183**

Notes on equity under (3.)

Consolidated cash flow statement

in kEUR	Notes	1 Jan 2017 –31 Dec 2017	1 Jan 2016 –31 Dec 2016
Earnings after tax	**(5.)**	**259,719**	**266,749**
Financial result		**18,195**	24,000
Income tax expense		**36,785**	34,440
Gain/loss from disposal of non-current assets		**2,053**	616
Amortisation/depreciation		**97,914**	72,175
Gain/loss from disposal of available-for-sale non-current assets		**0**	–89,861
Change from currency translation differences		**–1,003**	–536
Change in inventories		**–6,767**	–509
Change in receivables		**–94,162**	–77,887
Change in liabilities of the acquiring business and trade payables		**55,069**	53,788
Change in other assets and liabilities		**9,872**	9,661
Net cash outflow arising from income tax		**–28,390**	–24,544
Interest paid excluding interest on loans and finance lease		**–3,375**	–1,936
Interest received		**3,395**	343
Cash flow from operating business before banking operations	**(6.)**	**349,305**	**266,498**
Change in non-current assets of banking operations		**–58,410**	–64,174
Change in current assets of banking operations		**35,518**	–56,810
Change in customer deposits of banking operations		**237,073**	148,837
Cash flow from operating business of banking operations		**214,181**	27,853
Cash flow from operating activities	**(6.1.)**	**563,486**	**294,351**
Cash outflows for investments in intangible assets		**–96,210**	–51,158
Cash outflows for investments in property, plant and equipment		**–15,018**	–22,002
Cash outflows for investments in financial assets and interest-bearing securities		**0**	–3,305
Cash inflows from sale of financial assets		**0**	94,055
Cash inflows from repayment of loans extended		**1,001**	0
Cash outflows for acquisition of consolidated companies less acquired cash	(1.1., 6.2.)	**–246,834**	–54,650
Cash outflows for acquisition of associates		**0**	–15,000
Cash flow from investing activities	**(6.2.)**	**–357,061**	**–52,060**
Cash outflows for previous years' acquisitions of companies		**–65,201**	–157,600
Redemption of lease liabilities		**–11,688**	–6,590
Cash inflows from drawing down of financial liabilities		**495,500**	463,758
Cash outflows for expenses for drawing down of financial liabilities		**–5,510**	–5,595
Cash outflows for repayment of financial liabilities		**–26,132**	–231,371
Dividends paid		**–19,770**	–17,299
Interest paid on loans and finance leases		**–10,288**	–6,094
Cash flow from financing activities	**(6.3.)**	**356,911**	**39,210**
Net change in cash and cash equivalents		**563,336**	**281,501**
Exchange-rate-related changes to cash and cash equivalents		**1,011**	–3,215
Cash and cash equivalents at start of period		**1,331,514**	**1,053,228**
Cash and cash equivalents at end of period	**(6.4.)**	**1,895,861**	**1,331,514**

Consolidated cash flow from operating activities (adjusted)

in kEUR	1 Jan 2017 – 31 Dec 2017	1 Jan 2016 – 31 Dec 2016
Earnings after tax	**259,719**	**266,749**
Financial result	**18,195**	24,000
Income tax expense	**36,785**	34,440
Gain/loss from disposal of non-current assets	**2,053**	616
Amortisation/depreciation	**97,914**	72,175
Gain/loss from disposal of available-for-sale non-current assets	**0**	–89,861
Change from currency translation differences	**–1,003**	–536
Change in inventories	**–6,767**	–509
Change in receivables	**–48,378**	511
Change in liabilities of the acquiring business and trade payables	**35,673**	–2,715
Change in other assets and liabilities	**9,872**	9,661
Net cash outflow arising from income tax	**–28,390**	–29,907
Interest paid excluding interest on loans and finance lease	**–3,375**	–1,936
Interest received	**3,395**	343
Cash flow from operating activities (adjusted)	**375,693**	**283,030**

Receivables and liabilities of acquiring business are transitory in nature and subject to substantial fluctuations from one reporting date to another as, inherent to the business model, these statements of financial position items are significantly influenced by the overall transaction volume and the security reserves. Receivables of acquiring business mainly comprise receivables from credit card organisations, banks and acquiring partners and liabilities exist to retailers. The customer deposits from the banking business and corresponding securities or receivables from the banking business likewise constitute items that can be eliminated for the cash flow (adjusted). To simplify the identification and reporting of the cash-relevant portion of the Company’s own earnings, Wirecard AG has decided to present a further statement in addition to the usual statement of cash flow from operating activities with those items eliminated.

Change in non-current assets

2017 in kEUR	Cost						
	1 Jan 2017	Currency translation adjustments	Addition due to first-time consolidation	Additions	Disposals	Reclassi-fication	31 Dec 2017
Non-current assets*							
1. Intangible assets							
Goodwill	539,637	−46,659	187,535	0	0	0	680,513
Internally-generated intangible assets	145,023	−1,831	0	45,305	−417	−2,451	185,629
Other intangible assets	140,830	−6,531	4,388	50,294	−644	1,850	190,188
Customer relationships	477,685	−28,699	151,540	0	0	0	600,526
	1,303,176	−83,720	343,463	95,599	−1,061	−601	1,656,856
2. Property, plant and equipment	85,273	−4,394	3,151	33,264	−5,523	601	112,372
	1,388,448	−88,113	346,613	128,863	−6,583	0	1,769,228

2016 in kEUR	Cost						
	1 Jan 2016	Currency translation adjustments	Addition due to first-time consolidation	Additions	Disposals	Reclassi-fication	31 Dec 2016
Non-current assets*							
1. Intangible assets							
Goodwill	494,046	13,060	32,531	0	0	0	**539,637**
Internally-generated intangible assets	113,990	259	465	30,201	−245	353	**145,023**
Other intangible assets	106,715	1,011	4,318	29,142	-2	−353	**140,830**
Customer relationships	442,476	4,030	29,850	1,329	0	0	**477,685**
	1,157,228	**18,360**	**67,163**	**60,672**	**−248**	**0**	**1,303,176**
2. Property, plant and equipment	60,060	1,674	1,815	24,947	−3,222	0	**85,273**
	1,217,288	**20,034**	**68,978**	**85,619**	**−3,470**	**0**	**1,388,448**

* Excluding deferred tax assets and other non-current assets

Cumulative amortisation/depreciation						Carrying amount	Carrying amount	
1 Jan 2017	Currency translation adjustments	Additions	Disposals	Reclassi-fication	31 Dec 2017	31 Dec 2017	31 Dec 2016	Amortisation/ depreciation 2017
4,746	0	0	0	0	4,746	675,768	534,892	0
45,799	−325	20,111	-4	0	65,580	120,048	99,224	20,111
59,148	−2,366	24,714	−320	0	81,176	109,012	81,682	24,714
85,356	−2,925	33,154	0	0	115,585	484,941	392,329	33,154
195,049	−5,616	77,978	−324	0	267,087	1,389,769	1,108,127	77,978
40,617	−1,435	19,936	−4,206	0	54,912	57,460	44,656	19,936
235,666	−7,051	97,914	−4,531	0	321,999	1,447,229	1,152,782	97,914

Cumulative amortisation/depreciation						Carrying amount	Carrying amount	
1 Jan 2016	Currency translation adjustments	Additions	Disposals	Reclassi-fication	31 Dec 2016	31 Dec 2016	31 Dec 2015	Amortisation/ depreciation 2016
4,746	0	0	0	0	4,746	534,892	489,301	0
33,352	56	12,391	0	0	45,799	99,224	80,639	12,391
40,846	197	18,108	-2	0	59,148	81,682	65,869	18,108
57,026	560	27,770	0	0	85,356	392,329	385,451	27,770
135,969	813	58,269	-2	0	195,049	1,108,127	1,021,259	58,269
29,072	490	13,906	−2,851	0	40,617	44,656	30,987	13,906
165,041	1,303	72,175	−2,853	0	235,666	1,152,782	1,052,247	72,175

Explanatory notes

1. Disclosures relating to the Company and the valuation principles applied

1.1 Business activities and legal background

Wirecard AG, Einsteinring 35, 85609 Aschheim (hereafter also referred to as the “Company”, “Wirecard” or the “Group”) was founded on 6 May 1999.

As the parent company of the Group, Wirecard AG is required to prepare consolidated financial statements. The business activities of the Wirecard Group are split into three reporting segments: “Payment Processing & Risk Management”, “Acquiring & Issuing” and “Call Center & Communication Services”. Alongside Wirecard AG, the Wirecard Group includes a number of subsidiaries which carry out the entire operating business. They are positioned as software and IT specialists for outsourcing and white label solutions in payment processing and for the distribution of issuing products. In addition, they also provide financial services.

Wirecard's products and services in the area of electronic payment processing, risk management and additional value added services run on a global software platform. The development and maintenance of this platform is mainly managed by Wirecard Technologies GmbH in Aschheim (Germany).

In cooperation with Wirecard Technologies GmbH, Wirecard Processing FZ-LLC in Dubai (United Arab Emirates) and other subsidiaries such as Wirecard NZ Ltd. in Auckland (New Zealand) handle the technical processing of credit card payments on behalf of financial institutions (acquiring processing). The technical processing of issuing products for banks and companies in the FinTech sector is also handled by Wirecard Processing FZ LLC, Wirecard South Africa (Pty.) Ltd. in Cape Town (South Africa) and other subsidiaries such as Wirecard India Pte. Ltd. in Chennai (India).

These technology services are closely linked to the acceptance of card payments, the issuing of card products and additional financial services. As an innovative partner for global credit card companies, Wirecard possesses the required licences from Visa Inc. (formerly Visa Europe), MasterCard and others including Unionpay, Amex, DinersClub, JCB, Discovery International and UATP. This enables Wirecard to issue physical and virtual card products and accept card payments for retailers and companies. Wirecard Bank AG has a full German banking licence and can also offer banking services to customers in addition to acquiring and issuing services. Wirecard Card Solutions Ltd., based in Newcastle (United Kingdom), holds an e-money license from the UK’s Financial Conduct Authority (FCA) and issuing and acquiring licences from Visa and MasterCard. Wirecard Ödeme Ve Elektronik Para Hizmetleri A.Ş. based in Istanbul (Turkey), obtained an e-money license from the Turkish regulatory authority BRSA (Banking Regulation and Supervision Agency) in the previous year 2016. The Indian company GI Technologies based in Chennai (India), which has been part of the Wirecard Group since 1 March 2016, also holds a licence for the issuing of prepaid payment instruments.

The Wirecard Group, particularly Wirecard UK & Ireland Ltd. in Dublin (Ireland), Wirecard Brasil S.A. in São Paulo (Brazil) and cardSystems Middle East FZ-LLC in Dubai (United Arab Emirates) as well as many of the East Asian subsidiaries, works together internationally with various banks and financial services providers so that it can offer corresponding acquiring and issuing services in those areas where Wirecard cannot use its own licence. The acquisitions of Citi Prepaid Card Services in the USA and various customer portfolios from the Citigroup in the Asia-Pacific region in the 2017 fiscal year have greatly expanded this international network of acquiring partners. Cooperation with local banks will continue to be expanded further in future to offer retailers acquiring and issuing services.

Wirecard is expanding its portfolio of services in emerging and developing countries based on the different stages of development in the area of e-commerce in each country. Alongside online payment processing and acquiring services, the Company's Southeast Asian subsidiaries in particular offer products and solutions in the area of mobile and bricks and mortar payment such as innovative card acceptance solutions in the travel and mobility sector or stationary POS card terminals based on IP technology. The range of services also includes, amongst other things, solutions for banks and retailers for mobile cash machines, mobile card acceptance and software services in the area of Internet and mobile banking.

Wirecard markets its products and solutions globally via its locations in Europe, the Middle East, Africa, Asia, America and Oceania. The sales activities are structured around Wirecard's target sectors of consumer goods, digital goods and travel and mobility. Experts in each sector are based at the Group headquarters in Aschheim and provide support to their colleagues at the globally distributed branches during the sales process. Due to the combination of sector and market expertise, the sales structure makes it possible to directly address customers in a targeted manner and thus increases the sales success. The local branches give access to important regions and markets around the world. Germany, the United Kingdom, Ireland and Austria serve as the base locations for the European and global market. In Southeast Asia, the operating units in the region are managed primarily from Singapore, Jakarta and Chennai. Other relevant markets are addressed via subsidiaries in New Zealand, the United Arab Emirates, South America, South Africa and the USA.

The range of technological services offered by the Wirecard Group is completed by Wirecard Communication Services GmbH based in Leipzig, Germany. This subsidiary offers call centre and communication services internally within the Group and sells these to the customers of Wirecard AG.

Changes to the Group structure

The changes in the shareholdings held directly and indirectly by Wirecard AG will be described below. If these changes involve business combinations, they will be explained in the subsequent section.

The acquisition of the business of Citi Prepaid Card Services announced by Wirecard AG on 29 June 2016 as part of a combined share and asset deal was successfully concluded on 9 March 2017 with the transfer of control over Ecount Inc. and the individual assets. Citi Prepaid Card Services is a leading issuer and programme manager in the area of institutional prepaid cards with headquarters in Conshohocken, Pennsylvania (USA).

For this purpose, Kestrel Mergers Acquisitions Corp., Conshohocken (USA) was founded as an transaction vehicle. It merged with Wirecard North America Inc., Conshohocken (USA) at the closing of the transaction.

Wirecard AG acquired all shares in MyGate Communications Pty Ltd. based in Cape Town (South Africa), on 6 March 2017 as part of a share deal and the company was consolidated at this point in time. MyGate Communications is a leading payment service provider (PSP) in Africa and had around 20 employees at the time of acquisition.

On 13 March 2017, Wirecard AG and the Citigroup subsidiaries CITIBANK, N.A. and CITIBANK OVERSEAS INVESTMENT CORPORATION agreed the acquisition by Wirecard AG of the customer portfolio of Citi's credit card acceptance business in eleven Asian-Pacific markets as part of an asset deal. The transaction involved all customer portfolios in the area of credit card acceptance in Singapore, Hong Kong, Macau, Malaysia, Taiwan, Indonesia, the Philippines, Thailand, India, Australia and New Zealand. The portfolio that will be acquired comprises a long-standing customer base of more than 20,000 retailers, particularly from the travel and mobility sector, the financial services sector, luxury goods, retail trade and technology and telecommunications. The closing of the transaction is due to be completed in several stages in 2018.

As part of the organic expansion of Wirecards's presence and sale activities and the organisational and technical restructuring within the Wirecard Group, the following companies were newly founded in the 2017 fiscal year:

- Wirecard (Thailand) Co. Ltd., Bangkok (Thailand)
- Wirecard E-Money Philippines Inc., Manila (the Philippines)
- Wirecard Issuing Technologies GmbH, Aschheim (Germany)
- Wirecard Service Technologies GmbH, Aschheim (Germany)
- Wirecard Acceptance Technologies GmbH, Aschheim (Germany)

The two new Asian companies will be used for, amongst other things, activities connected to the acquisition of Citi Prepaid Card Services in the USA and the already completed and further planned acquisition of the customer portfolios for card acceptance in the Asia-Pacific region of the Citigroup.

Scope of consolidation

Shareholdings of Wirecard AG

Wirecard Sales International Holding GmbH, Aschheim (Germany)	100%
Wirecard Payment Solutions Holdings Ltd., Dublin (Ireland)	100%
Wirecard UK and Ireland Ltd., Dublin (Ireland)	100%
Herview Ltd., Dublin (Ireland)	100%
Wirecard Central Eastern Europe GmbH, Klagenfurt (Austria)	100%
Wirecard Asia Holding Pte. Ltd., (Singapore)	100%
Wirecard Singapore Pte. Ltd. (Singapore) (before: Systems@Work Pte. Ltd.)	100%
Trans Infotech (Laos) Ltd. (Laos)	100%
Wirecard (Vietnam) Ltd., Ha Noi City (Vietnam) (before: Trans Infotech (Vietnam) Ltd.)	100%
Wirecard Payment Solutions Malaysia SDN BHD, Kuala Lumpur (Malaysia)	100%
PT Prima Vista Solusi, Jakarta (Indonesia)	100%
PT Aprisma Indonesia, Jakarta (Indonesia)	100%
Wirecard Myanmar Ltd., Yangon (Myanmar)	100%
Wirecard (Thailand) Co. Ltd., Bangkok (Thailand)	100%
Wirecard India Private Ltd., Chennai (India)	100%
American Payment Holding Inc., Toronto (Canada)	100%
Hermes I Tickets Pte Ltd, Chennai (India)	100%
GI Philippines Corp, Manila (Philippines)	100%
Star Global Currency Exchange Pte Ltd, Bangalore (India)	100%
Wirecard Romania S.A., Bucharest (Romania) (before: Provus Service Provider S.A.)	100%
Romcard S.A., Bucharest (Romania)	100%
Supercard Solutions & Services S.R.L., Bucharest (Romania)	100%
Wirecard Global Sales GmbH, Aschheim (Germany) (before: Wirecard Sales Europe GmbH)	100%
Wirecard Poland Sp.Zo.o., Warsaw (Poland)	100%
Wirecard Mexico S.A. De C.V, Mexico City (Mexico)	100%

Shareholdings of Wirecard AG - continued

Wirecard Technologies GmbH, Aschheim (Germany)	100%
Wirecard Communication Services GmbH, Leipzig (Germany)	100%
Wirecard Retail Services GmbH, Aschheim (Germany)	100%
cardSystems Middle East FZ-LLC, Dubai (United Arab Emirates)	100%
MyGate Communications Pty Ltd., Cape Town (South Africa)	100%
Wirecard Acceptance Technologies GmbH, Aschheim (Germany)	100%
Wirecard Service Technologies GmbH, Aschheim (Germany)	100%
Wirecard Issuing Technologies GmbH, Aschheim (Germany)	100%
Wirecard NZ Ltd., Auckland (New Zealand)	100%
Wirecard Australia Pty Ltd, Melbourne (Australia)	100%
Wirecard Africa Holding Proprietary Ltd., Cape Town (South Africa)	100%
Wirecard South Africa Proprietary Ltd., Cape Town (South Africa)	100%
Click2Pay GmbH, Aschheim (Germany)	100%
Wirecard (Gibraltar) Ltd. (Gibraltar)	100%
Wirecard Processing FZ LLC, Dubai (United Arab Emirates)	100%
Wirecard Acquiring & Issuing GmbH, Aschheim (Germany)	100%
Wirecard Bank AG, Aschheim (Germany)	100%
Wirecard Brasil S.A., Sao Paulo (Brazil) (before: Moip Pagamentos)	100%
Wirecard Card Solutions Ltd., Newcastle (United Kingdom)	100%
Wirecard E-Money Philippines Inc., Manila (Philippines)	100%
Wirecard Ödeme ve Elektronik Para Hizmetleri A.Ş., Istanbul (Turkey)	100%
GI Technology Pte. Ltd., Chennai (India)	60%
Wirecard North America Inc., Conshohocken (United States) (before: Kestrel Mergers Acquisitions Corp.)	100%
Wirecard Australia A&I Pte. Ltd., Melbourne (Australia)	100%
Wirecard Hong Kong Ltd. (Hong Kong)	100%
Wirecard Payment Solutions Hong Kong (Hong Kong).	100%

The Company has complied with the IAS/IFRS requirements concerning the mandatory inclusion of all domestic and all foreign subsidiaries that are controlled by the parent company.

A total of 50 subsidiaries were fully consolidated as of 31 December 2017. As of 31 December 2016, there were 46 companies. Uniform accounting and valuation policies apply to the scope of consolidated subsidiaries. The shareholdings and percentages of voting rights of the subsidiaries are identical.

GI Technology Pte. Ltd. based in India is not fully consolidated. Due to the conditions in the shareholders agreement, which are particularly associated with the Indian regulations for financial services companies, the company is accounted for using the equity method. This is because Wirecard exercises a significant influence on the company with this 60 percent shareholding but does not have full control.

Business combinations in the fiscal year

Acquisition of Citi Prepaid Card Services

The acquisition of the business of Citi Prepaid Card Services announced by Wirecard AG on 29 June 2016 was successfully concluded on 9 March 2017 as part of a combined share and asset deal and the company was consolidated at this point in time. Wirecard acquired the company Ecount Inc., which was renamed as Wirecard North America Inc. following the acquisition, and with it more than 100 new employees in Conshohocken, Pennsylvania (USA), and 20 further employees in various international locations. At the same time, Wirecard AG has expanded its global presence in its core business of payment processing into the North American market.

Citi Prepaid Card Services has already issued more than 2,500 card programmes for large international companies, primarily on the North American market. The customers of the acquired business include leading telecommunication service providers, pharmaceutical companies, global IT and electronics manufacturers, Internet and consumer goods corporations and public sector clients. The portfolio largely comprises incentive and compensation cards, as well as corporate disbursement programmes for salaries or travel.

The entire purchase price was due in cash at the closing of the transaction. The parties agreed not to disclose the precise purchase price.

Citi Prepaid Card Services contributed EUR 109.1 million in revenues and EUR 20.7 million in operating earnings before interest, tax, depreciation and amortisation (EBITDA) to the consolidated profit or loss of Wirecard in the 2017 fiscal year, whereby further integration costs in the group were not deducted.

If Citi Prepaid Card Services had been acquired on 1 January 2017, it would have made a contribution to revenues of EUR 130.9 million and to operating earnings before interest, tax, depreciation and amortisation (EBITDA) of EUR 24.8 million when extrapolated for the twelve-month period. Due to the fact that this transaction is a combined asset and share deal as well as a spin-off from the operating business of Citi Prepaid Services, the determination of the result after tax is neither expedient nor possible. The acquired prepaid card business itself will also benefit, in particular, from its integration into Wirecard's global payments platform. The same is true for the company's international customers, who will be able to expand the services they currently receive to include additional functions and thus generate added value.

The preliminary purchase price allocation was examined and finalised within the twelve-month period. Non-separable assets, such as the specialist knowledge and contacts held by the employees and management, as well as the synergy effects within the Wirecard Group, are recognised under goodwill.

The following table shows the final break down of the fair values of the assets and liabilities:

Acquisition of Citi Prepaid Services

in kEUR	Fair value
Goodwill	92,342
Customer relationships	106,503
Other intangible assets	3,564
Property, plant and equipment	790
Inventories and work in progress	2,042
Trade and other receivables	20,428
Deferred tax liabilities	30,961
Current liabilities	15,063

MyGate Communications Pty Ltd.

Wirecard AG acquired all shares in MyGate Communications Pty Ltd. based in Cape Town, South Africa, on 6 March 2017 and the company was consolidated at this point in time.

MyGate Communications is a leading payment service provider (PSP) in Africa and had around 20 employees at the time of acquisition. The agreed purchase price of EUR 13.1 million consists of a cash payment of EUR 9.9 million and further earnout payments of up to EUR 4.9 million, of which EUR 3.6 million have been recognised as of 31 December 2017.

MyGate Communications contributed EUR 5.9 million in revenues and EUR 1.6 million in operating earnings before interest, tax, depreciation and amortisation (EBITDA) to the consolidated profit or loss of Wirecard in the 2017 fiscal year, whereby further integration costs in the group were not deducted.

If MyGate Communications had been acquired on 1 January 2017, it would have made a contribution to revenues of EUR 7.1 million and to operating earnings before interest, tax, depreciation and amortisation (EBITDA) of EUR 2.0 million when extrapolated for the twelve-month period. Due to the fact that after this transaction restructuring has taken place and thus resulted in outsourcing of the operating business, a determination of the earnings after taxes is neither expedient nor possible.

Non-separable assets, such as the specialist knowledge and contacts held by the employees and management, as well as the synergy effects within the Wirecard Group, are recognised under goodwill.

The following table shows the final break down of the fair values of the assets and liabilities:

Acquisition of Mygate

in kEUR	Fair value
Cash	609
Goodwill	8,235
Customer relationships	13,907
Property, plant and equipment	23
Other non-current intangible assets	824
Trade and other receivables	279
Deferred tax liabilities	1,480
Current liabilities	8,750
Non-current liabilities	78
Purchase price	13,568

Acquisition of Citi's card acceptance business in the Asia-Pacific region

On 13 March 2017, Wirecard AG and the Citigroup subsidiaries CITIBANK, N.A. and CITIBANK OVERSEAS INVESTMENT CORPORATION agreed the acquisition by Wirecard AG of the customer portfolios of Citi's credit card acceptance business in eleven Asian-Pacific markets. The transaction involved all customer portfolios in the area of credit card acceptance in Singapore, Hong Kong, Macau, Malaysia, Taiwan, Indonesia, the Philippines, Thailand, India, Australia and New Zealand. The portfolios that will be acquired comprise a long-standing customer base of more than 20,000 retailers, particularly from the travel and mobility sector, the financial services sector, luxury goods, retail trade and technology and telecommunications. The closing of the acquisition is due to be completed in several stages in each country in 2018. In the first year after closing all acquisitions in the Wirecard Group (2019 fiscal year), consolidated operating earnings before interest, tax, depreciation and amortisation (EBITDA) of more than EUR 20 million are expected through the acquisition. The acquisition of the customer portfolios for Singapore and Hong Kong was concluded on 15 June 2017, while the acquisition of the customer portfolio for the Philippines was concluded on 30 November 2017 and the portfolios were consolidated at this point in time in each case.

Alongside the cash payments already made, the agreed purchase price also includes other payments, which were reported as a liability as of the day of acquisition. The parties agreed not to disclose the precise purchase price. Non-separable assets, as well as the synergy effects within the Wirecard Group, are recognised under goodwill.

The customer portfolios in Singapore, Hong Kong and the Philippines contributed EUR 92.4 million in revenues and EUR 2.4 million in operating earnings before interest, tax, depreciation and amortisation (EBITDA) to the consolidated profit or loss of Wirecard in the 2017 fiscal year year, whereby further integration costs in the group were not deducted.

If the portfolios had been acquired on 1 January 2017, they would have made a contribution to revenues of EUR 175 million and to operating earnings before interest, tax, depreciation and amortisation (EBITDA) of EUR 5 million when extrapolated for the twelve-month period. Due to the fact that this transaction involves both, different client portfolios and a spin-off from Citi's operating business, it is neither expedient nor possible to determine earnings after taxes. Also, the amounts shown below are not yet final, because due to the complexity of the transaction, individual analyzes are still being performed.

The current fair values of the assets and liabilities are as follows:

Acquisition of Citi's card acceptance business in the Asia-Pacific region

in kEUR	Fair value
Goodwill	86,958
Customer relationships	31,129
Property, plant and equipment	2,338
Financial and other assets (non-current)	32,612
Other receivables	1,623
Deferred tax assets	5,965
Current liabilities	9,333
Deferred tax liabilities	2,968
Non-current liabilities	54,206

Business combinations in the previous year

GI Technology Pte. Ltd.

A 60 percent shareholding in GI Technology Pte. Ltd. based in Chennai (India) was acquired as of 1 March 2016. In this context, a sum of kEUR 14,000 was paid in the form of a capital increase and a purchase price of kEUR 1,000 was paid. Due to the conditions relating to approval requirements of minority shareholders on decisions about significant activities of the company in the shareholder agreement, which are particularly associated with the Indian regulations for financial services companies, the company has been accounted for since then using the equity method. This is because Wirecard exercises a significant influence on the company with this 60 percent shareholding.

Provus Group

Wirecard AG acquired all shares in the Provus Group based in Bucharest (Romania) on 29 February 2016 and the company was fully consolidated at this point in time. In the meantime it has been renamed to Wirecard Romania S.A..

Provus is Romania's leading payment processing and technology service provider and had around 114 employees at the time of the acquisition. The payment provider supports companies in outsourcing acquiring and card processing, e-commerce payment transactions and point-of-sale (POS) operations. Its customers include major Romanian banks and large telecommunications and retail customers. In addition, the Provus Group works with the Romanian government in the digitisation of health and payment cards.

Romania is an EU member state with a population of around 20 million (as of 2016) and continues to have the highest growth rate for card payments in Europe. The shift from cash to electronic payment transactions is also a growth trend in Romania. 97 percent of all payments were made in cash in 2016.

Provus operates the largest processing centre in Romania. With a scalable platform offering cutting edge technology, the company is one of the leading providers of outsourcing solutions in Eastern Europe. Above all, the company’s end-to-end solutions in the area of card management, including a card personalisation office, have won over local banks and government institutions. In the business area of acquiring processing, Provus offers numerous payment processing solutions across various channels: cash machines (ATM), point-of-sale (POS) and e-commerce.

The considerations in connection with this transaction included cash payments of EUR 34.162 million without further earnout components in subsequent years.

An EBITDA of EUR 2.4 million was generated for the 2016 consolidation period. Revenue for this consolidation period stood at EUR 8.5 million and annual net profit at kEUR 318. For the full 2016 fiscal year, there was an annual net profit of kEUR 622 with revenue of kEUR 10,149.

The seller was the Polish private equity company Innova Capital via its affiliated company ICPCE based in Luxembourg. The local management team remained at the company. Non-separable assets, such as the specialist knowledge and contacts held by the employees and management, as well as the synergy effects within the Wirecard Group, were and are recognised under goodwill.

The acquired assets and liabilities break down as follows:

Acquisition of Provus Service Provider S.A.

in kEUR	Fair value
Cash	2,697
Goodwill	8,819
Customer relationships	22,865
Property, plant and equipment	1,709
Other non-current intangible assets	1,617
Trade and other receivables	1,574
Other assets	432
Deferred tax liabilities	3,868
Current liabilities	1,048
Non-current interest-bearing liabilities	566
Non-current liabilities	69
Purchase price	34,162

Moip Pagamentos S.A.

Wirecard AG acquired all shares in the Brazilian company Moip Pagamentos S.A. (MOIP) based in São Paulo (Brazil) on 22 February 2016 and the company was fully consolidated at this point in time. In the meantime it has been renamed to Wirecard Brasil S.A..

Moip Pagamentos S.A., which had more than 150 employees at the time of acquisition, is a fast-growing Internet payment service provider on the Brazilian market that was founded around nine years ago.

MOIP has developed a leading payment platform for small and medium sized retailers over the last few years and focuses, in particular, on marketplaces and companies with direct sales for its innovative end-to-end solutions. The automated on-boarding process for all retailers, the bundling of money flows from national acquiring networks and a product portfolio featuring alternative payment processes for the Brazilian market have contributed to the dynamic growth of the company. Payment guarantees and buyer protection functionalities supplement the MOIP solution. In addition, the MOIP solution has expanded the Wirecard payment platform to include further alternative payment processes.

In 2015, the company handled more than BRL 1.0 billion in transactions serving around 100,000 Brazilian retailers. Wirecard will use this acquisition completed in 2016 to address other markets in Latin America in the coming years. Entry onto the Brazilian market means that Wirecard is continuing to pursue its goal of global expansion. Wirecard can now also roll out other payment and issuing product lines in Latin America.

The considerations in connection with this transaction were cash payments of EUR 22.9 million. Further earnout payments totalling up to EUR 13.5 million are linked with the achievement of certain financial results by Moip Pagamentos S.A. in the 2016, 2017 and 2018 fiscal years. In this context, EUR 4.1 million was recognised as a liability as of 31 December 2016.

An EBITDA of EUR 1.2 million was generated for the 2016 consolidation period. Revenue for this consolidation period stood at EUR 16.2 million and annual net profit at EUR 0.2 million. For the full 2016 fiscal year, there was an annual net profit of EUR 0.3 million with revenue of EUR 18.7 million.

The sellers were the majority shareholder Ideiasnet S.A., a Venture Capital fund, via their affiliated company Ideiasnet Fundo du Investimento em Participacoes I (FIP), which invests in Brazilian technology companies, as well as a number of founders and managers who will continue to remain as part of the management team.

Non-separable assets, such as the specialist knowledge and contacts held by the employees and management, as well as the synergy effects within the Wirecard Group, are recognised under goodwill.

The acquired assets and liabilities break down as follows:

Acquisition of Moip Pagamentos S.A.

in kEUR	Fair value
Cash	179
Goodwill	22,190
Customer relationships	6,182
Property, plant and equipment	92
Other non-current intangible assets	1,897
Trade and other receivables	21,217
Other assets	2,540
Deferred tax liabilities	2,706
Current liabilities	24,554
Non-current liabilities	90
Purchase price	26,947

Supr

In order to expand the Wirecard Checkout Portal to include further value added services in the area of omnichannel sales, the start-up Supr was acquired in the 2016 fiscal year. Supr, an e-commerce platform for retailers and start-ups that had 20 employees at the time of acquisition, is working on the vision of decentralised e-commerce to enable retailers to sell their goods via widgets directly on blogs and social networks independently of an online shop. The innovative Supr solutions will be integrated into the Wirecard Checkout Portal and rolled out Europe-wide as part of a complete ecosystem. The purchase price comprised a cash payment of EUR 1 million, while further potential earnout payments of up to EUR 2 million were also agreed. The reported purchase price that was still to be paid as of 31 December 2016 was EUR 2.4 million. Significant assets included the customer relationships and software. Non-separable assets, such as the specialist knowledge and contacts held by the employees and management, as well as the synergy effects within the Wirecard Group, of EUR 1.5 million were recognised under goodwill.

Exemption from the duty to prepare consolidated financial statements

In accordance with Section 291 (1) of the German Commercial Code (HGB), Wirecard Technologies GmbH, Aschheim, Wirecard Acquiring & Issuing GmbH, Aschheim, and Wirecard Sales International Holding GmbH, Aschheim, are exempt from the duty to prepare consolidated financial statements as full compliance with the requirements of Section 291 (2) of the HGB already exists.

In addition, Wirecard has decided to make use of the exemption pursuant to Section 17 of the Irish Companies Act of 1986 not to submit consolidated financial statements of the Irish group to Companies Office in Ireland.

Wirecard AG confirms that the sub-group financial statements of Wirecard Technologies GmbH, Wirecard Acquiring & Issuing GmbH, Wirecard Sales International Holding GmbH and also Wirecard Payment Solutions Holdings Ltd. are included in these financial statements.

Exemption pursuant to Section 264 (3) of the HGB

The following companies will make use of the exemption pursuant to Section 264 (3) of the HGB:

- Click2Pay GmbH, Aschheim (Germany)
- Wirecard Technologies GmbH, Aschheim (Germany)
- Wirecard Acquiring & Issuing GmbH, Aschheim (Germany)
- Wirecard Sales International Holding GmbH, Aschheim (Germany)
- Wirecard Global Sales GmbH, Aschheim (Germany)
- Wirecard Issuing Technologies GmbH, Aschheim (Germany)
- Wirecard Acceptance Technologies GmbH, Aschheim (Germany)
- Wirecard Services Technologies GmbH, Aschheim (Germany)
- Wirecard Retail Services GmbH, Aschheim (Germany)
- Wirecard Communication Services GmbH, Leipzig (Germany)

The necessary requirements of German commercial law will be fulfilled accordingly.

2. Basis of preparation

Wirecard AG generally publishes its figures in thousands of euros (kEUR). The use of rounding means it is possible that some figures do not add up exactly to form the totals stated and that the figures and percentages do not exactly reflect the absolute values on which they are based. The following abbreviations are used in the financial statements:

- EBIT: Earnings Before Interest and Taxes
- EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortisation
- PP&RM: Payment Processing & Risk Management
- A&I: Acquiring & Issuing
- CC&CS: Call Center & Communication Services

2.1 Principles and assumptions used in preparing the financial statements

Operational environment and going concern assumption

The current consolidated financial statements of Wirecard AG were prepared on the going concern assumption; in accordance with this assumption, the recoverability of the Company's assets and repayment of liabilities outstanding are assumed to occur within the ordinary course of business.

Accounting in accordance with International Financial Reporting Standards (IFRS)

The consolidated financial statements and the Group management report have been prepared in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as adopted by the EU, as well as the supplementary regulations applicable in accordance with Section 315e (1) of the German Commercial Code (HGB).

All interpretations valid for the fiscal year 2017 by the International Financial Reporting Standards Interpretations Committee (IFRSIC) and the earlier interpretations by the Standing Interpretations Committee (SIC) were taken into account.

Currency translation

The reporting currency is the euro. The functional currency of the foreign subsidiaries is, apart from a few exceptions, the local currency in the country in which the subsidiary is based and operationally active. The amounts relating to assets and liabilities of these companies reported in the consolidated statement of financial position were translated at the exchange rate prevailing on the reporting date. Equity is translated at historical exchange rates. Revenues, expenses and income posted in the income statement are translated at average exchange rates. Differences arising from foreign currency translation are reported in other comprehensive income, net of income tax with no effect on profit or loss and reported separately under equity in the translation reserve. The amount reported under other comprehensive income, net of income tax for a foreign business operation will be reclassified in the income statement if this foreign business operation is sold. Differences between the translation of foreign currency into the functional currency for this company at the transaction rate and the rate at the time of payment or on the reporting date are recognised in profit or loss and included under cost of materials if the payment is in connection with customer funds; if not it is carried under other operating income or expenses.

Discretionary decisions, estimates and assumptions

The preparation of the consolidated financial statements requires management to make discretionary decisions, estimates and assumptions that have an effect on the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. The uncertainty inherent in these assumptions and estimates, however, could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the process of applying the Group's accounting policies, management has made the following discretionary decisions which have a significant effect on the amounts recognised in the consolidated financial statements. The most important forward-looking assumptions, discretionary decisions as well as other substantial sources of uncertainties that relate to estimates as of the reporting date are explained below. These give rise to a substantial risk that an adjustment of the carrying amounts of assets and liabilities will be necessary within the following fiscal year. In addition, this is presented in Chapter 2.3.

Classification

In the statement of financial position, a distinction is made between non-current and current assets and liabilities. Assets and liabilities are regarded as being current if they are due for payment or sale within one year. Accordingly, assets and liabilities are classified as non-current if they remain within the Company for longer than one year. The consolidated income statement was prepared in accordance with the nature of expense method.

Consolidation principles

These consolidated financial statements comprise the financial statements of Wirecard AG and its subsidiaries as of 31 December 2017. Subsidiaries are fully consolidated from the acquisition date, in other words, from the date on which the Group obtains control. The Group is deemed to control a company if it has risk exposure, or rights, to variable returns from its involvement with the investee and if it can also use its power over the investee to affect these returns. Specifically, the Group controls an investee if, and only if, it has:

- power over the investee (i.e. the Group has existing rights that give it the current ability to direct the relevant activities of the investee that significantly affect the investee's returns),
- exposure, or rights, to variable returns from its involvement with the investee and
- the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group holds less than a majority of the voting or similar rights in an investee, the Group must consider all relevant facts and circumstances in order to assess whether it has power over an investee. These include, amongst other things, any contractual arrangement(s) with the other holders of voting rights in the investee, rights arising from other contractual arrangements and the Group’s voting rights and potential voting rights. Where necessary, the Group considers the accounting rules for non-controlling interests in accordance with IFRS 10.22 as being displaced by the obligation to recognise the purchase price debt as a liability according to IAS 32.23. Consolidation ends as soon as the parent company loses control. The financial statements of subsidiaries are prepared as of the same reporting date as those of the parent company. Revenues, expenses and income, receivables, provisions and liabilities between the companies included were eliminated.

For new company acquisitions, capital is consolidated in line with the acquisition method according to IFRS 3 (Business Combinations). In the process, the acquisition costs of the shares acquired are offset against the proportion of equity due to the parent company at the time of the acquisition. Irrespective of the interest held, identifiable assets and liabilities are measured at fair value and any remaining difference between acquisition cost and the interest in the remeasured net assets is recognised as goodwill.

Associated companies are companies in which Wirecard has the possibility of exercising a significant influence over the company; this is generally the case when between 20% to 50% of the voting rights are held directly or indirectly. Associated companies are accounted for in the consolidated financial statements using the equity method and recognised initially at their acquisition costs. The share of the result of an associated company held by Wirecard after acquisition is reported in the consolidated income statement under share of profit or loss from associates, while the share of other comprehensive income, net of income tax with no effect on profit or loss is correspondingly recognised under equity. The cumulative changes after the acquisition date increase or decrease the carrying amount of the shareholding in the associated company. If the losses from an associated company attributable to Wirecard equal or exceed the value of the share in this company, no further share of the losses is recorded, unless Wirecard has assumed obligations or made payments on behalf of the associated company. The share in the associated company is the carrying amount of the shareholding, plus all non-current interests in the company applicable to the economic substance after net investment by Wirecard in the associated company.

2.2 Accounting for financial assets and liabilities

Financial assets and liabilities are reported and evaluated in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). As a result, financial assets and liabilities are recognised in the consolidated statement of financial position if the Group has a contractual right to receive cash or other financial assets from some other party or if it has a contractual obligation to pay liabilities to some other party.

According to IAS 39, financial instruments are split into the following categories:

- financial assets and liabilities at fair value through profit or loss
- held-to-maturity investments
- available-for-sale financial assets
- loans and receivables
- financial liabilities measured at amortised cost

Financial assets

The Group classifies its financial assets at the time of initial recognition. Financial assets are measured at fair value when initially recognised. In the case of financial instruments not classified at fair value through profit or loss, transaction costs directly assignable to the acquisition of the assets are additionally taken into account.

Purchases or sales of financial assets that provide for delivery of assets within a certain period determined by regulations or conventions applicable to the relevant market (purchases regular-way) are recognised on the trade date, in other words, on the date on which the Group entered into the obligation to purchase or sell the asset in question.

The financial assets of the Group comprise the statement of financial position items financial and other assets / interest-bearing securities, receivables of acquiring business, trade and other receivables, interest-bearing securities and fixed-term deposits and cash and cash equivalents.

The subsequent valuation of financial assets depends on their classification as detailed below:

Financial assets at fair value through profit or loss

The group of financial assets at fair value through profit or loss comprises financial assets designated as measured at fair value through profit or loss at initial recognition (fair value option), as well as the financial derivatives concluded by the Group that do not meet the criteria for hedge accounting in accordance with IAS 39. Financial assets are designated as of fair value through profit or loss if these are managed based on their changes in fair value, their performance is evaluated accordingly and internally transferred to the Group's management level. These assets are managed in accordance with the Group's documented risk management system or investment strategy. Financial assets at fair value through profit or loss are recognised in the statement of financial position at fair value, with gains and losses being recognised in profit or loss.

Financial derivatives such as forward exchange transactions are recognised by Wirecard at fair value and classified as held for trading, unless they are designated as hedging instruments as part of hedge accounting. A change in the fair value of derivatives is reported by the Company either in the consolidated income statement or, in the case of a cash flow hedge, under the item other comprehensive income after tax after taking into account deferred taxes.

Cash flow hedges: The effective portion of the changes in the fair value of derivatives which are defined as cash flow hedges is reported by Wirecard in the statement of comprehensive income after taking deferred taxes into account. The ineffective portion is reported immediately in the consolidated income statement. The amounts accumulated in equity are reported in the consolidated income statement in the same period in which the underlying transaction is reflected in the consolidated income statement. In the event of currency hedging of a purchase price as part of a company acquisition, the amounts accumulated in equity are included in the calculation of the purchase price at the time the company acquisition is concluded.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. Such financial assets are measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement if the loans and receivables are derecognised or impaired, or within the scope of amortisations.

Held-to-maturity financial investments

Non-derivative financial assets with fixed or determinable payment amounts and subject to fixed maturity dates are classified as financial assets held to maturity if the Group has the intention and is in a position to hold these until final maturity. After initial recognition, financial investments held to maturity are measured at amortised cost using the effective interest method. This method uses an interest rate for calculation purposes at which the estimated future cash receipts over the expected term to maturity of the financial asset are exactly discounted to the net carrying amount of the financial asset in question. Gains and losses are recognised in the consolidated income statement if the financial investments are derecognised or impaired, or within the scope of amortisations. Such circumstances did not exist either as of the reporting date nor in the comparative period.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets classified as available for sale and those that cannot be classified into one of the three aforementioned categories. Following initial recognition, available-for-sale financial assets are measured at fair value. Investments whose fair value cannot be reliably determined due to a non-existent market are measured at cost. Unrealised gains or losses of the assets measured at fair value are recognised in equity under other comprehensive income. If such an asset is derecognised, the cumulative gain or loss recognised in equity is recognised in profit or loss. If the value of such an asset is impaired, the cumulative loss recognised in equity is recognised in profit or loss.

Derecognition

A financial asset (or part of a financial asset, or part of a group of similar financial assets) is derecognised if one of the following requirements has been met:

- The contractual rights to receive cash flows from a financial asset have expired.
- The Group has assigned its contractual rights to receive cash flows from the financial asset to third parties or has assumed a contractual obligation for immediate payment of the cash flow to a third party within the scope of an agreement which meets the requirements of IAS 39.19 (a “pass-through” arrangement) and, in the process, either (a) mainly transferred all opportunities and risks assumed in connection with ownership of the financial asset or (b) while neither having mainly transferred nor retained all opportunities and risks associated with ownership of the financial asset, it has transferred control of the asset in question.

If the Group transfers its contractual rights to cash flows arising from an asset or enters into a “pass-through” arrangement and thereby does not mainly transfer or retain all opportunities or risks associated with this asset, but retains control of the asset transferred, the Group recognises an asset to the extent of its continuing involvement.

In this case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured in such a manner as to duly take account of the rights and obligations retained by the Group. If the continuing involvement takes the form of guaranteeing the asset transferred then the scope of the continuing involvement will correspond to the lower of either the original carrying amount of the asset or the maximum amount of the consideration received that the Group might have to repay.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is only deemed to be impaired if objective evidence exists of impairment as a result of one or more events that has occurred after the initial recognition of the asset (a “loss event”) and that loss event has an impact on the anticipated future cash flows of the financial assets or the group of financial assets that can be reliably estimated. These impairments are recognised via an impairment account. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the anticipated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Depending on the age structure of the receivables, uniform value adjustments (impairments) are made to receivables across the Group. The majority of receivables relate to credit card organisations, banks and acquiring partners. In this area, there have been no appreciable defaults in the history of Wirecard. In the area of FinTech, receivables are secured by cash securities as is typical in the sector to a level above the expected default. In the case of trade receivables from retailers/merchants and trade and other receivables that are more than 180 days overdue, the Group carries out an impairment to the full amount in the absence of any other information on the recoverability of such receivables. In determining the recoverability of trade receivables, any change in credit standing is taken into account from the date on which deferred payment was granted up to the reporting date. In the case of receivables of acquiring business and trade and other receivables that were not overdue and whose value had not been impaired, there were no indications that payment defaults would occur that would lead to an impairment of the assets of Wirecard. On the basis of portfolios formed by combining financial instruments within product groups according to credit risk characteristics, flat-rate impairments are carried out for possible losses on individual portfolios of financial instruments. Additions within the fiscal year are reported in the consolidated income statement under other operating expenses and reversals under other operating income. The fair value of the receivables is identical in principal to the carrying amount. Non-interest-bearing receivables with a term of more than 12 months are discounted.

Financial liabilities

The Group classifies its financial liabilities on initial recognition. Financial liabilities are recognised initially at fair value, plus directly attributable transaction costs in the case of loans.

The Group’s financial liabilities include trade and other payables, bank overdrafts, loans, financial guarantees and derivative financial instruments.

The subsequent measurement of financial liabilities depends on their classification as detailed below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities designated as measured at fair value through profit or loss at initial recognition (fair value option), as well as financial derivatives concluded by the Group that do not meet the criteria for hedge accounting in accordance with IAS 39. Financial liabilities recognised at fair value through profit or loss are recognised in the statement of financial position at fair value, with gains and losses being recognised in profit or loss. The financial liabilities at fair value through profit or loss also include the fair value of earnout liabilities for business combinations. In addition, fair value adjustments to earnout liabilities are reported under the financial result. Please also refer here to sections 2.5 and 7.4.

Liabilities measured at amortised cost

After initial recognition, interest-bearing loans are measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement if the financial investments are derecognised, or within the scope of amortisation.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are contracts that require the issuer to make a payment to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due, according to the terms of a debt instrument. Due to the contractual regulations for processing transactions with credit card organisations, with providers of different payment methods and also within interbank transfers in payment processing, Wirecard generally views the entire transaction volume as a financial guarantee because a general liability cannot be excluded. As of 31 December 2017, this volume stood at EUR 91.0 billion (31 December 2016: EUR 61.7 billion). All financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the provision of the guarantee. Subsequently, the liability is measured at the higher of either the best estimate of the expenditure required to settle the present obligation at the reporting date, or the amount at which it was initially recognised less cumulative amortisation.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only if a currently legally enforceable right exists to offset the recognised amounts, and the intention exists to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Derecognition

Financial liabilities are derecognised if the obligation on which this liability is based has been fulfilled, waived or has expired. If an existing financial liability is replaced by another financial liability from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in the income statement.

Fair value of financial instruments

Pursuant to IFRS 13, fair value is defined as the price that would, in a normal transaction between market participants on the measurement date, be received for the sale of an asset, or be paid for the transfer of a liability.

The fair value of financial instruments that are traded on organised financial markets at each reporting date is determined by reference to a quoted market price (Level 1 of the fair value hierarchy).

For instruments for which there are no market quotations on active markets, fair value is calculated using observable market prices for comparable instruments, or using standard market valuation methods. This entails applying measurement parameters that are observable either directly or indirectly on active markets (Level 2 of the fair value hierarchy). Such techniques may include using recent arm's length transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models.

In the case of some financial instruments, fair value cannot be calculated either directly using market quotations, or indirectly through valuation models that are based on observable measurement parameters or other market quotations. These comprise instruments relating to Level 3 of the fair value hierarchy.

Discretionary decisions, estimates and assumptions in connection with financial instruments

If the fair value of financial assets and financial liabilities reported in the statement of financial position cannot be determined with the aid of data from an active market, it can be measured using other methods including the discounted cash flow method. The input parameters included in the model are based on observable market data as far as possible. If this is not possible then the determination of fair values represents a discretionary decision to a certain degree. Discretionary decisions relate to input parameters such as liquidity risk, credit risk and volatility. Changes in assumptions regarding these factors may have an impact on the fair value recognised for financial instruments.

2.3 Significant accounting and valuation policies

Valuation uncertainties

Discretionary decisions are required in applying the accounting and valuation policies. The most important forward-looking assumptions, as well as other substantial sources of uncertainty relating to estimates as of the reporting date, which create a substantial risk that an adjustment of the carrying amounts of assets and liabilities will be needed within the following fiscal year, are explained below:

- The measurement of fair values of assets and liabilities as well as the useful lives of assets is based on assessments made by management. This also applies to the measurement of impairments of goodwill, property, plant and equipment, of intangible assets as well as of financial assets. Valuation adjustments are made to doubtful receivables in order to take account of estimated losses arising from insolvency or unwillingness of customers to pay.
- In accounting for and valuing provisions, expected obligations represent the key sources of estimates.
- The costs of granting equity instruments to employees are measured at fair value of such equity instruments in the Group at the time when granted. In order to measure the value of share-based remuneration, the best method of measurement must be determined; this depends on the terms and conditions at which share-based remuneration is granted. In addition, this estimate calls for the determination of suitable input parameters to be included in this measurement process, including the foreseeable term of the option, volatility and dividend yield in particular, along with associated assumptions.

In the event of uncertainties relating to valuations, the best possible findings are used relating to the circumstances prevailing as of the reporting date. However, actual amounts may differ from the estimates made. The carrying amounts reported in the financial statements and impacted by these uncertainties are listed in the statement of financial position and in the relevant notes.

Accounting for acquisitions

Business combinations are accounted for using the acquisition method. The acquisition costs of an acquisition are measured at the fair value of the assets given and the liabilities incurred or assumed at the time of acquisition. The identifiable assets acquired in a business combination and the liabilities assumed, including contingent liabilities, are initially valued by Wirecard at their fair values at the time of acquisition. Identifiable assets and liabilities generally consist of customer relationships, software and other intangible assets, property, plant and equipment, financial and other assets, provisions and liabilities, and deferred tax liabilities and assets. For the subsequent valuation of the respective assets and liabilities, reference is made to the respective paragraph below.

Goodwill accounting

The goodwill arising when a subsidiary is acquired or business operations are created corresponds to the surplus of acquisition costs over the Group's share of the net fair value of identifiable assets, liabilities and contingent liabilities of the subsidiary or operations at the time of acquisition. Goodwill is accounted for at cost at the time of acquisition and valued in subsequent periods at its cost of acquisition less all cumulative impairment expenses.

For impairment testing, goodwill is to be distributed across all cash-generating units of the Group that are expected to draw a benefit from the synergies of the business combination. Cash-generating units to which part of goodwill has been allocated are to be subjected to annual impairment testing. In the event of any evidence of impairment (triggering event) to a unit, the latter is evaluated more frequently. If the recoverable amount of a cash-generating unit is less than the carrying amount of the unit in question, the impairment expense must initially be assigned to the carrying amount of any goodwill assigned to the unit and then allocated pro-rata to the other assets based on the carrying amounts of any such asset within the unit in question. Any impairment expense recognised for goodwill cannot be reversed in subsequent periods. When a subsidiary or business operation is sold, the amount of goodwill attributable to it is taken into consideration accordingly while determining the profit or loss generated by the sale in question.

In accordance with the Group's accounting policies, goodwill is assessed at least once a year for possible impairments. The recoverable amount of a business segment to which goodwill was assigned – because it is the business segments that represent the cash-generating units at the level at which the goodwill is monitored – is determined on the basis of estimates by management. These are effected on the basis of the various products, distribution areas and regions. The cash flow forecasts and the forecasts for financial surpluses take account of past experience and are based on the best estimate by management of future trends, which are compared with the assessment of external market research companies.

The most important assumptions entailed in calculating value in use are the following for all cash-generating units:

– Risk-free interest rate: 1.25 percent (previous year: 1.0 percent)
– Market risk premium: 7.0 percent (previous year: 7.0 percent)

Important assumptions entailed in calculating value in use 2017

	PP&RM	*A&I	CC&CS
Unlevered beta	0.85	1.09	0.85
Weighted average cost of capital (WACC) before taxes	8.56	12.52	9.44
Weighted average cost of capital (WACC) after taxes	8.22	9.44	7.06
Long-term revenues growth rate	2.00	2.00	1.00
Compound Annual Growth Rate of forecasting horizon	25.01	18.66	10.44

* for A&I: levered beta

Important assumptions entailed in calculating value in use 2016

	PP&RM	*A&I	CC&CS
Unlevered beta	0.94	1.11	0.94
Weighted average cost of capital (WACC) before taxes	10.60	12.88	9.80
Weighted average cost of capital (WACC) after taxes	9.94	9.78	7.46
Long-term revenues growth rate	2.00	2.00	1.00
Compound Annual Growth Rate of forecasting horizon	21.71	16.41	13.50

* for A&I: levered beta, capital costs are based on equity

In order to determine the basic interest rate, the yields of hypothetical zero coupon German government bonds published by Deutsche Bundesbank for the months of October until December 2017 were used as in the previous year. A yield curve was derived from these yields using the Svensson method and converted into a base interest rate equivalent to the present value and uniform for all periods. On the basis of the data from Deutsche Bundesbank, as of 31 December 2017 the base interest rate (rounded) was 1.25 percent (previous year: 1.0 percent). The market risk premium represents the difference between the market yield and a risk-free interest rate. In line with the recommendation of the Corporate Valuation and Management Committee of the Institute of Public Auditors in Germany (FAUB / IDW), a market risk premium of 7.0 percent (previous year: 7.0 percent) was applied. The beta factor is derived from peer group comparisons and external assessments, as well as being verified by our own calculations. These assumptions and the underlying methods applied may have a substantial influence on the respective values and, ultimately, on the extent of a potential goodwill impairment.

The Company determines the values to be used through valuation methods based on cash flow forecasts and discounted financial surpluses. These discounted cash flows and financial surpluses are based on forecasts in the form of detailed planning over one year and rough planning activities that span four years, established on the basis of finance plans approved by management. Cash flows and financial surpluses beyond the planning or budget period are extrapolated using a growth rate.

In addition to the impairment test, three sensitivity analyses are performed for each group of cash-generating units. In the first sensitivity analysis, a one percentage point lower growth rate is assumed for the budget and all other planning years that relate to the revenues. In the second sensitivity analysis, the capitalisation rate is increased by 10.0 percent for each group of cash-generating units. In the third sensitivity analysis, a flat rate 10.0 percent discount is applied to the EBIT assumed for the last planning period. These changes to the underlying assumptions do not result in impairments for any of the groups of cash-generating units.

Please refer to section 3.1 Intangible assets – goodwill for the composition, change and distribution of goodwill items.

Accounting for intangible assets

Customer relationships are recognised at cost and amortised using the straight line method over their expected useful life of mostly 10 or 20 years. In addition, an impairment test is carried out if a triggering event occurs. As regarding the procedure and essential assumptions, please refer to the explanatory notes on accounting for goodwill. Software is stated at acquisition cost plus the ancillary acquisition costs and amortised using the straight line method over the estimated useful life of the software, generally between three and ten years. Financing costs that can be directly assigned to the acquisition or manufacture of a qualified asset are capitalised in accordance with IAS 23. No financing costs were recognised in the fiscal year 2017, as was the case in the previous year. The software constituting the Group's core operations, most of which was internally developed and includes corresponding development costs, has an estimated useful life of ten years. The useful life and depreciation/amortisation methods are reviewed annually.

Research costs are reported as expenses through profit or loss on the date on which they occur. The costs of development activities are capitalised if the development costs can be reliably determined, the product or process is technically and commercially viable and a future economic benefit is probable. Initial capitalisation of costs is based on the assessment by management that technical and commercial viability has been established; as a rule this will be the case where a product development project has reached a certain milestone in an existing project management model. Moreover, Wirecard must have the intention and adequate resources to conclude such development and either to use or sell the asset in question. Development costs are capitalised in accordance with the accounting method shown and amortised accordingly over time from the moment the product is ready for use. During the development phase, an annual impairment test is carried out and assumptions of management are reviewed. Development costs capitalised in the fiscal year totalled kEUR 45,305 (previous year: kEUR 30,201).

Accounting for property, plant and equipment

The original costs of acquisition or manufacture of property, plant and equipment, that did not enter the Group through acquisitions, comprise the purchase price including ancillary acquisition costs. Expenses incurred subsequently after the item of property, plant and equipment was deployed, such as maintenance or repair costs, are recognised as expenses in the period in which the costs arose. Financing costs that can be directly assigned to the acquisition or manufacture of a qualified asset are capitalised in accordance with IAS 23. No financing costs were recognised in the fiscal year 2017, as was the case in the previous year.

Office equipment is stated at cost and depreciated using the straight line method over its estimated useful life. For computer hardware this period is three to five years and, as a rule, eight to thirteen years for office equipment and furniture.

Any gains and losses from the disposal of fixed assets are reported as other operating income and expenses. Maintenance work and minor repairs are charged to profit or loss as incurred.

Impairment and reversals of impairment of intangible assets as well as property, plant and equipment

The useful life and depreciation/amortisation methods are reviewed annually. An impairment is made if, due to changed circumstances, a permanent impairment is probable. At each reporting date, an analysis is made as to whether indications exist that the value of an asset may be impaired. If such indications exist, the Company estimates the recoverable value of the respective asset. The recoverable amount corresponds to the higher of either the value in use of the asset or its fair value less costs to sell. To determine the value in use, the estimated future cash flows are discounted to their present value using a discount rate before taxes reflecting current market expectations about the time value of money and the specific risks of the asset. In the event that the fair value cannot be reliably determined, the value in use of the asset corresponds to the recoverable amount. If the carrying amount of an asset exceeds its recoverable amount, the asset will be treated as impaired and written down to its recoverable amount. Impairment expenses are reported in a separate expense line item.

The necessity of a partial or full reversal is reviewed as soon as evidence exists that the reasons for impairments effected in previous years no longer apply. Any impairment expense previously recognised must be reversed if, since the last impairment expense was reported, a change has occurred regarding the estimates used to determine the recoverable amount. If this is the case, the carrying amount of the asset is increased to its recoverable amount. This increased carrying amount must not exceed the carrying amount that would have been recognised after taking account of amortisation or depreciation if no impairment expense had been recognised in previous years. Such a reversal of impairment losses is immediately recognised in the profit or loss of the fiscal year. Once a reversal of impairment losses has been made, the impairment expense is adjusted in future reporting periods in order to distribute the adjusted carrying amount of the asset, less any residual carrying amounts, systematically over its residual useful life.

In contrast to the previous year, there were impairments to customer relationships and internally-generated intangible assets in the reporting year. However, there were no reversals of impairment losses for intangible assets and property, plant and equipment as in the previous year.

Inventories and work in progress

Products and merchandise, which did not enter the Group through acquisitions, are valued at cost of acquisition. If the costs of acquisition of inventories and work in progress exceed the value determined on the assumption of sales prices capable of being realised, less any costs arising until the time of sale, the lower net realisable value is recognised.

Cash and cash equivalents

Cash in hand and demand deposits are classified as cash, whereas cash equivalents comprise current, liquid financial investments (in particular, fixed-term deposits) that can be converted at any time into certain amounts of cash and are only subject to negligible fluctuations in value. The actual intention of cash management is taken into account in this context and only such items are reported that are directly related to the availability of liquidity for short-term, operational payment obligations. Accounts in the acquiring business, which are in part not held directly but instead held on account of Wirecard, are reported under cash if Wirecard has access to these funds in the short term. In contrast, the portion that Wirecard does not have access to in the short term is classified as trade and other receivables. Cash and cash equivalents from lease guarantees which are not freely available amounted to kEUR 7,464 (previous year: kEUR 2,398) and were classified as trade and other receivables.

Provisions and liabilities

Provisions are carried if the Group has a current (legal or constructive) obligation as a result of a past event which means that an outflow of resources with economic benefits to fulfil the obligation is probable and a reliable estimate of the amount of the obligation is possible. Provisions are reported under liabilities. All provisions are current in nature and relate to tax provisions reported separately on the one hand and to other current provisions on the other.

In the context of business combinations negative contracts are analysed and these are measured at fair value as liability for non-callable periods. The disadvantage compared to market prices is based on assessments of the management and its observations of the market.

Expenditure incurred in forming provisions is generally reported under other operating expenses. Gains resulting from the reversal of provisions are recognised under other operating income.

Leases with the Group acting as lessee

According to IAS 17 for leases, the economic ownership of the leased assets is to be assigned to the party who is subject to the principal risks and opportunities associated with the lease. If the lessor is required to account for (operating) leases, the expense is reported using the straight line method throughout the duration of the lease relationship. If economic ownership is assigned to the Group (finance lease), capitalisation will be effected at the time the use begins, either at fair value or at the present value of the minimum lease payments, whichever is lower.

Leases with the Group acting as lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset to the lessee are classified as operating leases. Initial direct costs incurred in negotiating an operating lease and the conclusion of an operating lease are added to the carrying amount of the leased asset and expensed over the lease term in line with the rental income. Contingent rents are recognised as revenues in the period in which they are earned.

Contingent liabilities and assets

Contingent liabilities are not recognised. These are listed in the Notes unless the likelihood of an outflow of resources with an economic benefit is very remote. Contingent assets are not recognised in the financial statements either. They are reported in the Notes if the inflow of an economic benefit is likely to occur. In this context, please also refer to the risk report under section 7 of the management report.

Revenue recognition

Most of the revenues relate to transaction fees that are reported as realised if the transaction has been processed. This applies both when the transactions are processed via the Company's own platform and/or bank and also when acquiring partners and/or other platforms are used. When acquiring partners and/or other platforms are used for processing transactions, Wirecard is subject to the significant opportunities and risks associated with the transactions. As a result, Wirecard assesses itself as the principal in these transactions in the sense of IAS 18. The acquiring partner is assessed only as a service provider (agent) of Wirecard in this case. Expenses for the provision of these services by the acquiring partner are included in the cost of materials. Otherwise, revenues are recognised when there is sufficient evidence that a sales arrangement exists, the service has been rendered, the price for the service is fixed or determinable, and it is probable that payment will be received. Interest is recognised pro rata temporis, using the accrual basis of accounting. Operating expenses are recognised with an impact on profit or loss once the service is utilised or at the time the cost is incurred.

Reporting of revenues from programming orders

A programming order is a contract relating to the customer-specific programming of individual software components, or a number of software components, which are mutually coordinated or mutually dependent in terms of their application or their design, technology and function. If the result of a programming order can be reliably estimated, Wirecard reports the revenues according to the percentage of completion method and specifically according to the ratio of the already incurred costs to the estimated total order costs. An expected loss on a programming order is reported as an expense immediately. If the result of a programming order cannot be reliably estimated, revenues are reported only to the level of the incurred order costs that can probably be covered and the order costs are reported as an expense in the period in which they are incurred. As of the end of the year and the end of the previous year, Wirecard had concluded and delivered all significant orders so that there was no work in progress with a corresponding impact on earnings reported within the inventories on the reporting date. This was also the case in the previous year.

Reporting of revenues from multi-component orders

Sales of software products and services can contain several supply and service components. In such cases, Wirecard determines whether more than one accounting unit exists. If certain criteria are satisfied, especially if the delivered components comprise an independent benefit for the customer, the transaction is split and the relevant accounting regulation relating to the recognition of revenues is applied to account for the respective separate unit. Generally, the agreed total remuneration is allocated to the individual separate units for accounting in line with their relevant fair values. In rare cases, however, if reliable fair values are available for the outstanding components, but not for one or several of the delivered components, the value attributable to the delivered components is derived from the difference between the agreed total remuneration and the total fair value of the outstanding components (residual method). If the criteria for splitting are not satisfied, the revenues are deferred until such criteria are satisfied, or until the period in which the last outstanding component is delivered. Customer-specific software developments as part of projects to render mobile payment solutions and services are regarded as separate units for accounting and reported in compliance with the accounting and valuation principles for revenue from programming orders.

2.4 Accounting and valuation of tax items

Current income taxes

Current tax assets and liabilities for the current or earlier periods are measured to the amount in which a refund is expected from the tax authorities or a payment is expected to be made to the tax authorities. The prevailing tax rates and tax laws as of the reporting date are used to calculate the amount in question.

Deferred tax liabilities and assets

In accordance with IAS 12 (Income Taxes), deferred tax liabilities and assets are recognised for all temporary differences between the values of assets and liabilities in the tax statement of financial position and the values in the consolidated statement of financial position, as well as for consolidation measures. Exceptions from this include differences arising in accordance with IAS 12.15 from the initial recognition of goodwill or initial recognition of an asset or liability in the case of a transaction that is not a business combination and, at the time of the transaction, has no influence on net profit or loss for the period under commercial law (before income tax) nor on the taxable result (the tax-related loss). In addition, deferred tax liabilities in connection with shareholdings in subsidiaries, branch offices and associates are not recognised if Wirecard is able to control the timing of the reversal of the temporary difference and insofar as the temporary difference is not expected to reverse in the foreseeable future.

Furthermore, deferred tax assets relating to benefits of as yet unutilised tax loss carryforwards are recognised on the consolidated statement of financial position to the extent that it can be assumed with an adequate degree of probability that the respective company will be able to generate sufficient taxable income in future.

Deferred tax assets are recognised to the extent that it is probable that taxable income will be available with which the deductible temporary difference can be offset. The assessment and valuation of deferred tax assets is reviewed at each reporting date, taking account of current estimates in accordance with IAS 12.37 and IAS 12.56.

Deferred taxes are determined in line with IAS 12.47 on the basis of the tax rates applicable at the time of realisation or in future. Deferred taxes are recognised as tax income or tax expenses in the income statement, unless they relate to items directly recognised under equity with no impact on profit or loss; in this case, deferred taxes are recognised under equity, without impacting the income statement.

The calculation of deferred taxes was based on a German corporation tax rate of 15.0 percent (previous year: 15.0 percent) plus the solidarity surcharge of 5.5 percent (previous year: 5.5 percent) on corporation tax and a flat rate German trade tax rate of 11.20 percent (previous year: 11.20 percent), which takes into account the municipal factor for the respective location from 2017 and the corresponding tax rates of the foreign companies, in particular in the following countries:

Tax rates of foreign companies

in percent	31 Dec 2017	31 Dec 2016
India	**34.6**	34.6
Ireland	**12.5**	12.5
Austria	**25**	25
Singapore	**17**	17
United Kingdom	**20**	20
Turkey	**20**	20
Indonesia	**25**	25
New Zealand	**28**	28
South Africa	**28**	28
Brazil	**34**	34
United States	**21**	35

Value added tax

Revenues, expenses and assets are recognised after deducting value added tax. An exception in this regard is value added tax incurred when purchasing assets or services that cannot be claimed from the tax authorities. Such value added tax is recognised as part of manufacturing costs of the asset or as part of expenses. Receivables and liabilities are likewise recognised including the amount of value added tax.

The amount of value added tax refunded by or paid to the tax authorities is offset in the consolidated statement of financial position under receivables and liabilities. Tax assets and liabilities are offset if they are imposed by the same tax authority for the same company and if the Group intends to settle its current tax assets and tax liabilities on a net basis.

Essential discretionary decisions, estimates and assumptions in connection with taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions could necessitate future adjustments to tax income and expense already reported. The Group forms provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience from previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective country of domicile of the Group company.

Deferred tax assets are recognised for all unused tax loss carryforwards to the extent that it is probable that taxable profit will be available against which the tax loss carryforwards can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and the level of future taxable profits together with future tax planning strategies.

2.5 Changes to accounting and valuation policies in relation to the previous year

The accounting policies are unchanged compared to those applied in the previous year. An exception in this regard are changes to the presentation that have been made to improve readability and to expand the explanations on the corresponding items. This includes providing information that was previously in text form in tabular form or an additional further breakdown of items. Furthermore, the following amendments to the standards listed below were applied for the first time in the 2017 fiscal year:

Amendments to IAS 7: Statement of Cash Flows: Disclosure Initiative

In January 2016, the IASB published amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative. The following changes in liabilities arising from financing activities must be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effects of changes in foreign exchange rates; (iv) changes in fair values and (v) other changes. This disclosure initiative has been correspondingly implemented in the reporting year; in this context, please refer to Chapter 6. Notes to the consolidated cash flow statement and the information provided in this section.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

In January 2016, the IASB also published amendments to IAS 12 Income Taxes: Recognition of Deferred Assets for Unrealised Losses. These amendments basically clarify that in the case of assets recognised at fair value where the taxable value is the cost of acquisition, unrealised losses result in deductible temporary differences, irrespective of the future use of the asset. Furthermore, when estimating future taxable profits for the purpose of recognising deferred tax assets, the tax deductions resulting from the reversal of other deductible temporary differences must be eliminated. The carrying amount of an asset does not represent the upper limit when estimating probable future taxable profits. The amendments to IAS 12 were implemented accordingly in the 2017 fiscal year but did not have any material impact on the Wirecard Group's net assets, financial position and results of operations.

Improvements to IFRS (2014-2016)

In December 2016, the IASB published "Annual Improvements to IFRS Standards 2014 - 2016 Cycle" as part of its annual improvements project. The amendments relating to IFRS 12 Disclosure of Interest in Other Entities primarily pertain to clarifications. These improvements principally relate to clarifications of conceptual issues and thus had no impact on the consolidated financial statements.

2.6 Amendments to accounting and valuation policies that do not yet require mandatory application

The IASB and the IFRS-IC have published the following standards and interpretations that have already been endorsed by the EU within the scope of the comitology procedure but their application was not yet mandatory in the 2017 fiscal year. The Group has not adopted these standards and interpretations early. The IASB also newly approved or revised a number of further accounting standards and interpretations that Wirecard AG has not yet implemented in the 2017 fiscal year as their application was not yet mandatory or they were not yet approved by the European Union.

IFRS 9 Financial Instruments

In July 2014, the IASB published the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard was adopted by the EU in November 2016 and is to be applied for fiscal years beginning on or after 1 January 2018. The Wirecard Group will apply the standard from 1 January 2018. The classification and measurement policies in IFRS 9 are to be applied retrospectively. An adjustment of prior year periods is not required. For hedge accounting, the policies are to be applied prospectively, with some limited exceptions.

IFRS 9 brings together all three aspects of accounting for financial instruments: “classification and measurement”, “impairment” and “hedge accounting”. In the 2017 fiscal year and during the first quarter of 2018, the Group performed an impact assessment of all three aspects of IFRS 9 and anticipates the following impacts on its statement of financial position and equity due to the application of the classification and measurement policies in IFRS 9:

The Visa preferred stock disclosed under the item “Financial and other assets / interest-bearing securities”, which was classified under the category “available-for-sale financial assets” up until 31 December 2017 and measured at fair value with no effect on profit or loss following initial recognition, will be measured at fair value through profit or loss in the future. Unrealised gains or losses recognised up to now in equity under other comprehensive income will be reclassified from the revaluation reserve to retained earnings upon the date of initial application as of 1 January 2018.

The convertible bonds also disclosed under the item “Financial and other assets / interest-bearing securities” do not fulfil the cash flow criterion and will continue to be measured at fair value through profit or loss.

Other debt instruments such as loans, bank accounts and trade receivables, as well as interest-bearing securities, are held to take into account the contractual cash flows that exclusively represent redemption payments and interest payments on an outstanding nominal amount. They meet the requirements of the “hold to collect” business model in the sense of IFRS 9 and will continue to be measured at amortised cost. On the other hand, as of 31 December 2017, collared floaters were still measured at fair value. There is no impact on financial liabilities due to the application of IFRS 9.

The new regulations do not have any material impact on hedge accounting because the Group does not conclude material hedges on an ongoing basis.

The risk of default from payment transactions mainly relates to potential chargebacks from an end customer after a retailer becomes insolvent. The risk is very low because the potential chargeback claims against the retailer are covered by liabilities from the ongoing transaction volume, individual security reserves or, alternatively, delayed payment to retailers. As the retailer business is closely monitored, these guarantees are continuously adapted to keep the risk of default low. If a retailer becomes insolvent, however, the guarantees may prove to be inadequate in individual cases; as a result, justified claims for payment by the Wirecard Group might not be enforceable against the retailer, due to the reversal of payment transactions. Therefore, Wirecard has classified the transaction volume from this business model as a financial guarantee. If no risk of default had to be recognised in the form of a provision due to the low expectation of default according to IAS 39, risk of default must now be accounted for under the expected loss model according to IFRS 9. The amount resulting from this difference in measurement will be recognised by a reduction in equity.

Impairments will also be determined in future following initial application based on the expected loss model, which anticipates expected losses through future defaults on receivables. In particular, this model is to be applied for financial assets measured at amortised cost, as well as for contract assets according to IFRS 15, leasing receivables, lending commitments and certain financial guarantees. In order to determine the expected credit losses, customers will be combined in groups with similar credit risks or an individual assessment of the credit risk will be carried out. Upon initial application, we have calculated a change resulting in a reduction in equity in the low two-digit million range due to the transition from IAS 39 (incurred loss model) to IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was published in May 2014 and establishes a new five-step model that will apply to revenues arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenues. The new regulation is applicable to all entities and will supersede all current revenue recognition requirements under IAS/IFRS. Either a full or modified retrospective application is required for fiscal years beginning on or after 1 January 2018. Wirecard will use the option for modified retrospective application of IFRS 15. The IASB published the final clarifications on IFRS 15 in the mid April 2016. In particular, the amendments clarify implementation issues. These issues relate to the identification of performance obligations, the application guidelines for principal-agent relationships, licences for intellectual property and transitional provisions.

In the 2017 fiscal year and during the first quarter of 2018, the Group performed an assessment of IFRS 15. Wirecard offers transaction-based services in many areas of issuing and acquiring, as well as in the area of banking services. In this regard, it is in principle not the processed transaction that is recognised as revenue but rather always only the fees received from the retailer or private customer. The fees for the credit card companies, payment service providers and external technical operators are included under the cost of materials. This is still the case even if external acquiring partners are used for processing transactions because Wirecard is subject to the significant opportunities and risks associated with the transactions and is thus considered to be the principal in these transactions in the sense of IAS 18. In the case of transaction-based business, IFRS 15 will not result in any change to the amount or date at which the revenue is recognised because there is also no requirement to treat transaction-based revenue differently according to the new standard. If external acquiring partners are used for the processing of the transactions, we analysed further whether Wirecard will also be considered to be the principal in future in accordance with the new rules in IFRS 15. Based on this analysis, these revenues will continue to be reported using the gross presentation method in future (disclosure of the fees from retailers under revenues and the expenses for the acquiring partner under cost of materials). In addition, IFRS 15 will not result in any change to the date at which the revenue is recognised.

In the case of non-transaction-based business, there will be a change to the date at which the revenue is recognised for some business transactions. In particular, it is expected that there will be an effect on the recognition of revenues from the credit balances on expired prepaid cards so that revenue is recognised earlier than it has been up to now. The primary reason for this is the application of restrictions according to IAS 18, and no longer according to IFRS 15, for the recognition of revenues from the sale of goods or the provision of services for which the receipt of a consideration is dependent on the occurrence or non-occurrence of a future event. This will have an impact on the date at which the credit balances on expired prepaid cards are recognised. For the Wirecard Group, there will be a one-off effect in the low two-digit million range and this will result in an increase to equity as of 1 January 2018 with no effect on profit or loss. Revenues for 2018 and subsequent years would remain unchanged if the volumes were to remain the same.

In the case of contracts with customers with whom software licence agreements are the only contractual obligation, the new rules will not have any significant impact on the consolidated financial statements. Revenue will continue to be recognised at a point in time when control of the asset is transferred to the customer. This is generally the case on delivery of the software or software licence. As a rule, Wirecard grants an unlimited right of use to the (licensed) software in its state at the time the licence is granted. Consequently, there are no further performance obligations after delivery of the software. Therefore, the new standard will not generally effect the amount nor will it lead to a deferment of the date at which the revenue is recognised.

The presentation and disclosure requirements in IFRS 15 extend beyond the rules contained in the current standard. The new presentation requirements represent a substantial change compared to current practice and will require significantly more information in the consolidated financial statements in the future. IFRS 15 requires the quantitative and qualitative disclosure of information on the breakdown of revenues, performance obligations and contractual balances, as well as on significant discretionary decisions. In the 2016 fiscal year, the Wirecard Group already began to develop appropriate systems, guidelines and processes to guarantee the prerequisites for the timely implementation of IFRS 15.

IFRS 16 Leases

In January 2016, the IASB published IFRS 16 (Leases). IFRS 16 is the new standard for lease accounting. It introduces a uniform lease accounting model for lessees, requiring recognition of assets and liabilities for all leases with a term of more than 12 months unless such leases are immaterial. It will eliminate the current requirement for lessees to classify leases as either operating leases, where the respective assets or liabilities are not recognised, or as finance leases. The new standard is to be applied for fiscal years beginning on or after 1 January 2019. Earlier application is permissible but may only take place if a company also applies IFRS 15. In November 2017, the EU Commission adopted IFRS 16 Leases into EU law. This standard must be applied for the first time by 1 January 2019 at the latest. Earlier application as of 1 January 2018 is possible.

Based on an initial analysis, the effects listed below were identified. In addition, it is also expected that the disclosure requirements will be considerably expanded in comparison to IAS 17. However, the analysis has not yet been concluded and will be continuously updated by the Group as the interpretation of IFRS 16 develops. The Group has mainly concluded operating leases for moveable assets (primarily motor vehicles and IT hardware) and immovable assets up to now.

Payment obligations for operating leases have only been reported so far in the notes to the financial statements. However, it will be mandatory to report the rights and obligations arising from these leases as assets (right to use the leased asset) and liabilities (lease obligation) on the statement of financial position. The Group anticipates that this will lead to a significant increase in the total assets upon initial application.

Please refer to section 7.6 Other obligations and contingent liabilities for the scope of the leases held by the lessee that are to be accounted for in the statement of financial position in future periods. In the income statement, the expenses from operating leases have been reported under the item other operating expenses up to now. In future, the depreciation of the right to use the leased asset and the interest expenses on lease obligations will be reported instead. In the cash flow statement, payments for operating leases have been reported up to now under cash flow from operating activities. In future, payments for operating leases will be split between interest payments and redemption payments and allocated to the cash flow from the financing activities.

IFRIC 23 Uncertainty over Income Tax Treatments

In June 2017, IFRIC 23 Uncertainty over Income Tax Treatments was published by the IASB. This interpretation clarifies the requirements for the approach for recognising and measuring uncertain income tax treatments. As part of the assessment of the uncertainty, a company is required to consider whether it is probable that the relevant tax authority will accept the income tax treatment. In this process, the company has to determine whether it assesses every uncertain tax treatment separately or jointly with one or more other tax treatments. The approach selected should be the one which provides a better prediction of whether the uncertainty will be resolved.

IFRS 23 is to be applied for fiscal years beginning on or after 1 January 2019. Earlier application is permissible. The Group plans to adopt the interpretation on the required effective date. As the Group is active in a multinational tax environment, the interpretation could have an impacts on the consolidated financial statements. The Group will carry out further processes and procedures in order to guarantee that it has the required information for the timely application of the interpretation.

Further standards, interpretations and amendments

The IASB and the IFRIC have published further standards and interpretations and amendments up to the point at which the consolidated financial statements were published for which application was not yet mandatory in the 2017 fiscal year. These are as follows:

Standards, interpretations and amendments

Standards	Description	Mandatory application for fiscal years beginning on or after
Annual Improvements to IFRSs 2014 – 2016	Amendments to IFRS 1, IFRS 12 and IAS 28	1 January 2018 *
Annual Improvements to IFRSs 2015 – 2017	Amendments to IFRS 3; IFRS 11, IAS 12 and IAS 23	1 January 2018 *
Amendments to IAS 40	Transfers of investment property	1 January 2018 *
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018 *
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018 *
Amendments to IAS 28	Applying IFRS 9 as part of IAS 28	1 January 2019 *
IFRS 17	Insurance Contracts	1 January 2021 *
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	According to IASB resolution from 17 December 2015, the initial application has been postponed indefinitely

* Resolution by the EU still outstanding, information on the obligatory application according to the IASB

Wirecard anticipates that the standards, interpretations and amendments listed above will have no impact or no material impact on the Wirecard Group's net assets, financial position and results of operations.

3. Notes to the consolidated statement of financial position – assets

For a breakdown of non-current assets relating to intangible assets, property, plant and equipment and financial assets (historical acquisition costs, adjustments based on foreign currency translations, additions and disposals due to initial consolidation, additions, disposals, cumulative amortisation and depreciation, write-downs in the reporting year and carrying amounts), please refer to the attached schedule of developments in non-current assets from 1 January 2017 to 31 December 2017 (including the previous period).

3.1 Intangible assets

Intangible assets comprise goodwill, customer relationships, internally-generated intangible assets and other intangible assets.

Goodwill and customer relationships

The statement of financial position items of goodwill and customer relationships are exclusively attributable to acquired companies, parts of companies or customer relationships. New, organically acquired customer relationships at Wirecard are not capitalised. As part of corporate acquisitions, a purchase price allocation is carried out in accordance with IFRS 3, which identifies and measures the fair value of all assets irrespective of whether they are reported on the statement of financial position for the acquired entity or not. In general, the acquisitions made by Wirecard focus on acquiring regional customer relationships in order to expand the Company's market position. Therefore, these customer relationships represent a significant part of the assets of the acquired entity. The assessment of whether these assets are classified as customer relationships in the sense of IAS 38.16 or reported on the statement of financial position under the item goodwill is based on which future economic benefits can be derived from these relationships by Wirecard. If customer relationships are identified, these are amortised over their expected useful life of usually 10 or 20 years. Goodwill is not subject to any amortisation.

Goodwill is assessed at least once a year by the Group (most recently on the reporting date of 31 December 2017) or during the course of the year if there is an indication of an impairment (triggering event) in accordance with the Group’s accounting policies. Customer relationships are also analysed in the case of a triggering event. Accordingly, a triggering event analysis is carried out and if a triggering event is detected, an assessment based on discounted cash flows is carried out in order to determine any potential need for impairment.

In the fiscal year 2017, goodwill changed primarily as a result of the first-time consolidation of the business of Citi Prepaid Card Services, MyGate Communications Pty Ltd. and the acquisition of the business operation of Citi card acceptance in the Asia-Pacific region by kEUR 187,535 and as a result of currency-related valuations by kEUR –46,659 as of the reporting date. As of 31 December 2017, goodwill totalled kEUR 675,768 (31 December 2016: kEUR 534,892) and is assigned for the following cash-generating units:

Goodwill

in kEUR	31 Dec 2017	31 Dec 2016
Payment Processing & Risk Management	528,102	462,526
Acquiring & Issuing	147,377	72,078
Call Center & Communication Services	288	288
Total	**675,768**	**534,892**
Less: impairment losses	0	0
	675,768	534,892

The change in the item customer relationships of kEUR 92,612 in the period under review is related by the amount of kEUR 151,539 to the previously mentioned acquisitions, which was offset by their amortisation and currency-related valuations as of the reporting date. Amortisation commences together with the flow of benefits and is performed over the expected length of each customer relationship.

Further information on business combinations and the acquisition of customer relationships can be found in section 1.1 Business activities and legal background, especially in the subsection “Business combinations” in the Annual Report.

Customer relationships are subject to the following amortisation rules:

Amortisation of customer relationships

Useful life	Remaining useful life	Remaining carrying amount in kEUR
20	20	37,398
20	19	94,611
20	18	40,543
20	17	45,897
20	16	88,567
20	15	81,668
20	14	40,876
15	13	5,951
10	8	38,409
10	7	1,093
10	6	1,556
10	5	2,583
10	4	4,486
10	3	884
10	2	419
		484,941

For information on changes to goodwill and customer relationships, please also refer to the enclosed statement of changes in non-current assets (with previous periods) in the Annual Report.

Internally-generated intangible assets

In the fiscal year 2017, internally-generated software was developed and capitalised for kEUR 45,305 (31 December 2016: kEUR 30,201). Compared to the previous year, this item has increased in particular as a result of the growth in development activities at Wirecard Processing FZ LLC and Wirecard Technologies GmbH. This relates especially to software for the payment platform and its expansion, as well as M&A-related enhancements to the IT infrastructure in order to serve new customers acquired through the acquisition-driven growth of the Company.

Other intangible assets

Besides software for individual IT solutions and applications, other intangible assets relate to software acquired for and used by the “Payment Processing & Risk Management” and “Acquiring & Issuing” segments. In the period under review, this item, as well as the operative investment, changed due to the first-time consolidation of the acquired companies from kEUR 81,682 to kEUR 109,012.

3.2 Property, plant and equipment

The main increases in this item are due to investments in the expansion of the computer centres, the expansion of the terminal business and also to the first-time consolidation of the companies acquired.

Any gains and losses from the disposal or sale of fixed assets are reported as other operating income and expenses respectively. Maintenance work and minor repairs are recognised through profit or loss within the other operating expenses.

The carrying amount of technical equipment and operating and office equipment held as part of finance leases as of 31 December 2017 totalled kEUR 20,657 (31 December 2016: kEUR 10,156) and is reported accordingly under property, plant and equipment. The leased items also serve here as security for the respective obligations from the finance lease agreements.

3.3 Investments accounted for using the equity method

Shares in associated companies of kEUR 14,588 (31 December 2016: kEUR 14,803) were entirely attributable to GI Technology Pte. Ltd. based in Chennai, India. Due to the conditions in the shareholder agreement, which are particularly associated with the Indian regulations for financial services companies, the company is accounted for using the equity method. This is because Wirecard exercises a significant influence on the company but does not have full control. For further information, please refer to section 1.1.

3.4 Financial and other assets / interest-bearing securities

Financial and other assets and interest-bearing securities as of 31 December 2017 totalled kEUR 310,167 (31 December 2016: kEUR 216,196). These break down as of the reporting date as follows:

Breakdown of financial and other assets / interest-bearing securities

in kEUR		31 Dec 2017	31 Dec 2016
Visa preferred stock		**19,436**	15,256
Financing agreements (amongst others sales partner)		**20,754**	28,534
Convertible bonds		**41,884**	32,735
Securities		**1,845**	2,805
Securities/collared floaters		**44,644**	42,558
Receivables from bank business (mostly from FinTech business)		**141,359**	85,035
Other M&A related assets		**31,949**	0
Other		**8,297**	9,274
		310,167	**216,196**

On 21 June 2016, Wirecard received a cash payment of kEUR 71,821 plus preferred stock that is disclosed under “Visa preferred stock” valued at kEUR 14,028 (nominal value: kEUR 25,614) as a consideration for the sale of the previously held shares in Visa Europe Ltd. The preferred stock can be converted into Visa Inc. class A common stock. Furthermore, an additional deferred cash consideration of kEUR 5,799 (nominal value: kEUR 6,245) was agreed, which will only be fully paid in 2 years and is disclosed under the item “Other”. The amount of preferred stock is contingent upon certain factors and could still subsequently change. The calculation of the fair value of this asset is based on the market quotations for Visa A shares and estimations by the management which take the calculations of appraisers and external information about Visa Europe Ltd. or Visa Inc. into account. The preferred stock, which serves as a guarantee for contractual arrangements between the contractual parties and is subject to a required holding period, are discounted due to uncertainties and the inability to trade the stock. They are allocated as a financial asset in the category “available-for-sale” and corresponding gains and losses are thus reported under “Other comprehensive income, net of income taxes” with no effect on profit or loss.

The convertible bonds partially comprise a derivative component. These embedded derivatives are generally measured at fair value with changes in their fair value being recognised as profit or loss. If it is impossible to separately measure the embedded derivative, the entire financial instrument is to be measured at fair value through profit or loss, as long as fair value can be calculated reliably. Please also refer here to section 7.4 of the Annual Report.

Furthermore, this statement of financial position item also contains various securities/collared floaters which are held to improve interest income and whose interest rates mainly depend on money market rates. In part, minimum and maximum interest rates have been agreed (collared floaters).

The assets reported under the item “Receivables from bank business (mostly from FinTech business)” exist mainly as a result of activities related to Wirecard Bank AG cooperating with different companies in the FinTech sector. As a technology company with its own financial institution, Wirecard supports different companies through e.g. peer-to-peer loan platforms for private borrowers and SMEs, mobile banking solutions and solutions for payment by instalment in the online shopping sector. Alongside services in the areas of technology and risk management, Wirecard also sometimes provides financing, particularly in the area of hire purchase agreements and the provision of small loans. In this context, receivables arise primarily in relation to individual transactions that are reported here due to their terms to maturity. The reason for this was also the response to the prevailing low-interest phase which has enabled Wirecard to utilise these business fields. The basis for these items are the cash and cash equivalents from the banking business (customer deposits) of Wirecard.

As part of the purchase price allocations related to the acquisition of Citi's card acceptance business in the Asia-Pacific region in accordance with IFRS 3, various other assets were identified that were recognised accordingly in a separate item. These are accounting-specific rules for the accounting of various contractual rights and assets in accordance with IFRS 3.

3.5 Tax credits

Deferred tax assets

Tax credits and deferred tax assets refer to temporary differences between the carrying amounts of assets and liabilities in the tax statement of financial position and their carrying amounts in the consolidated statement of financial position according to IFRS. Deferred tax assets are recognised in accordance with IAS 12 using the statement of financial position liability method. According to this method, the deferred taxes are calculated based on the temporary differences described above, while taking into account the tax rates valid at the time the differences are reversed. Deferred tax assets are only accounted for to the extent that taxable profit is considered likely to be available.

Based on tax assessments up to 31 December 2016, tax notices issued up to the assessment year 2015 and the consolidated taxable profit in the fiscal year 2017, the deferred tax assets as of 31 December 2017 amounted to kEUR 9,118 following a valuation adjustment (31 December 2016: kEUR 2,657). With regard to further details on the tax reconciliation account and the changes in deferred taxes, please refer to the information under section 5.8. Income tax expense and deferred taxes.

3.6 Inventories and work in progress

As of 31 December 2017, the reported inventories and work in progress amounted to kEUR 13,349 (31 December 2016: kEUR 4,540) and relate to merchandise such as terminals and debit cards, which are kept for, amongst other things, payments using mobile phones. Their value is measured in accordance with IAS 2.

Inventories and work in progress are measured at whichever is the lower of either their cost (of acquisition or manufacture) and their net realisable value. No value deductions were made in the 2017 fiscal year, in the previous period or the previous periods. Therefore, there were also no reversals of impairment losses on inventories and work in progress in the 2017 fiscal year.

3.7 Receivables of acquiring business

The items receivables of acquiring business and liabilities of acquiring business of Wirecard are mainly characterised by the transaction volume of retailers that utilise Wirecard's payment services. Due in particular to the legal guidelines for the licensing agreements depending on the region and sector in which the retailer and acquiring partner operate, as well as to the business relationship between the retailer and Wirecard, different business models are utilised that can result in varying accounting methods being applied. The transaction volumes within and via the Wirecard Group are correspondingly reported separately under the item receivables of acquiring business in the consolidated statement of financial position as trade receivables from credit card organisations, banks and acquiring partners.

From a financial reporting perspective, it is thus particularly important to differentiate whether the transaction volume is processed via licensed acquirers belonging to the Wirecard Group or whether Wirecard is using an external acquiring partner. If the transaction volumes are processed via Wirecard, they are reported under receivables until the incoming payment is received. Depending on the currency and means of payment, as well as on the respective card organisation, payment is generally received between one day and one week after the transaction.

However, if another bank is involved in the processing of transactions, Wirecard is not permitted to receive and report the transaction volumes on the statement of financial position due to the EU Payments Services Directive (PSD). In this case, the acquiring partner accounts for these items on their statement of financial position. Wirecard then only reports any charges and commissions, as well as the rolling security reserves for the retailers' general risk of default, as receivables of acquiring business. In this context, please refer to section 7.2 of the Annual Report.

Here, only Wirecard's charges that are included in the revenues have an impact on profit or loss and not the entire receivable amount. The increase as of the reporting date thus corresponds to the increase in the transaction volume processed via Wirecard.

Depending on the reporting date and the payment cycle, the statement of financial position items receivables of acquiring business and liabilities of acquiring business (less commissions and charges) are subject to considerable fluctuations from one reporting date to another. These fluctuations occur in particular due to delayed payouts on account of the public holidays between reporting periods. During the actual processing of the transactions, it is also sometimes possible that the payment of credit card volumes from Wirecard to the retailer already takes place before the funds are received from the credit card companies. This results in, amongst other things, higher receivables in comparison to the corresponding liabilities.

3.8 Trade and other receivables

The statement of financial position item trade and other receivables breaks down as follows:

Trade and other receivables

in kEUR	31 Dec 2017	31 Dec 2016
Receivables from bank business (mostly from FinTech business)	102,524	89,892
Receivables from prepaid card business	19,049	0
Other trade receivables	94,788	72,239
Other receivables	53,307	28,053
	269,669	**190,185**

Due to the first-time consolidation of the new company Wirecard North America Inc. as part of the acquisition of the business of Citi Prepaid Card Services, trade and other receivables increased by kEUR 19,049. All of these receivables were related to the prepaid card business and have since been reported under this statement of financial position item in a special category.

In addition, trade and other receivables increased as a result of activities related to Wirecard Bank AG cooperating with different companies in the FinTech sector. These are reported under the item "Receivables from bank business". As a leading technology company with its own financial institution, Wirecard supports different companies through e.g. peer-to-peer loan platforms for private borrowers and SMEs, mobile banking solutions or solutions for payment by instalment in the online shopping sector. Alongside services in the areas of technology and risk management, the Wirecard Group also sometimes provides financing, particularly in the area of hire purchase agreements and the provision of small loans in cooperation with FinTech companies. The reasons for this were, on the one hand, the transformation of the financing industry towards Internet-based, technology-oriented solutions and, on the other hand, the response to the prevailing low-interest phase which has enabled Wirecard to utilise these business fields. The basis for these items are the cash and cash equivalents from the banking business (customer deposits). In this context, receivables arise primarily in relation to individual transactions with private customers, for which collateral is regularly provided by the FinTech companies. Furthermore, this item also contains short-term customer loans and current account overdraft loans, which are held to improve interest income and whose interest rates depend on market rates.

“Other trade receivables” comprise all receivables from the other business fields of the Wirecard Group. This item also increased due to, amongst other things, the first-time consolidation of the new companies and the acquisition of business operations as well as the increased business volumes of the Wirecard Group.

“Other receivables” comprise rent, insurance and other services that due to their contractual terms are accrued after the reporting date. In addition, this subitem comprises deposits, receivables from employees and other assets. They increased, in particular due to the acquisitions made in the 2017 fiscal year, in comparison to the reporting date of the previous year.

3.9 Tax credits

As of 31 December 2017, tax credits comprised tax reimbursement claims of kEUR 2,258 (31 December 2016: kEUR 757) and VAT reimbursement claims of kEUR 8,698 (31 December 2016: kEUR 8,596).

3.10 Interest-bearing securities and fixed-term deposits

Apart from investing in various interest-bearing securities, the Wirecard Group has also invested as in previous years in fixed-term deposits in order to improve its interest income. All investments are only concluded with banks or counterparties that meet the creditworthiness requirements from the Group’s own risk evaluation and – to the extent that external ratings are available – are assessed as having a minimum creditworthiness risk by renowned ratings agencies. Fixed-term deposits with a term of more than three months are reported under “Interest-bearing securities and fixed-term deposits”. In contrast, fixed-term deposits with a term of up to three months are reported under “Cash and cash equivalents”. As of the reporting date of 31 December 2017, fixed-term deposits of kEUR 4,559 (31 December 2016: kEUR 3,626) had been placed as collateral for credit card business for the duration of the business relationship.

3.11 Cash and cash equivalents

As of 31 December 2017, the item "Cash and cash equivalents" totalling kEUR 1,901,334 (31 December 2016: kEUR 1,332,631) included cash in hand and bank balances (demand deposits, fixed-term deposits with a term of up to three months and overnight (call money) deposits). This item also included cash from current customer deposits of Wirecard Bank AG and Wirecard Card Solutions Ltd. which are not placed in interest-bearing securities (31 December 2017: kEUR 973,178; 31 December 2016: kEUR 476,386) and funds from the acquiring business of Wirecard Bank AG (31 December 2017: kEUR 240,913; 31 December 2016: kEUR 233,956). To improve its interest income, Wirecard invested some of the customer deposits in various short, medium and long-term interest-bearing securities (collared floaters and interest-bearing securities). These are reported under non-current financial and other assets and current interest-bearing securities. Excluding the purchase of these securities and the fixed-term deposits with a term of more than three months, the item "Cash and cash equivalents" would have been kEUR 155,588 higher as of the reporting date (31 December 2016: kEUR 201,855).

4. Notes to the consolidated statement of financial position – equity and liabilities

With regards to the development of Group equity in the fiscal year 2017, further particulars in addition to the following explanations are provided in the table “Consolidated statement of changes in equity”.

4.1 Subscribed capital

As of 31 December 2017, the subscribed capital was kEUR 123,566 (31 December 2016: kEUR 123,566) and comprised 123,565,586 (31 December 2016: 123,565,586) no-par value shares with a notional interest in the common stock of EUR 1.00 per share.

Authorised capital

According to the resolution made by the Annual General Meeting on 17 June 2015, the Management Board was authorised, with the consent of the Supervisory Board, to increase the share capital on one or more occasions up until 17 June 2020 by up to a total of kEUR 30,000 in consideration for contributions in cash and/or kind (including mixed contributions in kind) by issuing up to 30 million new no-par value bearer shares (Authorised Capital 2015) and in so doing to stipulate a commencement of the profit participation in derogation from the statutory provisions, also retrospectively to a fiscal year that has already expired, provided that no resolution on the profit of said expired fiscal year has yet been adopted. The shareholders must as a general rule be granted a subscription right. The new shares can also be assumed by one or more banks designated by the Management Board with the obligation of offering them to the shareholders (indirect subscription right).

However, the Management Board is authorised, with the consent of the Supervisory Board, to exclude shareholders’ statutory subscription rights in the following cases:

- in order to avoid fractional amounts;
- when the capital increase is made against cash capital contributions and the issue price, excluding subscription rights pursuant to Section 186 (3) Clause 4 of the German Stock Corporation Act (AktG), of the new shares is not significantly below the Company’s stock market price and the number of new shares issued under the exclusion of subscription rights pursuant to Section 186 (3) Clause 4 of the AktG does not exceed 10% of the share capital, neither at the time the authorisation takes effect, nor when this authorisation is exercised. Shares must be included in this limit that were sold, issued or are to be issued during the term of this authorisation as a result of other authorisations in direct or corresponding application of Section 186 (3) Clause 4 of the AktG under the exclusion of subscription rights;
- in the event of a capital increase against non-cash contributions, in particular for the purpose of acquiring a company, parts of a company, a participating interest in a company or other material operating equipment;

- in order to grant the holders of options or convertible bonds or bonds with warrants subscription rights to the extent that these would be due to them in the event that a conversion right or option is exercised, or in fulfilment of a conversion obligation as a shareholder; as well as
- in the event of a capital increase to issue staff shares pursuant to Section 204 (3) of the AktG if the issue price, excluding subscription rights, of the new shares is no more than a maximum of 30% below the Company's stock market price and the new shares issued under the exclusion of subscription rights do not exceed 5% of the share capital, neither at the time the authorisation takes effect, nor at the time when this authorisation is exercised. All shares are included in the above 5 percent threshold that are issued during the term of this authorisation, which as a result of other authorisations excluding shareholders' subscription rights as staff shares to employees of the Company and members of management and employees of companies associated with the Company, are issued at a price which is lower than the stock market price. The 5 percent threshold does not apply if the price is not materially lower than the stock market price in the meaning of Section 186 (3) Clause 4 of the AktG;
- when the total number of shares to be issued and that have been issued excluding subscription rights as a result of one of these authorisations may not exceed 20% on the date the authorisation is exercised; shares must be included that were sold, issued or are to be issued during the term of this authorisation as a result of other authorisations.

The Management Board is authorised, with the approval of the Supervisory Board, to decide on the further details of the capital increase and its execution, in particular the content of the share rights and the conditions of issue including the issue amount. The Supervisory Board is authorised to change the wording of the Articles of Incorporation accordingly to the extent of the respective capital increase from authorised capital.

As of the reporting date, there was authorised capital (Authorised Capital 2015) of kEUR 30,000 as in the previous year.

Conditional capital

In order to give the Company the required flexibility to issue convertible bonds in the future, the Management Board was authorised with the consent of the Supervisory Board to issue registered and/or bearer convertible bonds and/or option bonds, participating rights and/or profit participation bonds or a combination of these instruments (hereinafter referred to jointly as "convertible bonds") with a total nominal amount of up to EUR 300 million with or without restrictions on their maturity up to 15 June 2021 and to grant the holders or creditors of these convertible bonds conversion or option rights to new bearer shares of the Company with a proportionate amount in the share capital of up to EUR 12,356,558.00, according to the details in the terms for the bonds (Conditional Capital 2016). No use has yet been made of this authorisation to issue bonds.

4.2 Capital reserve

The capital reserve as of 31 December 2017 was kEUR 494,682 and is thus unchanged from the previous year.

4.3 Retained earnings

A dividend of EUR 0.16 per dividend-entitled ordinary share was distributed as approved at the Annual General Meeting 2017 on 20 June 2017, which corresponds to a total amount of kEUR 19,770. In the previous year, the dividend payment was EUR 0.14 per dividend-entitled ordinary share, which corresponded at that point in time to a total amount of kEUR 17,299.

A proposal will be made at the 2018 Annual General Meeting to pay a dividend of EUR 0.18 per share to the shareholders, which corresponds to a total amount of kEUR 22,242.

4.4 Other components of equity

Revaluation reserve

In the previous year, Wirecard sold all of its shares in Visa Europe Ltd., which were allocated as a financial asset in the category "available-for-sale", on 21 June 2016. The accumulated valuation result within the revaluation reserve of kEUR 89,861 was released to income with an effect on profit or loss on the disposal date in the 2016 fiscal year.

The preferred stock in Visa Inc. received as a consideration for the sale of the shares was allocated as financial assets in the category "available-for-sale". Accordingly, the fair value (after taxes) of the asset was revaluated and disclosed in the revaluation reserve (31 December 2017: kEUR 5,346; 30 December 2016: kEUR 1,221). For further information, please refer to Chapter 3.4 Financial and other assets / interest-bearing securities.

Translation reserve

The foreign currency translation reserve changed in the fiscal year 2017 due to foreign currency translations with no effect on profit or loss according to IAS 21 from kEUR 21,371 as of the reporting date of the previous year to kEUR –57,644 as of 31 December 2017. This change is primarily attributable to net assets denominated in foreign currencies due to further company acquisitions made in the reporting year and in previous years. As a result mainly of the corresponding development of the euro in the 2017 reporting period, there were some currency translation differences with no effect on profit or loss in relation to the goodwill and customer relationships accounted for in US Dollar and various different Asian currencies.

Cash flow hedge reserve

The cash flow hedge reserve for financial derivatives, which stood at kEUR 4,837 on the reporting date for the previous year, comprises the effective portion of the changes in the fair value of derivatives which were defined as cash flow hedges in the previous year. For further information on the hedging relationships entered into in the 2016 fiscal year, please refer to Chapter 7.4 Additional information about financial instruments.

4.5 Non-current liabilities

Non-current liabilities are split into non-current interest-bearing liabilities, other non-current liabilities and deferred tax liabilities.

Non-current interest-bearing liabilities

Non-current interest-bearing liabilities are related to the financing of the acquisitions completed in the 2017 fiscal year and in previous years. They increased in the 2017 fiscal year by kEUR 175,317 from kEUR 579,475 to kEUR 754,792. The largest share of this increase was due to the acquisitions completed in North America and Asia. As of 31 December 2017, the Wirecard Group had approved credit lines of EUR 1,343 million (31 December 2016: EUR 991 million). Along with the loans already recognised in the statement of financial position, additional credit lines from commercial banks amounting to EUR 278 million are thus available to Wirecard (31 December 2016: EUR 395 million).

Other non-current liabilities

This statement of financial position item is broken down as follows:

Other non-current liabilities

in kEUR	31 Dec 2017	31 Dec 2016
Earnout liabilities	16,769	16,796
Lease liabilities	13,675	10,983
Variable remuneration and pension benefits	1,891	1,341
Other M&A related liabilities	52,376	0
Other non-current liabilities	695	2,306
	85,406	**31,425**

The portion of earnout components and current purchase price liabilities that is due within the period of one year is kEUR 42,640 as of 31 December 2017 (31 December 2016: kEUR 60,405) and is disclosed under current liabilities.

As part of the purchase price allocation related to the acquisition of Citi's card acceptance business in the Asia-Pacific region, further other non-current liabilities were identified that were recognised accordingly in a separate item. These are accounting-specific rules for the accounting of various contractual obligations and liabilities in accordance with IFRS 3.

Deferred tax liabilities

Deferred taxes of kEUR 76,916 (31 December 2016: kEUR 59,747) refer to temporary differences between the carrying amounts of assets and liabilities in the tax statement of financial position and their carrying amounts in the consolidated statement of financial position according to IFRS. These are reported under non-current liabilities and increased primarily as a result of the first-time consolidation of the new companies and the acquisition of the business operations mentioned previously. In particular, the disclosure of intangible assets as part of the purchase price allocation led to the recognition of deferred tax liabilities.

With regard to further details on the tax reconciliation account and the changes in deferred taxes, please refer to the information under Chapter 5.8. Income tax expense and deferred taxes.

4.6 Current liabilities

Current liabilities are broken down into liabilities of acquiring business, trade payables, interest-bearing liabilities, other provisions, other liabilities, customer deposits from banking operations of Wirecard Bank AG and Wirecard Card Solutions Ltd. and tax provisions.

Liabilities of acquiring business

The items liabilities of acquiring business and receivables of acquiring business of Wirecard are mainly characterised by the transaction volume of retailers that utilise Wirecard's payment services. If the transactions are processed via licensed acquirers that belong to the Wirecard Group, the amount of the transaction volume remains under trade payables to retailers until the payment is made. Depending on the means of payment and the contractual provisions, this can take place daily, weekly or monthly, whereby a security reserve is generally held for longer periods of time. In individual cases, particularly when dealing with large customers who want to optimise their own cash management, Wirecard agrees to replace these security reserves with bank guarantees, government-backed guarantees or similar sureties, as well as to even completely dispose with a security reserve if dealing with state-owned retailers. This reduces the item trade payables and also slows the increase in this item.

Depending on the reporting date and the payment cycle, the statement of financial position items liabilities of acquiring business and receivables of acquiring business (less commissions and charges) are subject to considerable fluctuations from one reporting date to another. These fluctuations occur in particular due to delayed payouts on account of the public holidays between respective reporting periods. During the actual processing of the transactions, it is also sometimes possible that the payment credit card volumes from Wirecard to the retailer already takes place before the funds are received from the credit card companies. This results in, amongst other things, higher receivables in comparison to the corresponding liabilities.

Trade payables

Trade payables comprise payables from the operating business that are not allocated to the area of acquiring due to their nature.

Interest-bearing liabilities

Current interest-bearing liabilities of kEUR 311,611 (31 December 2016: kEUR 15,066) mainly comprise loans that are due within one year.

Other provisions

Provisions of kEUR 2,403 (31 December 2016: kEUR 3,914) were carried under current liabilities because they are expected to be used within the following fiscal year. These provisions contain provisions for litigation risks of kEUR 433 (31 December 2016: kEUR 1,826) as the largest item, as well as the costs of preparing and auditing the financial statements of kEUR 962 (31 December 2016: kEUR 809).

The different types of provisions changed as follows during the reporting year:

Statement of changes in provisions

in kEUR	1 Jan 2017	Addition first-time consolidation	Utilisation	Reversal	Addition	31 Dec 2017
Litigation risks	1,826	0	0	–1,642	249	**433**
Archiving	65	0	–58	0	61	**68**
Annual General Meeting	135	0	–135	0	360	**360**
Financial statement and other audit costs	809	0	–600	–51	803	**962**
Other provisions	1,079	25	–1,380	0	856	**580**
Other current provisions	**3,914**	**25**	**–2,173**	**–1,693**	**2,330**	**2,403**

Other liabilities

This statement of financial position item is broken down as follows:

Other liabilities

in kEUR	31 Dec 2017	31 Dec 2016
Accruals	58,698	28,558
Lease liabilities	12,390	8,524
Purchase price liabilities	42,640	60,405
Other	35,674	22,019
	149,401	**119,505**

As of the reporting date, the purchase price liabilities increased primarily as a result of the acquisition of the business operation of Citi card acceptance in Asia and the acquisition of Citi Prepaid Card Services, especially in North America.

The subitem "Other" includes liabilities from payment transactions, wages and salaries, social security contributions, taxes and similar.

Customer deposits from banking operations

This statement of financial position item includes customer deposits of kEUR 973,178 (31 December 2016: kEUR 734,003) with Wirecard Bank AG and Wirecard Card Solutions Ltd.

Alongside the expansion of the prepaid card business, the increase in deposits is due to various factors including fluctuations relating to prepaid card usage and the payment of acquiring funds to the respective customer accounts.

Tax provisions

Tax provisions totalling kEUR 44,596 (31 December 2016: kEUR 24,276) mainly relate to provisions formed for income taxes payable by Wirecard AG (kEUR 5,347; 31 December 2016: kEUR 1,654), Wirecard Bank AG (kEUR 7,740; 31 December 2016: kEUR 4,183), Wirecard (Gibraltar) Ltd. (kEUR 3,672; 31 December 2016: kEUR 3,672), PT Aprisma Indonesia (kEUR 1,759; 31 December 2016: kEUR 1,776), Wirecard UK & Ireland Ltd. (kEUR 1,627; 31 December 2016: kEUR 1,139), Hermes I-Tickets Pte. (kEUR 11,403; 31 December 2016: kEUR 7,502), Wirecard North America Inc. (kEUR 7,862; 31 December 2016: kEUR 0) and Wirecard Card Solutions (kEUR 2,252; 31 December 2016: kEUR 1,597).

Maturities

The overall maturity structure of the liabilities (excluding deferred tax liabilities) is as follows:

Maturity 2017

in kEUR	up to 1 year	1 to 5 years	more than 5 years
Interest-bearing liabilities	**311,611**	**754,792**	**0**
Liabilities of the acquiring business and trade payables	**494,033**	**0**	**0**
Customer deposits from banking operations	**973,178**	**0**	**0**
Other liabilities and provisions	**196,400**	**85,406**	**0**
Total	**1,975,223**	**840,199**	**0**

Maturity 2016

in kEUR	up to 1 year	1 to 5 years	more than 5 years
Interest-bearing liabilities	15,066	579,475	0
Liabilities of the acquiring business and trade payables	439,686	0	0
Customer deposits from banking operations	734,003	0	0
Other liabilities and provisions	147,696	31,349	76
Total	**1,336,452**	**610,824**	**76**

5. Notes to the consolidated income statement

5.1 Revenues

The revenues of the Wirecard Group are subdivided between the operating segments as follows:

Revenues by operating segment

in kEUR	2017	2016
Payment Processing & Risk Management (PP&RM)	**1,069,779**	782,420
Acquiring & Issuing (A&I)	**484,863**	304,064
Call Center & Communication Services (CC&CS)	**9,891**	8,506
	1,564,532	**1,094,990**
Consolidation PP&RM	**–45,136**	–49,893
Consolidation A&I	**–22,929**	–11,040
Consolidation CC&CS	**–6,513**	–5,699
Total	**1,489,954**	**1,028,358**

In the "Payment Processing & Risk Management" segment, Wirecard generates revenues from services in the area of payment processing, particularly from services rendered via its own multi-channel platform.

Regarding the multi-channel platform and also platforms of partners, a substantial share of revenues is realised from the settlement of electronic payment transactions – particularly on the Internet – by conventional payment processes such as credit card payments or electronic direct debits. As a rule, these revenues are generated by transaction-related charges billed as a percentage discount of the payment volumes processed, as well as those billed to Wirecard customers for each transaction. The size of the transaction-related charge varies according to the product range provided as well as to the risk distribution between the retailers, participating banks and the Wirecard Group. Furthermore, income from transaction-related charges, the purchases of receivables and from payment guarantees are generated as part of the risk management services offered by Wirecard.

In addition to these volume-dependent revenues, revenues from monthly and annual flat fees and non-recurring connection services and rentals are also generated from the utilisation of the multi-channel platform and POS terminals. In addition, the Wirecard Group generates revenues through its consultancy services.

The bulk of the generated revenues is accounted for by B2B customers from the consumer goods, digital goods and tourism industries. As of the reporting date of 31 December 2017, more than 36,000 business customers (31 December 2016: 27,000 business customers) were connected to the Company's multi-channel platform.

In terms of sales of card products by Wirecard Bank AG and Wirecard Card Solutions Ltd., revenues were generated not only in the B2B segment, but also with consumers (B2C). These consumers are partly required to pay discount charges, transaction charges or fees for cash payments and for resubmission of transactions. In addition, annual charges are payable on card products.

Furthermore, revenues are generated in the “Payment Processing & Risk Management” segment from the sale of affiliate products, as well as by providing services and by licensing software directly associated with the sale of these products.

Revenues are generated in the “Acquiring & Issuing” segment particularly through the acquiring business for retailers, corporate banking services and in the issuing business. In corporate banking, item or volume-based fees are generated. In the issuing business, interchanges are generated for which Wirecard receives a volume-dependent fee from credit card organisations. Moreover, Wirecard offers sales partners in the area of B2B co-branding programmes relating to the card issuing area for which it not only earns a fixed charge, but also generates revenues through concluded card contracts. The interest income generated in the “Acquiring & Issuing” segment of kEUR 12,448 (previous year: kEUR 9,689) is reported as revenues in accordance with IAS 18.5(a). This also includes interest income from the collared floaters.

The “Call Center & Communication Services” segment generates revenues from operating telephone-based advisory services and by providing conventional call centre services. For the most part, revenues from third parties are accounted for by companies such as publishing houses, software firms, hardware producers and trading enterprises. Two business models are used here in which either the business customer bears the costs or the person seeking advice pays for the services rendered. Wirecard thus generates its revenues in this area both directly with business clients (B2B) as well as with private customers (B2C), with the telephone companies being responsible for invoicing private customers and for transferring the amounts in question.

5.2 Own work capitalised

Expenditure on research and development increased to EUR 80.3 million in the 2017 fiscal year (previous year: EUR 52.9 million). The ratio of research and development expenses to total Group revenue (R&D ratio) was 5.4 percent in the period under review (previous year: 5.1 percent). The share of total research and development costs accounted for by capitalised development costs (capitalisation rate) within the Wirecard Group amounted to 56.4 percent (2016: 57.1 percent).

The originally recorded research and development costs are included, in particular, in the personnel expenses of the relevant departments (Product and Project Management, Development, Quality Assurance, etc.), as well as in the consultancy expenses within other operating expenses. Of this amount, kEUR 45,305 (previous year: kEUR 30,201) was taken into account as own work capitalised in the period under review. In this context, the regular amortisation and depreciation of capitalised development costs amounted to kEUR 20,111 in the reporting year (previous year: kEUR 12,391). In contrast to the previous years, impairments of capitalised development costs of kEUR 4,115 were recorded in the 2017 fiscal year, which are included in the item amortisation/depreciation.

5.3 Cost of materials

The cost of materials mainly comprises charges by the credit card issuing banks (interchange), fees to credit card companies (for example, to MasterCard and to Visa), transaction costs as well as transaction-related charges to third-party providers (for example, in the area of risk management and acquiring). Expenses for payment guarantees are also included in the area of risk management, while commission costs for external sales are included in acquiring.

In Acquiring & Issuing, the cost of materials relating to the areas of acquiring, issuing and payment transactions primarily comprises, besides interchanges, the processing costs of external service providers, production, personalisation and transaction costs for prepaid cards and the payment transactions realised with them, as well as account management and transaction charges for managing the corresponding customer accounts.

5.4 Personnel expenses

Personnel expenses in the fiscal year 2017 totalled kEUR 186,003 (2016 kEUR 129,852) comprising salaries of kEUR 163,786 (previous year: kEUR 113,604) and social security contributions of kEUR 22,216 (previous year: kEUR 16,249).

In the fiscal year 2017, the Wirecard Group employed an average of 4,449 employees (previous year: 3,766) (excluding the Management Board and apprentices), of whom 329 (previous year: 296) worked on a part-time basis. Of the 4,449 employees, 75 (previous year: 61) were employed as management board members/general managers at subsidiaries.

Alongside the organic growth of the Wirecard Group and the associated growth in the number of employees, the increase in personnel expenses was also due to acquisitions made in this year and last year, which means that the comparability of this item is restricted.

The total number of employees was distributed amongst the following functions:

Employees

	2017	2016
Sales	883	873
Administration	501	421
Customer service	914	686
Research/Development and IT	2,151	1,786
Total	**4,449**	**3,766**
of which part-time	329	296

In the event of a change of control in the Company or Wirecard AG, the Management and Supervisory Boards have granted approval for special bonuses to be awarded to employees of Wirecard AG and its subsidiaries on terms similar to those applicable to the Management Board. To this end, a total of 0.8 percent of the Company's value has been made available. The Management Board can grant special bonus awards to employees in the event of a change of control with the consent of the Supervisory Board in each instance. A precondition for a special bonus payment is that an employment relationship exists with the employee at the time the change of control occurs. Such special bonus payments shall be made in three instalments. The exact terms and conditions are specified in the legal notes on take-overs in the management report.

5.5 Other operating expenses

The breakdown of other operating expenses is as follows:

Other operating expenses

in kEUR	2017	2016
Legal and financial statement costs	17,871	10,583
Consulting expenses and consulting-related expenses	22,991	15,614
Office expenses	14,953	11,432
Equipment and leasing	21,871	12,242
Travel, sales and marketing	20,887	16,430
Personnel-related expenses	15,719	12,208
Insurance payments, contributions and levies	3,541	2,735
(General) bad debt allowances on trade and other receivables	18,897	6,143
Other	22,714	10,502
Total	**159,443**	**97,888**

Due to the introduction of IFRS 9 as of 1 January 2018, Wirecard analysed the areas of classification and measurement, as well as the impairment of financial instruments, in accordance with the new requirements. In addition to the routine analyses based on the incurred loss model according to IAS 39, analyses based on the expected loss models according to IFRS 9 were carried out. On the basis of the analyses according to IAS 39, the impairments were increased accordingly as of 31 December 2017. For the effects of IFRS 9 for Wirecard, please refer to the relevant section under 2.6. of this Annual Report.

5.6 Other operating income

Other operating income is broken down as follows:

Other operating income

in kEUR	2017	2016
Income from release of provisions/accruals	**2,768**	1,183
Income from currency translation differences	**741**	411
Income from reversal of bad debt allowances	**2,412**	1,807
Income from offset benefits in kind	**682**	537
Other income	**5,168**	3,564
Total	**11,770**	**7,502**

Other operating income of kEUR 11,770 (previous year: kEUR 7,502) resulted from various smaller items, including income from the reversals of value adjustments to receivables, release of provisions and income from the revaluation of receivables and liabilities. In the previous year 2016, the item other income included income related to acquisitions of kEUR 1,553.

5.7 Amortisation and depreciation

Amortisation and depreciation is broken down below the consolidated income statement of Wirecard into two items so that the amortisation and depreciation of assets which result from business combinations and acquired or assumed customer relationships (M&A-related) can be presented separately. In the fiscal year 2017, amortisation and depreciation adjusted for M&A amounted to kEUR 57,044 (2016: kEUR 39,042). In contrast, the M&A-related amortisation and depreciation in the reporting year was kEUR 40,870 (2016: kEUR 33,133). Due to the significant M&A activity of the Company, this differentiation makes it easier to compare this item with the previous year or previous years.

Amortisation and depreciation in the 2017 fiscal year included impairments totalling kEUR 4,495 (previous year: kEUR 0), which comprised impairment of customer relationships in the amount of kEUR 380 and impairments of internally-generated intangible assets in the amount of kEUR 4,115. These impairments were due, on the one hand, to a lower actual flow of benefits (revenue trend) from existing customer relationships than was originally planned, as well as, on the other hand, to the consolidation of existing software platforms, which will no longer be used by Wirecard in the future because of constant ongoing developments and migration activities associated with purchased software solutions.

5.8 Financial result

The financial result is broken down as follows:

Financial result

in kEUR	2017	2016
Unwinding the discount on liabilities	5,175	2,679
Interest expenses from loans and leasing	15,773	13,221
Losses from fair value measurement	12,020	9,705
Impairment of financial assets	272	520
Currency-related expenses	130	93
Financial expenses	**33,371**	**26,218**
Currency-related income	824	0
Interest income	4,041	347
Gains from fair value measurement	9,663	1,447
Income from sale of Visa Europe Ltd.	0	91,576
Income from securities and loans	648	499
Financial income	**15,175**	**93,869**

In the comparative period 2016, the most important effect on the financial result arose from the sale of all shares in Visa Europe Ltd. on 21 June 2016. As a result of this transaction, the financial result increased by kEUR 91,576. For further information, please refer to section 3.4 Financial and other assets / interest-bearing securities in this Annual Report.

Interest income in the Acquiring & Issuing segment of kEUR 12,448 (previous year: kEUR 9,689) is not reported under the financial result but under revenues in accordance with IAS 18.5 (a). For more details, please also refer to Chapter 5.1. Revenues and Chapter **7.1**. Segment reporting.

5.9 Income tax expense and deferred taxes

Tax reconciliation account

in kEUR	2017	2016
Earnings before tax	**296,504**	**302,840**
Expected expense arising from 27.025% income taxes on consolidated earnings before tax (prev. yr.: 27.025%)	**–80,130**	–81,842
Divergent effective tax rates abroad	**36,446**	35,909
Changes in tax rates	**10,132**	0
Non-recognised deferred tax assets	**1,328**	–4,006
Tax increase due to non-tax-deductible expenses	**–3,847**	–8,058
Prior years' tax effects	**–1,472**	–851
Tax reduction due to tax-free income	**267**	22,727
Other tax effects	**491**	30
Income tax expense reported	**–36,785**	**–36,091**
Thereof: effective tax expenses	**–48,224**	**–37,785**
Thereof: deferred tax income/expense	**11,439**	**1,694**

The basis of the tax reconciliation account was the tax rate applicable to the tax group of Wirecard AG of 27.025 percent as in the previous year.

On 22 December 2017, a comprehensive U.S. tax reform was enacted. As a result, deferred tax assets and liabilities as of 31 December 2017, were remeasured using the reduced U.S. federal corporate income tax rate of 21% (at closing 35%), which leads to an one-off tax effect amounting to kEUR 10,132.

The following deferred tax assets and tax liabilities were accounted for and were due to recognition and measurement differences in individual statement of financial position items and tax loss carryforwards:

Deferred taxes

	Deferred tax assets		Deferred tax liabilities	
in kEUR	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Internally-generated intangible assets	0	0	23,688	21,135
Other intangible assets	0	0	2,617	7,856
Customer relationships	0	0	57,106	40,249
Financial assets	0	33	2,557	3,024
Other property, plant and equipment	724	579	50	47
Trade and other receivables	362	260	1,013	607
Other equity and liabilities	7,243	1,957	1,081	6
	8,329	**2,829**	**88,112**	**72,924**
Tax loss carryforwards	11,985	13,005	0	0
Offsetting of deferred tax assets	–11,196	–13,177	–11,196	–13,177
Recognised deferred taxes	**9,118**	**2,657**	**76,916**	**59,747**

Deferred tax assets are offset against deferred tax liabilities when the Group has an enforceable right to offset the current tax assets against the current tax liabilities and these also relate to income taxes on the same taxable entity that are levied by the same tax authority.

The offsetting of deferred tax assets against deferred tax liabilities of kEUR 11,196 (previous year: kEUR 13,177) is based largely on netting within the tax group of Wirecard AG.

Reconcilation of deferred taxes

in kEUR	31 Dec 2017	31 Dec 2016
Opening balance deferred taxes (net deferred tax liability)	**57,091**	**52,404**
Deferred tax income/expense from the change in temporary differences, which is recognised in profit or loss in the reporting period	**−2,327**	436
Deferred tax income/expense from the change in capitalised tax losses, which is recognised in profit or loss in the reporting period	**1,020**	−2,129
Deferred taxes acquired through business combinations	**29,444**	7,367
Changes in tax rates	**−10,132**	0
Change in deferred taxes due to exchange rate change	**−5,855**	−1,430
Other deferred taxes recognised with no effect on profit or loss	**348**	2,019
Other deducted deferred taxes with no effect on profit or loss	**−1,791**	−1,576
Closing balance deferred taxes (net deferred tax liability)	**67,798**	**57,091**

Deferred taxes are determined in line with IAS 12.47 on the basis of the tax rates applicable at the time of realisation or in the future. Deferred taxes are recognised as tax income or tax expenses in the income statement, unless they relate to items directly recognised under equity with no effect on profit or loss; in this case, deferred taxes are recognised under equity with no effect on profit or loss.

In connection with the acquisition of Citi Prepaid Card Services in the 2017 fiscal year, a forward exchange transaction was already carried out in the previous year as part of hedge accounting in order to reduce the risk of fluctuations in future payment flows for the acquisition of the company. As a result, Wirecard reported deferred tax liabilities of kEUR 1,791 in the revaluation reserve with no effect on profit or loss as of 31 December 2016, which were included in the purchase price in the reporting year as part of the acquisition. Accordingly, deferred tax liabilities of kEUR 1,714 were reported in the consolidated income statement in the 2016 fiscal year due to the sale of all shares in Visa Europe Ltd. on 21 June 2016, which had previously been reported in the revaluation reserve with no effect on profit or loss.

The temporary differences in connection with holdings in subsidiaries, branch offices and associates, which were not recognised in accordance with IAS 12.39, amounted to kEUR 931,277 (31 December 2016: kEUR 848,061) as of the reporting date of 31 December 2017. The Group has decided that the profits of its subsidiaries that have not yet been distributed will not be distributed in the foreseeable future. The Group has agreed with its associated companies that the profits of the associated companies will only be distributed once the Group has given its consent. As of the reporting date, the parent company does not intend to issue such consent.

As of 31 December 2017, the Group reported corporation tax loss carryforwards of kEUR 62,365 (previous year: kEUR 68,988), which were mainly attributable to Wirecard AG (kEUR 41,380; previous year: kEUR 56,476), Wirecard Retail Services GmbH (kEUR 3,733; previous year: kEUR 3,411), Wirecard Singapore Pte. Ltd. (kEUR 3,655; previous year: kEUR 4,582). Accordingly, the trade tax loss carryforwards as of 31 December 2017 amounted to kEUR 45,507 (previous year: kEUR 60,491) and were distributed between Wirecard AG (kEUR 41,792; previous year: kEUR 57,098) and Wirecard Retail Services GmbH (kEUR 3,715; previous year: kEUR 3,393). These loss carryforwards can be used for an unlimited period according to current tax law and can generally be offset against future taxable income of the companies that originally incurred the losses.

If the Group perceives there is a risk that tax loss carryforwards cannot or can no longer be offset against taxable income in the foreseeable future, it either does not recognise any deferred tax assets or these are impaired. In this context and with regard to the feasibility of realising these loss carryforwards, Wirecard made a valuation adjustment to reduce the deferred tax assets as of 31 December 2017 of kEUR 15,628 (previous year: kEUR 17,976) by the amount of kEUR 3,643 (previous year: kEUR 4,971) to kEUR 11,985 (previous year: kEUR 13,005). The deferred tax assets reported for loss carryforwards remaining resulted mainly from Wirecard AG (kEUR 11,182; previous year: kEUR 12,226) for corporate income tax and trade tax loss carryforwards.

5.10 Earnings per share

Earnings per share were calculated in accordance with IAS 33.10 as the quotient of consolidated profit or loss of Wirecard for the year and the weighted average number of shares outstanding during the fiscal year. In calculating diluted earnings per share, the (convertible) bonds issued by Wirecard AG were also taken into account in accordance with IAS 33.30-60. As in the previous year, no (convertible) bonds existed as of the 31 December 2017.

The development of the number of no-par value shares issued is presented in the “Consolidated statement of changes in equity for the fiscal year 2017”.

Earnings per share

Description	Unit	2017	2016
Earnings after taxes	kEUR	259,719	266,749
Weighted average number of ordinary shares – basic	Number in thousands	123,566	123,566
Potential bonus shares resulting from dilutive effect of convertible bonds	Number in thousands	0	0
Weighted average number of ordinary shares – diluted	Number in thousands	123,566	123,566
Earnings per share – basic	**EUR**	**2.10**	**2.16**
Earnings per share – diluted	**EUR**	**2.10**	**2.16**

Excluding the effect of the Visa Europe Limited sale on 21 June 2016 earnings per share for the previous year would be EUR 1.43. For further information, please refer to 3.4. Financial and other assets / interest-bearing securities in this Annual Report.

6. Notes to the consolidated cash flow statement

The Group's cash flow statement is prepared in accordance with IAS 7 (Statement of Cash Flows). It discloses the cash flows in order to show the source and application of cash and cash equivalents. In doing so, it distinguishes between changes in cash flows from operating, investing and financing activities. It starts with earnings after tax.

While the cash flow from operating activities before banking operations shows the cash flow from the operating business of Wirecard, the cash flow from operating activities also takes into account the changes in cash flows from the deposit business (customer deposits) and the corresponding asset items from the banking and prepaid card business of the subsidiaries Wirecard Bank AG and Wirecard Card Solutions Ltd.

Method used to measure cash and cash equivalents

For the purposes of the cash flow statement, a cash position is used that consists of cash and cash equivalents. Cash includes cash in hand and demand deposits.

Cash equivalents comprise current, extremely liquid financial investments that can be converted at any time at short notice into certain amounts of cash and are only subject to negligible fluctuations in value.

As of 31 December 2017 and 31 December 2016, the Company held both cash and cash equivalents.

Reconciliation to cash and cash equivalents according to IAS 7.45

Cash and cash equivalents at end of period includes cash in hand and bank balances disclosed under cash and cash equivalents in the statement of financial position (31 December 2017: kEUR 1,901,334; 31 December 2016: kEUR 1,332,631), less current (immediately due and payable) liabilities to banks (31 December 2017: kEUR – 5,473; 31 December 2016: kEUR – 1,117), disclosed under current interest-bearing liabilities.

First-time consolidations resulted in an increase in cash and cash equivalents of kEUR 609 (2016: increase: kEUR 2,876).

Cash flows arising from business transactions denominated in foreign currencies are reported in the functional currency of the relevant company by translating the foreign currency amount into the functional currency at the exchange rate between the functional currency and the foreign currency prevailing on the payment dates.

Cash flows from foreign subsidiaries are translated into the functional currency with the exchange rate between the functional currency and the foreign currency prevailing on the payment date.

Cash and cash equivalents

in kEUR	31 Dec 2017		31 Dec 2016	
Cash and cash equivalents		1,901,334		1,332,631
Current interest-bearing liabilities	−311,611		−15,066	
of which current bank borrowings		−5,473		−1,117
Cash and cash equivalents at end of period		**1,895,861**		**1,331,514**

6.1 Cash flow from operating activities

Due to the special system used in the acquiring business, which is heavily characterised by reporting date effects inherent in the business model, Wirecard has decided to present a further cash flow statement from operating activities (adjusted) in addition to the usual presentation of cash flow from operating business activities to eliminate those items that are merely of a transitory or rolling nature and thus do not influence the operating cash flow from a business perspective. These supplements help to identify and present the cash-relevant portion of the Company earnings.

The cash flow from operating activities is determined according to the indirect method by initially adjusting Group earnings to eliminate non-cash transactions, accruals or provisions relating to past or future cash receipts or payments as well as income and expense items to be allocated to the areas of investments or finance. Taking the changes to the working capital into account results in the cash inflows/outflows from operating business activities. The cash inflows/outflows from operating activities is determined by including the interest and tax payments.

The cooperation with FinTech companies e.g. peer-to-peer loan platforms for private borrowers and SMEs, mobile banking solutions or solutions for payment by instalment in the online shopping sector has assumed rapidly growing strategic importance for Wirecard in recent years. Wirecard does not only provide risk management, technology and banking services here but also sometimes provides the financing based on detailed individual assessments and suitable security measures – often in the form of cash securities. This enables Wirecard, on the one hand, to increase the added value from its cooperation with FinTech companies and, on the other, to also significantly increase interest income.

Through the sale of the shares in Visa Europe Ltd. to Visa Inc. in the previous year 2016, Wirecard achieved an earnings effect of kEUR 91,575 before income taxes, which is reported accordingly under the financial result in the 2016 fiscal year. In the cash flow statement for the previous year, the corresponding cash-relevant effect of kEUR 71,821 is reported under cash flow from investing activities.

Interest received/paid in accordance with IAS 7.31

Interest received in the fiscal year 2017 amounted to kEUR 3,395 (2016: kEUR 343). Interest paid on loans and finance leases in the fiscal year 2017 came to kEUR – 3,375 (2016: kEUR – 1,936) and is reported under cash flow from operating activities.

The respective cash flows from such interest received and interest paid were each classified under operating activities.

Interest paid on loans and finance leases in the fiscal year 2017 came to kEUR – 10,288 (2016: kEUR – 6,094) and is reported under cash flow from financing activities.

Cash flows from income taxes in accordance with IAS 7.35 and 7.36

The cash-effective balance of income taxes (cash flow from income taxes) in the fiscal year 2017 totalled kEUR – 28,390 (2016: kEUR – 24,544) and was always classified as operating activities.

Cash flow from operating activities of banking operations

In the fiscal year 2017, cash flow from the banking operations of kEUR 214,181 was generated. In the previous year, cash flow from banking operations of kEUR 27,853 was generated. Therefore, the unadjusted cash flow from operating activities increased in the fiscal year 2017 from kEUR 294,351 in the previous year to kEUR 563,486. The main reason for this development was the increase in customer deposits from the growing issuing business of the Wirecard Group.

The subsidiaries Wirecard Bank AG and Wirecard Card Solutions Ltd. hold customer deposits from the banking and prepaid card business. These customer deposits are held as deposits with the central bank and as demand and fixed-term deposits with banks. In addition, some of the customer deposits are invested in securities or are used to expand the business with FinTech companies.

The cash flows from banking operations are split into the following items:

- Change in non-current assets of banking operations (primarily securities and FinTech receivables with a term of less than one year)
- Change in current receivables of banking operations (primarily securities and FinTech receivables with a term of more than one year)
- Change in customer deposits of banking operations

6.2 Cash flow from investing activities

The cash flow from investing activities is the result of the cash inflows from non-current assets (excluding deferred taxes) and the cash outflows for investments in non-current assets (excluding deferred taxes). The cash flow from investing activities totalled kEUR –357,061 (2016: kEUR –52,060).

The investments in strategic transactions/M&A mainly included the acquisitions made in North America and Asia. The securities reported under investments relate to securities that are not held by Wirecard Bank AG but by other Group companies. Securities held by Wirecard Bank AG are related to customer deposits and are reported under cash flow from operating activities.

The cash outflows for investments mainly comprises the following:

Substantial cash outflows for investments

in kEUR	2017	2016
Strategic transactions/M&A	264,970	69,650
Securities and medium-term financing agreements	0	3,305
Internally-generated intangible assets	45,305	30,201
Other intangible assets (software)	32,768	20,957
Property, plant and equipment	15,018	22,002

Disclosures pursuant to IAS 7.40 are as follows:

Investments to acquire companies

in kEUR	2017	2016
Purchase prices paid	**247,443**	57,526
Acquired cash and cash equivalents	**609**	2,876
Net investment	**246,834**	54,650

As already described above, the cash flow statement for the previous year includes a cash-relevant effect of kEUR 71,821 due to the sale of the shares in Visa Europe Ltd. in the cash flow from investing activities.

6.3 Cash flow from financing activities

In the present report, interest paid and interest received is reported separately. In the process, paid interest directly related to financing is assigned to the cash flow from financing activities and all other to cash flow from operating activities.

Cash flow from financing activities in the fiscal year 2017 mainly concerns cash inflows from drawing on financial liabilities, especially in connection with the acquisition of Citi Prepaid Card Services, the acquisition of the business operations of Citi card acceptance in Asia and MyGate Communications (Pty) in the amount of kEUR 495,500 (2016: kEUR 463,758). It also includes the cash outflow for the redemption of financial liabilities of kEUR –26,132 (2016: kEUR –231,371). In addition, financing was carried out as part of finance leases, which resulted in a net cash flow of kEUR –11,688 (2016: kEUR –6,590). Cash flow from financing activities also reports outgoing cash flows for the acquisition of companies in previous years in an amount of kEUR –65,201 (2016: kEUR –157,600).

The changes in liabilities from financing activities compared to the previous year are as follows:

Changes of liabilities from financing activities

in kEUR			non cash-relevant			
	1 Jan 2017	cash-relevant	Additions	Changes in measurement	Other	31 Dec 2017
Purchase price liabilities	77,201	–65,201	36,731	11,184	–506	**59,409**
Lease liabilities	19,507	–11,688	18,246	0	0	**26,065**
Interest bearing liabilities	593,424	467,084	0	0	422	**1,060,930**
Total	**690,132**	**390,195**	**54,977**	**11,184**	**–84**	**1,146,404**

6.4 Cash and cash equivalents at end of period

After taking into account the total cash inflows and cash outflows reported above (2017: kEUR 563,336; 2016: kEUR 281,501), exchange rate-related changes (2017: kEUR 1,011; 2016: kEUR –3,215) and cash and cash equivalents at start of period (2017: kEUR 1,331,514; 2016: kEUR 1,053,228), cash and cash equivalents at end of period amounted to kEUR 1,895,861 (31 December 2016: kEUR 1,331,514).

Alongside cash and cash equivalents, there are other current assets and liabilities that can have a significant effect on the availability of funds. Therefore, Wirecard has created an additional net cash calculation. The net cash calculation is based on the current availability of cash for the further development of the business and for investments.

6.5 Net cash items

Net Cash Position - Wirecard

in kEUR		31 Dec 2017		31 Dec 2016
Cash and cash equivalents		1,901,334		1,332,631
Interest-bearing securities and fixed-term deposits		1,845		2,805
Receivables of the acquiring business and trade and other receivables		711,681		592,608
Interest-bearing liabilities / other liabilities		−461,012		−134,571
Customer deposits from banking operations	−973,178	−819,435	−734,003	−534,953
Non-current interest-bearing securities	44,644		42,558	
Interest-bearing securities and fixed-term deposits	109,099		156,493	
Liabilities of the acquiring business and trade payables		−494,033		−439,686
Net Cash Position - Wirecard		840,379		818,832

The calculation shown in the table also contains liabilities from M&A projects and earnout obligations reported as liabilities. To gain a non-current view of the net cash items, the items non-current interest-bearing liabilities and other non-current liabilities, as well as non-current financial and other assets / interest-bearing securities, are taken into account. This calculation also shows the solid financial situation of Wirecard Group as in previous years.

Net Cash Position (long term view) - Wirecard

in kEUR		31 Dec 2017		31 Dec 2016
Net Cash Position - Wirecard		840,379		818,832
Long term interest-bearing financial assets	310,167	263,678	216,196	170,834
(thereof customer deposit related)	46,488		45,362	
Non-current interest-bearing liabilities		−754,792		−579,475
Other non-current liabilities		−85,406		−31,425
Non-current Net Cash position		263,859		378,766

Alongside the loans recognised in the statement of financial position, additional credit lines from commercial banks amounting to EUR 278 million are available (31 December 2016: EUR 395 million).

6.6 Free cash flow

In addition to the cash flow statement presented, Wirecard also uses the free cash flow to evaluate its operating performance and to provide an overview of the cash generated by the operating business. Free cash flow is defined as cash flow from operating activities less investment in property, plant and equipment, internally-generated intangible assets and other intangible assets (software). In particular, the free cash flow is available for strategic transactions/M&A activities and for dividend payments.

Free cash flow

in kEUR	31 Dec 2017	31 Dec 2016
Cash flow from operating activities (adjusted)	375,693	283,030
Operative CAPEX	93,091	73,160
Free cash flow	**282,602**	**209,870**

After investments in new and innovative products that will only lead to appreciable cash flows in subsequent years, the cash conversion rate thus stands at 108.8 percent (previous year: 118.6 percent).

Cash conversion

in kEUR	31 Dec 2017	31 Dec 2016
Free cash flow	282,602	209,870
Earnings after tax (adjusted by Visa-effects in 2016)	259,719	176,888
Cash conversion in percent	**108.8**	**118.6**

The cash conversion rate in the previous year 2016 was adjusted for the one-off effect arising from the sale of Visa Europe Ltd.

7. Other notes

7.1 Segment reporting

Reportable segments are determined in accordance with internal reporting. Operating earnings before interest, tax, depreciation and amortisation (EBITDA) is used as an internal measurement criterion for the performance of the segments, which is why EBITDA is also reported by segment. Prices for the settlement of services between the segments are set on the basis of the arms's length principle. For internal reporting to the main decision-makers, balance-sheet items, interest and taxes are not reported at segment level.

Revenues fall into the following operating segments: “Payment Processing & Risk Management”, “Acquiring & Issuing” and “Call Center & Communication Services”.

The largest segment in the Wirecard Group is Payment Processing & Risk Management (PP&RM). It accounts for all products and services related to electronic payment processing, risk management and other value added services. Insofar as items cannot be allocated to another segment, Wirecard AG as the holding company for the Group is also assigned to the PP&RM segment because the main focus of its services and activities and thus also its costs are related to the PP&RM segment.

The Acquiring & Issuing (A&I) segment completes and extends the value chain of the Wirecard Group. The “Acquiring & Issuing” segment comprises, in particular, all of the business areas of Wirecard Bank AG, Wirecard Acquiring & Issuing GmbH, Wirecard Ödeme ve Elektronik Para Hizmetleri A.Ş, Wirecard Brasil S.A., Wirecard Card Solutions Ltd. and Wirecard North America Inc. (formerly: Kestel Mergers Acquisitions Corp.).

In acquiring, retailers are offered settlement services for credit card sales for online and terminal payments. In addition, retailers can process their payment transactions in numerous currencies via accounts kept with Wirecard Bank AG. The issuing area mainly encompasses the issuing of prepaid cards to private and business customers. Private customers are additionally offered current accounts combined with prepaid cards and EC/Maestro cards.

Call Center & Communication Services (CC&CS) is the segment in which we report the complete value-added scope of our call centre activities, with other products such as after-sales service to our customers and mailing activities included as sub-categories.

Due to the constant, ongoing internationalisation of the Group and its now global presence, Wirecard is breaking down its revenues and EBITDA geographically in the segment reporting from the

2017 fiscal year according to the geographic regions of “Europe” including Germany, “Asia and Pacific” and “America and Africa” including North and South America. This information is given according to the production location, i.e. the headquarters of the subsidiaries. The information for the previous year 2016 has been adjusted accordingly.

Alongside all of the German companies, the geographic region “Europe” includes Wirecard Payment Solutions Holdings Ltd. along with its subsidiaries, Wirecard Card Solutions Ltd., Wirecard (Gibraltar) Ltd., Wirecard Central Eastern Europe GmbH, Wirecard Romania (formerly: Provus Service Provider S.A.) and its subsidiaries, Wirecard Poland Sp. Zo.o. and Wirecard Ödeme ve Elektronik Para Hizmetleri A.Ş.

The geographic region “Asia and Pacific” includes the companies CardSystems Middle East FZ-LLC, Wirecard Processing FZ-LLC, Wirecard Asia Holding Pte. Ltd., Wirecard Payment Solutions Malaysia SDN BHD, Wirecard Singapore Pte. Ltd. and their respective subsidiaries, PT Prima Vista Solusi, PT Aprisma Indonesia, Wirecard NZ Ltd. and its subsidiary, Wirecard India Pte. Ltd., Wirecard Australia A&I Pte. Ltd., Wirecard Hong Kong Ltd., Wirecard Payment Solution Hong Kong Ltd., Wirecard Myanmar Ltd., Wirecard Thailand Co. Ltd., Wirecard E-Money Philippines, Inc. and Hermes I Tickets Private Limited with its subsidiary and Star Global Currency Exchange Private Ltd.

The geographic region "America and Africa" includes American Payment Holding Inc., Wirecard North America Inc., Wirecard Mexico S.A. de C.V., Wirecard Brasil S.A. as well as Wirecard Africa Holding (Pty) Ltd. with its subsidiary and MyGate Communications (Pty) Ltd. both based in Cape Town, South Africa.

Revenues by operating segment

in kEUR	2017	2016
Payment Processing & Risk Management (PP&RM)	1,069,779	782,420
Acquiring & Issuing (A&I)	484,863	304,064
Call Center & Communication Services (CC&CS)	9,891	8,506
	1,564,532	1,094,990
Consolidation PP&RM	−45,136	−49,893
Consolidation A&I	−22,929	−11,040
Consolidation CC&CS	−6,513	−5,699
Total	1,489,954	1,028,358

EBITDA by operating segment

in kEUR	2017	2016
Payment Processing & Risk Management	328,689	251,335
Acquiring & Issuing	82,951	55,262
Call Center & Communication Services	1,003	775
	412,644	307,372
Consolidations	−30	-9
Total	412,613	307,363

Regional revenue breakdown

in kEUR	2017	2016
Europe (incl. Germany)	803,235	633,148
Asia Pacific	619,242	396,937
America and Africa	141,386	21,661
	1,563,863	1,051,746
Consolidation Europe	−63,927	−18,425
Consolidation Asia Pacific	−9,982	−4,962
Consolidation America & Africa	0	0
Total	1,489,954	1,028,359

EBITDA by region

in kEUR	2017	2016
Europe (incl. Germany)	224,728	191,204
Asia Pacific	153,435	111,416
America and Africa	34,451	4,744
	412,613	307,363
Consolidations	0	0
Total	412,613	307,363

Segment assets by region

in kEUR	31 Dec 2017	31 Dec 2016
Europe (incl. Germany)	**464,683**	450,713
Asia Pacific	**727,657**	630,497
America and Africa	**254,889**	71,572
	1,447,229	**1,152,782**

7.2 Risk reporting

Wirecard AG is exposed to risks within the scope of its ordinary business activities. The risk categories are the ones specified in the diagram. All risks may lead to intangible assets being impaired, resulting in a negative trend in earnings. These risks are dealt with in detail in the management report under 7. Risk report. Since debtor and financial risks have a direct impact on specific items in the statement of financial position and income statement, they are explicitly dealt with below.

The Company's policy is to mitigate these risks by entering into hedge transactions. The deployment of these instruments within the scope of the risk management system is governed by Group directives that set limits appropriate to the underlying transactions, define approval procedures, exclude the conclusion of derivatives for speculative purposes, mitigate credit risk and govern internal reporting and the separation of functions. Compliance with these directives and due and proper processing and evaluation of transactions are processes that are verified on a regular basis, while observing the principle of separation of functions. All investment and derivative transactions are only concluded with banks that meet the high creditworthiness requirements from the Group's own risk assessment and – to the extent that external ratings are available – have been categorised as having a minimum creditworthiness risk by renowned ratings agencies.

Overview of risks

Risk categories	Examples
Business risks	Economic risks, risks arising from the general competitive situation for the Wirecard Group and its customers
Operational risks	Personnel risks, risks of product innovations and risks arising from the use of third-party services
Information and IT risks	Risks arising from the operation and design of IT systems as well as risk in connection with the confidentiality, availability and integrity of data
Financial risks	Exchange rate, interest rate and liquidity risks
Debtors risks	Risks from receivables from merchants, private and business customers, acquiring partners and banks
Legal and regulatory risks	Risks arising from changes to the legal and regulatory framework as well as risks arising from litigation, license rights and liability
Other risks	Reputation risks and risks arising from emergencies

Interest-rate risks

The Wirecard Group has substantial liquidity at its disposal as demand deposits, fixed-term deposits and/or overnight (call money) deposits with renowned banks. The interest receivable on these investments is based on the interbank money market interest rate of the respective investment currency, less a standard banking margin. The interbank money market interest rates may be subject to fluctuations which may impact the return realised by the Group. As a result of the negative base interest rate on deposits with banks in euro introduced by the European Central Bank, minor costs arise for the holding of liquidity in euro in bank accounts.

Should the interbank money market rates of relevance for the Wirecard Group be reduced by half a percentage point and based on a total investment amount of around EUR 1,901 million in the portfolio as of 31 December 2017 (previous year: EUR 1,333 million), this would correspond to unrealised income with an overall negative effect of EUR 9,51 million (previous year: EUR 6.67 million). Accordingly, an improvement by half a percentage point would produce additional income of EUR 9.51 million (previous year: EUR 6.67 million).

As of the 31 December 2017, the Group's interest-bearing liabilities to banks were reported at kEUR 1,066,404 (previous year: kEUR 594,541). These primarily related to redemption loans taken out in connection with acquisitions made, for which variable interest rates have been agreed calculated based on Euribor plus a margin. As a result, a general interest rate risk exists, even if it is possible to react quickly to changes as a result of redemption options. In addition, the Wirecard Group has a corresponding volume of investment funds as a result of the high level of cash from its operating business, so should interest rates increase, interest expenses would also increase, but the income from the increase in interest would compensate for this additional expense.

No derivative hedge instruments (such as interest-rate swaps, forward rate agreements etc.) were deployed in the reporting year or the previous year.

Currency risks

Currency risks exist in particular where receivables, liabilities, debts, cash and cash equivalents and forecast transactions exist or will arise in a currency other than the local currency of the Company. This increasingly impacts the “Payment Processing & Risk Management” and “Acquiring & Issuing” segments, which transact a substantial part of their revenues in foreign currencies. Around 69 percent (previous year: 65 percent) of these revenues are generated in foreign currencies, with the most important foreign currency being the US dollar. A reduction in the exchange rates of relevance to the Wirecard Group by one percentage point, based on gross income in foreign currency of around EUR 510 million (previous year: EUR 324 million), would result in unrealised income of kEUR 5,099 (previous year: kEUR 3,236). Accordingly, an increase by one percentage point would produce additional income of kEUR 5,099 (previous year: kEUR 3,236). In this segment, both receivables from and liabilities to retailers and banks/acquiring partners exist in foreign currencies. In negotiating contracts with retailers and banks, the Group Treasury department ensures that receivables and liabilities are incurred in the same currencies and to the same amounts as far as possible in order to ensure that risks relating to exchange rate fluctuations cannot arise. Risks that cannot be compensated for through this process are hedged after specific analysis by additionally deploying financial derivatives. In the 2017 fiscal year, ten currency derivatives were concluded, of which there were seven currency options with a nominal volume equivalent to around EUR 38.2 million (USD 42.0 million) and three forward exchange transactions with a nominal volume equivalent to around EUR 16.9 million (USD 18.0 million). In contrast, there were no currency option transactions in the previous year 2016. Expenses for premiums totalled around kEUR 350 in 2017 (previous year: kEUR 0).

As part of the acquisition of Citi Prepaid Card Services in 2017, Wirecard concluded a security transaction in the fiscal year 2016 to reduce the risk of fluctuations in future payment flows for the acquisition of the company, which result from the future payment of the purchase price denominated in USD. For this purpose, the Wirecard Group utilised forward exchange transactions with a nominal value of USD 200 million. There were no comparable transactions within the Group in the 2017 fiscal year.

The use of derivative financial instruments is subject to strict internal controls effected within the scope of centralised mechanisms and uniform directives. These instruments are used solely for risk control/risk minimisation purposes and not to generate any income from anticipated currency trends. As in the previous year, the Wirecard Group did not have any currency options as of 31 December 2017.

Liquidity risks

The primary objectives of financial management are to secure a comfortable liquidity situation at all times and maintain operational control of financial flows. Management controls liquidity risks by keeping appropriate levels of cash and cash equivalents, credit lines with banks and by constantly monitoring the cash flows forecast and reconciling these with actual cash flows. The Wirecard Group continually invests substantial amounts of non-required liquidity in demand deposits, fixed-term deposits and overnight (call money) deposits on a short-term basis, as well as the base volume of liquidity on a longer-term basis in interest-bearing securities. Risks may arise due to a liquidity shortage on account of mismatches occurring between the fixed investment term and the time at which liquidity is required. Bonds are repaid at 100 percent on final maturity. If bonds are redeemed prior to maturity there is a price risk depending on a possible change in the credit status of the issuer, the remaining term to maturity and the current level of interest rates prevailing on the market. In view of the fact that only the base volume of liquidity less a substantial security reserve is invested on a long-term basis, the Management Board assumes that the risk is low.

Undiscounted cash flows according to contractually agreed payment dates as of 31 December 2017

in kEUR	up to 1 year	1 to 5 years	more than 5 years	Total
Interest-bearing loans and credit facilities	−322,685	−772,230	−2,392	−1,097,308
Other liabilities	−205,936	−32,714	0	−238,650
Trade payables	−71,393	0	0	−71,393
Liabilities of the acquiring business	−422,640	0	0	−422,640
Customer deposits from banking operations	−973,178	0	0	−973,178
Total	−1,995,832	−804,945	−2,392	−2,803,170

Undiscounted cash flows according to contractually agreed payment dates as of 31 December 2016

in kEUR	up to 1 year	1 to 5 years	more than 5 years	Total
Interest-bearing loans and credit facilities	–22,800	–595,325	–4,015	–622,140
Other liabilities	–122,096	–34,615	0	–156,711
Trade payables	–34,920	0	0	–34,920
Liabilities of the acquiring business	–404,767	0	0	–404,767
Customer deposits from banking operations	–734,003	0	0	–734,003
Total	**–1,318,586**	**–629,940**	**–4,015**	**–1,952,540**

Accounts receivable risks

In order to counteract the risk that business partners of the Wirecard Group may default on their contractual payment obligations, they are subject to a comprehensive evaluation according to relevant criteria, such as credit rating, liquidity, market positioning, the management's professional experience and other case-by-case criteria before the Group enters into a transaction with them. This also applies to the review of business relationships with commercial banks, acquiring partners and retailers.

Payment flows of retailers processed through Wirecard Bank AG or other acquiring partners are monitored on a regular basis and receivables outstanding are continually tracked by the Company's internal debtor and liquidity management system. The risk of default arising from the acquiring business, consisting of potential chargebacks following insolvency or the inability of a retailer to deliver, are very low since open receivables from customers are covered by ongoing volumes, individual security reserves or, alternatively, delayed payouts to retailers, which are adjusted regularly on the basis of close monitoring of the retailer's business. In specific cases, however, the reserve may prove to be inadequate; as a result, justified claims for payment by the Wirecard Group might not be enforceable against the customer, especially due to the reversal of credit card transactions. As a rule, this form of security reserve is adequate.

The predominant share of receivables results from the acquiring business and the related underlying payment cycles and is processed via either Wirecard Bank or acquiring partners. In both cases, Wirecard is subject to the main opportunities and risks associated with the transactions. The receivables of acquiring business act here, as is customary in the sector, as a hedge against those financial risks resulting from the processing of the transactions. A risk of default on these receivables of acquiring business exists if chargebacks following insolvency or the inability of a retailer to deliver are not covered by individual security reserves or, alternatively, delayed payouts to the retailer. The receivables of acquiring business used to hedge these risks exist for the length of the business relationships and have a typically revolving character.

In business with private individuals, particularly involving novel products of Wirecard Bank AG in the area of card issuing services, risks are perceived to arise from the fact that a lack of historical data with regard to specific risk and fraud characteristics of such products may lead to a default in payment obligations despite high security standards.

The maximum risk of default of financial instruments corresponds to their carrying amount. If there are indications that receivables are impaired, they are subjected to value adjustments or derecognised without delay and the risks are recognised as profit or loss.

The value adjustments (loss allowances) for receivables of the acquiring business, trade and other receivables changed as follows:

Allowances

in kEUR	2017	2016
Cumulative allowances as of 1 January	**–19,258**	**–17,911**
Allowances in the period under review	**–18,897**	–6,630
Reversal of allowances / utilisation	**4,558**	5,283
Cumulative allowances as of 31 December	**–33,597**	**–19,258**

Individual value adjustments were formed for the following trade receivables:

Receivables

in kEUR	31 Dec 2017	31 Dec 2016
Trade receivables (before individual value adjustments)	**47,084**	15,149
Value adjustments excl. currency valuation	**–25,923**	–13,325
Carrying amount of receivables	**21,161**	**1,824**

Portfolio based valuation allowances amounted to kEUR 7,674 (previous year: kEUR 5,933).

7.3 Capital risk management

The Group manages its capital with the objective of maximising the shareholders' return by optimising capital requirements. In doing so, it ensures that all Group member companies can operate as a going concern. In particular, close attention is paid to ensuring that banking-specific regulatory requirements, such as compliance with equity capital limits, are observed throughout the entire course of business. The Group's capital structure consists of debts as well as the equity to which the providers of equity capital of the parent company are entitled. Equity comprises shares issued, the capital reserve, revenue reserves, the retained earnings and the currency translation reserve. The objectives of capital management are to secure operations as a going concern along with an adequate return on equity. For implementation purposes, debt or equity is compared with total capital.

Following successful organic growth last year and the transactions performed in 2017, the Company aims to maintain a comfortable equity ratio for fiscal years 2018 and 2019. In keeping with the current financial structure, future investments and potential acquisitions will be financed either by recourse to the Company's own cash flow, through moderate deployment of borrowed funding, equity or alternative forms of financing. Potential acquisitions will also continue to be analysed and assessed under strict conditions in future; in the process, the focus will be especially placed on profitability and a sensible supplementation of our existing portfolio of products and customers.

Capital is monitored based on economic shareholders' equity. Economic equity is the balance-sheet equity. Borrowed capital is generally defined as non-current and current financial liabilities, provisions and other liabilities.

The capital structure is as follows:

Capital structure

in kEUR (where not in %)	31 Dec 2017	31 Dec 2016
Equity	1,635,183	1,474,963
Equity as % of total capital	36.12%	42%
Borrowed capital	2,892,338	2,007,099
Borrowed capital as % of total capital	63.88%	58%
Total capital (equity and borrowed capital)	**4,527,521**	**3,482,062**

The Group reviews its capital structure on a regular basis.

For interest-bearing debt, Wirecard has assured the banks in its credit agreements that it will comply with an equity ratio. These banks calculate the Wirecard Group's equity ratio by dividing the amount of liable equity capital by total assets. Liable equity is identified by subtracting deferred tax assets and 50 percent of goodwill from equity as reported in the statement of financial position. Any receivables due from shareholders or planned dividend payments must also be deducted. Total assets are identified by subtracting customer deposits, the acquiring funds of Wirecard Bank and the reduction in equity from the audited total assets, to which the leasing liabilities are added. This calculation gives an equity ratio of 42.0 percent (previous year: 53.0 percent). Furthermore, in relation to lending banks, Wirecard undertakes to generate a minimum EBITDA and to maintain the proportion of financial liabilities to EBITDA. These targets were once again fully achieved during the fiscal year.

7.4 Additional information about financial instruments

Carrying amounts as per IFRS 7.8

in kEUR	31 Dec 2017	31 Dec 2016
Financial and other assets/interest-bearing securities	**419,266**	**372,689**
Financial assets at fair value through profit or loss	**197,471**	228,860
of which fair value option	**197,471**	228,860
Thereof: convertible bonds (at cost)	**13,500**	21,500
Thereof: convertible bonds (at fair value)	**28,384**	11,235
Available-for-sale financial assets	**19,436**	15,256
Loans and receivables	**170,014**	128,235
Items not within the scope of IAS 39	**32,344**	338
Receivables of the acquiring business	**442,012**	402,423
Loans and receivables	**442,012**	402,423
Trade and other receivables	**269,669**	**190,185**
Financial assets at fair value through profit or loss	**0**	6,821
thereof: derivative, designated as hedging instruments	**0**	6,309
Loans and receivables	**259,631**	178,844
Items not within the scope of IAS 39	**10,038**	4,520
Cash and cash equivalents	**1,901,334**	1,332,631
Loans and receivables	**1,901,334**	1,332,631
Total financial assets	**3,032,281**	2,297,928

Carrying amounts as per IFRS 7.8

in kEUR	31 Dec 2017	31 Dec 2016
Other liabilities	2,398,305	1,567,413
Financial liability at fair value	59,409	76,694
Financial liabilities at amortised cost	2,189,609	1,386,888
Items not within the scope of IAS 39	149,287	103,831
Liabilities of acquiring business and trade payables	494,033	439,686
Financial liabilities at amortised cost	**494,033**	**439,686**
Total financial liabilities	2,892,338	2,007,099

The preceding tables present the fair values for each of the classes of financial instruments.

The fair values of financial assets and liabilities are as follows:

Fair value

	Carrying amounts		Fair value	
in kEUR	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Financial assets measured at fair value through profit or loss	197,471	229,372	197,471	229,372
Derivative, designated as hedging instruments	0	6,309	0	6,309
Available-for-sale financial assets	19,436	15,256	19,436	15,256
Held-to-maturity investments	0	0	0	0
Loans and receivables	2,772,991	2,042,133	2,772,991	2,042,133
Financial liabilities at amortised cost	–2,683,642	–1,826,574	–2,683,642	–1,826,574
Financial liabilities at fair value through profit or loss	–59,409	–76,694	–59,409	–76,694
Total	**246,848**	**389,801**	**246,848**	**389,801**

Hierarchy of fair values

As of 31 December 2017 the Group held the following financial instruments measured at fair value and uses the following hierarchy to determine and report fair values of financial instruments for each measurement process:

- Level 1: Listed (unadjusted) prices on active markets for similar assets or liabilities
- Level 2: Processes in which all input parameters with a material influence on the fair value recognised can be directly or indirectly observed
- Level 3: Processes using input parameters with a material influence on the fair value recognised which are not based on observable market data

Financial instruments measured at fair value

in kEUR	31 Dec 2017	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss				
Collared floaters / bonds	**197,471**		**197,471**	
Convertible bonds	**41,884**			**41,884**
Shares of Visa Inc.	**19,436**			**19,436**
Derivative linked to cash flow hedges	**0**			
Earn-out liabilities	**–59,409**			**–59,409**

Financial instruments measured at fair value

in kEUR	31 Dec 2016	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss				
Collared floaters / bonds	196,125		196,125	
Convertible bonds	32,735			32,735
Shares of Visa Europe Ltd.	15,256			15,256
Derivative linked to cash flow hedges	6,309		6,309	
Earn-out liabilities	–76,694			–76,694

The fair value of financial assets at fair value through profit or loss and financial liabilities at amortised cost is calculated on the basis of the discounted cash flow method taking into account appropriate valuation parameters that are directly or indirectly observable on the market. The base yield curve and credit and liquidity risks specific to issuers, for example, are utilised as key valuation parameters. In the case of cash and cash equivalents (reported under loans and receivables) and in the case of certain interest-bearing securities, current receivables, trade payables, other current financial liabilities and revolving credit facilities and other financial liabilities, the carrying amount mainly represents an appropriate approximation of fair value due to their short term to maturity. These instruments were allocated to Level 2 of the measurement hierarchy.

The measurement gains and losses for collared floaters recognised under the fair value option totalled kEUR -8,197 (previous year: kEUR -875). The measurement is carried out on the basis of current currency and interest-rate trends, as well as the current rating of the issuer. The theoretical maximum default risk is equivalent to the carrying amount.

All convertible bonds held by the Wirecard Group were allocated to Level 3 of the measurement hierarchy as in the previous year. They partially comprise a derivative component. If it is impossible to separately measure the embedded derivative, the entire financial instrument is to be measured at fair value through profit or loss, as long as fair value can be calculated reliably. The entire financial instrument was generally measured at fair value using a binomial model or the discounted cash flow method with changes in their fair value of kEUR 9,148 (previous year: kEUR 935) being recognised as profit or loss.

The preferred stock held by Wirecard Bank AG and Wirecard Card Solutions Ltd., which is convertible into Visa Inc. class A common stock, was allocated to Level 3 of the measurement hierarchy. The amount of preferred stock is contingent upon certain factors and could subsequently change. The calculation of the fair value is based on the market quotations for Visa A shares and takes estimations by the management, the calculations of the appraisers and external information about Visa Europe Ltd. or Visa Inc. into account. The preferred stock, which serves as a guarantee for contractual arrangements between the contractual parties and is subject to a required holding period, was discounted with respect to the value of the Visa Inc. A shares due to uncertainties and the inability to trade the stock. This preferred stock was revalued in the 2017 fiscal year in the amount of kEUR 4,125 (previous year: kEUR 1,221) under the item "Revaluation reserve". Please refer to Chapter 3.4 Financial and other assets / interest-bearing securities for further information.

The fair values of the deployed financial derivatives allocated to Level 2 of the measurement hierarchy are measured based on prices quoted by banks and financial calculation models commonly used by banks. In the measurement of the fair value, the counterparty risk as of the measurement date is taken into account. If market values are available, they correspond to the price at which third parties would assume the rights or liabilities from the financial instruments. The fair values correspond to the current value of the financial derivatives without taking into account adverse developments in the value of the underlying transactions.

Since the 2017 fiscal year, financial liabilities measured at fair value through profit or loss include contingent considerations agreed as part of company acquisitions. This amendment to the accounting policies affects all acquisitions made after 1 July 2014. The fair value of the contingent considerations is measured based on the discounted cash flow method taking into account the corresponding earnout agreements and using appropriate valuation parameters. The cash flow forecasts are based on the best estimate by management of the future development of the acquired subsidiary. In the 2017 fiscal year, the fair value measurement of the earnout liabilities resulted in a cost of kEUR 5,752 (previous year: kEUR 9,386).

The recurring measurements of the fair value of assets in Level 3 of the hierarchy are as follows:

Assets of Level 3 measured at fair value

in kEUR	Financial investment convertible bonds	Financial investment Visa
As of 1 Jan 2016	31,700	80,376
Additions	100	14,028
Disposals	0	−91,707
Changes by fair value revaluation	935	12,559
through profit or loss	935	0
not affecting profit or loss	0	12,559
As of 31 Dec 2016	32,735	15,256
Additions	**0**	**0**
Disposals	**0**	**0**
Changes by fair value revaluation	**9,148**	**4,180**
through profit or loss	**9,148**	**0**
not affecting profit or loss	**0**	**4,180**
As of 31 Dec 2017	**41,884**	**19,436**

The following table contains the resulting net profit and loss from the deployed categories of financial instruments in accordance with IAS 39:

Net result of financial instruments by valuation categories 2017

in kEUR	Interest	Fair value	Currency-translation	Allowances
Financial assets and liabilities at fair value through profit or loss	**1,157**	**9,819**	**−8,353**	**0**
of which fair value option	**1,157**	**156**	**−8,353**	**0**
Thereof: convertible bonds (at fair value)	**0**	**9,148**	**0**	**0**
Thereof: convertible bonds (at cost)	**0**	**0**	**0**	**0**
Derivative, designated as hedging instruments	**0**	**0**	**0**	**0**
Available-for-sale financial assets	**0**	**220**	**0**	**0**
Held-to-maturity investments	**0**	**0**	**0**	**0**
Loans and receivables	**1,288**	**0**	**10,475**	**−22,428**
Financial liabilities at amortised cost	**−18,166**	**0**	**694**	**0**
Financial liability at fair value	**0**	**−11,505**	**0**	**0**
Total financial instruments	**−15,721**	**−1,466**	**2,815**	**−22,428**

Net result of financial instruments per valuation categories 2016

in kEUR	Interest	Fair value	Currency-translation	Allowances
Financial assets and liabilities at fair value through profit or loss	1,595	1,426	−2,453	0
of which fair value option	1,595	914	−2,453	0
Thereof: convertible bonds (at fair value)	0	935	0	0
Thereof: convertible bonds (at cost)	0	0	0	0
Derivative, designated as hedging instruments	0	−319	0	0
Available-for-sale financial assets	0	91,576	0	0
Held-to-maturity investments	0	0	0	0
Loans and receivables	−1,653	0	9,143	−4,180
Financial liabilities at amortised cost	−13,900	0	−93	0
Financial liability at fair value	0	−9,386	0	0
Total financial instruments	**−13,958**	**83,297**	**6,597**	**−4,180**

In the 2016 fiscal year, Wirecard used hedge accounting as part of the acquisition of Citi Prepaid Card Services that was completed in 2017. Wirecard carried out forward exchange transactions to reduce the risk of fluctuations in future payment flows for the acquisition of the company. This risk was due to the future payment of the purchase price denominated in USD, which was paid accordingly in 2017.

The effective portion of the changes in the fair value of forward exchange transactions which were defined as cash flow hedges was reported by Wirecard under the item other comprehensive income, net of income taxes. The ineffective portion was recognised immediately in the consolidated income statement for the previous year in the amount of kEUR 319. Unrealised gains of kEUR 4,837 related to the cash flow hedge were recognised under other comprehensive income, net of income taxes in the 2016 fiscal year. The hedged transaction was carried out and concluded as planned in the 2017 fiscal year, whereby the amount reported under other comprehensive income, net of income taxes was recognised at the conclusion of the transaction when determining the purchase price for the acquisition of Citi Prepaid Card Services.

7.5 Financial relationships with related companies

In the fiscal year 2017, financing agreements were in place among various companies in the Wirecard Group. These transactions were eliminated in the course of the consolidation of debt and earnings. In addition, please refer to Section 8.3. Related party transactions.

7.6 Other obligations and contingent liabilities

Other obligations

The companies of the Wirecard Group entered into rental agreements for office space and other leasing agreements. The annual payment obligations for these agreements over the next five years are as follows:

Other obligations

in kEUR	2018	2019	2020	2021	2022
Annual obligations	20,722	17,829	15,571	13,855	10,022

After the period indicated, there are no payment obligations for the Wirecard Group.

In addition to the obligations from operating leases included under other obligations in the total amount of kEUR 5,626 (previous year: kEUR 10,679), the Group has concluded finance lease agreements for terminals and IT components. These agreements include purchase options for the assets.

The future minimum lease payments from finance leases agreements can be reconciled to their present values as follows:

Obligations from finance leases and hire-purchase agreements

in kEUR	2017		2016	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
up to 1 year	12,762	12,390	8,938	8,524
1 to 5 years	13,920	13,674	10,883	10,906
more than 5 years	0	0	76	76
Total	26,682	26,064	19,897	19,506
Less interest portion	618		638	
Present value of minimum lease payments	26,064	26,064	19,259	19,506

Other claims based on leases in which the Group acts as a lessor are shown as follows:

Claims arising from leasing 2017

in kEUR	2018	2019	2020	2021	2022
Annual claims	11,170	9,690	8,546	3,690	1,585

Claims arising from leasing 2016

in kEUR	2017	2018	2019	2020	2021
Annual claims	9,499	8,835	8,601	8,447	8,379

After the period indicated, there are no appreciable payment claims for the Wirecard Group.

Contingent liabilities

Lawsuits were again brought against the Company – against a specific Group company – this year. The Management Board assumes for these lawsuits, as well as for still pending appeal proceedings for lawsuits already brought in previous years, an immaterial potential impact on the Wirecard Group's net assets, financial position and results of operations. The maximum theoretical risk lies in the single digit million range.

8. Additional mandatory disclosures

8.1 Management Board

The Management Board of Wirecard AG was made up of the following members.

Dr. Markus Braun, Commercial Computer Scientist, member of the Management Board since 1 October 2004
CEO, CTO

Burkhard Ley, Banker, member of the Management Board since 1 January 2006 and until 31 December 2017
CFO
Other supervisory board mandates: Backbone Technology AG, Hamburg (Germany)

Jan Marsalek, Computer Scientist, member of the Management Board since 1 February 2010
COO

On 31 December 2017, Mr. Burkhard Ley left the Management Board of Wirecard AG. Burkhard Ley will remain connected to the Company via a consulting contract. The Supervisory Board appointed Alexander von Knoop as his successor. He has worked for Wirecard since 2005 and has been a member of the Management Board of Wirecard Bank AG since 2014. Alexander von Knoop has taken over his role as the new CFO of Wirecard AG on 1 January 2018. The Management Board is being expanded to include an additional member from 1 January 2018: Susanne Steidl. She is responsible as Chief Product Officer (CPO) for the operation and technological development of core products in the Wirecard Group.

Remuneration paid to the Management Board

In the 2017 fiscal year, the total emoluments of all members of the Company's Management Board, meaning the total remuneration during the fiscal year for the duration of the individual's tenure on the Management Board, including other payments and amounts not yet disbursed for share price-based Variable Remuneration I and Variable Remuneration II amounting to kEUR 6,032, totalled kEUR 11,506 (previous year: kEUR 7,188).

Variable remuneration has two components, Variable Remuneration I and Variable Remuneration II; it is calculated based on Wirecard AG's share price performance. The valuation is performed using a Monte Carlo simulation. In the Monte Carlo simulation, the valuation of a financial instrument is carried out as follows: The future performance of the underlying asset is simulated based on market parameters and random numbers. The valuation is then carried out based on the payout profile of the net present value of the simulation.

The Company pays an annual contribution to a retirement pension scheme for the members of the Management Board Dr. Markus Braun and Jan Marsalek. This contribution totals kEUR 450 gross for Dr. Markus Braun and kEUR 300 gross for Mr. Jan Marsalek. This is paid in twelve-monthly instalments and is taken into account as expenditure. In the case of the member of the Management Board Burkhard Ley, the Company has set up a pension account and pays an annual pension contribution of kEUR 420 into it for a company retirement, invalidity and survivor's pension scheme. The payment of the pension contribution is made at the end of each year. In the event of the termination of the employment contract during the course of the year, the pension contribution is reduced correspondingly (pro rata temporis). If the balance held in the pension account for the member of the Management Board represents less than ten pension contributions when the pension becomes payable, the balance will be increased by the Company to a total of ten pension contributions. Due to contractual provisions, the pension obligations are calculated in such a way that the ten contributions to be paid are divided over the length of the employment contract. As of the reporting date, a total pension contribution of kEUR 4,200 (previous year: kEUR 2,780) was recognised as a liability. The interest rate used for discounting in the previous year was 0.685%.

No loans were made to board members during the fiscal year.

Further particulars in this regard can be found in the corporate governance report.

8.2 Supervisory Board

The Supervisory Board of Wirecard AG was made up of the following members:

Wulf Matthias (Chairman), Financial Advisor at Wulf Matthias Wirtschaftsberatung
Other supervisory board mandates or mandates on other boards:
- Wirecard Bank AG, Aschheim (Germany)
- Deufol S.E., Hofheim (Germany)

Alfons W. Henseler (Deputy Chairman), Self-Employed Management Consultant
Other supervisory board mandates or mandates on other boards:
- Wirecard Bank AG, Aschheim (Germany)
- Diamos AG, Sulzbach (Germany)

Tina Kleingarn, Corporate Advisor at Westend Corporate Finance
No other supervisory board mandates or mandates on other boards

Stefan Klestil, Management Consultant at Belview Partners GmbH
Other supervisory board mandates or mandates on other boards:
- Wirecard Bank AG, Aschheim (Germany)
- iyzio Teknoloji ve Ödeme Sistemleri A.S., Istanbul (Turkey)
- N26 Bank GmbH, Berlin (Germany)

Vuyiswa V. M'Cwabeni, Chief Product Strategist and Chief of Staff at SAP SE
No other supervisory board mandates or mandates on other boards

Tina Kleingarn stepped down from the Supervisory Board of Wirecard AG with effect from 31 December 2017.

Remuneration of the Supervisory Board is governed by Section 14 of Wirecard AG's Articles of Incorporation. A revision of the rules was resolved by the Annual General Meeting 2016. According to the new rules, the members of the Supervisory Board will now receive fixed remuneration of EUR 120,000 for every full fiscal year. The Chairman of the Supervisory Board will receive double and the Deputy Chairman of the Supervisory Board will receive one-and-a-half times this amount; an additional fee for activities on committees is not foreseen in the rules because the Supervisory Board has not currently formed any committees due to its relatively small size. The remuneration is payable in four equal instalments and is due in each case at the conclusion of a calendar quarter. Members of the Supervisory Board that are not part of the Supervisory Board for a full fiscal year or do not hold the positions of Chairman or Deputy Chairman for the full fiscal year receive pro rata remuneration after rounding up to the next full month of service. In addition, the members of the Supervisory Board receive an attendance fee of EUR 1,250 per day for plenary meetings of the Supervisory Board, which is payable after the conclusion of the calendar quarter in which the corresponding meeting took place.

Members of the Supervisory Board are also reimbursed for all expenses incurred in connection with the performance of their duties, as well as for the value added tax paid on the remuneration and reimbursed expenses. The Company also reimburses the members of the Supervisory Board for all employer contributions for social insurance that are incurred in connection with their activities on the Supervisory Board according to foreign laws.

In the fiscal year 2017, remuneration for the Supervisory Board totalled kEUR 1,031 (2016: kEUR 896). This remuneration includes remuneration for activities as a member of the Supervisory Board at subsidiaries of kEUR 180 (2016: kEUR 180). An amount of kEUR 3 was recognised as a provision for the remuneration and will be paid in the 2018 fiscal year. For further information, please refer to the management report.

8.3 Transactions with related companies and parties

Related parties

In accordance with IAS 24 (Related Party Disclosures), parties related to Wirecard AG comprise the members of the Management Board and the Supervisory Board along with their family members. The details are presented below.

In the fiscal year 2017, the following legal transactions were entered into by Wirecard AG with a related company or were instigated by or were in the interest of one of these companies:

Legal transactions with impact on P&L

Related party / related entity	Type of legal relationship	Expense in kEUR	Provisions/ Payables as of 31 Dec 2017 in kEUR	Notes
Wulf Matthias	Supervisory Board mandate	65	77	Supervisory Board of Wirecard Bank AG
Stefan Klestil	Supervisory Board mandate	55	55	Supervisory Board of Wirecard Bank AG
Alfons W. Henseler	Supervisory Board mandate	60	71	Supervisory Board of Wirecard Bank AG

The exchange of goods, services and payments is effected on an arm's length basis. These arm's length conditions are documented and monitored on a regular basis; any adjustments required are made without delay.

8.4 Declaration of compliance

The declaration of compliance required pursuant to Section 161 of the German Stock Corporation Act (AktG) for the periods from April 2016 to March 2017 and April 2017 to March 2018 was signed in March 2017 and March 2018 respectively and made available to the shareholders for download from the website of Wirecard AG in March 2017 and March 2018.

8.5 Auditors' fees

Neither the deductible value added tax for the Wirecard Group nor the non-deductible value added tax amounting to kEUR 4 (previous year: kEUR 2) are included in the disclosures on auditors' fees.

In the fiscal year, the following auditors' fees were reported (Section 314 (1) No. 9 of the German Commercial Code [HGB]):

Auditors' fees

in kEUR	1 Jan 2017 – 31 Dec 2017		1 Jan 2016 – 31 Dec 2016	
	total	of which subsidiaries	total	of which subsidiaries
Ernst & Young GmbH				
Audit of the financial statements	**1,716**	**394**	1,055	268
Tax advisory services	**0**	**0**	0	0
Other assurance services	**0**	**0**	0	0
Other services	**462**	**7**	284	1
Total	**2,178**	**400**	**1,339**	**269**

The fee for the auditing services provided by Ernst & Young GmbH primarily covered the auditing of the consolidated financial statements of the Wirecard Group and auditing the separate financial statements of Wirecard AG and its subsidiaries subject to mandatory statutory audit. The other services primarily comprised services related to M&A activities.

The audit opinion issued by the independent auditor of the consolidated financial statements for the 2017 fiscal year was signed by Mr. Dahmen and Mr. Loetscher. Mr. Loetscher signed the audit opinion for the first time on 31 December 2015 and has since then been the responsible auditor for auditing the consolidated financial statements of Wirecard AG. Mr. Dahmen has been the second signatory of audit opinion since the audit of the consolidated financial statements as of 31 December 2016. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft has been the sole auditor of Wirecard AG since 2011 and was previously the joint auditor together with RP Richter GmbH Wirtschaftsprüfungsgesellschaft since 2009.

8.6 Events after the reporting date

Events after the reporting date that provide additional information on the Company's situation as of the reporting date (adjusting events) have been included in the consolidated financial statements. Non-adjusting events after the reporting date are reported in the notes if material in nature.

In the period during which the consolidated financial statements of Wirecard AG were prepared, there were no non-adjusting events of a material nature after the reporting date that must be reported in the notes.

8.7 Authorised for issue in accordance with IAS 10.17

The consolidated financial statements as of 31 December 2017 were signed on 11 April 2018 and approved for submission to the Supervisory Board.

Aschheim, 11 April 2018

Wirecard AG

Dr. Markus Braun   Alexander von Knoop   Jan Marsalek   Susanne Steidl

Independent auditor's report

To Wirecard AG, Aschheim

Report on the audit of the consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of Wirecard AG, Aschheim, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the fiscal year from 1 January 2017 to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Wirecard AG for the fiscal year from 1 January 2017 to 31 December 2017. In accordance with the German legal requirements, we have not audited the content of the group corporate governance statement in Section I.5 of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) of the German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of 31 December 2017, and of its financial performance for the fiscal year from 1 January 2017 to 31 December 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the group statement on corporate governance referred to in Section I.5.

Pursuant to Section 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

Identification as a business combination, determination of the purchase price and purchase price allocation for the acquisition of the Citi Prepaid Card Services business and of Citigroup´s customer portfolios in Asia

Reasons why the matter was determined to be a key audit matter: The acquisition of the business of Citi Prepaid Card Services was closed in fiscal year 2017. Citigroup's customer portfolios were likewise acquired in fiscal year 2017. In this connection, particularly the acquisitions of customer portfolios in Hong Kong and Singapore were concluded. The accounting treatment requires estimates by the management for the assessment of transactions as a business combination. In addition, assumptions were made for the determination of the consideration paid as well as for the recognition and measurement of the intangible assets acquired and liabilities from contracts related to the (partly provisional) purchase price allocation. Due to the complexity of the transactions and the related significant risk of material misstatements, this constitutes a key audit matter.

Auditor's response: We verified whether the transaction represents a business combination pursuant to IFRS 3. We particularly assessed the estimation of the management that business operations had been acquired. In addition, we examined the underlying processes and controls used for determining the consideration paid and the performance of the purchase price allocation; we also performed substantive audit procedures. We particularly verified the determination of the purchase price, as far as these were denominated in foreign currency, taking into account the hedging of the exchange rate risk. For the measurement of the contingent purchase price obligation, we verified the calculation of the fair values, both in terms of methods used and clerical accuracy, particularly investigating the formation of the expected value of the future contingent purchase price payments using the budget planning. For the measurement of intangible assets related to the purchase price allocation – particularly customer relationships and software – we included valuation specialists in the audit team to verify the calculation of the present value of the cash flows expected in the future and examined the underlying valuation models both in terms of clerical accuracy and the methods used. In this context, we examined whether the budgets reflect general and industry-specific market expectations and compared the valuation parameters used for the estimate of the fair values – in particular the estimated growth rates, the weighted average cost of capital rates and the tax rates. For the recognition of liabilities from contracts, we assessed the estimate by the management regarding the economic unsuitability of contracts considering market circumstances. In addition, we verified the derivation of the goodwill. Furthermore, we assessed the appropriateness of the disclosures for completeness and integrity in connection with the business combinations mentioned in the notes to the consolidated financial statements.

There were no reservations regarding the accounting of the business combinations.

Reference to related disclosures: The company's disclosures related to the business combinations are presented in Section 1.1 Business activities and legal background – business combinations in the fiscal year of the notes to the consolidated financial statements.

Valuation of goodwill

Reasons why the matter was determined to be a key audit matter: The determination of the value in use as part of the goodwill impairment test for the "Payment Processing & Risk Management" and "Acquiring & Issuing" business segments (cash generating units) for possible impairment was, in our opinion, a key audit matter. The reason for this is that the valuations require to a large extent assumptions and estimates of future net cash inflows as well as the discount rate applied. Due to the materiality of the account, incorrect assumptions and estimates could have a significant impact on the consolidated financial statements.

Auditor's response: To assess the appropriateness of the values in use determined by the management for the business segments, we examined the underlying processes and controls used to determine values in use and performed substantive audit procedures. In particular, with the involvement of valuation specialists in the audit team, we evaluated the underlying valuation models both in terms of clerical accuracy and the methods used. We also examined whether the group budget reflects general and industry-specific market expectations and whether the valuation parameters used for the estimate of the values in use – in particular the estimated growth rates, the weighted average cost of capital rates and the tax rates- are appropriate. To determine the reliability of the budgets, we compared historical budget data with actual figures. In addition, we considered the sensitivity analyses of the values in use prepared by the company against a change in significant assumptions. Furthermore, we assessed the completeness and appropriateness of the corresponding disclosures in the notes to the consolidated financial statements.

There were no reservations regarding the valuation of goodwill.

Reference to related disclosures: The company's disclosures related to the valuation of goodwill are presented in Sections 2.3 Significant accounting and valuation policies – goodwill accounting and in 3.1 Intangible assets – goodwill and customer relationships in the notes to the consolidated financial statements.

Valuation of customer relationships

Reasons why the matter was determined to be a key audit matter: The analysis whether an indication for an impairment of the acquired customer relationships exists, and, if necessary, the determination of the value in use as part of the testing of the acquired customer relationship for possible impairment was - if any indication of impairment was identified -, in our opinion, a key audit matter. The reason for this is that the analyses and valuations require to a large extent assumptions and estimates of future net cash inflows as well as the discount rate applied. Due to the materiality of the account, erroneous analyses and valuations could have a significant impact on the consolidated financial statements.

Auditor's response: To assess the appropriateness of the analysis performed by management for the existence of an indication of an impairment of the acquired customer relationships (triggering event analysis), we examined the underlying processes and controls and also performed substantive audit procedures. We particularly examined whether any indications for impairment arise from internal or external sources of information. The audit focus was on the assessment of the economic performance of the customer lists as well on the identification of significant customer losses. No indications of a material impairment were identified. Furthermore, we assessed the completeness and appropriateness of the corresponding disclosures in the notes to the consolidated financial statements.

There were no reservations regarding the valuation of customer relationships.

Reference to related disclosures: The company's disclosures related to the valuation of customer relationships are presented in Sections 2.3 Significant accounting and valuation policies – accounting for intangible assets and 3.1 Intangible assets – goodwill and customer relationships of the notes to the consolidated financial statements.

Recoverability of receivables and recognition and presentation of revenues from acquiring partners

Reasons why the matter was determined to be a key audit matter: The receivables from acquiring include receivables from acquiring partners, in addition to those from credit card organizations. The receivables result from transaction fees and commissions from the settlement of payment transactions of end customers at the merchants via these acquiring partners in connection with the acquiring business. Wirecard bears the significant opportunities and risks from payment processing for the merchant in connection with the acquiring business. The significant risks arise from the default risk of the merchant. Default risks of the merchants mainly result from charge backs that are initiated by the end customers and through penalties imposed on the merchants by credit card organizations due to infringement of their regulations (fines). As far as merchants are not able to settle these charge backs or penalties after insolvency, and these are also not covered by individual reserves, or alternatively by a delayed payment to the merchants, Wirecard is responsible for the claims of the end customers or credit card organizations. The acquiring partner safeguards against these risks borne by Wirecard among other things by holding his receivables from Wirecard as rolling security reserves.

As Wirecard is responsible for the significant opportunities and risks from payment processing for the merchant in connection with the acquiring business, Wirecard, as principal, recognizes revenue for such transactions in accordance with IAS 18. In this case, the acquiring partner is considered as a service provider (payment processor) of Wirecard. Therefore, all charges and commissions are recognized as gross revenue. The corresponding expenses for the services of the acquiring partner are recognized as cost of materials.

The measurement of receivables as well as the revenue recognition and gross presentation was in our view a key audit matter because the receivables and revenue have a significant impact on the consolidated financial statements and require the installation of a corresponding internal control system and the judgment of the management as well.

Auditor's response: As part of our audit, we examined the procedures and control mechanisms of receivables measurement contractually agreed with the acquiring partners. We particularly assessed the initial selection, contractual agreements, assessment and ongoing monitoring of the acquiring partners by Wirecard as part of Wirecard's risk management process. We have also assessed the valuation of the receivables in light of the financial risks from transaction processing with the merchants. Furthermore, we obtained balance confirmations of the acquiring partners and verified payments received by the acquiring partners. In addition we assessed the identification and recognition of valuation allowances for the receivables from acquiring partners.

We assessed Wirecard's assessment of being the principal with regard to recognition and presentation of revenues. For the purpose of revenue recognition, we obtained invoices of the acquiring partner to Wirecard related to the transactions processed in connection with the acquiring business and the charges and commissions resulting therefrom. We tested the processes and controls regarding the acquiring partner´s settlements. In addition, we assessed the posting of the invoices.

Furthermore, we assessed the completeness and appropriateness of the corresponding disclosures in the notes to the consolidated financial statements.

There were no reservations regarding the recoverability of receivables and the recognition and disclosure of revenue from Acquiring partners.

Reference to related disclosures: The company's disclosures related to the impairment of receivables from acquiring partners are presented in Sections 2.2 Accounting for financial assets and liabilities – impairment of financial assets, 3.7 Receivables of acquiring business and in 7.2 Risk reporting – Debitor risks of the notes to the consolidated financial statements. Furthermore, related disclosures in Section III.2.10 Debtor risks – risks from receivables section of the group management report.

The company's disclosures on recognition of revenue from acquiring partners are presented in Section 2.3 Significant accounting and valuation policies – revenue recognition of the notes to the consolidated financial statements.

Other information

The Supervisory Board is responsible for the Report of the Supervisory Board in the "To our shareholders" section of the annual report 2017. In all other respects, the management is responsible for the other information. The other information comprises:

- the Letter from the CEO in the "To our shareholders" section of the annual report 2017;
- the corporate governance statement in Section I.5 of the group management report;
- the disclosures "Wirecard stock" in the "To our shareholders" section of the annual report 2017;
- the responsibility statement in the corresponding section of the annual report 2017;
- the "Glossary" section of the annual report 2017.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the management and the supervisory board for the consolidated financial statements and the group management report

The management is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the statements in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also: •

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the management and the reasonableness of accounting estimates made by the management and related disclosures.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial

- statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 20 June 2017. We were engaged by the Supervisory Board on 13 October 2017. We have been the group auditor of Wirecard AG without interruption since the fiscal year from 1 January 2009 to 31 December 2009.

We confirm that the audit opinions expressed in this auditor's report are consistent with the additional report to the Supervisory Board pursuant to Art. 11 of the EU Audit Regulation (audit report).

Responsible auditor

The auditor responsible for the audit is Andreas Loetscher.

Munich, 11 April 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dahmen	Loetscher
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Responsibility statement and disclosures pursuant to Section 37Y No. 1 of the German Securities Trading Act (WpHG) in combination with Sections 297 (2) Clause 4 and 315 (1) Clause 6 of the German Commercial Code (HGB)

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and results of operations of the Group, and the group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Aschheim, 11 April 2018

Wirecard AG

Dr. Markus Braun | Alexander von Knoop | Jan Marsalek | Susanne Steidl

3-D Secure™
Security standard developed by Visa and MasterCard for the authentication of online card payments

Acquirer/acquiring bank
A financial institution that concludes an agreement with merchants for the acceptance of credit cards as a means of payment for goods and services and which settles card payments for merchants.

Alternative payment methods
These mostly comprise non-card based payment methods such as payment services, wallets, vouchers and bank-account based or prepaid methods.

Billing and Settlement Plan (BSP)
The most widespread system in the world for simple processing of airline ticket sales.

Bluetooth low energy (BLE)
This technology facilitates data transmission over distances of up to ten metres. Using microtransmitters (beacons) for the connection, this technology offers innovative location-related services.

Checkout Page
A web-based, PCI-compliant payment page for simple and secure acceptance of credit cards and other national and international means of payment. End customers input their data into a website hosted by Wirecard to make online payments.

Checkout Seamless
This integrated payment page makes it possible to directly integrate all relevant input fields for payments seamlessly into online shop interface.

CNP, Card Not Present
Card transaction in which the card is not physically presented to the merchant, e.g. for an orders in long-distance trading (online or MOTO).

Co-branded card
A co-branded card is a card issued by a licensed card issuer which bears the design of a third party company.

Fraud Prevention Suite (FPS)
Wirecard's risk management system which identifies suspicious data and/or behaviour patterns in real time and effectively prevents fraud.

Host Card Emulation (HCE)
Makes it possible to carry out secure, NFC-based transactions for payments and services via mobile apps, regardless of whether a physical secure element (SE) is available on the mobile phone. All data generated during a transaction is stored in a secure centralised server.

In-app payment	In-app payment refers to payment for goods or services via a mobile terminal in connection with a mobile application. Customers can store their desired payment type, such as credit cards or alternative payment methods, in their user account and can make one-click payments the next time they log in.
Issuer/issuing bank	Financial institution which issues payment cards (credit, debit and prepaid cards) as a member bank of the card organisations and receives transactions from its cardholders from other member banks or merchants.
Loyalty and couponing	Serve to control specific marketing campaigns, based on card transactions.
Mobile card reader	The card reader is a mobile add-on device which is attached to smartphones or tablets, turning the device into a payment terminal.
Mobile payment	Includes, for example, the payment of digital or physical merchandise or a service on the mobile phone (payment on mobile/in-app payment) using the mobile phone (mobile at the point of sale) or the mobile phone as the payment terminal (mobile as the point of sale).
Mobile wallet	A mobile wallet managed via the mobile phone. Various digital cards can be stored in a mobile wallet.
MOTO, Mail Order/Telephone Order	The purchase of goods or services, with the purchase order issued by phone or in writing by fax or using an order card.
mPoS, mobile point of sale	Payment with a mobile device and a mobile card reader.
Near field communication (NFC) technology	NFC technology is the wireless transfer of data over a short distance (near field).
NFC sticker	Bridge technology to equip smartphones with contactless technology. NFC stickers can be attached to the rear of the mobile terminal and used to initiate payments in connection with a mobile wallet.
OTA, Over-the-Air	Wireless transmission of data
Payment service provider (PSP)	A company which receives electronic payment transactions for merchants etc., authenticates these, processes them and in this regard also provides the merchant with the corresponding software, if required.

PCI DSS	PCI DSS (Payment Card Industry Data Security Standard) is a security standard initiated by VISA and MasterCard for merchants and payment service providers who process credit card payments using their systems, or which store or transfer card data.
Personal identification number (PIN)	Secret number that is only allocated to one single card, which enables the card holder to confirm a POS payment or to access their account using a cashpoint.
Prepaid card	Has all of the features of a standard credit card and mostly licensed by VISA or MasterCard on a prepaid basis.
Provisioning	Storing card data in NFC-enabled smartphones in order to be able to make payments using the mobile phone. The card data is stored on the SIM card or in a secure area of the smartphone.
PSP, Payment Service Provider	See Payment Service Provider.
Risk management	Recording and analysing transaction data to minimise the risk of fraud and to protect the merchant against payment default.
QR code, quick response code	A two-dimensional code which can be scanned by mobile phones using the camera and relevant software (QR code reader). Information is embedded in the code, such as links to websites, for example.
SaaS, Software as a Service	Demand-orientated provision of software applications (download)
SCP, supplier and commission payments	An automated solution for global payments to companies receiving payments via their credit card acceptance agreement.
Secure element (SE)	Hardware module in a mobile phone where data can be stored securely.
SEPA, single euro payment area	Refers to the euro payment area, which currently comprises 34 countries including the 28 EU member states as well as Ireland, Lichtenstein, Monaco, Norway, San Marino and Switzerland.
Settlement	Processing transactions and depositing the processed transaction with the merchant's contractual bank (acquirer).
Settlement currency	The currency in which settlement is performed in a bank account.

SP-TSM, Service Provider Trusted Service Manager
SP-TSMs ensure secure, smooth connections between the card issuer and an NFC smartphone. Services include adding virtual card data to NFC-enabled SIM cards, and also managing cards in the smartphone.

SWIFT code
An 8 or 11-digit international bank sorting code issued by SWIFT (Society for Worldwide Interbank Financial Telecommunication) to identify a bank in international payment transactions.

Tokenisation
Sensitive data, such as credit card numbers, is replaced by reference values or “tokens”. This can be used without restriction by systems and applications, whereas the original data is saved in a secure, PCI-conform data-safe.

Trust Evaluation Suite
Part of risk management. Through a comprehensive 360-degree assessment, it provides retailers with all relevant information on the consumer in real time and in an automated way.

Virtual card
A payment card that only comprises a card number, a validity period and a security code, and which can only be used in distance transactions (online, MOTO payments) due to the missing physical features (such as a magnetic strip, EMV chip).

Virtual account number
A 10-digit, purpose-linked account number with Wirecard Bank AG, comprising a 3-digit constant part and a 7-digit variable part, which can be freely selected by the company and which clearly identifies the designated purpose and the sender.

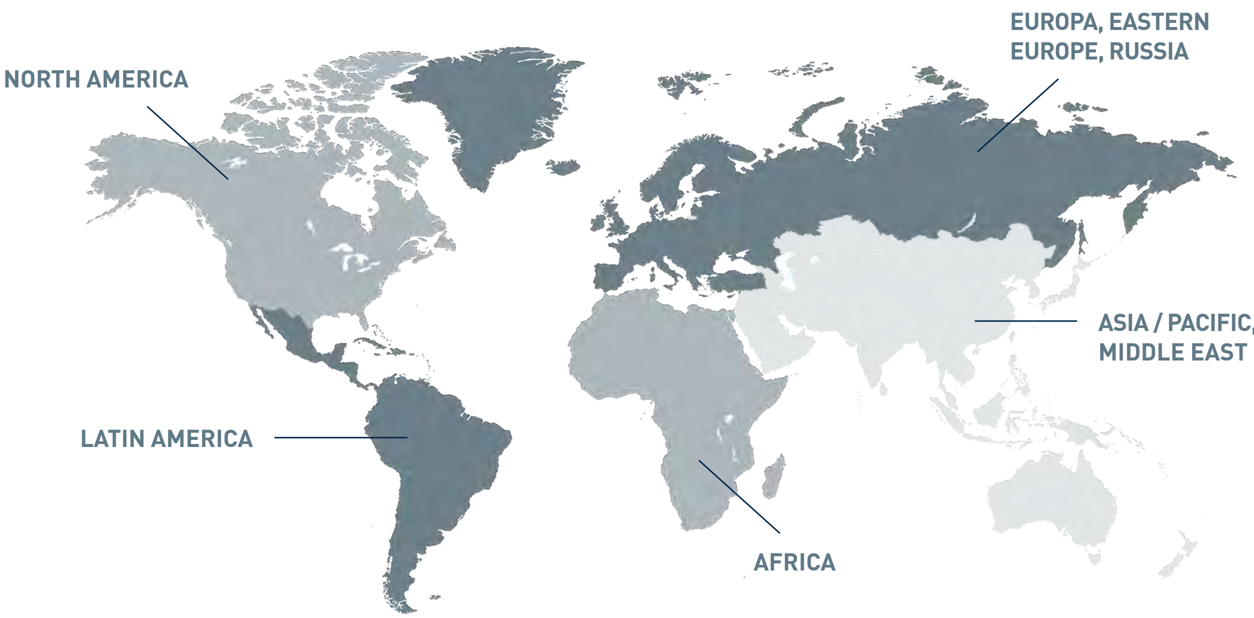
Virtual terminal, Wirecard Checkout Terminal
Internet-assisted user interface for payment acceptance (including via MOTO), which is used in call centres, for example. Allows direct payment acceptance without signature by the paying party. Risk management checks are performed as for online payments.

WEP, Wirecard Enterprise Portal
Wirecard AG’s web-based management and reporting application which provides merchants with all the functions needed to manage payment transactions, adding risk strategies, managing card portfolios and creating reports and statistics.

White label solution
Wirecard solutions which companies create with their own corporate design and offer under their own name.

WIRECARD PAYMENT SCHEMES

THE WIRECARD GROUP OFFERS MERCHANTS VARIOUS NATIONAL AND INTERNATIONAL PAYMENT SCHEMES



PAYMENT METHOD TYPES

ELECTRONIC FUNDS TRANSFER
Direct Debit, Wiretransfer

ONLINE BANKING PAYMENTS
Real-time bank transfer

ALTERNATIVE PAYMENT SCHEMES
Wallet, Cash/Voucher, Online/Offline, Carrier Billing

MOBILE SERVICES
Mobile payments

CARD PAYMENTS
Credit Cards, Debit Cards

ALL COUNTRIES

- MasterCard, Visa, American Express, JCB, Diners International/Discover, UnionPay
- Swift
- PayPal, Skrill Digital Wallet, MasterPass, Wire Transfer, Webmoney, Alipay Crossborder, Voucher by ValueMaster, Visa Checkout

ADDITIONAL PAYMENT METHODS

ASIA PACIFIC

Australia
- POLi

China
- Alipay, Tenpay
- UPOP

- WeChat Pay

India
- iCashcard
- Billdesk

Indonesia
- Carrier Billing

Malaysia
- Maybank2u, CIMB Clicks
- FPX

New Zealand
- POLi

Philippines
- Maybank2u, CIMB Clicks

Singapore
- Maybank2u, CIMB Clicks

Thailand
- Carrier Billing

AFRICA

South Africa
- Carrier Billing
- MobiCred

NORTH AMERICA

- Safety Pay

USA
- Apple Pay

Canada
- Carrier Billing

LATIN AMERICA

- Safety Pay

Brazil
- Boleto Bancario

Mexico
- Carrier Billing

EUROPE

- Alipay (Barcode Zahlung)
- paysafecard, Carrier Billing
- Maestro, VPay
- WeChat Pay

Austria
- eps, SofortBanking
- Klarna, Payolution
- paybox
- SEPA Direct Debit, SEPA Credit Wiretransfer
- Safety Pay

Belgium
- SofortBanking, Bancontact/Mister Cash
- SEPA Direct Debit, SEPA Credit Wiretransfer
- Safety Pay

Bulgaria
- ePay.bg, Trustpay
- SEPA Direct Debit, SEPA Credit Wiretransfer

Czech Republic
- eplatby
- Trustpay
- SEPA Direct Debit, SEPA Credit Wiretransfer

Denmark
- Klarna, Trustpay
- SEPA Direct Debit, SEPA Credit Wiretransfer

Estland
- Trustly
- Trustpay
- SEPA Direct Debit, SEPA Credit Wiretransfer

Finland
- Euteller
- Trustly
- Klarna, Trustpay
- SEPA Direct Debit, SEPA Credit Wiretransfer

France
- SEPA Direct Debit, SEPA Credit Wiretransfer

Germany
- giropay, SofortBanking
- Guaranteed Installments, Guaranteed Payment on Invoice, Klarna, Payolution
- SEPA Direct Debit, SEPA Credit Wiretransfer, Guaranteed Direct Debit
- Safety Pay
- Paydirekt

Italy
- SofortBanking
- SEPA Direct Debit, SEPA Credit Wiretransfer

Netherlands
- iDEAL, SofortBanking
- Klarna, Payolution
- SEPA Direct Debit, SEPA Credit Wiretransfer
- Safety Pay

Norway
- Klarna, Trustpay
- SEPA Direct Debit, SEPA Credit Wiretransfer

Poland
- Trustly, Przelewy24, SofortBanking
- SEPA Direct Debit, SEPA Credit Wiretransfer

Sweden
- Trustly
- Klarna
- SEPA Direct Debit, SEPA Credit Wiretransfer

Switzerland
- SofortBanking
- SEPA Direct Debit, SEPA Credit Wiretransfer
- Postfinance
- Payolution

Spain
- SofortBanking
- SEPA Direct Debit, SEPA Credit Wiretransfer
- Safety Pay

Turkey
- Carrier Billing
- Trustpay

Ukraine
- Moneta.ru, YandexMoney

United Kingdom
- SofortBanking
- SEPA Direct Debit, SEPA Credit Wiretransfer
- Pay by bank app

RUSSIA

- Moneta.ru, YandexMoney

Edition April 2018 (Subject to change)

IMPRINT

PUBLISHER

WIRECARD AG

Einsteinring 35
85609 Aschheim
Germany

www.wirecard.com
Phone +49 (0) 89 / 4424–1400
Fax +49 (0) 89 / 4424–1500
Email contact@wirecard.com

Publication Date: 12.04.2018

INVESTOR RELATIONS

Phone +49 (0) / 4424–1788
Email ir@wirecard.com
ir.wirecard.com

This Annual Report is drawn up in the German language; translation into other languages are made only for informational purposes. In the event the texts diverge, the German text is authoritative.

Management report and consolidated financial statements produced with File.sys publishing solutions.