

THESE LISTING PARTICULARS HAVE BEEN PREPARED SOLELY FOR THE PURPOSES OF ADMITTING THE SECURITIES TO THE OFFICIAL LIST AND TRADING ON THE GLOBAL EXCHANGE MARKET OF THE IRISH STOCK EXCHANGE PLC, TRADING AS EURONEXT DUBLIN

**LISTING PARTICULARS
dated 26 June 2019 of**

CIELO S.A. AND CIELO USA INC.

**relating to
Cielo S.A. 3.750% Senior Notes due 2022
and
Cielo USA Inc. 3.750% Senior Notes due 2022 (guaranteed by Cielo S.A.)**

On 26 June 2019, Cielo S.A., a Brazilian corporation (*sociedade por ações*) (“Cielo”), and Cielo USA Inc., a Delaware corporation (“Cielo USA”, and together with Cielo, the “Issuers”), completed their solicitation (the “Consent Solicitation”) for consents (the “Consents”) from each registered holder (each, a “Holder”) of Notes Units issued by Cielo and Cielo USA (the “Notes Units”) to the proposed amendments (the “Proposed Amendments”), which were made to certain provisions of: (a) the indenture, dated as of November 16, 2012 (as amended and supplemented, the “Indenture”), among Cielo and Cielo USA, as issuers, Cielo, as guarantor of the Cielo USA Notes (the “Guarantor”), and The Bank of New York Mellon, as trustee, registrar, transfer agent and paying agent (the “Trustee”), including amendments to the Indenture to permit the cancellation of the Notes Units that previously consisted of the Cielo Notes and the Cielo USA Notes, resulting in the separate trading of the underlying Cielo Notes and Cielo USA Notes (the “Separation”), and other amendments to the terms of the Indenture related or incidental thereto, and (b) the global notes units and the existing global notes issued by Cielo and Cielo USA pursuant to the Indenture, as applicable (the “Global Notes”).

The Indenture provided that the \$875.0 million in aggregate principal amount of Notes Units issued by the Issuers consisted of \$470.0 million in aggregate principal amount of 3.750% senior notes due 2022 issued by Cielo (the “Cielo Notes”) and \$405.0 million in aggregate principal amount of 3.750% senior notes due 2022 issued by Cielo USA and guaranteed by the Guarantor (the “Cielo USA Notes”, and together with the Cielo Notes, the “Underlying Notes” and each, a “series of Underlying Notes”). Prior to the completion of the Consent Solicitation and the implementation of the Proposed Amendments, the Underlying Notes could only be transferred as part of the Notes Units and could not be traded separately. As a result of the implementation of the Proposed Amendments, among other things, the Notes Units were cancelled and each separate series of Underlying Notes remained outstanding, such that the Cielo Notes were separated from the Cielo USA Notes. As a result of the Separation, Holders became registered holders of each separate series of Underlying Notes, unless a Holder tendered its Notes Units pursuant to the Offer and the Cielo Notes underlying such Notes Units were accepted for purchase, in which case such Holder became a registered holder only of the underlying Cielo USA Notes, and the Notes Units no longer consist of the Underlying Notes or remain outstanding.

In conjunction with the Consent Solicitation, and upon the terms and conditions described in the consent solicitation statement and offer to purchase dated May 23, 2019 (the “Offer to Purchase”), Cielo offered to purchase for cash (the “Offer”) any and all of the Cielo Notes from each registered Holder of Notes Units. On the expiration date for the Consent Solicitation and the Offer, US\$694,010,000.00 in aggregate principal amount of the Notes Units, or approximately 79.32% of the Notes Units outstanding, had been validly tendered and not withdrawn pursuant to the Offer (and thereby 79.32% of the Consents related to such Notes Units had been delivered pursuant to the Consent Solicitation).

On 26 June 2019, which is the date on which payment has been or will be made for the Cielo Notes purchased in the Offer (the “Payment Date”), the Proposed Amendments were implemented and all of the then outstanding Notes Units (including Notes Units held by Holders who did not participate in the Consent Solicitation or the Offer) have been mandatorily separated into Cielo Notes and Cielo USA Notes pursuant to the Separation, and the Cielo Notes and the Cielo USA Notes will trade separately beginning on the date hereof. Cielo accepted for purchase all of the US\$372,782,509 in aggregate principal amount of Cielo Notes underlying the Notes Units validly tendered and not validly withdrawn at or prior to the Consent and Offer Expiration Time, in accordance with and subject to the conditions described in the Offer to Purchase. Any remaining Cielo Notes not purchased by Cielo pursuant to the Offer, and all Cielo USA Notes, have been delivered to Holders as a consequence of such Holders’ existing interest in the Cielo Notes and/or the Cielo USA Notes through their respective holding of Notes Units. As such, the delivery of any such Cielo Notes and/or Cielo USA Notes does not constitute the sale of a new security for the purposes of applicable securities laws, rules and regulations.

On 26 June 2019, the Issuers executed an amended and restated Indenture, which will govern the Underlying Notes and the guarantee of Cielo (the “Amended and Restated Indenture”) and amended and restated Global Notes, which have replaced the Global Notes which were originally issued on 16 November 2012 and will be executed and authenticated in global form on 26 June 2019 (the “Amended and Restated Global Notes”), which have become operative and applicable to all Holders, whether or not such Holder delivered Consents pursuant to the Consent Solicitation. On 26 June 2019, the Proposed Amendments were implemented and all of the then outstanding Notes Units (including Notes Units held by Holders who did not participate in the Consent Solicitation or the Offer) have been mandatorily separated (the “Mandatory Corporate Action”) into Cielo Notes and Cielo USA Notes pursuant to the Separation. Any Cielo Notes that were not purchased in the Offer and remain outstanding will be traded in minimum denominations of \$100,000 and any integral multiple of \$1.00 in excess thereof, and all Cielo USA Notes will be traded in minimum denominations of \$90,000 and any integral multiple of \$1.00 in excess thereof. The Amended and Restated Indenture and the Amended and Restated Global Notes are governed by New York law.

Following the Separation, and reflecting rounding adjustments and redemption of positions below the applicable minimum denomination that were held by DTC direct participants who did not tender such positions in the Offer, the outstanding aggregate principal amount of Cielo Notes is US\$97,150,869 and the outstanding aggregate principal amount of Cielo USA Notes is US\$404,942,196, which are currently allocated as follows:

	Cielo Notes		Cielo USA Notes	
	CUSIP / ISIN	Aggregate Principal Amount Outstanding	CUSIP / ISIN	Aggregate Principal Amount Outstanding
Rule 144A Notes	171778AA1 / US171778AA15	None	17178VAA9 / US17178VAA98	US\$67,865,932.00
Regulation S Notes	P28611AA2 / USP28611AA29	US\$97,150,869.00	U1714UAA3 / USU1714UAA35	US\$337,076,264.00

There will be no change in the interest payment terms of the Cielo Notes or the Cielo USA Notes as a result of the Consent Solicitation or the Offer. Interest on the notes units will continue to be payable semi-annually in arrears on 16 May and 16 November of each year, with the next interest payment date on 16 November 2019.

In connection with the Separation, the Issuers seek to list the Cielo Notes and the Cielo USA Notes on the Official List of Euronext Dublin (as defined below) and to have the Cielo Notes and the Cielo USA Notes admitted to trading on the Global Exchange Market of Euronext Dublin following the delisting of the Notes Units therefrom.

This document is a “wrapper” that supplements, and should be read in conjunction with: (a) the Issuers’ offering memorandum, dated 9 November 2012, relating to the original issuance of the Notes Units and the Underlying Notes (the “Offering Memorandum”), attached hereto as Annex A; (b) Cielo’s audited consolidated financial statements for the years ended 31 December 2018 and 2017 (the “Audited Financial Statements”), attached hereto as Annex B; and (c) Cielo’s individual and consolidated financial statements for the three-month period ended 31 March 2019 (the “Interim Financial Statements”), attached hereto as Annex C.

The documents attached as Annex A, B and C shall be referred to as the “Annexed Documents”. This document, together with the Annexed Documents hereto and the documents herein incorporated by reference, constitutes the listing particulars (the “Listing Particulars”) in respect of the admission of the Cielo Notes and the Cielo USA Notes to the Official List and to trading on the Global Exchange Market of Euronext Dublin. If the information in this document differs from the information contained in Annex A, B or C, you should rely on the information in this document.

Application has been made to the Irish Stock Exchange plc, trading as Euronext Dublin (“Euronext Dublin”) for the approval of this document as Listing Particulars. Application has been made to Euronext Dublin for the Cielo Notes and the Cielo USA Notes to be admitted to the Official List and trading on the Global Exchange Market, which is the exchange regulated market of Euronext Dublin. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC.

The Issuers accept responsibility for the information contained in the Listing Particulars. To the best of the knowledge of the Issuers, which have taken all reasonable care to ensure that such is the case, the information contained in the Listing Particulars is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Listing Particulars have not been filed with or reviewed by the U.S. Securities and Exchange Commission

(“SEC”) or any other federal or state securities commission or regulatory authority of any jurisdiction, nor has the SEC or any such commission or authority passed upon the accuracy or adequacy of the Listing Particulars or any of the other documents delivered herewith. Any representation to the contrary is unlawful and may be a criminal offense.] The Consent Solicitation and the Offer did not constitute the sale of a new security or the solicitation of an offer to buy a new security for the purposes of all applicable securities laws, rules and regulations.

The Listing Particulars do not constitute (i) a prospectus for the purposes of Part VI of the Financial Services and Markets Act 2000 (as amended) or (ii) a base prospectus for the purposes of Directive 2003/71/EC (as amended) (the “Prospectus Directive”). The Listing Particulars have been prepared solely with regard to the Cielo Notes and the Cielo USA Notes that are (i) not to be admitted to listing or trading on any regulated market for the purposes of the Markets in Financial Instruments Directive (2004/39/EC) and (ii) not to be offered to the public in a Member State (other than pursuant to one or more of the exemptions set out in Article 3.2 of the Prospectus Directive). The Listing Particulars have not been approved or reviewed by any regulator which is a competent authority under the Prospectus Directive.

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1. SUMMARY

The Underlying Notes were issued under the Indenture. The Underlying Notes are in the form of one or more global notes registered in the name of the nominee for, and deposited with, The Depository Trust Company.

The terms of the Underlying Notes are summarized in the Offering Memorandum. Such summaries are subject to, and are qualified in their entirety by reference to, all the terms and conditions of the Underlying Notes as set out in the Amended and Restated Indenture (which contains the Cielo guarantee of the Cielo USA Notes) and the Amended and Restated Global Notes.

2. INCORPORATION BY REFERENCE

No documents are being incorporated by reference to form part of the Listing Particulars. Any website referred to in the Listing Particulars, including in any of the Annexed Documents, does not form part of the Listing Particulars.

3. DOCUMENTS AVAILABLE FOR INSPECTION

For the life of the Listing Particulars, electronic and physical copies of (i) the Amended and Restated Indenture, (ii) Cielo's audited consolidated financial statements for the years ended 31 December 2018 and 2017 and (iii) Cielo's bylaws will remain available for inspection in English and in Portuguese at the principal executive office of Cielo and Cielo USA located at Alameda Xingu, 512, Alphaville, Barueri, São Paulo, Brazil, 06455-030, and items (ii) and (iii) will be available for inspection on Cielo's website at: <https://www.cielo.com.br/>.

4. NO MATERIAL ADVERSE CHANGE

Save as disclosed in the Listing Particulars, there has been no material adverse change in the prospects of the Issuers since 31 December 2018 (the date of the last published audited consolidated financial statements of Cielo), and there has been no significant change in the financial or trading position of the Issuers since 31 March 2019 (the date of the last published interim consolidated financial statements of Cielo).

5. DESCRIPTION OF THE ISSUER

Introduction

Cielo S.A.

Cielo, the issuer of the Cielo Notes underlying the Notes Units, is a corporation (*sociedade anônima*) which was incorporated under the laws of Brazil in November 1995. It has corporate registration numbers CNPJ/MF nº 01.027.058/0001-91; NIRE 35.300.144.112.

Cielo operates in a transaction acquiring and processing environment of cards of several brands, such as Visa, MasterCard, American Express, Diners Club International, which are the most widely accepted brands internationally, in addition to Japan Credit Bureau, Elo and Hiper, among others. Cielo is also present in the vouchers segment and the food-to-go market, working with brands such as Alelo, Sodexo and Sorocred, among others, and in the United States through Merchant e-Solutions.

In addition to products and services traditionally offered in the electronic payments industry, Cielo has a track record of providing innovative solutions in segments that bring synergies to its activities. Cielo was a pioneer in offering a network of infrastructure for correspondent banking services, mobile phone recharge and electronic vouchers. Additionally, Cielo has broad experience in providing purchase of receivables services related to credit card transactions, in single payments and in installments.

Cielo USA Inc.

Cielo USA, the issuer of the Cielo USA Notes underlying the Notes Units, is a direct wholly-owned subsidiary of Cielo. Cielo USA is a corporation which was incorporated under the laws of the State of Delaware on June 27, 2012. It has Delaware corporate file number 5176563. On August 31, 2012, Cielo USA acquired Merchant e-Solutions, Inc. ("Me-S"), a Silicon Valley-based provider of full-service global payment solutions, which became a direct, wholly-owned subsidiary of Cielo USA. Cielo USA, through its subsidiary Me-S, currently provides services related to enabling electronic payments with credit

cards and debit cards, including the authorization of transactions, financial settlements and reporting of transactions to merchants in the U.S. market.

Under Cielo USA's Certificate of Incorporation, Cielo USA is permitted to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

The principal executive office of Cielo and Cielo USA is located at Alameda Xingu, 512, Alphaville, Barueri, São Paulo, Brazil, 06455-030, and its telephone number is +55 (11) 2596-8453.

Directors

The name, functions and principal activities performed outside duties to the Issuers (where significant to the Issuers) of the Issuers' directors are set forth below, with additional information available on Cielo's website at: <https://www.cielo.com.br/>. All of the directors of the Issuer have their business address at the Issuers' principal executive office.

<i>Cielo S.A. – Name and Title</i>
Marcelo Augusto Dutra Labuto (Board Member)
Francisco José Pereira Terra (Board Member)
Marcelo de Araujo Noronha (Board Member)
Vinicius Urias Favarão (Board Member)
Aldo Luiz Mendes (Board Member - Independent)
Francisco Augusto da Costa e Silva (Board Member - Independent)
Gilberto Mifano (Board Member - Independent)
Artur Padula Omuro (Board Member)
Carlos Hamilton Vasconcelos Araújo (Board Member)
Carlos Motta dos Santos (Board Member)
Danilo Aleixo Caffaro (Officer)
Renata Baiense de Paiva Greco (Officer)
Gustavo Henrique Santos de Sousa (Chief Financial Officer)
Sergio Saraiva Castelo Branco de Pontes (Officer)
Danilo Ricardo Bono Zimmermann (Officer)
Paulo Rogério Caffarelli (Chief Executive Officer)
Marcelo de Giuseppe Toniolo (Officer)
Edison Yoshiharu Kinoshita (Officer)

<i>Cielo USA Inc. – Name and Title</i>
Gustavo Henrique Santos de Sousa (Director)
Pedro Gomide Margon Netto Faiad (Director)

Other than as disclosed in these Listing Particulars, there are no existing or potential conflicts of interest between any duties owed to the Issuers by the respective directors of the Issuers and the private interests and/or external duties owed by the directors of the Issuers.

Major Shareholders

As of the date of the Listing Particulars, Banco Bradesco S.A. owned, directly or indirectly, 30.06% of Cielo's capital stock and Banco do Brasil, through BB Banco de Investimento S.A., owned 28.65% of Cielo's capital stock. Further information relating to major shareholders of Cielo is set forth on Cielo's website at: <https://www.cielo.com.br/>.

Cielo USA is a direct wholly-owned subsidiary of Cielo.

Auditors

KPMG Auditores Independentes (located at Avenida Dionysia Alves Barreto, 500, Conj. 1001, Osasco / São Paulo,

Brazil) has audited without qualification Cielo's audited consolidated financial statements for the years ended 31 December 2018 and 2017, which are included in Annex B to these Listing Particulars, and it has performed an independent review of Cielo's individual and consolidated financial statements for the three-month period ended 31 March 2019, which are included in Annex C to these Listing Particulars.

Legal and Arbitration Proceedings

The Issuers are subject to certain claims and are party to certain legal proceedings in the normal course of business. Neither Issuer has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which such Issuer is aware) over the past 12 months, which may have, or have had in the recent past, significant effects on such Issuer's financial position or profitability. Further information relating to legal proceedings is set forth in Note 14 to the Interim Financial Statements.

6. RISK FACTORS AND CERTAIN SIGNIFICANT CONSIDERATIONS

The "Risk Factors" section of the Offering Memorandum included in Annex A to these Listing Particulars refers to certain risks related to the Underlying Notes, and the following significant considerations should also be reviewed with respect to the Underlying Notes.

Effect of the Proposed Amendments

If the Proposed Amendments are effected, the Notes Units will be cancelled, with each separate series of Underlying Notes remaining outstanding, such that the Cielo Notes will be separated from the Cielo USA Notes. As a result of the Separation, Holders will become registered holders of each separate series of Underlying Notes, unless a Holder has tendered its Notes Units pursuant to the Offer and the Cielo Notes underlying such Notes Units were accepted for purchase, in which case such Holder will become a registered holder only of the underlying Cielo USA Notes, and the Notes Units will no longer consist of the Underlying Notes or remain outstanding. The implementation of the Proposed Amendments may adversely affect the market price of the Cielo Notes and/or Cielo USA Notes and otherwise be adverse to the interests of the Holders of the Cielo Notes and/or Cielo USA Notes.

Limited Trading Market; Reduced Liquidity as a Result of the Offer

The Issuers intend to apply to list the Cielo Notes and the Cielo USA Notes on the Official List of Euronext Dublin and to have the Cielo Notes and the Cielo USA Notes admitted to trading on the Global Exchange Market of Euronext Dublin in connection with the Separation following the delisting of the Notes Units therefrom.

To the extent that Notes Units are tendered and Cielo Notes are accepted for purchase in the Offer, the trading market for the Cielo Notes would become more limited. A debt security with a smaller outstanding principal amount available for trading (a smaller "float") may command a lower price than would a comparable debt security with a greater float. Therefore, the market price for such Cielo Notes not purchased may be adversely affected to the extent that the principal amount of such Cielo Notes purchased pursuant to the Offer reduces the float. The reduced float may also tend to make the trading price more volatile. Holders of the Cielo Notes not purchased may attempt to obtain quotations for their Cielo Notes from their brokers; however, there can be no assurance that any trading market will exist for the Cielo Notes following consummation of the Offer. The extent of the public market for the Cielo Notes following consummation of the Offer will depend upon, among other things, the remaining outstanding principal amount of such Cielo Notes after the Offer, the number of Holders of such Cielo Notes remaining at such time and the interest in maintaining a market in such Cielo Notes on the part of securities firms and other factors. Cielo does not intend to create or sustain a market for any Cielo Notes that remain outstanding following the consummation of the Offer. As a result, Holders that do not tender their Notes Units in the Offer may not be able to sell their Cielo Notes at prices they consider adequate, or at all, after the closing of the Offer.

Effect of the Offer on Holders of Notes Units Tendered and Underlying Cielo Notes Accepted in the Offer

If Notes Units are validly tendered and the Cielo Notes are accepted for purchase, Holders will be giving up all of their rights as a Holder of those Cielo Notes, including, without limitation, their right to future interest or cash distributions and principal payments with respect to such Cielo Notes.

7. GENERAL INFORMATION

- (a) The Bank of New York Mellon SA/NV, Dublin Branch is acting solely in its capacity as listing agent for the Issuers in connection with the Underlying Notes and is not itself seeking admission of the Underlying Notes to trading on the Global Exchange Market of Euronext Dublin.
- (b) The Consent Solicitation and the Offer involving the Separation of the Underlying Notes was authorized by resolutions of the Issuers' board of directors, dated 23 May 2019.
- (c) An estimate of the total expenses related to the admission of trading to the Global Exchange Market is approximately €5,000.00.
- (d) The Bank of New York Mellon is acting as registrar for the Underlying Notes and its principal office is 101 Barclay Street, Floor 4-E, New York, New York 10286.
- (e) The CUSIP and ISIN:
 - For the Cielo Notes are:
 - o 144A Notes: CUSIP: 171778AA1 and ISIN: US171778AA15
 - o Reg S Notes: CUSIP: P28611AA2 and ISIN: USP28611AA29
 - For the Cielo USA Notes (guaranteed by Cielo S.A.) are:
 - o 144A Notes: CUSIP: 17178VAA9 and ISIN: US17178VAA98
 - o Reg S Notes: CUSIP: U1714UAA3 and ISIN: USU1714UAA35
- (f) The terms and conditions of the Cielo Notes and the Cielo USA Notes are substantially the same as those set out in the "Description of the Notes Units" section of the Offering Memorandum included in Annex A of these Listing Particulars, subject to, and qualified in their entirety by reference to, all the terms and conditions of the Underlying Notes as set out in the Amended and Restated Indenture and the Amended and Restated Global Notes, which include the implementation of Proposed Amendments to the Indenture that are summarized below:

Proposed Amendments to the Indenture

The Proposed Amendments to be made to the Indenture pursuant to the Amended and Restated Indenture consist of the following:

Separation of Underlying Notes from Notes Units. The Proposed Amendments would provide that the Notes Units will be cancelled, with each separate series of Underlying Notes remaining outstanding, such that the Cielo Notes will be separated, and will trade separately, from the Cielo USA Notes. As a result of this Separation, Holders will become registered holders of each separate series of Underlying Notes, unless a Holder has tendered its Notes Units pursuant to the Offer and the Cielo Notes underlying such Notes Units were accepted for purchase, in which case such Holder will become a registered holder only of the underlying Cielo USA Notes, and the Notes Units will no longer consist of the Underlying Notes or remain outstanding. Subject to the additional provisions to be amended below, the Proposed Amendments would reflect certain changes in the Amended and Restated Indenture of a technical or conforming nature as a result of this Separation, including:

- (a) the deletion, where applicable, of references to the terms "Notes Units" and "Notes Unit" or, where appropriate, the replacement of references to these terms with references to the Underlying Notes, or an Underlying Note, as well as the deletion of defined terms and other references related to such terms, but made irrelevant as a result of the deletion or replacement of such terms; *provided* that these terms will not be deleted or replaced in Section 10.02; and
- (b) the replacement of references to the terms "Securities" and "Security", which refer to, respectively, the Notes Units and the Underlying Notes, together, or any of the Notes Units and the Underlying Notes, individually, with references to the Underlying Notes, or an Underlying Note, as appropriate, as well as the deletion of defined terms and other references related to such terms, but made irrelevant as a result of the replacement of such terms; *provided* that these terms will not be deleted or replaced in Section 10.02.

For the avoidance of doubt, the implementation of the Proposed Amendments would reflect certain changes in the Amended and Restated Indenture of a technical or conforming nature as a result of the Separation, including, but not limited to, changes to the definition of Notes Units, the definition of Rating Decline, Section 2.01 (Form and Dating), Section 2.06 (Transfer and Exchange), Section 3.07 (Optional Clean-Up Redemption), Section 7.01 (Events of Default), Section 9.01 (Satisfaction and Discharge of Liability on Securities) and Section 9.05 (Defeasance).

In addition, the Issuers may reflect certain changes in the Amended and Restated Indenture which do not require the consent or vote of any Holder pursuant to Section 10.01 of the Indenture, to surrender certain rights conferred upon the Issuers or the Guarantor by the Indenture, the Cielo Notes or the Cielo USA Notes, such as the right of the Issuers to issue additional securities under Section 2.12 of the Indenture.

Certain of the Proposed Amendments to be made to the Indenture are described in more detail below.

Section 2.01 – Form and Dating. This provision requires that the Notes Units be in the minimum denomination of \$200,000 and integral multiples of \$1,000 in excess thereof. The Proposed Amendments would provide that the Cielo Notes would be in the minimum denomination of \$100,000 and integral multiples of \$1.00 in excess thereof and that the Cielo USA Notes would be in the minimum denomination of \$90,000 and integral multiples of \$1.00 in excess thereof.

Section 2.06 – Transfer and Exchange. This provision restricts the ability of the Issuers to transfer a Cielo Note without its counterpart Cielo USA Note, and vice versa. The Proposed Amendments would remove this restriction, allowing a Cielo Note to be transferred without its counterpart Cielo USA Note, and vice versa.

Section 4.13 – Ireland Listing. This provision provides that the Issuers and the Guarantor will each use commercially reasonable efforts to obtain and maintain listing of the Notes Units on the Official List of Euronext Dublin. The Proposed Amendments will provide that the Issuers and the Guarantor will each use their commercially reasonable efforts to obtain and maintain listing of the Cielo Notes and the Cielo USA Notes on the Official List of Euronext Dublin as soon as reasonably practicable after the Separation; provided, that the Cielo Notes and the Cielo USA Notes may remain unlisted for a period of time while the Issuers and the Guarantor seek to obtain such listing.

Section 7.01 – Events of Default. This provision provides that:

- (a) a Default under Section 7.01(3) (which provides that the Guarantor or either of the Issuers fails to comply with any covenants or agreements in the Notes Units, Underlying Notes or the Indenture (other than a default in the payment of interest or principal) after a cure period) will not constitute an Event of Default until the Trustee (acting at the written direction of Holders of at least 25% in principal amount of the Notes Units and Underlying Notes) or the Holders of at least 25% in principal amount of the Notes Units and Underlying Notes outstanding notify the Guarantor and the Issuers (with a copy to the Trustee, if provided by the Holders) of the Default and the Guarantor or the Issuers do not cure such Default within the time specified after receipt of such notice; and
- (b) if an Event of Default (other than an Event of Default specified in Section 7.01(6) with respect to the dissolution of the Guarantor or an Issuer) occurs and is continuing, the Trustee (acting at the written direction of Holders of at least 25% in principal amount of the Notes Units and the Underlying Notes) or the Holders of not less than 25% in principal amount of the Notes Units and the Underlying Notes then outstanding may declare all unpaid principal of and accrued interest on all Notes Units and the Underlying Notes to be due and payable immediately, by a notice in writing to the Issuers (with a copy to the Trustee, if provided by the Holders), and upon any such declarations such amounts will become due and payable immediately.

The Proposed Amendments would provide that the actions required to be taken by the Holders of at least 25% in principal amount of the Notes Units and Underlying Notes above, and the rights of such Holders if this threshold is reached, would be separated for each of the Cielo Notes and Cielo USA Notes. For example, Holders of at least 25% in principal amount of the Cielo Notes then outstanding would be able to declare all unpaid principal and accrued interest on all Cielo Notes to be due and payable immediately if an Event of Default occurs and is continuing pursuant to the current terms of the Indenture. A declaration of an Event of Default under the Cielo Notes by the Holders of at least 25% in principal amount of the Cielo Notes then outstanding also constitutes a declaration of an Event of Default under the Cielo USA Notes, and a declaration of an Event of Default under the Cielo USA Notes by the Holders of at least 25% in principal amount of the Cielo USA Notes then outstanding also constitutes a declaration of an Event of Default under the Cielo Notes.

Section 9.01 – Satisfaction and Discharge of Liability on Securities. This provision provides that the Indenture will be discharged and (together with the Guarantee of Cielo) will cease to be of further effect as to all Securities issued under the Indenture upon the occurrence of certain events (including the payment of all sums payable by the Issuers and the Guarantor under the Indenture). The Proposed Amendments would provide, (a) that the Amended and Restated Indenture would be discharged and cease to be of further effect as to the Cielo Notes upon the occurrence of certain events, and the current list of applicable events set forth in the Indenture would be amended to refer to “Cielo” and the “Cielo Notes”, rather than to the “Issuers”, the “Guarantor” and the “Securities”, and (b) separately, that the Amended and Restated Indenture would be discharged and (together with the Guarantee of Cielo) cease to be of further effect as to the Cielo USA Notes upon the occurrence of certain events, and the current list of applicable events set forth in the Indenture would be amended to refer only to “Cielo USA”, the “Guarantor” and the “Cielo USA Notes”, rather than to the “Issuers” and the “Securities”.

Section 9.05 – Defeasance. This provision provides that the Guarantor and the Issuers may at any time terminate all of their obligations, (a) with respect to the Notes Units and Underlying Notes (“*Defeasance*”), except for certain specific obligations, and (b) under certain covenants set forth in the Indenture without constituting a Default or Event of Default with respect to the Notes Units and Underlying Notes (“*Covenant Defeasance*”). The Proposed Amendments would provide for the separation of the rights and obligations of the Issuers and the Guarantor under Section 9.05, including any conditions or requirements for the exercise of the Defeasance or Covenant Defeasance, such that Cielo’s rights and obligations under Section 9.05 would relate only to the Cielo Notes and the Guarantor’s and Cielo USA’s rights and obligations under Section 9.05 would relate only to the Cielo USA Notes.

Proposed Amendments to the Global Notes

The Proposed Amendments to be made to the Global Notes pursuant to the Amended and Restated Global Notes consist of the following:

Conforming Changes to Amended and Restated Indenture. The Proposed Amendments would reflect certain changes in the Amended and Restated Global Notes of a technical or conforming nature as a result of the changes that would be reflected in similar provisions of the Amended and Restated Indenture.

CUSIP and ISIN numbers. The Amended and Restated Global Notes would reflect CUSIP and ISIN numbers for Cielo Notes and Cielo USA Notes that will result from the Separation, which will be obtained by each respective Issuer and will become effective upon the execution and delivery of the Amended and Restated Indenture and of the Amended and Restated Global Notes.

Implementation of Proposed Amendments

After the conclusion of the Consent Solicitation and the Offer, and subject to the receipt of the Required Consents at or before the Consent and Offer Expiration Time, on the Payment Date, the Mandatory Corporate Action will be implemented in respect of all Notes Units then outstanding (including Notes Units held by Holders who did not participate in the Consent Solicitation or the Offer) pursuant to the Separation. Following the Separation, any Cielo Notes that are not purchased in the Offer and remain outstanding will be traded in minimum denominations of \$100,000 and any integral multiple of \$1.00 in excess thereof, and all Cielo USA Notes will be traded in minimum denominations of \$90,000 and any integral multiple of \$1.00 in excess thereof. Cielo Notes and/or Cielo USA Notes will be credited to the respective Holder’s applicable account at DTC, with the principal amount thereof rounded down to the nearest \$1.00.

Consents are sought with respect to all of the Proposed Amendments as a single proposal. Holders the Notes Units must consent to the Proposed Amendments as an entirety and may not consent selectively with respect to certain of the Proposed Amendments.

If the Proposed Amendments become operative, Holders will become registered holders of each separate series of Underlying Notes, unless a Holder has tendered its Notes Units pursuant to the Offer and the Cielo Notes underlying such Notes Units were accepted for purchase, in which case such Holder will become a registered holder only of the underlying Cielo USA Notes, and the Notes Units will no longer consist of the Underlying Notes or remain outstanding. We intend to execute the Amended and Restated Indenture and the Amended and Restated Global Notes on the Payment Date. The Amended and Restated Indenture and the Amended and Restated Global Notes will become effective, in each case, when executed by the applicable Issuers and the Trustee.

ANNEX A
Offering Memorandum
[See attached.]

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) U.S. PERSONS WHO ARE QUALIFIED INSTITUTIONAL BUYERS ("QIBs") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, AS AMENDED (THE "SECURITIES ACT")) AND (2) NON-US PERSONS (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) OUTSIDE THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum following this page, and you are advised to read this carefully before reading, accessing or making any other use of the offering memorandum. In accessing the offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE LAWS OF OTHER JURISDICTIONS. THE OFFERING MEMORANDUM AND THE OFFER OF THE NOTES UNITS ARE ONLY ADDRESSED TO AND DIRECTED AT PERSONS IN MEMBER STATES OF THE EUROPEAN ECONOMIC AREA WHO ARE "QUALIFIED INVESTORS" WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE (DIRECTIVE 2003/71/EC) AND RELATED IMPLEMENTATION MEASURES IN MEMBER STATES ("QUALIFIED INVESTORS"). IN ADDITION, IN THE UNITED KINGDOM THE OFFERING MEMORANDUM IS ONLY BEING DISTRIBUTED TO PERSONS WHO HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AND OTHER PERSONS TO WHOM IT MAY OTHERWISE LAWFULLY BE COMMUNICATED (ALL SUCH PERSONS TOGETHER REFERRED TO AS "RELEVANT PERSONS"). ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFERING MEMORANDUM RELATES IS AVAILABLE ONLY TO (I) IN THE UNITED KINGDOM, RELEVANT PERSONS, AND (II) IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA OTHER THAN THE UNITED KINGDOM, QUALIFIED INVESTORS, AND WILL BE ENGAGED IN ONLY WITH SUCH PERSONS. IN ADDITION, NO PERSON MAY COMMUNICATE OR CAUSE TO BE COMMUNICATED ANY INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY, WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (THE "FSMA"), RECEIVED BY IT IN CONNECTION WITH THE ISSUE OR SALE OF THE NOTES UNITS OTHER THAN IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FSMA DOES NOT APPLY TO US.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view this offering memorandum or make an investment decision with respect to the securities, an investor must be either (1) a U.S. Person who is a QIB or (2) a non-US person (within the meaning of Regulation S under the Securities Act) outside the U.S. This offering memorandum is being sent at your request and by accepting the e-mail and accessing this offering memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) non-U.S. persons (within the meaning of Regulation S under the Securities Act) and that the electronic mail address that you gave us and to which this offering memorandum has been delivered is not located in the U.S., and (2) that you consent to delivery of such offering memorandum by electronic transmission.

You are reminded that this offering memorandum has been delivered to you on the basis that you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this offering memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of the issuers in such jurisdiction.

This offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently neither the initial purchasers, nor any person who controls them nor any of their directors, officers, employees nor any of their agents nor any affiliate of any such person accept any liability or responsibility whatsoever in respect of any difference between this offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the initial purchasers.

U.S.\$875,000,000 NOTES UNITS

consisting of

Cielo S.A.*(incorporated in the Federative Republic of Brazil)***U.S.\$470,000,000****3.750% Senior Notes Due 2022****Cielo USA Inc.***(incorporated under the laws of Delaware)***U.S.\$405,000,000****3.750% Senior Notes Due 2022**

guaranteed by:



Cielo S.A., or Cielo, and Cielo USA Inc., or Cielo USA, collectively referred to as the “issuers,” are offering U.S.\$875.0 million in aggregate principal amount of notes units, consisting of U.S.\$470.0 million in aggregate principal amount of 3.750% senior notes due November 16, 2022 issued by Cielo, or the Cielo Notes, and U.S.\$405.0 million in aggregate principal amount of 3.750% senior notes due November 16, 2022 issued by Cielo USA, or the Cielo USA Notes, and together with the Cielo Notes, the underlying notes. The Cielo USA Notes will be guaranteed by Cielo, pursuant to the guarantee. Each U.S.\$1,000 notes unit consists of U.S.\$537.14 in principal amount of Cielo Notes and U.S.\$462.86 in principal amount of Cielo USA Notes. The underlying notes may only be transferred as part of the notes units and will not trade separately.

Interest on the notes units will be payable semi-annually in arrears on May 16 and November 16 of each year, beginning on May 16, 2013.

The issuers may, subject to certain conditions, redeem the notes units and the underlying notes (provided that each of the issuers redeems an equal principal amount of its respective underlying notes), in whole or in part, at any time, by paying the principal amount of the underlying notes to be redeemed plus the applicable “make-whole” amount and accrued interest and additional amounts to, but excluding, the date of redemption. The notes units and the underlying notes may, at the option of the issuers, be redeemed, in whole or in part, at 100% of the then-outstanding principal amount of the underlying notes plus accrued and unpaid interest and additional amounts, if any, to, but excluding, the date of redemption, on any date upon the occurrence of specified events relating to withholding tax, as set forth in this offering memorandum. The underlying notes and the guarantee will rank equally in right of payment with all other present and future senior unsecured obligations of applicable issuer and of the guarantor, respectively (except for any obligations that may be preferred by provisions of law that are both mandatory and of general application). The underlying notes and the guarantee will be effectively junior to the secured indebtedness of the issuers to the extent of the value of the assets securing such debt and structurally junior to the liabilities of the issuers’ subsidiaries.

There is currently no public market for the notes units. We have applied to have the notes units listed on the Official List of the Irish Stock Exchange and admitted to trading on the Global Exchange Market of the Irish Stock Exchange. This offering memorandum comprises “Listing Particulars” for the purpose of the application to the Irish Stock Exchange for the listing of the notes units.

Investing in the notes units involves risks. See “Risk Factors” beginning on page 17 for certain information that you should consider before investing in the notes units.

Price: 99.316% plus accrued interest, if any, from November 16, 2012.

Delivery of the notes units in book-entry form will be made on or about November 16, 2012 through The Depository Trust Company, or DTC, and its participants, including Euroclear Bank S.A./N.V., or Euroclear, and Clearstream Banking, société anonyme, Luxembourg, or Clearstream.

The notes units have not been registered under the Securities Act of 1933, as amended, or the Securities Act. The notes units may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A and to certain non-U.S. persons in offshore transactions in reliance on Regulation S. You are hereby notified that sellers of the notes units may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

*Joint Bookrunners***BB Securities****Bradesco BBI****Goldman, Sachs & Co.**

The date of this offering memorandum is November 9, 2012.

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You should only rely on the information contained in this offering memorandum. Neither we nor the initial purchasers have authorized anyone to provide you with different information. Neither we nor the initial purchasers are making an offer of the notes units in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this offering memorandum is accurate at any date other than the date on the front of this offering memorandum, regardless of the time of delivery of this offering memorandum or any sale of the notes units.

Unless otherwise indicated or the context otherwise requires:

- Unless otherwise indicated or the context otherwise requires, all references in this offering memorandum to “our company,” “we,” “our,” “ours,” “us” or similar terms are to Cielo and its consolidated subsidiaries and jointly controlled companies.
- all references to the “issuers” are to Cielo and Cielo USA, collectively;
- all references to the “guarantor” are to Cielo; and
- all references to “Brazil” are to the Federative Republic of Brazil.

We confirm, having made all reasonable inquiries, that the information contained in this offering memorandum with regard to us is true and accurate in all material respects, that the opinions and intentions expressed in this offering memorandum are honestly held, and that there are no other facts the omission of which would make this offering memorandum as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect. We accept responsibility accordingly.

We have taken all reasonable care to ensure that the information contained in this offering memorandum is accurate, to the best of our knowledge, in accordance with the facts and contains no omissions likely to affect its import.

This offering memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any notes units offered hereby by any person in any jurisdiction in which it is unlawful for such person to make an offer or solicitation. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstances imply that there has been no change in our affairs or the affairs of our subsidiaries or that the information set forth in this offering memorandum is correct as of any date subsequent to the date of this offering memorandum.

This offering memorandum is highly confidential and has been prepared by us solely for use in connection with the proposed offering of the notes units. BB Securities Ltd., Banco Bradesco BBI S.A. and Goldman, Sachs & Co. will act as initial purchasers with respect to the offering of the notes units. This offering memorandum is personal to you and does not constitute an offer to any other person or to the public in general to subscribe for or otherwise acquire the notes units. You are authorized to use this offering memorandum solely for the purpose of considering the purchase of the notes units. Distribution of this offering memorandum by you to any person other than those persons retained to advise you is unauthorized, and any disclosure of any of the contents of this offering memorandum without our prior written consent is prohibited.

You must (1) comply with all applicable laws and regulations in force in any jurisdiction in connection with the possession or distribution of this offering memorandum and the purchase, offer or sale of the notes units, and (2) obtain any required consent, approval or permission for the purchase, offer or sale by you of the notes units under the laws and regulations applicable to you in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales, and neither we nor the initial purchasers or their agents have any responsibility therefor. The notes units are subject to restrictions on transferability and resale, and may not be transferred or resold

except as permitted under the Securities Act and the applicable state securities laws pursuant to registration or exemption therefrom. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Please refer to the sections in this offering memorandum entitled “Plan of Distribution” and “Transfer Restrictions.”

You acknowledge that:

- you have been afforded an opportunity to request from us, and to review, all additional information considered by you to be necessary to verify the accuracy of, or to supplement, the information contained in this offering memorandum;
- you have not relied on the initial purchasers or their agents or any person affiliated with the initial purchasers or their agents in connection with your investigation of the accuracy of such information or your investment decision; and
- no person has been authorized to give any information or to make any representation concerning us or the notes units other than those as set forth in this offering memorandum. If given or made, any such other information or representation should not be relied upon as having been authorized by us, the initial purchasers or their agents.

In making an investment decision, you must rely on your own examination of our business and the terms of this offering, including the merits and risks involved. The notes units have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, none of these authorities has confirmed the accuracy or determined the adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.

This offering memorandum may only be used for the purpose for which it has been published. None of the initial purchasers or any of their agents are making any representation or warranty as to the accuracy or completeness of the information contained in this offering memorandum, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or the future. None of the initial purchasers or any of their agents assumes responsibility for the accuracy or completeness of the information contained in this offering memorandum.

We and the initial purchasers reserve the right to reject any offer to purchase, in whole or in part, and for any reason, our notes units offered hereby. We and the initial purchasers also reserve the right to sell or place less than all of the notes units offered hereby.

We have applied to have the notes units listed on the Official List, and admitted to trading on the Global Exchange Market, of the Irish Stock Exchange. See “Listing and General Information.” We will comply with any undertakings given by us from time to time to the Irish Stock Exchange in connection with the notes units, and we will furnish to them all such information as the rules of the Irish Stock Exchange may require in connection with the listing of the notes units.

NOTICE TO INVESTORS WITHIN BRAZIL

THE NOTES UNITS (AND RELATED GUARANTEE) HAVE NOT BEEN, AND WILL NOT BE, REGISTERED WITH THE BRAZILIAN SECURITIES COMMISSION (COMISSÃO DE VALORES MOBILIÁRIOS), OR THE CVM. THE NOTES UNITS MAY NOT BE OFFERED OR SOLD IN BRAZIL, EXCEPT IN CIRCUMSTANCES THAT DO NOT CONSTITUTE A PUBLIC OFFERING OR UNAUTHORIZED DISTRIBUTION UNDER BRAZILIAN LAWS AND REGULATIONS. THE NOTES UNITS (AND RELATED GUARANTEE) ARE NOT BEING OFFERED INTO BRAZIL. DOCUMENTS RELATING TO THE OFFERING OF THE NOTES UNITS, AS WELL AS INFORMATION CONTAINED THEREIN, MAY NOT BE SUPPLIED TO THE PUBLIC IN BRAZIL, NOR BE USED IN CONNECTION WITH ANY OFFER FOR SUBSCRIPTION OR SALE OF THE NOTES UNITS TO THE PUBLIC IN BRAZIL.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE IMPLIES THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT ANY EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

This offering memorandum is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (1) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or the Order, or (2) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a “relevant person”). This offering memorandum and its contents are highly confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

See “Risk Factors” for a description of certain factors relating to an investment in the notes units, including information about our business. None of us, the initial purchasers or any of our or their representatives is making any representation to you regarding the legality of an investment by you under applicable legal investment or similar laws. You should consult with your own advisors as to legal, tax, business, financial and related aspects of a purchase of notes units.

ENFORCEABILITY OF CIVIL LIABILITIES

Brazil

Cielo is incorporated under the laws of Brazil. All of the members of its board of directors and all of its executive officers named in this offering memorandum reside in Brazil. None of its directors or executive officers are U.S. residents. Substantially all of the assets of Cielo and those of these other persons are located in Brazil. As a result, it may not be possible for you to effect service of process upon Cielo or these other persons within the United States or other jurisdictions outside Brazil or to enforce against Cielo or these other persons judgments obtained in the United States or other jurisdictions outside Brazil.

In the terms and conditions of the notes units, Cielo will (1) agree that the courts of the State of New York and the federal courts of the United States, in each case sitting in the Borough of Manhattan, The City of New York, will have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with the notes units and, for such purposes, Cielo will irrevocably submit to the jurisdiction of such courts and (2) name an agent for service of process in the Borough of Manhattan, The City of New York. See “Description of the Notes Units.”

Cielo understands that, subject to specific requirements described below, a final conclusive judgment for payment of a determined sum of money rendered by any court in the United States in respect of the notes units and the guarantee would be enforceable in the federal courts of Brazil (to the extent that Brazilian courts may have jurisdiction) without any retrial or reexamination of the merits of the original action only if such judgment has been previously recognized by the Superior Court of Justice of Brazil (*Superior Tribunal de Justiça*), or STJ. Recognition would be granted by the STJ if the foreign judgment:

- fulfills all formalities required for its enforceability under the laws of the jurisdiction where the judgment was rendered;
- is issued by a competent court after proper service of process on the parties, which service must comply with Brazilian law if made in Brazil;
- is final and therefore not subject to appeal;
- is for payment of a specified sum of money;
- is authenticated by the Brazilian consulate with jurisdiction over the location of the court which issued the judgment;
- is translated into Portuguese by a certified translator; and
- is not against Brazilian public policy, good morals or national sovereignty.

Notwithstanding the foregoing, no assurance can be given that such recognition would be granted, that the process described above could be conducted in a timely manner or that a Brazilian court would enforce a monetary judgment for violation of the U.S. securities laws with respect to the notes units or the guarantee.

We have also been advised that:

- original actions for enforcement of the notes units based on the federal securities laws of the United States may be brought before Brazilian courts and that, subject to applicable law, Brazilian courts may enforce such liabilities in such actions against us (provided that provisions of the federal securities laws of the United States do not contravene Brazilian public policy, good morals or national sovereignty and provided further that Brazilian courts can assert jurisdiction over the particular action); and
- the ability of a judgment creditor to satisfy a judgment by attaching certain assets of the defendant in Brazil is governed and limited by provisions of Brazilian law.

In addition, a plaintiff, whether Brazilian or non-Brazilian, who resides outside Brazil or is outside Brazil during the course of the litigation in Brazil and who does not own real property in Brazil must provide a bond to guarantee the payment of the defendant's legal fees and court expenses in connection with court procedures for the collection of payments under the notes units and the guarantee except in the case of claims for collection on a *título executivo extrajudicial* (an instrument which may be enforced in Brazilian courts without a review on the merits) and in the case of enforcement of foreign judgments that have been duly confirmed by the STJ in Brazil.

We have been advised that, if the notes units or the indenture were to be declared void by a court applying the laws of the State of New York, a judgment obtained outside Brazil seeking to enforce the guarantee of Cielo or payment under the Cielo Notes by Cielo may not be recognized by the STJ.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references herein to the “*real*,” “*reais*” or “R\$” are to the Brazilian *real*, the official currency of Brazil. All references to “U.S. dollars,” “dollars” or “U.S.\$” are to U.S. dollars.

On September 30, 2012, the exchange rate for *reais* into U.S. dollars was R\$2.0306 to U.S.\$1.00 based on the selling rate as reported by the Central Bank of Brazil (*Banco Central do Brasil*), or the Central Bank. The selling rate was R\$1.8758 to U.S.\$1.00 as of December 31, 2011, R\$1.6662 to U.S.\$1.00 as of December 31, 2010 and R\$1.7412 to U.S.\$1.00 as of December 31, 2009, in each case, as reported by the Central Bank. The *real*/U.S. dollar exchange rate fluctuates widely, and the selling rate as of September 30, 2012, may not be indicative of future exchange rates. See “Exchange Rates” for information regarding exchange rates for the Brazilian currency since January 1, 2007.

Solely for the convenience of the reader, we have translated some amounts included in this offering memorandum, including in “Summary,” “Summary Financial Information,” “Capitalization” and “Selected Financial Information” from *reais* into U.S. dollars using the selling rate as reported by the Central Bank as of September 30, 2012 of R\$2.0306 to U.S.\$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate. Such translations also should not be construed as representations that the *real* amounts represent or have been or could be converted into U.S. dollars as of that or any other date.

Financial Statements

Cielo Financial Statements

We maintain our books and records in *reais*. The financial information of Cielo contained in this offering memorandum has been derived from the records and financial statements of Cielo, and includes our (1) unaudited consolidated interim financial statements as of September 30, 2012 and for the nine-month periods ended September 30, 2012 and 2011, (2) our audited consolidated financial statements as of and for the years ended December 31, 2011 and 2010 and (3) our audited consolidated financial statements as of and for the years ended December 31, 2010 and 2009. All references herein to “our financial statements” or “our consolidated financial statements” are to Cielo’s consolidated financial statements included elsewhere in this offering memorandum.

We have prepared our consolidated financial statements, which are included elsewhere in this offering memorandum, in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or the IASB, and in accordance with accounting practices adopted in Brazil, or Brazilian GAAP. Brazilian GAAP includes accounting practices provided for in Brazilian Law No. 6,404 dated December 15, 1976, as amended, or Brazilian Corporate Law, and the pronouncements, guidelines and interpretations issued by the Accounting Pronouncements Committee (*Comitê de Pronunciamentos Contábeis*), or the CPC, and approved by the CVM.

The translation into Brazilian *reais* of the financial statements of our Grand Cayman branch and Cielo USA, each originally prepared in U.S. dollars, were made using the exchange rate prevailing at the balance sheet dates for balance sheet items, with income statement items translated at the average closing exchange rates of each month.

The independent auditor’s reports accompanying our financial statements included in this offering memorandum include emphasis of a matter paragraphs and other matter paragraphs relating to the following:

- the individual financial statements have been prepared in accordance with accounting practices adopted in Brazil. In the case of Cielo S.A., these accounting practices differ from IFRS, applicable to separate financial statements, only with respect to the measurement of investments in subsidiaries and joint ventures, which under accounting practices adopted in Brazil is performed according to the equity method of accounting, whereas for purposes of IFRS these investments would be measured at their cost or fair value.
- the individual and consolidated statements of value added (DVA), for the years ended December 31, 2011 and 2010 and the nine-month period ended September 30, 2012, the presentation of which is required by

Brazilian Corporate Law for publicly-traded companies, and is supplemental information for IFRS that does not require the presentation of statements of value added, have also been audited/reviewed, as applicable. These statements were subject to the same auditing/review procedures described in the respective independent auditor's report.

Cielo USA Financial Statements

We incorporated our subsidiary Cielo USA on June 27, 2012. On August 31, 2012, Cielo USA acquired Merchant e-Solutions, Inc., or MeS, which became a direct, wholly-owned subsidiary of Cielo USA.

We have not included any financial statements for Cielo USA in this offering memorandum. Cielo USA does not, and will not, publish financial statements, except for such financial statements which Cielo USA may be required under the laws of the United States or the State of Delaware to publish. In addition, Cielo USA will not furnish to the trustee or the holders of the notes units any financial statements of, or other reports relating to, Cielo USA. Cielo USA's obligations under the Cielo USA Notes will be fully and unconditionally guaranteed by Cielo. The financial statements of Cielo USA are consolidated in the consolidated interim financial statements of Cielo as of September 30, 2012 and for the nine-month period ended September 30, 2012 in accordance with IFRS and will be consolidated in the consolidated financial statements of Cielo for dates and periods ending thereafter.

The selected financial information included in the section entitled "Cielo USA" has been derived from the historical financial information of MeS for the years ended December 31, 2010 and 2011, which years pre-date the acquisition of MeS by Cielo USA. No separate financial information for MeS as of any date or for any period following December 31, 2011 is available. MeS's historical financial statements were prepared in accordance with U.S. GAAP, which differs in certain material respects from IFRS and Brazilian GAAP. As a result, this historical financial information is not fully comparable with Cielo's consolidated financial statements, which were prepared in accordance with IFRS and Brazilian GAAP. No reconciliation to IFRS or Brazilian GAAP of any of MeS's financial information has been prepared for the purpose of this offering memorandum or for any other purpose. There can be no assurance that any reconciliation would not identify material quantitative differences as well as disclosure and presentation differences between MeS's financial statements prepared in accordance with U.S. GAAP and Cielo's financial statements prepared in accordance with IFRS and Brazilian GAAP. We have not included any financial statements for MeS in this offering memorandum. In addition, MeS will not furnish to the trustee or the holders of the notes units any financial statements of, or other reports relating to, MeS.

Special Note Regarding Non-GAAP Financial Measures

The body of generally accepted accounting principles is commonly referred to as "GAAP." For this purpose, a non-GAAP financial measure is generally defined by the U.S. Securities and Exchange Commission, or the SEC, as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. From time to time, we may disclose so-called non-GAAP financial measures, primarily EBITDA, which in our case consists of our net income (1) plus income tax and social contribution, (2) plus depreciation and amortization and (3) less financial income, net.

The non-GAAP financial measures described in this offering memorandum should not be considered in isolation or as an alternative to net income as an indicator of our operating performance or an alternative to cash flows as an indicator of liquidity. EBITDA has limitations that restrict its usefulness as a measurement of our profitability because it does not take into consideration certain costs and expenses of our business that could significantly affect our net income, such as financial expenses, income taxes and social contribution, depreciation and amortization, capital expenditures and other related charges. Our determination of EBITDA does not purport to be compliant with SEC or CVM regulations, and other companies may calculate EBITDA differently than we do.

Despite these considerations, our management believes that disclosure of EBITDA provides useful information to investors, financial analysts and the public in their review of our operating performance and their comparison of our operating performance to the operating performance of other companies in our industry and other industries.

For a reconciliation of our net income before income tax and social contribution with our EBITDA, see "Selected Financial Information—EBITDA."

Other Financial and Operating Information

In this offering memorandum:

“acquirer” means companies responsible for capturing, processing, transmitting and settling transactions, affiliating merchants and implementing and managing an acceptance network.

“active merchants” means merchants that have conducted at least one electronic payment transaction with us within the preceding 60 days.

“cardholder” means an applicant (either an individual or an entity) for a credit or debit card that has been approved by a card issuer. The cardholder may use its card at any affiliated merchant.

“card brand” means the card association name that is printed on the issued branded credit and debit cards. Card associations generally include financial institutions and establish uniform regulations that govern much of the industry.

“card issuer” means a foreign or domestic company, whether a financial institution or not, that meets the brand qualification requirements to issue branded credit and debit cards. Card issuers are also responsible for collecting amounts spent with branded credit and debit cards from cardholders.

“co-branded private label card” means a credit card issued by a large retailer that carries both the retailer’s and card brand’s brands, with the aim of increasing customer loyalty.

“electronic capture equipment” means POS electronic capture equipment and PIN pads.

“Housebank” means the financial institution selected by the merchant as the bank responsible for receiving transaction payments from cardholders.

“interchange fee” means a fee paid by the acquirer to the card issuer.

“lock-in Housebank services” means the service we provide to card issuers, upon previous authorization of the merchant, of depositing all funds from the merchant’s receivables that are transferred through electronic payment transactions into the bank that is the merchant’s Housebank. Merchants that are subject to lock-in Housebank services cannot transfer their receivables without the prior consent of the card issuer.

“merchant” means entity or any organization that accepts electronic payment transactions for the payment of goods or services.

“merchant discount rate” means the fee we charge merchants for our services of capturing, processing, transmitting and settling transactions. The merchant discount rate is applied on the value of each cardholder’s transaction and includes the interchange fee.

“net merchant discount rate” means the merchant discount rate net of the interchange fee.

“PIN pads” means equipment that reads and encrypts data from electronic payment transactions captured by merchant point-of-sale network equipment.

“POS electronic capture equipment” means electronic point of sale capture equipment.

“private label card” means a credit card issued by a large retailer that carries only the retailer’s brand, with the aim of increasing customer loyalty.

“transaction” means, unless the context otherwise requires, any and all electronic payment transactions for the acquisition of goods and services. When a payment is made in installments, each installment is counted as a separate transaction; and

“transaction volume” means the volume of transactions captured, processed, transmitted, and settled by acquirers or any other entity responsible for the settlement of transactions.

Market Information

We obtained the information included in this offering memorandum relating to the industry in which we operate, as well as the estimates concerning market shares, through internal research, public information and publications on the industry prepared by official public sources, such as (1) the Brazilian Association of Credit Card and Service Companies (*Associação Brasileira das Empresas de Cartões de Crédito e Serviços*), or the ABECS, (2) the Central Bank, (3) the Brazilian Federation of Banks (*Federação Brasileira de Bancos*), or FEBRABAN, and (4) the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or the IBGE, among others. We regard information taken from these sources as reliable, but such information has not been independently confirmed. Accordingly, neither we nor the initial purchasers make any representations as to the accuracy or completeness of any such information.

Rounding

We have made rounding adjustments to reach some of the figures included in this offering memorandum. As a result, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. Some of the matters discussed concerning our business operations and financial performance include forward-looking statements within the meaning of the Securities Act or the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act. Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates” and similar expressions are forward-looking statements. Although we believe that these forward-looking statements are based upon reasonable assumptions, these statements are subject to several risks and uncertainties and are made in light of information currently available to us.

Our forward-looking statements may be influenced by numerous factors, including the following:

- the effects of the ongoing global financial and economic crisis in Brazil;
- general economic, political and business conditions in Brazil;
- inflation, depreciation or appreciation of the *real* and interest rate fluctuations, foreign exchange controls and liquidity in the financial and securities markets;
- our ability to continue to successfully affiliate merchants and implement partnerships with card issuers;
- our inability to implement our growth strategy successfully or to successfully integrate MeS’ business and operations;
- changes in our business and commercial relationships with card brands;
- availability of credit for cardholders;
- changes in the competitive environment in the merchant acquiring and payment processing industry in Brazil;
- changes in the strategic aims of our controlling shareholders;
- increases in our costs and in interchange fees, as well as reductions in the merchant discount rate;
- loss of any of our licenses to (1) operate as an acquirer for card brands in Brazil or (2) acquire and process electronic payment transactions for card brands in Brazil;
- changes in the card brand’s policies and rules;
- changes in the existing laws and regulations that apply to us; and
- other factors or trends affecting our financial condition or results of operations, including those factors identified or discussed under “Risk Factors.”

We caution you that forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Forward-looking statements reflect only our current expectations and are based on our management’s beliefs and assumptions and on information currently available to our management. Although we believe these assumptions are reasonable, actual results may differ materially from those in the forward-looking statements as a result of various factors, including, without limitation, those identified in the section entitled “Risk Factors” in this offering memorandum. As a result, investors are cautioned not to place undue reliance on forward-looking statements contained in this offering memorandum when making an investment decision regarding the notes units.

Forward-looking statements speak only as of the date they are made, and neither we nor the initial purchasers undertake any obligation to update them in light of new information or future developments or to release publicly any revisions to these statements in order to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

SUMMARY

This summary highlights information contained elsewhere in this offering memorandum. This summary may not contain all the information that may be important to you, and we urge you to read this entire offering memorandum carefully, including the “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections and our consolidated financial statements and notes to those statements, included elsewhere in this offering memorandum, before deciding whether to invest in the notes units.

Overview

We are the leading company in electronic payment transactions in Brazil, with a 47.1% market share of total transaction volume for credit and debit cards, according to ABECS data as of December 2011. From January 1, 2009 to December 31, 2011, our total transaction volume grew at a compound annual growth rate of 21.5%, from R\$214.0 billion in 2009 to R\$315.9 billion in 2011. In the nine-month period ended September 30, 2012, our transaction volume totaled R\$275.5 billion, representing a 22.7% increase compared to R\$224.6 billion during the corresponding period in 2011. We captured and processed a total of 4,622 million, 4,038 million and 3,427 million transactions in 2011, 2010 and 2009, respectively, and 3,886 million and 3,320 million transactions during the nine-month periods ended September 30, 2012 and 2011, respectively.

On August 31, 2012, we acquired MeS, a Silicon Valley-based provider of full-service global payment solutions, which is a direct, wholly-owned subsidiary of Cielo USA. We believe that MeS, which was founded in 2000, has the latest generation technology platform, developed specifically for the merchant acquiring business, which has enabled MeS to differentiate itself in the U.S. market, principally in e-commerce. Our acquisition of MeS and its best-in-class payment platform reinforces our strategy of offering innovative solutions and services to our customers and partners in Brazil.

We have the broadest domestic coverage in the Brazilian merchant acquiring and payment processing industry, based on our approximately 1,658 thousand point-of-sale (POS) electronic capture equipment units in service as of September 30, 2012, with approximately 2,642 thousand affiliated merchants. The advanced technology we apply in our network allows us to operate with an availability rate of 99.995% and virtually 100% availability on important retail dates. We had approximately 1,291 thousand active merchants (based on those that effected transactions at our terminals in the previous 60 days) as of September 30, 2012, with a presence in 5,539 of Brazil’s 5,564 municipalities, covering 99.6% of Brazil’s territory.

We affiliate merchants for our services and manage a network for payment with credit and debit cards as well as prepaid voucher cards for the capture, transmission, processing and settlement of payment transactions. Through thousands of simultaneous, reliable transactions, we connect banks, card brands and merchants. We capture, transmit, process and settle electronic payment transactions for the most accepted branded credit and debit cards, including Visa, MasterCard and Diners Club International. We also capture and transmit electronic payment transactions for American Express as well as for meal and other prepaid voucher cards, which are widely provided by Brazilian companies to their employees in satisfaction of their duty to provide meals under local labor law. As part of our payment processing business we install and maintain electronic capture equipment, which we rent to our affiliated merchants.

We also offer the prepayment of receivables to our affiliated merchants, advancing to them the proceeds, at a discount, of credit card transactions that would normally be payable to them 30 days after the purchase date. This portion of our business has become increasingly important and has grown at a compound annual growth rate of 50.7%, from total receivable prepayments volume of R\$6,781 million in 2009 to R\$15,408 million in 2011. In the nine-month period ended September 30, 2012, our volume of receivables prepayments totaled R\$17,866 million, representing a 70% increase compared to R\$10,508 million during the corresponding period in 2011.

We have grown solidly since our inception in 1995. From 2009 to 2011, our EBITDA increased from R\$2,263.4 million in 2009 to R\$2,388.5 million in 2011. During the nine-month period ended September 30, 2012, our EBITDA totaled R\$2,256.6 million, representing a 29.2% increase compared to R\$1,746.9 million during the corresponding period in 2011. From 2009 to 2011, our net income increased at a compound annual growth rate of 8.8% from R\$1,533.8 million in 2009 to R\$1,816.9 million in 2011. For the nine-month period ended September

30, 2012, our net income totaled R\$1,709.0 million, representing a 30.5% increase compared to R\$1,309.3 million during the corresponding period in 2011.

The following table sets forth certain financial and other information for the periods indicated:

	For the Nine-Month Period Ended September 30,			For the Year Ended December 31,			
	2012	2012	2011	2011	2011	2010	2009
	(in millions of U.S.\$, except as otherwise indicated) (1)	(in millions of reais, except as otherwise indicated)		(in millions of U.S.\$, except as otherwise indicated) (1)	(in millions of reais, except as otherwise indicated)		
Net revenue	1,881.3	3,820.2	3,004.4	2,072.6	4,208.7	3,992.5	3,444.9
Gross profit	1,269.5	2,577.8	1,984.9	1,370.8	2,783.5	2,811.7	2,508.6
Net income	841.6	1,709.0	1,309.3	894.8	1,816.9	1,831.0	1,533.8
Other information							
Net margin (%).....	44.7%	44.7%	43.6%	43.2%	43.2%	45.9%	44.5%
EBITDA (2)	1,111.3	2,256.6	1,746.9	1,176.3	2,388.5	2,564.0	2,263.4
EBITDA margin (%) (3).....	59.1%	59.1%	58.1%	56.8%	56.8%	64.2%	65.7%
Credit cards							
Transaction volume (4)	86,871	176,400	141,400	97,730	197,541	162,933	134,792
Number of transactions (5) (in millions)	2,263	2,263	1,928	2,658	2,658	2,322	2,003
Debit cards							
Transaction volume (4)	48,803	99,100	83,100	58,266	118,315	98,742	79,165
Number of transactions (5) (in millions)	1,622	1,622	1,391	1,964	1,964	1,716	1,424
Affiliated merchants (in thousands)	2,642	2,642	2,239	2,362	2,362	1,975	1,706
Active merchants (6) (in thousands)	1,291	1,291	1,153	1,199	1,199	1,140	1,133

- (1) Solely for the convenience of the reader, Brazilian *real* amounts for the year ended December 31, 2011 and for the nine-month period ended September 30, 2012 have been translated into U.S. dollars at the exchange rate as of September 30, 2012 of R\$2.0306 to U.S.\$1.00. See “Exchange Rates” for further information.
- (2) Our EBITDA consists of our net income (1) plus income tax and social contribution, (2) plus depreciation and amortization and (3) less financial income, net. Our EBITDA is not a measure recognized under Brazilian GAAP, IFRS or U.S. GAAP and should not be considered in isolation or as an alternative to net income, as an operating performance measurement, as an alternative to cash flow or as an indicator of liquidity. Our EBITDA has limitations that restrict its usefulness as a measurement of our profitability because it does not take into consideration certain costs and expenses of our business that could significantly affect our net income, such as financial expenses, income taxes and social contribution, depreciation and amortization, capital expenditures and other related charges. Other companies may calculate their EBITDA differently than we do. Our management uses our EBITDA as an additional measure to monitor our operating performance. For a reconciliation of our net income before income tax and social contribution with our EBITDA, see “Selected Financial Information—EBITDA.”
- (3) EBITDA margin is our EBITDA divided by our net revenue in a given period.
- (4) Transaction volume captured, processed and settled by us in millions of *reais* (or U.S.\$).
- (5) Transactions are the number of purchase transactions for goods and services we process. When a payment is made in installments, each installment is counted as a separate transaction.
- (6) Active merchants are those that have conducted at least one electronic payment transaction with us within the preceding 60 days.

In addition to the products and services traditionally offered in the electronic payment industry, we have a track record of offering innovative solutions in complementary segments. We were pioneers in Brazil in providing network infrastructure for correspondent banking services, prepaid mobile phone top-ups, electronic prepaid voucher cards and cash back withdrawals (“*saque*”). We have a long track record of capturing and processing electronic non-payment transactions, such as transaction authorizations for healthcare service providers.

We believe the diversity of our portfolio of products and services is a result of our constant efforts to identify new business segments in order to enhance and optimize the use of our network and assets. Our recent acquisition of MeS evidences our desire to bring the best solutions and technology to our clients. We have approximately 89 partnerships with card issuers and companies to capture and process transactions using prepaid cards, private label cards and co-branded private label cards. We also offer data capture services and, through our Lynx platform, support to card issuers and merchants to help reduce fraud.

Merchant Acquiring and Payment Processing Industry in Brazil

In the merchant acquiring and payment processing industry model in Brazil, we and other merchant acquirers are licensed to use the card issuers' brands and are also responsible for the capture, transmission, processing and settlement of transactions.

We and Redecard S.A. are the principal companies operating in the merchant acquiring and payment processing industry in Brazil, and we collectively account for approximately 90% of the total transaction volume for electronic payment transactions according to data published by ABECS in June 2012.

Between January 1, 2009 and December 31, 2011, the transaction volume of credit, debit and private label cards in Brazil grew at a compound annual growth rate of 22.8%, reaching R\$670.1 billion in 2011 compared to R\$444.2 billion in 2009, according to ABECS.

This growth is primarily a result of greater household spending, an increased utilization of financial services and the growing use of electronic payment methods.

- *Expanded household spending* – From 2000 to 2011, annual household spending in Brazil increased from R\$758.9 billion to R\$2,499 billion, representing a compound annual growth rate of 11.4%, according to IBGE data, unadjusted for inflation. During this period, the use of credit and debit cards as a means of payment increased from 8.7% to 26.8% of household spending in Brazil. This increase in card use resulted primarily from economic growth, increased employment rates and higher income levels in Brazil, and most importantly, greater acceptance of credit and debit cards for payments.
- *Increased use of financial payment services* – Economic stability, higher employment rates and increased income for Brazilians in recent years have made financial products accessible to a larger portion of the population. There was an increase in approximately 43.8 million active individual bank accounts between December 31, 2000 and December 31, 2011, increasing the total number of active individual accounts from 48.2 million as of December 31, 2000 to 92.0 million as of December 31, 2011, representing a compound annual growth rate of 6.1%, according to FEBRABAN data, which illustrates the public's increased use of the banking system in Brazil. During this period, the number of credit and debit cards, including private label cards, increased by 481%, according to ABECS, from 118.2 million as of December 31, 2000 to 587.0 million as of December 31, 2011.
- *Growing use of electronic payment methods* – Factors including improved security, convenience and efficiency in conducting transactions have contributed to the growing use of credit and debit cards in Brazil in recent years. According to the most recent data from the Bank for International Settlements, or BIS, of a total of 21.8 billion non-cash payment instruments transactions in 2011, 57.8% were made using credit and debit cards, while 7.3% were made using checks. In comparison, in 2008, of a total of 13.3 billion non-cash payment instruments transactions, 50.0% were made using credit and debit cards, while 14.8% were made using checks.

Competitive Strengths

We believe our main competitive strengths are:

Leadership in the merchant acquiring and payment processing industry in Brazil.

Our leadership in terms of transaction volume in the merchant acquiring and payment processing industry in Brazil, with a 47.1% market share in terms of credit and debit card transaction volume according to ABECS data as of December 2011, provides us with economies of scale and higher network utilization. This helps us to dilute our fixed costs and consequently maintain our solid operating and financial position.

In addition, we believe that our large network of affiliated merchants provides us with greater opportunities to offer our diversified portfolio of services and to identify market trends, which allows us to develop new services.

Leading technology with a highly scalable and leverageable platform.

Our highly scalable technology platform can support significant expansion with low incremental costs, and we are able to achieve attractive economies of scale with flexible product development capabilities. Our advanced technology platform provides us with the ability to deliver information to our customers in real time as well as the flexibility to perform high-capacity customizations to streamline integration with our partners. Our acquisition of MeS in August 2012 will complement and provide greater flexibility for our technology platform. MeS offers a comprehensive suite of solutions in traditional merchant acquiring as well as e-commerce and mobile payments. In 2011, MeS processed more than U.S.\$14 billion in transactions for more than 65,000 affiliated retailers, in partnership with over 250 financial institutions.

High market penetration for our services.

We have the largest network of affiliated merchants in Brazil, with approximately 2,642 thousand merchants and a presence in more than 99.5% of Brazil's municipalities as of September 30, 2012. This generates a significant number of transactions as well as rental demand for our electronic capture equipment. Our broad network of affiliated merchants results from our sales team's efforts as well as from the support of four financial institutions, Bradesco, Banco do Brasil, HSBC and Caixa Econômica Federal, which collectively have approximately 13,440 branches throughout Brazil. Each of these financial institutions issue Visa-, MasterCard- and other-branded credit and debit cards and have entered into partnership agreements with us, which partnerships give us credibility and institutional support in acquiring new merchants. Bradesco, Banco do Brasil, HSBC and Caixa Econômica Federal are among the largest card issuers in Brazil and are also among the largest retail banks in the country in terms of number of branches, collectively representing approximately 61% of all bank branches in Brazil according to Central Bank data from December 2011. Their presence in practically every Brazilian municipality affords us strong market penetration.

Strong growth with consistent cash flows.

We have historically posted strong net revenue growth and improvement in our operating results. From January 1, 2009 to December 31, 2011, our net revenue grew at an average annual rate of 8.8%, and our net income increased from 1,533.8 million in 2009 to 1,816.9 million in 2011, leading to our consistent profitability and cash flow generation during this period. As a result, we believe we have a solid financial position, which enables us to benefit from growth opportunities and to reduce our exposure to market fluctuations.

Ability to innovate and to offer a broad portfolio of products and services.

We use our business platform to anticipate market trends and identify merchant needs, creating services that both complement our existing activities and generate new business opportunities with merchants. We offer innovative products and services in segments that have synergies with our existing activities, such as: the use of our network for capturing of private label transactions; the use of cards in new segments or niches, including street fairs and markets and agribusiness; correspondent banking services; transactions with prepaid and co-branded private label cards, electronic prepaid voucher cards, e-commerce through MeS, mobile phone top-ups and toll payments. We believe the broad range of products and services we offer to our merchants and our constant search for innovation are key factors in our ability to enter new segments, affiliate more merchants, increase the volume of electronic payment transactions and continue to be the leader in capturing market opportunities.

Experienced management and a skilled and highly motivated team.

Our management team combines experience and extensive knowledge in the merchant acquiring and payment processing industry. The combination of their management skills and a high degree of commitment to our activities has contributed to our history of success. Our senior management team includes professionals with the ability to implement and execute our strategic business plans in a disciplined manner with a focus on growth and profitability, who have a history of working in the industry, and have been with Cielo for an average of four years. In addition, our management model allows us to attract, train and develop skilled and committed professionals through investments in recruiting and employee training and development. Our training program is focused on our employees' professional needs and is strengthened through a career management and development plan complemented by a profit sharing program.

Our Strategy

The principal elements of our strategy include:

Increase merchant use and acceptance of electronic payment transactions.

We plan to further increase the number of merchants that accept electronic payment transactions both through our own sales structure for acquiring new merchants as well as through the branch networks of those financial institutions with which we have partnership agreements. We seek to maintain a close relationship with, and provide constant support to, merchants by offering solutions, differentiated products and high-quality services, as well as by encouraging merchant sales through additional point-of-sale promotions. In addition, we plan to further invest in solutions to expand acceptance of electronic payment transactions in new service segments, such as taxis, soccer stadiums, street fairs and markets and delivery services, among others.

Expand electronic payment transaction volumes.

We plan to improve our results by capturing new merchant or business segments leading to increased electronic payment transaction volumes. To achieve this, we are working to develop and launch new products that address the needs of sectors that are currently resistant to adopting electronic payments. Among our initiatives are the Agrocard product, which drives B2B agribusiness volume to our network by providing rural producers with access to a pre-approved lines of credit for acquiring agricultural products and equipment, and Cielo Mobile, through which merchants, including self-employed professionals such as doctors and dentists, can accept electronic payments using a smartphone.

Broaden and maximize the use of electronic capture equipment.

We seek to increase the number of transactions conducted through our acceptance network and develop new capture solutions and offer services in segments that create value for our affiliated merchants. We plan on using electronic capture equipment as a platform to increasingly offer new services, such as correspondent banking services, prepaid mobile phone top-ups and cash-back for debit card transactions, among others, to strengthen our relationship with merchants and increase revenues from the use of our network. We believe that the diversification of our portfolio of services offered through our transaction capture equipment will allow us to maximize the use of and revenue from our acceptance network while strengthening our business base and our relations with affiliated merchants. In April 2012, in partnership with Banco do Brasil and Bradesco, we announced the launch of our Cielo Crediário product, which expanded our Visa Electron credit line (CDC Visa Electron) with exclusive technology, which allows merchants to offer cardholders the ability to pay in up to 48 installments, accessing an additional pre-approved credit line from their checking accounts through their bank cards. Cielo Crediário is similar to a single-installment debit card transaction for the merchant, since the net amount is transferred to the merchant one business day after the sale.

Enter lines of business that have synergies with our principal operations.

We develop projects and conduct market surveys to identify lines of business that have synergies with our principal operations, such as the development through our joint venture, Companhia Brasileira de Gestão de Serviços, or Orizon, of a network for the authorization of transactions by healthcare service providers, including evaluating medical expenses, processing medical bills, supporting pharmaceutical vouchers, connecting and authorizing services and providing call centers for the healthcare industry. We believe that our introduction of electronically captured transactions in healthcare and other lines of business will allow us to develop new service offerings and other revenue-generating opportunities.

Fully integrate MeS' technology platform to our operations in Brazil.

On August 31, 2012, we acquired MeS, a Silicon Valley, U.S.-based provider of full-service global payment solutions. We believe that MeS has the latest generation technology platform, which it developed specifically for the acquiring business, which has allowed it to differentiate itself in the U.S. market. Our acquisition of MeS and its best-in-class payment platform reinforces our strategy of offering innovative solutions and services to our customers and partners in Brazil. We believe that by integrating MeS' technology platform, we will be able to deliver (1)

complete end-to-end services to merchants in both retail and e-commerce, (2) a high value proposition to our client base with a new suite of products and functionalities, along with better customer service offered through a web-based platform with features such as near-time statement generation and reconciliation solutions, (3) improved solutions and business tools for partner banks that will allow better integration to their distribution channels to ensure an efficient go-to-market strategy of their merchant acquiring value proposition, and (4) the best offering of e-commerce payment solutions, with cutting-edge features and functionality in the fastest growing segment of commerce in Brazil.

In addition, the advanced technology developed by MeS will provide us with greater process automation (back office), flexibility and agility in developing new products and, consequently, will enable a lower time-to-market for new products and services. Furthermore, with our acquisition of MeS, we gain a physical presence in Silicon Valley, a hotbed of technological innovation and currently the epicenter of the digital revolution in payments.

For further information regarding Cielo USA, including selected historical financial information of MeS for the years ended December 31, 2010 and 2011, see “Cielo USA.”

Offer new services to affiliated merchants.

We plan to develop and offer new services that add value to our affiliated merchants and encourage customer loyalty. To address anticipated demand from merchants, we began offering prepayment of receivables to our affiliated merchants in September 2008. Our volume of receivables prepayments has grown at a compound annual growth rate of 51.6%, from a total of R\$6.7 billion in receivables prepayments in 2009 to total of R\$15.4 billion in 2011, with a total of R\$17.8 billion in the nine-month period ended September 30, 2012. In addition, we have developed technology which uses cell phones and confirmation through a secure Internet connection on the buyer’s mobile phone to electronically capture electronic payment transactions. We have recently developed a new technology platform that makes it possible to conduct point-of-sale promotions with cardholders, enabling merchants to strengthen their customer relationships and loyalty.

Increase operating efficiency.

Our business model focuses on combining revenue growth with operating efficiency. Our average cost per transaction captured, excluding the effect of card brand charges and costs incurred by our subsidiaries, decreased by 12.3% from R\$0.292 in 2010 to R\$0.256 in 2011, not only as a result of greater economies of scale and the related dilution of our fixed costs due to a higher number of transactions but also due to our efforts to reduce the cost of services we provide.

Recent Developments

Acquisition of Merchant e-Solutions

On June 30, 2012, we entered into an agreement and plan of merger, or the Merger Agreement, to acquire MeS, a Silicon Valley, U.S.-based provider of full-service global payment solutions. We believe that MeS has the latest generation technology platform, which it developed specifically for the acquiring business, which has allowed it to differentiate itself in the U.S. market. We concluded this acquisition on August 31, 2012 by acquiring 100.0% of the capital stock of MeS for approximately U.S.\$670.0 million, which we partially financed with a U.S.\$400.0 million bridge loan that matures in February 2013, or the Bridge Loan. We intend to use a portion of the net proceeds from the sale of the notes units to repay the Bridge Loan, see “Use of Proceeds.” Our acquisition of MeS and its best-in-class payment platform reinforces our strategy of offering innovative solutions and services to our customers and partners in Brazil.

Additional financing under our FINAME facility

In October 2012, we obtained R\$53.3 million in additional financing through our credit facility with the National Bank for Economic and Social Development (*Banco Nacional de Desenvolvimento Econômico e Social*), or BNDES, to finance our purchase of new machinery and equipment manufactured in Brazil (*Financiamento de Máquinas e Equipamentos*), which we refer to as the FINAME facility.

Our History

We were incorporated in November 1995 when Visa International, Bradesco, Banco do Brasil, Banco ABN Amro Real (later acquired by Banco Santander) and Banco Nacional (no longer in existence) founded Companhia Brasileira de Meios de Pagamento. Companhia Brasileira de Meios de Pagamento adopted Visanet as its trade name, which it used until we changed our corporate name to Cielo S.A. in December 2009. Until 1995, the credit and debit card business in Brazil, including the merchant acquiring business, had been conducted individually by each card issuer. At that time, each card issuer would issue its own credit and debit cards, develop its own merchant acquisition solutions and merchant network and conduct its own marketing. We were established principally to manage the relationship of the Visa system in Brazil among the Visa affiliated merchant network, consolidating and developing new transaction capture and settlement solutions.

In 1996, we began operations with an affiliated merchant network that had pre-existing commercial relationships with our founding banks and offered capture, processing and settlement services involving credit cards only. In 1996, Visa International created the Visanet trademark, which it licensed to us.

In subsequent years, we introduced Visa-branded products such as the Visa Electron debit card, which fostered the use of electronic money; the Visa Toll Vouchers (*Alelo Pedágio*) and the Alelo benefit cards, which replaced paper meal vouchers used to pay for meals and groceries with electronic cards containing chip and magnetic strip technology.

Our commencement of operations as a merchant acquirer segregated the role of merchant acquirer from card issuers. We believe that this segregation has significantly increased the growth of the credit and debit card market, led to the introduction of additional related products and increased the safety and efficiency of electronic payment transactions in Brazil.

On July 1, 2009, we completed our initial public share offering and listed our common shares on the *Novo Mercado* segment of the BM&FBOVESPA in the largest IPO in the history of the BM&FBOVESPA. We raised R\$8.397 billion through our sale of 559.8 million common shares, representing a float at such time of approximately 41% of our outstanding common shares.

In 2010, we ended our sole acquirer relationship with Visa and transformed into a multi-brand acquirer. As part of this transformation, we changed our corporate name from Companhia Brasileira de Meios de Pagamento to Cielo S.A., and as of July 2010, we began acquiring and processing electronic payment transactions from other brands, in addition to the Visa brand, including, among others, MasterCard and Diners Club International, as well as capturing transactions for American Express.

Sole Acquirer for Visa until June 30, 2010



Multi-brand operations since July 1, 2010



Our principal shareholders are affiliates of Banco do Brasil S.A. and Banco Bradesco S.A., which were the largest and second-largest, respectively, Brazilian retail banks in terms of number of branches as of September 30, 2012. We have a public float of 42.5% of our outstanding shares, and we adhere to the listing standards of the *Novo Mercado*, the BM&FBOVESPA listing segment that requires the highest level of corporate governance.

Our headquarters are located at Alameda Grajaú, 219, Alphaville, CEP 06454-050, Barueri, SP, Brazil, and our telephone number is (55 11) 2596-1701. We are registered with the Legal Entity Taxpayers' Registry (*Cadastro Nacional da Pessoa Jurídica*) under number 01.027.058/0001-91.

Our website address is www.cielo.com.br. The information available on our website, as well as any information included in any marketing material published by the media and newspaper and magazine advertisements, is not incorporated into this offering memorandum and should not be considered or relied upon in determining whether to invest in the notes units.

THE OFFERING

This summary highlights information presented in greater detail elsewhere in this offering memorandum. This summary is not complete and does not contain all the information you should consider before investing in the notes units. You should carefully read this entire offering memorandum before investing in the notes units, including “Risk Factors” and our consolidated financial statements.

Issuers	Cielo S.A. and Cielo USA Inc.
Notes units offered	U.S.\$875.0 million in aggregate principal amount of notes units, consisting of U.S.\$470.0 million in aggregate principal amount of 3.750% senior notes offered by Cielo, and U.S.\$405.0 million in aggregate principal amount of 3.75% senior notes issued by Cielo USA.
Guarantor of the Cielo USA Notes	Cielo.
Initial purchasers	BB Securities Limited, Banco Bradesco BBI S.A. and Goldman Sachs & Co.
Issue price	99.316% of the principal amount of the notes units.
Maturity date	November 16, 2022.
Interest rate	Interest will accrue on the notes units at the annual rate of 3.75% from the original date of issuance under the indenture and will be paid semi-annually in arrears. Interest on the notes units will be computed on the basis of a 360-day year of 30-day months.
Interest payment dates	May 16 and November 16 of each year, commencing on May 16, 2013.
Indenture	The notes units will be issued under and governed by an indenture, to be dated as of November 16, 2012, among the Issuers, the guarantor, The Bank of New York Mellon, as trustee, registrar, paying agent, and transfer agent, or the Trustee, and The Bank of New York Mellon (Ireland) Limited, as Irish listing agent, or the Irish Listing Agent.
Guarantees	Cielo will irrevocably and unconditionally guarantee the full and punctual payment of principal, interest, additional amounts and all other amounts that may become due and payable on the Cielo USA Notes.
Ranking	The Cielo Notes and the Cielo USA Notes will be senior unsecured obligations of Cielo and Cielo USA, respectively, ranking <i>pari passu</i> with all of Cielo’s and Cielo USA’s other senior unsecured obligations (except those obligations preferred by operation of law). The Cielo Notes and the Cielo USA Notes will be effectively subordinated to Cielo and Cielo USA’s secured indebtedness, to the extent of the value of the assets securing such secured indebtedness, and structurally subordinated to the indebtedness of any subsidiary of such issuer.

The guarantee will be the senior unsecured obligation of the guarantor, ranking *pari passu* with the guarantor's other senior unsecured obligations (except those obligations preferred by operation of law). The guarantee will be effectively subordinated to the guarantor's secured indebtedness, to the extent of the value of the assets securing such secured indebtedness, and structurally subordinated to the indebtedness of any subsidiary of the guarantor (other than the Cielo USA Notes).

As of September 30, 2012, Cielo, including Cielo USA, had R\$1,121.4 million of borrowings and financing, of which R\$310.2 million was secured indebtedness.

Optional redemption	Cielo and Cielo USA may redeem the notes units and the underlying notes (<i>provided that</i> each company redeems an equal principal amount of its respective underlying notes) in whole or in part at any time after 721 days following the issuance of the Notes Units and the Underlying Notes, at their option, at a redemption price equal to the greater of (1) 100% of the principal amount of the underlying notes to be redeemed, and (2) the sum of the present values of the remaining scheduled payments of principal and interest and additional amounts (if any) on the underlying notes to be redeemed (but excluding any accrued and unpaid interest to the redemption date) discounted to the date of redemption on a semi-annual basis at the applicable treasury rate plus 35 basis points, in each case plus accrued and unpaid interest on the principal amount being redeemed to the redemption date. See "Description of the Notes Units—Optional Redemption with a Make-Whole Amount."
Optional tax redemption	Cielo and Cielo USA may redeem the notes units and the underlying notes, in whole but not in part, at 100% of their principal amount plus accrued interest and additional amounts, if any, upon the occurrence of specified events relating to Brazilian tax law. See "Description of the Notes Units—Optional Tax Redemption."
Optional clean-up redemption.....	The notes units and underlying notes may be redeemed at Cielo and Cielo USA's election, in whole, but not in part, at any time after 721 days following the issuance of the Notes Units and the Underlying Notes, by the giving of notice, at 100% of the then-outstanding principal amount of the underlying notes, plus accrued and unpaid interest to the redemption date, plus any additional amounts, in the event that 10% or less of the initial aggregate principal amount of the notes units and underlying notes (plus the initial aggregate principal amount of any additional notes units and additional underlying notes) remain outstanding. See "Description of the Notes Units—Optional Clean-Up Redemption."
Change of control.....	Upon the occurrence of a Change of Control Triggering Event (as defined in "Description of the Notes Units" below), each holder of notes units will have the right to require Cielo to repurchase all or any part (in integral multiples of U.S.\$1,000)

of that holder's notes units and each issuer to repurchase all or any part of such issuer's corresponding underlying notes pursuant to a Change of Control Offer (as defined in "Description of the Notes Units" below) at a price equal to 101% of their principal amount plus accrued and unpaid interest and additional amounts, if any, to the date of repurchase (subject to the right of the holders of record on the relevant record date to receive interest and additional amounts, if any, on the relevant interest payment date). See "Description of the Notes Units—Repurchases at the Option of the Holders of the Notes Units Upon a Change of Control Triggering Event."

Additional amounts	Payments by Cielo of principal and interest in respect of the notes units and underlying notes will be made to holders of the notes units after withholding and deduction for certain Brazilian and other taxes as set forth under "Taxation." Cielo will pay such additional amounts as will result in receipt by the holders of notes units of such amounts as would have been received by them had no such withholding or deduction for such taxes been required, subject to certain exceptions set forth under "Description of the Notes Units—Additional Amounts."
Covenants	The indenture governing the notes units contains covenants that will, among other things, limit Cielo and its significant subsidiaries' ability to (1) create certain Liens (other than permitted liens) on certain assets to secure debt and (2) enter into certain sale and lease-back transactions, as well as Cielo and Cielo USA's ability to consolidate, merge or sell, transfer or otherwise dispose of all or substantially all of its assets. These covenants are subject to a number of important exceptions and qualifications. See "Description of the Notes Units—Covenants."
Events of default	For a discussion of certain events of default that will permit holders of the notes units to determine to accelerate the principal of the notes units plus accrued and unpaid interest, if any, and any additional amounts due with respect to the notes units, see "Description of the Notes Units—Events of Default."
Further issuances	Subject to the conditions set forth in the indenture, Cielo and Cielo USA may issue and the guarantor may guarantee an unlimited principal amount of additional notes having identical terms and conditions as the underlying notes issued in this offering, or the additional underlying notes; <i>provided, however</i> , that Cielo and Cielo USA may only create and issue such further notes if the other issuer simultaneously issues a <i>pro rata</i> amount of its own notes of the same series, so that notes units comprise additional underlying notes of both companies, in the same proportion as the notes units being sold pursuant to this offering memorandum, can be and are created. See "Description of the Notes Units—General."

Use of proceeds	We intend to use the net proceeds from the sale of the Cielo USA Notes to repay the Bridge Loan used to finance our acquisition of MeS, with the net proceeds, corresponding to the sale of the Cielo Notes, to be used for general corporate purposes. See “Use of Proceeds.”
Form and denomination	The notes units sold in the United States in reliance on Rule 144A will be evidenced by a notes unit in global form called a restricted global notes unit, which will be deposited with a custodian for, and registered in the name of a nominee of, the DTC. The notes sold outside the United States in reliance on Regulation S will be evidenced by a separate notes unit in global form called a Regulation S global notes units, which also will be deposited with a custodian for, and registered in the name of a nominee of, the DTC. Transfers of beneficial interests between the restricted global notes unit and the Regulation S global notes unit are subject to certification requirements. The notes units will be issued in fully registered form in denominations of at least U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof and will be issued as one or more global notes units. See “Description of the Notes Units—Form, Denomination and Title.”
Settlement	The notes units were delivered in book-entry form through the facilities of the DTC, and its participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, and Clearstream Banking, société anonyme, Luxembourg, or Clearstream, and will trade in the DTC’s Same-Day Funds Settlement System.
Notice to investors	The notes units have not been registered under the Securities Act or the laws of any other jurisdiction. The notes units are subject to limitations on transfers, as described under “Transfer Restrictions” and may only be offered in transactions exempt from or not subject to the registration requirements of the Securities Act.
Listing of the notes units	We have applied to the Irish Stock Exchange for the notes units to be listed on the Official List and admitted to trading on the Global Exchange Market, which is the exchange regulated market of the Irish Stock Exchange.
Governing law	The indenture and the notes units will be governed by, and construed in accordance with, the laws of the State of New York.
Trustee, registrar, paying agent and transfer agent	The Bank of New York Mellon.
Irish listing agent	The Bank of New York Mellon (Ireland) Limited.
Risk factors	Investment in the notes units involves risks. You should carefully consider the information set forth in the section of this offering memorandum entitled “Risk Factors” beginning on page 17 before deciding whether to invest in the notes units.

SUMMARY FINANCIAL INFORMATION

The following summary financial information has been derived from our (1) unaudited consolidated interim financial statements as of September 30, 2012 and for the nine-month periods ended September 30, 2012 and 2011, (2) our audited consolidated financial statements as of and for the years ended December 31, 2011 and 2010 and (3) our audited consolidated financial statements as of and for the years ended December 31, 2010 and 2009. We have prepared our consolidated financial statements in accordance with IFRS and Brazilian GAAP.

You should read the information below in conjunction with our audited and unaudited consolidated financial statements and the notes thereto, included elsewhere in this offering memorandum, as well as the sections entitled “Presentation of Financial and Other Information,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Our results for the nine-month period ended September 30, 2012 are not necessarily indicative of the results to be expected for the year ending December 31, 2012.

Statement of Income

	For the Nine-month Period Ended September 30,			For the Year Ended December 31,		
	2012	2012	2011(1)	2011	2010	2009
	(in millions of U.S.\$)(2)	(in millions of reais)		(in millions of U.S.\$)(2)	(in millions of reais)	
Net revenue	1,881.3	3,820.2	3,004.4	2,072.6	4,208.7	3,444.9
Cost of services	(611.8)	(1,242.4)	(1,019.5)	(701.8)	(1,425.2)	(936.3)
Gross profit	1,269.5	2,577.8	1,984.9	1,370.8	2,783.5	2,508.6
Operating income (expenses)						
Personnel	(78.2)	(158.7)	(142.7)	(96.1)	(195.1)	(130.2)
General and administrative	(70.2)	(142.6)	(128.7)	(96.3)	(195.6)	(147.1)
Selling and marketing	(80.0)	(162.4)	(102.7)	(91.1)	(184.9)	(73.0)
Other operating expenses, net	(39.7)	(80.7)	(37.9)	(28.1)	(57.2)	(55.2)
Income from operations	1,001.4	2,033.4	1,572.9	1,059.2	2,150.7	2,103.1
Financial income (expenses)						
Financial income	9.5	19.2	25.0	16.0	32.5	99.7
Financial expenses	(29.1)	(59.0)	(47.6)	(32.7)	(66.3)	(56.5)
Income from prepayment of receivables	300.6	610.4	418.4	301.2	611.5	218.2
Adjustment to present value expense	(4.6)	(9.3)	(10.5)	(12.3)	(24.9)	(35.3)
Exchange rate change, net	2.7	5.5	1.9	0.4	0.8	1.9
Financial income, net	279.1	566.8	387.2	272.6	553.6	228.0
Income before income tax and social contribution	1,280.5	2,600.2	1,960.1	1,331.8	2,704.3	2,331.1
Income tax and social contribution						
Current	(472.3)	(959.1)	(691.6)	(481.7)	(978.1)	(853.1)
Deferred	33.4	67.9	40.8	44.7	90.7	55.8
Net income	841.6	1,709.0	1,309.3	894.8	1,816.9	1,533.8
Attributable to:						
Cielo S.A. shareholders	839.3	1,704.4	1,305.8	891.5	1,810.3	1,829.4
Non-controlling interests (shareholders other than Cielo S.A. shareholders)	2.3	4.6	3.5	3.3	6.6	1.6
Net income	841.6	1,709.0	1,309.3	894.8	1,816.9	1,533.8

- (1) In the statement of income for the nine-month period ended September 30, 2011, tax benefits resulting from donations to cultural and artistic activities programs in the total amount of R\$12.7 million were previously recorded under the “General and administrative” line item but were reclassified to the “Income tax and social contribution - Current” line item.
- (2) Solely for the convenience of the reader, Brazilian *real* amounts as of and for the nine-month period ended September 30, 2012 and the year ended December 31, 2011 have been translated into U.S. dollars at the exchange rate as of September 30, 2012 of R\$2.0306 to U.S.\$1.00. See “Exchange Rates” for further information about recent fluctuations in exchange rates.

Revenue Composition

	For the Nine-month Period Ended September 30,			For the Year Ended December 31,			
	2012	2012	2011	2011	2011	2010	2009
	(in millions of U.S.\$)(1)	(in millions of reais)		(in millions of U.S.\$)(1)	(in millions of reais)		
Commissions	1,406.4	2,855.8	2,313.0	1,609.6	3,268.4	3,103.2	2,649.9
Credit Card.....	1,016.8	2,064.7	1,685.6	1,159.6	2,354.6	2,317.8	2,012.0
Debit Card.....	389.6	791.1	627.4	450.0	913.8	785.4	637.8
Rental electronic capture equipment.....	526.4	1,068.9	805.8	542.6	1,101.9	1,169.9	1,067.1
Other services.....	168.1	341.4	238.1	165.4	335.8	187.8	135.5
Tax on services.....	(219.6)	(445.9)	(352.5)	(245.0)	(497.4)	(468.4)	(407.6)
Total net revenue	1,881.3	3,820.2	3,004.4	2,072.6	4,208.7	3,992.5	3,444.9

- (1) Solely for the convenience of the reader, Brazilian *real* amounts as of and for the nine-month period ended September 30, 2012 and the year ended December 31, 2011 have been translated into U.S. dollars at the exchange rate as of September 30, 2012 of R\$2.0306 to U.S.\$1.00. See “Exchange Rates” for further information about recent fluctuations in exchange rates.

Balance Sheet

	As of September 30,		As of December 31,			
	2012 (in millions of U.S.\$)(1)	2012 (in millions of reais)	2011 (in millions of U.S.\$) (1)	2011 (in millions of reais)	2010 (in millions of reais)	2009
Cash and cash equivalents.....	193.6	393.2	144.2	292.9	250.6	514.3
Trade accounts receivable.....	1,972.8	4,006.0	1,487.0	3,019.5	2,210.3	1,178.8
Prepaid and recoverable taxes.....	5.0	10.1	2.0	4.1	2.7	2.5
Receivables – securitization abroad.....	—	—	—	—	42.0	163.9
Interest receivable – securitization abroad.....	—	—	—	—	0.9	2.9
Prepaid expenses.....	5.1	10.3	2.4	4.9	4.9	5.9
Other receivables.....	10.5	21.2	19.7	39.9	24.9	18.4
Total current assets	2,187.0	4,440.8	1,655.3	3,361.3	2,536.3	1,886.7
Non-current assets						
Receivables – securitization abroad.....	—	—	—	—	—	42.4
Deferred income tax and social contribution (2).....	198.8	403.7	168.0	341.1	249.6	222.0
Escrow deposits.....	360.3	731.6	306.7	622.8	489.2	455.3
Other receivables.....	8.1	16.6	0.4	0.7	1.1	1.8
Property and equipment.....	249.2	506.0	257.3	522.4	360.3	296.1
Intangible assets						
Goodwill on acquisition of investments.....	714.9	1,451.6	69.0	140.1	53.8	22.2
Other intangibles.....	94.7	192.4	43.3	88.0	75.5	41.3
Total non-current assets	1,626.0	3,301.9	844.7	1,715.1	1,229.5	1,081.1
Total assets	3,813.0	7,742.7	2,500.0	5,076.4	3,765.8	2,967.8
Current liabilities:						
Payables to merchants.....	1,377.3	2,796.8	817.7	1,660.4	1,168.4	667.5
Borrowings and financing.....	463.4	940.9	9.7	19.6	—	—
Trade accounts payable.....	187.2	380.1	142.7	289.8	180.8	116.4
Taxes payable.....	197.7	401.3	193.0	392.0	409.0	417.0
Payables – securitization abroad.....	—	—	—	—	42.0	163.9
Interest received in advance – securitization abroad.....	—	—	—	—	0.9	2.9
Dividends payable.....	—	—	157.3	319.5	118.0	105.4
Other payables.....	66.1	134.2	66.9	135.8	97.2	80.0
Total current liabilities	2,291.6	4,653.3	1,387.3	2,817.1	2,016.4	1,553.1
Non-current liabilities:						
Borrowings and financing.....	88.9	180.5	64.6	131.2	—	—
Provision for risks.....	396.6	805.4	333.9	678.0	523.6	511.6
Payables – securitization abroad.....	—	—	—	—	—	42.5
Other payables.....	15.3	31.0	12.6	25.5	31.6	0.2
Total non-current liabilities	500.8	1,016.9	411.1	834.7	555.2	554.3
Shareholders' equity:						
Capital.....	246.3	500.0	129.9	263.8	100.0	75.3
Capital reserve.....	47.5	96.5	43.8	88.9	83.5	72.3
Treasury shares.....	(11.9)	(24.1)	(25.0)	(50.8)	(68.8)	(69.2)
Equity valuation adjustments.....	1.8	3.7	—	—	—	—
Earnings reserves.....	729.5	1,481.4	545.5	1,107.7	1,065.1	782.0
Cielo S.A. shareholders.....	1,013.2	2,057.5	694.2	1,409.6	1,179.8	860.4
Non-controlling interests (shareholders other than Cielo S.A. shareholders).....	7.4	15.0	7.4	15.0	14.5	—
Total shareholders' equity	1,020.6	2,072.5	701.6	1,424.6	1,194.3	860.4
Total liabilities and shareholders' equity	3,813.0	7,742.7	2,500.0	5,076.4	3,765.8	2,967.8

(1) Solely for the convenience of the reader, Brazilian *real* amounts as of and for the nine-month period ended September 30, 2012 and the year ended December 31, 2011 have been translated into U.S. dollars at the exchange rate as of September 30, 2012 of R\$2.0306 to U.S.\$1.00. See “Exchange Rates” for further information about recent fluctuations in exchange rates.

(2) For the balance sheet as of December 31, 2011 and 2010, presented for comparison purposes, deferred income tax liabilities previously recorded as non-current liabilities in the total amounts of R\$4.8 million and R\$5.6 million, respectively, were reclassified to non-current assets in the line item “Deferred income tax and social contribution.”

EBITDA

	For the Nine-Month Period Ended September 30,			For the Year Ended December 31,			
	2012	2012	2011	2011	2011	2010	2009
	(in millions of U.S.\$, except as otherwise indicated) (1)	(in millions of reais, except as otherwise indicated)		(in millions of U.S.\$, except as otherwise indicated) (1)	(in millions of reais, except as otherwise indicated)		
Net income	841.6	1,709.0	1,309.3	894.8	1,816.9	1,831.0	1,533.8
(+) Income tax and social contribution.....	438.9	891.2	650.8	437.0	887.4	914.0	797.3
(+) Depreciation and amortization.....	109.9	223.2	174.0	117.1	237.8	193.4	160.3
(-) Financial income, net.....	279.1	566.8	387.2	272.6	553.6	374.4	228.0
EBITDA (2)	1,111.3	2,256.6	1,746.9	1,176.3	2,388.5	2,564.0	2,263.4
Net Revenue.....	1,881.3	3,820.2	3,004.4	2,072.6	4,208.7	3,992.5	3,444.9
EBITDA margin (3)	59.1%	59.1%	58.1%	56.8%	56.8%	64.2%	65.7%

- (1) Solely for the convenience of the reader, Brazilian *real* amounts for the year ended December 31, 2011 and for the nine-month period ended September 30, 2012 have been translated into U.S. dollars at the exchange rate as of September 30, 2012 of R\$2.0306 to U.S.\$1.00. See "Exchange Rates" for further information.
- (2) Our EBITDA consists of our net income (1) plus income tax and social contribution, (2) plus depreciation and amortization and (3) less financial income, net. Our EBITDA is not a measure recognized under Brazilian GAAP, IFRS or U.S. GAAP and should not be considered in isolation or as an alternative to net income, as an operating performance measurement, as an alternative to cash flow or as an indicator of liquidity. Our EBITDA has limitations that restrict its usefulness as a measurement of our profitability because it does not take into consideration certain costs and expenses of our business that could significantly affect our net income, such as financial expenses, income taxes and social contribution, depreciation and amortization, capital expenditures and other related charges. Other companies may calculate their EBITDA differently than we do. Our management uses our EBITDA as an additional measure to monitor our operating performance.
- (3) EBITDA margin is our EBITDA divided by our net revenue in a given period.

RISK FACTORS

Prospective purchasers of notes units should carefully consider the risks described below, as well as the other information in this offering memorandum, before deciding to purchase any notes units. Our business, results of operations, financial condition or prospects could be materially and adversely affected if any of these risks occurs, and as a result, the trading price of the notes units could decline and you could lose all or part of your investment.

Risks Relating to Us

Competition in the Brazilian merchant acquiring and payment processing industry may materially and adversely affect our results of operations and strategy.

Our profitability currently depends on our ability to maintain and increase the number of merchants that accept credit and debit cards or other means of electronic payment. If any international or domestic merchant acquirers and payment processors, with capital and technological resources enter the Brazilian market, or if existing merchant acquirers in Brazil increase their market share, the results of our operations may be materially and adversely affected.

We may also have to decrease the gross merchant discount rate we charge our affiliated merchants, as a result of increased competition in the merchant acquiring and payment processing industry. If this occurs, results of our operations may be materially and adversely affected.

We also face competition from other alternative means of payment, such as cash and checks. We cannot assure you that the electronic payment industry will maintain its current growth rate, which may materially and adversely affect our business.

In line with our strategy, we intend to further grow our prepayment of receivables business. This service, however, can only be offered to affiliated merchants that are not subject to lock-in Housebank services, since the lock-in Housebank service prevents the receivables from card transactions from being deposited in different bank accounts. If the card issuers decide to lock-in our affiliated merchants, we will not be able to offer the prepayment of receivables in the terms originally proposed and we may be materially and adversely affected.

There is no assurance that we will be able to continue to compete successfully or at historical levels in the merchant acquiring and payment processing industry and in the prepayment of receivables business. If we are unable to respond satisfactorily to competitive pressure, we may be materially and adversely affected.

Changes in interchange fees or other fees charged by card associations and debit networks could increase our costs or otherwise materially and adversely affect our business.

Card associations and debit networks may increase interchange, processing and other fees, which could adversely impact our transaction processing and merchant acquiring businesses. It is possible that competitive pressures will result in our merchant acquiring business absorbing a portion of any such increases, which would increase our operating costs and reduce our profit margin and could materially and adversely affect our business, operating results and financial condition.

The failure to successfully integrate MeS' business and operations and/or fully realize synergies from the acquisition in the expected time frame may materially and adversely affect our future results.

The success of our MeS acquisition depends in part on our ability to integrate MeS, which may involve unforeseen difficulties and may require a disproportionate amount of our management's attention and our financial and other resources. Although we conducted a due diligence investigation prior to our acquisition, there can be no assurance that we considered all operational deficiencies or material liabilities of the acquired business for which we may be responsible as the successor owner and operator. In addition, the integration process could result in the loss of employees, increases in operating costs or disruption of each company's ongoing business, any of which could materially and adversely affect our ability to achieve the anticipated benefits and synergies of the acquisition. The failure to successfully integrate MeS could materially and adversely affect our operating results.

Information technology and communication systems we use may be subject to failures.

We depend on the efficient and uninterrupted operation of our computer and telecommunications systems that either we or third party providers operate. Our transaction processing systems may experience service interruptions or degradation because of processing or other technology malfunction, fire, natural disasters, power loss, disruptions in long distance or local telecommunications access, fraud, terrorism, climate change or accident. Our visibility in the merchant acquiring and payment processing industry may attract terrorists and hackers to conduct physical or computer-based attacks, leading to an interruption in service, increased costs or the compromise of data security. Additionally, we rely on service providers for the timely transmission of information across our data network. If a service provider fails to provide the communications capacity or services we require because of a natural disaster, operational disruption, terrorism or any other reason, the failure could interrupt our services, materially and adversely affect the perception of our brands' reliability and materially reduce our revenues and profitability.

Unauthorized disclosure of data from our computer systems may materially and adversely affect us.

Technological advances allow the development of increasingly sophisticated methods to capture cardholders' and merchants' data for illegal purposes, such as fraud. Notwithstanding our commitment to remain as a reference for security standards within the industry, our computer systems are therefore exposed to fraudulent use of merchants' data by third parties. If there is unauthorized disclosure of information relating to merchants, we may be exposed to legal claims and loss of reputation, which may materially and adversely affect us.

An increase in fraudulent and other illegal activity involving electronic payment transactions could lead to reputational damage to our brands and reduce the use and acceptance of electronic payment transactions.

Criminals are using increasingly sophisticated methods to capture cardholder account information and use this information to conduct fraudulent transactions. Outsourcing and specialization of functions within payments systems are increasing, and as a result, more third parties are involved in processing electronic payment transactions. A rise in fraud levels involving electronic payment transactions could lead to reputational damage to our merchants' brands, which could reduce the use and acceptance of electronic payment transactions or lead to greater regulation, which could increase our compliance costs. Any such decrease in the use and acceptance of electronic payment transactions, reduction in origination from card issuers or changes in regulations may materially and adversely affect our business and results of operations.

The termination of any of our agreements with financial institutions that provide support services to us could materially and adversely affect us.

We entered into agreements with Banco do Brasil, Bradesco, HSBC and Caixa Econômica Federal establishing incentives for card issuers to assist us in soliciting new merchants for subsequent affiliation by us and increasing the volume of transactions acquired through our electronic capture equipment. In connection with these agreements, we pay commissions to card issuers, which are based on a fixed amount per merchant affiliated by us and a percentage of the total amount of transactions captured through our equipment. We depend on these agreements for the affiliation of merchants and the successful continuance of our operations. These agreements have open-ended terms or terms that are renewed automatically unless one of the parties elects not to renew. In addition, certain of these agreements may be terminated without the imposition of any fine or other penalty following a pre-established notice period. The termination of any of these agreements may materially and adversely affect our business and results of operations.

Risks Relating to the Merchant Acquiring and Payment Processing Industry

Laws and regulations passed in an attempt to regulate the Brazilian merchant acquiring and payment processing industry could materially and adversely affect us.

There are several laws and regulations pending in the Brazilian government aimed at regulating the merchant acquiring and payment processing industry. The main initiatives focus on:

- the reduction of management fees we charge to merchants and shortening payment deadlines;

- the possibility of establishing different prices on the sales of goods or provision of services paid using electronic payment as compared to other forms of single-installment payments;
- the application of additional oversight and regulation on various corporate actions by the Central Bank; and
- the effect of Brazilian Service Taxes (*Imposto sobre Serviços*), or ISS, on credit card acceptance services.

These projects are in different stages of discussion and present regulatory uncertainties which, together with other governmental regulation that could be implemented in the future, including any regulations that may affect the pricing of the services we offer or our competitive position, could materially adversely affect us in the coming years.

Our inability to keep up with market trends and offer new alternative means of payment may have a material and adverse effect on us.

The merchant acquiring and payment processing industry has to constantly monitor changes in the expectations of cardholders, as well as in technological advances. We expect that new alternative means of payment associated with new technology, such as the use of mobile phones to effect transactions, will be developed and implemented to meet cardholders' demand for ease of use, transaction security and speed in electronic payment transactions. Our inability to offer new alternative means of payment, implement new technologies or keep up with trends in the industry and changes in cardholders' preferences, may have a material and adverse effect on us.

Merchants' continued focus on the costs associated with acceptance of electronic payment transactions may result in more incentive arrangements.

We rely in part on merchants and their relationships with their clients to maintain and expand the acceptance of electronic payment transactions. Consolidation in the retail industry has created a group of larger merchants that have significant impact on all participants in the merchant acquiring and payment processing industry. We negotiate pricing discounts and other incentive arrangements with certain large merchants to increase acceptance and usage of electronic payment transactions. If merchants continue to grow or consolidate, we may have to increase the incentives that we provide to certain larger merchants, which could materially and adversely affect our revenues, results of operations, business and prospects for future growth.

We depend on maintaining merchant acquiring licenses with card brands.

We depend on continuing licensed with card brands affiliated to our network to operate as an acquirer. The licenses are not exclusive to us, and the license agreements allow the brands to terminate them in the event we cease to be a member in good standing of the card brand network. See "Business—Material Agreements—Agreements with Card Brands." Any such termination of these licenses may materially and adversely affect us.

Risks Relating to Brazil

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian economic and political conditions, and the Brazilian government's economic and other policies, have a direct impact on our business and may materially and adversely affect demand for our products as well as our net operating income and overall financial performance.

The Brazilian economy has been characterized by frequent and significant intervention by the Brazilian government, which has often changed monetary, credit, fiscal and other policies to influence Brazil's economy. The Brazilian government's actions to control inflation and affect other policies have often involved wage and price controls, depreciation of the *real*, controls on remittances abroad, fluctuations of the Central Bank's base interest rate, as well as other measures. We have no control over, nor can we foresee, any measures or policies that the federal government may adopt in the future. We may be materially and adversely affected by changes in the policies of the federal government, in addition to other general economic factors, including, without limitation:

- economic and social instability;
- increase in unemployment levels;

- decreases in GDP;
- political elections;
- inflation;
- exchange rate fluctuations;
- exchange controls and restrictions on remittances abroad;
- fiscal policy and amendments to tax legislation;
- interest rates;
- liquidity of domestic and foreign capital and lending markets;
- the regulatory environment;
- government intervention in the economy; and
- other political, social and economic policies or developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will implement changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the securities issued abroad by Brazilian companies. Historically, the political scenario in Brazil has influenced the performance of the Brazilian economy in the past; in particular, political crises have affected the confidence of investors and the public in general, which adversely affected the economic development in Brazil. These and other future developments in the Brazilian economy and governmental policies may materially and adversely affect us.

Inflation, and government measures to curb inflation, may materially and adversely affect the Brazilian economy, the Brazilian securities market, our business and operations and financial condition.

Brazil experienced high rates of inflation in the past. According to the General Market Price Index (*Índice Geral de Preços do Mercado*), or IGP-M, a general price inflation index, the inflation rates in Brazil was 9.8% in 2008, compared to deflation of 1.7% in 2009, inflation of 11.3% in 2010, inflation of 5.1% in 2011 and inflation of 7.1% during the nine-month period ended September 30, 2012. In addition, according to the Extended National Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*), or IPCA, published by the IBGE, the Brazilian consumer price inflation rates were 5.9% in 2008, 4.3% in 2009, 5.9% in 2010, 6.5% in 2011 and 3.8% during the nine-month period ended September 30, 2012. Increases in certain commodity prices and other factors could cause consumer inflation to deviate from the Central Bank's target for 2012 (currently 4.5%).

The Brazilian government's measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting availability of credit and reducing economic growth. Inflation, actions to combat inflation and public speculation about possible additional actions have also contributed materially to economic uncertainty in Brazil in the past and to heightened volatility in the Brazilian securities markets.

Brazil may experience high levels of inflation in future periods. Periods of higher inflation may slow the rate of growth of the Brazilian economy, which could lead to reduced demand for our products in Brazil and decreased net sales. Inflation also is likely to increase some of our costs and expenses, which we may not be able to pass on to our customers and, as a result, may reduce our profit margins and net income. In addition, high inflation generally leads to higher domestic interest rates, and, as a result, the costs of servicing our debt may increase, resulting in lower net income. Inflation and its effect on domestic interest rates can, in addition, lead to reduced liquidity in the domestic capital and lending markets, which could affect our ability to refinance our indebtedness in those markets and may have a material and adverse effect on our business, results of operations and financial condition.

Fluctuations in currency exchange rates and the depreciation of the real may materially and adversely affect the Brazilian economy and our financial condition and result of operations.

As a result of inflationary pressures, the Brazilian currency has depreciated periodically in the past in relation to the U.S. dollar and other foreign currencies. The Brazilian government has in the past implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. From time to time, there have been significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. For example, the *real* depreciated against the U.S. dollar by 18.7% in 2001 and 52.3% in 2002. Although the *real* appreciated 18.2%, 8.1%, 11.8%, 8.7% and 17.2% against the U.S. dollar in 2003, 2004, 2005, 2006 and 2007, respectively, in 2008, the *real* depreciated approximately 31.9% against the U.S. dollar. In 2009, 2010 and 2011, the *real* appreciated against the U.S. dollar by 25.5%, 4.3% and 12.6%, respectively. There can be no assurance that the *real* would not depreciate against the U.S. dollar in the future. As of December 31, 2011, the U.S. dollar-*real* exchange rate was R\$1.8758 per U.S.\$1.00, and as of September 30, 2012 the U.S. dollar-*real* exchange rate was R\$2.0306 per U.S.\$1.00.

Depreciation of the *real* relative to the U.S. dollar could create additional inflationary pressures in Brazil, lead to increases in interest rates, limit our access to foreign financial markets and prompt the adoption of recessionary policies by the Brazilian government. Depreciation of the *real* can also, as in the context of an economic slowdown, lead to decreased consumer spending, deflationary pressures and reduced growth of the economy as a whole. Conversely, the appreciation of the *real* against the U.S. dollar may lead to a deterioration of Brazil's current account and balance of payments and cause a decrease of Brazilian exports. Any of the foregoing developments may negatively affect the Brazilian economy as a whole, and, consequently, have a material and adverse effect on our results of operations and the market price of the notes units.

Increases in interest rates may adversely affect the Brazilian economy, raise the cost of servicing our debt and materially and adversely affect our overall financial performance.

High interest rates have in the past had negative effects on the Brazilian economy and could adversely affect our business. Brazil's base interest rate, as determined by the Central Bank, has been maintained at consistently high levels in the past years. The base interest rate is the benchmark interest rate payable to holders of certain securities issued by the Brazilian government and traded in the Special System for Settlement and Custody (*Sistema Especial de Liquidação e Custódia*), or SELIC. At times, the base interest rate has been maintained at levels that generally are considered incompatible with sustainable economic growth. On December 31, 2008, 2009, 2010, and 2011, the SELIC rate was 13.75%, 8.75%, 10.75% and 11.00%, respectively. During 2012, the Central Bank engaged in a series of decreases to the SELIC rate, to the current rate of 7.25%. A significant increase in interest rates could materially increase our financial expenses and materially and adversely affect our overall financial performance.

Economic and market conditions in other countries, including in developing countries, may materially and adversely affect the Brazilian economy and, therefore, the market value of the notes units.

The market for securities issued by Brazilian companies is influenced by economic and market conditions in Brazil, and, to varying degrees, market conditions in other countries, including Latin American and developing countries. Although economic conditions are different in each country, the reaction of investors to developments in one country may cause the capital markets in other countries to fluctuate. Developments or conditions in other countries, including developing countries, have at times significantly affected the availability of credit in the Brazilian economy and resulted in considerable outflows of funds and declines in the amount of foreign currency invested in Brazil, as well as limited access to international capital markets, all of which may materially and adversely affect our ability to borrow funds at an acceptable interest rate or to raise equity capital when and if there should be a need for us to do so. For example, recent developments in the sovereign debt markets relating to countries in the E.U., such as Greece, Ireland, Spain and Portugal, and in the United States, have led to increased uncertainty. The volatility in market prices for Brazilian securities has increased from time to time, and investors' perception of increased risk due to crises in other countries, including developing countries, may also lead to a reduction in the market price of the notes units.

Changes in Brazilian tax laws may have a material and adverse effect on our results of operations.

The Brazilian government frequently implements changes to tax regimes that affect us and our customers. These changes include changes in the prevailing tax rates and, on occasion, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes.

Some of these changes may result in increases in our tax payments, which can adversely impact industry profitability and increase the prices of our products, restrict our ability to do business in our existing markets and could otherwise materially and adversely affect us. There can be no assurance that we will be able to maintain our prices, projected cash flow and/or profitability following increases in Brazilian taxes applicable to us, our subsidiaries or our operations.

Risks Relating to the Notes Units

Payments under the notes units are subject to our obtaining certain governmental authorizations.

The issuance of the notes units is subject to certain registrations with the Central Bank, namely (1) registration of the main financial terms under the relevant Declaratory Registry of Financial Operations (*Registro Declaratório de Operações Financeiras*), or ROF, on the Information System of the Central Bank, which will be obtained prior to any such issuance and (2) registration of the schedule of payments in connection with any such issuance, which shall occur after the entry of the related proceeds into Brazil. In addition, further authorization from the Central Bank will be required to enable us to remit payments abroad in dollars under the notes units other than scheduled payments of principal, interest, costs and expenses contemplated by the relevant ROF, such as the offer to purchase in the event of a change of control. There can be no assurance that we would be able to obtain further Central Bank authorization on a timely basis or at all.

The foreign exchange policy of Brazil may affect the guarantor's ability to make money remittances outside Brazil in respect of the guarantee.

Under existing regulations, Brazilian companies are not required to obtain authorization from the Central Bank in order to make payments in dollars outside Brazil under guarantees, such as to the holders of the notes units. We cannot assure you that these regulations will continue to be in force at the time the guarantor may be required to perform their payment obligations under the guarantee. If these regulations or their interpretation are modified and an authorization from the Central Bank is required, the guarantor would be obligated to seek an authorization from the Central Bank to transfer the amounts under the guarantee out of Brazil or, alternatively, make such payments with funds held by them outside Brazil. We cannot assure you that such an authorization will be obtained or that such funds will be available.

Judgments of Brazilian courts enforcing the issuers' obligations under the underlying notes, the notes units or the indenture governing the underlying notes and the notes units would be payable only in Brazilian reais.

If proceedings were brought in the courts of Brazil seeking to enforce obligations against the issuers under the underlying notes, the notes units, the indenture or under the guarantee, the relevant parties would not be required to discharge our obligations in a currency other than *reais*. Any judgment obtained against the issuers or the guarantor in Brazilian courts in respect of any payment obligations under the guarantee will be expressed in *reais* equivalent to the U.S. dollar amount of such payment at the exchange rate on (1) the date of actual payment, (2) the date on which such judgment is rendered or (3) the actual due date of the obligations, as published by the Central Bank. There can be no assurance that such rate of exchange will afford you full compensation of the amount you invest in the notes units plus accrued interest and any additional amounts.

Brazilian bankruptcy laws may be less favorable to investors than bankruptcy and insolvency laws in other jurisdictions.

If we are unable to pay our indebtedness, including our obligations under the notes units, we may become subject to bankruptcy proceedings in Brazil. The bankruptcy laws of Brazil currently in effect are significantly different from, and may be less favorable to creditors than, those of certain other jurisdictions. Holders of the notes units may have limited voting rights at creditors' meetings in the context of a court reorganization proceeding. In

addition, any judgment obtained against us in Brazilian courts in respect of any payment obligations under the guarantee normally would be expressed in the *real* equivalent of the U.S. dollar amount of such sum at the exchange rate in effect (1) on the date of actual payment, (2) on the date on which such judgment is rendered or (3) on the date on which collection or enforcement proceedings are started against us. Consequently, in the event of our bankruptcy, all of our debt obligations, including the guarantee, which are denominated in foreign currency, will be converted into *reais* at the prevailing exchange rate on the date of declaration of our bankruptcy by the court. We cannot assure investors that this rate of exchange will afford full compensation of the amount invested in the notes units plus accrued interest and any additional amounts.

Interpretations of certain Brazilian tax laws may have an adverse impact on the taxes applicable to a disposition of the notes units.

Under Law No. 10,833, enacted on December 29, 2003, the disposition of assets located in Brazil by a non-resident to either a Brazilian resident or a non-resident is subject to taxation in Brazil, regardless of whether the disposition occurs outside or within Brazil. In the event that the disposition of assets is interpreted to include a disposition of the notes units, this tax law could result in the imposition of withholding tax on a disposition of the notes units by a non-resident of Brazil to another non-resident of Brazil. Because no judicial guidance as to the application of Law No. 10,833 yet exists, we are unable to predict whether an interpretation applying this law to dispositions of the notes units between non-residents could ultimately prevail in the courts of Brazil.

Cielo's obligations under the Cielo Notes and the guarantor's obligations under its guarantee are subordinated to certain statutory preferences.

Under Brazilian law, Cielo's obligations under the underlying notes and under its guarantee are subordinated to certain statutory preferences. In the event of a liquidation, bankruptcy or judicial reorganization of Cielo, such statutory preferences, including post-petition claims, claims for salaries, wages, social security, taxes and court fees and expenses and claims secured by collateral, among others, will have preference over any other claims, including claims by any investor in respect of the underlying notes, the notes units or the guarantee, as the case may be. In such a scenario, enforcement of the underlying notes and the guarantee may be unsuccessful, and holders of the notes units may be unable to collect amounts that they are due under the notes units.

Any reduction in our credit ratings could materially and adversely affect us.

The notes units are expected to be assigned ratings by Moody's and Fitch. The ratings address the likelihood of payment of principal at the notes units' maturity. The ratings also address the timely payment of interest on each interest payment date. The ratings of the notes units are not a recommendation to purchase, hold or sell the notes units, and the ratings do not comment on market price or suitability for any particular investor. We cannot assure you that the rating of the notes units will remain for any given period of time or that the rating will not be lowered or withdrawn. The assigned ratings may be raised or lowered depending, among other factors, on the rating agencies' respective assessment of our financial strength, as well as their assessment of Brazilian sovereign risk generally.

In addition, credit ratings may impact the interest rates we pay on funds that we borrow and the market perception of our financial strength. If the ratings on the notes units were reduced and the market were to perceive any such reduction as a deterioration of our financial strength, our cost of borrowing would likely increase and our net income could decrease, both of which could materially and adversely affect us.

We cannot assure investors that a judgment of a court for liabilities under the securities laws of a jurisdiction outside Brazil would be enforceable in Brazil, or that an original action can be brought in Brazil against the issuers or the guarantor for liabilities under applicable securities laws.

Cielo is incorporated under the laws of Brazil and a substantial portion of its assets are located in Brazil. All of the executive officers and certain advisors of Cielo named herein reside in Brazil. As a result, it may not be possible for investors to effect service of process within the United States upon Cielo, or its directors, executive officers and advisors, or to enforce against Cielo, or its directors, executive officers and advisors, in U.S. or Brazilian courts any judgments predicated upon the civil liability provisions of applicable securities laws. In addition, it may not be possible to bring an original action in Brazil against Cielo for liabilities under applicable securities laws. See "Enforceability of Civil Liabilities."

We may incur additional indebtedness ranking equal to the notes units and the guarantee.

The indenture will not limit the ability of the issuers and the guarantor and their respective subsidiaries to incur additional debt, including debt that ranks on an equal and ratable basis with the underlying notes and the guarantee. If the issuers were to incur additional debt or guarantees that rank on an equal and ratable basis with their respective indebtedness or guarantee, as the case may be, the holders of this additional debt (and beneficiaries of this additional guarantee) would be entitled to share ratably with the holders of the notes units in any proceeds that may be distributed upon the obligor's insolvency, liquidation, reorganization, dissolution or other winding up. This would likely reduce the amount of any liquidation proceeds that would be available to be paid to you.

An active and liquid trading market for the notes units may not develop.

The notes units constitute a new issue of securities, for which there is no existing market. The issuers have applied to list the notes units on the Irish Stock Exchange. We cannot assure investors that this application will be accepted. The initial purchasers are not under any obligation to make a market with respect to the notes units, and we cannot assure you that trading markets will develop or be maintained, that holders of the notes units will be able to sell their notes units, or the price at which such holders may be able to sell their notes units. If an active and liquid trading market were to develop, the notes units could trade at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates, our results of operations and financial condition, prospects for other companies in our industry, political and economic developments in and affecting Brazil, the risk associated with Brazilian issuers of similar securities and the market for similar securities. If an active and liquid trading market for the notes units does not develop or is interrupted, the market price and liquidity of the notes units may be materially and adversely affected.

The guarantee may not be enforceable if deemed fraudulent and declared void.

The guarantee may not be enforceable under Brazilian law. While Brazilian law does not prohibit the granting of guarantees, in the event that the guarantor were to become subject to a reorganization proceeding or to bankruptcy, the guarantee, if granted up to two years before any declaration of bankruptcy, may be deemed to have been fraudulent and declared void, based upon the guarantor being deemed not to have received fair consideration in exchange for its issuance of the guarantee.

The issuers will have the right to redeem the notes units and the underlying notes upon the occurrence of certain tax events or at their option at any time at the prices set forth in this offering memorandum.

The issuers will have the right, upon the occurrence of certain tax events as described under "Description of the Notes Units—Optional Tax Redemption," or at their option at any time to redeem the notes units and the underlying notes. In the case of a redemption due to a tax event, the notes units may be redeemed at a price equal to 100% of their principal amount plus accrued and unpaid interest and Additional Amounts, if any, on the underlying notes to be redeemed. In the case of a redemption at the issuers' option, the notes units and the underlying notes will be redeemed at a price equal to the greater of (1) 100% of the principal amount of the notes units and underlying notes to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest and Additional Amounts (if any) on the underlying notes to be redeemed (but excluding any accrued and unpaid interest to the redemption date) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Rate plus 35 basis points, in each case plus accrued and unpaid interest on the principal amount being redeemed to, but excluding, the redemption date. We cannot give any assurances that amounts that may be paid upon redemption can be reinvested at a rate that will provide the same rate of return to investors as their investment in the notes units.

You will not be indemnified for or receive payments of additional amounts with respect to taxes withheld under FATCA in the event of a substitution of any issuer.

The Foreign Account Tax Compliance Act provisions of the Hiring Incentives to Restore Employment Act (generally referred to as "FATCA"), when applicable, will impose a U.S. federal withholding tax of 30% on (i) certain U.S. source payments to foreign entities (including interest payments and gross proceeds from the disposition of debt instruments) ("withholdable payments"), unless the foreign entity complies with certain certification and information reporting requirements and (ii) certain pass-through payments made after December 31, 2016 by certain

foreign entities that are considered “foreign financial institutions” to the extent the payments are treated as attributable to withholdable payments, unless the foreign financial institution obtains certain identifying information from its accountholders (including holders of notes units) and reports such information to the U.S. Internal Revenue Service. FATCA, as enacted, generally applies to debt instruments issued after March 18, 2012. Recently-released proposed Treasury Regulations would extend the grandfathering date and provide that FATCA will generally not apply to debt instruments that are outstanding on January 1, 2013, including the notes units (unless such instruments are subject to a “significant modification” after that date). If we choose to substitute an issuer as described in “Description of the Notes Units—Substitution of the Issuers,” however, the notes units will become subject to FATCA and you will not receive any Additional Amounts with respect to any withholding imposed on or in respect of any notes units pursuant to FATCA. See “Description of the Notes Units—Additional Amounts.” In addition, upon the substitution of any issuers, you will not be indemnified for any taxes imposed pursuant to FATCA, the laws of Brazil imposing FATCA, or any agreement between the issuers and the United States or any other authority thereof implementing FATCA. See “Description of the Notes Units—Substitution of the Issuers.” As withholding under FATCA applies to U.S. source payments, the 30% withholding tax is most likely to arise upon a substitution of an issuer for a U.S. issuer. You are urged to consult your own tax advisors regarding FATCA and the proposed Treasury Regulations as they apply to the notes units and the substitution of the issuers provision.

EXCHANGE RATES

The Brazilian foreign exchange system allows the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of the amount, subject to certain regulatory procedures.

Since 1999, the Central Bank has allowed the U.S. dollar-*real* exchange rate to float freely, and, since then, the U.S. dollar-*real* exchange rate has fluctuated considerably.

In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to permit the *real* to float freely or will intervene in the exchange rate market through the return of a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar substantially. Furthermore, Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or there are serious reasons to foresee a serious imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. We cannot assure you that such measures will not be taken by the Brazilian government in the future. See "Risk Factors—Risks Relating to Brazil—Fluctuations in currency exchange rates and the devaluation of the real may adversely affect the Brazilian economy and our financial condition and result of operations."

The following table sets forth the period end, average, high and low Foreign Exchange Market selling rates published by the Central Bank on its electronic information system (*Sistema de Informações do Banco Central – SISBACEN*), under transaction code PTAX 800 (*Consultas de Câmbio*), or Exchange Rate Enquiry, Option 5, *Venda (Cotações para Contabilidade)*, or Rates for Accounting Purposes, expressed in *reais* per U.S. dollar for the periods and dates indicated.

Year Ended December 31,	Reais per U.S. Dollar			
	High	Low	Average(1)	Period-end
2007	2.156	1.733	1.948	1.771
2008	2.500	1.559	1.834	2.337
2009	2.422	1.702	1.994	1.741
2010	1.881	1.655	1.759	1.666
2011	1.902	1.535	1.675	1.876

Source: Central Bank

(1) Represents the average of the exchange rates on the last day of each month during the periods presented.

Month	Reais per U.S. Dollar			
	High	Low	Average	Month-end
May 2012	2.082	1.915	1.986	2.022
June 2012	2.090	2.018	2.049	2.021
July 2012	2.050	1.989	2.029	2.050
August 2012	2.051	2.017	2.029	2.037
September 2012	2.039	2.014	2.028	2.031
October 2012	2.038	2.022	2.030	2.031
November 2012 (through November 8, 2012)	2.036	2.031	2.034	2.036

Source: Central Bank

USE OF PROCEEDS

We estimate the net proceeds from the sale of the notes units to be approximately U.S.\$865.7 million after deducting the estimated commissions payable by us. We intend to use the net proceeds from the sale of the Cielo USA Notes to repay the Bridge Loan used to finance our acquisition of MeS, with the net proceeds, corresponding to the sale of the Cielo Notes, to be used for general corporate purposes. The Bridge Loan was extended to us by certain affiliates of the initial purchasers, and we will use a portion of the net proceeds of the notes units to repay them as follows:

Bridge Loan Lender	Outstanding Principal Amount as of September 30, 2012
	<i>(in millions of U.S.\$)</i>
Banco do Brasil S.A.....	200.0
Goldman Sachs Bank USA.....	200.0
Total indebtedness intended to be repaid to certain affiliates of the initial purchasers	U.S.\$400.0

CAPITALIZATION

The following table sets forth our consolidated capitalization as of September 30, 2012, derived from our unaudited consolidated interim balance sheet as of September 30, 2012:

- on an actual historical basis;
- as adjusted to give effect to the incurrence in October 2012 of R\$53.3 million of borrowings and financing under our FINAME facility; and
- as further adjusted to give effect to the sale of the notes units in this offering and the receipt of estimated net proceeds therefrom after deduction of estimated commissions we will pay in connection with this offering, and our intended repayment of the Bridge Loan using the net proceeds.

You should read this table in conjunction with our unaudited condensed interim consolidated financial statements included elsewhere in this offering memorandum, as well as the sections entitled “Presentation of Financial and Other Information,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

	As of September 30, 2012					
	Actual		As Adjusted		As Further Adjusted	
	(in millions of U.S.\$) (1)	(in millions of reais)	(in millions of U.S.\$) (1)	(in millions of reais)	(in millions of U.S.\$) (1)	(in millions of reais)
Cash and cash equivalents.....	193.6	393.2	193.6	393.2	659.3	1,338.8
Short-term borrowings and financing	463.4	940.9	471.6	957.7	71.6	145.4
Long-term borrowings and financing	88.9	180.5	106.9	217.1	972.6	1,975.0
Total shareholders’ equity.....	1,020.6	2,072.5	1,020.6	2,072.5	1,020.6	2,072.5
Total capitalization (2).....	1,572.9	3,193.9	1,599.1	3,247.3	2,064.8	4,192.9

- (1) Solely for the convenience of the reader, Brazilian *real* amounts as of September 30, 2012 have been translated into U.S. dollars at the exchange rate as of September 30, 2012 of R\$2.0306 to U.S.\$1.00. See “Exchange Rates” for further information on recent fluctuations in exchange rates.
- (2) Total capitalization is the sum of short term borrowings and financing, long term borrowings and financing and total shareholders’ equity.

Other than described above, there has been no material change in our capitalization since September 30, 2012.

SELECTED FINANCIAL INFORMATION

The following selected financial information has been derived from our (1) unaudited consolidated interim financial statements as of September 30, 2012 and for the nine-month periods ended September 30, 2012 and 2011, (2) our audited consolidated financial statements as of and for the years ended December 31, 2011 and 2010 and (3) our audited consolidated financial statements as of and for the years ended December 31, 2010 and 2009. We have prepared our consolidated financial statements in accordance with IFRS and Brazilian GAAP.

You should read the information below in conjunction with our audited and unaudited consolidated financial statements and the notes thereto, included elsewhere in this offering memorandum, as well as the sections entitled “Presentation of Financial and Other Information,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Our results for the nine-month period ended September 30, 2012 are not necessarily indicative of the results to be expected for the year ending December 31, 2012.

Statement of Income

	For the Nine-month Period Ended September 30,			For the Year Ended December 31,		
	2012	2012	2011(1)	2011	2010	2009
	(in millions of U.S.\$)(2)	(in millions of reais)		(in millions of U.S.\$)(2)	(in millions of reais)	
Net revenue	1,881.3	3,820.2	3,004.4	2,072.6	4,208.7	3,444.9
Cost of services	(611.8)	(1,242.4)	(1,019.5)	(701.8)	(1,425.2)	(936.3)
Gross profit	1,269.5	2,577.8	1,984.9	1,370.8	2,783.5	2,508.6
Operating income (expenses)						
Personnel	(78.2)	(158.7)	(142.7)	(96.1)	(195.1)	(130.2)
General and administrative	(70.2)	(142.6)	(128.7)	(96.3)	(195.6)	(147.1)
Selling and marketing	(80.0)	(162.4)	(102.7)	(91.1)	(184.9)	(73.0)
Other operating expenses, net	(39.7)	(80.7)	(37.9)	(28.1)	(57.2)	(55.2)
Income from operations	1,001.4	2,033.4	1,572.9	1,059.2	2,150.7	2,103.1
Financial income (expenses)						
Financial income	9.5	19.2	25.0	16.0	32.5	99.7
Financial expenses	(29.1)	(59.0)	(47.6)	(32.7)	(66.3)	(56.5)
Income from prepayment of receivables	300.6	610.4	418.4	301.2	611.5	218.2
Adjustment to present value expense	(4.6)	(9.3)	(10.5)	(12.3)	(24.9)	(35.3)
Exchange rate change, net	2.7	5.5	1.9	0.4	0.8	1.9
Financial income, net	279.1	566.8	387.2	272.6	553.6	228.0
Income before income tax and social contribution	1,280.5	2,600.2	1,960.1	1,331.8	2,704.3	2,331.1
Income tax and social contribution						
Current	(472.3)	(959.1)	(691.6)	(481.7)	(978.1)	(853.1)
Deferred	33.4	67.9	40.8	44.7	90.7	55.8
Net income	841.6	1,709.0	1,309.3	894.8	1,816.9	1,533.8
Attributable to:						
Cielo S.A. shareholders	839.3	1,704.4	1,305.8	891.5	1,810.3	1,829.4
Non-controlling interests (shareholders other than Cielo S.A. shareholders)	2.3	4.6	3.5	3.3	6.6	1.6
Net income	841.6	1,709.0	1,309.3	894.8	1,816.9	1,533.8

- (1) In the statement of income for the nine-month period ended September 30, 2011, tax benefits resulting from donations to cultural and artistic activities programs in the total amount of R\$12.7 million were previously recorded under the “General and administrative” line item but were reclassified to the “Income tax and social contribution - Current” line item.
- (2) Solely for the convenience of the reader, Brazilian *real* amounts as of and for the nine-month period ended September 30, 2012 and the year ended December 31, 2011 have been translated into U.S. dollars at the exchange rate as of September 30, 2012 of R\$2.0306 to U.S.\$1.00. See “Exchange Rates” for further information about recent fluctuations in exchange rates.

Revenue Composition

	For the Nine-month Period Ended September 30,			For the Year Ended December 31,			
	2012	2012	2011	2011	2011	2010	2009
	(in millions of U.S.\$)(1)	(in millions of reais)		(in millions of U.S.\$)(1)		(in millions of reais)	
Commissions	1,406.4	2,855.8	2,313.0	1,609.6	3,268.4	3,103.2	2,649.9
Credit Card.....	1,016.8	2,064.7	1,685.6	1,159.6	2,354.6	2,317.8	2,012.0
Debit Card.....	389.6	791.1	627.4	450.0	913.8	785.4	637.8
Rental electronic capture equipment.....	526.4	1,068.9	805.8	542.6	1,101.9	1,169.9	1,067.1
Other services.....	168.1	341.4	238.1	165.4	335.8	187.8	135.5
Tax on services.....	(219.6)	(445.9)	(352.5)	(245.0)	(497.4)	(468.4)	(407.6)
Total net revenue	1,881.3	3,820.2	3,004.4	2,072.6	4,208.7	3,992.5	3,444.9

- (1) Solely for the convenience of the reader, Brazilian *real* amounts as of and for the nine-month period ended September 30, 2012 and the year ended December 31, 2011 have been translated into U.S. dollars at the exchange rate as of September 30, 2012 of R\$2.0306 to U.S.\$1.00. See “Exchange Rates” for further information about recent fluctuations in exchange rates.

Balance Sheet

	As of September 30,		As of December 31,			
	2012 (in millions of U.S.\$)(1)	2012 (in millions of reais)	2011 (in millions of U.S.\$) (1)	2011 (in millions of reais)	2010 (in millions of reais)	2009
Cash and cash equivalents.....	193.6	393.2	144.2	292.9	250.6	514.3
Trade accounts receivable.....	1,972.8	4,006.0	1,487.0	3,019.5	2,210.3	1,178.8
Prepaid and recoverable taxes.....	5.0	10.1	2.0	4.1	2.7	2.5
Receivables – securitization abroad.....	—	—	—	—	42.0	163.9
Interest receivable – securitization abroad.....	—	—	—	—	0.9	2.9
Prepaid expenses.....	5.1	10.3	2.4	4.9	4.9	5.9
Other receivables.....	10.5	21.2	19.7	39.9	24.9	18.4
Total current assets	2,187.0	4,440.8	1,655.3	3,361.3	2,536.3	1,886.7
Non-current assets						
Receivables – securitization abroad.....	—	—	—	—	—	42.4
Deferred income tax and social contribution (2).....	198.8	403.7	168.0	341.1	249.6	222.0
Escrow deposits.....	360.3	731.6	306.7	622.8	489.2	455.3
Other receivables.....	8.1	16.6	0.4	0.7	1.1	1.8
Property and equipment.....	249.2	506.0	257.3	522.4	360.3	296.1
Intangible assets						
Goodwill on acquisition of investments.....	714.9	1,451.6	69.0	140.1	53.8	22.2
Other intangibles.....	94.7	192.4	43.3	88.0	75.5	41.3
Total non-current assets	1,626.0	3,301.9	844.7	1,715.1	1,229.5	1,081.1
Total assets	3,813.0	7,742.7	2,500.0	5,076.4	3,765.8	2,967.8
Current liabilities:						
Payables to merchants.....	1,377.3	2,796.8	817.7	1,660.4	1,168.4	667.5
Borrowings and financing.....	463.4	940.9	9.7	19.6	—	—
Trade accounts payable.....	187.2	380.1	142.7	289.8	180.8	116.4
Taxes payable.....	197.7	401.3	193.0	392.0	409.0	417.0
Payables – securitization abroad.....	—	—	—	—	42.0	163.9
Interest received in advance – securitization abroad.....	—	—	—	—	0.9	2.9
Dividends payable.....	—	—	157.3	319.5	118.0	105.4
Other payables.....	66.1	134.2	66.9	135.8	97.2	80.0
Total current liabilities	2,291.6	4,653.3	1,387.3	2,817.1	2,016.4	1,553.1
Non-current liabilities:						
Borrowings and financing.....	88.9	180.5	64.6	131.2	—	—
Provision for risks.....	396.6	805.4	333.9	678.0	523.6	511.6
Payables – securitization abroad.....	—	—	—	—	—	42.5
Other payables.....	15.3	31.0	12.6	25.5	31.6	0.2
Total non-current liabilities	500.8	1,016.9	411.1	834.7	555.2	554.3
Shareholders' equity:						
Capital.....	246.3	500.0	129.9	263.8	100.0	75.3
Capital reserve.....	47.5	96.5	43.8	88.9	83.5	72.3
Treasury shares.....	(11.9)	(24.1)	(25.0)	(50.8)	(68.8)	(69.2)
Equity valuation adjustments.....	1.8	3.7	—	—	—	—
Earnings reserves.....	729.5	1,481.4	545.5	1,107.7	1,065.1	782.0
Cielo S.A. shareholders.....	1,013.2	2,057.5	694.2	1,409.6	1,179.8	860.4
Non-controlling interests (shareholders other than Cielo S.A. shareholders).....	7.4	15.0	7.4	15.0	14.5	—
Total shareholders' equity	1,020.6	2,072.5	701.6	1,424.6	1,194.3	860.4
Total liabilities and shareholders' equity	3,813.0	7,742.7	2,500.0	5,076.4	3,765.8	2,967.8

(1) Solely for the convenience of the reader, Brazilian *real* amounts as of and for the nine-month period ended September 30, 2012 and the year ended December 31, 2011 have been translated into U.S. dollars at the exchange rate as of September 30, 2012 of R\$2.0306 to U.S.\$1.00. See “Exchange Rates” for further information about recent fluctuations in exchange rates.

(2) For the balance sheet as of December 31, 2011 and 2010, presented for comparison purposes, deferred income tax liabilities previously recorded as non-current liabilities in the total amounts of R\$4.8 million and R\$5.6 million, respectively, were reclassified to non-current assets in the line item “Deferred income tax and social contribution.”

EBITDA

	For the Nine-Month Period Ended September 30,			For the Year Ended December 31,			
	2012	2012	2011	2011	2011	2010	2009
	(in millions of U.S.\$, except as otherwise indicated) (1)	(in millions of reais, except as otherwise indicated)		(in millions of U.S.\$, except as otherwise indicated) (1)		(in millions of reais, except as otherwise indicated)	
Net income	841.6	1,709.0	1,309.3	894.8	1,816.9	1,831.0	1,533.8
(+) Income tax and social contribution.....	438.9	891.2	650.8	437.0	887.4	914.0	797.3
(+) Depreciation and amortization.....	109.9	223.2	174.0	117.1	237.8	193.4	160.3
(-) Financial income, net.....	279.1	566.8	387.2	272.6	553.6	374.4	228.0
EBITDA (2)	1,111.3	2,256.6	1,746.9	1,176.3	2,388.5	2,564.0	2,263.4
Net Revenue.....	1,881.3	3,820.2	3,004.4	2,072.6	4,208.7	3,992.5	3,444.9
EBITDA margin (3)	59.1%	59.1%	58.1%	56.8%	56.8%	64.2%	65.7%

- (1) Solely for the convenience of the reader, Brazilian *real* amounts for the year ended December 31, 2011 and for the nine-month period ended September 30, 2012 have been translated into U.S. dollars at the exchange rate as of September 30, 2012 of R\$2.0306 to U.S.\$1.00. See “Exchange Rates” for further information.
- (2) Our EBITDA consists of our net income (1) plus income tax and social contribution, (2) plus depreciation and amortization and (3) less financial income, net. Our EBITDA is not a measure recognized under Brazilian GAAP, IFRS or U.S. GAAP and should not be considered in isolation or as an alternative to net income, as an operating performance measurement, as an alternative to cash flow or as an indicator of liquidity. Our EBITDA has limitations that restrict its usefulness as a measurement of our profitability because it does not take into consideration certain costs and expenses of our business that could significantly affect our net income, such as financial expenses, income taxes and social contribution, depreciation and amortization, capital expenditures and other related charges. Other companies may calculate their EBITDA differently than we do. Our management uses our EBITDA as an additional measure to monitor our operating performance.
- (3) EBITDA margin is our EBITDA divided by our net revenue in a given period.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our (1) unaudited condensed consolidated interim financial statements as of September 30, 2012 and for the nine-month periods ended September 30, 2012 and 2011, (2) audited consolidated financial statements as of and for the years ended December 31, 2011 and 2010 and (3) audited consolidated financial statements as of and for the years ended December 31, 2010 and 2009 and the notes thereto included elsewhere in this offering memorandum, as well as with the information presented under "Presentation of Financial and Other Information" and "Selected Financial Information."

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in "Forward-Looking Statements" and "Risk Factors."

Overview

We are the leading company in electronic payment transactions in Brazil, with a 47.1% market share of total transaction volume for credit and debit cards, according to ABECS data as of December 2011. From January 1, 2009 to December 31, 2011, our total transaction volume grew at a compound annual growth rate of 21.5%, from R\$214.0 billion in 2009 to R\$315.9 billion in 2011. In the nine-month period ended September 30, 2012, our transaction volume totaled R\$275.5 billion, representing a 22.7% increase compared to R\$224.6 billion during the corresponding period in 2011. We captured and processed a total of 4,622 million, 4,038 million and 3,427 million transactions in 2011, 2010 and 2009, respectively, and 3,886 million and 3,320 million transactions during the nine-month periods ended September 30, 2012 and 2011, respectively.

On August 31, 2012, we acquired MeS, a Silicon Valley-based provider of full-service global payment solutions, which is a direct, wholly-owned subsidiary of Cielo USA. We believe that MeS, which was founded in 2000, has the latest generation technology platform, developed specifically for the merchant acquiring business, which has enabled MeS to differentiate itself in the U.S. market, principally in e-commerce. Our acquisition of MeS and its best-in-class payment platform reinforces our strategy of offering innovative solutions and services to our customers and partners in Brazil.

We have the broadest domestic coverage in the Brazilian merchant acquiring and payment processing industry, based on our approximately 1,658 thousand point-of-sale (POS) electronic capture equipment units in service as of September 30, 2012, with approximately 2,642 thousand affiliated merchants. The advanced technology we apply in our network allows us to operate with an availability rate of 99.995% and virtually 100% availability on important retail dates. We had approximately 1,291 thousand active merchants (based on those that effected transactions at our terminals in the previous 60 days) as of September 30, 2012, with a presence in 5,539 of Brazil's 5,564 municipalities, covering 99.6% of Brazil's territory.

We affiliate merchants for our services and manage a network for payment with credit and debit cards as well as prepaid voucher cards for the capture, transmission, processing and settlement of payment transactions. Through thousands of simultaneous, reliable transactions, we connect banks, card brands and merchants. We capture, transmit, process and settle electronic payment transactions for the most accepted branded credit and debit cards, including Visa, MasterCard and Diners Club International. We also capture and transmit electronic payment transactions for American Express as well as for meal and other prepaid voucher cards, which are widely provided by Brazilian companies to their employees in satisfaction of their duty to provide meals under local labor law. As part of our payment processing business we install and maintain electronic capture equipment, which we rent to our affiliated merchants.

We also offer the prepayment of receivables to our affiliated merchants, advancing to them the proceeds, at a discount, of credit card transactions that would normally be payable to them 30 days after the purchase date. This portion of our business has become increasingly important and has grown at a compound annual growth rate of

50.7%, from total receivable prepayments volume of R\$6,781 million in 2009 to R\$15,408 million in 2011. In the nine-month period ended September 30, 2012, our volume of receivables prepayments totaled R\$17,866 million, representing a 70% increase compared to R\$10,508 million during the corresponding period in 2011.

We have grown solidly since our inception in 1995. From 2009 to 2011, our EBITDA increased from R\$2,263.4 million in 2009 to R\$2,388.5 million in 2011. During the nine-month period ended September 30, 2012, our EBITDA totaled R\$2,256.6 million, representing a 29.2% increase compared to R\$1,746.9 million during the corresponding period in 2011. From 2009 to 2011, our net income increased at a compound annual growth rate of 8.8% from R\$1,533.8 million in 2009 to R\$1,816.9 million in 2011. For the nine-month period ended September 30, 2012, our net income totaled R\$1,709.0 million, representing a 30.5% increase compared to R\$1,309.3 million during the corresponding period in 2011.

Brazilian Macroeconomic Environment

Our results of operations and financial condition are influenced mainly by the Brazilian economic environment, unemployment rates, availability of credit and average wages. The Brazilian economic environment has been characterized by significant variations in economic growth, inflation and currency exchange rates. The following table sets forth Brazilian inflation rates, interest rates and exchange rates as of and for the nine-month period ended September 30, 2012 and as of and for the years ended December 31, 2011, 2010 and 2009.

	September 30, 2012 (6)	December 31, 2011	December 31, 2010	2009
GDP growth.....	n.a.	2.7%	7.5%	(0.3)%
Inflation (IGP-M) (1)	7.1%	5.1%	11.3%	(1.7)%
Inflation (IPCA) (2).....	3.8%	6.5%	5.9%	4.3%
Interbank rate – CDI (average) (3).....	6.6%	11.6%	9.8%	10.0%
Long-term interest rates (average) (4)	5.5%	6.0%	6.0%	6.1%
Exchange rate at the end of the period per US \$1.00	R\$2.031	R\$1.876	R\$1.666	R\$1.741
Average exchange rate per US \$1.00.....	R\$1.921	R\$1.675	R\$1.759	R\$1.994
Appreciation (depreciation) of the <i>real</i> against the U.S. dollar (5).....	(8.3)%	(12.6)%	4.3%	25.5%

(1) IGP-M as measured by the Getulio Vargas Foundation (*Fundação Getulio Vargas*), or FGV, São Paulo.

(2) IPCA is a consumer price index calculated by IBGE.

(3) CDI refers to the average overnight interbank loan rates accumulated during the period indicated in Brazil.

(4) The Brazilian long-term interest rate (*taxa de juros de longo prazo*), or TJLP, is the rate applicable to long-term loans by BNDES. *Source*: Central Bank.

(5) Comparing the PTAX exchange rate (the rate calculated by the Central Bank) from the period's last day to the rate of the day immediately prior to the beginning of the indicated period. PTAX is the exchange rate calculated at the end of each day by the Central Bank. It is the average rate of all business conducted in U.S. dollars on the determined date in the interbank exchange market.

(6) Refers to the period from January 1 to September 30, 2012.

Sources: IBGE, Central Bank, Cetip and FGV.

Principal Factors Affecting Our Results of Operations

Increased use of credit and debit cards and expanded acceptance network

Our results of operations are mainly affected by the use of credit and debit cards in Brazil. According to the Central Bank, the use of checks as a percentage of total non-cash transactions decreased from 26.3% in 2006, to 9.8% in 2011, while the use of credit and debit cards increased from 52.5% to 76.6% during the same period. According to BIS data, Brazil is currently undergoing a rapid replacement of checks with credit and debit cards mainly due to the following factors: (1) the increased access of low-income consumers to the banking system, (2) higher registered employment, and (3) the greater number of merchants that accept credit and debit card payments. From 2009 to 2011, the number of merchants accepting credit and debit cards increased by an average of 12.3% annually, according to the Central Bank, and contributed to the increased use of cards as a means of payment.

Expansion of consumer credit, increase of employment rate and rise in consumer spending

Our results of operations are indirectly affected by the expansion or retraction of consumer credit in Brazil. Over the last 10 years, there has been an overall increase in the amount of credit offered, in average wages and in the registered employment rate. These factors have contributed to growth in consumer spending, which has benefited us by increasing the number of transactions and the average expenditure per transaction.

According to the Central Bank, from 2009 to 2011 the average growth rate in the supply of credit to individuals was 11.9% per year, reaching R\$658 billion at the end of 2011, which represents approximately 15% of Brazilian GDP. In August 2012, total credit volume reached R\$1.4 billion. In 2011, household spending increased by 4.1% according to the IBGE, representing the fourth consecutive year of expansion. The registered employment rate increased by 6.1% between 2009 and 2011, according to the Brazilian Ministry of Work and Employment (*Ministério do Trabalho e Emprego*). Certain economic factors such as the availability of credit, household income and employment levels have contributed to our growth.

Increased competition from adoption of multi-brand regime

Since July 2010, major credit and debit card brands such as Visa and MasterCard are accepted by all Brazilian merchant acquirers, with an end to sole acquirer relationships with card brands. This competitive scenario has led to increased pressure on the merchant discount rate charged by merchant acquirers, as merchants have obtained additional concessions due to the increased number of merchant acquirers offering processing for major credit and debit card brands. This increased competition has also led to increased pressure to grant discounts on rental rates for electronic capture equipment.

The pressure on merchant discount rates has generally been more intense in negotiations with major retailers due to their high number of credit and debit card transactions while there is greater pressure on equipment rental prices in negotiations with medium and small retailers, which generally seek to lower their rental costs for point-of-sale terminals.

Interchange Fees

Our revenues from credit and debit card transactions correspond to the net merchant discount rate, or the merchant discount rate less the interchange fee. The interchange fee has a direct impact on our revenues as an increase in interchange fees reduces the net merchant discount rate we receive.

The interchange fee paid to card issuers of Visa-branded credit and debit cards was increased on February 22, 2008 as a result of a new policy implemented by Visa based on an independent market study as well as on negotiations between Visa International and each of the card issuers and on our negotiations with Visa International. On October 1, 2010, MasterCard also established higher credit and debit card interchange fees paid to card issuers. It is not possible to predict if or when card brands will further increase their interchange fees or the amount of any such increases. For further information, see “Risk Factors—Risks Relating to Us—Changes in interchange fees or other fees charged by card associations and debit networks could increase our costs or otherwise adversely affect our business.”

Financial institutions supporting multiple merchant acquirers

Since July 2008, certain financial institutions in Brazil have begun to provide support services to multiple merchant acquirers through their branches. We cannot predict the effect of this change on our growth strategy, or on the number of our affiliated merchants, or whether it will adversely affect our results of operations.

Inflation

Inflation has a direct effect on our contracts with certain suppliers, such as telecommunications operators, whose costs are indexed to the IPCA, and data processors, whose labor costs are adjusted according to inflation.

When merchants adjust their prices for inflation, the general public's purchasing power may be reduced, which may adversely affect our revenue if it results in a reduction in the number and volume of transactions.

Interest rates

The interest rates charged on consumer credit transactions indirectly affect us to the extent that lower interest rates can lead to higher private sector spending, and therefore a greater number and volume of electronic payment transactions. Higher interest rates, on the other hand, may lead to reduced private sector spending. According to data from IGBE, private sector spending in Brazil was R\$2.499 trillion in 2011, compared to R\$1.428 trillion in 2006, representing a compound annual growth rate of 9.70% over this period.

Critical Accounting Policies

Critical accounting policies and estimates are defined as those that require significant judgments by our management and reflect significant uncertainties, as a result of which they could potentially result in materially different results under different assumptions and conditions. For a discussion of these and other accounting policies, see note 2 to our individual and consolidated unaudited interim financial statements as of September 30, 2012 and for the nine-month periods ended September 30, 2012 and 2011, included elsewhere in this offering memorandum. The results for our direct and indirect subsidiaries are consolidated. For a discussion of the consolidation of the results of our direct and indirect subsidiaries, see note 3 to our individual and consolidated unaudited interim financial statements as of September 30, 2012 and for the nine-month periods ended September 30, 2012 and 2011, included elsewhere in this offering memorandum. Below is a summary of our critical accounting policies.

Revenue recognition

We record revenues on the accrual basis. Revenue is measured at the fair value of the amount received or receivable, less estimated returns, commercial discounts and/or bonuses granted and other similar deductions. We recognize revenues from: credit and debit card transactions when transactions are processed; revenues from credit card transactions payable in installments when each installment is processed; and revenues from services to associates and merchants when the service is provided.

We recognize income from dividends payable to us from investments when our right to receive these dividends is established (provided that it is probable that the future economic benefits will flow to us and the amount may be measured reliably).

We recognize interest income when it is probable that the future economic benefits will flow to us, and the amount may be measured reliably. Interest income is recognized under the straight-line method based on the time and the effective interest rate on the outstanding principal. The effective interest rate is the rate that discounts the estimated future cash receipts during the estimated useful life of the financial asset in relation to the initial net carrying amount of the asset.

We recognize financial income from the prepayment of receivables to merchants on a pro rata basis through their maturities, which financial income is recorded in financial income (expenses) under the line item "income from prepayment of receivables."

Property and equipment

We record our property and equipment at its acquisition cost, less accumulated depreciation based on the useful economic life of the assets (which is calculated under the straight-line method) and the provision for losses on electronic capture equipment. We review the estimated useful life of our property and equipment on an annual basis and record the effects from any changes in estimates prospectively.

Subsequent costs are added to the residual value of property and equipment or recognized as a specific item, as appropriate, only if the economic benefits associated to these items are probable, and the related amounts can be reliably measured. Other repairs and maintenance are recognized directly in income when incurred.

We write off a fixed asset after its sale or when there are no future economic benefits arising from its continued use. Any gains or losses on the sale or write-off of fixed assets are calculated based on the difference between the amounts received and its carrying amount and are recognized in our income statement.

We depreciate our POS electronic capture equipment at the rate of 33.3% per year, based on a technical report issued by the National Institute of Technology (*Instituto Nacional de Tecnologia*), which is part of the Ministry of Science and Technology (*Ministério da Ciência e Tecnologia*), in accordance with the applicable legislation. The depreciation rate we use for our vehicles and data processing equipment is 20.0% per year, and the depreciation rate we use for our machines, equipment, furniture, tools and facilities, is 10.0% per year.

Intangible assets

Intangible assets acquired separately

We record intangible assets with finite useful lives acquired separately at their cost, net of amortization and net of accumulated impairment charges. We recognize amortization of intangible assets using the straight-line method based on the estimated useful life of the assets. The estimated useful life and amortization method are reviewed annually by our management and the effects of any changes in estimates are accounted for on a prospective basis. We record intangible assets with indefinite useful lives acquired separately at their cost, net of accumulated impairment charges.

Intangible assets generated internally (research and development costs)

We recognize research costs as an expense during the period in which they are incurred.

Intangible assets generated internally as a result of development expenses (or a phase of internal project development) are recognized if, and only if, all of the following conditions are met: (1) completion of the intangible asset so that it can be made available for use or sale is technically viable; (2) there is an intent to complete the intangible asset and use or sell it; (3) the intangible asset may be used or sold; (4) the intangible asset is reasonably likely to generate future economic benefits; (5) there are adequate technical, financial and other resources available to complete the development of the intangible asset and to use or sell it; and (6) expenses attributable to the intangible asset during its development stage can be reliably measured.

The amount of intangible assets generated internally initially recognized corresponds to the sum of expenses incurred from the time when the intangible asset first met all of the criteria for recognition. When no intangible asset generated internally can be recognized, we recognize development expenses in our income statement when incurred. Subsequent to the initial recognition, intangible assets generated internally are registered at cost, net of amortization and accumulated impairment charges.

Intangible assets acquired in business combinations

We recognize intangible assets acquired in a business combination and not recorded as goodwill in our consolidated financial statements at their fair value, which corresponds to their cost on the acquisition date.

Write-off of intangible assets

Fixed assets are written off after sale or when no future economic benefits are expected from the use of the asset. Gains or losses resulting from the write-off of an intangible asset, measured at the difference between the net proceeds of the sale and the carrying amount of the asset, are recognized in our income statement when the asset is written off.

Business combinations

We record business acquisitions under the purchase method in our consolidated financial statements. The amount transferred in a business combination is measured at its fair value. We recognize costs related to the acquisition in our income statement when incurred.

We recognize acquired assets and assumed identifiable liabilities at their fair value on the acquisition date.

Goodwill is measured as the excess of the sum of the amount transferred, the value of the non-controlling interest in the acquired entity and the fair value of the interest of the acquirer previously held in the acquired entity over the net value of the assets acquired and liabilities assumed on the date of acquisition.

Existing non-controlling interests which entitle their holders to a proportional share of the net assets of the acquired entity in the event of liquidation are measured based on the proportional share of the non-controlling interest in the acquired entity's identifiable net assets.

Goodwill

We record goodwill resulting from a business combination at its cost on the date of the business combination, net of accumulated impairment, if any.

For purposes of impairment testing, the goodwill is allocated to each of the cash-generating units that will benefit from the synergies of the combination.

Cash-generating units to which goodwill is allocated are tested for impairment annually, or more frequently when there is any indication of impairment. If the recoverable value of the cash-generating unit is less than its carrying amount, impairment is first allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then applied to the other assets of the unit, in proportion to the carrying amount of each of its assets. We recognize any impairment of goodwill directly in our income statement, and we do not reverse losses attributable to impairment in subsequent periods.

Upon the sale of the corresponding cash-generating unit, the amount of goodwill attributable to such unit is included in the calculation of income or loss on the sale.

Derivatives

We enter into non-deliverable forward transactions to manage our exposure to currency fluctuations relating to foreign investments. We use available prices to assess the fair value of our derivatives on the reporting date.

Hedge accounting

We designate our non-deliverable forward transactions, which are instruments for hedging our exposure to currency risks, as hedges of net investments in foreign transactions.

When we enter into a derivative transaction, we document the relationship between the derivative instrument and the related underlying asset, including a description of the objective and risk management strategy. Additionally, upon the establishment of the derivative transaction and on an ongoing basis, we document whether the derivative instrument used is effective in offsetting changes in the fair value.

For hedges of net investments in foreign transactions, the gains or losses on the effective portion of the derivative instrument are recorded in other comprehensive income and accumulated in the line item "hedge of net investment in foreign transactions." Any hedge gains or losses on the ineffective portion are immediately recorded in income or loss for the period. Any hedge gains and losses related to the accumulated effective portion in the reserve for translation of foreign currency are reclassified to income or loss for the year when the foreign investment is sold.

We anticipate the need to renew or enter into new derivative transactions in the event the derivative instrument expires before the related hedged item.

Contingent liabilities

We recognize contingent liabilities when there is a present obligation (legal or constructive) as a result of a past event, with probable outflow of resources, and the amount of the obligation can be reliably estimated.

The amount recognized as a provision is the best estimate of the settlement amount at the balance sheet date, considering the risks and uncertainties related to the obligation. When the economic benefit required to settle a provision is expected to be received from third parties, this amount receivable is recorded as an asset only when reimbursement is virtually certain.

Provisions recognized by us refer mainly to lawsuits arising in the normal course of business, filed by third parties or former employees. These contingencies are assessed by our management and our legal counsel, using criteria that allow for their proper measurement, despite the uncertainty concerning the decision, their period and amount.

Provisions for tax lawsuits are recorded based on the total taxes under legal dispute, plus inflation adjustment and late payment interest incurred through the balance sheet date.

Income tax and social contribution

Income tax was calculated at the rate of 15.0%, plus a 10.0% surtax on taxable income exceeding R\$240,000. Social contribution was calculated at a rate of 9.0% on adjusted net income. Deferred income tax and social contribution were calculated on temporary differences existing at the balance sheet dates.

Discount to present value of prepayment of receivables

The discount to present value of prepayment of receivables, which is recorded under the line item “operating receivables” and subject to fixed interest rates, was calculated based on the period between the financial statements and the original settlement date contracted with the merchant. The fixed interest rates are based on the same interest rates contracted for the transaction. In our statements of income the discount to present value of the transaction is recorded under the “financial expenses” line item.

Use of estimates

The preparation of our financial statements requires our management to make estimates and assumptions that affect the recorded amounts of certain assets and liabilities, and the recording and disclosure of contingent liabilities, revenue and expenses in the years and periods covered by the financial statements. Significant assets and liabilities subject to these estimates and assumptions include the net book value of property and equipment and intangible assets, allowance for doubtful accounts on trade accounts receivable from equipment rental, provision for risks, deferred income tax and social contribution and impairment of goodwill. Because our management’s judgment involves estimates regarding the probability of future events, which are inherently uncertain, the actual amounts may differ from our estimates. In addition, our accounts, financial condition and results of operations can be materially affected, and the actual amounts can differ significantly if our management decides to change these estimates and assumptions. Our management reviews these estimates and assumptions annually.

Our Principal Sources of Revenue and Expenses

Our main sources of revenue are the capture, transmission, processing and settlement of transactions performed with major credit and debit cards. Our revenue is generated principally from: (1) the merchant discount rate charged from merchants on electronic payment transaction volume, net of the interchange fee; (2) electronic capture equipment rental; and (3) other services. The cost of the services we render is mainly related to processing,

customer service, telecommunications, maintenance of electronic capture equipment and certain fees paid to issuers of credit and debit cards, among other costs.

Description of the Principal Line Items in our Statements of Income

Revenue from commissions, rentals and services

Our gross revenue includes: (1) revenue from commissions, (2) revenue from the rental of electronic capture equipment and (3) revenues from other services.

Revenue from commissions. Our main source of revenue is the capture, transmission, processing and settlement of major credit and debit card transactions, including Visa, MasterCard and Diners Club International. Revenue from commissions is calculated based on a percentage negotiated with the merchant (the “merchant discount rate”), which we charge on the amount of the captured transaction. Revenues from the merchant discount rate are recognized on the processing date of the respective transaction, net of the interchange fee due to the card issuer. Card issuers transfer the transaction amount to us, net of the interchange fee, on average 28 days after processing a credit card transaction or one day after processing a debit card transaction. We transfer the transaction amount to the merchant net of the merchant discount rate, on average 30 days after processing a credit card transaction and one day after processing a debit card transaction. The interchange fee is deducted from our revenues and therefore directly impacts our revenues. Any increase in interchange fees reduces the net merchant discount rate we receive.

In credit card transactions that provide for payments in installments, we recognize revenues from the merchant discount rate, net of the interchange fee, as of the date we process the amount of each installment, with the payment to the merchant made, on average, 30 days after the processing date of each installment.

Revenue from the rental of electronic capture equipment. We also earn revenue from the rental of electronic capture equipment. The amount of the electronic capture equipment rental varies according to the technology used in each type of equipment, the quantity of equipment rented to a particular merchant, the merchant’s industry and the location of the merchant. Rent is not calculated based on the transaction volume captured and processed. The rental amount is either deducted from the payment of the transaction amounts we pay to the merchant, or debited from the merchant’s checking account. For further information on our credit risk policy, see “—Quantitative and Qualitative Information About Market Risks—Credit risk.”

Other revenues. We also have other sources of revenue such as services for the capture of transactions using prepaid vouchers, co-branded private label cards and American Express branded cards, mobile payments, capture and processing of information for medical, data transmission and pre-paid airtime purchases and other related services. We also earn revenues from fraud prevention services (Lynx system) and lock-in Housebank services that we render to card issuers. For further information, see “Business—Other Products and Services.”

Taxes on services

Tax on service (*Imposto sobre Serviço de Qualquer Natureza*), or ISS. The revenues we earn from our commissions and other revenues are subject to ISS at a rate of 2.0%. Federal taxes (PIS, COFINS and income tax and social contribution) are deductible from our ISS basis because of a change in the tax legislation that became effective in 2008. Our subsidiaries are subject to ISS at rates between 2.0% and 5.0%.

PIS and COFINS. These taxes are levied at a rate of 1.65% and 7.6%, respectively, on our gross revenue, according to the applicable tax legislation.

Cost of services

Cost of services includes the costs related to our operations and varies according to the number of transactions captured and the number of electronic capture equipment provided to merchants. Our main costs, in order of importance, are the following:

- data processing;
- telecommunications network and telephone service providers;
- call center to assist merchants;
- electronic capture equipment maintenance and installation;
- depreciation of electronic capture equipment;
- consumables used by merchants (paper spools);
- merchant affiliation fees;
- fees paid to Visa, MasterCard and other brands on transactions, which correspond to a percentage of the value of the transaction and other fees for services rendered; and
- commissions paid to card issuers for merchant acquiring support.

Operating income (expenses)

Our operating income (expenses) includes expenses for personnel, general and administrative, management and officer compensation, marketing and other operating expenses, net.

Personnel. Personnel expenses consist of wages, overtime, benefits (meal vouchers, transportation vouchers and medical and dental insurance, among others), profit sharing, social contribution and payroll taxes. In Brazil, social contribution and payroll taxes consist of the Brazilian Social Security Institute (*Instituto Nacional de Seguridade Social*) contribution, or INSS, and the Brazilian Unemployment Compensation Fund (*Fundo de Garantia por Tempo de Serviço*) contribution, or FGTS.

General and administrative. General and administrative expenses mainly consist of: (1) building infrastructure expenses, such as rent and property maintenance; (2) expenses for computer system maintenance and office automation, such as software licenses, as well as for integrated accounting, treasury, financial planning and cost management systems; and, (3) amounts paid for professional services, such as consultants, auditors and outside counsel and donations for cultural purposes.

Management and officer compensation. Management and officer compensation includes all related expenses to compensation for work and bonuses.

Selling and marketing. Selling and marketing expenses include: (1) signage expenses for affiliated merchants and promotional campaigns jointly conducted with affiliated merchants, card issuers and card brands; (2) expenses related to launching and promoting new products and services; (3) certain marketing fees paid to card brands; and (4) incentives paid to partner banks in connection with shared sales.

Other operating expenses, net. Other operating expenses, net includes our reserves, such as reserves for tax, civil and labor risks and for losses on electronic capture equipment and rentals of such equipment.

Financial income (expenses)

Our financial income (expenses) includes (1) financial income and financial expenses, (2) income from the prepayment of receivables and (3) exchange rate variation, net.

The main sources of our financial income are investments in bank deposit certificates (*Certificados de Depósito Bancário*), or CDBs, issued by financial institutions and securities backed by debentures, as well as interest on payment of receivables transactions. Financial expenses consist mainly of interest recorded as a result of the securitization transactions and interest payments on borrowings and financings.

We earn financial income from advancing to merchants, at a discount, prepayment of receivables, for which merchants request that we make advances on amounts corresponding to credit transactions before the negotiated contractual term. The amounts we use to fund these prepayment of receivables are derived from our own funds or from funds we obtain from card issuers that advance to us the amounts owed to the merchant. Corresponding financial expenses related to the prepayment of receivables we receive from card issuers are recognized “*pro rata temporis*” according to the terms we negotiated with the respective card issuer. We record financial income from prepayment of receivables in financial income (expenses) under the line item “income from prepayment of receivables.”

Results of Operations

In the following discussion, references to increases or decreases in any period are made by comparison with the corresponding period of the prior year, except as the context otherwise indicates.

Nine-month period ended September 30, 2012 compared to the nine-month period ended September 30, 2011

The following table sets forth our unaudited interim consolidated financial information for the nine-month period ended September 30, 2012 and 2011.

	Nine-Month Period Ended September 30,		Variation	Variation %
	2012	2011		
	(in millions of reais)			
Consolidated Statement of Income				
Net revenue.....	3,820.2	3,004.4	815.8	27.2%
Cost of services.....	(1,242.4)	(1,019.5)	(222.9)	(21.9%)
Gross profit	2,577.8	1,984.9	592.9	29.9%
Operating income (expenses)				
Personnel	(158.7)	(142.7)	(16.0)	(11.2%)
General and administrative	(142.6)	(128.7)	(13.9)	(10.8%)
Selling and marketing	(162.4)	(102.7)	(59.7)	(58.1%)
Other operating expenses, net.....	(80.7)	(37.9)	(42.8)	(112.9%)
Income from operations	2,033.4	1,572.9	460.5	29.3%
Financial income, net	566.8	387.2	179.6	46.4%
Income before income tax and social contribution	2,600.2	1,960.1	640.1	32.7%
Income tax and social contribution	(891.2)	(650.8)	(240.4)	(36.9%)
Net income	1,709.0	1,309.3	399.7	30.5%

Net revenue

As set forth in the table below, net revenue increased by 27.2% to R\$3,820.2 million in the nine-month period ended September 30, 2012, from R\$3,004.4 million in the corresponding period in 2011:

	Nine-Month Period Ended September 30,		Variation	Variation %
	2012	2011		
	(in millions of reais)			
Revenue from commissions	2,855.8	2,313.0	542.8	23.5%
Revenue from the rental of electronic capture equipment	1,068.9	805.8	263.1	32.7%
Revenue from other services	341.4	238.1	103.3	43.4%
	4,266.1	3,356.9	909.2	27.1%
Taxes on services	(445.9)	(352.5)	(93.4)	(26.5%)
Net revenue	3,820.2	3,004.4	815.8	27.2%

Revenue from commissions. Revenue from commissions increased R\$542.8 million, or 23.5%, to R\$2,855.8 million in the nine-month period ended September 30, 2012 from R\$2,313.0 million in the corresponding period in 2011. This increase was mainly due to:

- a 22.5% increase in our revenues from transactions with credit cards, to R\$2,064.7 million in the nine-month period ended September 30, 2012 from R\$1,685.6 million in the corresponding period in 2011, mainly as a result of (1) an increase in financial transactions volume attributable to the growing use of credit cards in Brazil as a method of payment and (2) our increased penetration with merchants resulting from our increased distribution and the differentiation of our products; and
- a 26.1% increase in our revenues from debit card transactions, to R\$791.1 million in the nine-month period ended September 30, 2012 from R\$627.4 million in the corresponding period in 2011, mainly as a result of an increase in financial transactions volume, attributable to (1) the overall increase in private sector spending and (2) the growing use of debit cards in Brazil as a method of payment.

Revenue from the rental of electronic capture equipment. Revenue from the rental of electronic capture equipment increased R\$263.1 million, or 32.7%, to R\$1,068.9 million in the nine-month period ended September 30, 2012 from R\$805.8 million in the corresponding period in 2011. This increase was mainly due to an increase in the number of installed electronic capture equipment units and the rise in average rental fees (in particular due to a greater number of WiFi/GPRS-enabled POS electronic capture equipment installed, which command higher rental fees per unit, however this was partially mitigated by the higher cost of this equipment, which resulted in lower margins for these rentals).

Revenue from other services. Revenue from other services increased R\$103.3 million, or 43.4%, to R\$341.4 million in the nine-month period ended September 30, 2012 from R\$238.1 million in the corresponding period in 2011. This increase was mainly due to an increase in revenue from our subsidiaries Multidisplay Comércio e Serviços Tecnológicos S.A., or M4U, and Braspag – Tecnologia em Pagamento Ltda., or Braspag, which mainly relate to revenues from management of internet payments, sales of prepaid mobile phone top-ups and mobile payment transactions, and the higher revenue from the lock-in Housebank services we provide.

Cost of services

Cost of services increased by 21.9%, to R\$1,242.4 million in the nine-month period ended September 30, 2012, from R\$1,019.5 million in the corresponding period in 2011. As a percentage of net revenue, our cost of services decreased to 32.5% in the nine-month period ended September 30, 2012 compared to 33.9% in the corresponding period in 2011. The increase in the cost of services was mainly due to the following factors:

- an increase in the direct acquiring costs relating to captures, processing, etc;

- an increase in the number of transactions captured, which increased from 3,320 million in the nine-month period ended September 30, 2011 to 3,886 million in the corresponding period in 2012;
- an increase in the volume of transactions captured, which increased from R\$224.6 billion in the nine-month period ended September 30, 2011 to R\$275.5 billion in the corresponding period in 2012;
- an increase in volume and fees paid to card brands;
- an increase in costs relating to higher POS electronic capture equipment activation and maintenance;
- higher depreciation of electronic capture equipment, as a result of the greater number of these units in service and the change in our electronic capture equipment mix to include more wireless units, which are more expensive; and
- an increase in costs related to our subsidiaries M4U, Orizon, Paggo Soluções and Braspag's operations, in particular related to an increase in costs associated with prepaid mobile phone top-ups at M4U.

Gross profit

As a result of the foregoing, our gross profit increased by 29.9%, to R\$2,577.8 million in the nine-month period ended September 30, 2012, from R\$1,984.9 million in the corresponding period in 2011. Gross margin increased to 67.5% in the nine-month period ended September 30, 2012, compared to 66.1% in the corresponding period in 2011.

Operating income (expenses)

Operating income (expenses) increased by 32.1% to R\$544.3 million in the nine-month period ended September 30, 2012 from R\$412.0 million in the corresponding period in 2011, primarily as a result of the following factors:

Personnel. Personnel expenses increased by 11.2%, to R\$158.7 million in the nine-month period ended September 30, 2012, from R\$142.7 million in the corresponding period in 2011, primarily due to the 5.0% pay raise stipulated in our collective bargaining agreement which entered into effect in August 2012 and the increase in our total number of employees from 1,453 employees as of September 30, 2011 to 1,482 employees as of September 30, 2012, calculated based on the number of employees at Cielo.

General and administrative. General and administrative expenses increased by 10.8% to R\$142.6 million in the nine-month period ended September 30, 2012, from R\$128.7 million in the corresponding period in 2011. This increase was primarily due to expenses from consulting and professional services, primarily in connection with software development, maintenance and installation solutions for electronic capture equipment.

Selling and marketing. Selling and marketing expenses increased by 58.1%, to R\$162.4 million in the nine-month period ended September 30, 2012, from R\$102.7 million in the corresponding period in 2011, primarily due to the campaigns we conducted with our partners (banks, merchants and card brands) and incentives paid to partner banks in connection with shared sales.

Other operating expenses, net. Other operating expenses, net increased by 112.9%, to R\$80.7 million in the nine-month period ended September 30, 2012 from an expense of R\$37.9 million in the corresponding period in 2011, as a result of higher provisions for risks (primarily relating to civil and labor risks), a goodwill loss provision of R\$16.5 million at our subsidiary Paggo Soluções and the write-off of uncollectible electronic capture equipment rental fees.

Financial income, net

As set forth in the table below, financial income, net, was R\$566.8 million in the nine-month period ended September 30, 2012, compared to R\$387.2 million in the corresponding period in 2011:

	Nine-Month Period Ended September 30,		Variation	Variation %
	2012	2011 (in millions of reais)		
Financial income	19.2	25.0	(5.8)	(23.2%)
Financial expenses	(59.0)	(47.6)	(11.4)	(23.9%)
Prepayment of receivables	610.4	418.4	192.0	45.9%
Present value adjustment expense.....	(9.3)	(10.5)	1.2	11.4%
Foreign exchange variation, net	5.5	1.9	3.6	189.5%
Financial income, net	566.8	387.2	179.6	46.4%

Financial income. Financial income decreased R\$5.8 million, or 23.2%, to R\$19.2 million in the nine-month period ended September 30, 2012, compared to R\$25.0 million in the corresponding period in 2011. This variation was mainly due to lower prevailing interest rates in the nine-month period ended September 30, 2012 compared to the corresponding period in 2011.

Financial expenses. Financial expenses increased R\$11.4 million, or 23.9%, to R\$59.0 million in the nine-month period ended September 30, 2012, compared to R\$47.6 million in the corresponding period in 2011. This increase is mainly due to (1) higher interest expense relating to our FINAME facility, (2) an inflation adjustment to the outstanding amount related to our acquisition of 50.1% of the capital of M4U and (3) interest expense relating to our Bridge Loan.

Prepayment of receivables. Prepayment of receivables increased R\$192.0 million, or 45.9%, to R\$610.4 million in the nine-month period ended September 30, 2012, compared to R\$418.4 million in the corresponding period in 2011. This increase in income from prepayment of receivables is mainly due to our continued expansion of this product. Our volume of prepayment of receivables increased from R\$10,508 million during the nine-month period ended September 30, 2011 to R\$17,866 million in the nine-month period ended September 30, 2012.

Present value adjustment expense. Present value adjustment expense decreased R\$1.2 million, or 11.4%, to R\$9.3 million in the nine-month period ended September 30, 2012, compared to R\$10.5 million in the corresponding period in 2011. This variation is mainly due to a decrease in the average tenor of prepayment of receivables operations in 2012.

Foreign exchange variation, net. Foreign exchange variation, net increased R\$3.6 million, or 189.5%, to R\$5.5 million in the nine-month period ended September 30, 2012, compared to R\$1.9 million in the corresponding period in 2011. This variation is mainly due to foreign exchange fluctuations of our net exposure in U.S. dollars.

Income before income tax and social contribution

As a result of the foregoing, income before income tax and social contribution increased by 32.7%, to R\$2,600.2 million in the nine-month period ended September 30, 2012 from R\$1,960.1 million in the corresponding period in 2011.

Income tax and social contribution

Income tax and social contribution increased by 36.9%, to R\$891.2 million in the nine-month period ended September 30, 2012 from R\$650.8 million in the corresponding period in 2011, mainly as a result of a 32.7% increase in income before taxes generated primarily by an increase in our net revenue and the increase in deferred tax credits to R\$67.9 million in the nine-month period ended September 30, 2012 from R\$40.8 million in the

corresponding period in 2011, which was mainly due to the increased effect on temporary deductible differences (provisions for risks and provision for other expenses).

Net income

As a result of the foregoing, net income increased by 30.5%, to R\$1,709.0 million in the nine-month period ended September 30, 2012, from R\$1,309.3 million in the corresponding period in 2011.

Year ended December 31, 2011 compared to the year ended December 31, 2010

The following table sets forth our audited consolidated financial information for the years ended December 31, 2011 and 2010.

	Year Ended December 31,			
	2011	2010	Variation	Variation
	(in millions of reais)			%
Consolidated Statement of Income				
Net revenue.....	4,208.7	3,992.5	216.2	5.4%
Cost of services.....	(1,425.2)	(1,180.8)	(244.4)	(20.7%)
Gross profit	2,783.5	2,811.7	(28.2)	(1.0%)
Operating income (expenses)				
Personnel.....	(195.1)	(157.8)	(37.3)	(23.6%)
General and administrative	(195.6)	(153.6)	(42.0)	(27.3%)
Selling and marketing	(184.9)	(123.7)	(61.2)	(49.5%)
Other operating expenses, net.....	(57.2)	(6.0)	(51.2)	(853.3%)
Income from operations	2,150.7	2,370.6	(219.9)	(9.3%)
Financial income, net	553.6	374.4	179.2	47.9%
Income before income tax and social contribution	2,704.3	2,745.0	(40.7)	(1.5%)
Income tax and social contribution	(887.4)	(914.0)	26.6	2.9%
Net income	1,816.9	1,831.0	(14.1)	(0.8%)

Net revenue

As set forth in the table below, net revenue increased R\$216.2 million, or 5.4%, to R\$4,208.7 million in 2011, from R\$3,992.5 million in 2010:

	Year Ended December 31,		Variation	Variation
	2011	2010		
	<i>(in millions of reais)</i>			<i>%</i>
Gross revenues:				
Revenue from commissions.....	3,268.4	3,103.2	165.2	5.3%
Revenue from the rental of electronic capture equipment	1,101.9	1,169.9	(68.0)	(5.8%)
Revenue from other services	335.8	187.8	148.0	78.8%
	4,706.1	4,460.9	245.2	5.5%
Taxes on services.....	(497.4)	(468.4)	(29.0)	(6.2%)
	4,208.7	3,992.5	216.2	5.4%

Revenue from commissions. Revenue from commissions increased R\$165.2 million, or 5.3%, to R\$3,268.4 million in 2011 from R\$3,103.2 million in 2010, mainly due to:

- a 1.6% increase in our revenues from transactions with credit cards, to R\$2,354.6 million in 2011 from R\$2,317.8 million in 2010, mainly as a result of (1) an increase in financial transactions volume attributable to the increase in private sector spending and growing use of credit cards in Brazil as a method of payment and (2) our greater penetration with merchants resulting from our increased distribution and the differentiation of our products; and
- a 16.3% increase in our revenues from debit card transactions, to R\$913.8 million in 2011 from R\$785.4 million in 2010, mainly as a result of (1) an increase in financial transactions volume, attributable to the

increase in private sector spending, (2) the growing use of debit cards in Brazil as a method of payment and (3) growth of our Agrocard product designed specifically for the agribusiness segment.

Revenue from the rental of electronic capture equipment. Revenue from the rental of electronic capture equipment decreased R\$68.0 million, or 5.8%, to R\$1,101.9 million in 2011 from R\$1,169.9 million in 2010, mainly due to increased competition following the adoption of the multi-brand regime in July of 2010, which resulted in a decrease in average rental fees charged to merchants in 2011 compared to 2010, partially offset by the change in our electronic capture equipment mix to include more wireless units, which command higher rental fees per unit.

Revenue from other services. Revenue from other services increased R\$148.0 million, or 78.8%, to R\$335.8 million in 2011 from R\$187.8 million in 2010. Revenues from other services in 2011 were derived mainly from capture of transaction with voucher and co-branded private label cards and revenue from our subsidiaries M4U (which we acquired in the second half of 2010) and Paggo Soluções and Braspag (each of which we acquired in the first half of 2011).

Cost of services

Cost of services increased by 20.7%, to R\$1,425.2 million in 2011, from R\$1,180.8 million in 2010, primarily as a result of:

- an increase in the number of transactions captured, which increased from 4,038 million in 2010 to 4,622 million in 2011;
- an increase in the volume of transactions captured, which increased from R\$261.7 billion in 2010 to R\$315.9 billion in 2011;
- an increase in brand fees payable to major credit and debit card brands as a result of the renegotiation of our contractual sole acquirer agreement with Visa, our execution of a new contractual agreement with MasterCard and the growth in the volume of financial transactions with credit and debit cards;
- an increase in depreciation costs for electronic capture equipment due to renewals of installed equipment and the acquisition of new wireless equipment;
- an increase in merchant acquisition costs mainly due to the increase in our sales volume; and
- an increase in costs of services provided by our subsidiaries M4U and Braspag, which we acquired in August 2010 and May 2011, respectively.

Gross profit

As a result of the foregoing, our gross profit decreased by 1.0%, to R\$2,783.5 million in 2011, from R\$2,811.7 million in the corresponding period in 2010. Our gross margin decreased to 66.1% in 2011, compared to 70.4% in 2010.

Operating income (expenses)

Operating income (expenses) increased R\$191.7 million, or 43.5%, to R\$632.8 million in 2011 from R\$441.1 million in 2010, primarily as a result of (1) a 49.5% increase in selling and marketing expenses, (2) a 853.3%, or R\$51.2 million, increase in other operating expenses, net, (3) a 27.3% increase in general and administrative expenses and (4) a 23.6% increase in personnel expenses.

Personnel. Personnel expenses increased by 23.6%, or R\$37.3 million, to R\$195.1 million in 2011, from R\$157.8 million in 2010, primarily due to (1) an increase in the number of our employees, particularly in the commercial area, (2) a 7.0% increase in salaries pursuant to a collective bargaining agreement negotiated in August

2011 and (3) the impact of the variable component of our employee compensation, comprising our profit sharing and stock option plans, which reflect our new strategic positioning to retain and attract employees.

General and administrative. General and administrative expenses increased by 27.3%, or R\$42.0 million, to R\$195.6 million in 2011, from R\$153.6 million in 2010, primarily due to (1) an increase in expenses incurred for professional services and (2) an increase in expenses incurred at our consolidated subsidiaries.

Selling and marketing. Selling and marketing expenses increased by 49.5%, or R\$61.2 million, to R\$184.9 million in 2011, from R\$123.7 million in 2010, primarily due to the new competitive environment following the adoption of the multi-brand regime in Brazil intensifying our marketing initiatives, client loyalty programs (*Cielo Premia*) and sales campaigns with our partners (banks, brands and clients).

Other operating expenses, net. Other operating expenses, net increased 853.3%, or R\$51.2 million, to R\$57.2 million in 2011 from R\$6.0 million in 2010, mainly as a result of: (1) a R\$41.2 million increase in our provision for risks, net to an expense of R\$32.5 million in 2011 as compared to income of R\$8.7 million in 2010; (2) a 53.4% increase in doubtful accounts to R\$29.3 million in 2011 from R\$19.1 million in 2010; and (3) a R\$3.7 million increase in losses related to chargeback to R\$4.3 million in 2011 from R\$0.6 million in 2010.

Financial income, net

As set forth in the table below, financial income, net, increased R\$179.2 million, or 47.9%, to R\$553.6 million in 2011 from R\$374.4 million in 2010.

	Year Ended December 31,		Variation	Variation
	2011	2010		%
	(in millions of reais)			
Financial income	32.5	45.6	(13.1)	(28.7%)
Financial expenses.....	(66.3)	(34.0)	(32.3)	(95.0%)
Prepayment of receivables.....	611.5	403.0	208.5	51.7%
Present value adjustment expense	(24.9)	(41.1)	16.2	39.4%
Exchange rate change variation, net	0.8	0.9	(0.1)	(11.1%)
Financial income, net	553.6	374.4	179.2	47.9%

Financial income

Financial income. Financial income decreased R\$13.1 million, or 28.7%, to R\$32.5 million in 2011 from R\$45.6 million in 2010, mainly due to a lower volume of investments resulting from the use of cash and cash equivalents in prepayment of receivables operations.

Financial expenses. Financial expenses increased R\$32.3 million, or 95.0%, to R\$66.3 million in 2011 from R\$34.0 million in 2010, primarily due to an increase in interest expense resulting from increased prepayment of receivables from card issuers, which was partially offset by lower interest paid in connection with our securitization of receivables through our Grand Cayman branch.

Prepayment of receivables. Income related to prepayment of receivables increased R\$208.5 million, or 51.7%, to R\$611.5 million in 2011 from R\$403.0 million in 2010. The volume of our prepayment of receivables to merchants increased to R\$15,407.5 million in 2011 from R\$10,340.1 million in 2010. The increase in income from prepayment of receivables was mainly due to the expansion of this product, which we introduced in the third quarter of 2008.

Present value adjustment expense. Present value adjustment expenses decreased R\$16.2 million, or 39.4%, to R\$24.9 million in 2011 from R\$41.1 million in 2010, which variation was mainly due to a decrease in the average tenor of prepayment of receivables operations in 2011.

Foreign exchange variation, net. Foreign exchange variation, net decreased R\$0.1 million, or 11.1%, to R\$0.8 million in 2011 from R\$0.9 million in 2010, primarily due to foreign exchange parity of our net exposure in U.S. dollars.

Income before income tax and social contribution

As a result of the foregoing, our income before income tax and social contribution decreased R\$40.7 million, or 1.5%, to R\$2,704.3 million in 2011 from R\$2,745.0 million in 2010.

Income tax and social contribution

Our income tax and social contribution decreased R\$26.6 million, or 2.9%, to R\$887.4 million in 2011 from R\$914.0 million in 2010, mainly as a result of a 3.2% increase in current income tax and social contribution attributable to the increase in temporary non-deductible provisions, which was partially offset by a R\$57.4 million, or 172.9%, increase in deferred tax credits to R\$90.7 million in 2011 from R\$33.3 million in 2010, mainly due to the increased effect on temporary non-deductible differences (provisions for risks, provision for other expenses, present value adjustment of prepayment of accounts receivable).

Net income

As a result of the foregoing, our net income decreased R\$14.1 million, or 0.8%, to R\$1,816.9 million in 2011 from R\$1,831.0 million in 2010.

Year ended December 31, 2010 compared to the year ended December 31, 2009

The following table sets forth our audited consolidated financial information for the years ended December 31, 2010 and 2009.

	Year Ended December 31,			
	2010	2009	Variation	Variation
	(in millions of reais)			%
Consolidated Statement of Income				
Net revenue.....	3,992.5	3,444.9	547.6	15.9%
Cost of services.....	(1,180.8)	(936.3)	(244.5)	(26.1%)
Gross profit	2,811.7	2,508.6	303.1	12.1%
Operating income (expenses)				
Personnel.....	(157.8)	(130.2)	(27.6)	(21.2%)
General and administrative	(153.6)	(147.1)	(6.5)	(4.4%)
Selling and marketing.....	(123.7)	(73.0)	(50.7)	(69.5%)
Other operating expenses, net.....	(6.0)	(55.2)	49.2	89.1%
Income from operations	2,370.6	2,103.1	267.5	12.7%
Financial income, net	374.4	228.0	146.4	64.2%
Income before income tax and social contribution	2,745.0	2,331.1	413.9	17.8%
Income tax and social contribution	(914.0)	(797.3)	(116.7)	(14.6%)
Net income	1,831.0	1,533.8	297.2	19.4%

Net revenue

As set forth in the table below, net revenue increased R\$547.6 million, or 15.9%, to R\$3,992.5 million in 2010 from R\$3,444.9 million in 2009:

	Year Ended December 31,		Variation	Variation
	2010	2009		
	<i>(in millions of reais)</i>			<i>%</i>
Revenue from commissions	3,103.2	2,649.9	453.3	17.1%
Revenue from the rental of electronic capture equipment.....	1,169.9	1,067.1	102.8	9.6%
Revenue from other services	187.8	135.5	52.3	38.6%
	4,460.9	3,852.5	608.4	15.8%

	Year Ended December 31,			
	2010	2009	Variation	Variation
	(in millions of reais)			%
Taxes on services.....	(468.4)	(407.6)	(60.8)	(15.0%)
Net revenue.....	3,992.5	3,444.9	547.6	15.9%

Revenue from commissions. Revenue from commissions increased R\$453.3 million, or 17.1%, to R\$3,103.2 million in 2010 from R\$2,649.9 million in 2009, mainly due to:

- a 15.2% increase in our revenues from transactions with credit cards, to R\$2,317.8 million in 2010 from R\$2,012.0 million in 2009, mainly as a result of (1) an increase in financial transactions volume attributable to the increase in private sector spending and growing use of credit cards in Brazil as a method of payment and (2) our increased penetration with merchants resulting from increased distribution and the differentiation of our products. This increase was partially offset by an increase in interchange fees due to increases in certain interchange fee rates in the second half of 2010; and
- a 23.1% increase in our revenues from debit card transactions, to R\$785.4 million in 2010 from R\$637.8 million in 2009, mainly as a result of an increase in financial transactions volume attributable to the increase in private sector spending and growing use of debit cards in Brazil as a method of payment.

Revenue from the rental of electronic capture equipment. Revenue from the rental of electronic capture equipment increased R\$102.8 million, or 9.6%, to R\$1,169.9 million in 2010 from R\$1,067.1 million in 2009, mainly due to an increase in the volume of installed electronic capture equipment in 2010 compared to 2009.

Revenue from other services. Revenue from other services increased R\$52.3 million, or 38.6%, to R\$187.8 million in 2010 from R\$135.5 million in 2009. Revenues from other services in 2011 were derived mainly from capture of transactions for voucher and co-branded private label cards.

Loan default garnishments and income from our subsidiary M4U, acquired in the second half of 2010, which offers mobile solutions as well as airtime purchases and payments.

Cost of services

Cost of services increased R\$244.5 million, or 26.1%, to R\$1,180.8 million in 2010 from R\$936.3 million in 2009, primarily as a result of:

- an increase in the number of transactions captured, which increased from 3,427 million in 2009 to 4,038 million in 2010;
- an increase in the volume of transactions captured, which increased from R\$214.0 billion in 2009 to R\$261.7 billion in 2010;
- an increase in brand fees, primarily as a result of the renegotiation of our Membership and Trademark License Agreement with Visa, our execution of new agreements with MasterCard for licensing and processing electronic payment transactions, as well as the overall growth in the volume of financial transactions with credit and debit cards; and
- an increase in electronic capture equipment depreciation costs due to the increase in our installed electronic capture equipment base.

Gross profit

As a result of the foregoing, our gross profit increased by 12.1%, to R\$2,811.7 million in 2010 from R\$2,508.6 million in 2009. Our gross margin decreased to 70.4% in 2010, compared to 72.8% in 2009.

Operating income (expenses)

Operating income (expenses) increased R\$35.6 million, or 8.8%, to R\$441.1 million in 2010 from R\$405.5 million in 2009. Operating income (expenses) increased in 2010 as a result of (1) a 69.5% increase in selling and marketing expenses and (2) a 21.2% increase in personnel expenses. These increases were partially offset by a 89.1% decrease in other operating expenses, net.

Personnel. Personnel expenses increased R\$27.6 million, or 21.2%, to R\$157.8 million in 2010 from R\$130.2 million in 2009, primarily due (1) the impact of the increase in the variable component of our employee compensation, comprising our profit sharing and stock option plans, which were implemented as part of our new strategy to retain and attract employees, (2) a 6.0% increase to annual salaries pursuant to the collective bargaining agreement negotiated in August of 2010, and (3) an increase in the number of our employees.

General and administrative. General and administrative expenses increased R\$6.5 million, or 4.4%, to R\$153.6 million in 2010 from R\$147.1 million in 2009, primarily due to an increase in our expenses related to our preparation for the transition in Brazil to the multi-brand regime for credit and debit card payment transactions, which was effective on July 1, 2010.

Selling and marketing. Selling and marketing expenses increased R\$50.7 million, or 69.5%, to R\$123.7 million in 2010 from R\$73.0 million in 2009, primarily due to (1) higher institutional marketing expenses attributable to our adoption of the *Cielo* brand and subsequent need for repositioning the new brand and (2) expenses incurred in connection with an advertising campaign launched at the beginning of 2010 in preparation for the transition to the multi-brand regime adopted in Brazil.

Other operating expenses, net. Other operating expenses, net decreased R\$49.2 million, or 89.1%, to R\$6.0 million in 2010 from R\$55.2 million in 2009, mainly as a result of (1) our reversal of a provision for risks in the amount of R\$10.7 million, partially offset by additions to provision for risks in the amount of R\$2.0 million, (2) a decrease in penalties paid to suppliers, (3) adjustment to the provision for loss on investment and (4) payment of a one-time contractual penalty to HP Enterprise Services, or HP, in 2009 with no such corresponding expense incurred in 2010.

Financial income, net

As set forth in the table below, financial income, net, increased R\$146.4 million, or 64.2%, to R\$374.4 million in 2010 from R\$228.0 million in 2009.

	Year Ended December 31,		Variation	Variation
	2010	2009		
	<i>(in millions of reais)</i>			<i>%</i>
Financial income	45.6	99.7	(54.1)	(54.3%)
Financial expenses	(34.0)	(56.5)	22.5	40.0%
Prepayment of receivables	403.0	218.2	184.8	84.7%
Adjustments to present value expenses	(41.1)	(35.3)	(5.8)	(16.4%)
Exchange rate variation, net	0.9	1.9	1.0	52.6%
Financial income, net	374.4	228.0	146.4	64.2%

Financial income. Our financial income decreased R\$54.1 million, or 54.3%, to R\$45.6 million in 2010 from R\$99.7 million in 2009, primarily due to a lower volume of investments in 2010 resulting from our use of cash and cash equivalents to fund prepayment of receivables.

Financial expenses. Our financial expenses decreased R\$22.5 million, or 40.0%, to R\$34.0 million in 2010, from R\$56.5 million in 2009, primarily due to lower interest paid in connection with our securitization of receivables through our Grand Cayman branch and the reversal of the provision for fines and interest on Brazilian federal tax obligations as a result of our adherence to the Tax Recovery Program (*Programa de Recuperação Fiscal*), which resulted in the elimination of the late-payment penalty and a reduction in past-due interest.

Prepayment of Receivables. Our income from prepayment of receivables increased R\$184.8 million, or 84.7%, to R\$403.0 million in 2010 from R\$218.2 million in 2009. The volume of our prepayment of receivables to merchants increased to R\$10,340.1 million in 2010 from R\$6,780.6 million in 2009. The increase in income from prepayment of receivables was mainly due to the expansion of this product, which we introduced on the third quarter of 2008.

Present value adjustment expense. Present value adjustment expense increased R\$5.8 million, or 16.4%, to R\$41.1 million in 2010 from R\$35.3 million in 2009, mainly as a result of the increased number and volume of prepayment of receivables in 2010.

Foreign exchange variation, net. Our foreign exchange variation, net decreased R\$1.0 million, or 52.6%, to R\$0.9 million in 2010 from R\$1.9 million in 2009, primarily due to payment of the principal of our offshore securitization transaction.

Income before income tax and social contribution

As a result of the foregoing, our income before income tax and social contribution increased R\$413.9 million, or 17.8%, to R\$2,745.0 million in 2010 from R\$2,331.1 million in 2009.

Income tax and social contribution

Our income tax and social contribution increased R\$116.7 million, or 14.6%, to R\$914.0 million in 2010 from R\$797.3 million in 2009. Our income tax and social contribution increased in 2010 as a result of the combined effect of (1) an 11.0% increase in current income tax and social contribution attributable to the increase in taxable income and (2) a R\$22.6 million, or 40.5%, decrease in deferred tax credits to R\$33.3 million in 2010 from R\$55.8 million in 2009, primarily due to the decrease in temporary differences (provisions for risks, provision for other expenses, present value adjustment of prepayment of accounts receivable).

Net income

As a result of the foregoing, our net income increased R\$297.2 million, or 19.4%, to R\$1,831.0 million in 2010 from R\$1,533.8 million in 2009.

EBITDA

Our EBITDA consists of our net income (1) plus income tax and social contribution, (2) plus depreciation and amortization and (3) less financial income, net. Our EBITDA is not a measure recognized under Brazilian GAAP, IFRS or U.S. GAAP and should not be considered in isolation or as an alternative to net income, as an operating performance measurement, as an alternative to cash flow or as an indicator of liquidity. Our EBITDA has limitations that restrict its usefulness as a measurement of our profitability because it does not take into consideration certain costs and expenses of our business that could significantly affect our net income, such as financial expenses, income taxes and social contribution, depreciation and amortization, capital expenditures and other related charges. Other companies may calculate their EBITDA differently than we do. Our management uses our EBITDA as an additional measure to monitor our operating performance.

Set forth below is a reconciliation of our net income before income tax and social contribution with our EBITDA.

	For the Nine-Month Period Ended September 30,			For the Year Ended December 31,			
	2012	2012	2011	2011	2011	2010	2009
	(in millions of U.S.\$, except as otherwise indicated) (1)	(in millions of reais, except as otherwise indicated)		(in millions of U.S.\$, except as otherwise indicated) (1)	(in millions of reais, except as otherwise indicated)		
Net income	841.6	1,709.0	1,309.3	894.8	1,816.9	1,831.0	1,533.8
(+) Income tax and social contribution.....	438.9	891.2	650.8	437.0	887.4	914.0	797.3
(+) Depreciation and amortization.....	109.9	223.2	174.0	117.1	237.8	193.4	160.3
(-) Financial income, net.....	279.1	566.8	387.2	272.6	553.6	374.4	228.0
EBITDA	1,111.3	2,256.6	1,746.9	1,176.3	2,388.5	2,564.0	2,263.4
Net Revenue.....	1,881.3	3,820.2	3,004.4	2,072.6	4,208.7	3,992.5	3,444.9
EBITDA margin (2)	59.1%	59.1%	58.1%	56.8%	56.8%	64.2%	65.7%

- (1) Solely for the convenience of the reader, Brazilian *real* amounts for the year ended December 31, 2011 and for the nine-month period ended September 30, 2012 have been translated into U.S. dollars at the exchange rate as of September 30, 2012 of R\$2.0306 to U.S.\$1.00. See “Exchange Rates” for further information.
- (2) EBITDA margin is our EBITDA divided by our net revenue in a given period.

Cash Flows

The table below sets forth our cash flows from operating activities, investing activities and financing activities for the nine-month periods ended September 30, 2012 and 2011 and the years ended December 31, 2011, 2010 and 2009.

	For the Nine-Month Period Ended September 30,		For the Year Ended December 31,		
	2012	2011	2011	2010	2009
	(in millions of reais)				
Cash flows provided by (used in):					
Operating activities	2,090.2	1,778.4	1,785.6	1,557.0	972.7
Investing activities	(1,411.0)	(365.3)	(358.9)	(311.0)	(256.4)
Financing activities	(588.1)	(1,390.2)	(1,384.4)	(1,509.6)	(1,274.1)
Exchange rate over cash and cash equivalents.....	9.2	—	—	—	—
Increase (decrease) in cash and cash equivalents	100.3	22.9	42.3	(263.7)	(557.9)

Cash flow analysis for the nine-month periods ended September 30, 2012 and 2011

Cash provided by our operating activities increased R\$311.8 million, or 17.5%, to R\$2,090.2 million in the nine-month period ended September 30, 2012, compared to R\$1,778.4 million in the corresponding period of 2011. This increase was mainly a result of the increase in income from operations, as well as the increase in accounts payable to merchants due to increased prepayments from card issuers, which was partially offset by the increase in trade accounts receivables generated from an increase in prepayment of receivables transactions.

Cash used in our investing activities increased R\$1,045.7 million, or 286.3%, to R\$1,411.0 million in the nine-month period ended September 30, 2012, compared to R\$365.3 million in the corresponding period of 2011. This increase was mainly a result of our acquisition of MeS on August 31, 2012.

Cash used in our financing activities decreased R\$802.1 million, or 57.7%, to R\$588.1 million in the nine-month period ended September 30, 2012, compared to R\$1,390.2 million in the corresponding period of 2011. This decrease was primarily due to cash obtained from additional borrowings and financing, mainly in connection with the Bridge Loan we obtained to finance our acquisition of MeS.

Cash flow analysis for the years ended December 31, 2011 and 2010

Cash provided by our operating activities increased R\$228.6 million, or 14.7%, to R\$1,785.6 million in 2011 from R\$1,557.0 million in 2010, mainly as a result of the increase in income from operations, as well as decreases in our trade accounts receivable as a result of prepayment of receivable operations.

Cash used in our investing activities increased R\$47.9 million, or 15.4%, to R\$358.9 million in 2011 from R\$311.0 million in 2010, primarily due to acquisitions of additional equity interests in certain of our subsidiaries and joint ventures totaling R\$85.3 million in 2011 compared with R\$22.3 million in 2010.

Cash used in our financing activities decreased R\$125.2 million, or 8.3%, to R\$1,384.4 million in 2011 from R\$1,509.6 million in 2010, mainly as a result of our reduced payments of dividends and interest on equity in 2011.

Cash flow analysis for the years ended December 31, 2010 and 2009

Cash provided by our operating activities increased R\$584.3 million, or 60.1%, to R\$1,557.0 million in 2010 from R\$972.7 million in 2009, mainly as a result of the increase in income from operations, as well as increases in our accounts payable as a result of an increase in prepayments from card issuers.

Cash used in our investing activities increased R\$54.6 million, or 21.3%, to R\$311.0 million in 2010 from R\$256.4 million in 2009, primarily due to the acquisition of POS electronic capture equipment.

Cash used in our financing activities increased R\$235.5 million, or 18.5%, to R\$1,509.6 million in 2010 from R\$1,274.1 million in 2009, mainly as a result of an increase in our payments of dividends and interest on equity in 2010.

Indebtedness and Financing Strategy

We mainly rely on cash flow from our operations to finance our operating activities and investments. We use our funds to purchase equipment, invest in projects, purchase and maintain electronic capture equipment, service our indebtedness and pay dividends and interest on equity. We also use our FINAME facility to finance our acquisition of new machinery and equipment manufactured in Brazil.

Since September 1, 2008, we have also been using the funds provided by our operations to fund the prepayment of receivables to our affiliated merchants. For more information, see “Business—Other Products and Services—Prepayment of receivables.”

As of September 30, 2012, our total outstanding borrowings and financing on a consolidated basis was R\$1,121.4 million, consisting of R\$940.9 million of current borrowings and financing, which includes the Bridge Loan and the current portion of our FINAME facility (or 83.9% of our total borrowings and financing), and R\$180.5 million of non-current borrowings and financing, which includes the non-current portion of our FINAME facility (or 16.1% of our total borrowings and financing).

The following table presents the maturity profile of our borrowings and financing as of September 30, 2012:

	2013 (1)	2014	As of September 30,		Total
			2015	2016 and after	
			(in millions of reais)		
FINAME.....	163.6	119.8	19.4	7.4	310.2
Bridge Loan.....	811.2	—	—	—	811.2

(1) Includes balances maturing between October 1, 2012 and December 31, 2012.

FINAME

We have entered into a credit facility with BNDES to finance our purchase of new machinery and equipment manufactured in Brazil (*Financiamento de Máquinas e Equipamentos*), or FINAME, which we refer to as the FINAME facility. We borrow under the FINAME facility by entering into loan agreements with Banco do Brasil S.A., which is authorized to operate as financial agent for BNDES.

Our obligations under the loan agreements are secured by assignments in trust under Brazilian law (*alienação fiduciária*) of the assets we acquired. Additionally, we are required to comply with the standard provisions applicable to BNDES agreements and the general conditions governing FINAME-related transactions.

In the nine-month period ended September 30, 2012, we obtained R\$168.1 million in additional financing through this FINAME facility. As of September 30, 2012, the total outstanding principal amount under the FINAME facility was R\$310.2 million.

Bridge Loan

On August 17, 2012, Cielo USA entered into a Bridge Loan, guaranteed by Cielo, in the aggregate amount of U.S.\$400.0 million with Goldman Sachs Bank USA and Banco do Brasil S.A., the net proceeds of which we used to partially finance our acquisition of MeS. The Bridge Loan bears interest at the one-month Libor rate plus 1.5% per annum, with interest payable monthly. Principal under the Bridge Loan is due in a single installment at maturity, in February 2013, or earlier upon our refinancing the Bridge Loan through this offering.

Capital Investments and Divestments

We mainly invest in the expansion of our activities. Our investments in property and equipment, software and project development were allocated in the following manner for each period indicated:

	For the Nine-Month Period Ended September 30,		For the Year Ended December 31,		
	2012	2011	2011	2010	2009
	<i>(in millions of reais)</i>				
POS electronic capture equipment.....	192.8	229.6	368.9	233.7	215.7
Data processing equipment	7.6	13.7	15.0	5.0	4.7
Machinery and equipment.....	—	0.1	0.3	3.2	2.9
Facilities	0.9	4.9	5.5	5.3	1.5
Furniture and fixtures.....	0.1	0.4	1.9	1.9	0.9
Vehicles.....	0.7	0.2	0.7	0.3	0.9
Software licenses.....	13.7	24.4	31.5	9.3	4.5
Project development.....	—	0.4	0.4	7.4	1.9
Total	215.8	273.7	424.2	266.1	233.0

Investments in electronic capture equipment are made mainly as a result of the increase in our base of affiliated merchants. In addition, we invest to reduce our operating costs by (1) reducing our maintenance of electronic capture equipment and (2) improving the security of the transactions performed with credit and debit cards. Because our electronic capture equipment is easily portable, it is distributed nationally in accordance with demand.

Our principal other investments are our acquisition of computer equipment (mainly for our headquarters), software licenses (for our headquarters and our subsidiaries') and development of new products and services to increase our revenue and improve our operations.

We generally use our own resources to fund our investments.

Contractual Obligations

The table below summarizes the maturity of our material contractual obligations as of September 30, 2012. The table does not include provisions for risks, deferred income tax and social contribution. The prices under these agreements have been calculated based on estimated volumes assuming the ordinary course of business in accordance with the estimated term of each agreement.

	Maturity by Period as of September 30, 2012		
	Total	Less than one year (in millions of reais)	1 – 3 years
FINAME / Bridge Loan	1,121.4	940.9	180.5
Lease Agreements	25.4	10.8	14.6
Telecommunications, POS equipment suppliers, technology and logistics services	1,363.3	615.1	748.2
Bank guarantees	0.4	0.4	—
Trade accounts payable	380.1	380.1	—
Total contractual obligations	2,890.6	1,947.3	943.3

Off-Balance Sheet Arrangements

We do not have any transactions that are not recorded in our financial statements. We also do not have any subsidiaries that are not included in our financial statements.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks as a result of our business. These market risks mainly involve the possibility of changes in economic growth as a result of changes in interest rates, the availability of credit and the unemployment rate, as well as exchange rate variations, which could adversely affect the amount of our financial liabilities or future cash flow, as well as our results.

Our finance department is responsible for monitoring and evaluating any risk exposure to exchange rates, interest rates and liquidity. We also have finance and audit committees, which are responsible for advising our board of directors. Our board of directors is responsible for approving the limits for our entering into financial operations, including entering into derivative financial instruments.

Interest rate risk

Under our financial policies, we invest our cash and cash equivalents in solid financial institutions. We manage our financial instruments through operational strategies, focused on liquidity, profitability and safety. Our oversight policy consists of continually following the rates contracted for versus market rates. We do not make speculative investments in derivatives or any other risky assets.

We use part of our cash allocated to financial investments for prepayment of receivables to our affiliated merchants, thereby minimizing our exposure to interest rate risk that occurs as a result of funding the prepayment of receivables using third-party sources.

Our exposure to interest-earning financial instruments as of September 30, 2012 consisted mainly of financial investments, mostly maintained with Brazilian financial institutions, in an amount of R\$285.3 million. Our exposure to interest-bearing financial instruments as of September 30, 2012 consisted mainly of (1) our FINAME facility for the acquisition of electronic capture equipment, which bears interest based on the TJLP, and (2) our Bridge Loan to finance our acquisition of MeS, which bears interest based on Libor and which we plan to repay from the proceeds of this offering. The weighted average rate of funding from card issuer banks was approximately 103.86% of the CDI as of September 30, 2012.

Income from our financial investments is affected by variations in the CDI rate, and our financial expenses from our loans are affected by changes in the TJLP. As of September 30, 2012, an estimated increase or decrease of 10%,

25% and 50% in the respective CDI and TJLP interest rates, would result in an increase or decrease, as applicable, in financial income of R\$1.6 million, R\$4.1 million and R\$8.3 million, respectively, and an increase or decrease, as applicable, in financial expenses related to our FINAME facility of R\$1.5 million, R\$3.8 million and R\$7.7 million, respectively. These amounts were calculated based on the impact from hypothetical increases or decreases in interest rates over the average balance from financial investments and loans during the nine-month period ended September 30, 2012.

Foreign exchange rate risk

Until July 2012, we were not directly and materially exposed to exchange rate risk since our total foreign currency-denominated liabilities were significantly lower than our total foreign currency-denominated assets. Our foreign currency-denominated liabilities consisted mainly of trade accounts payable to merchants operating in free trade zones, acquisition of capture equipment and their replacement parts and amounts payable to certain foreign suppliers. Our foreign currency-denominated assets consisted mainly of the amounts spent in Brazil by holders of credit cards that were issued abroad and converted into U.S. dollars by the card issuers and credited to one of our foreign bank accounts. Transactions in *reais* with foreign cards are converted into U.S. dollars by the card issuers using the average exchange rate on the purchase date in the interbank exchange market. Furthermore, we enter into hedging instruments to protect against currency rate variations, comprising pre-sales of all U.S. dollars receivables based on the same exchange rate, and we sell foreign currency in order to maintain our U.S. dollar-denominated assets and liabilities at balanced levels.

In August 2012, we concluded our acquisition of MeS. Investment in Cielo USA totaled U.S.\$311.4 million, equivalent to R\$630.4 million as of September 30, 2012. We entered into non-deliverable forwards hedge instruments to hedge our foreign exchange rate risk exposure. The following tables present (1) the net exposure of assets and liabilities denominated in foreign currency and (2) gains and losses on hedge instruments and hedge items, in each case as of September 30, 2012:

	As of September 30, 2012
	<i>(in millions of US\$)</i>
Net exposure of assets and liabilities denominated in foreign currency	
Assets:	
Cash and cash equivalents	49.9
Other assets	10.9
Intangible assets, mainly goodwill	708.5
Total foreign currency asset exposure	769.3
Liabilities:	
Payables to merchants	(48.2)
Other liabilities	(11.8)
Foreign borrowings and financing	(400.0)
Total foreign currency liabilities exposure	(460.0)
Long position in U.S. dollars	309.3
US dollar short position mainly represented by:	
Non-deliverable forward	(470.9)
Tax effect on hedge (overhedge)	160.1
Short position in U.S. dollars (1)	(310.8)
Net exposure of assets and liabilities denominated in foreign currency	1.5

(1) We enter into forward exchange transactions for U.S. dollars to hedge against fluctuations in exchange rates, which reduces potential currency risks.

	<u>As of September 30, 2012</u> <i>(in millions of reais)</i>
Gains and Losses on Hedge Instruments and Hedge Items	
Hedge objects items gain.....	(2.9)
Hedge instruments gain – settled	(1.7)
Hedge instruments loss – to settle	1.3
Tax effect from hedge instruments – to settle.....	(0.5)
Net effect to shareholders' equity – equity evaluation adjustment.....	(3.7)

Credit risk

In relation to Visa-branded credit cards, we protect ourselves from risk of non-payment by card issuers by requesting guarantees that we determine on a case-by-case basis, taking into account the credit risk of the card issuer, the amount of sales made and the residual risk of non-payment by the cardholders. We review the amounts periodically, and if the card issuer does not provide us with the requested collateral or bank guarantees, we do not accept it as a member or it loses its membership. Visa International manages the guarantees that we require from the card issuers in this process and also provides a guarantee to us to the extent of such card issuer guarantees.

In relation to other credit cards brands, including MasterCard, payment by the card issuers to us is guaranteed by the respective card brand, which negotiates guarantees from each card issuer using its brand and manages such guarantees. In this connection, the card brand guarantees us the full payment from each card issuer. For further information, see “Business—Products—Credit Cards.”

CIELO USA

Cielo USA, the issuer of the Cielo USA Notes underlying the notes units, is a direct wholly-owned subsidiary of Cielo. Cielo USA is a corporation which was incorporated under the laws of the State of Delaware on June 27, 2012. The registered address of Cielo USA is Corporation Trust Center, 1209 Orange St., Wilmington, DE 19801.

On August 31, 2012, Cielo USA acquired MeS, a Silicon Valley-based provider of full-service global payment solutions, for approximately U.S.\$670.0 million, which became a direct, wholly-owned subsidiary of Cielo USA. Cielo USA does not have any other subsidiaries or equity participation in any other person or entity.

All of the directors of Cielo USA are appointed by Cielo. The directors of Cielo USA are Eduardo Chedid Simões and Marcelo Fabian Perez. As directors of Cielo USA, subject to compliance with customary fiduciary duties of directors of Delaware corporations, they are required to act in accordance with the interests of Cielo.

Under Cielo USA's Certificate of Incorporation, Cielo USA is permitted to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

The selected financial information included below has been derived from the historical financial information of MeS for the years ended December 31, 2010 and 2011, which years pre-date the acquisition of MeS by Cielo USA. No separate financial information for MeS as of any date or for any period following December 31, 2011 is available. MeS's historical financial statements were prepared in accordance with U.S. GAAP, which differs in certain material respects from IFRS and Brazilian GAAP. As a result, this historical financial information is not fully comparable with Cielo's consolidated financial statements, which were prepared in accordance with IFRS and Brazilian GAAP. No reconciliation to IFRS or Brazilian GAAP of any of MeS's financial information has been prepared for the purpose of this offering memorandum or for any other purpose. There can be no assurance that any reconciliation would not identify material quantitative differences as well as disclosure and presentation differences between MeS's financial statements prepared in accordance with U.S. GAAP and Cielo's financial statements prepared in accordance with IFRS and Brazilian GAAP.

Selected MeS Financial Information	For the Year Ended	
	December 31,	
	2011	2010
	<i>(in millions of U.S.\$)</i>	
Revenue	354.9	306.7
Income from operations	40.5	30.6
Net income	22.4	14.3

BUSINESS

Overview

We are the leading company in electronic payment transactions in Brazil, with a 47.1% market share of total transaction volume for credit and debit cards, according to ABECs data as of December 2011. From January 1, 2009 to December 31, 2011, our total transaction volume grew at a compound annual growth rate of 21.5%, from R\$214.0 billion in 2009 to R\$315.9 billion in 2011. In the nine-month period ended September 30, 2012, our transaction volume totaled R\$275.5 billion, representing a 22.7% increase compared to R\$224.6 billion during the corresponding period in 2011. We captured and processed a total of 4,622 million, 4,038 million and 3,427 million transactions in 2011, 2010 and 2009, respectively, and 3,886 million and 3,320 million transactions during the nine-month periods ended September 30, 2012 and 2011, respectively.

On August 31, 2012, we acquired MeS, a Silicon Valley-based provider of full-service global payment solutions, which is a direct, wholly-owned subsidiary of Cielo USA. We believe that MeS, which was founded in 2000, has the latest generation technology platform, developed specifically for the merchant acquiring business, which has enabled MeS to differentiate itself in the U.S. market, principally in e-commerce. Our acquisition of MeS and its best-in-class payment platform reinforces our strategy of offering innovative solutions and services to our customers and partners in Brazil.

We have the broadest domestic coverage in the Brazilian merchant acquiring and payment processing industry, based on our approximately 1,658 thousand point-of-sale (POS) electronic capture equipment units in service as of September 30, 2012, with approximately 2,642 thousand affiliated merchants. The advanced technology we apply in our network allows us to operate with an availability rate of 99.995% and virtually 100% availability on important retail dates. We had approximately 1,291 thousand active merchants (based on those that effected transactions at our terminals in the previous 60 days) as of September 30, 2012, with a presence in 5,539 of Brazil's 5,564 municipalities, covering 99.6% of Brazil's territory.

We affiliate merchants for our services and manage a network for payment with credit and debit cards as well as prepaid voucher cards for the capture, transmission, processing and settlement of payment transactions. Through thousands of simultaneous, reliable transactions, we connect banks, card brands and merchants. We capture, transmit, process and settle electronic payment transactions for the most accepted branded credit and debit cards, including Visa, MasterCard and Diners Club International. We also capture and transmit electronic payment transactions for American Express as well as for meal and other prepaid voucher cards, which are widely provided by Brazilian companies to their employees in satisfaction of their duty to provide meals under local labor law. As part of our payment processing business we install and maintain electronic capture equipment, which we rent to our affiliated merchants.

We also offer the prepayment of receivables to our affiliated merchants, advancing to them the proceeds, at a discount, of credit card transactions that would normally be payable to them 30 days after the purchase date. This portion of our business has become increasingly important and has grown at a compound annual growth rate of 50.7%, from total receivable prepayments volume of R\$6,781 million in 2009 to R\$15,408 million in 2011. In the nine-month period ended September 30, 2012, our volume of receivables prepayments totaled R\$17,866 million, representing a 70% increase compared to R\$10,508 million during the corresponding period in 2011.

We have grown solidly since our inception in 1995. From 2009 to 2011, our EBITDA increased from R\$2,263.4 million in 2009 to R\$2,388.5 million in 2011. During the nine-month period ended September 30, 2012, our EBITDA totaled R\$2,256.6 million, representing a 29.2% increase compared to R\$1,746.9 million during the corresponding period in 2011. From 2009 to 2011, our net income increased at a compound annual growth rate of 8.8% from R\$1,533.8 million in 2009 to R\$1,816.9 million in 2011. For the nine-month period ended September 30, 2012, our net income totaled R\$1,709.0 million, representing a 30.5% increase compared to R\$1,309.3 million during the corresponding period in 2011.

The following table sets forth certain financial and other information for the periods indicated:

	For the Nine-Month Period Ended September 30,			For the Year Ended December 31,			
	2012	2012	2011	2011	2011	2010	2009
	(in millions of U.S.\$, except as otherwise indicated) (1)	(in millions of reais, except as otherwise indicated)		(in millions of U.S.\$, except as otherwise indicated) (1)	(in millions of reais, except as otherwise indicated)		
Net revenue	1,881.3	3,820.2	3,004.4	2,072.6	4,208.7	3,992.5	3,444.9
Gross profit	1,269.5	2,577.8	1,984.9	1,370.8	2,783.5	2,811.7	2,508.6
Net income	841.6	1,709.0	1,309.3	894.8	1,816.9	1,831.0	1,533.8
Other information							
Net margin (%)	44.7%	44.7%	43.6%	43.2%	43.2%	45.9%	44.5%
EBITDA (2)	1,111.3	2,256.6	1,746.9	1,176.3	2,388.5	2,564.0	2,263.4
EBITDA margin (%) (3)	59.1%	59.1%	58.1%	56.8%	56.8%	64.2%	65.7%
Credit cards							
Transaction volume (4)	86,871	176,400	141,400	97,730	197,541	162,933	134,792
Number of transactions (5) (in millions)	2,263	2,263	1,928	2,658	2,658	2,322	2,003
Debit cards							
Transaction volume (4)	48,803	99,100	83,100	58,266	118,315	98,742	79,165
Number of transactions (5) (in millions)	1,622	1,622	1,391	1,964	1,964	1,716	1,424
Affiliated merchants (in thousands)	2,642	2,642	2,239	2,362	2,362	1,975	1,706
Active merchants (6) (in thousands)	1,291	1,291	1,153	1,199	1,199	1,140	1,133

- (7) Solely for the convenience of the reader, Brazilian *real* amounts for the year ended December 31, 2011 and for the nine-month period ended September 30, 2012 have been translated into U.S. dollars at the exchange rate as of September 30, 2012 of R\$2.0306 to U.S.\$1.00. See “Exchange Rates” for further information.
- (8) Our EBITDA consists of our net income (1) plus income tax and social contribution, (2) plus depreciation and amortization and (3) less financial income, net. Our EBITDA is not a measure recognized under Brazilian GAAP, IFRS or U.S. GAAP and should not be considered in isolation or as an alternative to net income, as an operating performance measurement, as an alternative to cash flow or as an indicator of liquidity. Our EBITDA has limitations that restrict its usefulness as a measurement of our profitability because it does not take into consideration certain costs and expenses of our business that could significantly affect our net income, such as financial expenses, income taxes and social contribution, depreciation and amortization, capital expenditures and other related charges. Other companies may calculate their EBITDA differently than we do. Our management uses our EBITDA as an additional measure to monitor our operating performance. For a reconciliation of our net income before income tax and social contribution with our EBITDA, see “Selected Financial Information—EBITDA.”
- (9) EBITDA margin is our EBITDA divided by our net revenue in a given period.
- (10) Transaction volume captured, processed and settled by us in millions of *reais* (or U.S.\$).
- (11) Transactions are the number of purchase transactions for goods and services we process. When a payment is made in installments, each installment is counted as a separate transaction.
- (12) Active merchants are those that have conducted at least one electronic payment transaction with us within the preceding 60 days.

In addition to the products and services traditionally offered in the electronic payment industry, we have a track record of offering innovative solutions in complementary segments. We were pioneers in Brazil in providing network infrastructure for correspondent banking services, prepaid mobile phone top-ups, electronic prepaid voucher cards and cash back withdrawals (“*saque*”). We have a long track record of capturing and processing electronic non-payment transactions, such as transaction authorizations for healthcare service providers.

We believe the diversity of our portfolio of products and services is a result of our constant efforts to identify new business segments in order to enhance and optimize the use of our network and assets. Our recent acquisition of MeS evidences our desire to bring the best solutions and technology to our clients. We have approximately 89 partnerships with card issuers and companies to capture and process transactions using prepaid cards, private label cards and co-branded private label cards. We also offer data capture services and, through our Lynx platform, support to card issuers and merchants to help reduce fraud.

Merchant Acquiring and Payment Processing Industry in Brazil

In the merchant acquiring and payment processing industry model in Brazil, we and other merchant acquirers are licensed to use the card issuers' brands and are also responsible for the capture, transmission, processing and settlement of transactions.

We and Redecard S.A. are the principal companies operating in the merchant acquiring and payment processing industry in Brazil, and we collectively account for approximately 90% of the total transaction volume for electronic payment transactions according to data published by ABECS in June 2012.

Between January 1, 2009 and December 31, 2011, the transaction volume of credit, debit and private label cards in Brazil grew at a compound annual growth rate of 22.8%, reaching R\$670.1 billion in 2011 compared to R\$444.2 billion in 2009, according to ABECS.

This growth is primarily a result of greater household spending, an increased utilization of financial services and the growing use of electronic payment methods.

- *Expanded household spending* – From 2000 to 2011, annual household spending in Brazil increased from R\$758.9 billion to R\$2,499 billion, representing a compound annual growth rate of 11.4%, according to IBGE data, unadjusted for inflation. During this period, the use of credit and debit cards as a means of payment increased from 8.7% to 26.8% of household spending in Brazil. This increase in card use resulted primarily from economic growth, increased employment rates and higher income levels in Brazil, and most importantly, greater acceptance of credit and debit cards for payments.
- *Increased use of financial payment services* – Economic stability, higher employment rates and increased income for Brazilians in recent years have made financial products accessible to a larger portion of the population. There was an increase in approximately 43.8 million active individual bank accounts between December 31, 2000 and December 31, 2011, increasing the total number of active individual accounts from 48.2 million as of December 31, 2000 to 92.0 million as of December 31, 2011, representing a compound annual growth rate of 6.1%, according to FEBRABAN data, which illustrates the public's increased use of the banking system in Brazil. During this period, the number of credit and debit cards, including private label cards, increased by 481%, according to ABECS, from 118.2 million as of December 31, 2000 to 587.0 million as of December 31, 2011.
- *Growing use of electronic payment methods* – Factors including improved security, convenience and efficiency in conducting transactions have contributed to the growing use of credit and debit cards in Brazil in recent years. According to the most recent data from the Bank for International Settlements, or BIS, of a total of 21.8 billion non-cash payment instruments transactions in 2011, 57.8% were made using credit and debit cards, while 7.3% were made using checks. In comparison, in 2008, of a total of 13.3 billion non-cash payment instruments transactions, 50.0% were made using credit and debit cards, while 14.8% were made using checks.

Competitive Strengths

We believe our main competitive strengths are:

Leadership in the merchant acquiring and payment processing industry in Brazil.

Our leadership in terms of transaction volume in the merchant acquiring and payment processing industry in Brazil, with a 47.1% market share in terms of credit and debit card transaction volume according to ABECS data as of December 2011, provides us with economies of scale and higher network utilization. This helps us to dilute our fixed costs and consequently maintain our solid operating and financial position.

In addition, we believe that our large network of affiliated merchants provides us with greater opportunities to offer our diversified portfolio of services and to identify market trends, which allows us to develop new services.

Leading technology with a highly scalable and leverageable platform.

Our highly scalable technology platform can support significant expansion with low incremental costs, and we are able to achieve attractive economies of scale with flexible product development capabilities. Our advanced technology platform provides us with the ability to deliver information to our customers in real time as well as the flexibility to perform high-capacity customizations to streamline integration with our partners. Our acquisition of MeS in August 2012 will complement and provide greater flexibility for our technology platform. MeS offers a comprehensive suite of solutions in traditional merchant acquiring as well as e-commerce and mobile payments. In 2011, MeS processed more than U.S.\$14 billion in transactions for more than 65,000 affiliated retailers, in partnership with over 250 financial institutions.

High market penetration for our services.

We have the largest network of affiliated merchants in Brazil, with approximately 2,642 thousand merchants and a presence in more than 99.5% of Brazil's municipalities as of September 30, 2012. This generates a significant number of transactions as well as rental demand for our electronic capture equipment. Our broad network of affiliated merchants results from our sales team's efforts as well as from the support of four financial institutions, Bradesco, Banco do Brasil, HSBC and Caixa Econômica Federal, which collectively have approximately 13,440 branches throughout Brazil. Each of these financial institutions issue Visa-, MasterCard- and other-branded credit and debit cards and have entered into partnership agreements with us, which partnerships give us credibility and institutional support in acquiring new merchants. Bradesco, Banco do Brasil, HSBC and Caixa Econômica Federal are among the largest card issuers in Brazil and are also among the largest retail banks in the country in terms of number of branches, collectively representing approximately 61% of all bank branches in Brazil according to Central Bank data from December 2011. Their presence in practically every Brazilian municipality affords us strong market penetration.

Strong growth with consistent cash flows.

We have historically posted strong net revenue growth and improvement in our operating results. From January 1, 2009 to December 31, 2011, our net revenue grew at an average annual rate of 8.8%, and our net income increased from 1,533.8 million in 2009 to 1,816.9 million in 2011, leading to our consistent profitability and cash flow generation during this period. As a result, we believe we have a solid financial position, which enables us to benefit from growth opportunities and to reduce our exposure to market fluctuations.

Ability to innovate and to offer a broad portfolio of products and services.

We use our business platform to anticipate market trends and identify merchant needs, creating services that both complement our existing activities and generate new business opportunities with merchants. We offer innovative products and services in segments that have synergies with our existing activities, such as: the use of our network for capturing of private label transactions; the use of cards in new segments or niches, including street fairs and markets and agribusiness; correspondent banking services; transactions with prepaid and co-branded private label cards, electronic prepaid voucher cards, e-commerce through MeS, mobile phone top-ups and toll payments. We believe the broad range of products and services we offer to our merchants and our constant search for innovation are key factors in our ability to enter new segments, affiliate more merchants, increase the volume of electronic payment transactions and continue to be the leader in capturing market opportunities.

Experienced management and a skilled and highly motivated team.

Our management team combines experience and extensive knowledge in the merchant acquiring and payment processing industry. The combination of their management skills and a high degree of commitment to our activities has contributed to our history of success. Our senior management team includes professionals with the ability to implement and execute our strategic business plans in a disciplined manner with a focus on growth and profitability,

who have a history of working in the industry, and have been with Cielo for an average of four years. In addition, our management model allows us to attract, train and develop skilled and committed professionals through investments in recruiting and employee training and development. Our training program is focused on our employees' professional needs and is strengthened through a career management and development plan complemented by a profit sharing program.

Our Strategy

The principal elements of our strategy include:

Increase merchant use and acceptance of electronic payment transactions.

We plan to further increase the number of merchants that accept electronic payment transactions both through our own sales structure for acquiring new merchants as well as through the branch networks of those financial institutions with which we have partnership agreements. We seek to maintain a close relationship with, and provide constant support to, merchants by offering solutions, differentiated products and high-quality services, as well as by encouraging merchant sales through additional point-of-sale promotions. In addition, we plan to further invest in solutions to expand acceptance of electronic payment transactions in new service segments, such as taxis, soccer stadiums, street fairs and markets and delivery services, among others.

Expand electronic payment transaction volumes.

We plan to improve our results by capturing new merchant or business segments leading to increased electronic payment transaction volumes. To achieve this, we are working to develop and launch new products that address the needs of sectors that are currently resistant to adopting electronic payments. Among our initiatives are the Agroc card product, which drives B2B agribusiness volume to our network by providing rural producers with access to a pre-approved line of credit for acquiring agricultural products and equipment, and Cielo Mobile, through which merchants, including self-employed professionals such as doctors and dentists, can accept electronic payments using a smartphone.

Broaden and maximize the use of electronic capture equipment.

We seek to increase the number of transactions conducted through our acceptance network and develop new capture solutions and offer services in segments that create value for our affiliated merchants. We plan on using electronic capture equipment as a platform to increasingly offer new services, such as correspondent banking services, prepaid mobile phone top-ups and cash-back for debit card transactions, among others, to strengthen our relationship with merchants and increase revenues from the use of our network. We believe that the diversification of our portfolio of services offered through our transaction capture equipment will allow us to maximize the use of and revenue from our acceptance network while strengthening our business base and our relations with affiliated merchants. In April 2012, in partnership with Banco do Brasil and Bradesco, we announced the launch of our Cielo Crediário product, which expanded our Visa Electron credit line (CDC Visa Electron) with exclusive technology, which allows merchants to offer cardholders the ability to pay in up to 48 installments, accessing an additional pre-approved credit line from their checking accounts through their bank cards. Cielo Crediário is similar to a single-installment debit card transaction for the merchant, since the net amount is transferred to the merchant one business day after the sale.

Enter lines of business that have synergies with our principal operations.

We develop projects and conduct market surveys to identify lines of business that have synergies with our principal operations, such as the development through our joint venture Orizon of a network for the authorization of transactions by healthcare service providers, including evaluating medical expenses, processing medical bills, supporting pharmaceutical vouchers, connecting and authorizing services and providing call centers for the healthcare industry. We believe that our introduction of electronically captured transactions in healthcare and other lines of business will allow us to develop new service offerings and other revenue-generating opportunities.

Fully integrate MeS' technology platform to our operations in Brazil.

On August 31, 2012, we acquired MeS, a Silicon Valley, U.S.-based provider of full-service global payment solutions. We believe that MeS has the latest generation technology platform, which it developed specifically for the acquiring business, which has allowed it to differentiate itself in the U.S. market. Our acquisition of MeS and its best-in-class payment platform reinforces our strategy of offering innovative solutions and services to our customers and partners in Brazil. We believe that by integrating MeS' technology platform, we will be able to deliver (1) complete end-to-end services to merchants in both retail and e-commerce, (2) a high value proposition to our client base with a new suite of products and functionalities, along with better customer service offered through a web-based platform with features such as near-time statement generation and reconciliation solutions, (3) improved solutions and business tools for partner banks that will allow better integration to their distribution channels to ensure an efficient go-to-market strategy of their merchant acquiring value proposition, and (4) the best offering of e-commerce payment solutions, with cutting-edge features and functionality in the fastest growing segment of commerce in Brazil.

In addition, the advanced technology developed by MeS will provide us with greater process automation (back office), flexibility and agility in developing new products and, consequently, will enable a lower time-to-market for new products and services. Furthermore, with our acquisition of MeS, we gain a physical presence in Silicon Valley, a hotbed of technological innovation and currently the epicenter of the digital revolution in payments.

For further information regarding Cielo USA, including selected historical financial information of MeS for the years ended December 31, 2010 and 2011, see "Cielo USA."

Offer new services to affiliated merchants.

We plan to develop and offer new services that add value to our affiliated merchants and encourage customer loyalty. To address anticipated demand from merchants, we began offering prepayment of receivables to our affiliated merchants in September 2008. Our volume of receivables prepayments has grown at a compound annual growth rate of 51.6%, from a total of R\$6.7 billion in receivables prepayments in 2009 to total of R\$15.4 billion in 2011, with a total of R\$17.8 billion in the nine-month period ended September 30, 2012. In addition, we have developed technology which uses cell phones and confirmation through a secure Internet connection on the buyer's mobile phone to electronically capture electronic payment transactions. We have recently developed a new technology platform that makes it possible to conduct point-of-sale promotions with cardholders, enabling merchants to strengthen their customer relationships and loyalty.

Increase operating efficiency.

Our business model focuses on combining revenue growth with operating efficiency. Our average cost per transaction captured, excluding the effect of card brand charges and costs incurred by our subsidiaries, decreased by 12.3% from R\$0.292 in 2010 to R\$0.256 in 2011, not only as a result of greater economies of scale and the related dilution of our fixed costs due to a higher number of transactions but also due to our efforts to reduce the cost of services we provide.

Recent Developments

Acquisition of Merchant e-Solutions

On June 30, 2012, we entered into the Merger Agreement to acquire MeS, a Silicon Valley, U.S.-based provider of full-service global payment solutions. We believe that MeS has the latest generation technology platform, which it developed specifically for the acquiring business, which has allowed it to differentiate itself in the U.S. market. We concluded this acquisition on August 31, 2012 by acquiring 100.0% of the capital stock of MeS for approximately U.S.\$670.0 million, which we partially financed with a U.S.\$400.0 million Bridge Loan that matures in February 2013. We intend to use a portion of the net proceeds from the sale of the notes units to repay the Bridge Loan, see “Use of Proceeds.” Our acquisition of MeS and its best-in-class payment platform reinforces our strategy of offering innovative solutions and services to our customers and partners in Brazil.

Additional financing under our FINAME facility

In October 2012, we obtained R\$53.3 million in additional financing through our credit facility with BNDES to finance our purchase of new machinery and equipment manufactured in Brazil (*Financiamento de Máquinas e Equipamentos*), which we refer to as the FINAME facility.

Our History

We were incorporated in November 1995 when Visa International, Bradesco, Banco do Brasil, Banco ABN Amro Real (later acquired by Banco Santander) and Banco Nacional (no longer in existence) founded Companhia Brasileira de Meios de Pagamento. Companhia Brasileira de Meios de Pagamento adopted Visanet as its trade name, which it used until we changed our corporate name to Cielo S.A. in December 2009. Until 1995, the credit and debit card business in Brazil, including the merchant acquiring business, had been conducted individually by each card issuer. At that time, each card issuer would issue its own credit and debit cards, develop its own merchant acquisition solutions and merchant network and conduct its own marketing. We were established principally to manage the relationship of the Visa system in Brazil among the Visa affiliated merchant network, consolidating and developing new transaction capture and settlement solutions.

In 1996, we began operations with an affiliated merchant network that had pre-existing commercial relationships with our founding banks and offered capture, processing and settlement services involving credit cards only. In 1996, Visa International created the Visanet trademark, which it licensed to us.

In subsequent years, we introduced Visa-branded products such as the Visa Electron debit card, which fostered the use of electronic money; the Visa Toll Vouchers (*Alelo Pedágio*) and the Alelo benefit cards, which replaced paper meal vouchers used to pay for meals and groceries with electronic cards containing chip and magnetic strip technology.

Our commencement of operations as a merchant acquirer segregated the role of merchant acquirer from card issuers. We believe that this segregation has significantly increased the growth of the credit and debit card market, led to the introduction of additional related products and increased the safety and efficiency of electronic payment transactions in Brazil.

On July 1, 2009, we completed our initial public share offering and listed our common shares on the *Novo Mercado* segment of the BM&FBOVESPA in the largest IPO in the history of the BM&FBOVESPA. We raised R\$8.397 billion through our sale of 559.8 million common shares, representing a float at such time of approximately 41% of our outstanding common shares.

In 2010, we ended our sole acquirer relationship with Visa and transformed into a multi-brand acquirer. As part of this transformation, we changed our corporate name from Companhia Brasileira de Meios de Pagamento to Cielo S.A., and as of July 2010, we began acquiring and processing electronic payment transactions from other brands, in addition to the Visa brand, including, among others, MasterCard and Diners Club International, as well as capturing transactions for American Express.

Sole Acquirer for Visa until June 30, 2010



Multi-brand operations since July 1, 2010



Our Activities

Our main activities include the affiliation of merchants, along with the management of our merchant affiliate network, and the capture, transmission, processing and settlement, together referred to as acquiring, of transactions using credit and debit cards. We also offer other products and services to our customers, including rental, installation and maintenance of electronic capture equipment, technical support to card issuers and affiliated merchants to reduce fraud, and capture and transmission services for prepaid, private label, co-branded private label card transactions and prepayment of receivables.

Affiliation of Merchants

We affiliate merchants for our services of capturing, transmitting, processing and settling transactions both through our own sales force as well as through the branch networks of those financial institutions with which we have entered into partnership agreements, including Banco do Brasil, Bradesco, HSBC and Caixa Econômica Federal. The financial institutions with which we have partnership agreements are among the largest card issuers in Brazil and are also among the largest retail banks in the country in terms of number of branches. For further information regarding the partnership agreements we have entered into with financial institutions, see “—Material Agreements—Agreements for the Support of Card Issuers in the Affiliation of Merchants and Management of Lock-In Housebank Services.”

We have the broadest domestic coverage in the Brazilian merchant acquiring and payment processing industry, based on our 1,658 thousand POS electronic capture equipment units in service as of September 30, 2012, with approximately 1,291 thousand affiliated merchants.

We classify our affiliated merchants in accordance with their size based on revenue (small, medium and large) and into the following industry segments:

- *Food retail*: wholesalers, supermarkets, grocery stores and other retailers focused on non-prepared foods;
- *Clothing*: clothing, shoes and accessories;
- *Retail*: sports articles, cosmetics, jewelers, bookstores, furniture and decoration and general retail;

- *Automotive*: vehicle parts and accessories stores, car dealerships, gas stations and repair shops;
- *Tourism*: car rental stores, airlines, hotels, travel agencies and cruise lines;
- *Department stores*: department stores and duty-free stores;
- *Building and remodeling*: home centers, retail and wholesale construction materials, construction and remodeling services;
- *Restaurants*: bars and nightclubs, fast food outlets and restaurants;
- *Services*: home services, general services, beauty treatment services, leisure, telemarketing, subscriptions for magazines and newspapers, transportation and other services;
- *Appliances and electronics*: home appliances, electronics, computers and telecommunications;
- *Healthcare*: clinics and doctors' offices, drugstores and pharmacies, hospitals, laboratories and hospital supply stores, ambulance services and healthcare professionals; and
- *New markets*: agribusiness, public services and telecommunication concessionaires, education, government and insurance.

Affiliated Merchants Network

As of September 30, 2012, we had affiliated merchants in 5,539, or 99.6%, of Brazil's 5,564 municipalities, and we had a total of approximately 2,642 thousand affiliated merchants, of which approximately 1,291 thousand were active merchants. Our network of affiliated merchants grew at a compound annual growth rate of 17.7% between 2009 and 2011, and the number of our active merchants grew at a compound annual growth rate of 2.4% during the same period.

We operate throughout Brazil, with our commercial operations divided into corporate and retail segments, which are each under the supervision of a vice-president. We separate our clients between these two main segments based on client size, and we further sub-divide them based on the revenues they generate and their regions. Cielo had 1,482 employees as of September 30, 2012.

We currently have approximately 1,291 thousand active merchants. According to the August 2011 Nilson Report, a report regarding the consumer payment systems industry, we would be among the three largest merchant acquirers in terms of number of active merchants if we operated in the North American market.

Products

Credit cards

Our main product is the capture, transmission, processing and settlement of transactions using credit cards. Our revenues from credit card transactions correspond to the net merchant discount rate, which is the merchant discount rate less the interchange fee.

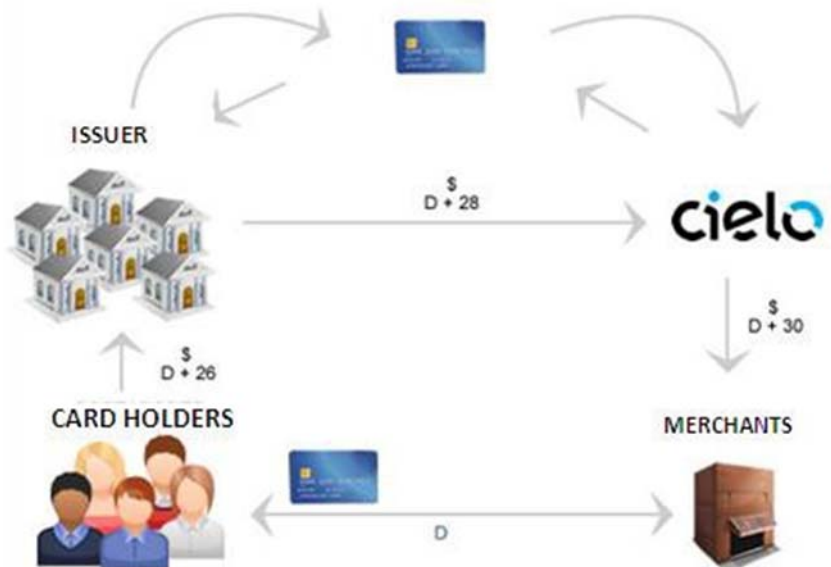
In the Brazilian market, credit cards may be used in two ways:

- *One-time payment*: when the cardholder pays the full amount of the transaction in a single installment to the card issuer and pays the respective bill, on average, 26 days after the date of purchase. We settle these transactions for the merchants, on average, 30 days after the date of purchase; and
- *Payment in installments*: when the cardholder pays the card issuer the full amount of the transaction in installments. The installments may be made in two ways: (1) *revolving credit*: installments with interest-bearing financing, which is granted by the respective card issuer, and where the merchant is paid the sale

amount in one lump sum, on average 30 days after the date of purchase; and (2) *merchant installment*: installments with interest-free financing, which is granted by the merchant so that payment to the merchant for the sale is made in the same number of installments extended to the cardholder, the first of which is settled on average 30 days after the date of purchase.

A credit card transaction is initiated by the merchant by using the electronic capture equipment. After being authorized by the card issuer, and validated by and registered in the respective credit card brand's system, the transaction is completed when the respective receipt is printed.

The settlement process for credit card transactions begins when the respective credit card brand (e.g. Visa or MasterCard) sends instructions to us and the financial institution selected by the merchant as the bank responsible for receiving transaction payments from cardholders, or the Housebank. We confirm the amount to be settled with each card issuer, which in turn sends credit card bills to the cardholders to charge the amounts they owe. The card issuer transfers the transaction amount to us, net of the interchange fee to which it is entitled. We, in turn, pay the remaining amount, net of the merchant discount rate, to the merchant by way of deposit with its Housebank. The diagram below presents the credit card transaction process:



D: Date of transaction.

D+26: Average date of payment of the credit card bill by the cardholder. This period may be up to 40 days.

D+28: Date of payment of the transaction amount from the card issuer to us, net of the interchange fee.

D+30: Average date of payment of the transaction amount by us to the merchant, net of the merchant discount rate.

The receipt by the merchants of amounts spent by cardholders is backed by a system of guarantees, where the card issuers guarantee us against potential default by the cardholder and we guarantee the merchants against default by the card issuer.

In relation to Visa-branded credit cards, payments by the card issuers to us are secured by guarantees that we may require from each respective card issuer. Accordingly, we consider the rating analysis of each card issuer, which we determine on a case-by-case basis, to determine which guarantees, if any, to require from such card issuer. Visa International manages the guarantees that we require from the card issuers in this process and also provides a guarantee to us to the extent of such card issuer guarantees. As of September 30, 2012, 94.9% of our exposure, based on credit card transaction volume, was with card issuer institutions with investment grade international credit

ratings by at least one of Moody's, Standard & Poor's or Fitch.

In relation to other credit card brands, including MasterCard, payment by the card issuers to us is guaranteed by the respective card brand, which negotiates guarantees from each card issuer using its brand and manages these guarantees. In this connection, the card brand guarantees the full payment to us from each card issuer.

Our total credit card transaction volume in Brazil reached R\$134.8 billion in 2009, R\$162.9 billion in 2010, and R\$197.5 billion in 2011. From January 1, 2009 to December 31, 2011, our total credit card transaction volume grew at a compound annual growth rate of 21.0%. In the nine-month period ended September 30, 2012, our credit card transaction volume totaled R\$176.4 billion, representing a 24.8% increase compared to R\$141.4 billion during the corresponding period in 2011.

In 2011 and during the nine-month period ended September 30, 2012, our credit card transaction volume accounted for 62.5% and 64.0%, respectively, of our total transaction volume.

The number of credit card transactions we captured and processed reached 2,003 million, 2,322 million and 2,658 million in 2009, 2010 and 2011, respectively, and 2,263 million during the nine-month period ended September 30, 2012.

Credit card transactions we captured, processed and settled by one-time payment accounted for 52.0% of our credit card transactions in 2011 and 50.7% for the nine-month period ended September 30, 2012. Credit card transactions with interest-free installment repayments in these periods, or merchant installment transactions, accounted for 48.0% and 49.3% of our total credit card transactions, respectively.

The interchange fee paid to card issuers of Visa-branded credit cards increased on February 22, 2008 as a result of a new policy implemented by Visa based on an independent market study as well as on negotiations between Visa International and each of the card issuers and on our negotiations with Visa International. The interchange fee for Visa-branded credit cards currently depends on the type of credit card used and the merchant's industry. On October 1, 2010, MasterCard also established higher credit card interchange fees paid to card issuers of MasterCard-branded credit cards. It is not possible to predict if or when card brands will further increase their interchange fees or the amount of any such increases. For further information, see "Risk Factors—Risks Relating to Us—Changes in interchange fees or other fees charged by card associations and debit networks could increase our costs or otherwise adversely affect our business."

The table below sets forth the respective share of each industry segment in our total transaction volume from credit card transactions in 2011:

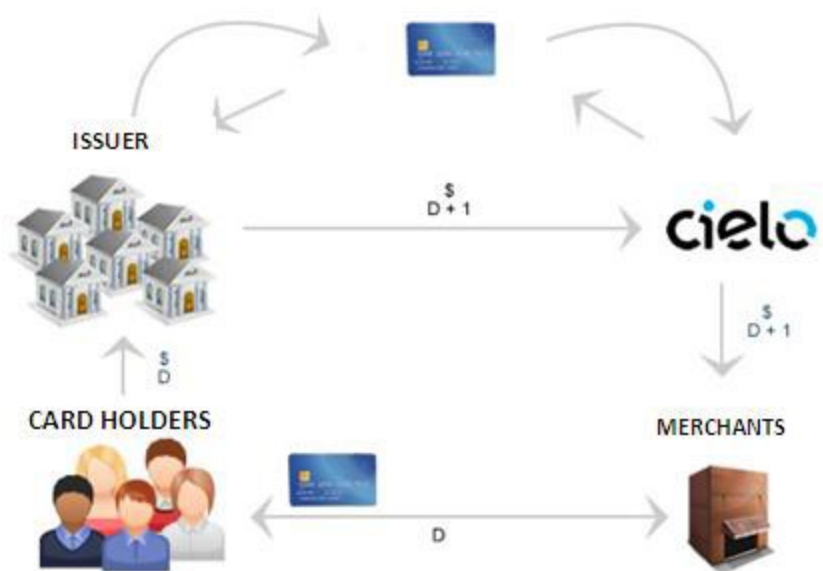
Industry Segment	% of our total credit card transaction volume in 2011
Food retail.....	29.0%
Clothing.....	10.8%
Retail.....	8.3%
Automotive.....	14.0%
Tourism.....	1.8%
Department stores.....	5.9%
Building and remodeling.....	6.2%
Restaurants.....	10.9%
Services.....	4.6%
Appliances and electronics.....	1.6%
Healthcare.....	5.6%
New markets.....	1.3%
Total	100.0%

Debit cards

We capture, transmit, process and settle transactions using debit cards. Our revenues from debit card transactions correspond to the net merchant discount rate, which is the merchant discount rate less the interchange fee.

In the Brazilian market, debit cards have been replacing checks in part due to the greater security they provide to merchants, as they require a password and electronic confirmation of cardholders' data. Debit cards are also convenient for cardholders who do not want to carry checks or cash.

A debit card transaction is initiated at the merchant with the use of electronic capture equipment. The card issuer authorizes the transaction, which is completed when a receipt is printed. The transaction is settled one business day after it is captured. The diagram below presents the debit card transaction process:



D: Date of the transaction and of the debit of the respective amount from the cardholder's checking account.

D+1: Date of payment of the transaction amount from the card issuer to us, net of the interchange fee.

D+1: Date of payment of the transaction amount by us to the merchant, net of merchant discount rate.

Our total debit card transaction volume in Brazil reached R\$79.2 billion in 2009, R\$98.7 billion in 2010, and R\$118.3 billion in 2011. From January 1, 2009 to December 31, 2011, our total debit card transaction volume grew at a compound annual growth rate of 22.2%. In the nine-month period ended September 30, 2012, our debit card transaction volume totaled R\$99.1 billion, representing a 19.3% increase compared to R\$83.1 billion during the corresponding period in 2011.

In 2011 and during the nine-month period ended September 30, 2012, our debit card transaction volume accounted for 37.5% and 36.0%, respectively, of our total transaction volume.

The number of debit card transactions we captured and processed reached 1,424 million, 1,716 million and 1,964 million in 2009, 2010 and 2011, respectively, and 1,622 million during the nine-month period ended September 30, 2012.

The interchange fee paid to card issuers of Visa-branded debit cards was increased on February 22, 2008 as a result of a new policy implemented by Visa after a negotiation with card issuers and us. On October 1, 2010, MasterCard also established a new rate table for debit card interchange fees paid to card issuers of MasterCard-branded debit cards. It is not possible to predict if or when card brands will further increase their interchange fees or the amount of any such increases. For further information, see “Risk Factors—Risks Relating to Us—Changes in interchange fees or other fees charged by card associations and debit networks could increase our costs or otherwise adversely affect our business.”

The table below sets forth the respective share of each industry segment in our total transaction volume from debit card transactions in 2011:

Industry Segment	% of our total debit card transaction volume in 2011
Food retail.....	20.5%
Clothing.....	11.4%
Retail.....	9.7%
Automotive.....	10.8%
Tourism.....	9.9%
Department stores.....	7.8%
Building and remodeling.....	6.0%
Restaurants.....	5.6%
Services.....	9.4%
Appliances and electronics.....	2.3%
Healthcare.....	4.9%
New markets.....	1.7%
Total	100.0%

Electronic Capture Equipment Rental

We own and rent to merchants the POS electronic capture equipment and some of the PIN pads linked to the merchants’ sales network equipment. We provide the following electronic capture equipment:

- POS desktop electronic capture equipment;
- POS wireless electronic capture equipment; and
- PIN pads, which are used to read payment cards. PIN Pads are integrated with the computer and merchant sales networks for use with tax receipt equipment (*emissor de cupom fiscal – ECF*), normally used by large retailers or merchants with a high frequency of transactions.

POS electronic capture equipment

POS electronic capture equipment captures transactions made by all types of payment cards.

As of September 30, 2012, we had 1,658 thousand installed units of POS electronic capture equipment in our electronic capture equipment base (an increase of 17.8% compared to September 30, 2011). We had a POS electronic capture equipment base of 1,485 thousand, 1,280 thousand and 1,343 thousand units as of December 31, 2011, 2010 and 2009, respectively.

PIN pads

Merchant point-of-sale network equipment, as opposed to POS electronic capture equipment, may be owned by the respective merchant. Merchants who own their point-of-sale network equipment acquire model and peripheral devices based on their specific needs and frequency of transactions. With the merchant-owned equipment, a PIN pad is necessary to read and encrypt the transaction and credit and debit card data from the merchant point-of-sale networks. We have invested in PIN pads as part of our efforts to improve the security of our transaction capturing

network.

Other Products and Services

Co-branded private label cards

Large retailers seeking to increase customer loyalty issue credit cards known as co-branded private label credit cards. These cards have the advantage of being associated with a card brand (e.g. Visa or MasterCard), which enables the cardholders to use these cards throughout our affiliated merchant network as well as with the issuing retailer. The main Brazilian co-branded private label card issuers are Boticário, BR Postos, Casas Bahia, Carrefour, Centauro, Dico, Leader, Livraria Saraiva, Lojas Colombo and Porto Seguro.

Co-branded private label cards have allowed us to increase our portfolio of card issuers, adding retailers to our network of card issuers, and have helped us access customers from the lower-income segment, a segment that had previously been underserved by Brazilian card issuers.

Prepayment of Receivables

Since September 2008, we have offered prepayment of receivables to our network of affiliated merchants that are not subject to lock-in bank services by their Housebank, as the lock-in prevents the receivables from electronic payment transactions from being transferred and further deposited in different bank accounts.

In order to receive proceeds from sales paid with credit cards and the prepayment of receivables, a merchant needs to maintain an account with a card issuer that functions as its Housebank. Upon the merchant's acceptance of the prepayment of receivables, its counterparty, whether us or the merchant's Housebank, will be entitled to lock-in merchant's bank account for the term of such underlying sales.

Only merchants that are still not restricted by lock-in bank services by their Housebank may receive prepayments of transactions carried out with credit cards (either in single payments or multiple installments). Although we currently believe it would not be necessary to increase our volume of prepayment of receivables, we may in the future study ways to incentivize card issuers to eliminate their lock-in restrictions on merchants (including through the payment to card issuers of part of the commercial discount rate charged to merchants for the prepayment of receivables).

If card issuers decide to lock-in our affiliated merchants, we will not be able to offer prepayments of receivables on the terms originally proposed and we may be adversely and materially affected. For more information, see "Risk Factors—Risks Relating to Us—Our results of operations and strategy may be adversely and materially affected by competition in the Brazilian merchant acquiring and payment processing industry."

Our volume of receivables prepayments has grown at a compound annual growth rate of 49.0%, from total receivable prepayments of R\$6.8 billion in 2009 to R\$15.4 billion in 2011. In the nine-month period ended September 30, 2012, our volume of receivables prepayments totaled R\$17.9 billion, representing a 70.0% increase compared to R\$10.5 billion during the corresponding period in 2011. Our revenue from prepayment of receivables reached R\$611.5 million in 2011 and R\$610.4 million in the nine-month period ended September 30, 2012.

Cielo Crediário

Our *Cielo Crediário* product is an expansion of our CDC Visa Electron service with exclusive technology that allows merchants to offer cardholders the ability to pay in up to 48 installments, accessing directly an additional pre-approved credit line provided from their checking accounts at partner banks, initially Banco do Brasil and Bradesco. We have developed this product to target penetration into market segments with higher average ticket prices.

Through the use of this credit line provided by the card issuer banks, the cardholder makes its purchases using a debit card and pays the amount owed in installments directly to the card issuer. For the merchant, which receives the net amount one business day after the sale, *Cielo Crediário* is similar to a single-installment debit card transaction.

Transactions executed using *Cielo Crediário* are handled as normal debit card transactions and are recorded as a portion of our total debit card transactions described under “—Debit Cards.”

Use of the network for prepaid cards

We capture, process and transmit data for prepaid voucher cards such as *Alelo Alimentação*, *Alelo Refeição*, *Sodexo*, *SoroCred*, *Policard*, *Verocheque*, *Good Card* and *Cabal Vale*, which are among the Brazilian market leaders in meals purchased outside the home. In some cases, we are responsible not only for the capture but also for settling transactions using prepaid cards such as *Buxx*, *Visa Gift*, *Visa Travel Money* and *Flex Car*.

In cases where we only capture, process and transmit data, our revenue consists of a fee that varies in accordance with the number of transactions we capture, process and transmit and any support services that we provide. In cases where we are responsible for the settlement of transactions, these transactions are settled in the same way as debit card transactions. For more information regarding the treatment of these transactions, see “—Products—Debit cards.”

Cash Back Withdrawals with Debit Cards (“Saque”)

This product allows debit cardholders to withdraw cash at the time of purchase at affiliated merchants that are licensed by us to accept this product, such as supermarkets, drugstores and pharmacies, providing increased convenience to cardholders who would like to withdraw cash. This product is also safer for merchants since it reduces the amount of cash on hand. Although this service does not generate direct revenue to us, we believe it contributes to debit card activation and loyalty to the use of our network. 4,291 of our merchants offered this service in 2011, generating 19.8 million cash withdrawals. In the nine-month period ended September 30, 2012, 6,124 of our merchants offered this service, generating 14.6 million cash withdrawals.

BNDES Card

The BNDES Card is a pre-approved revolving credit card that facilitates access to BNDES funds, which are often available at reduced interest rates, to finance the purchase of equipment, services and other inputs for micro, small and mid-sized companies established in Brazil that earn revenues of up to R\$90.0 million a year. Transactions with the BNDES Card are handled as normal credit transactions.

Agrocard

Agrocard gives rural producers access to a pre-approved line of credit to acquire agricultural products for their businesses and this product drives B2B agribusiness volume to our network.

Mobile phone top-ups

Through this service, cardholders may purchase prepaid mobile phone top-ups using their credit or debit cards through authorized POS electronic capture equipment at affiliated merchants. Our revenues from the purchase of mobile phones top-ups are accounted for as credit or debit card transactions, in accordance with the method of payment used by the cardholder. The main mobile phone operators in Brazil, namely Claro, Oi, Sercomtel, TIM and Vivo, are all authorized to accept top-ups using this product. We believe this product boosts credit and debit card activation and increases the use of electronic payment transactions. In addition, we believe it increases the circulation of cardholders at our affiliated merchants’ stores that make this service available, thus providing merchants with additional revenue.

Cielo Mobile

Through Paggo Soluções e Meios de Pagamentos S.A., or Paggo Soluções, our 50/50 joint venture with Oi S.A., or Oi, we engage in the capture, transmission, processing and settlement of transactions originated from or competed on mobile devices, using mobile payment technology. This joint venture leverages Oi’s mobile payment expertise with our coverage and experience with electronic payment networks.

Our mobile payment service enables purchases using a buyer's mobile phone number instead of a credit or debit card. The merchant submits the buyer's mobile phone number, the buyer's card issuer and the transaction amount to us through a specific electronic system. We provide this information to the card issuer for authorization, and the buyer confirms the transaction with the card issuer using a secure Internet process on the buyer's mobile phone. Through this system, the merchant can receive payment for a transaction, even if made remotely, with the security and benefit of an electronic payment transaction carried out on our network. The transaction amount is billed to the buyer's credit card or debited directly from the buyer's bank account, depending on whether a credit or debit card is used.

E-commerce Gateway

We offer an e-commerce gateway platform that integrates online stores, financial institutions and merchant acquirers and is responsible for capturing, routing and managing payment transactions with cards, collection slips and electronic debit.

Correspondent banks

Through banking correspondents, merchants using our POS electronic capture equipment can act as bank agents to process bill payments. We believe this product boosts credit and debit card activation and increases the use of electronic payment transactions. In addition, we believe it increases the circulation of cardholders at our affiliated merchants' stores that make this service available, thus providing merchants with additional revenue. Transactions made using correspondent banking services are handled as normal debit card transactions, and are recorded as a portion of our total debit card transactions described under "—Debit Cards."

We captured 13.7 million transactions from banking correspondents in 2011 and 7.4 million transactions in nine-month period ended September 30, 2012.

Cielo Corporate Management

Cielo Corporate Management is a tool for managing information related to transactions carried out with virtual cards for the purchase of airfare and accommodations by corporate clients. Users receive information from travel agents, airlines and hotels available via internet, together with their credit card bill, which allows greater control of expenditures and optimizes operating processes. In addition, this product integrates with Enterprise Resource Planning, or ERP, systems.

We processed 593.0 thousand transactions for 200 corporate clients using our corporate management tool in 2011 and 579.7 thousand transactions in the nine-month period ended September 30, 2012.

Cielo Premia

Our *Cielo Premia* promotional platform is a marketing tool we use at affiliated merchants stores to activate more electronic payment transactions, and boost loyalty and use by cardholders. Through our promotional platform, merchants develop promotions with card issuers, card brands and us to increase their sales volume.

The promotional campaigns can be tailored to fit the merchants' needs and are based on customers' purchasing behavior. We manage the promotions, which significantly reduces the merchant's operational costs. *Cielo Premia* can also be enabled to offer rewards based on specific events, such as birthdays, first time use of the card or other special events.

The customer may be rewarded with (1) a discount deducted from the purchase price, (2) an electronic coupon stored in a chip on the credit or debit card to be redeemed later for a prize or discount or (3) a coupon printed by the sales terminal itself. Customer communication also occurs directly at the time of sale through messages printed on the receipt.

Healthcare Service Provider

We own 41.0% of the capital stock of Orizon, which offers electronic authorization and billing products and services, connecting 49 healthcare operators and more than 120,000 service providers. The principal activity of Orizon is to provide interconnection services through an electronic network with a technological platform in order to facilitate the exchange of information among healthcare operators, medical service providers, hospitals, pharmacies and other participants in the supplementary healthcare system.

Technological solutions and support to reduce fraud

We offer a package of products, information, programs and services to assure the highest level of security and protection against fraud and to ensure confidence in the use of electronic payment transactions in Brazil.

Our main tool is Lynx, a high-precision anti-fraud system based on artificial intelligence technology. Lynx is a tool that monitors card issuers and merchant acquirers on an integrated platform. Lynx is made available to card issuers and identifies fraudulent cards when they are used. This system immediately alerts the card issuer, which may choose (1) not to authorize the transaction, (2) to take preventive measures (such as contacting the cardholder to certify whether the transaction is legitimate), or (3) to take corrective measures (such as blocking the card).

We act in accordance with international security standards established by the merchant acquiring and payment processing industry and by the banks with which we have alliances. With the aim of ensuring security throughout all stages of the transactions we: (1) monitor our affiliated merchants' network, and identify suspicious environments or merchants; (2) provide information and offer training to merchants throughout Brazil, and (3) use the account information security, or AIS, program, which allows merchants to improve their data protection measures. In addition, we offer a security incident response center (*Centro de Resposta a Incidentes de Segurança*), or CSIRT, to assist merchants in dealing with security incidents.

Technology

We have a policy of continuously investing in technological innovation. We use the most modern technological software available in the market, such as service oriented architecture, or SOA, which accelerates the integration of new systems with legacy systems and the implementation of new products and services. We also have a fraud prevention system that is based on neural networks, a web point-of-sale platform, and a strategic information system that is based on business intelligence tools.

On August 31, 2012, we acquired 100% of the outstanding capital stock of MeS, a Silicon Valley, U.S.-based provider of full-service global payment solutions. We believe that MeS has the latest generation technology platform, which it developed specifically for the acquiring business, which has allowed it to differentiate itself in the U.S. market. Our acquisition of MeS and its best-in-class payment platform reinforces our strategy of offering innovative solutions and services to our customers and partners in Brazil. We believe that by integrating MeS' technology platform, we will be able to deliver (1) complete end-to-end services to merchants in both retail and e-commerce, (2) a high value proposition to our client base with a new suite of products and functionalities, along with better customer service offered through a web-based platform with features such as near-time statement generation and reconciliation solutions, (3) improved solutions and business tools for partner banks that will allow better integration to their distribution channels to ensure an efficient go-to-market strategy of their merchant acquiring value proposition, and (4) the best offering of e-commerce payment solutions, with cutting-edge features and functionality in the fastest growing segment of commerce in Brazil.

Technological platform for processing transactions

Our technological platform for processing transactions is divided into two systems, Base I and Base II, as described below.

Base I: Our Base I system relates to the electronic payment transaction authorization process. Our Base I systems for electronic capturing of transactions, including information processing, present high levels of availability

and are distributed among our three data centers. Mainframe environments are located in two data centers and the other data center serves as a back-up system, which has a recovery time of less than one hour in the case of failures. We also use points of presence distributed in more than 100 municipalities throughout Brazil, with redundant connectivity and automatic routing between our points of presence. Our electronic capture network is available 24 hours a day, every day of the year.

Base II: Our Base II system relates to the financial settlement of our transactions. In the Base II environment, the processing platform is based on mainframe environments located in two data centers, and we have a back-up system with a short recovery time in case of any failures.

In addition, we have a network control center that manages our business operations and all of our technological environments 24 hours a day, every day of the year, including our Base I and Base II systems and connections with card issuers and card brands. We also have a backup system for this control center, and in case of failure, it can be recovered within two hours.

Logistics Operation

Our logistics operation plays a fundamental role in our business, coordinating the acquisition, storage and handling of electronic capture equipment, serving our approximately 2,642 thousand affiliated merchants located in 99.6% of Brazilian municipalities.

Our logistics personnel visit approximately 400,000 merchants every month to install, remove, exchange and deliver supplies that are necessary to process transactions. Service deadlines are defined depending on the type of field activity, geographic location and transaction volume of each merchant.

To meet the relevant volumes and deadlines, our two logistics service operators, Transportadora Cometa S.A., or Transportadora Cometa, and Intec TI Logística Ltda., or Intec TI, provide services throughout Brazil, with 150 service centers and more than 1,500 people in the field.

Both of our logistics operators have developed distribution centers to centralize inventory, receive new electronic capture equipment from our suppliers, filter and make small repairs on the equipment returned to us, including both general maintenance and the removal or exchange of technology. We refurbish certain of our electronic capture equipment at these distribution centers while others are repaired at the manufacturers' laboratories, with the aim of timely repairing the equipment and placing it back into operation.

Our logistics structure has allowed us to expand and maintain our base of affiliated merchants with gains in efficiency, quality and performance.

Hardware and Suppliers

We own the majority of the hardware that is essential to our operations. As of the date of this offering memorandum, the primary hardware used in our operations is: (1) electronic capture equipment; (2) computer equipment, network and data processing; and (3) other assets used to support our operations, such as furniture and tools. As of September 30, 2012, we owned 2.2 million electronic capture equipment devices.

Because we acquire large quantities of electronic capture equipment in the course of our business, which makes us one of the main buyers in the merchant acquiring and payment processing industry, we believe we are able to negotiate on competitive terms with electronic capture equipment suppliers, which, in turn, reduces the risks related to price variation of this equipment. During 2011, we purchased 94.2% of our electronic capture equipment from two international suppliers, Verifone and Ingenico.

Our other main suppliers are Tivit Terceirização de Tecnologia e Serviços S.A., or Tivit, Oi, Transportadora Cometa, Intec TI and Atento Brasil S.A., or Atento.

- Tivit renders services that cover the operation, support and provision of infrastructure for processing

the electronic capture of transactions;

- Oi renders services and monitoring, maintenance and control of infrastructure for our electronic capture network through which electronic payment transactions are transmitted;
- Transportadora Cometa and Intec TI render integrated logistical services for our POS electronic capture equipment and materials; and
- Atento renders call center services to us.

We also have POS electronic capture equipment and PIN pad maintenance agreements, the most significant of which are with Verifone and Ingenico.

For more information regarding our agreements with suppliers, see “—Material Agreements.”

Selling and Marketing

In 2011, we incurred R\$184.9 million in selling and marketing expenses, which include: (1) signage expenses for affiliated merchants and promotional campaigns jointly conducted with affiliated merchants, card issuers and card brands; (2) expenses related to launching and promoting new products and services; (3) certain marketing fees paid to card brands; and (4) incentives paid to partner banks in connection with shared sales. Our selling and marketing efforts comply with the rules and practices adopted by each of the card brands with whom we work.

Competition

We believe that other means of payment, such as cash, checks and electronic funds transfer (*transferência eletrônica de fundos*), compete indirectly with the products and services we offer.

Within the merchant acquiring and payment processing industry in Brazil, our principal competitor is Redecard S.A., another merchant acquirer that processes electronic payment transactions for multiple brands, including Visa, MasterCard and Hipercard. In addition, we compete with several smaller-scale merchant acquirers, including Santander.

Seasonality

Seasonality in our industry generally reflects the retail calendar, among other factors. At certain times of the year, such as during the Christmas season, our revenues increase mainly due to the increase in retail spending, which increases are partially realized in subsequent periods as a result of transactions payable in multiple installments. The table below sets forth the percentage of our annual revenues earned in each quarter for the years ended December 31, 2011, 2010 and 2009:

	For the Years Ended December 31,		
	2011	2010	2009
First Quarter	23%	24%	23%
Second Quarter	23%	24%	24%
Third Quarter	25%	26%	25%
Fourth Quarter	29%	26%	28%
Total	100%	100%	100%

Human Resources

The table below sets forth the number of employees of Cielo, by category for the periods indicated:

	As of September 30,	As of December 31,		
	2012	2011	2010	2009
Executives (1).....	281	204	182	152
Other employees (2).....	1,201	1,307	987	990
Total employees	1,482	1,511	1,169	1,142

(1) Includes officers, managers and consultants.

(2) Includes interns and apprentices.

As of September 30, 2012, approximately 63.7% of these employees work at our headquarters and 36.3% work at our other offices.

We are interested in educating young professionals through our internship, apprentice and trainee programs, and in teaching the practical application of theoretical knowledge through their experience in our organization. Interns and apprentices comprised 4.1% of our total employees as of September 30, 2012.

Our employees are important to us, and we seek to meet their needs by creating internal opportunities for development. When recruiting externally, we look for professionals with communication skills, knowledge of our business, experience in management operations, ability to innovate and work in teams. We also prioritize professionals who are customer- and results-oriented. In line with our own values, we also look for professionals who are ethical, respectful, professional, transparent, team players, humble, genuine and attentive with our clients, and who feel a sense of urgency regarding sustainability and personal and corporate responsibility.

Compensation and benefits policies

We compensate our employees based on their position within our internal hierarchical structure and taking into account market compensation surveys conducted from time to time.

Our human resources policy includes benefits in addition to those required by law. We offer the following benefits to our employees, depending on their position in the organization: health insurance, dental assistance, medical check-ups, meal vouchers, life insurance, private pension plan, and allowances for gas, highway tolls, parking, transportation and personal loans.

To increase our productivity and improve efficiency, we offer a variable compensation policy, including bonuses, a profit sharing plan and sales incentive campaigns.

Sales incentive campaigns are aimed at employees in our commercial and marketing departments. They reward the team's efforts in managing client portfolios and implementing the sales measures that result in increases in our income from our products and merchant network.

We have established a profit sharing plan for our employees, other than our directors and executive officers, to share profits from our results of operations in accordance with a target plan. Under this program, we recorded expenses of R\$40.8 million in 2011, which was equivalent to 13.1% of our personnel expenses.

Private pension plans

We have established defined contribution pension plans through BrasilPrev and Bradesco Previdência e Seguros S.A. These plans provide our officers and employees with retirement and early retirement benefits, which are paid as follows: lifetime income; temporary income; lifetime income with minimum guaranteed period; and lifetime income with survivor's benefits.

Our expenses related to pension plans totaled R\$5.4 million in 2011, R\$3.9 million in 2010 and R\$3.5 million in 2009.

Stock option plan

For information on our stock option plan, see “Management—Stock Option Plan.”

Training and development

We seek to encourage the professional and personal development of our employees and to provide opportunities for career and professional development. We spent R\$5.1 million, R\$4.9 million and R\$3.6 million in professional training programs in 2011, 2010 and 2009, respectively.

We have estimated expenses of R\$5.6 million for professional training programs in 2012, of which we had spent R\$3.7 million as of September 30, 2012.

We conduct annual forums to discuss our employees’ main development activities and career possibilities or changes in short- and medium-term career plans, which process helps with career and succession planning and the appropriate administration of training and development resources.

Unions

Our employees in Brazil are affiliated with the labor unions of independent sales agents and of consulting, information, research and accounting firms for the geographic area in which they render services.

We believe we have a constructive relationship with these unions, as we have never experienced strikes, work stoppages or disputes leading to any form of downtime.

Property and Equipment

We own a large part of the property and equipment that is essential for our operations. Our property and equipment currently includes: (1) POS electronic capture equipment; (2) IT, network and data processing equipment; (3) machinery and equipment; and (4) other property that support our operations, such as: facilities, furniture, vehicles, etc. As of September 30, 2012, we owned 2.5 million POS electronic capture equipment units. As of September 30, 2012, POS electronic capture equipment accounted for 90.5% of our property and equipment.

Our expenditures to acquire POS electronic capture equipment were R\$192.8 million, R\$368.9 million, R\$233.7 million and R\$215.7 million, for the nine-month period ended September 30, 2012, and the years ended December 31, 2011, 2010 and 2009, respectively. We expect to maintain the level of our purchases of POS electronic capture equipment in a manner consistent with those observed in recent years.

Intellectual Property

Trademarks

We hold several registered trademarks and applications for registrations in Brazil, and in addition we are licensed to use several trademarks through the membership and licensing agreements that we have entered into with card brands. For further information on these agreements, see “—Material Agreements—Agreements with Card Brands.” We have also registered the trademarks “Cielo” and “Braspag.”

In Brazil, ownership of trademarks is evidenced only through a validly approved registration with the National Institute of Intellectual Property (*Instituto Nacional de Propriedade Industrial*), or INPI, the agency responsible for registering trademarks and patents in Brazil. After registration, the owner is assured exclusive use of the trademark throughout Brazil for a period of ten years, renewable for successive periods. During the registration process, the person filing for trademark registration has merely an expectation of the right to use the trademarks applied for to identify its products or services specifically in the requested class.

We have filed several applications for registration of certain other trademarks. We believe that an eventual denial of such applications for registration of these trademarks would not cause an adverse effect on our operations.

Domain names

We own various domain names, including “cielo.com.br,” which are registered with the Information and Coordination Center for Dot Br (*Núcleo de Informação e Coordenação de Ponto Br*), or NIC.BR, the agency responsible for domain name registration in Brazil.

Software

We use various kinds of software, all of which are either properly licensed to us or are developed internally for the management of our activities, including:

- Merchant System (*Sistema de Estabelecimentos Comerciais*), or MAS, is the system responsible for managing our merchants and transforms the captured transactions into financial amounts through the compensation grid and through the interchange process with the Visa, MasterCard and other card brand’s systems;
- Lynx is the neural network system that supports our fraud prevention process, seeking to reduce financial and operational losses for the card issuers, merchants and us;
- Strategic Information System (*Sistema de Informações Estratégicas*), or SIE, is the environment that supports our decision-making process, taking into account commercial, financial and other factors;
- Electronic Capture Systems (*Sistemas de Captura Eletrônica*), or SCE, is the system responsible for receiving, routing and capturing all online transactions; and
- Terminal and Technical Service Call Management System (*Sistema de Gestão de Terminais e Chamados Técnicos*), or GTEC, is the system that captures and responds to merchant requests for service made to the call center requesting equipment installation, maintenance and removal.

Insurance

We carry civil liability coverage and insurance of our facilities and equipment, and we believe that the coverage amounts are appropriate for a company of our size to support the risks inherent in our activities.

We carry D&O insurance for our directors and officers which reimburses us or our directors or officers up to a policy limit of R\$100 million, for amounts we or our directors or officers become liable for as a result of an unappealable court decision, arbitration, administrative process or a settlement agreement expressly authorized by the insurance company, in relation to any losses of a civil, labor, corporate, tax or social security nature arising from risks inherent to our activities. Our D&O policy is effective until June 19, 2013.

We also carry fire, theft and flood insurance in the aggregate amount of approximately R\$76 million. These insurance policies protect against damage to our property, especially our electronic equipment.

In addition, we carry loss of profits insurance in the aggregate amount of approximately R\$11 million, covering interruptions in our operations, and we carry transport insurance in the aggregate amount of approximately R\$1.2 billion, covering the transport of our new and used POS electronic capture equipment.

Although we carry these insurance policies, there are certain risks that may not be covered, including, among other events, war and acts of God. In the event that any of these non-covered events occur, we may incur in additional costs. Additionally, in the case of occurrence of an event that is covered by the insurance policy, we

cannot be certain that the insurance amount we receive as reimbursement will be sufficient to cover all the damages caused.

In 2011, 2010 and 2009, and in the nine-month period ended September 30, 2012, our expenses related to insurance premiums were approximately R\$0.9 million, R\$0.7 million, R\$0.6 million and R\$0.7 million.

Awards

We have been granted the following awards:

- The Largest and Best Companies (*Maiores e Melhores*) (2006 through 2012): awarded by *Exame* magazine.
- Among the top 20 most valuable brands in Brazil (*Uma das 20 marcas mais valiosas do Brasil*) (2012): awarded by *Isto é Dinheiro* magazine and BrandAnalytics/Milward Brown.
- Best Latin American company for Investor Relations (*Melhor Relações com Investidores de uma Empresa da America Latina no mercado Americano*): awarded by IR Magazine.

Environmental Responsibility

We adopt procedures mainly aimed at preventing waste. We have adopted: (1) programs for the selective collection of waste; (2) environmentally oriented waste disposal; (3) monitored reductions of water, electricity and paper consumption; and (4) campaigns addressing consumption awareness and the promotion of environmentally-friendly behaviors, which involve resources conservation and the management of environmental impacts.

Our activities are not subject to environmental licensing. We have not adopted any specific environmental conduct or international standards for environmental protection because the nature of our businesses does not cause any significant environmental impact.

Material Agreements

Agreements with Card Brands

Visa

On December 1, 1998, we entered into the Membership and Trademark License Agreement with Visa International, as amended on October 21, 2008 and June 14, 2012, or the Visa Membership Agreement. Pursuant to the Visa Membership Agreement, we were admitted as a member of Visa International, and we were granted the right to become a merchant acquirer for the Visa brand. The Visa Membership Agreement is effective for an open-ended term as long as we remain a member in good standing of Visa International pursuant to Visa International's member affiliation rules. Either we, Visa do Brasil or Visa International may terminate the Visa Membership Agreement, upon material breach of the other party of any of the agreement's provisions, if the default is not cured within 120 days following notice. This agreement will be automatically terminated if we cease to be a member in good standing of Visa International. We will cease to be a member in good standing of Visa International if: (1) we fail to timely comply with the payment obligations under this agreement and fail to cure the default and make the payment within 15 days, and/or we fail to timely comply with our payment obligations under the Visa Membership Agreement more than four times in any year; (2) our continued status as a member of Visa International is, for any reason, reasonably likely to cause material harm to the reputation of Visa International, Visa do Brasil, or the value of the Visa owned trademarks; or (3) during the term of the Visa Membership Agreement, any law or regulation is enacted prohibiting any party to the agreement from fulfilling its obligations under the Visa Membership Agreement. The Visa Membership Agreement does not provide monetary penalty if the parties do not comply with the provisions thereof. In the event we fail to timely comply with our payment obligations, interest will be charged on the late payments.

MasterCard

On August 4, 2010, we entered into a licensing agreement with MasterCard International Incorporated, or MasterCard International, pursuant to which MasterCard International granted us a non-exclusive license to use MasterCard-, Maestro- and Cirrus-brands in connection with our authorized payment and merchant acceptance programs in Brazil, or the MasterCard Licensing Agreement. Pursuant to this agreement, we became a member of the MasterCard International group, or the MasterCard Group, but may not sublicense or assign these licensing rights. The duration of the MasterCard Licensing Agreement is for an initial term of ten years, and we may terminate the agreement upon 180 days written notice to MasterCard International. The MasterCard Licensing Agreement will be rescinded immediately if we cease to be a member in good standing of the MasterCard Group.

On May 14, 2010, we entered into an agreement with MasterCard Brasil Soluções de Pagamento Ltda., or MasterCard Brazil, and MasterCard International pursuant to which we were granted the right to acquire and process transactions for the MasterCard brand. This agreement is for an indeterminate duration but will be rescinded immediately if the MasterCard Licensing Agreement is terminated or if we are no longer members in good standing of MasterCard Group.

Diners Club International/Discover

On August 12, 2011, we entered into an agreement with Banco Citicard S.A., or Citicard, pursuant to which we were granted the right to acquire and process transactions for the Diners Club International and Discover brands. Citicard, through (1) a network participant agreement and (2) a trademark license agreement signed with Diners Club International Ltd. on June 30, 2008, is a member of the Diners Club International Credit Card System, or the Diners Club System. Furthermore, members of the Diners Club System, through an agreement with the Discover Network, may also utilize the Discover card brand. In addition to agreeing to provide the same services that we have contracted to provide to other card brands, we also agreed to make the internal technological changes necessary to accommodate electronic payment transactions using Diners Club International and Discover.

Other Card Brands/Pre-paid Meal Vouchers

We entered into agreements with (1) Sorocred Meios de Pagamento Ltda. on July 15, 2010 and (2) Cabal Brasil Ltda. on December 20, 2010, pursuant to which we provide our services of capturing, transmitting, processing and settling electronic payment transactions. Furthermore, we have also entered into agreements with: (1) Policard Systems Serviços S.A. on September 23, 2010; (2) Empresa Brasileira de Meios de Pagamentos HS Ltda. on November 18, 2010; (3) Bonus Brasil Serviços de Alimentos Ltda. on December 20, 2010; (4) Verocheque Refeições Ltda. on December 20, 2010; (5) Green Card S.A. on January 20, 2011; (6) Sodexo Pass do Brasil Serviços e Comercio S.A. on February 4, 2010, as amended on May 10, 2012; (7) Credsystem Administradora de Cartões de Crédito Ltda. on February 18, 2011; (8) BQ Administração e Serviços Ltda. on March 29, 2011; and (9) MCN Prestação de Serviço, Promoção e Publicidade Ltda. on April 12, 2011, pursuant to which we provide our services to these card brands specializing in pre-paid meal vouchers as well as traditional card services, including the capture and transmission of electronic payment transactions. In addition, we undertake to monitor our networks, periodically maintain and replace POS electronic capture equipment and make available services at merchant establishments. Although the fees charged and specific services provided to each card brand differ slightly, the agreements generally have similar terms, such as indefinite duration, the ability to rescind the agreement in the event of breach and the ability to cancel the agreement with at least 60 to 90 days' notice, depending on the agreement, and dispute resolution through arbitration.

Interchange agreements

We enter into interchange agreements with each card issuer for each of the card bands for which we process transactions. The purpose of these interchange agreements is to set forth the procedures, deadlines and interchange fees payable in connection with the transactions we process.

We charge merchants a merchant discount rate on the amount of each transaction. The amount of the merchant discount rate is divided between the card issuer (the interchange fee) and us (the net merchant discount rate). The

applicable interchange fee is set by the respective card brand. Our interchange agreements generally have open-ended terms, but are terminable if any of the parties suspend activities or if the card issuer loses its license to issue cards from the card brand.

According to our interchange agreements, the card issuer agrees to deliver amounts to us within 28 days in the case of transactions made using credit cards and by the next day for transactions made using debit cards.

In the event the cardholder does not pay the amounts owed to the card issuer, and we have already paid the related amount to the merchant, we are assigned the merchant's credit rights against the cardholder. In turn, we transfer such credit rights to the card issuer, for which we collect the amount of the transferred credit rights, net of the interchange fee.

Agreements to Support of Card Issuers in the Affiliation of Merchants and Management of Lock-In Housebank Services

We entered into agreements with Banco do Brasil, Bradesco, HSBC and Caixa Econômica Federal establishing incentives for card issuers to assist us in soliciting new merchants for subsequent affiliation by us and increasing the volume of transactions acquired through our electronic capture equipment. In connection with these agreements, we pay commissions to card issuers, which are based on a fixed amount per merchant affiliated by us and a percentage of the total amount of transactions captured through our equipment. In addition, we entered into agreements with card issuers, including Banco do Brasil and Bradesco, for the management of lock-in Housebank services, which apply to the management of requests for changing Housebanks and the ability to prepay receivables.

These agreements have open-ended terms or terms that are renewed automatically unless one of the parties elects not to renew. In addition, certain of these agreements may be terminated without the imposition of any fine or other penalty following a pre-established notice period.

Agreements for maintenance of electronic capture equipment

We enter into services agreements for the maintenance of our electronic capture equipment with the respective equipment manufacturers. The maintenance includes laboratory repairs of electronic capture equipment defects and replacement of parts necessary for the equipment's safe and effective operation. Due to the individualized technical features of the electronic capture equipment, each manufacturer has maintenance exclusivity for its equipment.

We have agreements for laboratory maintenance with the following manufacturers: Verifone do Brasil Ltda., Ingenico do Brasil Ltda., Gertec Comunicações Ltda. and others. These agreements set out the conditions for rendering laboratory maintenance services for: (a) electronic capture equipment under a two year guarantee, and (b) electronic capture equipment not covered by guarantee. These agreements generally have an indefinite term of duration and can be terminated upon 60-days' notice. There is no contractual penalty for the early termination of these agreements.

Technical assistance services are provided to merchants "on-site" in case they need to replace the defective electronic capture equipment. We have hired Transportadora Cometa and Intec TI, as our logistics operators with coverage throughout Brazil, to assist us in performing these services at merchants' stores. For more information, see "—Logistics Operation."

The termination of the maintenance agreements with the manufacturers of electronic capture equipment may result in suspension, for an indefinite period, of maintenance services for the equipment from the respective manufacturers as we are dependent on them to replace the parts that are exclusively supplied by such suppliers.

In the year ended December 31, 2011 and in the nine-month period ended September 30, 2012, we recorded expenses of R\$361.6 million and R\$193.2 million, respectively, for the above-mentioned services.

Service agreement with Telemar Norte Leste S.A.

On January 1, 2012, we entered into a service agreement with Telemar Norte Leste S.A., or Oi, for the monitoring, maintenance and control of the electronic network. This agreement is valid for a 48-month term. In addition, we previously entered into an asset sale agreement with Oi, dated November 25, 2003, pursuant to which we sold and transferred to Oi various assets related to our telecommunications network.

We believe the quality levels and prices of the services Oi provides us are the same as practiced in the market by other service providers.

We may terminate this service agreement with cause, mainly if Oi were to cease to possess the governmental licenses necessary to perform the services required to be provided by it under this agreement, if Oi were to become subject to bankruptcy, if a court-supervised creditors' agreement for Oi were to be put into effect or in the event Oi were to fail to comply with any of the services level metrics described in the agreement. We may also terminate the service agreement without cause upon three-month's prior notice and upon payment of a termination fee equivalent to 10% of the outstanding installments based on the average we paid in the then- preceding 12 month period, if we choose not to repurchase the assets transferred to Oi. If we decide to repurchase these assets at their book value, we must pay Oi a termination fee equivalent to twice the average amount we paid in the then-preceding 12 month period.

The price paid to Oi for these services varies according to the number of transactions; the greater the transaction volume, the lower the price we pay. In the year ended December 31, 2011 and in the nine-month period ended September 30, 2012, we recorded expenses of R\$73.7 million and R\$32.3 million for services rendered by Oi.

Service agreement with Tivit

On June 29, 2011, we entered into a service agreement with Tivit, pursuant to which Tivit provides services related to the operation, support and availability of infrastructure for the processing of the electronic capture of transactions.

The agreement is valid for a term until August 2016. We believe that the duration of this agreement offers security to our operation and that its mechanisms for revising the prices involved allow us to maintain prices that are comparable to market standards.

For the services provided by Tivit, we pay a unit price per financial or non-financial transaction initiated, captured and processed by us. Tivit is guaranteed the payment of a variable percentage between 45.0% and 55.0% of the total estimated transactions for a specific period. We may contract the services of a specialized company to benchmark Tivit's prices against market prices, taking into consideration all of the characteristics of the services being offered.

We may terminate the agreement after it has been in effect for 53 months, without the imposition of any penalty or obligation to reimburse Tivit, upon nine-months' prior notice. If we terminate this agreement without cause before the 53rd month, we must pay Tivit a fine that will include: (1) 50% of the average charges due by us in the three then-most recent invoices multiplied by the number of months remaining under the agreement from the date of the termination, (2) any damages caused by us and (3) the monthly charges due as a result of the services provided until the date of the termination.

Service agreement with Transportadora Cometa

On June 1, 2009, we entered into a service agreement with Transportadora Cometa, pursuant to which Transportadora Cometa provides integrated logistical services for our equipment and material, such as: (1) receipt, selection, storing equipment and materials until they are sent to our clients, where Transportadora Cometa is a bona fide depositary of equipment and materials; (2) transportation and delivery of equipment and materials to our clients; and (3) removal and collection of equipment from suppliers, branches and our clients, as a result of the acquisition,

repair, non-use, defects or exchanges, among other services. We may terminate this agreement with 180-days' prior notice, without any penalty or obligation to reimburse Transportadora Cometa.

During the year ended December 31, 2011 and the nine-month period ended September 30, 2012, we recorded expenses of R\$106.5 million and R\$76.2 million, respectively, for the services provided by Transportadora Cometa.

Service agreement with Intec TI

On June 1, 2009, we entered into a service agreement with Intec TI, pursuant to which Intec TI renders integrated logistical services for our equipment and material, such as: (1) receipt, selection, storing equipment and materials until they are sent to our clients, where Intec TI is a bona fide depositary of equipment and materials; (2) transportation and delivery of equipment and materials to our clients; and (3) removal and collection of equipment from suppliers, branches and our clients, as a result of the acquisition, repair, non-use, defects or exchanges, among other services.

This agreement is valid for a 36-month term from its execution date and was automatically extended for an indefinite term. The agreement may be terminated by either party upon 180-days' prior notice.

In the year ended December 31, 2011 and in the nine-month period ended September 30, 2012, we recorded expenses of R\$63.2 million and R\$54.2 million for the services rendered by Intec TI.

Service agreement with Atento

On September 1, 2009, we entered into a service agreement with Atento, pursuant to which Atento renders call center services to us. For the services rendered by Atento, we pay a fixed price according to the call center services used by us, which price will be adjusted each year based on inflation rates (IGP-M/FGV) and labor costs (for example, salary and transportation). Atento is guaranteed payment for a minimum volume of calls per month. We may contract the services of a specialized company to compare Atento's prices against market prices, taking into consideration all of the services being offered.

This agreement is valid until June 2019. We may terminate the agreement upon 180-days' prior notice, but within 60 days from the date of termination we would be required to pay Atento compensation for its investments and any damages arising from the termination of the agreement.

In the year ended December 31, 2011 and in the nine-month period ended September 30, 2012, we recorded expenses of R\$101.3 million and R\$95.1 million for the services rendered by Atento.

Legal and Administrative Proceedings

We are party to legal and administrative proceedings, resulting from the ordinary course of our operations, involving tax, labor, and civil matters.

We record provisions in accordance with the status of our legal and administrative proceedings, based on the opinion and analysis of our outside counsel, taking into account applicable Brazilian jurisprudence and legislation and our in-house counsel opinion. We constitute provisions for the total estimated amount of any claim if the related likelihood of loss is classified as probable. As of September 30, 2012, we had recorded aggregate provisions, as follows:

Provisions	As of September 30, 2012
	<i>(in millions of reais)</i>
Tax proceedings	731.8
Civil proceedings	18.3
Labor proceedings	55.3
Total	805.4

In connection with our ongoing legal proceedings, we have made judicial deposits with the applicable courts in the aggregate amount of R\$731.6 million as of September 30, 2012.

In addition, as of September 30, 2012, we were party to tax, civil and labor lawsuits in which the probability of loss assessed by our legal counsel was classified as possible and for which we had not recorded a provision, as follows:

	As of September 30, 2012 <i>(in millions of reais)</i>
Possible Claims for which No Provision has been Established	
Tax proceedings	93.1
Civil proceedings	100.2
Labor proceedings	30.8
Total	224.1

Tax proceedings

As of September 30, 2012, we were party to several administrative and judicial tax proceedings which in total amount to approximately R\$920.0 million, for which we have made judicial deposits amounting to an aggregate of R\$722.6 million, with R\$704.4 million allocated for proceedings with probable chances of loss and R\$17.8 million allocated for proceedings with possible chances of loss. We have established aggregate provisions of R\$731.8 million in connection with such proceedings.

Set forth below are descriptions of our most significant tax proceedings:

COFINS – non-cumulative method. In February 2004, we and our subsidiary Servinet filed writs of mandamus requesting not to pay the COFINS contribution according to Law No. 10,833/03, which introduced the non-cumulative method of calculation and established a rate of 7.6% (in comparison to the 3% rate imposed by the cumulative method of calculation). We have been depositing the amounts under discussion with the court every month. The balance of these judicial deposits as of September 30, 2012 was R\$693.9 million. We constituted a provision for losses arising from the difference between the COFINS contribution calculated based on the rate established by the cumulative and non-cumulative methods, which amounted to R\$705.8 million as of September 30, 2012. This proceeding is currently pending judgment before the Superior Court of Justice and the Federal Supreme Court, following unfavorable first and second level judicial decisions.

Amazon Investment Fund (FINAM). In 2007, we received a tax assessment from the Federal Revenue Service demanding the payment of corporate income tax related to calendar year 2002. The tax authorities allege that we had not timely presented the application for review of the tax incentive order, or PERC, and therefore, the portion of the corporate income tax destined to the Amazon Investment Fund (*Fundo de Investimento da Amazônia*), or FINAM, was not recognized. Following an unfavorable decision at the first level administrative court, this proceeding is currently pending a decision on our appeal by the Second Level Administrative Court (*Conselho Administrativo de Recursos Fiscais*), or CARF. We currently classify the probability of loss in this proceeding as probable. As of September 30, 2012, we recorded a provision in the amount of R\$12.2 million in connection with this proceeding.

Provisional Act 1212/95 PIS/PASEP. On August 16, 2010 our subsidiary Servinet received a notice for payment of the PIS contribution from 1997, which was unpaid as a result of an injunction that exempted Servinet from the payment of PIS on its revenue. On August 27, 2010, Servinet filed its defense, alleging that the statute of limitation of the underlying tax debts had expired. Subsequently, the federal tax authorities filed an enforcement action against Servinet claiming the payment of all uncollected amounts. We are waiting to be summoned to present our defense in this action. We classify the probability of loss in this proceeding as probable. As of September 30, 2012, we had a provision in the amount of R\$1.9 million in connection with this proceeding.

CSLL 2002. In 2007, the Federal Revenue Service issued a tax assessment demanding the payment of the social contribution on net income, or CSLL, plus interest and penalties, with respect to the alleged unpaid amounts from 2002. We did not prevail in this dispute at the administrative level. In July 2011, we filed a judicial lawsuit (*ação*

anulatória) to appeal this decision, which appeal is pending before the first level judicial court. We believe that the chance of loss in this proceeding is probable. As of September 30, 2012, we had recorded a provision in the amount of R\$11.3 million in connection with this proceeding, and had also made deposits in court which amounted to R\$10.9 million.

Other tax matters. We have also taken certain positions in tax matters that may differ from those of the relevant tax authorities. For those cases with probable chances of loss, we have recorded accounting provisions in the aggregate amount of R\$0.5 million. For those cases with possible chances of loss, we have made judicial deposits in an aggregate amount of R\$17.8 million, as of September 30, 2012.

Civil proceedings

As of September 30, 2012, we were defendant in 3,342 civil proceedings, for which we had provisioned a total of R\$18.3 million in connection with probable losses and made judicial deposits with the applicable courts amounting to a total of R\$9.0 million. These civil proceedings mostly relate to transactions made through our system that were not forwarded to merchants due to the non-fulfillment of clauses in the applicable affiliation agreement, as well as compensation for losses allegedly caused by non-forwarded transactions.

In addition, as of September 30, 2012, we were a party to class actions and civil investigations, most of them filed by the Public Attorney's Office or civil rights organizations and/or unions in defense of collective interests, such as consumer rights and labor rights. Judicial decisions rendered in these actions may grant relief to certain groups of individuals even without their consent. In many situations, the group that will benefit from a favorable outcome is determined only after the final decision is entered. One of these class actions was filed by the Trade Union of Hotels, Restaurants and Pubs from Rio de Janeiro (*Sindicato de Hoteis, Restaurantes, Bares e Silimilarees do Município do Rio de Janeiro*) on October 27, 2009, which alleged that we and Redecard, another defendant in this lawsuit, are an oligopoly due the fact that there is an exclusive relationship between us and Redecard and the issuers of the credit cards. The plaintiff requests: (1) the prohibition of our participation in bidding; (2) a limitation on the discount rate for credit cards; (3) that a recommendation be given to the Federal Revenue Service to not grant us the ability to make tax payments in installments and to cancel any tax incentives granted to us; and (iv) other indemnification requests, among others.

We have not yet submitted our defense in this class action. We believe that the chance of loss of this class action is likely to be remote.

Labor proceedings

As of September 30, 2012, there were 264 labor proceedings against us and 74 labor proceedings against our subsidiary Servinet. 82 of those proceedings were filed by former employees while 256 were filed by subcontractors, some of whom were claiming the recognition of an employment relationship. As of September 30, 2012, we had provisioned R\$55.3 million in connection with probable losses.

In general, these labor proceedings are related to requests of equal pay, overtime, annual bonuses, labor union memberships, recognition of an employment relationship, tenure after an occupational injury and related pain and suffering.

MANAGEMENT

Pursuant to our bylaws, we are managed by our board of directors, which consists of a minimum of seven and a maximum of 11 members, and our board of executive officers, which consists of a minimum of two and a maximum of eight members. Our by-laws provide for the establishment of a non-permanent fiscal council consisting of a minimum of three and a maximum of five full members, plus an equal number of alternates. In addition, our by-laws permit, but do not require, the establishment of advisory committees by our board of directors.

Board of Directors

Our board of directors is responsible for preparing and supervising our general business policies and our long-term strategy. It is also responsible for supervising our board of executive officers. The number of our directors must be established at general shareholders' meetings by the majority vote of our common shareholders. Our directors are elected by the general shareholders' meeting for a term of two years, and they may be reelected or removed at any time by the general shareholders' meeting. The *Novo Mercado* Listing Regulations of the BM&FBOVESPA require that at least 20% of our directors be independent.

Brazilian Corporate Law also allows the holders of our voting shares representing at least 15.0% of all voting shares, to elect and remove a member of our board of directors and his or her alternate. However, the CVM's decision making body in its majority decision of November 8, 2005, held that if this percentage is not reached, the holders of our voting shares representing 10.0% of our capital stock may cumulate their shares to elect and remove a director and his or her alternate.

All of our directors must sign an instrument of adherence pursuant to which they agree to accept personal liability to act in accordance with our agreement for our participation in the *Novo Mercado*, the regulation of the Market Arbitration Chamber and the *Novo Mercado* listing regulations.

Our board of directors is currently comprised of 10 members elected at the general and special shareholders' meetings held on April 20, 2012, and their term of office extends for two years from the date they were elected. The table below sets forth the names, ages and positions of our current directors.

Name	Age	Position
Domingos Figueiredo de Abreu.....	53	Chairman
Alexandre Correa Abreu.....	46	Vice-chairman
Alexandre Rapaport.....	38	Director
Francisco Augusto da Costa e Silva.....	63	Director
Gilberto Mifano.....	62	Director
José Maurício Pereira Coelho.....	45	Director
Marcelo Araújo Noronha.....	46	Director
Maria Izabel Gribel de Castro.....	49	Director
Milton Almicar Silva Vargas.....	55	Director
Raul Francisco Moreira.....	40	Director

Decisions of our board of directors are made by the majority vote of its members present at any given meeting. Under Brazilian Corporate Law, the members of our board of directors are prohibited from voting in any general shareholders' meeting or acting in any transaction or business in which they have a conflict of interests with us.

Below are brief biographical descriptions of the members of our board of directors:

Domingos Figueiredo de Abreu. Mr. de Abreu is the chairman of our board of directors. He holds a degree in Economics from the *Universidade de Mogi das Cruzes* and a degree in accounting from the *Faculdade de Ciências Econômicas e Administrativas de Osasco*. He also holds a post-graduate degree in financial management from FGV and an MBA in finance from the Brazilian Institute of Capital Markets (*Instituto Brasileiro de Mercado de Capitais*), or IBMEC. He started his career at Banco Bradesco S.A. in 1981. He was elected Division Manager in 2001; Executive Manager in 2002 and Executive Vice-President. He is also a member of the Governing Board and a Managing Officer of the Bradesco Foundation.

Alexandre Correa Abreu. Mr. Abreu is vice-chairman of our board of directors. He holds a degree in business administration from *Faculdade São Luís*, along with an MBA for Senior Executives from the University of Sao Paulo (*Universidade de São Paulo*), or USP, and an MBA in marketing from FGV. He was the Retail, Distribution and Operations Vice President of Banco do Brasil from April of 2009 until December of 2011. He has been Vice-President of Banco da Patagônia S.A. since April 2011, Executive Vice-President of BB Aliança Participações S.A. since September 2009, Executive Vice-President of BB Seguros Participações S.A. since September 2009 and Chief Executive Officer of BB Corretora de Seguros S.A. from April 2004 until September 2006. He serves as a member of the board of directors at Caixa de Previdência dos Funcionários do Banco do Brasil – Previ, BB DTVM – BB Gestão de Recursos – Distribuidora de Títulos e Valores Mobiliários S.A., Fundo Garantidor de Crédito – FGC, Interbank Payment Chamber – CIP and FEBRABAN. He was also a member of the board of directors of Banco Nossa Caixa S.A. from January to November 2009, Mapfre Nossa Caixa Vida e Previdência S.A. from March to July 2009, FEBRABAN (Self-Regulation Committee) from August 2009 to June 2010, BrasilPrev Seguros e Previdência S.A. from September 2008 to March 2009, Companhia de Seguros Aliança do Brasil from September 2008 to March 2009, Brasilsaúde Companhia de Seguros from September 2008 to May 2009, Brasilveiculos Cia de Seguros S.A. from September 2008 to May 2009, BrasilCap Capitalização S.A. from October 2008 to June 2009, Companhia Brasileira de Meios de Pagamento – CBMP from August 2006 to December 2008, and the Brazilian Association of Credit Card and Services Companies – ABECS from December 2006 until September 2008.

Alexandre Rapaport. Mr. Rapaport is a member of our board of directors. He holds a degree in production engineering, specialized in mechanics from the Escola Politécnica of São Palo – USP and an MBA from Fuqua School of Business from Duke University. He initially worked at Origin Technologies from 1995 to 1997 and until 2005 he worked at Cap Gemini America, Bank of America Securities and American Express. In June 2005 he became the Business Intelligence Director of Banco Bankpar S.A., or BankPar, later becoming the Business Intelligence Officer. He took on the same position at Banco Bradesco Cartões S.A. and in 2009 he was elected as a member to their Board of Directors. He is also a member of the board of directors of Banco Ibi S.A.

Francisco Augusto da Costa e Silva. Mr. da Costa e Silva is a member of our board of directors. He holds a law degree from the *Universidade do Estado do Rio de Janeiro* and an MBA from the *Universidade Federal do Rio de Janeiro*. He started his career as a lawyer at BNDES, later taking on several different positions until he became an executive officer. He is also a professor of Commercial Law at several universities in Brazil, including *Faculdade de Direito Cândido Mendes* and the *Instituto de Direito Público e Ciência Política* at FGV. After serving as an executive officer of CVM, he was appointed as its President, a position which he held from 1995 to 2000. He has been a member of our board since June 2008 and is currently a partner at Bocater, Camargo, Costa e Silva Advogados and a member of the board of directors of Vale S.A.

Gilberto Mifano. Mr. Mifano has served as a member of our board of directors since 2009. He holds a degree in business administration from FGV. From 1994 to 2007, he was the general superintendent of BOVESPA, later serving as the president of its board of directors until 2009. He is currently the Vice-President of the board of directors of the Brazilian Institute of Corporate Governance (*Instituto Brasileiro de Governança Corporativa*), a member of the board of directors of the World Confederation of Exchanges and a member of the executive committee of the Ibero-American Federation of Stock Exchanges (*Federação Ibero-Americana de Bolsas*).

José Maurício Pereira Coelho. Mr. Coelho is a member of our board of directors. He holds a degree in accounting from *Faculdade Unigranrio* and has an MBA in Finance and Capital Markets from FGV/RJ. He has worked at Banco do Brasil since 1987, focusing on finance, capital markets and corporate governance. Since 2006, he has served as a board member of Alelo, as a member of the investment committee of the equity fund Brasil Energia and as a member of the finance committee of Brasilveículos and Brasilsaúde. He has also served as the Chairman of the fiscal council of Ativos S.A., and as a member of the board of directors of Guaraniana Comércio e Serviços.

Marcelo Araújo Noronha. Mr. Noronha is a member of our board of directors. He holds a degree in business administration from the *Universidade Federal de Pernambuco* (UFPE), as well as specializations in finance from IBMEC and the Advanced Management Program of the *Instituto de Estudios Empresariales* at the University of Navarre in Barcelona. He has more than 25 years of experience in the finance area. In 1996, he joined Banco Bilbao

Vizcaya Argentaria Brasil S.A. as a sales officer. From 2004 to 2010, he was the Department Director at Banco Bradesco S.A, where he was later appointed Adjunct Executive Director. He is currently a member of the Board of Regents of the Fundação Bradesco and a board member of the Companhia Brasileira de Soluções e Serviços, or CBSS, Crediare S.A. – Crédito, Financiamento e Investimento, Leader S.A. – Administradora de Cartões de Crédito and the ABECS.

Maria Izabel Gribel de Castro. Mrs. Castro is a member of our board of directors. She holds a degree in economics from the *Universidade Federal de Minas Gerais* and an executive MBA in finance from IBMEC. She has served as the Executive Manager of Individual Cards at Banco do Brasil S.A. since 2009. She has worked at various departments at Banco do Brasil for 27 years. She is currently a member of our Personnel Committee, a fiscal council member at Banco do Brasil and a board member at Elo Serviços S.A.

Milton Almicar Silva Vargas. Mr. Vargas is a member of our board of directors. He holds a degree in business administration. He worked at Banco Bradesco S.A. from 1976 until 2009, where he served as Executive Vice President. He is currently a member of the board of directors of Portugal Telecom, SGPS S.A., Fleury S.A., Monteiro Aranha S.A. and CPM Braxis S.A.

Raul Francisco Moreira. Mr. Moreira has served as a member of our board of directors since 2004. He is currently pursuing a degree in business administration. He has worked at Banco do Brasil for 23 years, holding positions within several divisions of the bank. He also helped develop Banco do Brasil's internet banking system and was responsible for its implementation, as well as the implementation of its Mobile Banking service.

Board of Executive Officers

Our executive officers are our legal representatives, who are responsible for the daily management of our company and for implementing our board of directors' general policies and directives. Our bylaws establish that our board of executive officers must include a chief executive officer, an investor relations officer and up to six officers without specific designation. Our executive officers' individual responsibilities are established by our board of directors and our bylaws.

Under Brazilian Corporate Law, each member of our board of executive officers must reside in Brazil and may or may not be a shareholder of our Company. In addition, a maximum of one-third of our directors may also serve as our executive officers.

Our officers are elected by our board of directors for a two-year term, and they may be reelected. Our executive officers may be removed at any time by a decision of our board of directors. We currently have seven executive officers.

The table below sets forth the names, ages and positions of the current members of our board of executive officers, each of whom was elected on May 24, 2012 (other than Mr. da Costa Patrão who was elected on October 15, 2012).

Name	Age	Position
Rômulo de Mello Dias	50	Chief Executive Officer
		Chief Financial Officer and Investor
Clovis Poggetti Junior	40	Relations Officer
Claudio Eduardo Vianna de Oliveira.....	43	Executive Officer
Dilson Tadeu da Costa Ribeiro.....	53	Executive Officer
Eduardo Chedid Simões	42	Executive Officer
Plínio Cardoso da Costa Patrão	49	Executive Officer
Roberto Menezes Dumani	49	Executive Officer

All newly appointed executive officers are required to execute an instrument of adherence, pursuant to which they accepted personal liability to act in accordance with the agreement for our participation in the *Novo Mercado*, the regulation of the Market Arbitration Chamber and the *Novo Mercado* listing regulations.

Below are brief biographical descriptions of our executive officers:

Rômulo de Mello Dias has been our Chief Executive Officer since June 2008 and was a member of our board of directors from 2005 to May 2008. He holds a degree in economics from *Universidade Federal Fluminense* and an MBA and a graduate-level specialization from IBMEC. He previously worked at Bradesco BBI and also worked as an executive director at Citibank, Bradespar and other companies. He was a managing partner at Albion Alliance Capital and a member of the board of directors of Vale S.A., Valepar, Escelsa, Enersul, Net, Americel, Telet, Iven, Monteiro Aranha, Alelo and CPM. Over the course of his career, Mr. Dias has developed an extensive background in business management through his experience in private equity.

Clovis Poggetti Junior has been our Chief Financial Officer and our Investor Relations Officer since January 2011. He holds a degree in business administration from FGV and an MBA from the University of Michigan Business School. He joined us in 2007 as our Controller until 2009 and as Chief Financial Officer until December 2010. Currently, he is also a member of the Board of Directors of M4U and serves on the Fiscal Council of Orizon. He has also served as Chief Financial Officer of Sendo Brasil Telefonía Celular and Gradiente Eletrônica S.A. Mr. Clovis Poggetti Junior was named one of the best chief financial officers in Latin America by Institutional Investor Magazine for two consecutive years (third place in 2011 and first place in 2012).

Claudio Eduardo Vianna de Oliveira has been our executive officer responsible for corporate sales since June 2011. He holds a degree in Production Engineering from the *Universidade Federal do Rio de Janeiro – UFRJ* and has an MBA in People Management from the *Instituto Superior de Pós Graduação – ISPG-PR – São Paulo*. From 1994 until 1995, he was a product manager at National Seguros and thereafter held several positions at Unibanco AIG Seguros e Previdência. Between 2008 and 2009, he directed the Department of Large Risks at Itaú Unibanco Seguros and served as the Commercial Executive Director and as a Member of the Executive Board of Redecard for more than a year.

Dilson Tadeu da Costa Ribeiro has been our executive officer responsible for marketing since May 2010. He holds a degree in Civil Engineering from the *Universidade Federal do Rio de Janeiro – UFRJ* and has a post-graduate degree in system analysis from the *Pontifícia Universidade Católica do Rio de Janeiro – PUC/RJ* and an MBA in Finances from IBMEC. He served as a director for Fininvest from 2001 to 2003, responsible for the Service Center and sales area. He was also an Executive Officer at Banco Itaú S.A., responsible for the bank's financing firm (Taíi) from 2004 until 2009. From 2009 to 2010, he served as the Chief Operations Officer for Brasil Brokers, where he was responsible for Technology, Operations, CRM, Human Resources, Sales Office and Legal Area.

Eduardo Chedid Simões has been our executive officer responsible for our products, business development, strategic planning and projects departments since October 2008. He holds a degree in business administration from FGV and specializations from the University of Chicago and the University of Miami. He also earned an MBA from the University of Pittsburgh. He has worked for 16 years in various sectors of the electronic payments industry, including business, risk and emerging technologies. He spent five years working for Credicard and 11 years working for Visa International, where he served as the Superintendent Vice-President of products and emerging technologies.

Plínio Cardoso da Costa Patrão has been our executive officer responsible for technology and operations since October 2012. He holds a degree in electrical engineering from the Technological Institute of Aeronautics, a post-graduate diploma in marketing from the *Pontifícia universidade Católica do Rio de Janeiro – PUC/RJ* and another post-graduate degree in management from Stanford University. He worked as an electrical engineer for Optolaser from 1986 to 1987 and from 1989 to 1992 he worked for Hewlett Packard in Brazil as a Systems Engineer. From 1992 to 1995, Mr. Patrão worked as a manager of automation projects for Shell in Brazil and from 1996 to 2000 he worked for Unibanco as a superintendent for their call centers and electronic banking services. He worked as a Finance Director for Tradecom from 2001 until 2004 and from 2005 until April 2009, he was a Director responsible for IT and business operations for *Unibanco – União de Bancos Brasileiros S.A.* In April 2009, he transferred to a Director position at Itaú Unibanco where he was responsible for internal controls, operational risk and compliance until December 2010. He then worked for Redecard S.A. in a variety of roles, including as a member of the Risk,

Fraud Prevention and Compliance Committee from August to December 2010, as a member of the Audit Committee from April to December 2010 and as an Executive Director from January 2011 until June 2012.

Roberto Menezes Dumani has been our executive officer responsible for our organizational development since November 2008. He holds a degree in electrical engineering from the Military Engineering Institute in Rio de Janeiro and has completed post-graduate studies in human resources from PUCRIO and in business management from Harvard Business School. He has over 15 years of experience in human resources, including experience at the headquarters of the Gillette Company in Boston. He has also acted as the Human Resources Officer for Latin America in the food solutions division at Unilever and as the Chief of Training and Development Officer for HSBC in South America. He has also held executive positions at Ceras Johnson and Gillette do Brasil.

Fiscal Council

Under Brazilian Corporate Law, our fiscal council is independent of our management and our independent auditors, and it may operate on a permanent or a non-permanent basis. If it operates on a non-permanent basis, it will only be active for the fiscal year in which its establishment is requested by shareholders. Our bylaws provide for a non-permanent fiscal council. Under Brazilian Corporate Law, when the fiscal council is not permanent, it may be established by a general shareholders' meeting at the request of shareholders representing at least 10.0% of the voting shares or at least 5.0% of shares without voting rights. Each period term must end at the first general shareholders' meeting following the date of establishment. In addition, minority shareholders collectively representing 10.0% or more of the shares with voting rights have the right to elect, in a separate vote, one full and one alternate member of the fiscal council.

Our fiscal council's main duties are to supervise our management activities, review our financial statements and report its conclusions to our shareholders. Brazilian Corporate Law establishes that the members of the fiscal council must receive compensation of at least 10.0% of the average amount paid to executive officers every year, excluding benefits, representation fees and shares in profits and results, and also requires that the fiscal council must be comprised of a minimum of three and a maximum of five members, plus an equal number of alternates.

Under Brazilian Corporate Law, the fiscal council cannot be comprised of (1) members of our board of directors, (2) our executive officers, (3) our employees, (4) employees of our subsidiaries or of our group of companies, or (5) the spouses or family members up to the third degree of any of our directors or executive officers.

Our fiscal council is currently comprised of three full members and two alternate members, elected at the general and special shareholders' meetings held on April 20, 2012 for a one-year term. In response to an inquiry regarding the lack of an equal number of alternate members and active members of our fiscal council, we informed the CVM on June 22, 2012 that this divergence was due to the fact that no alternate member was appointed by our shareholders for one of the active members of our fiscal council. On July 22, 2012, we received notice from our shareholder Columbus Holding S.A. that Mr. José Maria Soares was to resign as a member of our fiscal council, effective as of July 23, 2012. The fiscal council accepted this resignation and appointed Marcelo Santos Dall'occo as Mr. Soares' replacement. Mr. Dall'occo had previously been appointed as an alternate member of the fiscal council at the extraordinary shareholders' meeting held on April 20, 2012.

The table below sets forth the names, ages and positions of the current members of our fiscal council, each of whom was elected on April 20, 2012.

Name	Age	Position
Marcio Hamilton Ferreira.....	40	Member
Haroldo Reginaldo Levy Neto	54	Member
Marcelo Santos Dall'Occo	45	Member

Below are brief biographical descriptions of the members of our fiscal council:

Marcio Hamilton Ferreira has served as Finance Officer at Banco do Brasil since 2009, where he previously served as Capital Markets and Investments Officer for Rio de Janeiro, Espírito Santo and in the Northeast. He also

served as an Executive Manager in the Directorate of Foreign Trade and the Board of Capital Markets and Investments at Banco do Brasil.

Haroldo Reginaldo Levy Neto holds a degree in economics from the *Faculdade de Economia, Administração e Contabilidade* at the University of São Paulo. He worked for 18 years at Banco Itaú S.A., where he served as Investment Analysis Director. Mr. Levy also served for two years as the General Manager of IBCPI - Instituto Brasileiro de Certificação dos Profissionais de Investimento. He was an alternate member of the fiscal council at Financeira Alpha S.A. Mr. Levy holds certifications as a National Investment Professional and as a board of directors and fiscal council member from the Brazilian Institute of Corporate Governance.

Marcelo Santos Dall'Occo holds a degree in accounting from *Pontifícia Universidade Católica* and an MBA in finance from IBMEC. He has been the manager of fiscal auditing at Bradesco since 2003. Previously, Mr. Dall'Occo worked in the accounting department of Itaú S.A. for eight years, in the financial department of ADP Systems for two years and in the financial analysis and tax department at Banco Volkswagen S.A. for eight years.

Management Advisory Committees

As part of the corporate governance policies we adopt, in addition to those expressly required by the *Novo Mercado* listing regulations, our board of directors may establish committees with technical and consulting responsibilities to advise management on specific subjects.

The creation of these committees, the establishment of their responsibilities and the appointment of their members is carried out by decision of our board of directors. Our bylaws require the establishment of a full-time audit committee. Our board of executive officers also appoints advisory committees to assist with its management responsibilities.

We currently have the following advisory committees to our Board of Directors: (i) Personnel Committee; (ii) Corporate Governance Committee; (iii) Finance Committee and (iv) Audit Committee.

The composition, operation as well as the requirements and impediments for appointing members of the Audit Committee and the other Committees are defined in the respective charters, approved by our board of directors.

Advisory Committees to the Board of Directors

The Personnel Committee is responsible for: recommending Human Resources strategies to our board of directors regarding organizational development, planning and personnel development, compensation and benefits from our employees and management, thus seeking to confirm that our practices are consistent with market practices.

The Corporate Governance Committee is responsible for: evaluating our corporate governance policies, observing our adopted governance level and ensuring the effective adoption of international best practices; recommending adjustments and changes in corporate governance practices whenever necessary; monitoring established guidelines, such as: Code of Ethics, New Market Listing Rules, Material Act or Fact Disclosure and Confidentiality Policy, Securities Trading Policy, and other policies and documents under our corporate responsibility. This Committee is also responsible for issuing recommendations on potential conflicts of interest situations between stakeholders whenever required by our board of directors or whenever deemed necessary.

The Finance Committee is responsible for: issuing recommendations to our board of directors on risks and strategies to be adopted by us concerning financial management; on investments and financing proposals (in accordance to the scope defined by the board of directors), as well as monitoring the annual budget; and analyzing the corporate risks policies, except those regarding the relationship and risk analysis of issuers, financial policies and our internal control systems.

The Audit Committee advises our board of directors on our financial statements, as well as to make recommendations and issue opinions so that our board of directors can supervise the financial area and hold it accountable.

Share Ownership

The table below sets forth the number of shares held directly by the members of our board of directors as of the date of this offering memorandum, as well as their individual ownership interests as a percentage of the total number of common shares issued and outstanding. As of the date of this offering memorandum, the members of our fiscal council did not own any of our shares, the members of our board of directors held 51 of our shares and our executive officers held 78,280 of our shares.

Members of the board of directors/ executive officers	Number of shares
Rômulo de Mello Dias.....	48,000
Claudio Eduardo Vianna de Oliveira.....	8,010
Dilson Tadeu da Costa Ribeiro.....	6,974
Eduardo Chedid Simões	6,160
Clovis Poggetti Junior	4,569
Roberto Menezes Dumani	4,518
Francisco Augusto da Costa e Silva	48
Raul Francisco Moreira	1
José Mauricio Pereira Coelho	1
Gilberto Mifano	1
Total.....	78,282

Compensation

Pursuant to Brazilian Corporate Law, our shareholders are responsible for establishing at the general shareholders' meeting the annual aggregate or individual amount of compensation we pay our directors and executive officers. According to our bylaws, our general shareholders' meeting is responsible for establishing the annual global compensation of our directors and executive officers, and our board of directors is responsible for allocating this amount among our directors and executive officers.

The main objectives of our compensation strategy are to attract and retain the best professionals in the market, ensure that compensation levels of our executive officers are appropriately tied to our results and promote a meritocracy through compensation based on individual performance. The competitiveness of our compensation strategy is monitored through periodic comparisons with the reference market, which is defined considering companies that seek the same professional profiles as we do.

Our short-term variable compensation model is linked to our overall results and specific goals for each executive officer, statutory or otherwise. All variable compensation is defined as a function of financial targets defined annually by our board of directors. We also offer a supplementary retirement plan to our executive officers, in which we match up to 200% of our executive officer's contribution, depending on the officer's age.

Members of our board of directors are compensated based on fixed monthly fees that aim to compensate the contribution of each member towards our results. There is also compensation for independent members based on their participation in our advisory committee meetings. Members of our fiscal council receive fixed monthly fees.

For the year ending December 31, 2012, the total compensation budgeted for the members of our board of directors, board of executive officers and fiscal council is R\$32.4 million. In the years ended December 31, 2011, 2010 and 2009, we recorded expenses for total compensation paid to the members of our board of directors, board of executive officers and fiscal council, including expenses in connection with our stock option plan, in the amounts of R\$28.8 million, R\$25.1 million and R\$11.7 million, respectively.

For the year ending December 31, 2012, the general shareholders' meeting held on April 20, 2012 established a maximum compensation for the members of our board of directors, board of executive officers and fiscal council of approximately R\$29.0 million, not including amounts received by our executive officers through our stock option plan. For further information, see "—Stock Option Plan."

In 2012, R\$30.6 million was designated as compensation for the members of our board of executive officers, R\$10.7 million of which will be paid as fixed compensation and R\$12.0 million of which is variable short-term compensation approved by our board of directors subject to reaching our goals. Fixed compensation for the members of our board of directors and fiscal council is R\$1.5 million and R\$0.3 million, respectively. We do not offer any variable short-term compensation or other variable compensation for the members of our fiscal council.

In addition, we offer our employees, and our directors and executive officers, a profit sharing plan according to which we make payments in March of every year. This program is based on targets to be reached by us and our employees and was established and approved by our board of directors. For the years ended December 31, 2011, 2010 and 2009, we recorded compensation expenses under our profit sharing plan in the amounts of R\$50.2 million, R\$43.4 million and R\$36.6 million, respectively.

Stock Option Plan

Our extraordinary general shareholders' meeting held on June 1, 2009 instituted our stock option plan. The plan established that our statutory managers, non-statutory executive vice-president, executive officers, senior managers, senior consultants, and any other employees with extraordinary performance recognized by us can receive grants of stock options, subject to approval by our board of directors. Members of our board of directors and fiscal council are not eligible to participate in our stock option plan. Our stock option plan was altered by shareholders' meeting held on April 29, 2011 to allow for restricted shares, the possibility of discounting the strike price and alterations to the vesting period.

The options granted under the terms of the stock option plan may be entirely or partially exercised according to the terms and conditions set forth by our board of directors and the terms and conditions anticipated by the respective stock option agreements. The options to acquire our common shares are personal and non-transferable and cannot be assigned or in any way transferred. The options to acquire our shares may be terminated or have their terms and conditions modified if the beneficiary is dismissed, if the beneficiary's service agreement is rescinded, with or without just cause, if the beneficiary resigns, retires, becomes an invalid or dies.

Our board of directors is responsible for setting the price of the options granted under the plan respecting the minimum price of the weighted average of our common shares on the BM&FBOVESPA on the 30 trading days prior to the board meeting, allowing a price adjustment of up to 25%.

In the event that the stock option plan is exercised, our board of directors must approve the issuance of new shares within the limit of our authorized capital, or if it has been previously approved by the CVM, the transfer of our shares held in treasury. If the stock option plan is exercised through the issuance of new shares, there will be an increase in our capital stock, and our shareholders do not have preemptive rights in the subscription of new shares, according to Brazilian Corporate Law and our bylaws, and their ownership interests in us may be diluted.

Shares acquired through our stock option plan maintain all of the rights applicable to the class of shares, unless our board of directors establishes otherwise. However, no beneficiary will have any rights or privileges as our shareholder until the beneficiary's option is duly exercised under the terms of the stock option plan and the respective stock option agreement.

In 2009, we granted 1,611,700 stock options to our executive officers through this plan, and in 2010, we granted 1,128,100 stock options. The number of options granted in 2009 and 2010 was adjusted after the bonus and reverse-split of our outstanding shares, resulting in 644,680 and 451,240 stock options granted in 2009 and 2010, respectively. On July 6, 2011, we granted 485,288 stock options.

For the 2009 and 2010 grants, the stock option plan allows exercise of one third of the granted options after 12 months from the granting date have elapsed, another one third after 24 months have elapsed and the remaining one third after 36 months have elapsed. These options expire 60 months after granting. For the 2011 grant, the plan allows exercise of half of the granted options after 24 months from the granting date have elapsed, and the other half after 36 months. The options expire 72 months after granting. Restricted shares will be transferred automatically according to the vesting period. The options granted in accordance to the stock option plan cannot be transferred.

Family Relationships Among Any of our Directors or Executive Officers and Among our Directors or Executive Officers and our Controlling Shareholders

There is no family relationship among any of our directors or executive officers or among them and our controlling shareholders.

PRINCIPAL SHAREHOLDERS

Cielo USA

Cielo USA's capital stock is composed exclusively of common shares and is owned entirely by Cielo.

Cielo

Our capital stock is composed exclusively of common shares. The table below sets forth information relating to the ownership of our common shares by each holder of five percent or more of our capital stock as of September 30, 2012:

Shareholders	Number of Common Shares	% of Total
BB Banco de Investimentos S.A.	187,673,626	28.65
Columbus Holding S.A.	187,673,585	28.65
Lazard Asset Management	65,274,433	9.96
Others	213,080,934	32.53
Shares in Treasury	1,393,646	0.21
Total	655,096,224	100.0%

Below are brief descriptions of our principal shareholders:

BB Banco de Investimentos S.A.

BB Banco de Investimentos S.A., or BB Investimentos, is a multi-service bank that is a wholly-owned subsidiary of Banco do Brasil S.A. Banco do Brasil is one of the largest financial institutions in Brazil in terms of assets according to data from the Central Bank. Through BB Investimentos, Banco do Brasil has ownership interests in businesses such as insurance companies, pension and investment funds.

Columbus Holdings S.A.

Columbus Holdings is a wholly-owned subsidiary of Banco Bradesco S.A. which is one of the largest private financial institutions in Brazil. The Bradesco Group includes other companies, including Banco Bradesco BBI S.A., one of the joint bookrunners of this offering.

Lazard Asset Management LLC

Lazard Asset Management LLC is a financial advisory and asset management firm and wholly-owned subsidiary of Lazard LLC.

Shareholders' Agreement

We have two shareholders' agreements.

The first shareholders' agreement was entered into on September 4, 2008 prior to our initial public offering of shares on the BM&FBOVESPA. This shareholders' agreement was entered into by BB Investimentos, Banco ABN Amro Real S.A., Banestado Administradora de Cartões de Crédito Ltda., Banestes S.A. – Banco do Espírito Santo, Banco do Estado do Rio Grande do Sul S.A., Bemge Administradora de Cartões de Crédito Ltda., Banco BoaVista Interatlântico S.A., Santander Investimentos em Participações S.A., Panamericano Administradora de Cartões de Crédito Ltda., Financeira Alfa S.A. – Crédito, Financiamento e Investimento, Banco Alvorada S.A., Elba Holdings Ltda., Alvorada Cartões, Crédito, Financiamento e Investimento S.A., Ferrara Participações S.A., Banco Itaúbank S.A. and Banco Simples S.A. The first shareholders' agreement is valid for a term until April 29, 2022, unless the shareholders party thereto unanimously agree otherwise.

The second shareholders' agreement was executed on June 4, 2009. It was entered into by members of our then-controlling shareholders block, composed of Columbus Holdings S.A, BB Investimento, Santusa Holding S.L, Banco Santander (Brasil) S.A. and Santander Investimentos em Participações S.A. This agreement is valid for ten years from the date of execution, which term of validity is automatically renewed for successive five-year periods, unless terminated in writing six months prior to the end of each term.

The second shareholders' agreement established the ability of our then-controlling shareholders block to nominate (1) at least five members, assuming a board of directors composed of nine members; or (2) at least six members, assuming a board of directors composed of 11 members. The second shareholders' agreement also grants the parties a preemptive right in the event another shareholder party to the second shareholders' agreement intends to sell its shares.

The second shareholders' agreement was amended on July 12, 2010 to reflect the acquisition of all of the common shares held by Santander in us. Bradesco acquired 2.09% of our shares for R\$431.7 million, while Banco do Brasil acquired 5.11% of our shares for R\$1.055 billion. As a result of these acquisitions, Bradesco and Banco do Brasil each indirectly held approximately 28.65% of our common shares as of September 30, 2012.

RELATED PARTY TRANSACTIONS

We engage in a variety of transactions with related parties in the ordinary course of our business. When conducting our business and engaging services, we obtain market quotations and conduct surveys in order to determine the best available prices and terms, and the decision regarding whether or not a transaction should be entered into is made by a senior manager within the department purchasing the product or service, regardless of whether such transaction is conducted with related or unrelated parties. Our business requires us to enter into agreements with several card-issuing entities, some of which are our direct or indirect shareholders. All of the agreements we enter into with related parties are carried out on an arm's-length basis.

Set forth below are our principal related party transactions.

Agreements with Bradesco and Banco do Brasil for the Support of Card Issuers and Management of Lock-In Housebank Services

We entered into agreements with Banco do Brasil and Bradesco establishing incentives for them to assist us in soliciting new merchants for subsequent affiliation by us and increasing the volume of transactions acquired through our electronic capture equipment. In connection with these agreements, we pay commissions to Banco do Brasil and Bradesco, which are based on a fixed amount per merchant affiliated by us and a percentage of the total amount of transactions captured through our equipment. In addition, we entered into agreements with Banco do Brasil and Bradesco for the management of lock-in Housebank services, which apply to the management of requests for changing Housebanks and the ability to prepay receivables.

Other Agreements with Bradesco and Banco do Brasil

In the ordinary course of our business, we record receivables from card issuers, including Bradesco and Banco do Brasil, in connection with transactions carried out with credit and debit cards, amounts from which are subsequently transferred by us to the authorized merchant in each transaction. These transactions are carried out on an arms-length basis and under market conditions.

We also enter into prepayment agreements with card issuers, including Bradesco and Banco do Brasil, in connection with electronic payment transactions. These advanced payments agreements generate short-term working capital and the amounts deposited in each account are net of discount rates for advances, on a pro rata basis, calculated based on market rates that do not significantly differ from those adopted by issuing banks that are not our direct or indirect shareholders.

In addition, on June 9, 2011, we entered into an agreement with Bradesco for the provision of book entry services for our share certificates.

We also entered into certain derivative financial instruments in the form of non-deliverable forwards, in the total amount of U.S.\$235.5 thousand with Banco do Brasil and U.S.\$235.5 thousand with Bradesco. These instruments were entered into with the objective of hedging our exchange rate risks on net foreign investments.

Furthermore, we purchase other services from Bradesco and Banco do Brasil such as: (1) cash management services; (2) insurance; (3) private pension services; (4) corporate credit cards; and (5) suppliers' payment services.

Bridge Loan

On August 17, 2012, Cielo USA entered into a Bridge Loan, guaranteed by Cielo, in the aggregate amount of U.S.\$400.0 million with Goldman Sachs Bank USA and Banco do Brasil S.A. in order to finance our acquisition of MeS. As of September 30, 2012, the outstanding principal amount due by us to Banco do Brasil under the Bridge Loan was U.S.\$200.0 million. We intend to use a portion of the net proceeds from the sale of the notes units to repay the Bridge Loan, see "Use of Proceeds."

Services Agreement with Bradesco S.A. Corretora de Títulos e Valores Mobiliários

On April 28, 2010, we entered into an agreement with Bradesco S.A. Corretora de Títulos e Valores Mobiliários, a company within the Bradesco group, for the provision of services in connection with our stock option program. As of September 30, 2012, the outstanding amount due by us to Bradesco S.A. Corretora de Títulos e Valores Mobiliários under this agreement was R\$0.1 million.

Retirement Plan Agreement with Bradesco Saúde

We are party to an agreement with Bradesco Saúde, a company within the Bradesco group, for the provision of retirement plans to our employees. This agreement is automatically renewable every 12 months, and the amount due by us to Bradesco Saúde as of September 30, 2012 was approximately R\$2.8 million.

Retirement Plan Agreement with Brasilprev Previdência Privada

We are party to an agreement with Brasilprev Previdência Privada, or Brasilprev, a company within the Banco do Brasil group, for the provision of retirement plans to our employees. This agreement is for an indefinite term of duration. The outstanding amount due by us to Brasilprev as of September 30, 2012 was approximately R\$2.0 million.

Services Agreements with Companhia Brasileira de Soluções e Serviços

From time to time, we have entered into service agreements with Companhia Brasileira de Soluções e Serviços, or CBSS, which is a company within the Bradesco group. These services include the capture, authorization and processing of transactions with Alelo cards, as well as services provided to merchants, operational and financial back office services, protection against fraud, issuance of statements and financial control over electronic transactions resulting from these transactions. These transactions are carried out on an arm's-length basis and under market conditions. In the nine-month period ended September 30, 2012, we recognized revenue in the amount of approximately R\$45.0 million in connection with these agreements.

Services Agreement with BankPar

On June 30, 2010, we entered into a non-exclusive services agreement with BankPar for the capturing of card transactions with the American Express brand. BankPar is a company within the Bradesco S.A. Group that is licensed to use the American Express brand in Brazil. In December 2011, we and BankPar amended this agreement in order to adjust our and BankPar's economic benefits from this agreement based on an appraisal prepared by an investment bank.

For more information regarding our related party transactions, see note 22 to our individual and consolidated unaudited interim financial statements as of September 30, 2012 and for the nine-month periods ended September 30, 2012 and 2011.

DESCRIPTION OF THE NOTES UNITS

The following summary describes certain provisions of the Notes Units and Underlying Notes and the Indenture. This summary is subject to and qualified in its entirety by reference to the provisions of the Indenture, and the Notes Units and the Underlying Notes. Capitalized terms used in the following summary and not otherwise defined herein shall have the meaning ascribed to them in the Indenture. You may obtain copies of the Indenture and specimen Notes Units upon request to the Issuers at the addresses set forth under “Where You Can Find More Information.”

The notes units (the “Notes Units”), and the Cielo S.A. (“Cielo”) notes (the “Cielo Notes”) and the Cielo USA Inc. (“Cielo USA” and, together with Cielo, the “Issuers”) notes (the “Cielo USA Notes” and, together with the Cielo Notes, the “Underlying Notes”) underlying the Notes Units, are to be issued under and governed by an Indenture, to be dated as of November 16, 2012 (the “Indenture”), among the Issuers, Cielo, as guarantor of the Cielo USA Notes (the “Guarantor”), The Bank of New York Mellon, as trustee (in such capacity, the “Trustee”), registrar, paying agent, and transfer agent, and The Bank of New York Mellon (Ireland) Limited, as Irish listing agent. The following summaries of certain provisions of the Indenture do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all the provisions of the Indenture. The holders of the Notes Units are entitled to the benefits of, are bound by, and are deemed to have notice of, all the provisions of the Indenture. Wherever particular sections or defined terms of the Indenture are referred to, such sections or defined terms are incorporated herein by reference.

This description of the Notes Units is a summary of certain provisions of the Notes Units, the Underlying Notes and the Indenture. You should refer to the Indenture for a complete description of the terms and conditions of the Notes Units, the Underlying Notes and the Indenture, including the Issuers’ obligations and your rights.

Certain terms used in this description are defined under the subheading “—Certain Definitions.” For purposes of this “Description of the Notes Units,” the term the “Issuers” means Cielo and Cielo USA collectively and their respective successors under the Indenture, in each case excluding their respective Subsidiaries, and the term the “Guarantor” means Cielo and its successors excluding its Subsidiaries.

Prescription

Under New York’s statute of limitations, any legal action upon the Notes Units in respect of interest or principal must be commenced within six years after the payment thereof is due.

General

The issuance of Notes Units in this offering will be US\$875.0 million consisting of US\$470.0 million in aggregate principal amount of 3.750% senior notes due 2022 offered by Cielo and US\$405.0 million in aggregate principal amount of 3.750% senior notes due 2022 offered by Cielo USA. The Indenture does not limit the aggregate principal amount of Notes Units or Underlying Notes that may be issued under the Indenture. The Issuers may issue, and the Guarantor may guarantee, an unlimited principal amount of additional notes (the “Additional Underlying Notes”) having identical terms and conditions as the Underlying Notes issued in this offering, except that the issue price, issue date and date from which interest accrues may differ; provided, however, that each Issuer may only create and issue such further notes if the other Issuer simultaneously issues a pro rata amount of its own notes of the same series, so that Notes Units comprised of both Issuers’ Additional Underlying Notes (“Additional Notes Units”), in the same proportion as the Notes Units being sold in this offering, can be and are created. The Issuers will only be permitted to issue such Additional Underlying Notes and Additional Notes Units if, at the time of such issuance, no Default or Event of Default has occurred and is continuing. Any Additional Notes Units and Additional Underlying Notes will be part of the same issue as the Notes Units and Underlying Notes, respectively, that the Issuers are issuing in this offering and will vote on all matters with the holders of such Notes Units and Underlying Notes.

Each US\$1,000 Notes Unit consists of US\$537.14 in principal amount of Cielo Notes and US\$462.86 in principal amount of Cielo USA Notes. The Underlying Notes may only be transferred as part of the Notes Units and will not trade separately.

The Notes Units will be issued in fully registered form in denominations of at least US\$200,000 and integral multiples of US\$1,000 in excess thereof and will be issued as one or more Global Notes. Principal is to be payable, and the Notes Units will be transferable and exchangeable at the Issuers' office or agency maintained for such purposes in New York City, New York, which initially will be the corporate office of the Trustee; *provided* that the Global Notes will be exchangeable only in the manner and to the extent set forth under "—Form of Notes." The Notes Units may be transferred, combined or divided without payment of any charge other than taxes or other governmental charges.

The initial outstanding principal amount of the Notes Units will be US\$875.0 million. The Underlying Notes will mature on November 16, 2022 (the "Maturity Date"), and the aggregate principal amount of Underlying Notes outstanding at such time will become due and payable. The Underlying Notes will bear interest at the rate per annum of 3.750%. The Issuers will pay interest on overdue principal at 1% per annum in excess of such rate. Interest on the Underlying Notes will be payable semi-annually on May 16 and November 16 of each year, commencing on May 16, 2013, to the Person in whose name a Notes Unit is registered at the close of business on the preceding May 1 or November 1 (each a "Record Date"), as the case may be. Interest on the Underlying Notes will be computed on the basis of a 360-day year of twelve 30-day months. Holders must surrender the Notes Units to any paying agent for the Notes Units to collect principal payments on the Underlying Notes. Except as described under "—Form of Notes," the Issuers will pay principal and interest at the office or agency of the Issuers maintained for that purpose in New York City, New York.

If any payment date or redemption date falls on a day which is not a Business Day, any payment of interest and principal with respect to the Underlying Notes will be made on the next succeeding Business Day with the same force and effect as if made on the due date, and no interest on such payment will accrue from and after such due date. The principal of and interest on the Underlying Notes will be payable in U.S. dollars or in such other coin or currency of the United States as at the time of payment is legal tender for the payment of public and private debts.

Guarantee

Pursuant to the Guarantee, Cielo will irrevocably and unconditionally guarantee the full and punctual payment of principal, interest, Additional Amounts and all other amounts that may become due and payable on the Cielo USA Notes.

Ranking

The Cielo Notes and the Cielo USA Notes will be the senior unsecured obligations of Cielo and Cielo USA, respectively, ranking *pari passu* with all of Cielo's and Cielo USA's other senior unsecured obligations (except those obligations preferred by operation of law). The Cielo Notes and the Cielo USA Notes will be effectively subordinated to such Issuer's secured Indebtedness, to the extent of the value of the assets securing such secured Indebtedness, and structurally subordinated to the indebtedness of any Subsidiary of such Issuer.

The Guarantee will be the senior unsecured obligation of the Guarantor, ranking *pari passu* with all of the Guarantor's other senior unsecured obligations (except those obligations preferred by operation of law). The Guarantee will be effectively subordinated to the Guarantor's secured Indebtedness, to the extent of the value of the assets securing such secured Indebtedness, and structurally subordinated to the Indebtedness of any Subsidiary of the Guarantor (other than the Cielo USA Notes).

As of September 30, 2012, Cielo, including Cielo USA, had R\$1,121.4 million of borrowings and financing, of which R\$310.2 million was secured indebtedness. Each Issuer's Subsidiaries may incur other Indebtedness in the future, which would effectively be senior to the Notes Units, the Underlying Notes and the Guarantee.

Optional Redemption with a Make-Whole Amount

The Issuers may redeem the Notes Units and the Underlying Notes (*provided* that each of the Issuers redeems an equal principal amount of its respective Underlying Notes) in whole or in part, at any time after 721 days following the issuance of the Notes Units and the Underlying Notes, at their option, at a redemption price equal to the greater of (1) 100% of the principal amount of the Underlying Notes to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest and Additional Amounts (if any) on the Underlying Notes to be redeemed (but excluding any accrued and unpaid interest to the redemption date) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Rate plus 35 basis points, in each case plus accrued and unpaid interest on the principal amount being redeemed to the redemption date. Notice of such redemption to each holder of Notes Units must be mailed and published in accordance with the provisions set out under “—Notices,” not less than 30 days nor more than 60 days prior to the redemption date.

“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity (computed as of the third Business Day immediately preceding that redemption date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that redemption date.

“Comparable Treasury Issue” means the United States Treasury security selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Underlying Notes called for redemption, that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Underlying Notes called for redemption.

“Comparable Treasury Price” means, with respect to any redemption date, the average, as determined by an Independent Investment Banker, of the Reference Treasury Dealer Quotations for that redemption date after excluding the highest and lowest Reference Treasury Dealer Quotation.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the Issuers.

“Reference Treasury Dealer” means Goldman, Sachs & Co. or its respective affiliates and two other primary U.S. Government securities dealers selected by the Issuers, and each of their respective successors. If any of the foregoing shall cease to be a primary U.S. Government securities dealer, the Issuers will substitute another nationally recognized investment banking firm that is a primary U.S. Government securities dealer.

“Reference Treasury Dealer Quotation” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding that redemption date.

Optional Tax Redemption

The Notes Units and the Underlying Notes may be redeemed at the Issuers’ election, in whole, but not in part, by the giving of notice as provided in the Indenture (which notice will be irrevocable), at 100% of the then outstanding principal amount of the Underlying Notes, plus accrued and unpaid interest to the redemption date, plus any Additional Amounts, if, as a result of any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of Brazil or any political subdivision or taxing authority thereof or therein, or any change in the official application, administration or interpretation of such laws, regulations or rulings in Brazil, or either of the Issuers has or will become obligated to pay Additional Amounts on its respective Underlying Notes at a rate of withholding or deduction in excess of 15% (or at a rate of withholding or deduction in excess of 25% in case the holder of the Notes Unit is resident in a tax haven jurisdiction, i.e., a jurisdiction defined as such by applicable Brazilian law) (“Excess Additional Amounts”), if such change or amendment is announced on or after the Closing Date and such obligation cannot be avoided by such Issuer taking reasonable measures available to it; *provided*,

however, that (1) for the avoidance of doubt reasonable measure shall not include changing the jurisdiction of the Issuers or the incurrence of material out of pocket costs by the Issuers or any Affiliate thereof and (2) no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which such Issuer would be obligated to pay such Excess Additional Amounts, were a payment in respect of the Underlying Notes then due. Notice of such tax redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of the Notes Units to be redeemed.

Prior to the publication or mailing of any notice of redemption of such Notes Units and Underlying Notes pursuant to the Indenture, the Issuers will deliver to the Trustee an Officers' Certificate and a written opinion of recognized Brazilian counsel, independent of the Issuers, to the effect that all governmental approvals necessary for the Issuers to effect such redemption, including any required approvals from the Brazilian Central Bank (*Banco Central do Brasil*), have been or at the time of redemption will be obtained and in full force and effect and that the Issuers are entitled to effect such a redemption pursuant to the Indenture, and setting forth, in reasonable detail, the circumstances giving rise to such right of redemption.

Unless the Issuers default in payment of the redemption price, on and after the redemption date interest will cease to accrue on the Underlying Notes.

Optional Clean-Up Redemption

The Notes Units and the Underlying Notes may be redeemed at the Issuers' election, in whole, but not in part, at any time after 721 days following the issuance of the Notes Units and the Underlying Notes, by the giving of notice as provided in the Indenture (which notice will be irrevocable), at 100% of the then outstanding principal amount of the Underlying Notes, plus accrued and unpaid interest to the redemption date, plus any Additional Amounts, in the event that 10% or less of the initial aggregate principal amount of the Notes Units and Underlying Notes (plus the initial aggregate principal amount of any Additional Notes Units and Additional Underlying Notes) are outstanding at the time of such notice. Notice of such redemption will be mailed at least 30 but not more than 60 days before the redemption date, and not more than 30 days following the date on which such 10% threshold is reached, to each holder of outstanding Notes Units.

Open Market Purchases

The Issuers or their Affiliates may at any time purchase Notes Units or Underlying Notes in the open market or otherwise at any price. Any such purchased Notes Units or Underlying Notes will not be resold, except in compliance with applicable requirements or exemptions under the relevant securities laws. Any Notes Units or Underlying Notes redeemed or repurchased by the Issuers or any affiliate may, at the option of the Issuers, continue to be outstanding or be cancelled.

Payments

The Issuers will make all payments on the Notes Units exclusively in such coin or currency of the United States as at the time of payment will be legal tender for the payment of public and private debts.

The Issuers will make payments of principal and interest on the Notes Units to a paying agent, which will make payment to DTC. DTC will be responsible for payments to its participants in accordance with its standard procedures and neither the Trustee nor any paying agent will be responsible for payments made by DTC.

The Issuers will make payments of principal upon surrender of the relevant Notes Units and Underlying Notes at the specified office of the Trustee or any of the paying agents. The Issuers will pay principal on the Notes Units and Underlying Notes to the Persons in whose name the Notes Units and Underlying Notes are registered at the close of business on the 15th day before the due date for payment. Upon application by the holder of the Notes Units to the specified office of any paying agent not less than 15 days before the due date for any payment in respect of a note, such payment may be made by transfer to a U.S. dollar account maintained by the payee with a bank in New York City. Under the terms of the Indenture, payment by the Issuers of any amount payable under the Notes Units

and Underlying Notes on the due date thereof to the Trustee in accordance with the Indenture will satisfy the Issuers' obligation to make such payment.

All payments will be subject in all cases to any applicable tax or other laws and regulations, but without prejudice to the provisions of "—Additional Amounts." No commissions or expenses will be charged to the holders of the Notes Units in respect of such payments.

Subject to applicable law, the Trustee and the paying agents will pay to the Issuers, upon request, any monies held by them for the payment of principal or interest that remains unclaimed for two years, and, thereafter, holders of Notes Units entitled to such monies must look to the Issuers for payment as general creditors. After the return of such monies by the Trustee or the paying agents to the Issuers, neither the Trustee nor the paying agents shall be liable to the holders in respect of such monies.

Form, Denomination and Title

The Notes Units will be in registered form without coupons attached in amounts of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

The Notes Units will be represented by Regulation S Global Notes (as defined below) and Restricted Global Notes (as defined below) (each sometimes referred to herein as a "global Note" and together sometimes referred to herein as the "Global Notes").

Notes Units sold outside the United States in reliance on Regulation S will be represented by one or more global Notes in definitive, fully registered form without interest coupons (collectively, "Regulation S Global Notes") and will be deposited with the Trustee as custodian for DTC, and registered in the name of DTC or its nominee for the accounts of Euroclear and Clearstream (as indirect participants in DTC).

Notes Units sold in reliance on Rule 144A under the Securities Act initially will be represented by one or more global Notes in definitive, fully registered form without interest coupons (collectively, "Restricted Global Notes") and will be deposited with the Trustee as custodian for DTC and registered in the name of DTC or its nominee. Restricted Global Notes will be subject to certain restrictions on transfer and will bear a legend to that effect as described under "Notice to Investors."

Beneficial interests in Regulation S Global Notes may be transferred to a Person who takes delivery in the form of an interest in Restricted Global Notes only upon receipt by the Trustee of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made to a Person that the transferor reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Beneficial interests in Restricted Global Notes may be transferred to a Person who takes delivery in the form of an interest in Regulation S Global Notes only upon receipt by the Trustee of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S or Rule 144 under the Securities Act. Any beneficial interest in one of the Global Notes that is transferred to a Person who takes delivery in the form of an interest in the other global Note will, upon transfer, cease to be an interest in such global Note and become an interest in the other global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other global Note for as long as it remains such an interest.

Global Notes

Upon the issuance of Regulation S Global Notes and Restricted Global Notes, DTC or its custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such global Note to the accounts of Persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the Initial Purchasers. Ownership of beneficial interests in a global Note will be limited to Persons

who have accounts with DTC (“DTC Participants”) or Persons who hold interests through DTC Participants. Ownership of beneficial interests in the Global Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of Persons other than DTC Participants).

So long as DTC or its nominee is the registered owner or holder of a global Note, DTC, or such nominee, as the case may be, will be considered the sole owner or holder of the Notes Units represented by such global Note for all purposes under the Indenture. No beneficial owner of an interest in a global Note will be able to transfer that interest except in accordance with DTC’s applicable procedures, in addition to those provided for under the Indenture.

Investors may hold their interests in Regulation S Global Notes directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Euroclear and Clearstream will hold interests in the Regulation S Global Notes on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositories, which in turn will hold such interests in Regulation S Global Notes in customers’ securities accounts in the depositories’ names on the books of DTC. Investors that are qualified institutional buyers may hold their interests in Restricted Global Notes directly through DTC if they are DTC Participants, or indirectly through organizations that are DTC Participants.

Payments of the principal and interest and any Additional Amounts on individual Notes Units represented by a global Note registered in the name of DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner of the global Note representing such Notes Units. None of the Guarantor, the Issuers, the Trustee or any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising, or reviewing any records relating to such beneficial ownership interests. The Guarantor and the Issuers expect that DTC or its nominee, upon receipt of any payment of principal, interest or Additional Amounts, if any, in respect of a global Note representing any Notes Units held by it or its nominee, will credit DTC Participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global Note as shown on the records of DTC or its nominee. The Guarantor and the Issuers also expect that payments by DTC Participants to owners of beneficial interests in such global Note held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants.

Transfers between DTC Participants will be effected in accordance with DTC rules and procedures and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and procedures.

The laws of some states require that certain Persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a global Note to such Persons may be limited because DTC can only act on behalf of DTC Participants, who in turn act on behalf of indirect participants and certain banks. Accordingly, the ability of a Person having a beneficial interest in a global Note to pledge such interest to Persons or entities that do not participate in the DTC system, or otherwise take actions in respect of each interest, may be affected by the lack of a physical certificate for such interest.

Subject to compliance with the transfer restrictions applicable to the Notes Units described above and under “Notice to Investors,” cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules and procedures on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (Brussels, Belgium time). Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in Regulation S Global Notes in DTC, and making or receiving payment in

accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a global Note from a DTC Participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date, and the credit of any transactions in interests in a global Note settled during such processing will be reported to the relevant Euroclear or Clearstream participant on such day. Cash received in Euroclear or Clearstream as a result of sales of interests in a global Note by or through a Euroclear or Clearstream participant to a DTC Participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the Business Day following settlement in DTC.

DTC has advised Cielo and the Issuers that it will take any action permitted to be taken by a holder of Notes Units (including, without limitation, the presentation of Notes Units for transfer, exchange or conversion as described below) only at the direction of one or more DTC Participants to whose account with DTC interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of the Notes Units as to which such Participant or Participants has or have given such direction. However, in the limited circumstances described herein, DTC will exchange the Global Notes for certificated Notes Units in definitive form, which it will distribute to DTC Participants and which, if representing interests in the Restricted Global Note, will be legended as set forth under “Notice to Investors.” See “—Certificated Notes Units.”

DTC has advised Cielo and the Issuers as follows: DTC will act as the depositary for the Notes Units. The Notes Units will be issued as fully registered senior notes units registered in the name of Cede & Co., which is DTC’s partnership nominee. Fully registered Global Notes will be issued for the Notes Units, in the aggregate principal amount of the issue, and will be deposited with DTC.

DTC is a limited-purpose trust guarantor organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants deposit with DTC. DTC also facilitates the settlement among participants of securities transactions, including transfers and pledges, in deposited securities through electronic computerized book-entry changes to participants’ accounts, thereby eliminating the need for physical movement of certificates. Direct participants of DTC include securities brokers and dealers, including the initial purchasers of the Notes Units, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to DTC’s system is also available to indirect participants, which includes securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC.

To facilitate subsequent transfers, all Global Notes representing the Notes Units which are deposited with, or on behalf of, DTC are registered in the name of DTC’s nominee, Cede & Co. The deposit of Global Notes with, or on behalf of, DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the Global Notes representing the Notes Units; DTC’s records reflect only the identity of the direct participants to whose accounts the Notes Units are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to the Global Notes representing the Notes Units. Under its usual procedure, DTC mails an omnibus proxy to Cielo and the Issuers as soon as possible after the applicable record date. The omnibus proxy assigns Cede & Co.’s consenting or voting rights to those direct

participants to whose accounts the Notes Units are credited on the applicable record date (identified in a listing attached to the omnibus proxy).

DTC may discontinue providing its services as securities depository with respect to the Notes Units at any time by giving reasonable notice to Cielo, the Issuers or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificated Notes Units are required to be printed and delivered. See “—Certificated Notes Units.”

Cielo and the Issuers may decide to discontinue use of the system of book-entry transfers through DTC or a successor securities depository. In that event, certificated Notes Units will be printed and delivered. See “—Certificated Notes Units.”

Although DTC, Euroclear and Clearstream have agreed to the procedures described above in order to facilitate transfers of interests in the Global Notes among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform these procedures, and these procedures may be discontinued at any time. Neither the Trustee nor the Guarantor nor any Issuer will have any liability or responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Certificated Notes Units

If (i) DTC is at any time unwilling or unable to continue as a depository for the Global Notes and a successor depository is not appointed by Cielo and the Issuers within 90 days or (ii) an Event of Default shall have occurred and be continuing and the beneficial holder of a Note Unit shall have requested that the Issuers issue to such beneficial holder its proportionate interest in a global Note, the Issuers will issue certificated Notes Units which may bear the legend referred to under “Notice to Investors,” in exchange for the Global Notes. Holders of an interest in a global Note may receive certificated Notes Units, which may bear the legend referred to under “Notice to Investors,” in accordance with DTC’s rules and procedures in addition to those provided for under the Indenture; *provided, however*, that if the Issuers are issuing certificated Notes Units pursuant to clause (ii) above, the Issuers shall only be required to issue certificated Notes Units to the beneficial owners of the Notes Units who request certificated Notes Units.

The holder of a definitive Note Unit may transfer such Note Units by surrendering it at the office or agency maintained by Cielo and the Issuers for such purpose in the Borough of Manhattan, The City of New York, which initially will be the office of the Trustee. Upon the transfer, exchange or replacement of definitive Notes Units bearing the legend, or upon specific request for removal of the legend on a definitive Note Units, Cielo and the Issuers will deliver only definitive Notes Units that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to Cielo and the Issuers such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by Cielo and the Issuers, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Neither the Trustee nor any paying agent, registrar or transfer agent shall be required to register the transfer of or exchange definitive Notes Units for a period from the record date to the due date for any payment of principal of, or interest on, the Notes Units or register the transfer of or exchange any Notes Units for 15 days prior to selection for redemption through the date of redemption. For so long as the Notes Units are listed on the Official List of the Irish Stock Exchange and the rules of such exchange so require, in the case of a transfer or exchange of definitive registered Notes Unit, a holder thereof may effect such transfer or exchange by presenting and surrendering such Notes Units at, and obtaining new definitive registered Notes Units from the office of the transfer agent. In the case of a transfer of only part of a definitive registered Note Unit, a new definitive Note Unit in respect of the balance of the principal amount of the definitive registered Note Unit transferred will be delivered at the office of the transfer agent, and in the case of any lost, stolen, mutilated or destroyed definitive registered Note Unit, a holder thereof may obtain a new definitive registered Notes Units from the transfer agent.

Prior to presentment of a Note Unit for registration of transfer (including a global Note), Cielo, the Issuers, the Trustee and any agent of Cielo, the Issuers or the Trustee may treat the Person in whose name such Note Unit is

registered as the owner or holder of such Note Unit for the purpose of receiving payment of principal, interest and any Additional Amounts on such Note Unit and for all other purposes whatsoever, whether or not such Note Unit is overdue, and none of Cielo, the Issuers, the Trustee or any agent of Cielo or the Issuers shall be affected by notice to the contrary.

Additional Amounts

All payments by Cielo or its agents of principal and interest in respect of the Notes Units and Underlying Notes will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments, fees or other governmental charges of whatever nature imposed or levied by or on behalf of Brazil or any other jurisdiction (other than the United States) from or through which payments under the Notes Units are made (or any political subdivision or authority of or in the foregoing having power to tax) (each, a “Relevant Taxing Jurisdiction”), unless such withholding or deduction is required by law. In that event, Cielo will pay to each holder such additional amounts (“Additional Amounts”) as may be necessary in order that every net payment made by Cielo on each Notes Unit and Underlying Notes after deduction or withholding for or on account of any present or future tax, penalty, fine, duty, assessment or other governmental charge imposed upon or as a result of such payment by the relevant Taxing Jurisdiction will not be less than the amount then due and payable on such Notes Unit and Underlying Notes. The foregoing obligation to pay additional amounts, however, will not apply to or in respect of:

- (1) any tax, assessment or other governmental charge which would not have been imposed but for the existence of any present or former connection between such holder, on the one hand, and the Relevant Taxing Jurisdiction, on the other hand (including, without limitation, such holder being or having been a citizen or resident thereof or, having been engaged in a trade or business therein, having been organized or incorporated therein or having, or having had, a permanent establishment therein), other than the mere receipt of such payment or the ownership or holding of such note;
- (2) any tax, assessment or other governmental charge which would not have been so imposed but for the presentation by such holder for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
- (3) any tax, duty, assessment or other governmental charge to the extent that such tax, duty, assessment or other governmental charge would not have been imposed but for the failure of such holder to comply with any certification, identification or other reporting requirements concerning the nationality, residence, identity or connection with the Relevant Taxing Jurisdiction of the holder if (a) such compliance is required or imposed by statute, regulation or administrative practice of the taxing jurisdiction as a precondition to exemption from all or a part of such tax, duty, assessment or other governmental charge and (b) at least 30 days prior to the date on which Cielo will apply this clause (3), Cielo will have notified all holders of Notes Units and Underlying Notes that some or all holders of Notes Units and Underlying Notes will be required to comply with such requirement;
- (4) any estate, inheritance, gift, sales, transfer, excise or personal property or similar tax, assessment or governmental charge;
- (5) any tax, assessment or other governmental charge imposed on a payment to an individual and that is required to be made pursuant to any law implementing or complying with, or introduced in order to conform to, any European Union Directive on the taxation of savings;
- (6) any tax, assessment or other governmental charge which would have been avoided by a holder presenting the relevant Notes Unit and Underlying Notes (if presentation is required) or requesting that such payment be made to another paying agent in a member state of the European Union;

- (7) any tax, assessment or other governmental charge which is payable other than by deduction or withholding from payments on the Notes Unit and Underlying Notes; or
- (8) any combination of the above.

Notwithstanding anything to the contrary under this “—Additional Amounts” covenant, none of the Issuers, the Guarantor, any paying agent or any other person shall be required to pay any additional amounts with respect to any withholding or deduction imposed on or in respect of any Notes Units pursuant to Sections 1471-1474 of the Code (and any current and future regulations or official interpretations thereof) (“FATCA”), the laws of Brazil implementing FATCA, or any agreement between the Issuers and the United States or any authority thereof entered into FATCA purposes.

Cielo will also pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise in any jurisdiction from the execution, delivery, registration or the making of payments in respect of the Notes Units and Underlying Notes, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside of the Relevant Taxing Jurisdiction other than those resulting from, or required to be paid in connection with, the enforcement of the Notes Units and Underlying Notes following the occurrence of any Default or Event of Default (as defined below under “—Events of Default”).

No additional amounts will be paid with respect to a payment on any Notes Unit and Underlying Notes to a holder that is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent a beneficiary or settlor with respect to such fiduciary or a member of such partnership or beneficial owner would not have been entitled to receive payment of the additional amounts had the beneficiary, settlor, member or beneficial owner been the holder of the Notes Unit and Underlying Notes.

Cielo will provide the Trustee with the official acknowledgment of the relevant taxing authority (or, if such acknowledgment is not available, a certified copy thereof) evidencing any payment of Brazilian taxes in respect of which Cielo has paid any additional amounts. Copies of such documentation will be made available to the holders of the Notes Units and Underlying Notes or the paying agents, as applicable, upon request therefor.

If any Irish paying agent is appointed and such Irish paying agent becomes obligated to withhold or deduct tax on payments of interest or similar income related to the Notes Units and Underlying Notes, the Issuers shall, to the extent permitted by law, ensure to maintain an additional paying agent in a member state of the European Union that is not obligated to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings.

All references in this offering memorandum to principal of, premium, if any, and interest on the Notes Units and Underlying Notes will include any additional amounts payable by the Issuers in respect of such principal, such premium, if any, and such interest.

Covenants

Limitation on Liens

So long as any Notes Unit and Underlying Note remains outstanding, Cielo will not, nor will it permit any of its Significant Subsidiaries to, create or suffer to exist any Liens (other than Permitted Liens) upon any part of Cielo’s or such Significant Subsidiary’s Property, present or future, to secure any Indebtedness (the “Initial Lien”) unless the Notes Units and Underlying Notes are secured equally and ratably with (or prior to) such secured Indebtedness; *provided, however*, that any Lien created for the benefit of the holders of the Notes Units and Underlying Notes (and, if applicable, holders of such other Indebtedness or obligations) pursuant to the foregoing shall provide by its terms that such Lien will be automatically and unconditionally released and discharged upon release and discharge of the Initial Lien.

Limitation on Sale and Lease-Back Transactions

So long as any Notes Unit and Underlying Note remains outstanding, Cielo will not, nor will it permit any of its Significant Subsidiaries to, enter into any Sale and Lease-Back Transaction with respect to any Property, unless either:

- (1) Cielo or such Significant Subsidiary would be entitled to incur Indebtedness secured by a Lien on the Property involved in such Sale and Lease-Back Transaction at least equal in amount to the Attributable Debt with respect to such Sale and Lease-Back Transaction, without equally and ratably securing the Notes Units and Underlying Notes, pursuant to the covenant described above under the caption “—Limitations on Liens”; or
- (2) the proceeds of such Sale and Lease-Back Transaction are at least equal to the Fair Market Value of the affected Property and Cielo applies an amount equal to the net proceeds of such Sale and Lease-Back Transaction within 180 days of such Sale and Lease-Back Transaction to any (or a combination) of (x) the prepayment or repurchase of the Notes Units and the Underlying Notes, (y) the prepayment or repurchase (other than any mandatory repurchase, mandatory prepayment or sinking fund payment or by payment at maturity) of Cielo’s or such Significant Subsidiary’s other Indebtedness (other than Indebtedness that is subordinated to the Notes Units and Underlying Notes or Indebtedness owed to Cielo or its Subsidiaries) that matures more than 12 months after the date of the Sale and Lease-Back Transaction or (z) the purchase, construction, development, expansion or improvement of other comparable Property.

These restrictions will not apply to: (i) transactions providing for a lease term of not more than three years; and (ii) transactions between Cielo and any of its Significant Subsidiaries or between any of Cielo’s Significant Subsidiaries.

General Liens Basket

Notwithstanding the limitations on “—Covenants—Limitation on Liens” and “—Covenants—Limitation on Sale and Lease-Back Transactions,” and without limiting Cielo’s or any of its Significant Subsidiaries’ ability to issue, incur, create, assume or guarantee Indebtedness secured by Permitted Liens, Cielo, Cielo USA and any of their Significant Subsidiaries will be permitted to incur Indebtedness secured by a Lien or to enter into a Sale and Lease-Back Transaction, in either case, without regard to the restrictions contained in “—Covenants—Limitation on Liens” and “—Covenants—Limitation on Sale and Lease-Back Transactions” if at the time the Indebtedness is incurred and after giving effect to this Indebtedness and to the repurchase of any Indebtedness which is concurrently being repurchased, the sum of (i) the aggregate principal amount of all Indebtedness of Cielo and its Significant Subsidiaries secured by Liens other than Permitted Liens, and (ii) the Attributable Debt (if any) of all of Cielo’s and its Significant Subsidiaries’ Sale and Lease-Back Transactions not otherwise permitted by the provisions described under “—Covenants—Limitation on Sale and Lease-Back Transactions,” does not exceed 20% of the Consolidated Net Tangible Assets of Cielo. At September 30, 2012, Cielo’s Consolidated Net Tangible Assets were R\$1,445.4 million, based on Cielo’s consolidated financial statements as of and for the nine-month period ended September 30, 2012.

Limitation on Consolidations, Mergers or Business Combinations

So long as any Notes Unit and Underlying Note remains outstanding, (i) neither of Cielo or Cielo USA will merge, consolidate or otherwise combine with any other Person and (ii) Cielo will not sell or otherwise dispose of all or substantially all of its Property (measured on a consolidated basis), unless: (a) the corporation (if other than Cielo or Cielo USA, as applicable) formed by or resulting from any such consolidation or merger, or which (in the case of a sale or disposal by Cielo pursuant to clause (ii) above) shall have received such Property, shall be a corporation organized under the laws of Brazil or any political subdivision thereof, the United States of America, any state thereof or the District of Columbia, or any other country member of the Organization for Economic Co-operation and Development (OECD) and shall assume, by supplemental indenture, payment of the principal of and

interest on the Cielo Notes or the Cielo USA Notes, as applicable, and the performance and observance of all other obligations thereunder to be performed by Cielo (including, in the case of a successor corporation to Cielo, the Guarantee) or Cielo USA, as applicable, by supplemental indenture, executed and delivered to the Trustee; (b) no Default or Event of Default shall, after giving effect to such transaction, have occurred and be continuing with respect to the Notes Units and Underlying Notes; (c) any authorization required to obtain and transfer U.S. dollars or any other currency which at that time is legal tender in the United States out of Brazil, or the jurisdiction of the successor corporation, in connection with the conditions of this paragraph remains in full force; and (d) Cielo or the surviving entity will have delivered to the Trustee an Officers' Certificate and an opinion of counsel each stating that such merger, consolidation, combination, sale or disposition and such supplemental indenture, if any, comply with the Indenture. The Trustee will be entitled to conclusively rely on and will accept such Officers' Certificate and opinion of counsel as sufficient evidence of the satisfaction of the conditions precedents set forth in this covenant.

Notwithstanding anything to the contrary in the foregoing, so long as no Default or Event of Default shall have occurred and is continuing at the time of such proposed transaction or would result therefrom, any of Cielo's Subsidiaries may merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of assets to, Cielo or any of its other Subsidiaries.

Other Covenants

In addition, the Indenture will contain customary covenants (subject to customary exceptions, qualifications and thresholds) regarding permitted lines of business, the performance of each Issuer's obligations under the Notes Units and Underlying Notes, the maintenance of each Issuer's corporate existence, the maintenance of each Issuer's properties, the compliance with applicable laws, maintenance of each of the Issuer's governmental approvals, each Issuer's payment of taxes and other claims, the appointment of the Trustee, the maintenance of an office or agency in the State of New York, the ranking of the Notes Units and further actions.

Repurchases at the Option of the Holders of the Notes Units Upon a Change of Control Triggering Event

If a Change of Control Triggering Event occurs, each holder of Notes Units will have the right to require Cielo to repurchase all or any part (in integral multiples of US\$1,000) of that holder's Notes Units and each Issuer to repurchase all or any part of such Issuer's corresponding Underlying Notes pursuant to a Change of Control Offer (as defined below) on the terms set forth in the Indenture. No such purchase in part shall reduce the outstanding principal amount at maturity of the Notes Units held by any holder to below US\$200,000. In the Change of Control Offer, the Issuers will offer a "Change of Control Payment" in U.S. dollars equal to 101% of the aggregate principal amount of Notes Units repurchased plus accrued and unpaid interest and Additional Amounts, if any, on the Underlying Notes relating to the Notes Units repurchased, to the date of purchase (subject to the right of the holders of record on the relevant Record Date to receive interest and Additional Amounts, if any, on the relevant interest payment date).

Within 30 days following any Change of Control Triggering Event, Cielo or the Issuers will make a "Change of Control Offer" by notice to each holder of Notes Units (a copy of which will be delivered to the Trustee) by mailing and publishing such notice in accordance with the provision set out under "—Notices" below, describing the transaction or transactions that constitute the Change of Control Triggering Event and offering to repurchase Notes Units on the date specified in the notice (the "Change of Control Payment Date"), which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the Indenture and described in such notice.

Cielo and the Issuers will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other applicable securities laws or regulations in connection with the repurchase of Notes Units and Underlying Notes pursuant to this covenant. To the extent that the provisions of any applicable securities laws or regulations conflict with provisions of this covenant, Cielo and the Issuers will comply with the applicable securities laws and regulations and will not be deemed to have breached their obligations under this covenant by virtue of their compliance with such securities laws or regulations.

On the Change of Control Payment Date, Cielo or the Issuers will, to the extent lawful:

- (1) accept for payment all Notes Units or portions of Notes Units properly tendered pursuant to the Change of Control Offer;
- (2) deposit with a paying agent an amount in U.S. dollars equal to the Change of Control Payment in respect of all Notes Units or portions of Notes Units properly tendered; and
- (3) deliver or cause to be delivered to the Trustee the Notes Units properly accepted together with an Officers' Certificate stating the aggregate principal amount of Notes Units or portions of Notes Units being purchased by Cielo and the Issuers.

The paying agents will promptly mail to each holder of Notes Units properly tendered the Change of Control Payment in U.S. dollars for such Notes Units, and the Trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder new Notes Units equal in principal amount to any unpurchased portion of the Notes Units surrendered, if any; *provided* that each new Notes Units will be in a principal amount of at least US\$200,000 and integral multiples of US\$1,000 in excess thereof. Cielo or the Issuers will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require Cielo or the Issuers to make a Change of Control Offer following a Change of Control Triggering Event will be applicable whether or not any other provisions of the Indenture are applicable (except as set forth below). Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the holders of the Notes Units to require that Cielo and the Issuers repurchase or redeem the Notes Units in the event of a takeover, recapitalization or similar transaction.

Cielo and the Issuers will not be required to make a Change of Control Offer upon a Change of Control Triggering Event if (i) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements, set forth in the Indenture, that are applicable to a Change of Control Offer made by Cielo and the Issuers and such third party purchases all Notes Units properly tendered and not withdrawn under the Change of Control Offer or (ii) notice of redemption for all outstanding Notes Units has been given pursuant to the Indenture, set forth in the Indenture, unless and until there is a default in payment of the applicable redemption price.

A Change of Control Offer may be made in advance of a Change of Control Triggering Event and conditioned upon the occurrence of such Change of Control Triggering Event if a definitive agreement is in place for the Change of Control Triggering Event at the time of making of the Change of Control Offer.

Reporting Requirements

Cielo will provide the Trustee with the following:

- (1) an English language version of Cielo's annual audited consolidated financial statements prepared in accordance with Applicable GAAP not later than 120 days after the close of Cielo's fiscal year, provided that any document publicly available in English on Cielo's website will be deemed to have been furnished to the Trustee for purposes of this provision;
- (2) an English language version of Cielo's unaudited quarterly consolidated financial statements prepared in accordance with Applicable GAAP not later than 60 days after the close of each fiscal quarter (other than the fourth fiscal quarter), provided that any document publicly available in English on Cielo's website will be deemed to have been furnished to the Trustee for purposes of this provision;
- (3) without duplication, a copy of such other reports or notices as may be filed or submitted by (within 30 days from the date of such filing or submission by) Cielo as a publicly held company in Brazil with (a) the São Paulo stock exchange of BM&FBovespa, or (b) the Irish Stock Exchange or any other stock exchange on which the Notes Units may be listed (in each case, to the extent

that any such report or notice is generally available to Cielo's security holders or the public in Brazil or elsewhere), provided that any document publicly available on Cielo's website will be deemed to have been furnished to the Trustee for purposes of this provision; and

- (4) within 5 days of the directors or executive officers of Cielo or Cielo USA becoming aware of the existence of a Default or Event of Default, an Officers' Certificate setting forth the details thereof and the actions which the Guarantor and/or the Issuers are taking or propose to take with respect thereto.

Delivery of the above reports to the Trustee is for informational purposes only and the Trustee's receipt of such reports will not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuers' compliance with any of the covenants in the Indenture (as to which the Trustee is entitled to rely conclusively on Officers' Certificates).

Events of Default

An "Event of Default" occurs if:

- (1) either of the Issuers defaults in any payment of interest (including any Additional Amounts) on any Underlying Note when the same becomes due and payable, and such default continues for a period of 30 days;
- (2) either of the Issuers defaults in the payment of the principal (including any Additional Amounts) of any Underlying Note when the same becomes due and payable upon redemption or otherwise;
- (3) the Guarantor or either of the Issuers fails to comply with any covenants or agreements in the Notes Units, Underlying Notes or the Indenture (other than those referred to in (1) and (2) above), and such failure continues for 60 days after the notice specified below;
- (4) the Guarantor or any of its Significant Subsidiaries defaults under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Guarantor or by such Significant Subsidiary (or the payment of which is guaranteed by the Guarantor or by such Significant Subsidiary) whether such Indebtedness for borrowed money or guarantee now exists, or is created after the date of the Indenture, which default (a) is caused by failure to pay principal of or premium, if any, or interest on such Indebtedness for borrowed money after giving effect to any grace period provided in such Indebtedness for borrowed money on the date of such default ("Payment Default") or (b) results in the acceleration of such Indebtedness for borrowed money prior to its express maturity and, in each case, the principal amount of any such Indebtedness for borrowed money, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, totals US\$75.0 million (or the equivalent thereof in another currency at the time of determination) or more in the aggregate;
- (5) one or more final and nonappealable judgments or decrees for the payment of money of US\$75.0 million (or the equivalent thereof at the time of determination) or more in the aggregate are rendered against the Guarantor or any of its Significant Subsidiaries and are not paid (whether in full or in installments in accordance with the terms of the judgment) or otherwise discharged and, in the case of each such judgment or decree, either (a) an enforcement proceeding has been commenced by any creditor upon such judgment or decree and is not dismissed within 90 days following commencement of such enforcement proceedings or (b) there is a period of 180 days following such judgment during which such judgment or decree is not discharged, waived or the execution thereof stayed;
- (6) the Guarantor, either of the Issuers or any Significant Subsidiary of Cielo is dissolved (except in connection with (i) a merger or restructuring in such a way that all of the assets and liabilities of

the Guarantor, such Issuer or such Significant Subsidiary pass to another legal Person in universal succession by operation of law or pursuant to a contractual agreement having the same effect, (ii) a corporate restructuring in such a way that all of the assets and liabilities of the Guarantor, such Issuer or such Significant Subsidiary pass to one of the Issuers or to another Subsidiary of Cielo or (iii) otherwise in compliance with the “—Limitation on Consolidations, Mergers or Business Combinations” covenant);

- (7) any involuntary case or other proceeding is commenced against the Guarantor, either of the Issuers or any Significant Subsidiary of Cielo with respect to it or its debts under any bankruptcy, insolvency, *recuperação judicial* or other similar law now or hereafter in effect seeking the appointment of a trustee, receiver, *administrador judicial*, liquidator, custodian or other similar official of it or any substantial part of its assets, and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 days; or a non-appealable final order for relief is entered against the Guarantor, either of the Issuers or any Significant Subsidiary of Cielo under relevant bankruptcy laws as now or hereafter in effect; or
- (8) the Guarantor, either of the Issuers or any Significant Subsidiary of Cielo (i) commences a voluntary case or other proceeding seeking liquidation, reorganization, *recuperação judicial* or *extrajudicial* or other relief with respect to itself or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (ii) consents to the appointment of or taking possession by a receiver, *administrador judicial*, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Guarantor, either of the Issuers or any Significant Subsidiary of Cielo or for all or substantially all of the assets of the Guarantor, either of the Issuers or any Significant Subsidiary of Cielo or (iii) effects any general assignment for the benefit of creditors.

A Default under clause (3) above will not constitute an Event of Default until the Trustee (acting at the written direction of holders of at least 25% in principal amount of the Notes Units and Underlying Notes) or the holders of at least 25% in principal amount of the Notes Units and Underlying Notes outstanding notify the Guarantor and the Issuers (with a copy to the Trustee) of the Default and the Guarantor or the Issuers do not cure such Default within the time specified after receipt of such notice.

The Trustee is not to be charged with knowledge of any Default or Event of Default or knowledge of any cure of any Default or Event of Default except for the occurrence of (1) or (2) above unless written notice of such Default or Event of Default has been received by an authorized officer of the Trustee with direct responsibility for the administration of the Indenture from Cielo, either of the Issuers or by any holder.

If an Event of Default (other than an Event of Default specified in clause (6) above with respect to the Guarantor or an Issuer) occurs and is continuing, the Trustee (acting at the written direction of holders of at least 25% in principal amount of the Notes Units and the Underlying Notes) or the holders of not less than 25% in principal amount of the Notes Units and the Underlying Notes then outstanding may declare all unpaid principal of and accrued interest on all Notes Units and the Underlying Notes to be due and payable immediately, by a notice in writing to the Issuers (with a copy to the Trustee, if provided by the holders), and upon any such declarations such amounts will become due and payable immediately. If an Event of Default specified in clause (6) above occurs with respect to the Guarantor or an Issuer and is continuing, then the principal of and accrued interest on all Notes Units will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any holder.

Subject to the provisions of the Indenture relating to the duties of the Trustee in case an Event of Default will occur and be continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders, unless such holders will have offered to the Trustee indemnity and/or security in connection with such exercise satisfactory to the Trustee. Subject to such provision for the indemnification of and/or providing of security to the Trustee, the holders of a majority in aggregate principal amount of the outstanding Notes Units will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee.

Satisfaction and Discharge

The Indenture will be discharged and (together with the Guarantee) will cease to be of further effect as to all Notes Units and Underlying Notes issued thereunder, when:

- (1)
 - (a) all Notes Units and Underlying Notes that have been authenticated, except lost, stolen or destroyed Notes Units and Underlying Notes that have been replaced or paid and Notes Units and Underlying Notes for whose payment money has been deposited in trust and thereafter repaid to the Issuers, have been delivered to the Trustee for cancellation; or
 - (b) all Notes Units and Underlying Notes that have not been delivered to the Trustee for cancellation (i) have become due and payable, (ii) will become due and payable at their Stated Maturity within one year or (iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of a redemption by the Trustee and, in each case, the Issuers have irrevocably deposited or caused to be deposited with the Trustee as funds in trust solely for the benefit of the holders, cash in U.S. dollars and/or U.S. Government Obligations, in amounts as will be sufficient without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the Notes Units and Underlying Notes not delivered to the Trustee for cancellation for principal, premium and Additional Amounts, if any, and accrued interest to the date of maturity or redemption;
- (2) no Default or Event of Default has occurred and is continuing on the date of the deposit or will occur as a result of the deposit and the deposit will not result in a breach or violation of, or constitute a default under, any other material instrument to which the Issuers are a party;
- (3) the Issuers have paid or caused to be paid all other sums payable by it under the Indenture; and
- (4) the Issuers have delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the Notes Units and Underlying Notes at maturity or the redemption date, as the case may be.

In addition the Issuers must deliver an Officer's Certificate and an opinion of counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

Defeasance

The Guarantor and Issuers may at any time terminate all of their obligations with respect to the Notes Units and Underlying Notes ("Defeasance"), except for certain obligations, including those regarding any trust established for a Defeasance and obligations to register the transfer or exchange of the Notes Units and Underlying Notes, to replace mutilated, destroyed, lost or stolen Notes Units and Underlying Notes and to maintain agencies in respect of Notes Units and Underlying Notes. The Guarantor and the Issuers may at any time terminate their obligations under certain covenants set forth in the Indenture, and any omission to comply with such obligations will not constitute a Default or an Event of Default with respect to the Notes Units and Underlying Notes issued under the Indenture ("Covenant Defeasance"). In order to exercise either Defeasance or Covenant Defeasance, the Guarantor and the Issuers must irrevocably deposit in trust, for the benefit of the holders of the Notes Units and Underlying Notes, with the Trustee money or U.S. Government Obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of an internationally recognized firm of independent public accountants or investment bank expressed in a written certificate delivered to the Trustee, without consideration of any reinvestment, to pay the principal of, and interest on the Notes Units and Underlying Notes to redemption or maturity and comply with certain other conditions, including the delivery of an opinion of counsel to the effect that the holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Defeasance and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same time as would otherwise have been the case (and in the case of a Defeasance that is not a Covenant Defeasance, such opinion shall be based on a change in law or a ruling of the U.S. Internal Revenue Service).

Substitution of the Issuers

Notwithstanding any other provision in the Indenture, either Issuer may, without the consent of the holders of the Notes Units and Underlying Notes (and by subscribing for any Notes Units, each holder of the Notes Units expressly consents thereto), be replaced and substituted by any Wholly-Owned Subsidiary of Cielo as principal debtor (in such capacity, the “Substituted Debtor”) in respect of the Notes Units and the Underlying Notes provided that:

- (1) such documents will be executed by the Substituted Debtor, each of the Issuers, the Guarantor and the Trustee as may be necessary to give full effect to the substitution, including a supplemental Indenture under which the Substituted Debtor assumes all of the relevant Issuer’s obligations under the Indenture, the Notes Units and the Underlying Notes (collectively, the “Issuer Substitution Documents”);
- (2) if the Substituted Debtor is organized in a jurisdiction other than Brazil, any state of the United States or the District of Columbia, the Issuer Substitution Documents will contain additional covenants (1) to ensure that each holder of the Notes Units and Underlying Notes has the benefit of a covenant by the Substituted Debtor in terms corresponding to the obligations of the relevant Issuer in respect of the payment of Additional Amounts, if any (but replacing references to Brazil therein with references to such jurisdiction of incorporation of the Substituted Debtor); and (2) to indemnify each holder and beneficial owner of the Notes Units and Underlying Notes against all taxes or duties (a) which arise by reason of a law or regulation in effect or contemplated on the effective date of the substitution, which may be incurred or levied against such holder or beneficial owner of the Notes Units and Underlying Notes as a result of the substitution and which would not have been so incurred or levied had the substitution not been made or (b) which are imposed on such holder or beneficial owner of the Notes Units and Underlying Notes by any political subdivision or taxing authority of any country in which such holder or beneficial owner resides; provided, that any holder or beneficial owner of such note making a claim with respect to such tax indemnity shall provide the Issuers with notice of such claim, along with supporting documentation, within four weeks of the announcement of the substitution of the Issuer; *provided, further*, that none of the Issuers, the Guarantor, any paying agent or any other person shall be required to indemnify any holder or beneficial owner of the Notes for any taxes imposed pursuant to FATCA, the laws of Brazil imposing FATCA, or any agreement between the Issuers and the United States or any authority thereof implementing FATCA;
- (3) the Guarantor and the relevant Issuer will deliver, or cause the delivery, to the Trustee, an opinion of counsel in the jurisdiction of organization of the Substituted Debtor as to the validity, legally binding effect and enforceability of the Issuer Substitution Documents;
- (4) if not organized under the laws of the state of New York, the Substituted Debtor will appoint a process agent in the Borough of Manhattan in The City of New York to receive service of process on its behalf in relation to any legal action or proceedings arising out of or in connection with the Notes Units, the Underlying Notes, the Indenture and the Issuer Substitution Documents;
- (5) in the case of substitution of Cielo as principal debtor under the Cielo Notes, Cielo will provide a guarantee in respect of the Cielo Notes in terms corresponding to the guarantee provided by Cielo under the Cielo USA Notes;
- (6) no Event of Default has occurred and is continuing; and
- (7) the substitution will comply with all applicable requirements under the laws of Brazil (in the case of substitution of Cielo), the laws of the state of Delaware (in the case of substitution of Cielo USA), the laws of the jurisdiction of incorporation of any successor or substituted principal debtor, and the laws of the jurisdiction of organization of the Substituted Debtor.

Upon the execution of the Issuer Substitution Documents and compliance with the other conditions in the Indenture relating to the substitution, the Substituted Debtor will be deemed to be named in the Notes Units, the Underlying Notes and the Indenture as the principal debtor with respect to the Notes Units and the Underlying Notes in place of the relevant Issuer. Except as set forth above, the execution of the Issuer Substitution Documents shall operate to release the relevant Issuer from all its obligations in respect of the Notes Units and the Underlying Notes and its obligation to indemnify the Trustee under the Indenture.

Not later than 10 Business Days after the execution of the Issuer Substitution Documents, the Substituted Debtor will give notice thereof to the holders of the Notes Units and Underlying Notes in accordance with the provisions of the Indenture.

Amendment, Supplement, Waiver

Subject to certain exceptions, the Indenture may be amended or supplemented with the consent of the holders of at least a majority in principal amount of the Notes Units then outstanding, and any past Default, Event of Default or compliance with any provision may be waived with the consent of the holders of at least a majority in principal amount of the Notes Units then outstanding. However, without the consent of each holder of an outstanding Notes Unit affected thereby, no amendment may:

- (1) reduce the rate of or extend the time for payment of interest on any Underlying Note;
- (2) reduce the principal, or extend the Stated Maturity, of any Underlying Note;
- (3) reduce the amount payable upon redemption of any Underlying Note or change the time at which any Underlying Note may be redeemed;
- (4) change the currency for payment of principal of, or interest on, any Underlying Note;
- (5) impair the right to institute suit for the enforcement of any payment on or with respect to any Underlying Note;
- (6) waive certain payment defaults with respect to the Underlying Notes;
- (7) reduce the principal amount of Notes Units and Underlying Notes whose holders must consent to any amendment or waiver; or
- (8) make any change in the amendment or waiver provisions which require each holder's consent.

The holders of the Notes Units and Underlying Notes will receive prior notice as described under “—Notices” of any proposed amendment to the Notes Units, Underlying Notes or the Indenture described in this paragraph. After an amendment described in the preceding paragraph becomes effective, the holders will receive under the terms “—Notices” a notice briefly describing such amendment. However, the failure to give such notice to all holders of the Notes Units and Underlying Notes, or any defect therein, will not impair or affect the validity of the amendment.

The consent of the holders of the Notes Units and Underlying Notes is not necessary to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

The Guarantor, the Issuers and the Trustee may, without the consent or vote of any holder of the Notes Units and Underlying Notes, amend or supplement the Indenture or the Underlying Notes for the following purposes:

- (1) to cure any ambiguity, omission, defect or inconsistency;
- (2) to add guarantees or collateral with respect to the Notes Units and Underlying Notes;

- (3) to add to the Guarantor's or the Issuers' covenants for the benefit of holders of the Notes Units and Underlying Notes;
- (4) to surrender any right conferred by the Indenture, the Notes Units or the Underlying Notes upon the Issuers or the Guarantor;
- (5) to evidence and provide for the acceptance of an appointment of a successor Trustee;
- (6) to comply with any requirements of the SEC in connection with any qualification of the Indenture under the U.S. Trust Indenture Act of 1939, as amended;
- (7) to provide for the issuance of Additional Notes;
- (8) to make any other change that does not materially and adversely affect the rights of any holder of the Notes Units and Underlying Notes; or
- (9) conform the text of the Indenture to any provision of this "Description of the Notes Units."

As a condition of its execution of any amendment or supplement to the Indenture, the Notes Units or the Underlying Notes, the Trustee shall be entitled to receive and rely upon an Officers' Certificate and an opinion of counsel, both documents opining as to the compliance of such amendment or supplement with the provisions of the Indenture, the Notes Units and Underlying Notes.

Enforceability of Judgments

Since Cielo is incorporated in Brazil and its Subsidiaries (other than Cielo USA and its U.S. Subsidiaries) may be incorporated in various non-U.S. jurisdictions, including Brazil, and all its and their operating assets may be outside the United States, any judgment obtained in the United States against Cielo, including judgments with respect to the payment of principal, premium, interest, Additional Amounts and any purchase price with respect to the Notes Units and Underlying Notes, may not be collectable within the United States. See "Enforceability of Civil Liabilities."

Irish Listing

Application has been made to list the Notes Units on the Official List of the Irish Stock Exchange and admit the Notes Units to trade on the Global Exchange Market of the Irish Stock Exchange, and the Issuers will use their commercial best efforts to obtain and maintain listing of the Notes Units on the Official List of the Irish Stock Exchange; however, the Notes Units are not yet listed and the Issuers cannot assure the holders of the Notes Units that they will be accepted for listing.

Notices

All notices shall be deemed to have been given upon the mailing by first class mail, postage prepaid, of such notices to the holders of the Notes Units at their registered addresses as recorded in the Notes Units Register not later than the latest date, and not earlier than the earliest date, prescribed in the Notes Units for the giving of such notice.

As long as the Notes Units are listed on the Official List of the Irish Stock Exchange and the rules of such exchange so require, the Issuers will also give notices to the holders of the Notes Units by publication through the Irish Stock Exchange's Companies Announcement Office. The holders of the Notes Units will be presumed to have received these notices on the date the Issuers first publish them. If the Issuers are unable to give notice as described in this paragraph because publication through the Irish Stock Exchange's Companies Announcement Office is suspended or it is otherwise impractical for the Issuers to publish the notice, then the Issuers, or the Trustee acting on the Issuers' instructions and at their expense, will give the holders of the Notes Units notice in another form. That alternate form of notice will be sufficient notice to the holders of the Notes Units.

Neither the failure to give any notice to a particular holder of Notes Units, nor any defect in a notice given to a particular holder of Notes Units, will affect the sufficiency of any notice given to another holder of Notes Units.

Governing Law; Consent to Jurisdiction and Service of Process

The Indenture and the Notes Units provide that they will be governed by, and construed in accordance with, the laws of the State of New York. The Guarantor and the Issuers have consented to the jurisdiction of the courts of the State of New York and the United States courts located in the Borough of Manhattan, New York City, New York with respect to any action that may be brought in connection with the Indenture or the Notes Units or Underlying Notes and have irrevocably appointed National Corporate Research Ltd., 10 East 40th Street, 10th Floor, New York, New York 10016, as agent for service of process.

Currency Indemnity

U.S. dollars are the sole currency of account and payment for all sums payable by the Issuers and the Guarantor under or in connection with the Notes Units and Underlying Notes, including damages. Any amount received or recovered in a currency other than dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of either of the Issuers or the Guarantor or otherwise) by any holder of a Note Unit in respect of any sum expressed to be due to it from either of the Issuers or the Guarantor will only constitute a discharge to the relevant Issuer or Guarantor to the extent of the dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery. The Guarantor and the Issuers have agreed, and each holder by holding such Notes Unit will be deemed to have agreed, to the fullest extent that the Guarantor and the Issuers may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures such holder could purchase U.S. dollars with such other currency in New York City, New York on such date (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that dollar amount is less than the dollar amount expressed to be due to the recipient under any Notes Unit and Underlying Notes, the Issuers and the Guarantor will indemnify such holder against any loss sustained by it as a result; and if the amount of United States dollars so purchased is greater than the sum originally due to such holder, such holder will, by accepting a Notes Unit and Underlying Notes, be deemed to have agreed to repay such excess. In any event, the Issuers and the Guarantor will indemnify the recipient against the cost of making any such purchase.

For the purposes of the preceding paragraph, it will be sufficient for the holder of a Notes Unit and Underlying Notes to certify in a satisfactory manner (indicating the sources of information used) that it would have suffered a loss had an actual purchase of dollars been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of dollars on such date had not been practicable, on the first date on which it would have been practicable, it being required that the need for a change of date be certified in the manner mentioned above). These indemnities constitute a separate and independent obligation from other obligations of the Issuers and the Guarantor, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any holder of a Notes Unit and Underlying Notes and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Notes Unit and Underlying Notes.

Trustee

The Bank of New York Mellon is the Trustee under the Indenture. The Issuers may have normal banking relationships with the Trustee and its affiliates in the ordinary course of business. So long as no Default has occurred and is continuing, the Issuers may remove the Trustee and appoint a new Trustee, subject to the terms and conditions of the Indenture.

Certain Definitions

Set out below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all such terms as well as any other capitalized terms used herein for which no

definition is provided. Unless the context otherwise requires, an accounting term not otherwise defined has the meaning assigned to it under and in accordance with Applicable GAAP.

“Additional Amounts” has the meaning given to it under “—Additional Amounts.”

“Additional Notes Units” has the meaning given to it under “—General.”

“Affiliate” means, with respect to any specified Person, (i) any other Person which, directly or indirectly, is in control of, is controlled by or is under common control with such specified Person or (ii) any other Person who is a director or officer (a) of such specified Person, (b) of any subsidiary of such specified Person or (c) of any Person described in clause (i) above. For purposes of this definition, control of a Person means the power, direct or indirect, to direct or cause the direction of the management and policies of such Person whether by contract or otherwise and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Applicable GAAP” means International Financial Reporting Standards as in effect from time to time.

“Attributable Debt” in respect of a Sale and Lease-Back Transaction means, as at the time of determination, the present value (discounted at the interest rate borne by the Underlying Notes, compounded annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale and Lease-Back Transaction (including any period for which such lease has been extended).

“Authorized Officer” means, as applied to any Person, any individual holding the position of chairman of the board (if an officer), chief executive officer, president, vice president (or the equivalent thereof), chief financial officer or treasurer of such Person.

“Board of Directors” means, with respect to any Person, the board of directors of such Person or any committee thereof duly authorized to act on behalf of the board of directors of such Person, or similar governing body of such Person, including any managing partner or similar entity of such Person.

“Brazil” means The Federative Republic of Brazil (The Republic of Brazil) and any branch of power, ministry, department, authority or statutory corporation or other entity (including a trust) owned or controlled directly or indirectly by it or any of the foregoing or created by law as a public entity.

“Business Day” means each day that is not a Saturday, Sunday or other day on which banking institutions in New York City, New York or São Paulo, Brazil are authorized or required by law to close.

“Capital Lease Obligations” means, with respect to any Person, any obligation which is required to be classified and accounted for as a capital lease on the face of a balance sheet of such Person prepared in accordance with Applicable GAAP; the amount of such obligation will be the capitalized amount thereof, determined in accordance with Applicable GAAP; and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

“Change of Control” means:

(1) any Person or “group” (within the meaning of Rules 13d-3 and 13d-5 under the Exchange Act) other than one or more Permitted Holders (a) shall have acquired beneficial ownership or control of more than 50% on a fully diluted basis of the voting interest in the Equity Interests of Cielo or (b) shall have obtained the power (whether or not exercised) to elect a majority of the members of the Board of Directors (or similar governing body) of Cielo;

(2) Cielo shall cease to beneficially own and control more than 50% on a fully diluted basis of the voting interest in the Equity Interests of Cielo USA; or

(3) individuals who on the Closing Date constituted the Board of Directors (or similar governing body) of the Guarantor (together with any new directors whose appointment, election or nomination for election was approved by (i) a majority of whom were directors at the time of such appointment, election or nomination or (ii) one or more Permitted Holders) cease for any reason to constitute a majority of the Board of Directors then in office.

“Change of Control Offer” has the meaning given to it under “—Repurchases at the Option of the Holders of the Notes Units Upon Change of Control.”

“Change of Control Payment” has the meaning given to it under “—Repurchases at the Option of the Holders of the Notes Units Upon Change of Control.”

“Change of Control Payment Date” has the meaning given to it under “—Repurchases at the Option of the Holders of the Notes Units Upon Change of Control.”

“Change of Control Triggering Event” means the occurrence of both a Change of Control and a Rating Decline occurring in respect of that Change of Control.

“Clearstream” means Clearstream Banking, société anonyme, Luxembourg.

“Closing Date” means November 16, 2012.

“Consolidated Net Tangible Assets” means, at any date, the aggregate amount of Cielo and its Subsidiaries’ assets (net of applicable reserves) after deducting therefrom (a) all goodwill, tradenames, trademarks, patents, unamortized debt discount and expense and other like intangibles and (b) all current liabilities (excluding any current liabilities for money borrowed having a maturity of less than 12 months but by its terms being renewable or extendible beyond 12 months from such date at the option of the borrower), all as reflected in Cielo’s most recent consolidated balance sheet as of the last day of the most recent financial statements are available, prepared in accordance with Applicable GAAP, calculated on a *pro forma* basis to give effect to any acquisition or disposition of companies, divisions, lines of businesses or operations by Cielo and its Subsidiaries subsequent to such date and on or prior to the date of determination.

“Covenant Defeasance” has the meaning given to it under “—Defeasance.”

“Credit Rating” means a credit rating published by any Rating Agency.

“CVM” means the Brazilian Securities and Exchange Commission (*Comissão de Valores Mobiliários*).

“Default” means any event which is, or after notice or passage of time or both would be, an Event of Default.

“Defeasance” has the meaning given to it under “—Defeasance.”

“Euroclear” means Euroclear Bank, S.A./N.V.

“Equity Interests” means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation), including partnership interests and membership interests, and any and all warrants, rights or options to purchase or other arrangements or rights to acquire any of the foregoing.

“Event of Default” has the meaning given to it under “—Events of Default.”

“Excess Additional Amounts” has the meaning given to it under “—Optional Tax Redemption.”

“Exchange Act” means the United States Securities and Exchange Act of 1934, as amended.

“Fair Market Value” means, with respect to any asset or property, the sale value that would be obtained in an arms’-length free market transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy. Fair Market Value shall be determined by the board of directors of the relevant company on a reasonable basis.

“Fitch” means Fitch Rating Inc. and its successors.

“Global Notes Unit” has the meaning given to it under “—Form of Notes Units.”

“Hedging Obligations” of any Person means the obligations of such Person under any Hedging Agreement.

“Indebtedness” means, with respect to any Person on any date of determination (without duplication):

- (1) all principal of and premium in respect of all indebtedness of such Person for borrowed money;
- (2) all deferred purchase price of any Property or services and obligations created or arising under any conditional sales or other title retention agreements with respect to any Property acquired by such Person (including, without limitation, indebtedness under any such agreement which provides that the rights and remedies of the seller or lender thereunder in the event of default are limited to repossession or sale of such Property or that incurred a deferred purchase price of Property, but excluding trade accounts payable or other short-term obligations to suppliers, payable within 180 days, in each case, arising in the ordinary course of business);
- (3) all Hedging Obligations;
- (4) all letters of credit and Capital Lease Obligations;
- (5) all direct or indirect guarantees (including, without limitation, avals) of such Person in respect of, and all obligations (contingent or otherwise) of such Person to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of any indebtedness or obligation referred to in paragraphs (1), (2) or (3) of this definition of any other Person;
- (6) all indebtedness and obligations referred to in paragraphs (1), (2), (3) or (4) of this definition secured by (or for which the Person in whose favor such indebtedness or obligation has been created has an existing right, contingent or otherwise, to be secured by) any Lien upon or in any Property or assets of such Person, even though such Person has not assumed or become liable for the payment of such indebtedness or obligations, *provided, however*, that the amount of indebtedness of such Person shall be the lesser of (i) the Fair Market Value of such asset at such date of determination and (ii) the amount of such indebtedness of such other Person; and
- (7) any other obligation that is required to be or that is included in the financial statements as indebtedness.

“Indenture” has the meaning given to it in the first paragraph of this Description of the Notes Units.

“Investment Grade Rating” means a Credit Rating equal to or higher than Baa3 (or the equivalent) by Moody’s, BBB- (or the equivalent) by S&P and BBB- by Fitch (or the equivalent) or the equivalent investment grade credit rating from any additional Rating Agency or Rating Agencies selected by Cielo.

“Issuers” has the meaning given to it in the first paragraph of this Description of the Notes Units.

“Lien” means any lien, mortgage, pledge, assignment, security interest, charge or encumbrance of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, and any lease or license in the nature thereof) and any option, trust or other preferential arrangement having the practical effect of any of the foregoing.

“Moody’s” means Moody’s Investors Service, Inc.

“Notes Units” has the meaning given to it in the first paragraph of this Description of the Notes Units.

“Officers’ Certificate” means a certificate signed by two Authorized Officers of Cielo.

“Permitted Holders” means Banco Bradesco S.A., Banco do Brasil S.A. or any of their respective Affiliates.

“Permitted Lien” means:

- (1) Liens for taxes if obligations with respect to such taxes are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted and adequate reserves have been made in accordance with Applicable GAAP;
- (2) statutory Liens of landlords, banks (and rights of setoff), of carriers, warehousemen, mechanics, repairmen, workmen and materialmen, and other Liens imposed by law, in each case incurred in the ordinary course of business (i) for amounts not yet overdue or (ii) for amounts that are overdue and that (in the case of any such amounts overdue for a period in excess of five days) are being contested in good faith by appropriate proceedings, so long as such reserves or other appropriate provisions, if any, as shall be required by Applicable GAAP shall have been made for any such contested amounts;
- (3) Liens incurred in the ordinary course of business in connection with workers’ compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, trade contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money or other Indebtedness);
- (4) easements, rights-of-way, restrictions, encroachments, and other minor defects or irregularities in title, in each case which do not and will not interfere in any material respect with the ordinary conduct of the business of Cielo or any of its Significant Subsidiaries;
- (5) any interest or title of a lessor or sublessor under any lease of real estate permitted hereunder;
- (6) Liens solely on any cash earnest money deposits made by Cielo or any of its Significant Subsidiaries, as the case may be, or any of their respective Subsidiaries in connection with any letter of intent or purchase agreement permitted hereunder;
- (7) purported Liens evidenced by the filing of precautionary UCC financing statements relating solely to operating leases of personal property entered into in the ordinary course of business;
- (8) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;
- (9) any zoning or similar law or right reserved to or vested in any governmental office or agency to control or regulate the use of any real property;
- (10) non-exclusive outbound licenses of patents, copyrights, trademarks and other intellectual property rights granted by Cielo or any of its Significant Subsidiaries in the ordinary course of business and not interfering in any respect with the ordinary conduct of or materially detracting from the value of the businesses of Cielo or such Significant Subsidiaries;
- (11) Liens created solely for the purpose of securing the payment of all or a part of the purchase price (or the cost of construction or improvement, and any related transaction fees and expenses) of assets or Property (including Equity Interests of any Person) acquired, constructed or improved after the date hereof; provided, that (a) the aggregate principal amount of Indebtedness secured by

such Liens shall not exceed the purchase price of the assets or Property so acquired, constructed or improved, (b) such Liens shall not encumber any assets or Property other than the assets or Property so acquired, constructed or improved and (c) other than any unimproved real property on which the Property so constructed, or the improvement, is located shall attach to such assets or Property within 365 days of the construction, acquisition or improvement of such assets or Property; and provided, further, that to the extent that the Property or asset acquired is Equity Interests, and subject to the limitations in clause (c) above, the Lien also may encumber other Property or assets of the Person so acquired, and provided, further, that any Lien is permitted to be incurred on the Equity Interests of any Person securing any Indebtedness of that Person that is (i) non-recourse to Cielo and (ii) incurred solely for purposes of financing the acquisition, construction or improvement of any Property or assets of such Person;

- (12) Liens on accounts receivable and related assets in connection with any credit facility, including export or import financings and other trade transactions, or in connection with any securitization transaction provided that the aggregate amount of any receivables permitted pursuant to this clause (12) securing Indebtedness shall not exceed: (a) with respect to transactions related to revenues from exports, 80% of such Person's consolidated net sales from exports; or (b) with respect to transactions related to revenues from domestic sales, 80% of such Person's consolidated net sales in the jurisdiction in which such Person is located;
- (13) Liens granted to secure borrowings from (i) Banco Nacional de Desenvolvimento Econômico e Social – BNDES, Agência Especial de Financiamento Industrial – FINAME or any other federal, regional or state Brazilian governmental development bank or credit agency, or (ii) any international or multilateral development bank, government-sponsored agency, export-import bank or official export-import credit insurer;
- (14) Liens on Property or shares of Equity Interests of another Person at the time such other Person becomes a Subsidiary; provided, however, that the Liens may not extend to any other Property owned by such Person;
- (15) Liens on Property at the time such Person or any of its Subsidiaries acquires the Property, including any acquisition by means of a merger or consolidation with or into such Person or a Subsidiary of such Person; provided, however, that the Liens may not extend to any other Property owned by such Person;
- (16) Liens securing Indebtedness or other obligations of a Significant Subsidiary;
- (17) Liens in favor of letters of credit (issued pursuant to the request of, and for the account of, such Person in the ordinary course of its business);
- (18) Liens securing obligations under hedging agreements not for speculative purposes;
- (19) Liens existing on the Closing Date of the offering of the Notes Units and any Lien extending, renewing or replacing (or successive extensions, renewals or replacements of), in whole or in part, any Lien referred to in clauses (11), (13), (14) or (15) above or this clause (19); provided that the principal amount of Indebtedness secured thereby shall not exceed the principal amount of Indebtedness so secured at the time of such extension, renewal or replacement, except for any increase reflecting premiums, fees and expenses in connection with such extension, renewal or replacement, and that such extension, renewal or replacement shall be limited to all or a part of the Property which secured the Lien so extended, renewed or replaced (plus improvements on such Property); and
- (20) any Lien that does not fall within clauses (1) through (19) above and that secures Indebtedness in an aggregate amount not to exceed 15% of the total assets of Cielo on a consolidated basis, as

determined in accordance with Applicable GAAP as of the last day of the most recent fiscal quarter for which financial statements are available, giving pro forma effect to the acquisition or disposition of companies, divisions or lines of businesses, including any acquisition or disposition of a company, division or line of business that have occurred since the date of the financial statements for the then most recent fiscal quarter. To the extent that pro forma effect is to be given to an acquisition or disposition in making any such calculation, the pro forma calculation will be (x) based upon the most recent fiscal quarter for which the relevant financial information is available and (y) determined in good faith by an Authorized Officer of Cielo.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

“Property” means all assets, revenues, rights to receive income and other property (whether tangible or intangible) of the applicable Person.

“Rating Agencies” means S&P, Fitch or Moody’s.

“Rating Decline” means that at any time within 60 days (which period shall be extended so long as the rating of the Notes Units is under publicly announced consideration for possible down grade by any of the Rating Agencies) after the earlier of the date of public notice of a Change of Control and of the Guarantor’s intention or that of any Person to effect a Change of Control, (i) in the event the Notes Units are assigned an Investment Grade Rating (a) by more than two of the Rating Agencies prior to such public notice, the rating of the Notes Units by at least two of the Rating Agencies shall be below an Investment Grade Rating; or (b) by one or two of the Rating Agencies prior to such public notice, the rating of the Notes Units by one of the Rating Agencies shall be below an Investment Grade Rating; or (ii) in the event the Notes Units are rated below an Investment Grade Rating (a) by more than two of the Rating Agencies prior to such public notice, the rating of the Notes by at least two of the Rating Agencies shall be decreased by one or more categories; or (b) by one or two Rating Agencies prior to such public notice, the rating of the Notes Units by one of the Rating Agencies shall be decreased by one or more categories.

“Real,” “Reais” or R\$” means the lawful currency of Brazil.

“Relevant Date” has the meaning given to it under “—Additional Amounts.”

“Sale and Lease-Back Transaction” means any arrangement with any Person providing for the leasing by any of the Issuers or any of Cielo’s Significant Subsidiaries of any Property, whether now owned or hereafter acquired, which Property has been or is to be sold or transferred by Cielo or any of its Significant Subsidiaries to such Person.

“SEC” means the United States Securities and Exchange Commission.

“Securities Act” means the United States Securities Act of 1933, as amended.

“S&P” means Standard & Poor’s, a Division of The McGraw-Hill Companies, Inc.

“Significant Subsidiary” means Cielo USA and any other Subsidiary of Cielo, which at the time of determination either (i) had assets which, based on the consolidated balance sheet of Cielo for the fiscal quarter most recently ended for which internal financial statements are available, constituted at least 10% of the total assets of Cielo on a consolidated basis as of such date or (ii) had revenues for the 12-month period which, based on the consolidated income statements of Cielo for the fiscal quarter most recently ended for which internal financial statements are available, constituted at least 10% of the total revenues of Cielo on a consolidated basis for such period, in each case, (i) measured in accordance with Applicable GAAP and (ii) on a pro forma basis to give effect to any acquisition or disposition of companies, divisions, lines of businesses or operations by Cielo and its respective Subsidiaries subsequent to such date and on or prior to the date of determination.

“Stated Maturity” means, with respect to any Indebtedness, the date specified in such Indebtedness as the fixed date on which the final payment of principal of such Indebtedness is due and payable, including, with respect to any principal amount which is then due and payable pursuant to any mandatory redemption provision, the date specified for the payment thereof (but excluding any provision providing for the repurchase of any such Indebtedness upon the happening of any contingency beyond the control of the issuer of such security unless such contingency has occurred).

“Subsidiary” means, with respect to any Person (the “parent”) at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which more than 50% of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more Subsidiaries of such Person (or a combination thereof).

“Trustee” has the meaning given to it in the first paragraph of this Description of the Notes Units or any Person who replaces such Person in accordance with the terms of the Indenture.

“Underlying Notes” has the meaning given to it in the first paragraph of this Description of the Notes Units.

“United States” means United States of America.

“U.S. Government Obligations” means direct obligations (or certificates representing an ownership interest in such obligations) of the United States (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States is pledged and that are not callable or redeemable at the Issuers’ option.

“Voting Stock” of a Person means all classes of Equity Interests or other interests (including partnership interests) of such Person then outstanding that are entitled (without regard to the occurrence of any contingency) to vote in the election of the directors of such Person, but excluding such classes of Equity Interests or other interests that are entitled, as a group in a separate cast, to appoint one director of such Person as representative of the minority shareholders.

“Wholly-Owned Subsidiary” means any Subsidiary of a Person of which at least 95% of the outstanding Equity Interests or other ownership interests (other than directors’ qualifying shares) of such entity shall at the time be beneficially owned by such Person.

TAXATION

The following discussion contains a description of the material Brazilian and U.S. federal income tax considerations that may be relevant to the acquisition, ownership and disposition of notes units by a holder. This summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules. You should consult your own tax advisors about the tax consequences of investing in and holding the notes units, including the relevance to your particular situation of the considerations discussed below, as well as of state, local and other tax laws.

This summary is based upon tax laws of Brazil and the United States as in effect on the date of this offering memorandum, which are subject to change, possibly with retroactive effect, and to differing interpretations. You should consult your own tax advisors as to the Brazilian, the United States or other tax consequences of the acquisition, ownership and disposition of notes units.

Brazilian Taxation

The following discussion is a general description of certain Brazilian tax aspects of the Cielo Notes and the Cielo USA Notes applicable to a holder of the Cielo Notes or the Cielo USA Notes that is an individual, entity, trust or organization that is not resident or domiciled in Brazil for purposes of Brazilian taxation (“Non-Resident Holder”) and does not purport to be a comprehensive description of all the tax aspects of the Cielo Notes and the Cielo USA Notes. Therefore, each Non-Resident Holder should consult his/her/its own tax advisor concerning the Brazilian tax consequences in respect of the Cielo Notes and the Cielo USA Notes.

Investors should note that, as to the discussions below, other income tax rate or treatment may be provided for in any applicable tax treaty between Brazil and the country where the Non-Resident Holder is domiciled. Investors should also note that there is no tax treaty between Brazil and the United States.

Interest Payments under the Cielo Notes

Generally, a Non-Resident Holder is taxed in Brazil when income is derived from Brazilian sources or gains are realized on the disposition of assets located in Brazil.

Interest (including original issue discount) payable by Cielo to a Non-Resident Holder is generally subject to withholding income tax at the rate of 15%, unless: (i) some other lower rate is provided for in a tax treaty between Brazil and the other country; or (ii) the Non-Resident Holder is domiciled in a favorable tax jurisdiction (i.e., a country or location which do not impose any income tax or which impose it at a maximum rate of 20% , where the laws impose restrictions on the disclosure of ownership composition or securities ownership or do not allow for the identification of the effective beneficiary of the income attributed to non-residents – (a “Favorable Tax Jurisdiction”) and the bonds are redeemed, liquidated or converted prior to 96 months after the date of issuance, in which cases the applicable rate is 25%. In case the bonds are redeemed, liquidated or converted prior to 96 months, the difference of rates from 15% to 25% in relation to payments priorly made to the Non-Resident Holder located in a Favorable Tax Jurisdiction may be charged from the issuer together with fine and interest.

In the event that Cielo is required to make any payment under the Cielo Notes to a Non-Resident Holder, Cielo will be allowed under Brazilian tax laws to pay such additional amounts as may be necessary to ensure that the net amount to be received by the Non-Resident Holder after the assessment of withholding income tax will equal the amounts that would have been paid in the absence of such withholding.

Capital Gains earned in connection with the Cielo Notes

Capital gains generated outside Brazil as a result of a transaction between two non-residents of Brazil with respect to assets located in Brazil are subject to income tax in Brazil, according to Article 26 of Law No. 10,833, enacted on December 29, 2003.

Although we believe that the Cielo Notes do not fall within the definition of assets located in Brazil for purposes of Law No. 10,833/03, considering the general and unclear scope of this legislation and the absence of

judicial guidance in respect thereof, we are unable to predict how Law No. 10,833 would be interpreted in the Brazilian courts. If such courts were to determine that the Cielo Notes constitute assets located in Brazil, gains realized by a Non-Resident Holder from the sale or other disposition of the Cielo Notes to a Brazilian resident or even to a non-resident of Brazil will be subject to income tax in Brazil at a rate of 15% (or 25% if such Non-Resident Holder is located in a Favorable Tax Jurisdiction).

Payments in Respect of the Cielo USA Notes, and Sale or Other Disposition of Cielo USA Notes

As above mentioned, a Non-Resident Holder is generally taxed in Brazil only when income is derived from Brazilian sources or gains are realized on the disposition of assets located in Brazil. Thus, based on the fact that Cielo USA is considered for tax purposes as domiciled abroad, any income, which for the purposes of this paragraph includes any deemed income on the difference between the issue price of the Cielo USA Notes and the price at which such notes are redeemed (“original discount”) payable by Cielo USA in respect of the Cielo USA Notes to Non-Resident Holders, should not, under Brazilian law, be regarded as payable by a Brazilian obligor and, accordingly, Brazilian income and withholding taxes should not apply to payments made by Cielo USA, provided that such payments are made with funds held by Cielo USA outside of Brazil.

Considering that the Cielo USA Notes are issued and registered abroad, it should not fall within the definition of assets located in Brazil for purposes of Law No. 10,833. Therefore, gains on the sale or other disposition of the Cielo USA Notes made outside Brazil by a Non-Resident Holder to another non-Brazilian resident should not be subject to Brazilian taxes. Notwithstanding the foregoing, considering the general and unclear scope of this legislation and the absence of judicial guidance in respect thereof, we cannot assure prospective investors that such interpretation will prevail in the courts of Brazil.

As a result, gains recognized by a Non-Resident Holder from the sale or other disposition of the Cielo USA Notes to (i) a non-resident in Brazil in case the notes are deemed to be located in Brazil or (ii) a resident in Brazil may be subject to income tax in Brazil at a rate of 15%, or 25% if such Non-Resident Holder is located in Favorable Tax Jurisdiction, unless a lower rate is provided for in an applicable tax treaty between Brazil and the country where the Non-Resident Holder has its domicile.

Payments made by the Brazilian Guarantor

As there is no specific legal provision dealing with the imposition of withholding income tax on payments made by Brazilian sources to non-resident beneficiaries under guarantees and no uniform decision from the Brazilian courts, there is a risk that tax authorities will take the position that the funds remitted by the Brazilian guarantor to the Non-Resident Holders may be subject to the imposition of withholding income tax at a general 15% rate, or at a 25% rate, if the Non-Resident Holder is located in a Favorable Tax Jurisdiction.

Arguments exist to sustain that (a) payments made under the guarantee structure should be subject to imposition of withholding income tax according to the nature of the guaranteed payment, in which case only interest and fees should be subject to taxation at the rates of 15% or 25%, in cases of beneficiaries located in Favorable Tax Jurisdictions; or (b) that payments made under guarantee by Brazilian sources to non-resident beneficiaries should not be subject to the imposition of withholding income tax, to the extent that they should qualify as a credit transaction by the Brazilian party to the borrower. The imposition of withholding income tax under these circumstances has not been settled by the Brazilian courts.

Discussion on Favorable Tax Jurisdiction

On June 23, 2008, Law No. 11,727 introduced the concept of “privileged tax regime” in connection with transactions subject to Brazilian transfer pricing rules and also applicable to thin capitalization/cross border interest deductibility rules, which is broader than the concept of a Favorable Tax Jurisdiction. In addition, on June 7, 2010, the Brazilian Tax Authorities enacted Ordinance No. 1,037, as amended, listing (i) the countries and jurisdictions considered Favorable Tax Jurisdictions, and (ii) the privileged tax regimes. Although the interpretation of the current Brazilian tax legislation could lead to the conclusion that such concept of “privileged tax regime” should apply only for purposes of Brazilian transfer pricing and thin capitalization/cross border interest deductibility rules,

it is still not clear whether this “privileged tax regime” concept will also be applied to interest and payments made to Non-Resident Holders in respect of the Notes.

Potential investors should consult with their own tax advisors regarding the consequences of the implementation of Law No. 11,727, Ordinance No. 1,037 and of any related Brazilian tax law or regulation concerning Favorable Tax Jurisdiction and “privileged tax regimes.”

Other Tax Considerations

Brazilian law imposes a Tax on Foreign Exchange Transactions (*Imposto sobre Operações de Câmbio*), or IOF/Exchange, due on the conversion of Brazilian *Reais* into foreign currency and on the conversion of foreign currency into Brazilian *Reais*.

Currently, the IOF/Exchange rate for several foreign exchange transactions is 0.38%, including those made in connection with payments under the guarantee to Non-Resident Holders.

In respect to the inflow of funds related to the Cielo Notes, IOF/Exchange currently applies at 0% or 6%, if the minimum average term of the notes is shorter than 720 days or in case of early liquidation provisions that allows prepayment by the issuer or redemption by the note holder in breach of the minimum average term of 720 days. Based on the terms and conditions of the existent early liquidation clauses provided under the notes the issuer takes the position that the application of the 0% should not be restricted. If any exercise and/or redemption occurs prior than 720 days it will impact the average term of the notes, triggering the IOF/Exchange at 6% rate plus interest and penalties if the minimum average term of 720 days is not observed. The outflow of funds is subject to IOF/Exchange at the current rate of 0%.

Any renewal, renegotiation or transfer of issuer will be considered as a liquidation event, triggering simultaneous foreign exchange transactions and new taxation of IOF/Exchange at 0% or 6%, as the case may be. In any case, the Brazilian Government can increase the rate at any time up to 25%, but only with respect to future foreign exchange transactions.

Stamp, Transfer or Similar Taxes

Generally, there are no stamp, transfer or other similar taxes in Brazil applicable to the transfer, assignment or sale of the notes units outside Brazil, nor any inheritance, gift or succession tax applicable to the ownership, transfer or disposition of the notes units, except for gift and inheritance taxes imposed in some states of Brazil on gifts and bequests by a Non-Resident Holder to individuals or entities domiciled or residing within such Brazilian states.

U.S. Federal Income Tax Consequences

General

The following is a description of certain U.S. federal income tax considerations relevant to the acquisition, ownership, disposition and retirement of the notes units by a holder thereof. This description only applies to notes units held as capital assets and does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as: financial institutions; insurance companies; real estate investment trusts; regulated investment companies; certain former citizens or long-term residents of the United States; grantor trusts; tax-exempt organizations; dealers or traders in securities or currencies, including those that use the mark-to-market method of accounting with respect to their securities holdings; holders that will hold a notes unit as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes; holders that will hold the notes units through a partnership or other pass-through entity; or U.S. Holders (as defined below) that have a functional currency other than the U.S. dollar.

Moreover, this description does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership, disposition or retirement of the notes units and does not address the U.S. federal income tax treatment of holders that do not acquire the notes units as part of the initial distribution at their original “issue price” including purchasers of additional notes units. The issue price of a notes unit is equal to

the first price to investors (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the notes units is sold for money. Each prospective purchaser should consult its tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding and disposing of the notes units.

This description is based on the Internal Revenue Code of 1986, as amended (the “Code”), existing and proposed Treasury regulations (“Treasury Regulations”), administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing is subject to change, possibly with retroactive effect, or differing interpretations, which could affect the tax consequences described herein.

For purposes of this description, a “U.S. Holder” is a beneficial owner of the notes units who for U.S. federal income tax purposes is: an individual who is a citizen or resident of the United States; a corporation or any other entity treated as a corporation for U.S. federal income tax purposes organized in or under the laws of the United States, any state thereof or the District of Columbia; an estate the income of which is subject to U.S. federal income taxation regardless of its source; or a trust (1)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more U.S. persons have the authority to control or (2) that has validly elected to be treated as a U.S. person for U.S. federal income tax purposes.

For purposes of this discussion, a “non-U.S. Holder” is a beneficial owner of the notes units that is neither a U.S. Holder nor a partnership (or any other entity or arrangement treated as a partnership for U.S. federal income tax purposes).

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the notes units, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor regarding the specific consequences of the acquisition, ownership and disposition of the notes units.

TREASURY DEPARTMENT CIRCULAR 230 DISCLOSURE

PURSUANT TO TREASURY DEPARTMENT CIRCULAR 230, WE HEREBY INFORM YOU THAT THE DESCRIPTION SET FORTH HEREIN WITH RESPECT TO U.S. FEDERAL TAX ISSUES WAS NOT INTENDED OR WRITTEN TO BE USED, AND SUCH DESCRIPTION CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE CODE. SUCH DESCRIPTION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE NOTES UNITS. TAXPAYERS SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

Treatment of Notes Units

The U.S. federal income tax treatment of the notes units is unclear. For U.S. federal income tax purposes, when multiple instruments are sold as a unit, the individual instruments are treated as a single instrument if the individual underlying instruments are inseparable from each other. We are unaware of any authority addressing the U.S. federal income tax treatment of the investment units comprised of underlying notes issued by more than one issuer. Although the U.S. federal income tax treatment of the notes units is unclear, the issuers intend to take the position, and the remainder of this description assumes, that each notes unit will be treated as a single debt instrument for U.S. federal income tax purposes. Holders should note that no assurance can be given that the Internal Revenue Service (the “IRS”) will treat the notes units in this manner. If the IRS were successful in asserting that the holders should be treated as owning two underlying notes for U.S. federal income tax purposes, then holders would be required to allocate the purchase price of a notes unit between the underlying notes in proportion to their fair market values at the time of their acquisition or sale.

Certain Contingent Amounts

We may redeem all or part of the notes units at any time at a redemption price equal to 100% of the principal amount of notes units redeemed plus the applicable make-whole amount (see the “Description of the Notes Units—Optional Redemption with a Make-Whole Amount”). Similarly, you may require us to repurchase your notes units in the event of a Change of Control (see “Description of the Notes Units—Covenants—Repurchases at the Option of the Holders of Notes Units Upon a Change of Control Triggering Event”). Under the Treasury Regulations governing “contingent payment debt instruments,” or CPDIs, the possibility of a contingent payment on a notes unit may be disregarded if the likelihood of the contingent payment, as of the issue date, is “remote or incidental.” We believe that as of the expected issue date of the notes units, the likelihood of either a Change of Control or our redemption of the notes units is, for this purpose, remote and, therefore, we do not intend to treat the notes units as CPDIs. Our determination, however, is not binding on the IRS, and if the IRS was to challenge this determination, you may be required to accrue income on the notes units that you own in excess of stated interest, and to treat as ordinary income, rather than capital gain, any income realized on the taxable disposition of such notes units before the resolution of the contingency. In the event such contingency were to occur, it would affect the amount and timing of the income that you recognize. Holders are urged to consult their own tax advisors regarding the potential application to the notes units of the CPDI rules and the consequences thereof. The remainder of this discussion assumes that the notes units will not be treated as CPDIs.

U.S. Holders

Stated Interest

Interest on the notes units will be includible in the gross income of a U.S. Holder as ordinary interest income at the time it is paid or accrued in accordance with such U.S. Holder’s method of accounting for U.S. federal income tax purposes. A U.S. Holder may be entitled to deduct or credit against its U.S. federal income tax liability any foreign income taxes withheld from payments on the notes, subject to certain limitations (including that the election to deduct or credit foreign taxes applies with respect to all foreign taxes paid or accrued for a particular tax year). Interest payments on a notes unit will be considered to be U.S. source income to the extent that such payments are attributable to the obligations of Cielo USA and foreign source income to the extent that such payments are attributable to the obligations of Cielo S.A. 46.3% of each payment of interest and principal on the notes units will be attributable to the obligations of Cielo USA and the remaining 53.7% will be attributable to Cielo S.A. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, interest paid on the notes units generally will constitute “passive category income” or, in the case of certain U.S. Holders, “general category income.” U.S. Holders should consult with their own tax advisors with regard to the availability of a credit or deduction in respect of foreign taxes and, in particular, the application of the foreign tax credit rules to their particular situations.

Disposition of the Notes Units

If you are a U.S. Holder, upon the sale, exchange, retirement or other taxable disposition of a notes unit you will recognize taxable gain or loss equal to the difference, if any, between the amount realized on the sale, exchange, retirement or other taxable disposition (other than accrued but unpaid interest which will be taxable as ordinary interest income) and your adjusted tax basis in the notes unit. Your adjusted tax basis in a notes unit generally will equal the cost of the notes unit to you. Any such gain or loss will be capital gain or loss. If you are a non-corporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to the gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income (other than certain dividends) if your holding period for the notes units exceeds one year (*i.e.*, such gain is long-term capital gain). The deductibility of capital losses is subject to limitations. If any gain from the sale or exchange of the notes units is subject to Brazilian tax, U.S. Holders may not be able to credit such taxes against their U.S. federal income tax liability under the U.S. foreign tax credit limitation provisions of the Code since such gain generally would be treated as U.S. source income unless such tax can be credited (subject to applicable limitations) against tax due on other foreign source income.

Non-U.S. Holders

Stated Interest

Under U.S. federal income tax law, subject to the discussion below under the heading “—U.S. Backup Withholding and Information Reporting,” payments of interest on the notes units that are attributable to the obligations of Cielo USA (determined as described in “—U.S. Holders—Stated Interest” above) to any non-U.S. Holder will not be subject to U.S. federal withholding tax, provided that:

- the non-U.S. Holder does not actually or constructively own 10% of the total combined voting power of all classes of stock entitled to vote;
- the non-U.S. Holder is not a bank whose receipt of interest on the notes units is in connection with an extension of credit made pursuant to a loan agreement entered into in the ordinary course of such holder’s trade or business;
- the non-U.S. Holder is not a controlled foreign corporation related, directly or indirectly, to Cielo USA through stock ownership; and
- the non-U.S. Holder certifies on IRS Form W-8BEN (or the appropriate successor form), under penalties of perjury, that it is not a U.S. person.

Interest attributable to the obligations of Cielo USA that does not satisfy the foregoing exception will be subject to U.S. federal withholding tax, currently at a rate of 30%, unless:

- such tax is eliminated or reduced under an applicable U.S. income tax treaty and the non-U.S. Holder provides a properly executed IRS Form W-8BEN establishing such reduction or exemption from withholding tax on interest; or
- such interest is effectively connected with a U.S. trade or business of the non-U.S. Holder and the non-U.S. Holder provides a properly executed IRS Form W-8ECI claiming an exemption from withholding tax on such interest.

Subject to the discussion below under the heading “Income Effectively Connected with a U.S. Trade or Business,” payments of interest on the notes units that are attributable to the obligations of Cielo S.A. generally will not be subject to U.S. withholding or federal income tax.

Disposition of the Notes Units

Subject to the discussion below under the heading “U.S. Backup Withholding and Information Reporting,” a non-U.S. Holder of a notes unit will not be subject to U.S. federal income tax on gain realized on the sale, exchange or retirement or other taxable disposition of such notes unit, unless:

- such gain is effectively connected with the conduct by the non-U.S. Holder of a trade or business in the United States (and, if required under an applicable income tax treaty, is attributable to a permanent establishment or fixed base maintained by the non-US Holder within the United States); or
- in the case of any gain realized by an individual non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, retirement or other taxable dispositions and certain other conditions are met.

Income Effectively Connected with a U.S. Trade or Business

If a non-U.S. Holder is engaged in a trade or business in the United States and income (including interest) or gain on a notes unit is effectively connected with the conduct of such trade or business, the non-U.S. Holder will

generally be taxed in the same manner as a U.S. Holder (see “—U.S. Holders” above), subject to an applicable U.S. income tax treaty providing otherwise.

Non-U.S. Holders whose interest or gain from dispositions of notes units may be effectively connected with the conduct of a trade or business in the United States are urged to consult their own tax advisors with respect to the U.S. tax consequences of the acquisition, ownership and disposition of notes units, including, with respect to corporate non-U.S. Holders, the possible imposition of a branch profits tax, currently at a rate of 30% (or such lower rate provided by an applicable U.S. income tax treaty).

Substitution of the Issuers

Either issuer may, subject to certain conditions, be replaced and substituted by any Wholly Owned Subsidiary of Cielo as principal debtor in respect of the notes units (see “Description of the Notes Units—Substitution of the Issuers”), which may result in certain adverse tax consequences to holders (including recognition of gain or loss to holders and holders being required to accrue OID). The Substituted Debtor and the issuers will have an obligation to indemnify and hold harmless each holder of the notes units against certain taxes or duties which arise by reason of a law or regulation having legal effect or being in reasonable contemplation thereof on the date such substitution becomes effective, which may be incurred or levied against such holder as a result of any substitution pursuant to the conditions set forth in the “Description of the Notes Units” and which would not have been so incurred or levied had such substitution not been made. Holders are urged to consult their own tax advisors regarding any potential adverse tax consequences to them that may result from a substitution of either issuer.

U.S. Backup Withholding and Information Reporting

Payments of interest on, or the proceeds of the sale or other disposition of, a notes unit are generally subject to information reporting unless the U.S. Holder is an exempt recipient. Such payments may also be subject to U.S. federal backup withholding at the applicable rate (currently 28% but scheduled to increase to 31% on January 1, 2013) if the recipient of such payment fails to supply a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise fails to establish an exemption from backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against a holder’s U.S. federal income tax liability, if any, provided that the required information is timely furnished to the IRS. U.S. Holders should consult their tax advisors regarding the application of the backup withholding and information reporting rules to their particular circumstances.

In general, payments of interest and the proceeds of the sale, exchange, redemption or other disposition of the notes units payable by a U.S. paying agent or other U.S. intermediary to a non-U.S. Holder will be subject to information reporting. In addition, backup withholding (currently 28% but scheduled to increase to 31% on January 1, 2013) will generally apply to these payments to a non-U.S. Holder if such holder fails to provide the certification on IRS Form W-8BEN (or IRS Form W-8ECI, if applicable) (or successor forms) or does not otherwise provide evidence of exempt status.

Each Non-U.S. Holder should consult its tax advisor regarding the application of the backup withholding and information reporting rules to its particular circumstances.

In the case of payments to certain trusts or certain partnerships, the persons treated as the owners of the trust or the partners of the partnership, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from backup withholding tax and information reporting requirements.

Foreign Asset Reporting

Certain U.S. Holders are required to report information relating to an interest in the notes units, subject to certain exceptions (including an exception for notes units held in accounts maintained by U.S. financial institutions), by attaching a completed IRS Form 8938, Statement of Specified Foreign Financial Assets, with their tax return for each year in which they had an interest in the notes units. U.S. Holders are urged to consult their tax advisors regarding information reporting requirements relating to their ownership and disposition of the notes units.

Medicare Tax

For taxable years beginning after December 31, 2012, a U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on the lesser of (1) such U.S. Holder's "net investment income" for the relevant taxable year and (2) the excess of such U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between \$125,000 and \$250,000, depending on the individual's circumstances). A U.S. Holder's net investment income will generally include its gross interest income and its net gains from the disposition of the notes units, unless such interest or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. Holder that is an individual, estate or trust, you are urged to consult your tax advisor regarding the applicability of this tax to your income and gains in respect of your investment in the notes units.

Foreign Account Tax Compliance Act

A withholding tax of 30% will be imposed on payments to certain non-U.S. entities (including, in some instances, where the non-U.S. entity is acting as an intermediary) of interest on debt instruments (after December 31, 2013) and the gross proceeds of dispositions of debt instruments (after December 31, 2016), unless various U.S. information reporting and due diligence requirements generally relating to U.S. owners of and account holders with those entities have been satisfied. These new withholding rules generally are only effective for debt instruments issued after March 18, 2012. However, under recently issued proposed Treasury Regulations, these new withholding rules generally would not apply to debt instruments that are issued by January 1, 2013. Thus, under these proposed Treasury Regulations, these new withholding rules generally would not apply to the notes units unless the notes units are modified and deemed reissued after January 1, 2013. However, there can be no assurance as to whether or not these proposed Treasury Regulations will be adopted in final form and, if so adopted, what form the proposed Treasury Regulations will take. In particular, should the notes units not be grandfathered under the proposed Treasury Regulations, it is possible that withholding could be required with respect to certain non-U.S. Holders under the yet to be announced "foreign pass-thru payment withholding" regime. Holders should consult their tax advisors regarding the possible implications of this legislation on their investment in the notes units.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the ownership of the notes units. Prospective purchasers of notes units should consult their own tax advisors concerning the tax consequences of their particular situations.

PLAN OF DISTRIBUTION

BB Securities Ltd., Banco Bradesco BBI S.A. and Goldman, Sachs & Co. are acting as initial purchasers for the offering of the notes units. Subject to the terms and conditions stated in the purchase agreement, dated November 9, 2012, each initial purchaser named below has severally agreed to purchase, and the issuers have agreed to sell to that initial purchaser, the principal amount of the notes units set forth opposite such initial purchaser's name.

Initial Purchaser	Principal Amount of Notes Units
BB Securities Ltd.	U.S.\$291,666,667
Banco Bradesco BBI S.A.	U.S.\$291,666,667
Goldman, Sachs & Co.	U.S.\$291,666,666
Total	U.S.\$875,000,000

The initial purchasers are offering the notes units subject to the approval of certain legal matters by their U.S. and Brazilian counsel, including the validity of the notes units, and to other conditions contained in the purchase agreement, such as the receipt by the initial purchasers of officers' certificates and legal opinions. The initial purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

The initial purchasers propose to resell the notes units at the offering price set forth on the cover page of this offering memorandum within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the United States in reliance on Regulation S. See "Transfer Restrictions." The price at which the notes units are offered may be changed at any time without notice. The initial purchasers may sell a portion of the notes units to or through other banks or dealers, and in such event, such other banks or dealers may receive compensation in the form of discounts, concessions or commissions from the initial purchasers.

Purchasers of notes units sold outside the United States may be required to pay stamp taxes and other charges in compliance with the laws and practices of the country of purchase in addition to the price to investors on the cover page of this offering memorandum.

The notes units have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "Transfer Restrictions."

In addition, until 40 days after the commencement of this offering, an offer or sale of notes units within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

The issuers and the guarantor will agree in the purchase agreement that, for a period of 90 days from the date of this offering memorandum, they will not, without the prior written consent of the initial purchasers, offer, sell, or contract to sell or announce the offering of any similar debt securities in the international capital markets issued or guaranteed by the issuers or the guarantor (other than the notes units and any additional notes units).

We intend to list the notes units on the Official List of the Irish Stock Exchange and have them admitted for trading on the Global Exchange Market of the Irish Stock Exchange. However, we cannot assure you that the prices at which the notes units will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the notes units will develop and continue after this offering. The initial purchasers have advised us that they currently intend to make a market in the notes units. However, they are not obligated to do so, and they may discontinue any market-making activities with respect to the notes units at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the notes units.

We expect that delivery of the notes units will be made against payment therefor on or about November 16, 2012, as specified on the cover page of this offering memorandum, which will be the fourth business day in New York following the date of pricing of the notes units (this settlement cycle being referred to as "T+4"). Since trades in the secondary market generally settle in three business days, purchasers who wish to trade notes units on the date

of pricing will be required, by virtue of the fact that the notes units initially will settle in T+4, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement.

In connection with the offering, the initial purchasers may purchase and sell notes units in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions and stabilizing purchases. Short sales involve secondary market sales by the initial purchasers of a greater number of notes units than they are required to purchase in the offering, which creates a short position for the initial purchasers. Covering transactions involve purchases of notes units in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions involve bids to purchase notes units so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the initial purchasers for their own accounts, may have the effect of preventing or retarding a decline in the market price of the notes units. They may also cause the price of the notes units to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The initial purchasers may conduct these transactions in the over-the-counter market or otherwise. The initial purchasers do not make any representation that they will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice. The initial purchasers do not make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the notes units.

The issuers and the guarantor have agreed to indemnify the several initial purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the initial purchasers may be required to make because of any of those liabilities.

BB Securities Ltd. is not a broker-dealer registered with the SEC and therefore may not make sales of any notes units in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. To the extent that BB Securities Ltd. intends to effect sales of the notes units in the United States, BB Securities Ltd. will do so only through Banco do Brasil Securities LLC, its selling agent, or one or more U.S. registered broker-dealers or otherwise as permitted by applicable U.S. law.

Bradesco Securities Inc. will act as agent of Banco Bradesco BBI S.A. for sales of the notes units in the United States of America. Banco Bradesco BBI S.A. is not a broker-dealer registered with the SEC, and therefore may not make sales of any notes units in the United States to U.S. persons. Banco Bradesco BBI S.A. and Bradesco Securities Inc. are affiliates of Banco Bradesco S.A.

Other Relationships

The initial purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services.

In connection with our intended repayment of the Bridge Loan using a portion of the net proceeds of this offering, we will repay certain indebtedness owed to affiliates of certain of the initial purchasers, and in the case of such indebtedness repaid to Banco do Brasil S.A., to our affiliate. U.S.\$200.0 million of indebtedness will be repaid to Banco do Brasil S.A. and U.S.\$200.0 million will be repaid to Goldman Sachs Bank USA. See “Use of Proceeds.”

Certain of the initial purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees, commissions and reimbursement of expenses for these transactions.

In addition, in the ordinary course of their business activities, the initial purchasers and/or their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative

securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. If any of the initial purchasers or any of their affiliates has a lending relationship with us, certain of those initial purchasers or their affiliates routinely hedge, and certain other of those initial purchasers or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially, the notes units offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the notes units offered hereby. The initial purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Selling Restrictions

The distribution of this offering memorandum may be restricted by law in certain jurisdictions. Persons into whose possession this offering memorandum come must inform themselves of and observe any of these restrictions.

This offering memorandum does not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which an offer or solicitation is not authorized or in which the person making an offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make an offer or solicitation.

Brazil

The notes units have not been and will not be issued nor placed, distributed, offered or negotiated in the Brazilian capital markets and, as a result, have not been and will not be registered with the CVM. Any public offering or distribution, as defined under Brazilian laws and regulations, of the notes units in Brazil is not legal without prior registration under Law No. 6,385 of December 7, 1976, as amended, or Law No. 6,385, and Instruction No. 400, issued by the CVM on December 29, 2003, as amended, or CVM Instruction No. 400. Documents relating to the offering of the notes units, as well as information contained therein, may not be supplied to the public in Brazil (as the offering of the notes units is not a public offering of securities in Brazil), nor be used in connection with any offer for subscription or sale of the notes units to the public in Brazil. Persons wishing to offer or acquire the notes units within Brazil should consult with their own counsel as to the applicability of registration requirements or any exemption therefrom.

Chile

The notes units will not be registered under Law 18,045, as amended, of Chile with the Chilean Securities Commission (*Superintendencia de Valores y Seguros*), and accordingly, they may be not be offered to persons in Chile, except in circumstances that do not constitute a public offering under Chilean law and the regulations from the Chilean Securities Commission. Chilean institutional investors (such as banks, pension funds and insurance companies) are required to comply with specific restrictions relating to the purchase of the notes units.

Colombia

The notes units have not been and will not be offered in Colombia through a public offering of securities pursuant to Colombian laws and regulations, nor will they will be registered in the Colombian National Registry of Securities and Issuers or listed on a regulated securities trading system such as the Colombian Stock Exchange.

EEA

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each initial purchaser has requested and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, or the

Relevant Implementation Date, it has not made and will not make an offer for the notes units which are the subject of the offering contemplated in this offering memorandum to the public in that Relevant Member State other than:

- (1) . to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (2) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive; or
- (3) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of notes units shall require the issuers, the initial purchasers or the guarantors to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any notes units under, the offers to the public contemplated in this offering memorandum will be deemed to have represented, warranted and agreed to and with each initial purchaser and the issuers that:

- (1) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and
- (2) in the case of any notes units acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the notes units acquired by it in the offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive; or (ii) where notes units have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those notes units to it is not treated under the Prospectus Directive as having been made to such persons.

For the purpose of the above provisions, the expression “an offer to the public” in relation to any notes units in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes units to be offered so as to enable an investor to decide to purchase or subscribe the notes units, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member States and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

France

The notes units are being issued and sold outside the Republic of France and, in connection with their initial distribution, the notes units have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in the Republic of France, and this offering memorandum or any other offering material relating to the notes units have not been distributed and will not be distributed or caused to be distributed to the public in the Republic of France, and such offers, sales and distributions have been and will be made in the Republic of France only to qualified investors (*investisseurs qualifiés*) in accordance with Article L.411-2 of the Monetary and Financial Code and décret no. 98 880 dated 1st October, 1998.

Hong Kong

The notes units may not be offered or sold by means of any document other than (1) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (2) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (3) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the notes units may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the

contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes units which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder.

Italy

The offering of the notes units has not been cleared by the Commissione Nazionale per le Società e la Borsa, the Italian securities exchange commission, or the CONSOB, pursuant to the Italian securities laws and regulations. Accordingly, the notes units may not be offered, sold or delivered in the Republic of Italy, and copies of this offering memorandum or any other document relating to the notes units may not be circulated or distributed in the Republic of Italy, except to

(a) qualified investors (*investitori qualificati*) as defined in Article 34-ter, first paragraph, letter b) of CONSOB Regulation no. 11971 dated May 14, 1999, as amended, or Regulation no. 11971, pursuant to Article 100 paragraph 1, letter a) of Legislative Decree no. 58 dated February 24, 1998, as amended, or the Italian Securities Act; or

(b) in circumstances where there is an exemption from the rules governing an offer to the public pursuant to the Italian Securities Act, and its implementing CONSOB regulations, including Regulation no. 11971.

Any offer, sale or delivery of the notes units in the Republic of Italy or distribution of copies of this offering memorandum or any other document relating to the notes units in the Republic of Italy under (a) or (b) above must be (i) made by soggetti abilitati (including investment firms, banks or financial intermediaries, as defined by Article 1, first paragraph, letter r), of the Italian Securities Act, permitted to conduct such activities in the Republic of Italy in compliance with the Italian Securities Act, Legislative Decree no. 385 dated September 1, 1993, as amended and CONSOB Regulation no. 16190 dated October 29, 2007, as amended, and any other applicable law and regulation; and (ii) in compliance with any applicable Italian laws and regulations and any other requirement or limitation that may be imposed by CONSOB, the Bank of Italy (*Banca d'Italia*) or any other relevant Italian authorities.

Japan

The notes units have not been and will not be registered under the Financial Instruments and Exchange Law of Japan, or the Financial Instruments and Exchange Law, and each initial purchaser has agreed that it will not offer or sell any notes units, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan

Peru

In Peru, this offering will be considered a public offering directed exclusively to institutional investors under CONASEV Resolution No. 079-2008-EF/94.01.1. The notes units and this offering memorandum have been registered with the SMV in accordance with the procedure set forth in SMV Resolution No. 004-2011-EF/94.01.1, applicable to international offerings with a placement tranche in Peru executed in reliance with Rule 144A of the Securities Act. In order to purchase the notes units, institutional investors in Peru must sign a statement representing that they understand: (1) differences which exist among the accounting and tax treatment in Peru and the country or countries where the notes units will be traded, and (2) the terms and conditions of the notes units.

Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore, or the SFA, and accordingly, the initial purchasers may not offer nor sell the notes units pursuant to an offering nor make the notes units the subject of an invitation for subscription or purchase, nor will the initial purchasers circulate or distribute this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the

notes units, whether directly or indirectly, to any person in Singapore other than under exemptions provided in the SFA for offers made (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, Chapter 289 (b) to a relevant person (as defined in Section 275(2) of the SFA) or any person, pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with, the conditions of any other applicable provision of the SFA.

Each holder of the notes units should note that any subsequent sale of the notes units acquired pursuant to an offer in this offering memorandum made under exemptions (a) or (b) above within a period of six months from the date of the initial acquisition is restricted to (i) institutional investors (as defined in Section 4A of the SFA), (ii) relevant persons as defined in Section 275(2) of the SFA, and (iii) persons pursuant to an offer referred to in Section 275(1A) of the SFA.

Where the notes units are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely: (i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable within 6 months after that corporation or that trust has acquired the notes units pursuant to an offer made under Section 275 of the SFA except: (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275 of the SFA; (2) where no consideration is or will be given for the transfer; or (3) where the transfer is by operation of law.

Switzerland

The notes units may not and will not be publicly offered, distributed or redistributed on a professional basis in or from Switzerland only on the basis of a non-public offering, and neither this offering memorandum nor any other solicitation for investments in our securities may be communicated or distributed in Switzerland in any way that could constitute a public offering within the meaning of articles 652a or 1156 of the Swiss Federal Code of Obligations or of Article 3 of the Federal Act on Collective Investment Schemes of June 23, 2006. This offering memorandum may not be copied, reproduced, distributed or passed on to others without the initial purchasers' prior written consent. This offering memorandum is not a prospectus within the meaning of Articles 1156 and 652a of the Swiss Code of Obligations or a listing prospectus according to article 27 of the Listing Rules of the SIX Swiss Exchange and may not comply with the information standards required thereunder. We will not apply for a listing of the notes units on any Swiss stock exchange or other Swiss regulated market and this offering memorandum may not comply with the information required under the relevant listing rules. The notes units have not been and will not be approved by any Swiss regulatory authority. The notes units have not been and will not be registered with or supervised by the Swiss Federal Banking Commission, and have not been and will not be authorized under the Federal Act on Collective Investment Schemes of June 23, 2006. The investor protection afforded to acquirers of investment fund certificates by the Federal Act on Collective Investment Schemes of June 23, 2006 does not extend to acquirers of our securities.

United Kingdom

Each of the initial purchasers has represented and agreed that: (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, or FSMA) received by it in connection with the issue or sale of any notes units in circumstances in which Section 21(1) of the FSMA does not apply to the issuers or the guarantors; and (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes units in, from or otherwise involving the United Kingdom. In addition, in the United Kingdom, this document is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are “qualified investors” (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, or the Order, and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). This document must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this document relates is only available to, and will be engaged in with, relevant persons.

TRANSFER RESTRICTIONS

The notes units have not been registered under the Securities Act or any other U.S. securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable U.S. securities laws. Accordingly, the notes units and guarantee are being offered and sold only:

(1) to qualified institutional buyers in compliance with Rule 144A under the Securities Act; or

(2) outside the United States to persons other than U.S. persons, in an offshore transaction in compliance with Regulation S under the Securities Act.

The terms “United States,” “U.S. persons,” and “offshore transaction” used in this section have the meanings given to them under Regulation S. The term “qualified institutional buyer” used in this section has the meaning given to it under Rule 144A.

Each purchaser of the notes units offered, or the Restricted Notes Units, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

(1) The purchaser is either:

(A) a qualified institutional buyer and is aware that the sale to it is being made in reliance on Rule 144A and such qualified institutional buyer is acquiring such notes units for its own account or for the account of another qualified institutional buyer; or

(B) not a U.S. person (as defined in Regulation S under the Securities Act), and is purchasing the notes units in accordance with Regulation S under the Securities Act. The purchaser acknowledges that the seller may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A or other exemptions under the Securities Act.

(2) The purchaser understands that the notes units are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that the notes units have not been registered under the Securities Act or any U.S. securities laws and that (A) the notes units may be reoffered, resold, pledged or otherwise transferred only (1) (a) to a person who the purchaser reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (b) outside the United States to a person that is not a U.S. person (as defined in Regulation S under the Securities Act) in an offshore transaction meeting the requirements of Regulation S under the Securities Act or (c) pursuant to another available exemption under the Securities Act; (2) to us or any of our subsidiaries or (3) under an effective registration statement and, in each case, in compliance with any applicable securities laws of any State of the United States or any other applicable jurisdiction and (B) the purchaser will, and each subsequent holder is required to, notify any later purchaser from it of the resale restrictions described in (A) above.

(3) The purchaser confirms that (A) the purchaser has requisite knowledge and experience in financial and business matters so that it is capable of evaluating the merits and risks of purchasing notes units, and the purchaser and any accounts for which it is acting are each able to bear the economic risks of its or their investment, including a complete loss of the investment, (B) the purchaser is not acquiring notes units with a view to any distribution of the notes units in a transaction that would violate the Securities Act or the securities laws of any State of the United States or another applicable jurisdiction; provided that the disposition of its property and the property of any accounts for which the purchaser is acting as fiduciary shall remain at all times within its control and (C) the purchaser has received a copy of this offering memorandum and acknowledges that the purchaser has had access to the financial and other information, and has been afforded the opportunity to ask questions of our representatives and receive answers to those questions, as it deemed necessary in connection with its decision to purchase notes units.

(4) The purchaser acknowledges that we and the initial purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of the foregoing acknowledgments, representations or agreements deemed to have been made by it are no longer accurate, it shall promptly notify the issuers, the guarantor and the initial purchasers. If such purchaser is acquiring any notes units as a fiduciary or agent for one or more investor accounts, such purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

(5) If it is a purchaser in a sale that occurs outside the United States within the meaning of Regulation S, it acknowledges that until the expiration of the “40-day distribution compliance period” within the meaning of Rule 903 of Regulation S, any offer or sale of the notes units shall not be made by it to a U.S. person or for the account or benefit of a U.S. person within the meaning of Rule 902(k) of the Securities Act.

(6) The purchaser understands that the Restricted Notes Units will bear a legend substantially to the following effect, or the Restricted Notes Units Legend:

THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES ACT, AND THIS SECURITY MAY NOT BE REOFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER. THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE ISSUERS OR ANY SUBSIDIARY THAT (A) THIS SECURITY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (II) OUTSIDE THE UNITED STATES TO A PERSON THAT IS NOT A U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE SECURITIES ACT, (III) PURSUANT TO ANOTHER AVAILABLE EXEMPTION UNDER THE SECURITIES ACT, (IV) TO AN ISSUER OR ANY SUBSIDIARY OF AN ISSUER OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (V) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES; AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE. THIS LEGEND MAY ONLY BE REMOVED AT THE OPTION OF THE ISSUERS.

Each purchaser of the notes units offered in reliance on Regulation S will be deemed to have represented and agreed that it is not a U.S. person and is purchasing such notes units in an offshore transaction (as such terms are defined in Regulation S) pursuant to Regulation S and understands that such notes units will bear a legend substantially to the following effect, or the Regulation S Legend:

THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION ORIGINALLY EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES ACT, AND MAY NOT BE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM IN REGULATION S UNDER THE SECURITIES ACT.

Restricted Notes Units may be exchanged for notes units not bearing the Restricted Notes Units Legend but bearing the Regulation S Legend upon certification by the transferor in the form set forth in the Indenture that the transfer of any such Restricted Notes Units has been made in accordance with Rule 904 under the Securities Act.

(7) Either: (i) the purchaser is not, and is not acting on behalf of, an employee benefit plan (as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”)) subject Title I of ERISA, a plan to which Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), applies, or any entity whose underlying assets include “plan assets” by reason of such an employee benefit plan’s and/or plan’s investment in such entity (each, a “Plan”), or a non-U.S., governmental or church plan that is subject to non-U.S., state, local or other federal law that is substantially similar to the foregoing provisions of ERISA or the Code (collectively, “Similar Law”), and no part of the assets used by it to acquire or hold such notes units constitutes the assets of a Plan or such other plan, or (ii) its acquisition, holding and disposition of such notes units does not and will not constitute or otherwise result in a non-exempt prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code (or, in the case of a non-U.S., governmental or church plan, a non-exempt violation of any Similar Law).

UNITED STATES ERISA AND CERTAIN OTHER CONSIDERATIONS

General

ERISA imposes certain requirements on “employee benefit plans” (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans, collectively, the ERISA Plans, and on those persons who are fiduciaries with respect to ERISA Plans.

Section 406 of ERISA and Section 4975 of the Code, prohibit certain transactions involving the assets of an ERISA Plan (Section 4975 of the Code also imposes prohibitions for certain plans that are not subject to Title I of ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts and on entities whose underlying assets include the assets of such plans (together with ERISA Plans, “Plans”)) and certain persons (referred to as “parties in interest” or “disqualified persons”) having certain relationships to Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code.

Any Plan fiduciary which proposes to cause a Plan to purchase the notes units should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such purchase and holding will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of ERISA.

Non-U.S. plans, governmental plans and certain church plans, while not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA and Section 4975 of the Code, may nevertheless be subject to non-US, state, local or other federal laws or regulations that are substantially similar to the foregoing provisions of ERISA and the Code (“Similar Law”). Fiduciaries of any such plans should consult with their counsel before purchasing the notes units to determine the need for, and the availability, if necessary, of any exemptive relief under any such law or regulations.

Prohibited Transaction Exemptions

The fiduciary of a Plan that proposes to purchase and hold any notes units should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a party in interest or a disqualified person, (ii) the sale or exchange of any property between a Plan and a party in interest or a disqualified person, or (iii) the transfer to, or use by or for the benefit of, a party in interest or disqualified person, of any Plan assets. Such parties in interest or disqualified persons could include, without limitation, the issuers, the initial purchasers, the guarantor, the agents or any of their respective affiliates. Depending on the satisfaction of certain conditions which may include the identity of the Plan fiduciary making the decision to acquire or hold the notes units on behalf of a Plan, Section 408(b)(17) of ERISA or Prohibited Transaction Class Exemption (“PTCE”) 84-14 (relating to transactions effected by a “qualified professional asset manager”), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by insurance company general accounts) or PTCE 96-23 (relating to transactions directed by an in-house asset manager) (collectively, the “Class Exemptions”) could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. However, there can be no assurance that any of these Class Exemptions or any other exemption will be available with respect to any particular transaction involving the notes units.

Accordingly, each original or subsequent purchaser or transferee of any notes unit that is or may become a Plan is responsible for determining that its purchase and holding of such notes unit will not constitute a non-exempt prohibited transaction under ERISA or Section 4975 of the Code.

By its purchase of any notes unit, the purchaser thereof will be deemed to have represented and warranted either:

- (i) it is not, and is not acting on behalf of, a Plan or a governmental, church or non U.S. plan which is subject to any law that is substantially similar to Section 406 of ERISA or Section 4975 of the Code, or Similar Law, and no part of the assets used by it to acquire or hold such notes unit constitutes the assets of a Plan or such other plan, or
- (ii) its acquisition, holding and disposition of such notes unit does not and will not constitute or otherwise result in a non-exempt prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code (or, in the case of a governmental, church or non U.S. plan, a non-exempt violation of any Similar Law).

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN ERISA IMPLICATIONS OF AN INVESTMENT IN THE NOTES UNITS AND DOES NOT PURPORT TO BE COMPLETE. PROSPECTIVE INVESTORS SHOULD CONSULT WITH THEIR OWN LEGAL, TAX, FINANCIAL AND OTHER ADVISORS PRIOR TO INVESTING IN THE NOTES UNITS TO REVIEW THESE IMPLICATIONS IN LIGHT OF SUCH INVESTOR'S PARTICULAR CIRCUMSTANCES

INDEPENDENT AUDITORS

The consolidated financial statements of Cielo and its subsidiaries, in each case, as of and for the years ended December 31, 2011 and 2010 and as of and for the years ended December 31, 2010 and 2009, included elsewhere in this offering memorandum, have been audited by Deloitte Touche Tohmatsu Auditores Independentes, independent auditors, as stated in their reports appearing herein.

With respect to the unaudited interim consolidated financial statements of Cielo as of September 30, 2012 and for the nine-month periods ended September 30, 2012 and 2011, included elsewhere in this offering memorandum, Deloitte Touche Tohmatsu Auditores Independentes have applied limited procedures in accordance with professional standards for a review of such information. However, their review report appearing herein states that they did not audit and did not express an opinion on those unaudited interim consolidated financial statements. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review conducted.

LEGAL MATTERS

The validity of the notes units offered and sold in this offering, together with the guarantee, will be passed upon for the issuers and the guarantor by White & Case LLP, and for the initial purchasers by Shearman & Sterling LLP. Certain matters of Brazilian law relating to the notes units and the guarantee will be passed upon for us by Lefosse Advogados and for the initial purchasers by Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados.

LISTING AND GENERAL INFORMATION

1. The notes units have been accepted for clearance and settlement through Euroclear and Clearstream. The CUSIP and ISIN numbers for the notes units are as follows:

	<u>Restricted Global Notes Unit</u>	<u>Regulation S Global Notes Unit</u>
CUSIP	17178FAA4	P28610AA4
ISIN	US17178FAA49	USP28610AA46

2. Copies of audited consolidated financial statements as of and for the years ended December 31, 2011 and 2010, copies of the latest audited annual consolidated financial statements and the *estatuto social* (by-laws) of Cielo, as well as the indenture (including forms of notes units and the guarantee), will be available (free of charge) at the offices of the principal paying agent and the Irish listing agent. For the life of the listing particulars, the documents referred to this paragraph may be inspected, by physical or electronic means.

3. Except as disclosed in this offering memorandum, there has been no material adverse change in our financial position since September 30, 2012, the date of our latest financial statements included elsewhere in this offering memorandum.

4. We have applied to list and admit the notes units for trading on the Global Exchange Market of the Irish Stock Exchange. We will comply with any undertakings assumed or undertaken by us from time to time to the Global Exchange Market of the Irish Stock Exchange in connection with the notes units, and we will furnish to them all such information as the rules of the Global Exchange Market of the Irish Stock Exchange may require in connection with the listing of the notes units.

5. The issuance of the Cielo Notes and Cielo's guarantee of the Cielo USA Notes were authorized by the board of directors of Cielo on July 18, 2012, and the issuance of the Cielo USA Notes was authorized by the board of directors of Cielo USA on October 31, 2012.

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Cielo S.A. and Subsidiaries

*Consolidated and Individual Interim Financial
Information for the Three- and Nine-Month
Periods Ended September 30, 2012 and
Report on Review of Interim Financial
Information*

Deloitte Touche Tohmatsu Auditores Independientes

(Convenience Translation into English from the Original Previously Issued in Portuguese)

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Shareholders and Management of
Cielo S.A.
Barueri - SP

Introduction

We have reviewed the accompanying individual and consolidated interim financial information of Cielo S.A. (the “Company”), identified as Company and Consolidated, respectively, included in the Interim Financial Information Form (ITR) for the quarter ended September 30, 2012, which comprises the balance sheet as at September 30, 2012 and the related income statement and statement of comprehensive income for the three- and nine-month periods then ended, and the statement of changes in equity and statement of cash flows for the nine-month period then ended, including the explanatory notes.

Management is responsible for the preparation of the individual interim financial information in accordance with CPC 21 - Interim Financial Reporting and the consolidated interim financial information in accordance with CPC 21 (R1) and IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the presentation of such information in accordance with the standards issued by the Brazilian Securities Commission (CVM), applicable to the preparation of Interim Financial Information (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with Brazilian and international standards on review of interim financial information (NBC TR 2410 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the standards on auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion on the individual interim financial information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying individual interim financial information included in the ITR referred to above is not prepared, in all material respects, in accordance with CPC 21 (R1) applicable to the preparation of Interim Financial Information (ITR) and presented in accordance with the standards issued by the CVM.

Conclusion on the consolidated interim financial information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information included in the ITR referred to above is not prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34 applicable to the preparation of Interim Financial Information (ITR) and presented in accordance with the standards issued by CVM.

Other matters

Interim statements of value added

We have also reviewed the individual and consolidated interim statements of value added (“DVA”), for the nine-month period ended September 30, 2012, prepared by Management, the presentation of which is required by the standards issued by CVM applicable to the preparation of Interim Financial Information (ITR), and is considered as supplemental information for IFRS that does not require the presentation of a DVA. These statements were subject to the same review procedures described above and, based on our review, nothing has come to our attention that causes us to believe that they are not prepared, in all material respects, consistently with the individual and consolidated interim financial information taken as a whole.

The accompanying interim financial information has been translated into English for the convenience of readers outside Brazil.

São Paulo, October 23, 2012



DELOITTE TOUCHE TOHMATSU
Auditores Independentes



Ismar de Moura
Engagement Partner

(Convenience Translation into English from the Original Previously Issued in Portuguese)

CIELO S.A. AND SUBSIDIARIES

BALANCE SHEETS AS OF SEPTEMBER 30, 2012 AND DECEMBER 31, 2011

(In thousands of Brazilian reais - R\$)

ASSETS	Note	Company (BR GAAP)		Consolidated (IFRS and BR GAAP)		LIABILITIES AND EQUITY	Note	Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
		09.30.2012	12.31.2011	09.30.2012	12.31.2011			09.30.2012	12.31.2011	09.30.2012	12.31.2011
CURRENT ASSETS						CURRENT LIABILITIES					
Cash and cash equivalents	4	244,896	240,998	393,231	292,915	Payables to merchants	12	2,708,841	1,660,367	2,796,757	1,660,367
Trade accounts receivable	5	3,952,418	2,971,796	4,006,034	3,019,499	Borrowings and financing	13	129,760	19,666	940,866	19,666
Trade receivables from subsidiaries	22	318	134	-	-	Trade accounts payable	14	324,606	230,259	380,128	289,815
Advanced and recoverable taxes		1,049	587	10,051	4,114	Taxes payable	15	393,853	385,914	401,364	391,996
Prepaid expenses		8,075	4,609	10,335	4,863	Payables to subsidiaries	22	10,371	11,055	-	-
Other receivables		11,158	22,379	21,178	39,939	Dividends payable	18.f)	-	319,457	-	319,457
Total current assets		4,217,914	3,240,503	4,440,829	3,361,330	Other payables	16	84,289	108,577	134,240	135,797
						Total current liabilities		3,651,720	2,735,295	4,653,355	2,817,098
NONCURRENT ASSETS						NONCURRENT LIABILITIES					
Deferred income tax and social contribution	6	403,117	334,442	403,643	341,111	Borrowings and financing	13	180,467	131,182	180,467	131,182
Escrow deposits	17	705,845	597,217	731,598	622,805	Provision for risks	17	768,256	640,465	805,372	678,007
Other receivables		435	664	16,597	688	Other payables	16	-	-	31,024	25,580
Investments	7	751,482	176,060	-	-	Total noncurrent liabilities		948,723	771,647	1,016,863	834,769
Property and equipment	8	489,918	508,259	506,021	522,369						
Intangible assets:						EQUITY					
Goodwill on acquisition of investments	9	40,622	10,143	1,451,565	140,101	Capital		500,000	263,835	500,000	263,835
Other intangible assets	10	48,541	49,247	192,424	88,027	Capital reserve	18.a)	96,500	88,888	96,500	88,888
Total noncurrent assets		2,439,960	1,676,032	3,301,848	1,715,101	Treasury shares	18.b)	(24,141)	(50,859)	(24,141)	(50,859)
						Valuation adjustments to equity	18.c)	3,654	-	3,654	-
						Earnings reserves	18.d)	1,481,418	1,107,729	1,481,418	1,107,729
						Attributed to shareholders of Cielo S.A.	18.e), f) and g)	2,057,431	1,409,593	2,057,431	1,409,593
						Shareholders other than Cielo S.A.		-	-	15,028	14,971
						Total equity		2,057,431	1,409,593	2,072,459	1,424,564
TOTAL ASSETS		6,657,874	4,916,535	7,742,677	5,076,431	TOTAL LIABILITIES AND EQUITY		6,657,874	4,916,535	7,742,677	5,076,431

The accompanying notes are an integral part of these interim financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

CIELO S.A. AND SUBSIDIARIES

INTERIM INCOME STATEMENTS

FOR THE THREE- AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2012 AND 2011

(In thousands of reais - R\$, except based and diluted earnings per share)

	Note	Company (BR GAAP)				Consolidated (IFRS and BR GAAP)			
		07.01.2012 to 09.30.2012	09.30.2012	07.01.2011 to 09.30.2011	09.30.2011	07.01.2012 to 09.30.2012	09.30.2012	07.01.2011 to 09.30.2011	09.30.2011
NET REVENUES	20	1,279,184	3,653,516	1,016,366	2,890,340	1,338,304	3,820,154	1,056,261	3,004,404
COST OF SERVICES	21	(383,239)	(1,094,397)	(323,394)	(901,899)	(435,492)	(1,242,339)	(365,617)	(1,019,497)
GROSS PROFIT		895,945	2,559,119	692,972	1,988,441	902,812	2,577,815	690,644	1,984,907
OPERATING INCOME (EXPENSES)									
Personnel	21	(32,317)	(90,926)	(28,958)	(87,092)	(55,882)	(158,693)	(49,210)	(142,723)
General and administrative	21	(68,268)	(210,831)	(66,619)	(199,875)	(46,091)	(142,595)	(39,855)	(128,701)
Selling and marketing	21	(61,494)	(162,178)	(45,108)	(102,581)	(61,567)	(162,384)	(45,159)	(102,720)
Equity in subsidiaries	7	147	15	562	1,956	-	-	-	-
Other operating expenses, net	21 and 29	(31,738)	(79,455)	(24,925)	(35,662)	(30,968)	(80,637)	(25,753)	(37,940)
OPERATING INCOME		702,275	2,015,744	527,924	1,565,187	708,304	2,033,506	530,667	1,572,823
FINANCIAL INCOME (COSTS)									
Financial income	28	4,613	15,742	6,586	22,429	5,648	19,215	7,794	25,032
Financial costs	28	(17,515)	(50,952)	(12,810)	(46,912)	(19,876)	(59,026)	(12,928)	(47,584)
Revenues from advanced receivables	28	207,912	610,416	159,872	418,384	207,912	610,416	159,872	418,384
Adjustments to present value	28	5,411	(9,340)	(5,195)	(10,467)	5,411	(9,340)	(5,195)	(10,467)
Exchange rate changes, net	28	227	5,472	(114)	1,883	222	5,459	(114)	1,883
		200,648	571,338	148,339	385,317	199,317	566,724	149,429	387,248
OPERATING INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		902,923	2,587,082	676,263	1,950,504	907,621	2,600,230	680,096	1,960,071
INCOME TAX AND SOCIAL CONTRIBUTION									
Current	23	(333,510)	(950,935)	(228,626)	(684,254)	(336,865)	(959,109)	(232,405)	(691,602)
Deferred	23	19,506	68,219	9,912	39,531	19,928	67,861	11,348	40,786
NET PROFIT FOR THE PERIOD		588,919	1,704,366	457,549	1,305,781	590,684	1,708,982	459,039	1,309,255
ATTRIBUTED TO									
Shareholders of Cielo S.A.						588,919	1,704,366	457,549	1,305,781
Shareholders other than Cielo S.A.						1,765	4,616	1,490	3,474
						590,684	1,708,982	459,039	1,309,255
EARNINGS PER SHARE (IN R\$) - BASIC	19.b)	0.90103	2.60765	0.70004	1.99909	0.90103	2.60765	0.70004	1.99909
EARNINGS PER SHARE (IN R\$) - DILUTED	19.b)	0.89925	2.60248	0.69865	1.99687	0.89925	2.60248	0.69865	1.99687

The accompanying notes are an integral part of these interim financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

CIELO S.A. AND SUBSIDIARIES

**INTERIM STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE- AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2012 AND 2011
(In thousands of Brazilian reais - R\$)**

Note	Company (BR GAAP)				Consolidated (IFRS and BR GAAP)			
	07.01.2012 to 09.30.2012	09.30.2012	07.01.2011 to 09.30.2011	09.30.2011	07.01.2012 to 09.30.2012	09.30.2012	07.01.2011 to 09.30.2011	09.30.2011
NET PROFIT FOR THE PERIOD	588,919	1,704,366	457,549	1,305,781	590,684	1,708,982	459,039	1,309,255
OTHER COMPREHENSIVE INCOME								
Exchange differences on translation of foreign transactions:								
Exchange differences for the period	2,867	2,867	-	-	2,867	2,867	-	-
Gains and losses from hedge instruments on foreign transactions, net of taxes	787	787	-	-	787	787	-	-
Total comprehensive income for the period	3,654	3,654	-	-	3,654	3,654	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>592,573</u>	<u>1,708,020</u>	<u>457,549</u>	<u>1,305,781</u>	<u>594,338</u>	<u>1,712,636</u>	<u>459,039</u>	<u>1,309,255</u>
ATTRIBUTED TO								
Shareholders of Cielo S.A.	<u>592,573</u>	<u>1,708,020</u>	<u>-</u>	<u>-</u>	<u>592,573</u>	<u>1,708,020</u>	<u>457,549</u>	<u>1,305,781</u>
Shareholders other than Cielo S.A.	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,765</u>	<u>4,616</u>	<u>1,490</u>	<u>3,474</u>

The accompanying notes are an integral part of these interim financial statements.

(Convenience Translation into English from the Original Previously issued in Portuguese)

CIELO S.A. AND SUBSIDIARIES

INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2012 AND 2011
(In thousands of Brazilian reais - R\$)

	Attributed to controlling interest										Noncontrolling interest	Total equity
	Note	Earnings reserves							Valuation adjustments to equity	Total controlling interest		
		Capital	Capital reserve	Treasury shares	Legal reserve	Capital budget	Additional proposed dividends	Earnings retention				
BALANCES AS OF DECEMBER 31, 2010		100,000	83,532	(68,823)	20,000	143,836	-	901,236	-	1,179,781	14,470	1,194,251
Dividends paid in addition to mandatory dividends in 2010		-	-	-	-	-	-	(720,303)	-	(720,303)	-	(720,303)
Recognition of reserve for capital budget		-	-	-	-	180,933	-	(180,933)	-	-	-	-
Capital increase		163,836	-	-	(20,000)	(143,836)	-	-	-	-	-	-
Stock option plan		-	5,731	-	-	-	-	-	-	5,731	-	5,731
Sale of treasury shares under the stock option plan		-	-	10,424	-	-	-	-	-	10,424	-	10,424
Net profit for the period		-	-	-	-	-	-	1,305,781	-	1,305,781	3,474	1,309,255
Allocation of net profit for the period:		-	-	-	-	-	-	-	-	-	-	-
Dividends and interest on capital		-	-	-	52,767	-	-	(52,767)	-	(564,075)	-	(564,075)
Legal reserve		-	-	-	-	-	-	-	-	-	(2,694)	(2,694)
Effect from other shareholders other than Cielo S.A. on consolidated entities		-	-	-	-	-	-	-	-	-	-	-
BALANCES AS OF SEPTEMBER 30, 2011		263,836	89,263	(58,399)	52,767	180,933	-	688,939	-	1,217,339	15,250	1,232,589
BALANCES AS OF DECEMBER 31, 2011		263,835	88,888	(50,859)	52,767	708,202	346,760	-	-	1,409,593	14,971	1,424,564
Capital increase	18.a)	236,165	-	-	-	(236,165)	-	-	-	-	-	-
Acquisition of treasury shares	18.c)	-	-	(5,800)	-	-	-	-	-	(5,800)	-	(5,800)
Stock option plan		-	7,612	-	-	-	-	-	-	7,612	-	7,612
Sale of treasury shares under the stock option plan	18.c)	-	-	32,518	-	-	-	-	-	32,518	-	32,518
Effect from other shareholders other than Cielo S.A. on consolidated entities		-	-	-	-	-	-	-	-	-	(4,559)	(4,559)
Dividends paid in addition to mandatory dividends in 2011		-	-	-	-	-	(346,760)	-	-	(346,760)	-	(346,760)
Net profit for the period		-	-	-	-	-	-	1,704,366	-	1,704,366	4,616	1,708,982
Other comprehensive income		-	-	-	-	-	-	-	-	-	-	-
Exchange differences on translation of foreign transactions:		-	-	-	-	-	-	-	2,867	2,867	-	2,867
Exchange rate changes on net foreign investments		-	-	-	-	-	-	-	787	787	-	787
Gains and losses from hedge instruments on foreign transactions, net of taxes		-	-	-	-	-	-	-	3,654	3,654	4,616	1,712,636
Total comprehensive income for the period		-	-	-	-	-	-	1,704,366	-	1,708,020	-	1,712,636
Allocation of net profit for the period:		-	-	-	-	-	-	-	-	-	-	-
Legal reserve	18.e)	-	-	-	47,233	-	-	(47,233)	-	-	-	-
Dividends paid	18.g)	-	-	-	-	-	-	(716,508)	-	(716,508)	-	(716,508)
Interest on capital	18.g)	-	-	-	-	-	-	(31,244)	-	(31,244)	-	(31,244)
BALANCES AS OF SEPTEMBER 30, 2012		500,000	96,500	(24,141)	100,000	472,037	-	909,381	3,654	2,057,431	15,028	2,072,459

The accompanying notes are an integral part of these interim financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

CIELO S.A. AND SUBSIDIARIES

INTERIM STATEMENTS OF CASH FLOWS
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2012 AND 2011
(In thousands of Brazilian reais - R\$)

		Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
	Note	09.30.2012	09.30.2011	09.30.2012	09.30.2011
CASH FLOW FROM OPERATING ACTIVITIES					
Income before income tax and social contribution		2,587,082	1,950,504	2,600,230	1,960,071
Adjustments to reconcile income before income tax and social contribution to net cash provided by operating activities:					
Depreciation and amortization	7, 8 and 10	213,520	163,794	223,232	173,990
Recognition (reversal) of provision for losses on property and equipment and intangible assets		407	(567)	407	(567)
Residual cost of property and equipment and intangible assets written off or sold	8 and 10	13,619	12,044	14,194	12,634
Stock option plan		7,612	5,731	7,612	5,731
Losses on leased equipment		29,287	22,302	29,287	22,302
Provision for losses - goodwill on Paggo	9	16,500	-	16,500	-
Provision for risks	17	132,053	103,957	131,660	107,517
Adjustment to present value of trade receivables	5	9,340	10,467	9,340	10,467
Interest of shareholders other than Cielo S.A.		-	-	4,616	3,474
Interest on borrowings and financing	13	15,532	-	17,308	-
Equity in subsidiaries	7	(15)	(1,956)	-	-
Increase (decrease) in operating assets:					
Trade accounts receivable		(989,962)	(208,319)	(995,875)	(230,326)
Trade receivables from subsidiaries		(184)	(104)	-	-
Advanced and recoverable taxes		(462)	108	(2,622)	(119)
Other receivables (current and noncurrent)		11,450	46,978	19,923	44,383
Escrow deposits	17	(108,628)	(99,719)	(108,793)	(103,001)
Advanced expenses		(3,466)	(3,233)	(3,663)	(3,348)
Increase (decrease) in operating liabilities:					
Payables to merchants		1,019,187	610,588	1,019,187	610,588
Trade accounts payable		94,347	21,583	90,313	29,069
Taxes and contributions		(5,639)	(5,009)	(6,485)	(4,036)
Payables to subsidiaries		(684)	(14,280)	-	-
Other payables (current and noncurrent)		(25,626)	(38,179)	(11,806)	(33,929)
Provision for risks		-	-	-	(303)
Payment of tax, civil and labor lawsuits	17	(4,262)	-	(4,295)	-
Cash from operations		3,011,008	2,576,690	3,050,270	2,604,597
Interest received		-	1,596	-	1,596
Interest paid		-	(1,596)	-	(1,596)
Interest on loans	13	(15,456)	-	(16,708)	-
Income tax and social contribution		(937,359)	(819,733)	(943,366)	(826,171)
Net cash provided by operating activities		2,058,193	1,756,957	2,090,196	1,778,426
CASH FLOW FROM INVESTING ACTIVITIES					
Capital increase in subsidiaries and joint ventures	7	(632,791)	(92,001)	-	(92,001)
Dividends from subsidiaries	7	10,800	-	-	-
Gain from hedge instruments on foreign transactions		1,671	-	1,671	-
Cash from subsidiary Servrede - capital reduction	7	3,105	-	-	-
Receivables from acquisition price of Braspag		-	-	600	-
Business combination, net of cash		-	-	(1,365,256)	-
Additions to property and equipment and intangible assets, net of borrowings		(40,987)	(271,178)	(48,054)	(273,297)
Net cash provided by investing activities		(658,202)	(363,179)	(1,411,039)	(365,298)
CASH FLOW FROM FINANCING ACTIVITIES					
Acquisition of treasury shares	18.c)	(5,800)	-	(5,800)	-
Sale of treasury shares under the stock option plan	18.c)	32,518	10,424	32,518	10,424
Borrowings in foreign currency	13	-	-	808,026	-
Cash from subsidiary acquired		-	-	-	1,667
Payment of principal	13	(8,842)	-	(8,842)	-
Dividends and interest on capital	18.g)	(1,413,969)	(1,402,336)	(1,413,969)	(1,402,336)
Net cash provided by financing activities		(1,396,093)	(1,391,912)	(588,067)	(1,390,245)
Effect of exchange rate on cash and cash equivalents of subsidiary overseas		-	-	9,226	-
INCREASE IN CASH AND CASH EQUIVALENTS		<u>3,898</u>	<u>1,866</u>	<u>100,316</u>	<u>22,883</u>
CASH AND CASH EQUIVALENTS					
Closing balance	4	244,896	223,408	393,231	273,486
Opening balance	4	240,998	221,542	292,915	250,603
INCREASE IN CASH AND CASH EQUIVALENTS		<u>3,898</u>	<u>1,866</u>	<u>100,316</u>	<u>22,883</u>

The accompanying notes are an integral part of these interim financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

CIELO S.A. AND SUBSIDIARIES

INTERIM STATEMENTS OF VALUE ADDED

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2012 AND 2011

(In thousands of Brazilian reais - R\$)

		Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
	Note	09.30.2012	09.30.2011	09.30.2012	09.30.2011
REVENUES					
Cost of services	20	4,068,792	3,218,220	4,266,137	3,356,925
Losses on leased equipment		(29,287)	(22,302)	(29,287)	(22,302)
		<u>4,039,505</u>	<u>3,195,918</u>	<u>4,236,850</u>	<u>3,334,623</u>
INPUTS FROM THIRD PARTIES					
Cost of services		(811,449)	(670,938)	(929,824)	(753,743)
Materials, electric energy, outside services and others		(355,366)	(309,838)	(282,612)	(235,029)
Other payables, net		(44,193)	(15,923)	(43,981)	(19,763)
Gain (loss) on realization of assets		(5,976)	2,564	(5,976)	2,564
		<u>(1,216,984)</u>	<u>(994,135)</u>	<u>(1,262,393)</u>	<u>(1,005,971)</u>
GROSS VALUE ADDED		<u>2,822,521</u>	<u>2,201,783</u>	<u>2,974,457</u>	<u>2,328,652</u>
RETENTIONS					
Depreciation and amortization	7, 8 and 10	(213,520)	(163,794)	(223,232)	(173,990)
WEALTH CREATED, NET		<u>2,609,001</u>	<u>2,037,989</u>	<u>2,751,225</u>	<u>2,154,662</u>
WEALTH RECEIVED IN TRANSFER					
Equity in subsidiaries	7	15	1,956	-	-
Noncontrolling interest		-	-	(4,616)	(3,474)
Financial income, including exchange rate changes and advanced receivables, net	28	<u>622,290</u>	<u>432,229</u>	<u>625,750</u>	<u>434,832</u>
		622,305	434,185	621,134	431,358
TOTAL WEALTH FOR DISTRIBUTION		<u>3,231,306</u>	<u>2,472,174</u>	<u>3,372,359</u>	<u>2,586,020</u>
DISTRIBUTION OF WEALTH					
Personnel and related taxes		(111,458)	(109,356)	(174,516)	(163,942)
Profit sharing	26	(30,794)	(27,442)	(41,236)	(37,075)
Taxes and contributions		(1,329,338)	(978,671)	(1,380,257)	(1,020,513)
Accrued interest and leasing		(55,350)	(50,924)	(71,984)	(58,709)
Dividends and interest on capital	18.g)	(747,752)	(564,075)	(747,752)	(564,075)
Earnings retention		(956,614)	(741,706)	(956,614)	(741,706)
WEALTH DISTRIBUTED		<u>(3,231,306)</u>	<u>(2,472,174)</u>	<u>(3,372,359)</u>	<u>(2,586,020)</u>

The accompanying notes are an integral part of these interim financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

CIELO S.A. AND SUBSIDIARIES

NOTES TO THE INDIVIDUAL AND CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE THREE- AND NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2012 AND 2011

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

1. GENERAL INFORMATION

Cielo S.A. (“Company” or “Cielo”) was established on November 23, 1995 in Brazil, and is primarily engaged in providing services related to credit and debit cards and other payment methods, as well as providing related services, such as signing up of merchants and service providers, rental, installation and maintenance of Point of Sales - POS equipment; and data capture and processing of electronic and manual transactions.

Cielo is a corporation headquartered in Barueri, São Paulo, whose shares are traded on the BM&FBOVESPA S.A. - Bolsa de Valores, Mercadorias e Futuros, under ticker symbol “CIEL3”, and its controlling shareholders comprise Banco do Brasil and Bradesco conglomerates.

The operations of the Company’s direct and indirect subsidiaries are as follows:

Direct subsidiaries

- Servinet Serviços Ltda. (“Servinet”) - engaged in the provision of maintenance and contacts with merchants and service providers for acceptance of credit and debit cards and other payment methods; development of related activities in the service segment that are of interest to Servinet; and holding investments in other companies as partner or shareholder.
- Servrede Serviços S.A. (“Servrede”), CieloPar Participações Ltda. (“CieloPar”) and Cielo USA, Inc. (“Cielo USA”) - mainly engaged in holding investments in other companies as partner or shareholder (“holdings”).
- Companhia Brasileira de Gestão de Serviços (“Orizon”), formerly Orizon Brasil Processamento de Informações de Saúde Ltda. - engaged in the provision of consulting and data processing services to medical companies in general; management of back office services for health operators in general; electronic network interconnection services between health operators and medical and hospital service providers (e.g.: hospitals, clinics and laboratories), and other health system agents and drugstores, based on a single technology platform; scanning and process automation services, call center services and other solutions; card reading and nonfinancial transactions routing services; lease or sale of card readers, other computer-based equipment and systems used for providing its services.

Indirect subsidiaries

- Prevsaúde Comercial de Produtos e de Benefícios de Farmácia Ltda. (“Prevsaúde”) - Orizon’s subsidiary engaged in medicine benefit services to corporate customers, healthcare plans, public customers, and large laboratories. Prevsaúde manages the relationship of its customers’ employees with drugstores, doctors and the contracting company itself.

- Precisa Comercialização de Medicamentos Ltda. (“Precisa”) - Orizon’s subsidiary engaged in the sale of medicines in general, with focus on health prevention and maintenance, with a scheduled delivery system. Precisa is a “drugstore” focused on the distribution of medicines to Prevsaude’s customers, especially chronic patients. It is responsible for delivering medicines regularly administered to Prevsaude’s customers with chronicle diseases, such as diabetes, cancer and heart and blood pressure conditions, which allows monitoring the delivery and use of medicines, increasing the treatment’s effectiveness.
- Multidisplay Comércio e Serviços Tecnológicos S.A. (“Multidisplay”) - Servrede’s subsidiary engaged in data transmission services to load fixed or mobile phone credits, the sale of mobile or fixed phone credits, as well as technology, software development and licensing consulting services, product sale, and technology and sales representation services.
- M4 Produtos e Serviços S.A. (“M4 Produtos”) - Multidisplay’s subsidiary engaged in data transmission services to load fixed or mobile phone, prepaid television, prepaid transportation and similar credits; mobile payment and technology consulting services; and software development and licensing.
- Paggo Soluções e Meios de Pagamento S.A. (“Paggo Soluções”) - a subsidiary of Cielo, is engaged in the accreditation of merchants for acceptance of credit and debit cards; the supply and provision of solutions and electronic means for transaction capture and processing arising from the use of credit and debit cards; and the management of payables to and receivables from the network of authorized merchants, through the capture, transmission, data processing and settlement of electronic transactions with credit and debit cards for mobile payments.
- Braspag Tecnologia em Pagamento Ltda. (“Braspag”) - subsidiary of CieloPar, mainly engaged in software development; automated transaction processing; IT services for collection and management of trade payables and receivables using the Internet.
- Merchant e-Solutions, Inc. (“MeS”) - subsidiary of Cielo USA, mainly engaged in the provision of electronic payment services using credit and debit cards, comprising: the authorization of transactions, financial settlements and communication of transactions to merchants. MeS provides services to authorized merchants and banks.

Cielo and its subsidiaries are also referred to as the “Group” in this report.

Corporate reorganization

In the quarter ended September 30, 2012, the Group implemented a corporate restructuring process to simplify its operating structure and better use the Company’s proceeds.

Within such context, on September 3, 2012, CieloPar’s capital decrease, in the amount of R\$48,718, was approved, and CieloPar’s interest in Paggo was directly held by Cielo. Capital was decreased at carrying amounts and, therefore, no gains or losses were recorded.

In addition, on September 27, 2012, Servrede’s capital decrease, in the amount of R\$3,105, was approved and excess cash and cash equivalents was returned to Cielo. Capital was decreased at carrying amounts and, therefore, no gains or losses were recorded.

Acquisition of Merchant e-Solutions

In August 2012, the Company completed the acquisition, through its direct subsidiary Cielo USA, of 100% of the shares of Merchant e-Solutions, a US global payment solution provider, using a cutting-edge technology platform specifically developed for the acquiring business, which allowed it to stand out in the US market. Costs related to this acquisition amounted to R\$19.967.

Had this business combination been completed on January 1, 2012, the Group's consolidated net revenues and operating income (loss) from continuing operations would amount to approximately R\$4,350,000 and R\$1,740,000, respectively, in the nine-month period ended September 30, 2012. The Group's management understands that these pro forma amounts correspond to an approximate measure of the Group's combined performance and, because of that, should not be considered as a guarantee for the projection of future earnings. However, these estimates do not consider the allocation of goodwill on acquisition, as described in Note 9.

In order to determine the Group's consolidated net revenues and pro forma profit or loss as if Merchant e-Solutions had been acquired at the beginning of the current year, Management:

- Calculated the depreciation of equipment acquired based on the fair values arising from the initial recognition of the business combination.
- Determined borrowing costs as if such borrowing had been raised on January 1, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Declaration of conformity

The Company's interim financial information includes:

- The Company's individual interim financial information, which has been prepared in accordance with accounting practices adopted in Brazil, identified as "Company (BR GAAP)".
- The Company's consolidated interim financial information, which has been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and in accordance with accounting practices adopted in Brazil, identified as "Consolidated (IFRS and BR GAAP)".

The accounting practices adopted in Brazil include those established in the Brazilian Corporate Law as well as the technical pronouncements, instructions and interpretations issued by the Accounting Pronouncements Committee ("CPC") and approved by the Brazilian Securities and Exchange Commission ("CVM").

In the individual interim financial information, investments in subsidiaries and joint ventures are stated under the equity method of accounting in accordance with the legislation prevailing in Brazil. Thus, the individual financial statements are not considered to be in conformity with IFRS, which requires investments in subsidiaries to be accounted for separately from the parent company at fair value or cost.

2.2. Basis of preparation

The interim financial information has been prepared based on the historical cost, except if stated otherwise. The historical cost is generally based on the fair value of the consideration paid in exchange for assets.

2.3. Functional and reporting currency

The individual and consolidated financial statements are presented in Brazilian reais (R\$), which is the functional and reporting currency of the Company.

In the preparation of the interim financial information of each Group company (headquartered in Brazil and whose functional currency is the Brazilian real (R\$)), foreign currency-denominated transactions are stated based on the exchange rates prevailing on the date of each transaction. At the end of each reporting period, monetary items denominated in foreign currency are retranslated at the exchange rates prevailing at end of the period. Non-monetary items recorded at fair value determined in foreign currency are retranslated at the rates prevailing on the date fair value was determined. Non-monetary items measured at the historical cost in a foreign currency are translated using the exchange rate prevailing on the transaction date. Exchange rate changes on monetary items are recognized in net profit or loss for the period in which they occur, except for those arising from foreign currency hedge transactions against risks of changes in foreign exchange rate (investment hedge).

Management determined that the functional currency of its foreign subsidiaries is the US dollar. In Cielo USA, the main factor to determine the functional currency was the raising of US dollar-denominated loans for the acquisition of control of Merchant e-Solutions. These loans will be fully settled using the cash from foreign transactions. In addition, with respect to Merchant e-Solutions, the services provided and cash flows are fully stated in US dollars.

For purposes of presentation of the consolidated interim financial information, the assets and liabilities of subsidiaries Cielo USA and MeS (based in the USA), originally denominated in US dollars, were translated into Brazilian reais at the exchange rates prevailing on the balance sheet date. Profits or losses are translated at the average exchange rates for the period. Exchange rate changes resulting from such translations are classified in comprehensive income and accumulated in equity.

When a foreign transaction is written off (e.g.: disposal of interest, loss of control of an investee or jointly controlled entity, or loss of significant influence over an associate, whenever there are foreign transactions), the amount of the accumulated exchange rate change relating to such transaction recorded in the Group's equity is reclassified to profit or loss for the year.

The goodwill and adjustments to the fair value of identifiable assets acquired and liabilities assumed arising from the acquisition of a foreign subsidiary are recognized as assets and liabilities and translated based on the exchange rate at the end of the reporting period. Exchange differences are recognized in equity.

2.4. Cash and cash equivalents

Include cash, bank accounts and highly-liquid, short-term investments with insignificant risk of change in value, stated at cost plus interest earned. Cash and cash equivalents are classified as loans and receivables and their income is recorded in profit or loss for the period.

2.5. Receivables from card-issuing banks and payables to merchants (transactions pending transfer)

Refer to transactions carried out by the holders of credit and debit cards issued by financial institutions, consisting of receivables from card-issuing banks less interchange fees and payables to merchants less processing fees (discount rate), both with maturities of less than one year.

Receivables from issuing banks related to prepayments of receivables are stated at present value, determined on an individual basis, less cash flows of each one of the receivables recorded using the interest rates applied to such transactions.

2.6. Property and equipment

Stated at historical cost, less depreciation. Depreciation is calculated under the straight-line method, based on the estimated useful lives of the assets. The estimated useful lives, residual values, and depreciation methods are reviewed at least on an annual basis, and the effects from any changes in estimates are recorded prospectively.

Subsequent costs are added to the residual value of property and equipment or recognized as a specific item, as appropriate, only if the economic benefits associated to these items are probable and the amounts can be reliably measured. Other repairs and maintenance are recognized directly in profit or loss when incurred.

An item of property and equipment is written off upon disposal or when there is no future economic benefits resulting from its continuous use. Any gain or loss from the sale or write-off of an item of property and equipment is determined by the difference between the sales amount received and the carrying value of the asset sold, recognized in profit or loss.

2.7. Intangible assets

Separately acquired intangible assets

Separately acquired intangible assets with finite useful lives are stated at cost, less accumulated amortization and accumulated impairment losses thereon. Amortization is recognized on a straight-line basis, based on the estimated useful lives of the assets. The estimated useful life and amortization method are reviewed on an annual basis and the effect of any changes in estimate is accounted for on a prospective basis.

Separately acquired intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Internally generated intangible assets - research and development expenditure

Expenditure on research is recognized as an expense when incurred.

Internally generated intangible assets resulting from development costs (or from the research phase of an internal project) are recognized if, and only if, the following criteria are met:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset to use it or sell it.
- Its ability to use or sell the intangible asset.
- Ability to demonstrate how the intangible asset will generate probable future economic benefits.
- The availability of appropriate technical, financial and other resources to complete the development of the intangible asset to use it or sell it.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount originally recorded of internally generated intangible assets corresponds to the sum up of the costs incurred since the asset started to meet the recognition criteria previously mentioned. If no internally generated intangible asset may be recognized, the development costs are recognized in profit or loss when incurred. After initial recognition, internally generated intangible assets are stated at cost, less accumulated amortization and impairment losses, similarly to intangible assets acquired separately.

Intangible assets acquired in a business combination

In the consolidated interim financial information, intangible assets acquired in a business combination and recognized separately are stated at fair value on the acquisition date, which is equivalent to cost.

Derecognition of intangible assets

An intangible asset is written off after sale or when future economic benefits will not result from its use. The gain or loss arising from the derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss when the asset is derecognized.

2.8. Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amount of its tangible and intangible assets to determine if there is any indication that these assets might be impaired. If there is such an indication, the recoverable amount of the asset is estimated to measure the amount of impairment loss, if any. Where it is not possible to

estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent allocation basis can be identified, corporate assets are also allocated to the cash-generating units or the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the carrying amount is reduced to its recoverable amount, and impairment losses are immediately recognized in the profit or loss.

2.9. Business combinations

In the consolidated interim financial information, business combinations are stated under the acquisition method. The consideration transferred in a business combination is measured at fair value. Acquisition-related costs have been recognized in profit or loss, when incurred.

The identifiable assets acquired and liabilities assumed are recognized at fair value on the acquisition date.

Goodwill is measured based on the exceeding amount arising from the sum up of the amount transferred, the noncontrolling interest in the acquiree and the fair value of the acquirer's interest previously held in the acquiree on the net amounts on the date of acquisition of the identifiable assets acquired and liabilities assumed.

The noncontrolling interests that correspond to current interests and entitle their holders to a proportional portion of the entity's net assets in case of liquidation are measured based on the proportional stake of the noncontrolling interests in the acquiree's identifiable net asset amounts recognized.

Individual interim financial information

In the individual interim financial information, the Company complies with Technical Interpretation ICPC 09 - Individual Financial Statements, Separate Financial Statements, Consolidated Financial Statements and Adoption of the Equity Method, according to which the amounts exceeding the acquisition cost on the Company's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities on the acquisition date are recognized as goodwill. Goodwill is added to the carrying amount of the investment. The Company's interests in the fair value of the identifiable assets, liabilities and contingent liabilities exceeding the acquisition cost, after revaluation, is immediately recognized in profit or loss. The amounts transferred and the fair value of assets and liabilities are measured based on the same criteria applicable to the consolidated interim financial information.

2.10. Goodwill

Goodwill arising from a business combination is stated at cost on the date of the business combination, net of accumulated impairment loss, if any.

For impairment test purposes, goodwill is allocated to each one of the cash-generating units of the Company which benefit from the business combination synergies.

The cash-generating units to which goodwill was allocated are tested for impairment annually or more frequently, when there is any indication of impairment. If the recoverable amount of a cash-generating unit is lower than its carrying amount, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the unit, and subsequently to the other assets of the cash-generating unit, proportionally to the carrying amount of each of its assets. Any goodwill impairment loss is directly recognized in profit or loss. Impairment losses are not reversed in subsequent periods.

When the related cash-generating unit is sold, the amount corresponding to the goodwill is included in the calculation of the gains or losses on the sale.

2.11. Investments in subsidiaries and joint ventures

A subsidiary is an entity, including an unincorporated entity such as a partnership, in which the parent owns, directly or through other subsidiaries, shareholder rights that entitle it, on a permanent basis, to prevail in corporate decisions and grant it the power to elect the majority of the officers.

Prevalence in corporate decision-making and the power to elect the majority of the officers, on a permanent basis, presumably occur when the investor owns more than 50% of the voting capital in other entity. Under this method, the components of assets and liabilities and income and expenses of indirect subsidiaries are added to the fully consolidated accounting positions and the book value of non-controlling interests is determined by applying the interest percentage of non-controlling shareholders in the subsidiary's equity.

Joint ventures are those jointly controlled by the Company and one or more partners. Investments in joint ventures are recognized under the proportionate consolidation method, from the date the joint control is acquired. Under this method, the components of a joint venture's assets and liabilities, and income and expenses are added to the consolidated accounting positions proportionally to the venturer's interest in its capital. In the Company's individual interim financial information, interests in jointly-owned subsidiaries are recognized under the equity method. When a Group company carries out transactions with its jointly-controlled entities, the related gains and losses are recognized in the Group's consolidated interim financial information only proportionately to the Group's interests in those jointly-controlled entities that are not related to the Group.

The Company has investments in foreign subsidiaries whose interim financial information was originally prepared in accordance with accounting practices adopted in the United States (“US GAAP”). Consequently, the foreign subsidiaries’ interim financial information will be restated should the related effects be material to ensure the compliance with the accounting practices adopted in Brazil and IFRSs.

2.12. Income tax and social contribution - current and deferred

Income tax and social contribution expenses represent the aggregate of current and deferred taxes.

Current taxes

The provision for income tax and social contribution is calculated based on the taxable income for the period. Income tax was calculated at the rate of 15%, plus a 10% surtax on annual taxable income exceeding R\$240. Social contribution was calculated at the rate of 9% on adjusted net income. Taxable income differs from the profit reported in the income statement because it excludes income or expenses that are taxable or deductible in other periods, and permanently excludes nontaxable or nondeductible items. The provision for income tax and social contribution is calculated individually (by Group company) based on the statutory rates prevailing at the end of the period.

Deferred taxes

Deferred income tax and social contribution are recognized on the differences between assets and liabilities recognized for tax purposes and related amounts recognized in the consolidated interim financial information; however, they are not recognized if generated in the first-time recording of assets and liabilities in transactions that do not affect the tax basis, except in business combinations. Deferred income tax and social contribution are determined based on the tax rates (and laws) in effect at the balance sheet date and applicable when the respective income tax and social contribution are paid. Deferred tax assets or liabilities are not recognized on temporary differences resulting from goodwill or the initial recognition of other assets and liabilities in a transaction that neither affects taxable income nor book income (except for business combinations).

Deferred income tax and social contribution assets are recognized only to the extent that it is probable that there will be a positive tax basis for which temporary differences can be used and tax loss carryforwards can be offset. The recovery of deferred tax assets is reviewed at the end of each reporting period and when it is no longer probable that future taxable income will be available to allow the recovery of all or part of the assets, these are adjusted to their expected recoverable amount.

Deferred tax assets and liabilities are measured at the rates applicable in the period in which the liability or asset is expected to be settled or realized, according to the tax legislation prevailing at the end of each reporting period or to a new legislation, when this has been substantially approved. The deferred tax assets and liabilities are measured to reflect the tax implication that would arise from the way in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of these assets and liabilities.

Current and deferred taxes are recognized in profit or loss except when they correspond to items recorded in “Other comprehensive income”, or directly in equity, when these current and deferred taxes are also recognized in “Other comprehensive income” or directly in equity, respectively. When current and deferred taxes result from the initial recognition of a business combination, the tax effect is accounted for on the recognition of a business combination.

2.13. Employees’ benefits

The Company and its subsidiaries are co-sponsors of a defined contribution pension plan. Contributions are made based on a percentage of the employees’ compensation. Payments to defined contribution plans are recognized as expense when the services they entitle to are provided.

2.14. Financial assets and financial liabilities

a) Financial assets

Financial assets are classified in the following specific categories: (i) at fair value through profit or loss; (ii) held to maturity; (iii) loans and receivables; and (iv) available for sale. Classification is made according to the nature and purpose of the financial assets and is determined upon initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading or designated at fair value through profit or loss when acquired. A financial asset is classified as held for trading if it is:

- Acquired principally for the purpose of selling it in the near term.
- Part of a portfolio of identified financial instruments that are jointly managed and for which there is evidence of a recent actual pattern of short-term profit-taking.
- A derivative that is not a designated and effective hedging instrument in hedge accounting.

A financial asset that is not held for trading can be designated at fair value through profit or loss upon initial recognition when:

- This designation eliminates or significantly reduces an inconsistency that might arise upon measurement or recognition.
- It is part of a managed group of financial assets or liabilities, or both, and its performance is evaluated based on fair value according to the risk management or investment strategy documented by the Company, and the respective information is internally provided on the same basis.
- It is part of a contract containing one or more embedded derivatives, and CPC 38 and IAS 39 - Financial Instruments: Recognition and Measurement permits that the combined contract as a whole (assets or liabilities) be designated at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value, with any gains or losses recognized in profit or loss for the year. Net gains or losses recognized in profit or loss include dividends or interest earned by the financial asset.

Financial assets held to maturity

Financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity are classified as held to maturity. Held-to-maturity financial assets are measured at amortized cost using the effective interest method, less the allowance for impairment losses. Revenue is recognized using the effective interest method.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market, measured at amortized cost using the effective interest method, less the allowance for impairment losses. Interest income is recognized by applying the effective interest rate method, except for short-term receivables when the recognition of interest would be immaterial.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets designated as available for sale and not classified in any of the categories above.

Available-for-sale financial assets are measured at fair value. Interest, inflation adjustment and exchange rate changes, if applicable, are recognized in profit or loss when incurred. Changes arising from measurement at fair value are recognized in a specific line item of equity when incurred, and are charged to profit or loss when realized or considered unrecoverable.

Effective interest method

A method used to calculate the amortized cost of a financial asset or a financial liability and allocating interest income or interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees paid or received that are an integral part of the effective interest rate, transaction costs, and other premiums or discounts) through the expected life of the financial asset or, when appropriate, over a shorter period.

b) Financial liabilities

Financial liabilities are classified as follows: (i) at fair value through profit or loss; or (ii) as other financial liabilities.

Financial liabilities at fair value through profit or loss

This category includes financial liabilities held for trading or measured at fair value through profit or loss.

A financial liability is classified as held for trading if it is:

- Incurred principally for the purpose of repurchasing it in the near term.
- Part of a portfolio of identified financial instruments that are jointly managed and for which there is evidence of a recent actual pattern of short-term profit-taking.
- A derivative that is not designated as an effective hedging instrument.

Financial liabilities that are not held for trading can be designated at fair value through profit or loss upon initial recognition when:

- This designation eliminates or significantly reduces an inconsistency that might arise upon measurement or recognition.
- They are part of a managed group of financial assets or liabilities, or both, whose performance is valued based on fair value, in accordance with the Company's documented risk management or investment strategy, and whose related information is provided internally on the same basis.
- They are part of a contract containing one or more embedded derivatives, and IAS 39 permits that the combined contract as a whole (assets or liabilities) is designated at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains and losses recognized in profit or loss. Net gains or losses recognized in profit or loss comprise any interest paid on financial liabilities.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on a yield basis. The effective interest method is a method for calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, over a shorter period.

2.15. Derivatives

The Company enters into Non Deliverable Forward (NDF) transactions to manage its exposure to currency fluctuations in foreign investments. The Company measures its derivatives based on market quotes in order to reflect the fair value of the financial instruments on the reporting date.

2.16. Hedge accounting

The Group designates NDF transactions, a hedge instrument for currency risks, as hedge of net investments in foreign transactions.

When the derivative is contracted, the Company documents the relationship between the hedge instrument and the hedged asset, including the description of its goals and risk management strategies. Additionally, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that is used in a hedge relationship is highly effective in offsetting changes in the fair value.

For hedges of net investments in foreign transactions, the gains or losses on the effective portion of the hedge instrument are recorded in other comprehensive income and accumulated in line item "Hedge of net investment in foreign transactions". Any gains or losses on the ineffective portion are immediately recorded in profit or loss for the year.

Any hedge gains and losses related to the accumulated effective portion in the reserve for translation of foreign currency are reclassified to profit or loss for the year when the foreign investment is sold.

The Company projects the need to renew or contract new transactions to replace in case the derivative instrument expires before the hedged item.

Note 24.e) brings more details on the fair values of derivative instruments used for hedging purposes.

2.17. Revenue recognition

Revenue is measured at the fair value of the amount received or receivable, less estimated returns, commercial discounts and/or bonuses granted and other similar deductions.

Revenues from credit and debit card transactions are recognized when transactions are processed. Revenues from credit card transactions payable in installments are recognized in profit or loss when each installment is processed. Revenues from services to associates and merchants are recognized when the service is provided.

The income from the dividends of investments is recognized when the shareholder's right to receive these dividends is established (provided that it is probable that the future economic benefits will flow to the Group and the amount may be measured reliably).

Interest income is recognized when it is probable that the future economic benefits will flow to the Group and the amount may be measured reliably. The interest income is recognized under the straight-line method based on the time and the effective interest rate on the outstanding principal. The effective interest rate is the rate that discounts the estimated future cash receipts during the estimated useful life of the financial assets in relation to the initial net carrying amount of this asset.

Revenues from the prepayment of receivables to merchants are recognized on a pro rata basis through their maturities.

2.18. Provision for risks

Recognized when there is a present obligation (legal or constructive) as a result of a past event, with probable outflow of resources, and the amount of the obligation can be reliably estimated.

The amount recognized as a provision is the best estimate of the settlement amount at the balance sheet dates, considering the risks and uncertainties related to the obligation. When the economic benefit required to settle a provision is expected to be received from third parties, this amount receivable is recorded as an asset, only when reimbursement is virtually certain and the amount can be reliably estimated.

Provisions recognized by the Company refer substantially to civil and labor lawsuits arising in the normal course of business, filed by third parties or former employees. These contingencies are assessed by the Company's and its subsidiaries' management and its legal counsel, using criteria that allow their proper measurement, despite the uncertainty concerning the decision, their period and amount.

Provisions for tax lawsuits are recorded based on the total taxes under legal dispute, plus inflation adjustment and late payment interest incurred through the balance sheet dates.

2.19. Dividends and interest on capital

The proposed distribution of dividends and interest on capital made by the Company's management that does not exceed the mandatory minimum dividends is recognized in line item "Dividends payable" in current liabilities as it is considered a legal obligation under the Company's bylaws; however, the portion of dividends exceeding mandatory minimum dividends declared by Management after the reporting period but before the issuance of the interim financial information is authorized is recognized in line item "Proposed additional dividends" in equity, whose effects are disclosed in Note 18.g).

For corporate and accounting purposes, interest on capital is stated as allocation of profit or loss directly in equity.

2.20. Share-based compensation

The Company offers a stock option plan to its officers and executives, and the officers and executives of its subsidiary Servinet. Options are priced at fair value on the grant date of the plans and are recognized on a straight-line basis in profit or loss as a contra entry to equity. At the balance sheet dates, the Company reviews its estimates of the number of vested options based on the plan's terms and conditions and recognizes the impact of the revision of initial estimates, if any, in the income statement, as a contra entry to equity.

2.21. Use of estimates

The preparation of interim financial information requires the Company's and its subsidiaries' management to make estimates and assumptions that affect certain assets and liabilities, disclosure of contingent liabilities and the reported amounts of revenues and expenses for the period. Significant assets and liabilities subject to these estimates and assumptions include the residual value of property and equipment and intangible assets, allowance for doubtful accounts (on accounts receivable from lease of POS equipment), deferred income tax and social contribution assets, appreciation of derivative financial instruments, impairment of goodwill and provision for risks. Actual results could differ from those estimates. The Company and its subsidiaries review estimates and assumptions annually.

2.22. Statement of value added (DVA)

The purpose of this statement is to disclose the wealth created by the Company and its distribution during a certain reporting period, and is presented by the Company, as required by the Brazilian Corporate Law, as an integral part of its individual interim financial information, and as supplemental information to the consolidated interim financial information, since this statement is not required by IFRSs.

The DVA has been prepared using information obtained in the same accounting records used to prepare the interim financial information and pursuant to the provisions of CPC 09 - Statement of Value Added. The first part of the DVA presents the wealth created by the Company, represented by revenues (gross sales revenue, including taxes levied thereon, other income and the effects of the allowance for doubtful accounts), inputs purchased from third parties (cost of sales and purchases of materials, energy and services from third parties, including the taxes included upon purchase, the effects of impairment and recovery of assets, and depreciation and amortization) and the value added received from third parties (equity in subsidiaries, financial income and other income). The second part of the DVA presents the distribution of wealth among employees, taxes and contributions, compensation to third parties and shareholders.

2.23. New and revised standards and interpretations

In the first six-month period of 2012, some new standards issued by the International Accounting Standards Board ("IASB") became effective, as well as other standards issued will become effective in the six-month period of 2012 and 2013. The Company's management analyzed these new standards and, except for the adoption of IFRS 10 - Consolidated Financial Statements and IFRS 11 - Joint Arrangements, it does not expect significant effects on the amounts reported. Under IFRS 10 and IFRS 11, the Company may no longer be able to proportionally consolidate some of its jointly-controlled subsidiaries. However, Management has not completed the detailed analysis of these standards and has not quantified the related effects on its interim financial information.

CPC has not enacted certain pronouncements that were or would be effective on or after September 30, 2012. However, based on the CPC's commitment to maintain updated the set of standards issued by IASB, it is expected that these pronouncements and/or amendments issued by IASB will be approved for mandatory adoption.

2.24. Reclassifications

The income statement and statement of cash flows for the nine-month period ended September 30, 2011, presented for comparison purposes, were reclassified in order to reflect the tax incentive expenses related to donations to cultural and artistic activities in line item "Income tax expenses - current", as described in Note 23.

In the balance sheet as of December 31, 2011, presented for comparison purposes, deferred income tax liabilities previously recorded in noncurrent liabilities were reclassified to noncurrent assets in line item "Deferred income tax and social contribution".

The consolidated statement of cash flows for the nine-month period ended September 30, 2011, presented for purposes of comparison, was reclassified so as to adjust it to that of 2012, as follows:

	Originally reported	Reclassification	Reported as of 09/30/2012
Net cash provided by operating activities	1,775,732	2,694	1,778,426
Net cash provided by investing activities	(365,298)	-	(365,298)
Net cash provided by financing activities	(1,387,551)	(2,694)	(1,390,245)

3. CONSOLIDATED INTERIM FINANCIAL INFORMATION

The consolidated interim financial statements include the interim financial information of the Company, its subsidiaries and jointly-controlled entities. Control is obtained when the Company has the power to control an entity's financial and operating policies to benefit from its activities. In the Company's individual interim financial statements, the financial information on subsidiaries and jointly-controlled entities are recognized under the equity method.

The profit or loss on the subsidiaries acquired is included in the consolidated income statement from the effective date of acquisition. The balance of profit or loss is attributable to the Company's owners and noncontrolling interests, despite of losses.

When necessary, the subsidiaries' financial statements are adjusted to conform their accounting policies to those set by the Group. All intercompany transactions, balances, income and expenses are fully eliminated in consolidation.

The consolidated interim financial information includes the account balances of the Company (parent), its direct subsidiaries Servinet, Servrede and Cielo USA, Inc. (balance sheet as of September 30, 2012) and CieloPar, indirect subsidiaries Merchant e-Solutions (balance sheet as of August 31, 2012), Multidisplay, M4 Produtos and Braspag (beginning May 23, 2011) and proportionally joint ventures Orizon, Prevsáude, Precisa and Paggo (beginning February 28, 2011). In preparing these consolidated interim financial information, intercompany balances and transactions have been eliminated.

For subsidiaries, the full consolidation concept was applied, intended for investments in subsidiaries and entailing the recognition of all assets, liabilities, income and expenses in the parent, thus requiring the recognition of non-controlling interests.

The assets, liabilities, income and expenses of joint ventures Orizon, Prevsáude, Precisa and Paggo have been included proportionately to the parent's interest in their capital, taking into consideration that the joint control was obtained under Shareholders' Agreements entered into between the Company and its partners in these joint ventures, and none of the parties has the power to unilaterally define their financial and operating policies.

3.1. Direct (individual control) and indirect subsidiaries

The equity interests held in the consolidated subsidiaries are as follows:

	Interest - %			
	Total capital		Voting capital	
	09.30.2012	12.31.2011	09.30.2012	12.31.2011
Direct subsidiaries:				
Servinet	99.99	99.99	99.99	99.99
Servrede	99.99	99.99	99.99	99.99
Cielo USA, Inc.	100.00	-	100.00	-
CieloPar	99.99	99.99	99.99	99.99
Indirect subsidiaries:				
Multidisplay	50.10	50.10	50.10	50.10
MeS	100.00	-	100.00	-
M4 Produtos	50.10	50.10	50.10	50.10
Braspag	100.00	100.00	100.00	100.00

The balances of assets and liabilities of direct and indirect subsidiaries as of September 30, 2012 and December 31, 2011, and the main line items in the income statement for the nine-month periods ended September 30, 2012 and 2011 are as follows:

	09.30.2012							
	Servinet	Servrede	CieloPar	M4 Multidisplay	Produtos	Braspag	MeS	Cielo USA
Assets:								
Current assets	24,676	71	6	13,524	47,169	7,702	99,562	535
Noncurrent assets	<u>47,014</u>	<u>57,771</u>	<u>47,093</u>	<u>12,718</u>	<u>10,740</u>	<u>1,389</u>	<u>187,742</u>	<u>1,440,953</u>
Total assets	<u>71,690</u>	<u>57,842</u>	<u>47,099</u>	<u>26,242</u>	<u>57,909</u>	<u>9,091</u>	<u>287,304</u>	<u>1,441,488</u>
Liabilities and shareholders' equity:								
Current assets	23,502	1	1	11,114	45,753	4,318	107,206	811,106
Noncurrent assets	31,755	30,963	5,237	-	-	16	-	-
Shareholders' equity	16,433	19,399	41,861	15,128	12,156	4,757	180,098	630,382
Noncontrolling interests	-	<u>7,479</u>	-	-	-	-	-	-
Total liabilities and shareholders' equity	<u>71,690</u>	<u>57,842</u>	<u>47,099</u>	<u>26,242</u>	<u>57,909</u>	<u>9,091</u>	<u>287,304</u>	<u>1,441,488</u>
12.31.2011								
	Servinet	Servrede	CieloPar	M4 Multidisplay	Produtos	Braspag		
Assets:								
Current assets			29,361	1,848	1	10,651	42,419	9,676
Noncurrent assets			<u>48,454</u>	<u>64,835</u>	<u>94,746</u>	<u>10,102</u>	<u>8,575</u>	<u>689</u>
Total assets			<u>77,815</u>	<u>66,683</u>	<u>94,747</u>	<u>20,753</u>	<u>50,994</u>	<u>10,365</u>
Liabilities and shareholders' equity:								
Current assets			23,857	27	-	8,877	41,251	8,852
Noncurrent assets			31,795	29,801	5,605	-	5	16
Shareholders' equity			22,163	27,810	89,142	11,876	9,738	1,497
Noncontrolling interests			-	<u>9,045</u>	-	-	-	-
Total liabilities and shareholders' equity			<u>77,815</u>	<u>66,683</u>	<u>94,747</u>	<u>20,753</u>	<u>50,994</u>	<u>10,365</u>

	09.30.2012						
	Servinet	Servrede	CieloPar	Multidisplay	M4 Produtos	Braspag	Cielo USA
Profit or loss:							
Net revenues	76,383	-	-	94,484	31,591	13,055	-
Gross profit (loss)	73,728	(4,743)	4,874	5,647	19,602	9,080	-
Income (loss) from operations before financial income (expenses)	4,155	1,428	(2,068)	9,936	11,414	4,032	-
Profit (loss) before income tax and social contribution	4,902	(4,307)	(2,063)	9,927	11,818	4,483	(1,776)
Net profit (loss) for the period	3,270	(3,506)	(2,064)	9,252	7,929	3,260	(1,776)

	09.30.2011						
	Servinet	Servrede	CieloPar	Multidisplay	M4 Produtos	Braspag	
Profit or loss:							
Net revenues	75,223	-	-	57,934	27,450	2,833	
Gross profit (loss)	71,040	(3,654)	-	2,621	11,593	1,417	
Income (loss) from operations before financial income (expenses)	3,782	1,020	(5,905)	7,496	8,459	187	
Profit (loss) before income tax and social contribution	4,297	1,102	(5,905)	7,501	8,918	223	
Net profit (loss) for the period	2,905	1,723	(5,905)	6,960	5,464	174	

3.1.1. Joint ventures (jointly-controlled entities)

Interests in joint ventures include:

	Interest - %			
	Total capital		Voting capital	
	09.30.2012	12.31.2011	09.30.2012	12.31.2011
Joint ventures:				
Orizon	40.95	40.95	40.95	40.95
Prevsaúde	40.95	40.95	40.95	40.95
Precisa	40.95	40.95	40.95	40.95
Paggo	50.00	50.00	50.00	50.00

The financial information of the joint ventures was consolidated under the proportionate consolidation method, considering the joint control exercised under Shareholders' Agreements. All the balances of the joint ventures' assets and liabilities are as follows:

	09.30.2012			
	Orizon	Precisa	Prevsaúde	Paggo Soluções
Assets:				
Current assets	69,498	22,201	3,694	4,675
Noncurrent assets	59,199	1,176	315	516
Total assets	<u>128,697</u>	<u>23,377</u>	<u>4,009</u>	<u>5,191</u>
Liabilities and shareholders' equity:				
Current assets	10,791	8,994	2,059	2,844
Noncurrent assets	411	-	-	-
Shareholders' equity	<u>117,495</u>	<u>14,383</u>	<u>1,950</u>	<u>2,347</u>
Total liabilities and shareholders' equity	<u>128,697</u>	<u>23,377</u>	<u>4,009</u>	<u>5,191</u>

12.31.2011				
	Orizon	Precisa	Prevsaúde	Paggo Soluções
Assets:				
Current assets	57,207	20,909	2,404	10,348
Noncurrent assets	<u>56,846</u>	<u>680</u>	<u>321</u>	<u>396</u>
Total assets	<u>114,053</u>	<u>21,589</u>	<u>2,725</u>	<u>10,744</u>
Liabilities and shareholders' equity:				
Current assets	7,929	8,595	2,014	5,251
Noncurrent assets	1,545	2,954	47	-
Shareholders' equity	<u>104,579</u>	<u>10,040</u>	<u>664</u>	<u>5,493</u>
Total liabilities and shareholders' equity	<u>114,053</u>	<u>21,589</u>	<u>2,725</u>	<u>10,744</u>

The main line items of the income statement for the nine-month periods ended September 30, 2012 and 2011 are as follows:

09.30.2012				
	Orizon	Precisa	Prevsaúde	Paggo Soluções
Profit or loss:				
Net revenues	52,127	66,204	7,701	303
Gross profit (loss)	24,132	6,720	2,985	(5,042)
Income (loss) from operations before financial income (expenses)	12,753	5,783	1,684	(11,487)
Profit (loss) before income tax and social contribution	15,917	5,626	1,672	(11,345)
Net profit (loss) for the period	12,916	4,343	1,286	(11,345)

09.30.2011				
	Orizon	Precisa	Prevsaúde	Paggo Soluções
Profit or loss:				
Net revenues	44,188	56,258	6,050	358
Gross profit (loss)	18,558	2,089	1,047	(3,840)
Income (loss) from operations before financial income (expenses)	7,760	1,129	658	(4,209)
Profit (loss) before income tax and social contribution	10,436	643	560	(4,257)
Net profit (loss) for the period	7,896	109	514	(4,257)

4. CASH AND CASH EQUIVALENTS

	Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
	<u>09.30.2012</u>	<u>12.31.2011</u>	<u>09.30.2012</u>	<u>12.31.2011</u>
Cash and banks:				
Local currency	6,076	1,489	9,953	6,257
Foreign currency	3,963	15,453	97,998	15,453
Short-term investments:				
Debentures subject to repurchase agreements (a)	207,646	207,508	233,379	223,296
Bank Certificates of Deposit (CDB) (a)	23,962	13,546	48,653	44,907
Money Market Deposit Account (MMDA) (b)	<u>3,249</u>	<u>3,002</u>	<u>3,248</u>	<u>3,002</u>
Total	<u>244,896</u>	<u>240,998</u>	<u>393,231</u>	<u>292,915</u>

Short-term investments have the following characteristics:

- (a) As of September 30, 2012, the average yield of debentures subject to repurchase agreements and CDBs was 102.31% (101.8% as of December 31, 2011) of the Interbank Deposit Certificate (CDI).
- (b) The funds invested abroad (New York - USA) in MMDA earn yield at a fixed rate of 0.25% per year.

The balances under line item "Cash and banks" consist of cash on hand and cash available in bank accounts in Brazil and abroad, derived primarily from deposits made by credit and debit card-issuing banks. Such amounts are used to settle transactions with merchants.

These short-term investments are highly liquid and their fair values do not differ from their carrying amounts.

5. TRADE ACCOUNTS RECEIVABLE

	Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
	<u>09.30.2012</u>	<u>12.31.2011</u>	<u>09.30.2012</u>	<u>12.31.2011</u>
Prepayment of receivables (a)	3,929,442	2,924,791	3,929,442	2,924,791
Bank account blocking (b)	7,042	5,165	7,042	5,165
Electronic network interconnection services between health operators (c)	-	-	7,677	6,857
Meal ticket and transport card capture and processing (d)	4,999	4,769	4,999	4,769
Receivables from mobile payment services (e)	-	-	42,538	38,276
Disputes of credit card charges - Chargeback (f)	8,349	34,956	8,349	34,956
Other receivables	<u>2,586</u>	<u>2,115</u>	<u>5,987</u>	<u>4,685</u>
Total	<u>3,952,418</u>	<u>2,971,796</u>	<u>4,006,034</u>	<u>3,019,499</u>

- (a) As of September 30, 2012, the balance corresponds to prepayment of receivables from the issuing banks within up to 360 days after the date receivables are prepaid to merchants.

In addition, as of September 30, 2012, this amount is net of the adjustment to present value relating to the financial income received in advance on the date of release of cash in the amount of R\$110,540 (R\$100,900 as of December 31, 2011), as it is related to the prepayment of receivables for installment sales with original maturity after the date of the reporting periods.

- (b) The Company offers card-issuing banks bank account blocking services upon prior approval from merchants to block any transfer of receivables from such merchants to another bank. For these services, the Company receives a commission, which is paid in the month subsequent to the request of the bank account blocking by the card-issuing banks.
- (c) Receivables from the jointly-controlled entity Orizon arising from the provision of electronic network interconnection services, based on a single technology platform, for exchange of information between health operators and medical and hospital service providers, and any other health system agents and drugstores.
- (d) Receivables from Companhia Brasileira de Soluções e Serviços (CBSS) arising from the provision of transportation and meal tickets card capture and processing services.
- (e) Receivables from electronic payment services provided by subsidiaries M4 Produtos and Multidisplay through cell phones and sale of phone credits with credit cards.
- (f) Refers substantially to receivables from disputes from credit card holders. Chargeback losses for the period ended September 30, 2012 total R\$31 (R\$4,289 as of December 31, 2011).

The aging of trade accounts receivable is as follows:

	Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
	<u>09.30.2012</u>	<u>12.31.2011</u>	<u>09.30.2012</u>	<u>12.31.2011</u>
Current	3,944,069	2,936,840	3,997,685	2,984,543
Up to 45 days past-due	<u>8,349</u>	<u>34,956</u>	<u>8,349</u>	<u>34,956</u>
Total	<u>3,952,418</u>	<u>2,971,796</u>	<u>4,006,034</u>	<u>3,019,499</u>

6. DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

Deferred income tax and social contribution arise from temporary differences mainly due to temporarily nondeductible provisions and are recorded in noncurrent assets.

Deferred income tax and social contribution reflect the tax effects attributable to temporary differences between the tax basis of assets and liabilities and the respective book value. Reported amounts are reviewed monthly.

Deferred income tax and social contribution assets are as follows:

	Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
	09.30.2012	12.31.2011	09.30.2012	12.31.2011
Temporary differences:				
Provision for risks	256,690	213,241	267,485	224,044
Accrual for sundry expenses	107,196	85,740	106,660	86,357
Discount to present value of prepayment of receivables	37,584	34,408	37,584	34,408
Allowance for losses on POS equipment	1,192	1,053	1,192	1,053
Losses on hedging instruments	455	-	455	-
Other temporary differences (*)	-	-	(5,782)	-
Effects on acquisition price of subsidiary M4U	-	-	(3,951)	(4,751)
Total	<u>403,117</u>	<u>334,442</u>	<u>403,643</u>	<u>341,111</u>

(*) Deferred income tax liabilities on differences between the carrying and tax amounts of property and equipment, intangible assets and goodwill, recognized as prescribed in US tax laws by the subsidiary Merchant e-Solutions.

7. INVESTMENTS

	Company (BR GAAP)	
	09.30.2012	12.31.2011
Subsidiaries	708,068	139,115
Jointly-controlled entities	<u>43,414</u>	<u>36,945</u>
Total	<u>751,482</u>	<u>176,060</u>

Main information on subsidiaries, indirect subsidiaries and jointly-controlled entities

	Shareholders' equity		Profit (loss) for the period		Interest - %		Equity in subsidiaries		Investments	
	09.30.2012	12.31.2011	09.30.2012	09.30.2011	09.30.2012	12.31.2011	09.30.2012	09.30.2011	09.30.2012	12.31.2011
Servinet	16,433	22,163	3,270	2,905	99.99	99.99	3,270	2,905	16,432	22,163
Servrede	19,399	27,810	(3,506)	1,723	99.99	99.99	(3,506)	1,723	19,397	27,810
Orizon (a)	117,495	104,579	12,916	7,896	40.95	40.95	5,289	3,233	42,240	36,945
CieloPar	41,861	89,142	(2,064)	(5,905)	99.99	99.99	(2,064)	(5,905)	41,860	89,142
Paggo (b)	2,347	-	(2,396)	-	50.00	-	(1,198)	-	1,174	-
Cielo USA	630,382	-	(1,776)	-	100.00	-	(1,776)	-	630,379	-
Total							<u>15</u>	<u>1,956</u>	<u>751,482</u>	<u>176,060</u>

Indirect jointly-controlled entities

	Shareholders' equity		Profit (loss) for the period		Interest - %	
	<u>09.30.2012</u>	<u>12.31.2011</u>	<u>09.30.2012</u>	<u>09.30.2011</u>	<u>09.30.2012</u>	<u>12.31.2011</u>
Prevsaúde	1,950	664	1,286	514	40.95	40.95
Precisa	14,383	10,040	4,343	109	40.95	40.95
Multidisplay	15,128	11,876	9,252	6,960	50.10	50.10
M4 Produtos	12,156	9,738	7,929	5,464	50.10	50.10
Paggo (b) (c)	-	5,493	(8,949)	(4,257)	-	50.00
Braspag	4,757	1,497	3,260	174	100.00	100.00
MeS (d)	180,098	-	-	-	100.00	-

- (a) The amount of R\$5,880 is not reflected in the investment because it refers to the unrealized gain on capital contribution with goodwill, initially reflected in CBGS Ltda. and transferred to the indirect subsidiary CBGS as a result of the merger. In November 2009, CBGS was merged into its then subsidiary Orizon.
- (b) As described in Note 1, on September 3, 2012, the capital decrease of CieloPar, a subsidiary of Cielo, was approved and the interest held by CieloPar in Paggo started to be directly held by the Company.
- (c) The investment recognized by Cielo considers the adjustments to the opening balance sheet of subsidiary Paggo arising from the adoption of the purchase price allocation procedures, as prescribed by CPC 15 - Business Combination, mainly represented by the provision for losses on software platforms, as described in Note 9.
- (d) The control of MeS was acquired on August 31, 2012 and, for purposes of calculation of the Company's investment as of September 31, 2012, the balance sheet as of that date was adopted.

The consolidated financial statements of direct subsidiary Orizon and indirect subsidiaries Prevsaué, Multidisplay, M4 Produtos, Braspag and MeS were based on the financial statements as of August 31, 2012 for purposes of calculation of the investments as of September 30, 2012. Accordingly, equity in subsidiaries refers to the nine-month period ended August 31, 2012.

Changes in investments for the nine-month period ended September 30, 2012 and 2011 are as follows:

December 31, 2010	76,088
Capital increase in subsidiary - CieloPar	92,001
Equity in subsidiaries	<u>1,956</u>
As of September 30, 2011	<u>170,045</u>

As of December 31, 2011	176,060
Capital increase in subsidiary:	
CieloPar	3,500
Cielo USA	629,291
Exchange differences on foreign investments	2,867
Effects from corporate restructuring in September 2012:	
Capital reduction in CieloPar (a)	(46,979)
Capital reduction in Servrede (b)	(3,105)
Dividends received:	
Servinet	(9,000)
Servrede	(1,800)
Equity in subsidiaries	15
Effects from allocation of amount paid by Paggo (c)	<u>633</u>
As of September 30, 2012	<u>751,482</u>

- (a) CieloPar's capital was decreased by R\$48,718 based on the merged net assets comprised of: (i) investment of R\$1,739 and (ii) transfer of goodwill on the acquisition of Paggo, in the amount of R\$46,979, to the Company, recorded in intangible assets.
- (b) As described in Note 1, on September 27, 2012, Servrede Serviços S.A.'s capital decrease was approved and the excess cash and cash equivalents was returned to the Company.
- (c) Paggo's software (platform), allocated as the goodwill in the Company, is amortized on a monthly basis. Accordingly, the Company's investment was reclassified, beginning September 2012, as a balancing item to "Depreciation and amortization".

8. PROPERTY AND EQUIPMENT

	Annual depreciation rate - %	Company (BR GAAP)			
		09.30.2012			12.31.2011
		Cost	Accumulated depreciation	Net	Net
POS equipment (*)	33	1,036,440	(578,791)	457,649	476,102
Data processing equipment	20	45,316	(25,264)	20,052	18,487
Machinery and equipment	10	41,036	(39,403)	1,633	2,450
Facilities	10	13,053	(7,534)	5,519	6,027
Furniture and fixtures	10	6,501	(3,102)	3,399	3,830
Vehicles	20	<u>2,771</u>	<u>(1,105)</u>	<u>1,666</u>	<u>1,363</u>
Total		<u>1,145,117</u>	<u>(655,199)</u>	<u>489,918</u>	<u>508,259</u>

	Annual depreciation rate - %	Consolidated (IFRS and BR GAAP)			
		09.30.2012		12.31.2011	
		Cost	Accumulated depreciation	Net	Net
POS equipment (*)	33	1,039,983	(582,040)	457,943	476,406
Data processing equipment	20	61,399	(35,367)	26,032	21,697
Machinery and equipment	10	47,612	(45,310)	2,302	3,068
Facilities	10	26,122	(13,525)	12,597	13,771
Furniture and fixtures	10	10,535	(5,053)	5,482	6,065
Vehicles	20	<u>2,798</u>	<u>(1,133)</u>	<u>1,665</u>	<u>1,362</u>
Total		<u>1,188,449</u>	<u>(682,428)</u>	<u>506,021</u>	<u>522,369</u>

(*) As of September 30, 2012 and December 31, 2011, provisions for losses on POS equipment were recorded in the amounts of R\$3,506 and R\$3,099, respectively, as a reduction of the related account.

Changes in property and equipment for the nine-month period ended September 30, 2012 and 2011 are as follows:

	Company (BR GAAP)				
	12.31.2011	Additions/ transfers	Write-offs	Depreciation	09.30.2012
POS equipment	476,102	192,801	(13,617)	(197,637)	457,649
Data processing equipment	18,487	5,563	-	(3,998)	20,052
Machinery and equipment	2,450	91	-	(908)	1,633
Facilities	6,027	36	-	(544)	5,519
Furniture and fixtures	3,830	15	(2)	(444)	3,399
Vehicles	<u>1,363</u>	<u>661</u>	<u>-</u>	<u>(358)</u>	<u>1,666</u>
Total	<u>508,259</u>	<u>199,167</u>	<u>(13,619)</u>	<u>(203,889)</u>	<u>489,918</u>

	Consolidated (IFRS and BR GAAP)					
	12.31.2011	Additions	Write-offs	Depreciation	Merged net assets	09.30.2012
POS equipment	476,406	192,801	(13,618)	(197,767)	121	457,943
Data processing equipment	21,697	7,573	(5)	(4,869)	1,636	26,032
Machinery and equipment	3,068	38	(3)	(985)	184	2,302
Facilities	13,771	871	(538)	(1,507)	-	12,597
Furniture and fixtures	6,065	110	(16)	(684)	7	5,482
Vehicles	1,362	661	-	(358)	-	1,665
Total	522,369	202,054	(14,180)	(206,170)	1,948	506,021

	Company (BR GAAP)				09.30.2011
	12.31.2010	Additions	Write-offs	Depreciation	
POS equipment	326,942	229,619	(10,377)	(146,133)	400,051
Data processing equipment	8,988	13,120	-	(3,054)	19,054
Machinery and equipment	3,835	1	-	(1,055)	2,781
Facilities	2,742	3,878	-	(412)	6,208
Furniture and fixtures	2,981	215	(4)	(357)	2,835
Vehicles	1,010	209	-	(223)	996
Total	<u>346,498</u>	<u>247,042</u>	<u>(10,381)</u>	<u>(151,234)</u>	<u>431,925</u>

	Consolidated (IFRS and BR GAAP)					09.30.2011
	12.31.2010	Additions	Write-offs	Depreciation	Merged net assets	
POS equipment	327,488	229,619	(10,383)	(146,319)	-	400,405
Data processing equipment	11,945	13,739	(4)	(3,709)	150	22,121
Machinery and equipment	4,294	112	(4)	(1,115)	8	3,295
Facilities	10,535	4,868	(349)	(1,379)	10	13,685
Furniture and fixtures	5,018	448	(146)	(567)	58	4,811
Vehicles	1,010	233	(11)	(237)	-	995
Total	<u>360,290</u>	<u>249,019</u>	<u>(10,897)</u>	<u>(153,326)</u>	<u>226</u>	<u>445,312</u>

As of December 31, 2011, property and equipment items, arising from finance lease operations, only represented by assets classified as data processing equipment, were recorded at net amounts of R\$120. As of September 30, 2012, there are no net amounts related to finance lease operations as these assets were depreciated through May 31, 2012. Depreciation of IT equipment acquired through lease operations for the nine-month periods ended September 30, 2012 and 2011, recorded in line item "General and administrative expenses", amounted to R\$144 and R\$289, respectively.

As of September 30, 2012 and December 31, 2011, the Company does not have finance leases payable.

As of September 30, 2012, the Company entered into loan agreements with the National Bank for Economic and Social Development (BNDES - Finaime) to acquire new POS equipment, as described in Note 13 (a).

9. GOODWILL ON ACQUISITION OF INVESTMENTS

The breakdown of goodwill as of September 30, 2012 and December 31, 2011 is as follows:

	Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
	09.30.2012	12.31.2011	09.30.2012	12.31.2011
Health Project (“Orizon”):				
Goodwill on acquisition of subsidiary (a)	26,269	26,269	26,269	26,269
Reclassification of the tax benefit from the goodwill merged into Orizon	-	-	13,532	13,532
Prevsaúde	-	-	3,179	3,179
Precisa	-	-	1,457	1,457
M4U	-	-	31,348	31,348
Paggo	46,979	-	46,979	46,979
Braspag	-	-	38,743	39,343
Merchant-e Solutions	-	-	1,328,564	-
	73,248	26,269	1,490,071	162,107
Allowance for losses on goodwill (b)	(32,626)	(16,126)	(32,626)	(16,126)
Unrealized net profit (c)	-	-	(5,880)	(5,880)
Total	<u>40,622</u>	<u>10,143</u>	<u>1,451,565</u>	<u>140,101</u>

- (a) In calculating equity in subsidiaries CBGS Ltda. and CBGS in 2009, the effects of the Provision for Maintenance of Integrity of Equity (PMIPL) in the amounts of R\$11,064 and R\$15,205, respectively, were eliminated, since the effects related to the goodwill originally reported therein have been reflected in the Company, as established by CVM Instructions 319/99 and 349/01, considering that the mergers carried out in 2009 did not change the economic substance of that goodwill. The recognition of the goodwill was recorded as a contra entry to line item “Other operating (expenses) income, net”.
- (b) Refers to the provision for losses on goodwill allocated to the Health Project and Paggo, in the amount of R\$16,126 and R\$16,500, respectively.
- (c) Refers to the elimination in the consolidated financial statements for 2009 of the capital gain generated by CBGS Ltda.’s investment at market value in Orizon, its then jointly-controlled entity CBGS, in the proportion of CBGS Ltda.’s interest in CBGS.

The Company reviews the carrying amount of goodwill and intangible assets with indefinite useful life on an annual basis, regardless of any indication of impairment.

Health Project

On January 2, 2008, CBGS subscribed 693.480 new common shares without par value in favor of its parent CBGS Ltda., for R\$139,045, which represented its fair value as of that date.

As part of the payment, CBGS Ltda. delivered all the shares in Polimed Ltda. and Dativa Conectividade em Saúde Ltda. for R\$71,691, transferring the goodwill on the acquisition of these subsidiaries in the amounts of R\$47,145 and R\$9,108, respectively, net of amortization incurred through the transaction date, generating payables of R\$67,354 within two years after the transaction. Additionally, as a result of the portion paid in cash, CBGS Ltda. generated goodwill of R\$16,764, net of the allowance for losses and amortization incurred through December 31, 2008.

The goodwill generated in CBGS Ltda.'s capital subscription process is as follows:

	<u>Goodwill</u>	<u>Interest - %</u>	<u>Net</u>
Goodwill recorded in CBGS Ltda. arising from the acquisition of 40.95% interest in CBGS	55,880	99.99	55,880
Allowance for losses on goodwill	<u>(39,116)</u>	99.99	<u>(39,116)</u>
	16,764		16,764
Goodwill recorded in joint venture CBGS:			
Orizon	47,145	40.95	19,306
Dativa	<u>9,108</u>	40.95	<u>3,731</u>
Total	<u>73,017</u>		<u>39,801</u>

Acquisition of control - Prevsáude and Precisa

On March 16, 2009, jointly-controlled entity CBGS acquired all the shares in Prevsáude and Precisa. The investment recorded by CBGS includes a share premium amounting to R\$11,322, recorded as goodwill, which is based on expected future earnings of the companies based on the increase in operations expected for future years.

	<u>Goodwill</u>	<u>Interest - %</u>	<u>Net</u>
Prevsaúde	7,765	40.95	3,179
Precisa	<u>3,557</u>	40.95	<u>1,457</u>
Total	<u>11,322</u>		<u>4,636</u>

Acquisition of control - M4U

In August 2010, the Company acquired, through its direct subsidiary Servrede, 50.1% of the control of Multidisplay and its wholly-owned subsidiary M4 Produtos, which collectively form M4U, pioneering Brazilian company in and leader of the technology platform development segment both for loading cell phones and mobile payments. Under CPC 15 - Business Combinations, the goodwill was measured as the amount by which the sum up of: (a) the consideration transferred as payment for the control of the acquiree, and (b) the amount of the noncontrolling interest on the acquiree exceeded the net value (on the acquisition date) of the identifiable assets acquired.

The price for the acquisition of 50.1% of the capital of M4U totaled R\$50,650, of which R\$25,600 was paid on the acquisition date and the remaining balance, recorded as "Other payables" in noncurrent liabilities, will be paid in 37 monthly installments, beginning on the transaction date, contingent to the attainment of certain financial performance goals, set out in the Share Purchase and Sale Agreement.

The amount of the investment recorded by Servrede includes the goodwill on acquisition of shares in the amount of R\$31,348, generated as follows:

Net assets acquired	2,300
Fair value of assets acquired (*)	<u>17,002</u>
Fair value of net assets acquired	19,302
(-) Total consideration paid	<u>50,650</u>
Goodwill	<u>31,348</u>

- (*) The fair value of the service agreements, software platform and non-compete clauses (identifiable assets acquired) of M4U in August 2010 was recognized based in the appraisal report prepared by independent appraisers. The assessment, which is in accordance with the International Valuation Standards, was conducted based on market evidences related to the prices of similar transactions. The adjustments related to the allocation of purchase price were recognized retrospectively on the amounts recorded upon acquisition, as if the business combination had been concluded on that date.

Acquisition of equity interest - Paggo

In September, 2010, the Company, Tele Norte Leste Participações S.A. (“TNL”) and Paggo Acquirer Gestão de Meios de Pagamento Ltda. (“Paggo Acquirer”, a TNL subsidiary) entered into an Investment Agreement to govern the interests of Paggo Acquirer and the Company (through its subsidiary CieloPar) in a new company called Paggo Soluções e Meios de Pagamento S.A. Accordingly, the Company sought to improve its range of products, aligned with its strategy adopted for the mobile payment sector.

Paggo Acquirer and the Company hold 50% each of the capital of Paggo. On February 28, 2011, the interest in Paggo was acquired for R\$47,000, whose amount was fully paid on the acquisition date.

The balance sheet as of February 28, 2011 was considered as the opening balance sheet, as follows:

	<u>Book value</u>	<u>Acquisition adjustments</u>	<u>Fair value at acquisition date</u>
Net assets (liabilities) acquired:			
Cash and cash equivalents	35	-	35
Trade accounts receivable	8,627	-	8,627
Other receivables	1,288	-	1,288
Intangible assets	104,406	(104,406)	-
Trade accounts payable	(9,776)	-	(9,776)
Other obligations	(132)	-	(132)
Total	<u>104,448</u>	<u>(104,406)</u>	<u>42</u>

The amount of the investment recorded by CieloPar includes goodwill on acquisition of shares in the amount of R\$46,979, generated as follows:

Net assets acquired	52,224
Adjustment to the fair value of assets acquired (*)	(52,203)
	21
Total amount paid for the assets acquired	<u>47,000</u>
Goodwill	<u>46,979</u>

- (*) Corresponds basically to the provision for loss of software licenses recognized in jointly-controlled entity Paggo in the balance sheet as of February 28, 2011, date of recognition of the effects of allocation of goodwill on the acquisition of joint control. The adjustments related to the allocation of the purchase price were recognized retrospectively on the amounts recorded upon acquisition, as if the business combination had been concluded on that date.

Based on the appraisal report on the allocation of goodwill arising from the acquisition of Paggo, prepared by independent appraisers, and according to CPC 15 - Business Combination, the Company's management believes that the amount paid is basically reflected in expected future earnings, i.e., goodwill.

Due to the corporate restructuring described in Note 1, the goodwill allocated to CieloPar was used to decrease its capital, which was subsequently recorded in parent Cielo S.A.

In September 2012, the provision for losses on goodwill arising from acquisition of subsidiary Paggo was identified and recorded. Such loss results from the change in the planning of future revenues, including the changes in the mix of products to be offered, as well as the need for additional investments so as to adjust the subsidiary's earnings to future planning, which directly affects the cash flows for the next years. The provision for losses was recorded in the income statement in line item "Other operating expenses, net".

Acquisition of control - Braspag

On May 23, 2011, the Company acquired, through its direct subsidiary CieloPar, the control of Braspag Tecnologia em Pagamento Ltda., a leading payment processing company in the Brazilian e-commerce industry. All the shares in Braspag were acquired for R\$39,400.

The balance sheet as of April 30, 2011 was considered as the opening balance sheet, as follows:

	Book value	Acquisition adjustments	Fair value at acquisition date
Net assets (liabilities) acquired:			
Cash and cash equivalents	1,827	-	1,827
Trade accounts receivable	2,362	-	2,362
Property, plant and equipment and intangible assets	764	4,638	5,402
Trade accounts payable	(407)	-	(407)
Other obligations	(2,922)	(5,605)	(8,527)
Total	<u>1,624</u>	<u>(967)</u>	<u>657</u>

As of September 30, 2012, the amount of the investment recorded by CieloPar includes goodwill on acquisition of shares in the amount of R\$38,743, generated as follows:

Net assets acquired	1,624
Fair value of net liabilities acquired (*)	<u>(967)</u>
Fair value of net assets acquired	657
Purchase price	<u>39,400</u>
Goodwill	<u>38,743</u>

(*) According to the appraisal report used to allocate the purchase price of Braspag, prepared by independent appraisers taking into consideration the characteristics of the acquiree, the intangible assets identified were the software platform and the customer portfolio totaling R\$4,638, net of the provision for tax and social security risks of R\$5,605. The adjustments related to the allocation of the purchase price were recognized retrospectively on the amounts recorded upon acquisition, as if the business combination had been concluded on

that date.

Acquisition of control - Merchant e-Solutions

In August 2012, the Company completed the acquisition, through its direct subsidiary Cielo USA, of 100% of the shares of Merchant e-Solutions, a US company headquartered in Redwood City - California.

The financial statements of Merchant e-Solutions have been prepared in accordance with accounting practices adopted in the United States of America ("US GAAP") in US dollars. On the acquisition date, there were no material adjustments to align the US GAAP to the accounting practices adopted in Brazil and the IFRSs.

The balance sheet as of August 31, 2012 was considered as the opening balance sheet, as follows:

	Book value	Acquisition adjustments	Fair value at acquisition date
Net assets (liabilities) acquired:			
Cash and cash equivalents	93,500	-	93,500
Other assets	22,194	-	22,194
Property and equipment	1,949	-	1,949
Goodwill on acquisition of investments	67,709	(67,709)	-
Intangible assets (*)	107,734	-	107,734
Payables to merchants	(87,916)	-	(87,916)
Other obligations	<u>(25,072)</u>	<u>-</u>	<u>(25,072)</u>
Total	<u>180,098</u>	<u>(67,709)</u>	<u>112,389</u>

(*) Substantially represented by acquisition costs of client portfolio, which will be allocated when the appraisal of the purchase price is concluded.

The amount of the investment recorded by Cielo USA includes goodwill on acquisition of shares in the amount of R\$1,334,067, generated as follows:

Net assets acquired	112,389
Purchase price:	
Acquisition of control of MeS	1,365,256
Cash and cash equivalents (equivalent to US\$39.9 million)	<u>81,200</u>
Goodwill	<u>1,334,067</u>

By the closing of the financial statements as of September 30, 2012, the appraisal report that will support the allocation of goodwill arising on the acquisition of Merchant e-Solutions was being prepared. Considering that this appraisal report is expected to be completed by the end of 2012, and that the Company, therefore, will recognize retrospectively in the financial statements for the year ending December 31, 2012, the adjustments to the amounts recorded on the date of acquisition, as if the business combination had been completed on the date of acquisition. However, taking into consideration the acquisition date (August 31, 2012), no material effects are expected on these financial statements.

Changes in goodwill for the nine-month periods ended September 30, 2012 and 2011 are as follows:

	Company (BR GAAP)	Consolidated (IFRS and BR GAAP)
As of December 31, 2010	10,143	53,779
Acquisition of control - Paggo Soluções	-	(5,224)
Acquisition of control - Braspag	-	38,376
As of September 30, 2011	<u>10,143</u>	<u>86,931</u>
As of December 31, 2011	10,143	140,101
Receivables from acquisition price of Braspag	-	(600)
Effect from corporate restructuring in September 2012 - CieloPar's capital decrease	46,979	-
Provision for losses on goodwill - Paggo	(16,500)	(16,500)
Acquisition of subsidiary - MeS	-	1,334,067
Foreign exchange gains (losses)	-	(5,503)
As of September 30, 2012	<u>40,622</u>	<u>1,451,565</u>

10. OTHER INTANGIBLE ASSETS

	Annual amortization rate - %	Company (BR GAAP)			
		09.30.2012		12.31.2011	
		Cost	Accumulated amortization	Net	Net
Software licenses (a)	20	117,699	(84,382)	33,317	31,768
Project development (b)	20	<u>25,044</u>	<u>(9,820)</u>	<u>15,224</u>	<u>17,479</u>
Total		<u>142,743</u>	<u>(94,202)</u>	<u>48,541</u>	<u>49,247</u>

	Annual amortization rate - %	Consolidated (IFRS and BR GAAP)				
		09.30.2012			12.31.2011	
		Cost	Accumulated amortization	Merged assets	Net	Net
Software licenses (a)	20	137,331	(91,907)	11,196	56,620	41,859
Project development (b)	20	25,044	(9,820)	60,824	76,048	17,479
Non-compete agreements (c)	13,5	15,197	(4,519)	35,714	46,392	12,658
Service agreements (c)	4	17,446	(5,331)	-	12,115	14,674
Relationship with customers (d)	20	<u>1,444</u>	<u>(195)</u>	-	<u>1,249</u>	<u>1,357</u>
Total		<u>196,462</u>	<u>(111,772)</u>	<u>107,734</u>	<u>192,424</u>	<u>88,027</u>

- (a) Refers to items acquired from third parties and used to provide customers' data and business transactions processing services. There is no individually material software. Additionally, as of September 30, 2012 and December 31, 2011, the provision for discontinued software of R\$2,000 is recorded as a reduction of the balance in the related line item.

- (b) Represents expenses on the development of new products and services to increase the Company's and its subsidiaries' invoicing and revenues.
- (c) Correspond to allocations of goodwill on the acquisition of control of M4 Produtos and Multidisplay determined based on an appraisal report prepared by a specialized company on the acquisition date. The main components of calculation of intangible assets are:
- The amount of the non-compete agreement ("with and without") was calculated through the Income Approach methodology, by using a discount rate of 17.5% p.a., perpetuity of 4% p.a. and estimated useful life of 89 months.
 - The four service agreements with telecommunication operators were measured based on the discounted cash flow of each agreement, by using a discount rate of 16.5% p.a., during the residual life of each agreement, of approximately 53 months.
- (d) Correspond to allocations of goodwill on the acquisition of control of Braspag, determined based on an appraisal report prepared by a specialized company on the acquisition date. The customer relationship value was measured based on the Income Approach method, taking into consideration the balance of active customers and the respective churn rate, using an estimated useful life of 120 months.

Changes in intangible assets for the nine-month periods ended September 30, 2012 and 2011 are as follows:

	Company (BR GAAP)			
	12.31.2011	Additions	Repayment	09.30.2012
Software	31,768	9,557	(8,008)	33,317
Project development	<u>17,479</u>	<u>-</u>	<u>(2,255)</u>	<u>15,224</u>
Total	<u>49,247</u>	<u>9,557</u>	<u>(10,263)</u>	<u>48,541</u>

	Consolidated (IFRS and BR GAAP)					
	12.31.2011	Additions	Write-offs	Repayment	Merged net assets	09.30.2012
Software	41,859	13,738	(14)	(10,159)	11,196	56,620
Project development	17,479	-	-	(2,255)	60,824	76,048
Non-compete agreements	12,658	-	-	(1,980)	35,714	46,392
Service agreements	14,674	-	-	(2,559)	-	12,115
Relationship with customers	<u>1,357</u>	<u>-</u>	<u>-</u>	<u>(108)</u>	<u>-</u>	<u>1,249</u>
Total	<u>88,027</u>	<u>13,738</u>	<u>(14)</u>	<u>(17,061)</u>	<u>107,734</u>	<u>192,424</u>

	Company (BR GAAP)				
	12.31.2010	Additions	Write-offs	Repayment	09.30.2011
Software	20,012	24,274	(1,663)	(10,305)	32,318
Project development	<u>20,055</u>	<u>430</u>	<u>-</u>	<u>(2,255)</u>	<u>18,230</u>
Total	<u>40,067</u>	<u>24,704</u>	<u>(1,663)</u>	<u>(12,560)</u>	<u>50,548</u>

	Consolidated (IFRS and BR GAAP)					09.30.2011
	12.31.2010	Additions	Write-offs	Repayment	Merged net assets	
Software	23,247	24,415	(1,737)	(14,755)	52,740	83,910
Project development	20,055	430	-	(2,255)	-	18,230
Non-compete agreements	14,758	-	-	(1,575)	-	13,183
Service agreements	<u>17,446</u>	<u>-</u>	<u>-</u>	<u>(2,079)</u>	<u>-</u>	<u>15,367</u>
Total	<u>75,506</u>	<u>24,845</u>	<u>(1,737)</u>	<u>(20,664)</u>	<u>52,740</u>	<u>130,690</u>

Amortization expenses of intangible assets were recorded in line item “General and administrative expenses” in the income statement.

11. TRANSACTIONS PENDING TRANSFER

The amounts due by credit cardholders through the card-issuing banks and the amounts to be transferred to merchants are recorded in memorandum accounts.

As of September 30, 2012 and December 31, 2011, transfers are broken down as follows:

	Company (BR GAAP)	
	09.30.2012	12.31.2011
Payables to merchants	38,284,345	39,227,878
Advances from issuing banks (*)	1,637,094	545,721
Receivables from issuing banks	(37,212,598)	(38,113,232)
Total	<u>2,708,841</u>	<u>1,660,367</u>

	Consolidated (IFRS and BR GAAP)	
	09.30.2012	12.31.2011
Payables to merchants	38,588,264	39,227,878
Advances from issuing banks (*)	1,637,094	545,721
Receivables from issuing banks	(37,428,601)	(38,113,232)
Total	<u>2,796,757</u>	<u>1,660,367</u>

(*) The Company advances receivables of amounts credit card issuers have to transfer to it.

In addition to the provision of services consisting of the transfer of credit and debit card transaction amounts between the card-issuing banks and the merchants, the Company also guarantees accredited merchants that they will receive the amounts paid with credit cards.

As described in Note 24.c), the Company has an instrument to mitigate the credit risk of card-issuing banks, used as a hedge against the risk of default by such banks. Based on the insignificant historical amount of Company’s losses due to default from card-issuing banks and the current credit risks of these financial institutions, the Company estimates that the fair value of the guarantees provided to merchants is immaterial and, therefore, is not recognized as a liability.

12. PAYABLES TO MERCHANTS

The amount of R\$2,708,841 in Company and R\$2,796,757 in Consolidated as of September 30, 2012 (R\$1,660,367 in Company and in Consolidated as of December 31, 2011) corresponds to the difference between the amounts received from the card issuers relating to transactions conducted by cardholders and the amounts to be transferred to merchants. In general, the settlement term of the credit card issuers with the Company is 28 days and the Company's average settlement term with the merchants is 30 days. Therefore, the balance payable as of September 30, 2012 and December 31, 2011 refers to a float of approximately two days.

13. BORROWINGS AND FINANCING

	Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
	09.30.2012	12.31.2011	09.30.2012	12.31.2011
Finame (a)	310,227	150,848	310,227	150,848
Bank borrowings (b)	-	-	811,106	-
Total	<u>310,227</u>	<u>150,848</u>	<u>1,121,333</u>	<u>150,848</u>
Current	129,760	19,666	940,866	19,666
Noncurrent	<u>180,467</u>	<u>131,182</u>	<u>180,467</u>	<u>131,182</u>
Total	<u>310,227</u>	<u>150,848</u>	<u>1,121,333</u>	<u>150,848</u>

(a) Finame

The weighted average rate of the financial charges is 8.07% p.a. as of September 30, 2012 (8.74% p.a. as of December 31, 2011).

The Company is the beneficiary of a credit facility with the National Bank for Economic and Social Development (BNDES) relating to FINAME onlending transactions, i.e., a loan granted by BNDES to finance the acquisition of new machinery and equipment manufactured in Brazil. The amount is transferred in the form of a loan to the Company, which will confer upon the financial institution authorized to operate as financial agent (in this case, Banco do Brasil S.A. and Banco Safra S.A.) the right to receive. These financial institutions enter into the aforementioned financing transactions with the Company.

The agreements are collateralized by the transfer of ownership of the assets acquired. Additionally, the Company is required to comply with the provisions applicable to BNDES agreements and the general regulatory conditions of Finame-related transactions.

(b) Bank borrowings

On August 23, 2012, the subsidiary Cielo USA, Inc. raised US\$400 million, of which US\$200 million from Banco Goldman Sachs Bank USA and US\$200 million from Banco do Brasil S.A., in order to obtain the funds necessary for the acquisition of Merchant e-Solutions.

The borrowing is subject to average interest indexed to the monthly Libor plus 1.5% p.a. (“spread”), is collateralized by the Company, falls due within six months, and interest is paid on a monthly basis and principal at the end of the contracted period.

The financial rates and charges on the borrowing are recognized in liabilities and allocated to profit or loss due to the term, under the amortized cost method.

Those borrowings are subject to financial ratios (“covenants”) which should be met beginning December 31, 2012. As of September 30, 2012, there are no indications that this ratio will not be fully met by the end of 2012.

Changes in borrowings and financing for the nine-month periods ended September 30, 2012 and 2011 are as follows:

	Company (BR GAAP)	Consolidated (IFRS and BR GAAP)
Balance as of December 31, 2011	150,848	150,848
New borrowings	168,145	976,171
Principal payments	(8,842)	(8,842)
Foreign exchange	-	2,556
Accrued interest	15,532	17,308
Interest paid	<u>(15,456)</u>	<u>(16,708)</u>
Balance as of September 30, 2012	<u>310,227</u>	<u>1,121,333</u>

There were no borrowings for the nine-month period ended September 30, 2011.

Borrowings and financing recorded in noncurrent liabilities

The borrowings and financing classified as noncurrent as of September 30, 2012 by maturity date is broken down as follows:

Maturity year:	
2013 (beginning in October)	33,904
2014	120,049
2015	18,138
2016	<u>8,376</u>
Total	<u>180,467</u>

14. TRADE ACCOUNTS PAYABLE

	Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
	<u>09.30.2012</u>	<u>12.31.2011</u>	<u>09.30.2012</u>	<u>12.31.2011</u>
Trade accounts payable	79,576	80,754	135,098	140,310
Accrued payments to suppliers	<u>245,030</u>	<u>149,505</u>	<u>245,030</u>	<u>149,505</u>
Total	<u>324,606</u>	<u>230,259</u>	<u>380,128</u>	<u>289,815</u>

15. TAXES PAYABLE

	Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
	<u>09.30.2012</u>	<u>12.31.2011</u>	<u>09.30.2012</u>	<u>12.31.2011</u>
Income tax and social contribution, net of prepayments	358,905	345,327	362,618	346,875
Tax on revenue (COFINS)	13,630	13,787	14,713	14,750
Withholding Income Tax (IRRF)	8,157	11,838	8,805	12,776
Service tax (ISS)	5,339	6,286	6,634	7,628
Tax on revenue (PIS)	5,662	5,626	6,011	5,962
Other taxes payable	<u>2,160</u>	<u>3,050</u>	<u>2,583</u>	<u>4,005</u>
Total	<u>393,853</u>	<u>385,914</u>	<u>401,364</u>	<u>391,996</u>

16. OTHER PAYABLES

	Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
	<u>09.30.2012</u>	<u>12.31.2011</u>	<u>09.30.2012</u>	<u>12.31.2011</u>
Current liabilities:				
Accrual for sundry expenses	28,366	42,148	47,363	42,346
Accrued vacation and social charges	16,735	16,987	27,078	27,061
Accrued 13 th salary and related charges	7,055	-	10,819	-
Profit sharing	30,794	37,118	43,808	52,215
Accrual for management retention (a)	-	12,324	-	12,324
Derivative financial instruments designated in a hedge relationship	1,339	-	1,339	-
Other payables	<u>-</u>	<u>-</u>	<u>3,833</u>	<u>1,851</u>
Total	<u>84,289</u>	<u>108,577</u>	<u>134,240</u>	<u>135,797</u>
Noncurrent liabilities:				
Payables on the acquisition of subsidiaries (b)	-	-	30,963	25,050
Other payables	<u>-</u>	<u>-</u>	<u>61</u>	<u>530</u>
Total	<u>-</u>	<u>-</u>	<u>31,024</u>	<u>25,580</u>

(a) As of December 31, 2011, refers to the Management Retention Plan, approved by the Board of Directors in November 2009, applicable to the Company's main executive officers that takes into consideration business performance and their permanence in the Company for a period of two years; the expense and related reserve is recognized during the term of the plan.

(b) Remaining balance payable for the acquisition of M4U, contingent to the attainment of certain financial performance goals, as described in Note 9.

17. PROVISION FOR RISKS AND ESCROW DEPOSITS

a) Provision for risks

The Company and its subsidiaries are parties to lawsuits and administrative proceedings before courts and governmental bodies, arising in the normal course of business and involving tax, labor, civil and other matters.

Management, based on information and assessments made by its legal counsel, through the review of pending civil and labor lawsuits and, based on past experience on the amounts claimed in lawsuits, has recognized a provision in an amount considered sufficient to cover probable losses on pending proceedings, as follows:

Company (BR GAAP)						
	12.31.2011	Additions (i)	Write-offs/ reversals (ii)	Inflation adjustment	Payments	09.30.2012
Tax	602,778	105,953	-	359	-	709,090
Civil	10,726	9,691	(3,853)	779	(4,262)	13,081
Labor	26,961	25,165	(6,124)	83	-	46,085
Total	<u>640,465</u>	<u>140,809</u>	<u>(9,977)</u>	<u>1,221</u>	<u>(4,262)</u>	<u>768,256</u>

Consolidated (IFRS and BR GAAP)						
	12.31.2011	Additions (i)	Write-offs/ reversals (ii)	Inflation adjustment	Payments	09.30.2012
Tax	625,401	105,953	-	398	-	731,752
Civil	16,331	9,699	(4,228)	779	(4,262)	18,319
Labor	36,275	28,885	(9,923)	97	(33)	55,301
Total	<u>678,007</u>	<u>144,537</u>	<u>(14,151)</u>	<u>1,274</u>	<u>(4,295)</u>	<u>805,372</u>

Company (BR GAAP)						
	12.31.2010	Additions (i)	Write-offs/ reversals (ii)	Inflation adjustment		09.30.2011
Tax		474,040	93,460	(23)	414	567,891
Civil		7,373	4,584	(3,107)	1,274	10,124
Labor		13,687	10,855	(3,752)	252	21,042
Total		<u>495,100</u>	<u>108,899</u>	<u>(6,882)</u>	<u>1,940</u>	<u>599,057</u>

Consolidated (IFRS and BR GAAP)						
	12.31.2010	Additions (i)	Write-offs/ reversals (ii)	Inflation adjustment	Payments	09.30.2011
Tax	496,683	93,525	(23)	615	(303)	590,497
Civil	7,373	4,584	(3,107)	1,274	-	10,124
Labor	19,577	17,344	(6,981)	286	-	30,226
Total	<u>523,633</u>	<u>115,453</u>	<u>(10,111)</u>	<u>2,175</u>	<u>(303)</u>	<u>630,847</u>

- (i) Correspond mainly to the increase in the provision for tax risks in the period ended September 30, 2012, relating to taxes with suspended payment, recorded as a balance item to “Taxes on services”, and additions to the provision for civil and labor risks, represented by new lawsuits and changes in the assessment of the likelihood of losses made by the legal counsel, which were recorded as a balance item to “Other operating expenses, net” in the income statement.
- (ii) Basically represented by the reversal of the provision for civil and labor contingencies due to prescription, lawsuits settled or change in the opinion of the Company’s legal counsel as to the likelihood of loss.

Civil lawsuits

Refer basically to collection of transactions made through the Company’s system that were not transferred to merchants in view of noncompliance with clauses of the affiliation contract, and compensation for losses caused by transactions not transferred at that time. As of September 30, 2012, the provision for probable losses on civil lawsuits totals R\$13,081 (Company) and R\$18,319 (Consolidated), and the escrow deposit is R\$7,191 (Company) and R\$8,964 (Consolidated).

In addition, as of September 30, 2012, the Company is a party to public civil lawsuits and civil investigations, most of them filed by the Public Prosecution Office or professional associations, whose intention is to defend collective interests (such as consumer rights and labor rights). Judicial decisions may grant rights to groups of people (even without their consent). In many situations, the group that will benefit from a favorable outcome will only be defined after the final decision.

Labor lawsuits

Include 264 labor lawsuits against Cielo and 74 labor lawsuits against Servinet as of September 30, 2012, 82 of which had been filed by former employees. The remaining labor lawsuits, totaling 256, were filed by subcontractors, some of whom claiming the recognition of an employment relationship.

Labor lawsuits, when started, are considered of possible likelihood of loss. Only after the court decision is issued, the lawsuits are reclassified to probable or remote loss, depending on the decision and based on the history of losses on similar lawsuits. In general, considering the history of losses, labor lawsuits are related to salary equalization, overtime, annual bonus, rights guaranteed by agreements between the employer and the labor union, recognition of employment relationship, tenure after occupational disease, and pain and suffering.

As of September 30, 2012, the reserve for probable losses on labor lawsuits amounts to R\$46,085 (Company) and R\$55,301 (Consolidated).

Tax lawsuits

Refer to differences in interpretation by tax authorities, especially regarding:

- COFINS - non-cumulativeness - in February 2004, the Company and its subsidiary Servinet filed an injunction to avoid payment of COFINS according to Law 10833/03 that requires the noncumulative calculation at the rate of 7.60%, and began to make escrow deposits for amounts determined monthly. As a result, the difference between the COFINS due calculated based on the rate established by the cumulative and noncumulative calculation method is being recorded as provision for risks since then. Escrow deposits have been made for unpaid COFINS amounts. In November 2011, Servinet withdrew the lawsuit for joining the installment payment program introduced by Law 11941/09 and is currently awaiting for the definition of the amounts to be converted into Federal Government's funds and the amounts to be calculated by the company. Cielo's lawsuit is halted in the Federal Regional Court of the 3rd Region/SP due to the recognition of the matter by the Federal Supreme Court in the court records of the Extraordinary Appeal, which is pending judgment. As of September 30, 2012, the provision for risks totals R\$685,204 (Company) and R\$705,761 (Consolidated), and the escrow deposit is R\$672,790 (Company) and R\$693,987 (Consolidated).
- Amazon Investment Fund (FINAM) - in 2007, the Company received a tax assessment notice for calendar 2002, FY 2003. The Federal Revenue Service alleges that the Request for Review of Tax Incentive Issue Order (PERC) was not filed within the statutory deadline and, therefore, they do not recognize the portion of Corporate Income Tax (IRPJ) related to FINAM. The administrative proceedings is pending inclusion in the trial docket for judgment of the voluntary appeal filed by the company by the Administrative Board of Tax Appeals (CARF). As of September 30, 2012, the accrued balance is R\$12,171 (Company and Consolidated).
- CSLL 2002 - In 2007, a tax assessment notice was filed against the Company to require the payment of the CSLL (adjustment portion) for 2002 calendar year, plus tax assessment fine (75%) and late payment interest, as well as separate fine (50%) on the estimated CSLL amounts not paid. Due to the maintenance of the tax assessment notice at the administrative level, in July 2011, the Company decided to challenge the amounts in the court. The tax credits were fully deposited in escrow accounts and is being challenged in the court through an annulment action filed in August 2011. Currently, the tax debt annulment action is pending decision. As of September 30, 2012, the accrued balance is R\$11,372 (Company and Consolidated), and the escrow deposit is R\$10,895 (Company and Consolidated).
- Provisional Act 1.212/95 PIS/PASEP - in April 1997, the subsidiary Servinet was granted an injunction that exempted it from the payment of PIS based on billings. The Federal Government filed an appeal that was upheld by the court. On August 26, 2010, the subsidiary filed a debt expiration claim with the Third Region Finance Attorney of São Paulo/SP. This Administrative Proceeding resulted in a Tax Execution action, which is pending notification for filing of appeals. As of September 30, 2012, the accrued provision for risks balance is R\$1,961 (Consolidated).

The Company and its subsidiaries are challenging other interpretations of the law by tax authorities and, therefore, as of September 30, 2012, recognized provisions for risks in the amounts of R\$343 (Company) and R\$487 (Consolidated).

To cover other lawsuits whose likelihood of losses is assessed possible by the legal counsel, the Company and its subsidiaries maintains escrow deposits in the amount of R\$14,969 (Company) and R\$17,753 (Consolidated).

The Company's and its subsidiaries' management, based on the opinion of their legal counsel, believes that the actual disbursement of the provision for risks will not occur before December 31, 2017.

Additionally, as of September 30, 2012, the Company and its subsidiaries are parties to tax, civil and labor lawsuits assessed by their legal counsel as possible likelihood of losses, for which no provision was recorded, as follows:

	Company (BR GAAP)	Consolidated (IFRS and BR GAAP)
Tax	82,225	93,104
Civil	100,242	100,242
Labor	<u>26,537</u>	<u>30,801</u>
Total	<u>209,004</u>	<u>224,147</u>

b) Escrow deposits

For the nine-month periods ended September 30, 2012 and 2011, the Company and its subsidiaries have escrow deposits related to the provision for tax, labor and civil contingencies, broken down as follows:

	Company (BR GAAP)		
	<u>12.31.2011</u>	<u>Addition</u>	<u>09.30.2012</u>
Tax	592,458	106,196	698,654
Civil	<u>4,759</u>	<u>2,432</u>	<u>7,191</u>
Total	<u>597,217</u>	<u>108,628</u>	<u>705,845</u>

	Consolidated (IFRS and BR GAAP)			
	<u>12.31.2011</u>	<u>Addition</u>	<u>Write-off</u>	<u>09.30.2012</u>
Tax	616,439	106,196	-	722,635
Civil and labor	<u>6,366</u>	<u>2,651</u>	<u>(54)</u>	<u>8,963</u>
Total	<u>622,805</u>	<u>108,847</u>	<u>(54)</u>	<u>731,598</u>

	Company (BR GAAP)			
	<u>12.31.2010</u>	<u>Addition</u>	<u>Write-off</u>	<u>09.30.2011</u>
Tax	464,042	98,218	-	562,260
Civil	<u>3,203</u>	<u>2,141</u>	<u>(640)</u>	<u>4,704</u>
Total	<u>467,245</u>	<u>100,359</u>	<u>(640)</u>	<u>566,964</u>

	Consolidated (IFRS and BR GAAP)			
	<u>12.31.2010</u>	<u>Addition</u>	<u>Write-off</u>	<u>09.30.2011</u>
Tax	485,596	100,645	-	586,241
Civil and labor	<u>3,608</u>	<u>3,014</u>	<u>(652)</u>	<u>5,970</u>
Total	<u>489,204</u>	<u>103,659</u>	<u>(652)</u>	<u>592,211</u>

18. SHAREHOLDERS' EQUITY

a) Share capital

Capital as of September 30, 2012 is represented by 655,096,224 common shares (545,913,520 common shares as of December 31, 2011), fully subscribed and paid-in.

The Annual and Extraordinary Shareholders' Meeting held on April 20, 2012 approved a capital increase of R\$236,165 through the partial incorporation of the capital budget reserve.

As mentioned in Note 19.a), the number of shares outstanding as of September 30, 2012 is 654,345,737 (544,529,228 shares as of December 31, 2011).

Share capital can be increased by up to 2,400,000,000 additional common shares, regardless of any amendments to bylaws, at the discretion of the Board of Directors, which has the power to establish the share issue price, the terms and conditions for subscription and payment of shares up to the authorized capital limit. Except in the cases described below, shareholders will have the preemptive right to subscribe for shares issued in a capital increase, which shall be exercised in thirty days as from the publication of the minutes of the Board of Directors' meeting that approved the capital increase. Within the authorized capital limit, the Company may grant stock option or subscription to management members and employees. The Board of Directors may exclude the preemptive right or reduce the term for exercising such right in the issuance of shares, debentures convertible into shares or subscription bonus whose placement shall be made upon trade in stock exchanges, public subscription or upon exchange for shares, within the authorized capital limit. The Board of Directors may also resolve on any shares that remained unsubscribed in the capital increase during the term for exercising the preemptive right and establish, prior to their sale on stock exchanges to the benefit of the Company, the apportionment, proportional to the amounts subscribed, among the shareholders that have indicated, in the subscription bulletin or list, interest in subscribing possible remaining shares.

b) Capital reserve

Represents share-based payment costs and goodwill on the subscription of shares related to capital contributions by shareholders exceeding the amount allocated to capital formation.

As of September 30, 2012, the capital reserve amounts to R\$96,500 (R\$88,888 as of December 31, 2011).

c) Treasury shares

On March 16, 2012, the Company's Board of Directors, in accordance with article 19 of its bylaws, article 30 of Law 6404/76, CVM Instruction 10/80, as amended, and CVM Instruction 358/02 and subsequent amendments thereto, approved the acquisition of up to 2,000,000 common shares, with no par value, for cancellation, disposal or holding in treasury and, especially, to fulfill the exercise of options granted under the Company's Stock Option Plan, without capital reduction, within 365 days from the disclosure of the material fact. In addition, these share buybacks are limited to the balance available in "capital reserve" calculated in the year, pursuant to articles 1 and 12 of CVM Instruction 10/80.

The Company's management should define the number of shares that will be bought back, within the authorized limits, and the buyback timing.

Changes in treasury shares are stated as follows:

	Company (BR GAAP) and Consolidated (IFRS and BR GAAP)		
	Shares	Value	Average cost - R\$ per share
Balance as of December 31, 2011	1,384,292	(50,859)	36.74
Sale in January 2012	(7,916)	292	36.74
Sale in February 2012	(270,826)	9,953	36.74
Repurchase in March 2012	96,850	(5,800)	59.89
Sale in March 2012	(41,029)	1,585	38.60
Sale in April 2012	(1,840)	71	38.60
Balance of treasury shares before the bonus	<u>1,159,531</u>	<u>(44,758)</u>	<u>38.60</u>
Increase in treasury shares due to the bonus (*)	231,907	-	-
Sale in April 2012	(137,935)	4,437	32.17
Sale in May 2012	(9,585)	308	32.17
Sale in June 2012	(8,912)	287	32.17
Sale in July 2012	(341,985)	11,000	32.17
Sale in August 2012	(10,975)	353	32.17
Sale in September 2012	<u>(131,559)</u>	<u>4,232</u>	<u>32.17</u>
Closing balance as of September 30, 2012	<u>750,487</u>	<u>(24,141)</u>	<u>32.17</u>

(*) Bonus: new common shares were issued, with shareholders being assigned, gratuitously, one (1) new common share for each portion of five (5) common shares held by them, generating an effect of 231.907 new shares in the total number of shares.

The shares bought back will be held in treasury to be later disposed of, cancelled or used in the exercise of stock options granted to the Company's officers and employees.

d) Valuation adjustments to equity

Represent cumulative translation adjustments for translation into the foreign currency of the foreign investments and gains or losses on net investment hedge operations.

As of September 30, 2012, the balance of valuation adjustments to equity amounts to R\$3,654.

e) Earnings reserve - legal

Corresponds to 5% of net profit for the period, pursuant to Article 193 of Law 6404/76, up to the limit of 20% of capital. The legal reserve as of September 30, 2012 is R\$100,000 (R\$52,767 as of December 31, 2011).

f) Earnings reserve - budget capital

The Annual and Extraordinary Shareholders' Meeting held on January 18, 2012 approved the capital budget proposal prepared by the Company's management, pursuant to article 196 of Law 6404/76 and article 5, sole paragraph, of CVM Instruction 469, dated May 2, 2008. This reserve is intended to strengthen the Company's working capital and boost its advanced receivables ("ARV") transaction.

The capital budget reserve as of September 30, 2012 is R\$472,037 (R\$708,202 as of December 31, 2011).

g) Dividends and interest on capital

Under Company's bylaws, shareholders are entitled to a minimum dividend of 50% of net income after the recognition of the legal reserve of 5% of net profit for the year until the reserve equals 20% of capital. The allocation of the remaining balance of net profit for the year is decided at the Shareholders' Meeting. At year-end, the Company accrues the minimum dividends not paid during the year up to the limit of the previously mentioned minimum mandatory dividend. Under bylaws, the Company may prepare semiannual or shorter balance sheets and, based on them, in accordance with the limits provided for applicable law, the Board of Directors may approve the distribution of dividends against net income. The Board of Directors may also declare intermediary dividends against existing net income based on the last balance sheet approved by the shareholders.

The Board of Directors' meeting, held on February 8, 2012, approved the distribution of supplementary dividends and interest on capital, based on the financial statements as of December 31, 2011, in the amounts of R\$658,639 (represented by the sum of R\$311,879 recorded as dividends payable as of December 31, 2011, and R\$346,760, amount in excess of the minimum mandatory dividend recorded in equity as "Additional proposed dividends" as of December 31, 2011) and R\$7,578 as interest on capital (R\$6,441 net of IRRF). Dividends were paid to shareholders on March 30, 2012.

Pursuant to the minutes of the meeting held on August 23, 2012, the Board of Directors approved the distribution of 70% of net profit for the six-month period ended June 30, 2012 in the amount of R\$747,752, of which R\$31,244 was distributed as interest on capital and R\$716,508 as dividends. Proceeds were paid to shareholders on September 28, 2012.

19. EARNINGS PER SHARE

a) Change in the number of common shares

<u>Shares issued</u>	<u>Common</u>
Shares as of December 31, 2011	544,529,228
Exercise of stock options:	
January 2012	7,916
February 2012	270,826
Treasury shares buyback - March 2012	(96,850)
Exercise of stock options:	
March 2012	41,029
April 2012	1,840

<u>Shares issued</u>	<u>Common</u>
Effect of stock bonus - April 2012	108,950,797
Exercise of stock options:	
April 2012	137,935
May 2012	9,585
June 2012	8,912
July 2012	341,985
August 2012	10,975
September 2012	<u>131,559</u>
Total	<u>654,345,737</u>

b) Earnings per share

In compliance with CPC 41 - Earnings per Share, the following tables reconcile the net profit and weighted average of outstanding shares with the amounts used to calculate the basic and diluted earnings per share.

On April 20, 2012, capital increased by R\$236,165 by means of the capitalization of capital budget reserve, whereby the shareholders were assigned, gratuitously, as a bonus, one new common share for each portion of five common shares. In addition, shareholders are entitled, free of charge, as bonus, to one new common share for every five common shares held as of April 20, 2012. These events were retrospectively taken into consideration in the calculation of basic and diluted earnings as if they had occurred at the beginning of the oldest reporting period, as follows:

Basic earnings per share

	<u>Company</u>		<u>Consolidated</u>	
	<u>09.30.2012</u>	<u>09.30.2011</u>	<u>09.30.2012</u>	<u>09.30.2011</u>
Net profit for the period available to common shares	1,704,366	1,305,781	1,704,366	1,305,781
Weighted average of outstanding common shares (in thousands)	<u>653,603</u>	<u>653,189</u>	<u>653,603</u>	<u>653,189</u>
Earnings per share (in R\$) - basic	<u>2.60765</u>	<u>1.99909</u>	<u>2.60765</u>	<u>1.99909</u>

Diluted earnings per share

	<u>Company</u>		<u>Consolidated</u>	
	<u>09.30.2012</u>	<u>09.30.2011</u>	<u>06.30.2012</u>	<u>09.30.2011</u>
Net profit for the period available to common shares	1,704,366	1,305,781	1,704,366	1,305,781
Diluted denominator:				
Weighted average of outstanding common shares (in thousands)	653,603	653,189	653,603	653,189
Potential increase in common shares as a result of the stock option plan	<u>1,298</u>	<u>724</u>	<u>1,298</u>	<u>724</u>
Total (in thousands)	<u>654,901</u>	<u>653,913</u>	<u>654,901</u>	<u>653,913</u>
Earnings per share (in R\$) - diluted	<u>2.60248</u>	<u>1.99687</u>	<u>2.60248</u>	<u>1.99687</u>

20. NET REVENUES

	Company (BR GAAP)				Consolidated (IFRS and BR GAAP)			
	07.01.2012 to 09.30.2012	09.30.2012	07.01.2011 to 09.30.2011	09.30.2011	07.01.2012 to 09.30.2012	09.30.2012	07.01.2011 to 09.30.2011	09.30.2011
Commissions	987,561	2,858,671	823,780	2,315,264	986,833	2,855,831	823,063	2,312,996
Rental revenue	387,994	1,068,313	272,205	805,236	388,172	1,068,921	272,326	805,809
Other services	51,023	141,808	38,405	97,720	121,318	341,385	88,065	238,120
Tax on services	(147,394)	(415,276)	(118,024)	(327,880)	(158,019)	(445,983)	(127,193)	(352,521)
Total	<u>1,279,184</u>	<u>3,653,516</u>	<u>1,016,366</u>	<u>2,890,340</u>	<u>1,338,304</u>	<u>3,820,154</u>	<u>1,056,261</u>	<u>3,004,404</u>

21. EXPENSES BY NATURE

The Company elected to present the consolidated income statement by function.

The breakdown of costs of services and net operating expenses by nature is as follows:

	Company (BR GAAP)				Consolidated (IFRS and BR GAAP)			
	07.01.2012 to 09.30.2012	09.30.2012	07.01.2011 to 09.30.2011	09.30.2011	07.01.2012 to 09.30.2012	09.30.2012	07.01.2011 to 09.30.2011	09.30.2011
Personnel	56,927	162,087	53,836	155,598	86,336	247,017	81,153	230,263
Depreciation and amortization	70,595	213,520	57,526	163,794	74,280	223,232	61,607	173,990
Professional services	46,409	165,653	51,439	158,081	17,312	77,888	20,310	73,823
Acquiring costs (a)	300,234	860,189	254,549	701,241	301,095	862,715	256,285	705,003
Sales and marketing (b)	61,494	162,178	45,110	102,582	61,567	162,384	45,157	102,719
Costs on drugs and mobile telephone credits in subsidiaries (c)	-	-	-	-	38,747	109,874	24,657	72,968
Other	<u>41,397</u>	<u>74,160</u>	<u>26,544</u>	<u>45,813</u>	<u>50,663</u>	<u>103,538</u>	<u>36,425</u>	<u>72,815</u>
Total	<u>577,056</u>	<u>1,637,787</u>	<u>489,004</u>	<u>1,327,109</u>	<u>630,000</u>	<u>1,786,648</u>	<u>525,594</u>	<u>1,431,581</u>
Classified as:								
Cost of services provided	383,239	1,094,397	323,394	901,899	435,492	1,242,339	365,617	1,019,497
Personnel	32,317	90,926	28,958	87,092	55,882	158,693	49,210	142,723
General and administrative expenses	68,268	210,831	66,619	199,875	46,091	142,595	39,855	128,701
Sales and marketing	61,494	162,178	45,108	102,581	61,567	162,384	45,159	102,720
Other operating expenses, net	<u>31,738</u>	<u>79,455</u>	<u>24,925</u>	<u>35,662</u>	<u>30,968</u>	<u>80,637</u>	<u>25,753</u>	<u>37,940</u>
Total	<u>577,056</u>	<u>1,637,787</u>	<u>489,004</u>	<u>1,327,109</u>	<u>630,000</u>	<u>1,786,648</u>	<u>525,594</u>	<u>1,431,581</u>

- (a) The costs with acquisition are mainly represented by expenses with logistics and maintenance of POS equipment, supplies to merchants, customer registration and services, telecommunication services, and transaction capture and processing.
- (b) Marketing and sales expenses include campaigns for trademark development, marketing and advertising, endomarketing and sales incentives to partners and issuing banks.
- (c) Corresponds to the cost of the product sold related to medication and mobile credits sold by indirect subsidiaries Precisa e Multidisplay, respectively.

22. RELATED-PARTY BALANCES AND TRANSACTIONS

In the normal course of activities and under market conditions, the Company conducts transactions with related parties, such as receivables from card-issuing banks, which are the financial groups in which its controlling shareholders hold interests, and expenses on and income from services provided by Servinet, Orizon, Multidisplay, M4 Produtos, CieloPar, Braspag and Paggo.

When conducting its business and engaging services, the Company makes market quotations and surveys intended to find the best technical and pricing terms, and the decision on whether or not a transaction should be conducted is made by the chief decision maker of the function purchasing the product or service, regardless of whether such transaction is conducted with related or unrelated parties.

Also, the type of business conducted by the Company requires it to enter into agreements with several card-issuing entities, some of which are its shareholders. The Company believes that all the agreements entered into with related parties are carried out on an arm's-length basis.

The tables below include the balances as of September 30, 2012 and December 31, 2011 and the amounts of transactions with the related parties, broken down by type of agreement, shareholder and subsidiary, for the nine-month periods ended September 30, 2012 and 2011 and for the periods from July 1 to September 30, 2012 and 2011:

[illegible]

	Company (BR GAAP)										
	09.30.2012									09.30.2011	
	Shareholders		Subsidiaries								
	Banco Bradesco S.A.	Banco do Brasil S.A.	Servinet	Orizon	Multidisplay	M4U	CieloPar	Paggo Soluções	Braspag	Total	Total
Revenues:											
Income from short-term investments (a)	5,045	1,658	-	-	-	-	-	-	-	6,703	4,782
Revenue from other services (b)	7,796	7,846	-	-	822	2,194	-	206	114	18,978	4,464
Revenue from the rental of POS equipment (c)	-	-	-	1,305	-	-	-	-	-	1,305	443
Expenses:											
Other operating expenses - membership commission	(3,793)	(2,853)	-	-	-	-	-	-	-	(6,646)	(2,576)
Other operating expenses (d)	(8,597)	(1,789)	-	-	-	-	-	-	-	(10,386)	(2,784)
Service agreement with Servinet (e)	-	-	(89,064)	-	-	-	-	-	-	(89,064)	(31,620)

	Company (BR GAAP)										
	Period from 07.01.2012 to 09.30.2012										07.01.2011 to 09.30.2011
	Shareholders		Subsidiaries								
	Banco Bradesco S.A.	Banco do Brasil S.A.	Servinet	Orizon	Multidisplay	M4U	CieloPar	Paggo Soluções	Braspag	Total	Total
Revenues:											
Income from short-term investments (a)	1,460	475	-	-	-	-	-	-	-	1,935	13,350
Revenue from other services (b)	2,311	(221)	-	-	293	485	-	93	44	3,005	9,934
Revenue from the rental of POS equipment (c)	-	-	-	434	-	-	-	-	-	434	1,424
Revenue from securitization of receivables abroad	-	-	-	-	-	-	-	-	-	-	1,596
Expenses:											
Other operating expenses - membership commission	(1,187)	(839)	-	-	-	-	-	-	-	(2,026)	(7,518)
Other operating expenses (d)	(2,815)	(515)	-	-	-	-	-	-	-	(3,330)	(8,825)
Service agreement with Servinet (e)	-	-	(30,076)	-	-	-	-	-	-	(30,076)	(87,684)

- (a) The terms, charges and interest rates of short-term investments were agreed under conditions similar to those applicable to unrelated parties.
- (b) Corresponds to fraud prevention and bank account blocking services provided by the Company to the shareholder banks and commissions for the processing of transactions for M4 Produtos and Multidisplay. These related-party transactions are carried out at prices and under conditions similar to the transactions carried out with other issuing banks.
- (c) See Note 5.(c)
- (d) Services contracted with shareholder banks, relating to: (i) corporate collective life insurance, (ii) health and dental insurance and (iii) private pension agreement. The Company understands that the financial conditions adopted by the shareholders in respect of prices, terms and other conditions were applied under conditions similar to those adopted with respect to third parties.
- (e) The Company engaged Servinet to provide POS equipment installation and maintenance service to merchants. The payment for the services provided is determined based on the costs incurred by Servinet when the service is provided, plus taxes and a payment margin.
- (f) See Note 24.e).
- (g) Relate to the accumulated results of the net investment hedge on foreign operations, registered in other comprehensive income, as described in note 24.(e)

Main related-party transactions

- **Borrowing**

On August 23, 2012, the subsidiary Cielo USA, Inc. contracted a loan in the amount of US\$400 million in order to make up the total funds needed for the acquisition of Merchant e-Solutions, of which US\$200 million were contracted with Banco do Brasil S.A. in usual market conditions. The liability balance as of September 30, 2012 amounts to R\$405.553. for information on charges, terms and guarantees, see note 13.

- **Non deliverable forward**

The Company contracted, in usual market conditions, derivative financial instruments in the form of a Non Deliverable Forward - NDF” with a notional amount of US\$470.898 thousand, of which US\$235,449 thousand was contracted with Banco do Brasil S.A. and US\$235,449 thousand with Bradesco S.A., with the purpose of protecting against risks related to exchange variation on foreign net investments. For additional information, see note 24.

- Balances of issuing banks

Receivables from issuing banks, whose net amounts are recorded under “Payables to merchants”, refer to the amounts payable by the issuers to the Company arising from the transactions carried out with credit and debit cards, which will be subsequently transferred by the Company to the authorized merchants. These related-party transactions are carried out at prices and under conditions similar to the transactions carried out with other issuers of credit or debit cards.

- Domicile bank incentives

The Company entered into agreements with domicile banks to promote the invoicing of commissions and prepayment of receivables. In these agreements, the Company remunerates the banks based on the performance goals established therein.

- Advanced receivables from issuing banks

The Company has entered into agreements with the issuing bank to transfer in advance the amounts from the transactions carried out by the bank’s customers with credit cards. These advanced payments are performed in order to generate short-term working capital and the amounts deposited in current account are net of rates for advances, on a pro rata basis, calculated at market rates that do not significantly differ from those adopted by the issuing banks that are not the Company’s shareholders.

- Use of Cielo authorized network (“Value Added Network” - VAN)

The Company entered into service agreements with Companhia Brasileira de Soluções e Serviços (“CBSS”). These services include the capture, authorization and processing of transactions with VISA VALE cards, as well as services provided to merchants, operational and financial back office services, protection against fraud, issuance of statements and financial control over the electronic transactions resulting from these transactions. The rates and tariffs charged from these related-party transactions are carried out at prices and under conditions similar to the transactions carried out with other banks.

- VAN services and connectivity rate - Amex

On June 30, 2010, the Company entered into a non-exclusive service agreement with BankPar S.A. (“BankPar”), a company of Bradesco S.A. Group authorized to operate the American Express brand in Brazil, for the capture of credit card transactions carried out with Amex Brand (VAN). In addition, in December 2011, the Company entered into an amendment to the service agreement to renew the VAN agreement by December 31, 2012, as well as to balance the economic benefits of the Company and BankPar in connection with this agreement, based on the appraisal prepared by the advisors of a specialized investment bank. In financial terms, this balance was performed by including the connectivity rate payable by the Company, in the amount of R\$38 million, to BankPar for the technology that provides the Company access to the systems of the American Express’ merchants (Amex). The improvement of this partnership with Amex brand reinforces the Company’s potential for high value generation to the extent that it supplements its brand portfolio. The execution of these documents was approved by the Board of Directors in accordance with the legal restrictions.

- Bank account blocking

Refers to bank account blocking service agreements entered into with various banks, whose service consists of ensuring to the banks the blocking of the bank accounts of the authorized merchants that carry out financial transactions with them. These related-party transactions are carried out at prices and under conditions similar to the transactions carried out with other domicile banks.

- Recordkeeping of Cielo's shares

Cielo stock book entry service agreement entered into with Banco Bradesco S.A., whereby it provides stock book entry and share certificate issuance services.

- Operating services - stock option program

Service agreement consisting of the rendering of operating services for the stock option program and the related grants entered into with Bradesco S.A. Corretora de Títulos e Valores Mobiliários.

- Other widespread agreements

In addition to the balances recorded, the Company engages other services from the main shareholders:

- Cash management services.
- Insurance.
- Private pension services.
- Corporate credit card.
- Suppliers' payment services.

23. INCOME TAX AND SOCIAL CONTRIBUTION

The effective income tax and social contribution rate for the nine-month periods ended September 30, 2012 and 2011, and for the periods from July 1 to September 30, 2012 and 2011, is as follows:

	Company (BR GAAP)				Consolidated (IFRS and BR GAAP)			
	07.01.2012 to 09.30.2012	09.30.2012	07.01.2012 to 09.30.2011	09.30.2011	07.01.2012 to 09.30.2012	09.30.2012	07.01.2012 to 09.30.2011	09.30.2011
Income before income tax and social contribution	902,923	2,587,082	676,263	1,950,504	907,621	2,600,230	680,096	1,960,071
Statutory tax rates - %	<u>34</u>	<u>34</u>	<u>34</u>	<u>34</u>	<u>34</u>	<u>34</u>	<u>34</u>	<u>34</u>
Income tax and social contribution at statutory rates	(306,994)	(879,608)	(229,929)	(663,171)	(308,591)	(884,078)	(231,232)	(666,424)
Interest on capital tax benefit	-	10,623	8,194	8,194	-	10,623	8,194	8,194
Permanent effect on the RTT adjustment related to the Stock Option Plan (a)	(1,278)	(6,769)	-	(3,817)	(1,278)	(6,769)	-	(3,817)
Goodwill impairment in Paggo	(5,610)	(5,610)	-	-	(5,610)	(5,610)	-	-
Recognition of deferred income tax and social contribution assets on adjustments to present value (AVP)	-	-	-	11,990	-	-	-	11,990
Effect on permanent differences, net (b)	<u>(122)</u>	<u>(1,352)</u>	<u>3,021</u>	<u>2,081</u>	<u>(1,458)</u>	<u>(5,414)</u>	<u>1,981</u>	<u>(759)</u>
Income tax and social contribution	<u>(314,004)</u>	<u>(882,716)</u>	<u>(218,714)</u>	<u>(644,723)</u>	<u>(316,937)</u>	<u>(891,248)</u>	<u>(221,057)</u>	<u>(650,816)</u>
Current	(333,510)	(950,935)	(228,626)	(684,254)	(336,865)	(959,109)	(232,405)	(691,602)
Deferred	19,506	68,219	9,912	39,531	19,928	67,861	11,348	40,786

(a) Refers to the permanent addition of the amounts related to the Stock Option Plan to the income tax and social contribution tax basis, under the Transitional Tax Regime (RTT). In addition, 2011 deferred income tax and social contribution assets were written off, relating to the recognition of this capital reserve, since, up to 2011, it was recorded as temporary difference.

(b) Mainly represented by bonus to management, which is non-deductible in the calculation of taxable income and social contribution tax basis, and by the recognition of the tax benefit of research and development from the previous calendar year.

The donations to the cultural and artistic activities (“Rouanet Law”), Sports and Fund for Children and Adolescent’s Rights were recorded in line item “Income tax expenses - current”.

The tax incentives recorded as income tax expenses in the Company and Consolidated for the quarter and nine-month period ended September 30, 2012 totaled R\$3,585 and R\$10,885 (R\$5,800 and R\$12,782 in the quarter and nine-month period ended September 30, 2011).

24. FINANCIAL INSTRUMENTS

The estimated fair values of the financial instruments of the Company and its subsidiaries have been determined using available market inputs and appropriate valuation methodologies. However, considerable judgment was required to interpret market input and then develop the most appropriate fair value estimates. Accordingly, estimates presented herein are not necessarily indicative of the amounts that could be realized in the market. The use of different market methodologies may have a significant effect on the estimated realizable values.

These financial instruments are managed through operating strategies which aim at obtaining liquidity, security, and profitability. The control policy consists of permanent monitoring of the contracted rates compared to market rates. The Company and its subsidiaries do not have transactions for speculative purposes, derivatives or any other risk assets.

a) Capital risk management

The Group manages its capital to ensure that both group companies can continue as going concerns, and at the same time maximizes the return of all their stakeholders by optimizing the balance debt and equity.

The Group's equity structure consists of its net debt (borrowings detailed in Note 13, less cash and cash equivalents) and equity.

The Group is not subject to any external capital requirement.

The debt ratio at the end of the reporting period is as follows:

	Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
	09.30.2012	12.31.2011	09.30.2012	12.31.2011
Debt (a)	(310,227)	(150,848)	(1,121,333)	(150,848)
Cash and cash equivalents	<u>244,896</u>	<u>240,998</u>	<u>393,231</u>	<u>292,915</u>
Net debt	<u>(65,331)</u>	<u>90,150</u>	<u>(728,102)</u>	<u>142,067</u>
Equity (b)	<u>2,057,431</u>	<u>1,409,593</u>	<u>2,072,459</u>	<u>1,424,564</u>
Debt ratio, net	<u>3.17%</u>	<u>-</u>	<u>35.13%</u>	<u>-</u>

(a) Debt is defined as short- and long-term borrowings, as detailed in Note 13.

(b) Equity includes the entire share capital and the Group's reserves, managed as capital.

b) Financial assets and financial liabilities

The Company's and its subsidiaries' financial assets and financial liabilities refer to cash and cash equivalents, trade accounts receivable, receivables from subsidiaries, escrow deposits, trade accounts payable, payables to merchants, payables to subsidiaries and payables on the acquisition of subsidiaries, suppliers and borrowings and financing. The estimated fair values of financial instruments as of September 30, 2012 are as follows:

	Type	09.30.2012			
		Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
		Carrying amount	Market value	Carrying amount	Market value
Cash and cash equivalents	Loans and receivables	244,896	244,896	393,231	393,231
Trade accounts receivable	Loans and receivables	3,952,418	3,952,418	4,006,034	4,006,034
Receivables from subsidiaries	Loans and receivables	318	318	-	-
Escrow deposits	Loans and receivables	705,845	705,845	731,598	731,598
Trade accounts payables	Other financial liabilities	324,606	324,606	380,128	380,128
Payables to merchants	Other financial liabilities	2,708,841	2,708,841	2,796,757	2,796,757
Payables to subsidiaries	Other financial liabilities	10,371	10,371	-	-
Payables on the acquisition of subsidiaries	Other financial liabilities	-	-	30,963	30,963
Losses on derivatives ("NDF")	Financial liabilities measured at fair value				
	through profit and loss	1,339	1,339	1,339	1,339
Borrowings and financing	Other financial liabilities	310,227	309,281	1,121,333	1,120,387

The fair value of financial assets and short- and long-term financing was determined, when applicable, by using current interest rates available for transactions conducted under similar conditions and with similar maturity dates.

The fair value of the derivative financial instrument NDF was determined based on inputs of different prices negotiated in active markets that are observable for the asset or liability, directly (as prices) or indirectly (derived from prices), equivalent to level 2.

c) Credit risk

The Company has an instrument to mitigate the credit risk of the VISA card-issuing banks, used as a hedge against the risk of default by such banks. This hedging instrument consists of the commitment assumed by the VISA brand, pursuant to foreign regulations, to guarantee the transfer to the Company's merchants of all sales made with VISA cards on the related due dates in the event of default by an issuer. The guarantee model implemented by the VISA brand together with the Company prescribes the provision of guarantees (collaterals or bank guarantees) considering the credit risk of the issuer, sales volume with VISA cards and residual risk of default by cardholders. The provision of guarantees is mandatory for all card-issuing banks with credit risk, and amounts are reviewed periodically by VISA and the Company. If the issuer does not provide the requested guarantees, it is not accepted as a member of the system or is disqualified as such.

Since July 1, 2010, the Company has also started accrediting the MASTERCARD brand, and the related credit risk is guaranteed by the MASTERCARD brand itself, in case of default by the card-issuing banks with the Company. The MASTERCARD brand requires card-issuing banks participating in the system to provide guarantees, collaterals or bank guarantees. If the issuer does not provide the requested guarantees, it is not accepted as a member of the system or is disqualified as such.

The brand systems also prescribe that cardholders can contest transactions made with credit cards within certain timeframes from the date of the transaction. For this purpose, the Company enters into an affiliate agreement with authorized merchants establishing all rules for acceptance of these cards at the point of sale. If transactions are contested by cardholders and the merchant is no longer an affiliated member at the date of the contestation or has no amounts receivable from the Company, then collection will be made through debit to bank account or outside collection agencies and there may be losses to the Company.

The Company leases POS equipment to all affiliated merchants that do not have their own systems to capture transactions. The rent is deducted, on the due date, from the amount of transactions payable to merchants. However, the rent may not be received on the due date whenever there are no amounts payable to merchants. In these cases, the Company collects the rent through debit to future sales, bank account or outside collection agencies, and losses on rent may be incurred.

d) Risk of fraud

The Company uses a sophisticated antifraud system to monitor transactions with credit and debit cards, which detects and identifies suspected fraud at the time of the authorization and sends an alert message to the card-issuing bank for it to contact the cardholder.

e) Derivative transactions

Derivative policy

According to the internal policy, the Company's financial income (costs) must arise from the generation of cash from its activities rather than from gains in the financial market. Accordingly, it considers that derivatives should only be used to hedge against potential exposures arising from the risks to which it is subject, without speculative purposes. The contra entry to a derivative transaction should be a non-hedged asset or liability.

The criteria adopted for definition of the notional value of the derivatives is linked to the amount of the debt and/or assets denominated in foreign currency.

Net investment hedge in foreign operations

The Company designated the Non Deliverable Forwards ("NDF") as investment hedge in foreign transactions in the notional amount of US\$470,898 thousand, whose amount was considered sufficient to hedge the foreign investment against exchange variations from US dollar fluctuations.

The derivative contracted by the Company to hedge the investment made in Cielo USA (Note 7), in the amount of US\$310,791 thousand, was used to hedge a portion of the Company's investment in the foreign subsidiary against exchange gains and losses, in accordance with the Company's risk management strategy. Derivative amounts are increased by income tax and social contribution gross-up (rate of 34% under Brazilian tax laws).

The net investment hedge effects were recorded in accordance with CPC 38 and IAS 39 - Financial Instruments: Recognition and Measurement. Accordingly, the Company formally designated the transactions by documenting: (i) the hedge purpose; (ii) hedge type; (iii) nature of the hedged risk; (iv) identification of the hedged item; (v) identification of the hedging instrument; (vi) relationship between the hedge and hedged item (retrospective effectiveness test); and (vii) prospective effectiveness.

The adoption of the effectiveness tests described in the accounting policies confirmed the effectiveness of the financial instrument; accordingly, in the nine-month period ended September 30, 2012, there were no ineffectiveness recorded in profit or loss from net investment hedge in Cielo USA; consequently, gains or losses from these transactions were fully recorded in the Company's shareholders' equity.

The table below shows the futures currency contracts outstanding at the end of the reporting period:

Consolidated (IFRS and BR GAAP)				
09.30.2012				
	Foreign currency	Average foreign exchange rate	Notional amount	Fair value
Non deliverable forward	USD	2.0326	470,898	1,339

The debt fair value, calculated based on market data, amounts to R\$1,339 as of September 30, 2012, which is recorded in line item “Other payables” in current liabilities.

f) Currency risk

The Group conducts a few transactions in foreign currency, mainly represented by the transactions performed by foreign credit card holders in establishments in Brazil. In addition, as described in Note 1, on August 31, 2012 the Company acquired the control of Merchant e-Solutions through its holding Cielo USA, both headquartered in the United States of America, whose transactions are conducted in US dollar (functional currency).

The exposures to currency risks are managed in accordance with the criteria set by the policies approved using currency futures contracts.

As of September 30, 2012, the net exposure to foreign exchange rate risk, in thousands of U.S. dollars, is as follows:

	<u>Company (BR GAAP)</u>	<u>Consolidated (IFRS and BR GAAP)</u>
Assets:		
Cash and cash equivalents	3,546	49,868
Other assets	-	10,933
Investments in foreign currency	311,409	-
Intangible assets, mainly goodwill	<u>-</u>	<u>708,495</u>
Total	314,955	769,296
Liabilities:		
Payables to merchants	(4,941)	(48,249)
Other liabilities	-	(11,795)
Foreign borrowings and financing	<u>-</u>	<u>(400,000)</u>
Total	<u>(4,941)</u>	<u>(460,044)</u>
Long position in US dollars	<u>310,014</u>	<u>309,252</u>
US dollar short position mainly represented by		
Non Deliverable Forward	(470,898)	(470,898)
Tax effect on hedge (overhedge)	<u>160,105</u>	<u>160,105</u>
US dollar short position (*)	<u>(310,793)</u>	<u>(310,793)</u>
Net exposure of assets and liabilities denominated in foreign currency	<u>(779)</u>	<u>1,541</u>

(*) The Company enters into forward exchange transactions for US dollars to hedge against fluctuations in exchange rates, which reduces significantly potential currency risks.

Foreign currency sensitivity analysis

The Group is exposed mainly to the US Dollar.

The following table details the sensitivity of the Group to a 10% increase and reduction in Brazilian Real in relation to this currency. 10% is the sensitivity rate used to present internally to key Management the risks related to foreign currency and corresponds to Management assessment of possible changes in exchange rates. The sensitivity analysis includes only monetary items outstanding and in foreign currency and adjusts its conversion at the end of the reporting period for a 10% change in the foreign currency. The sensitivity analysis includes loans with third parties when loans are denominated in a currency different from that of the creditor or debtor. A positive number indicates an increase in the statement of operations and in shareholders' equity when Real is appreciated at 10% in relation to the currency being analyzed. For a 10% depreciation in Real in relation to the currency being analyzed, there would be a similar and opposite impact in the income statement and in shareholders' equity and the balances presented below would be negative.

	Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
	<u>09.30.2012</u>	<u>09.30.2011</u>	<u>09.30.2012</u>	<u>09.30.2011</u>
Statement of operations (a) +10%	(283)	(769)	41	(779)
Shareholders' equity (b) +10%	3,658	-	3,658	-
Statement of operations (a) -10%	257	699	(37)	709
Shareholder's equity (b) -10%	3,658	-	3,658	-

- (a) Relates mainly to the exposure to balances receivable and payable in US dollar at the end of the reporting period.
- (b) Results from changes in the fair value of derivative financial instruments designed as net investment hedge.

The Group sensitivity to foreign risk increased during the current period mainly due to the acquisition of a foreign investment.

In addition, the change in shareholders' equity due to a 10% change in Real in relation to all foreign exchange rate used in the conversion of new financial instruments relating to net investment hedge would be reduction of R\$59.146. however, the net effect in shareholders' equity would be null since the variation will be compensated by the conversion of the foreign operation.

g) Interest risk on short-term investments

The Company's results of operations are subject to significant fluctuations resulting from short-term investments with floating interest rates.

Pursuant to its financial policies, the Company invests its funds in prime banks and has not entered into transactions with financial instruments for speculative purposes.

h) Liquidity risk

The Group manages the liquidity risk by maintaining proper reserves, bank and other credit facilities to raise new borrowings that it considers appropriate, based on the continuous monitoring of budgeted and actual cash flows, and the combination of the maturity profiles of financial assets and financial liabilities.

i) Capital risk management

The Group manages its capital to ensure that both group companies can continue as going concerns, and at the same time maximizes the return of all their stakeholders by optimizing the balance debt and equity. The Group's equity structure consists of its net debt (borrowings detailed in Note 13 less cash and cash equivalents stated in Note 4), and equity (which includes issued equity, reserves, and retained earnings as stated in Nota 18, respectively).

The Group is not subject to any external capital requirement.

j) Interest rate sensitivity analysis - short-term investments and financing

The funds from the Company's short-term investments are impacted by changes in the CDI rate and borrowings are impacted by the changes in the TJLP and Libor rates. As of September 30, 2012, assuming an increase or reduction of 10%, 25% and 50% in the interest rates, there would be an increase or decrease in financial income (costs), as follows:

	Company			Consolidated		
	<u>10%</u>	<u>25%</u>	<u>50%</u>	<u>10%</u>	<u>25%</u>	<u>50%</u>
Short-term investments	1,538	3,845	7,691	1,876	4,689	9,379
Borrowings and financing	1,553	3,883	7,766	1,702	4,255	8,509

25. COMMITMENTS

The Company is engaged in the capture, transmission, processing and settlement of transactions with credit and debit cards. To conduct said activities, the Company entered into the following agreements:

a) Lease agreements

As of September 30, 2012, future annual payments under lease agreements in effect are estimated as follows:

<u>Year</u>	
2012	2,543
2013	10,988
2014	<u>11,867</u>
Total	<u>25,398</u>

Most contracts specify a termination fine equivalent to three-month rent, and a partial return can be negotiated for each case.

b) Telecommunications, POS equipment suppliers, technology and logistics services

As of September 30, 2012, future payments under telecommunications, POS equipment suppliers, technology and logistics service agreements in effect are estimated as follows:

Year

2012	193,221
2013	562,555
2014	<u>607,560</u>
Total	<u>1,363,336</u>

Transactions capture and processing agreements stipulate termination fines totaling R\$13,834. Logistics service agreements are in effect since June 2007, with a minimum period of 12 months and a termination fine of R\$12,702. Telecommunication agreements do not provide for a termination fine.

c) Bank guarantees

As of September 30, 2012, based on the agreements in effect, bank guarantees are as follows:

Type

Guarantee for Personal Recharge and Multioperator (*)	<u>400</u>

(*) Collateral assigned to the subsidiary Multidisplay by financial institutions to secure the payment of agreements with mobile telephone companies.

26. PROFIT SHARING

The Company and its subsidiaries pay profit sharing to their employees and officers, subject to the achievement of operational goals and specific objectives, established and approved at the beginning of each year.

Employees and management profit sharing amounts for the nine-month periods ended September 30, 2012 and 2011, and for the periods from July 1 to September 30, 2012 and 2011, were recorded in line item "Personnel expenses" in the income statement, as follows:

	Company (BR GAAP)				Consolidated (IFRS and BR GAAP)			
	07.01.2012 to 09.30.2012	09.30.2012	07.01.2011 to 09.30.2011	09.30.2011	07.01.2012 to 09.30.2012	09.30.2012	07.01.2011 to 09.30.2011	09.30.2011
Employees	8,181	22,021	7,378	20,937	10,834	31,515	10,616	30,570
Officers	<u>3,140</u>	<u>8,773</u>	<u>2,168</u>	<u>6,505</u>	<u>4,088</u>	<u>9,721</u>	<u>2,168</u>	<u>6,505</u>
Total	<u>11,321</u>	<u>30,794</u>	<u>9,546</u>	<u>27,442</u>	<u>14,922</u>	<u>41,236</u>	<u>12,784</u>	<u>37,075</u>

27. MANAGEMENT COMPENSATION

Key management personnel includes the members of the Board of Directors, the Supervisory Board, the CEO, and the statutory officers.

	07.01.2012 to 09.30.2012			09.30.2012		
	Compensation			Compensation		
	Fixed	Variable (*)	Total	Fixed	Variable (*)	Total
Officers	1,295	2,453	3,748	3,603	7,088	10,691
Board of Directors and Supervisory Board	<u>436</u>	<u>-</u>	<u>436</u>	<u>1,160</u>	<u>-</u>	<u>1,160</u>
Total	<u>1,731</u>	<u>2,453</u>	<u>4,184</u>	<u>4,763</u>	<u>7,088</u>	<u>11,851</u>

(*) Not including the stock option plan (see Note 31).

Management's (Executive Committee and Board of Directors) overall compensation in 2012, set by the Annual General Meeting held on April 20, 2012, was R\$29,000, plus related taxes and contributions thereon, as prescribed by the prevailing laws, corresponding to R\$3,800 as of that date. The Supervisory Board's compensation was R\$309.

28. FINANCIAL INCOME (EXPENSE)

	Company (BR GAAP)				Consolidated (IFRS and BR GAAP)			
	07.01.2012 to 09.30.2012	09.30.2012	07.01.2011 to 09.30.2011	09.30.2011	07.01.2012 to 09.30.2012	09.30.2012	07.01.2011 to 09.30.2011	09.30.2011
Financial income:								
Interest on short-term investments	4,459	15,381	6,292	20,473	5,457	18,757	7,210	22,472
Interest - securitization abroad	-	-	-	1,596	-	-	-	1,596
Other financial income	<u>154</u>	<u>361</u>	<u>294</u>	<u>360</u>	<u>191</u>	<u>458</u>	<u>584</u>	<u>964</u>
	<u>4,613</u>	<u>15,742</u>	<u>6,586</u>	<u>22,429</u>	<u>5,648</u>	<u>19,215</u>	<u>7,794</u>	<u>25,032</u>
Financial expenses:								
Interest - securitization abroad	-	-	-	(1,596)	-	-	-	(1,596)
Late payment interest and fines	(2)	(23)	(15)	(40)	(13)	(85)	272	(74)
Late payment interest and risk fines	(306)	(1,221)	(557)	(2,026)	(328)	(1,275)	(625)	(2,303)
Advanced receivables from issuers	(9,641)	(30,218)	(10,142)	(37,414)	(9,641)	(30,218)	(10,142)	(37,414)
Interest on borrowings	(5,890)	(15,532)	-	-	(7,376)	(17,018)	-	-
Charges on borrowings	-	-	-	-	(289)	(289)	-	-
Inflation adjustment on the debt balance relating to the acquisition of a 50.1% interest in M4U	-	-	-	-	(456)	(5,914)	-	-
Other financial expenses	<u>(1,676)</u>	<u>(3,958)</u>	<u>(2,096)</u>	<u>(5,836)</u>	<u>(1,773)</u>	<u>(4,227)</u>	<u>(2,433)</u>	<u>(6,197)</u>
	<u>(17,515)</u>	<u>(50,952)</u>	<u>(12,810)</u>	<u>(46,912)</u>	<u>(19,876)</u>	<u>(59,026)</u>	<u>(12,928)</u>	<u>(47,584)</u>
Prepayment of receivables:								
Income from prepayment of receivables (a)	207,912	610,416	159,872	418,384	207,912	610,416	159,872	418,384
Revenues (expenses) from adjustments to present value (b)	<u>5,411</u>	<u>(9,340)</u>	<u>(5,195)</u>	<u>(10,467)</u>	<u>5,411</u>	<u>(9,340)</u>	<u>(5,195)</u>	<u>(10,467)</u>
	213,323	601,076	154,677	407,917	213,323	601,076	154,677	407,917
Exchange rate variation, net (c)	<u>227</u>	<u>5,472</u>	<u>(114)</u>	<u>1,883</u>	<u>222</u>	<u>5,459</u>	<u>(114)</u>	<u>1,883</u>
Total	<u>200,648</u>	<u>571,338</u>	<u>148,339</u>	<u>385,317</u>	<u>199,317</u>	<u>566,724</u>	<u>149,429</u>	<u>387,248</u>

- (a) Revenue from prepayment of receivables for the nine-month periods ended September 30, 2012 and 2011, and for the periods from July 1 to September 30, 2012 and from July 1 to September 30, 2011, comprise the revenues from the volume of transactions in the periods then ended.
- (b) As described in Note 5.(a), the present value adjustment recorded in the consolidated interim financial information was calculated on prepayments of receivables. The assumptions adopted for the calculation are as follows:
- The interest rates applied were the same interest rates contracted for advances from customers.
 - Calculations were carried out separately, discounting cash flows for each recorded receivable.

The Company's management recognized the present value adjustment of accounts receivable balance in view of the materiality of values adjusted, of interest rates and transaction terms.

Monthly, Management reviews the assumptions mentioned and the changes are recorded in profit or loss for the year.

- (c) Arises basically from the amount received in US dollars from Visa International Service Association and Mastercard Worldwide related to transactions with foreign credit and debit cards, the receivables securitization abroad transaction (until June 2011), and gains and losses originally denominated in foreign currency, represented by income in the amount of R\$8,667 (R\$1,954 as of September 30, 2011) and expenses totaling R\$3,195 (R\$71 as of September 30, 2011).

29. OTHER OPERATING EXPENSES, NET

Represented by:

	Company (BR GAAP)				Consolidated (IFRS and BR GAAP)			
	07.01.2012 to 09.30.2012	09.30.2012	07.01.2011 to 09.30.2011	09.30.2011	07.01.2012 to 09.30.2012	09.30.2012	07.01.2011 to 09.30.2011	09.30.2011
Allowance for doubtful accounts	(6,761)	(29,257)	(7,111)	(22,193)	(6,761)	(29,257)	(7,111)	(22,193)
Provision for risks, net	(5,907)	(24,477)	(16,360)	(21,240)	(5,640)	(24,510)	(17,518)	(25,009)
Allowance for losses on inactive POS equipment	(287)	(4,235)	2,790	567	(287)	(4,235)	2,790	567
Provision for losses on goodwill - Paggo	(16,500)	(16,500)	-	-	(16,500)	(16,500)	-	-
Write-off of property and equipment	(3,414)	(10,989)	(5,510)	(12,042)	(3,413)	(10,989)	(5,510)	(12,042)
Revenue from sale of POS equipment	1,802	3,055	996	1,262	1,802	3,055	996	1,262
Income from contractual fines	1,024	3,976	1,255	6,082	1,024	3,976	1,255	6,082
Other operating income (expenses)	<u>(1,695)</u>	<u>(1,028)</u>	<u>(985)</u>	<u>11,902</u>	<u>(1,193)</u>	<u>(2,177)</u>	<u>(655)</u>	<u>13,393</u>
Total	<u>(31,738)</u>	<u>(79,455)</u>	<u>(24,925)</u>	<u>(35,662)</u>	<u>(30,968)</u>	<u>(80,637)</u>	<u>(25,753)</u>	<u>(37,940)</u>

30. INSURANCE

As of September 30, 2012, the Company has the following insurance agreements:

Type	Insured amount
Civil liability and Directors and Officers	105,000
Nominated risks (fire, windstorm and smoke, electrical damages, electronic equipment, theft and flood)	36,962
Loss of profits	11,177
Vehicles	1,052
POS equipment warehousing	60,000
POS equipment transportation	1,251,000

31. STOCK OPTION PLAN

The Extraordinary General Meeting, held on June 1, 2009, ratified the approval of the Company's stock option plan, which is effective for ten years counted from the date of first grant to beneficiaries.

Stock options may be granted provided that capital dilution does not exceed, at any time during the effectiveness of the plan, 0.3% per year. The Company's Board of Directors will define the beneficiaries eligible for the stock option plan annually or at the frequency considered appropriate.

At meetings held on July 1, 2009, September 23, 2009, July 6, 2010, July 22, 2011 and July 22, 2012, the Board of Directors approved the first, second, third, fourth and fifth grants of options for the purchase of common and/or restricted shares, respectively, as shown in the table below, without any option for the settlement of options in cash.

In 2010 and 2009, the beneficiaries under the Stock Option Plan and Vesting Agreement may exercise the first portion of the stock options granted, equivalent to 1/3 of total, after one year.

The Extraordinary General Meeting, held on April 2011, approved the changes in the fourth grant (July 2011) and the following changes to the plan: possibility of eligible employees choosing a stock option plan, a restricted stock plan or a combination of both; exercise of 50% of the options and/or restricted shares after two years and 50% after three years.

In addition, the Board of Directors' meeting, held on February 29, 2012, approved the Company's management retention plan under the Restrict Shares program. The purpose of this program is to minimize the risks for the Company's business arising from the loss of management members and enhance the commitment of such members to long-term results. The management retention program is effective for two years and the shares granted will be donated to the executives who remain in the Company at the end of the program.

Grant date	Number of shares					Exercise price (R\$ per share)	Fair value of options (R\$ per share)
	Granted	Cancelled	Exercised	Bonus	Balance		
July 2009	1,042,320	(90,596)	(936,422)	68,717	84,019	23.68	10.43
September 2009	220,480	(55,335)	(136,946)	40,505	68,704	35.32	13.75
July 2010	1,073,680	(277,163)	(527,411)	163,314	432,420	33.33	13.38
July 2011	1,312,065	(148,530)	(13,970)	262,413	1,411,978	26.05	12.48
February 2012	96,850	-	-	19,369	116,219	-	52.28
July 2012	<u>986,475</u>	<u>(12,664)</u>	<u>-</u>	<u>-</u>	<u>973,811</u>	44.48	18.34
Total	<u>4,731,870</u>	<u>(584,288)</u>	<u>(1,614,749)</u>	<u>554,318</u>	<u>3,087,151</u>		

In 2012, the fair value of options was measured using the Black & Scholes pricing model. In 2011, the Company used the binomial methodology, based on the following economic assumptions:

	Granting date			
	July and September 2009	July 2010	July 2011	July 2012
Dividend yield	6.66%	5.73%	8.87%	5.36%
Share price volatility	36.67%	37.51%	38.27%	31.65%
Vesting period	4 years	4 years	5 years	6 years

The fair value is allocated to profit or loss for the period with a contra entry to the capital reserve on a straight-line basis over a term of up to 36 months. In the nine-month period ended September 30, 2012, expenses totaled R\$9,133 (R\$8,721 as of September 30, 2011), recorded in line item “Personnel expenses”, and 962,562 shares were exercised in the amount of R\$13,980 as of September 30, 2012 (268,171 shares in the amount of R\$2,989 as of September 30, 2011), and the total shares granted, net of exercised options, was recorded in line item “Capital reserve” as of September 30, 2012 in the amount of R\$7,612 (R\$5,731 as of September 30, 2011).

In addition, from July 1 to September 30, 2012, expenses in the amount of R\$3,759 (R\$2,055 from July 1 to September 30, 2011) were recorded in line item “Personnel expenses”.

32. PENSION PLAN

The Company contributes monthly to a defined contribution pension plan (“PGBL”) for its employees and contributions made during the nine-month period ended September 30, 2012 totaled R\$4,873 (R\$3,881 as of September 30, 2011), which were recorded in “Cost of services” and “Personnel expenses”.

In addition, from July 1 to September 30, 2012, contributions in the amount of R\$1,504 (R\$871 from July 1 to September 30, 2011) were recorded in line items “Cost of services” and “Personnel expenses”.

33. ITEMS NOT AFFECTING CASH

	Company (BR GAAP) <u>09.30.2012</u>	Consolidated (IFRS and BR GAAP) <u>09.30.2012</u>
Acquisition of POS equipment through new FINAME loans	192,801	192,801
Capital reduction in CieloPar	46,979	-
Exchange differences on net foreign investments	2,867	2,867
Loss on hedge instruments on foreign transactions - unsettled	1,339	1,339
Income tax and social contribution related to other comprehensive income items	455	455

34. SEGMENT REPORTING

The Company has a single business segment, which is reported consistently with the internal reports provided to the Chief Operating Decision-Maker - CODM.

This segment relates to the provision of services related to the capture and processing of credit and debit card transactions, other payment means and related services.

The consolidated financial information significantly represents this segment.

35. APPROVAL OF INTERIM FINANCIAL INFORMATION

These individual and consolidated interim financial information were approved by the Company's Board of Directors and authorized for issuance on October 23, 2012.

*(Convenience Translation into English from
the Original Previously Issued in Portuguese)*

Cielo S.A. and Subsidiaries

*Financial Statements
for the Year Ended
December 31, 2011 and
Independent Auditor's Report*

Deloitte Touche Tohmatsu Auditores Independentes

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITOR'S REPORT

To the Management and Shareholders of
Cielo S.A. and Subsidiaries
São Paulo, SP

We have audited the accompanying individual and consolidated financial statements of Cielo S.A. ("Company"), identified as Parent and Consolidated, respectively, which comprise the balance sheet as at December 31, 2011, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the individual financial statements in accordance with accounting practices adopted in Brazil and the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board - IASB, and in accordance with accounting practices adopted in Brazil, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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 the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Individual Financial Statements

In our opinion, the individual financial statements present fairly, in all material respects, the financial position of Cielo S.A. as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Cielo S.A. as at December 31, 2011, and its consolidated operating performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board - IASB and accounting practices adopted in Brazil.

Emphasis of Matter

We draw attention to Note 2 to the financial statements, which states that the individual financial statements have been prepared in accordance with accounting practices adopted in Brazil. In the case of Cielo S.A. these accounting practices differ from the IFRS, applicable to separate financial statements, only with respect to the measurement of investments in subsidiaries and joint ventures by the equity method of accounting which, for purposes of IFRS would be measured at cost or fair value.

Other Matters

We have also audited the individual and consolidated statements of value added (“DVA”), for the year ended December 31, 2011, the presentation of which is required by the Brazilian Corporate Law for publicly-traded companies, and as supplemental information for IFRS that does not require a presentation of DVA. These statements were subject to the same auditing procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, February 8, 2012



DELOITTE TOUCHE TOHMATSU
Auditores Independentes



Ismar de Moura
Engagement Partner

(Convenience Translation into English from the Original Previously Issued in Portuguese)

CIELO S.A. AND SUBSIDIARIES

BALANCE SHEETS AS AT DECEMBER 31, 2011 AND 2010

(In thousands of Brazilian reais - R\$)

ASSETS	Note	Company (BR GAAP)		Consolidated (IFRS and BR GAAP)		LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
		2011	2010	2011	2010			2011	2010	2011	2010
CURRENT ASSETS						CURRENT LIABILITIES					
Cash and cash equivalents	4	240,998	221,542	292,915	250,603	Payables to merchants	13	1,660,367	1,168,440	1,660,367	1,168,440
Trade accounts receivable	5	2,971,796	2,192,915	3,019,499	2,210,282	Borrowings and financing	14	19,666	-	19,666	-
Receivables from subsidiary	25	134	165	-	-	Trade accounts payable	15	230,259	145,875	289,815	180,761
Prepaid and recoverable taxes		587	441	4,114	2,710	Taxes payable	16	385,914	405,351	391,996	409,042
Receivables - securitization abroad	6	-	42,027	-	42,027	Payables to subsidiary	25	11,055	25,946	-	-
Interest receivable - securitization abroad	6	-	956	-	956	Payables - securitization abroad	19	-	42,003	-	42,003
Prepaid expenses		4,609	4,781	4,863	4,851	Interest received in advance - securitization abroad	19	-	956	-	956
Other receivables		22,379	17,440	39,939	24,892	Dividends payable	20.f)	319,457	117,958	319,457	117,958
Total current assets		3,240,503	2,480,267	3,361,330	2,536,321	Other payables	17	108,577	79,848	135,797	97,197
						Total current liabilities		2,735,295	1,986,377	2,817,098	2,016,357
NONCURRENT ASSETS						NONCURRENT LIABILITIES					
Deferred income tax and social contribution	7	334,442	245,324	345,862	255,216	Borrowings and financing	14	131,182	-	131,182	-
Escrow deposits	18	597,217	467,245	622,805	489,204	Provision for risks	18	640,465	495,100	678,007	523,633
Other receivables		664	1,078	688	1,090	Deferred income tax and social contribution	7	-	-	4,751	5,579
Investments	8	176,060	76,088	-	-	Other payables	17	-	5,452	25,580	31,586
Property and equipment	9	508,259	346,498	522,369	360,290	Total noncurrent liabilities		771,647	500,552	839,520	560,798
Intangible assets:						SHAREHOLDERS' EQUITY					
Goodwill on acquisition of investments	10	10,143	10,143	140,101	53,779	Capital	20.a)	263,835	100,000	263,835	100,000
Other intangible assets	11	49,247	40,067	88,027	75,506	Capital reserve	20.b)	88,888	83,532	88,888	83,532
Total noncurrent assets		1,676,032	1,186,443	1,719,852	1,235,085	Treasury shares	20.c)	(50,859)	(68,823)	(50,859)	(68,823)
						Earnings reserves	20.d), e) and f)	1,107,729	1,065,072	1,107,729	1,065,072
						Company's owners		1,409,593	1,179,781	1,409,593	1,179,781
						Noncontrolling interests		-	-	14,971	14,470
						Total shareholders' equity		1,409,593	1,179,781	1,424,564	1,194,251
TOTAL ASSETS		4,916,535	3,666,710	5,081,182	3,771,406	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		4,916,535	3,666,710	5,081,182	3,771,406

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

CIELO S.A. AND SUBSIDIARIES

INCOME STATEMENT AS AT DECEMBER 31, 2011 AND 2010

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(In thousands of Brazilian reais - R\$, except basic and diluted earnings per share)

		Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
	Note	2011	2010	2011	2010
NET REVENUE	22	4,051,169	3,927,299	4,208,726	3,992,494
COST OF SERVICES	23	(1,273,584)	(1,110,924)	(1,425,240)	(1,180,827)
GROSS PROFIT		<u>2,777,585</u>	<u>2,816,375</u>	<u>2,783,486</u>	<u>2,811,667</u>
OPERATING INCOME (EXPENSES)					
Personnel	23	(118,254)	(110,949)	(195,116)	(157,790)
General and administrative	23	(290,482)	(214,487)	(195,580)	(153,622)
Marketing and sales	23	(184,665)	(123,506)	(184,885)	(123,664)
Equity in subsidiaries	8	9,707	5,357	-	-
Other operating expenses, net	23 and 32	(54,909)	(5,972)	(57,189)	(5,970)
INCOME FROM OPERATIONS		<u>2,138,982</u>	<u>2,366,818</u>	<u>2,150,716</u>	<u>2,370,621</u>
FINANCIAL INCOME (EXPENSES)					
Financial income	31	28,273	43,364	32,548	45,591
Financial expenses	31	(65,433)	(33,534)	(66,255)	(33,981)
Income from prepayment of receivables	31	611,534	402,946	611,534	402,946
Adjustment to present value expense	31	(24,867)	(41,067)	(24,867)	(41,067)
Exchange rate changes, net	31	<u>673</u>	<u>933</u>	<u>673</u>	<u>933</u>
		550,180	372,642	553,633	374,422
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		<u>2,689,162</u>	<u>2,739,460</u>	<u>2,704,349</u>	<u>2,745,043</u>
INCOME TAX AND SOCIAL CONTRIBUTION					
Current	26	(967,953)	(945,450)	(978,080)	(947,310)
Deferred	26	89,118	35,324	90,646	33,181
NET INCOME		<u>1,810,327</u>	<u>1,829,334</u>	<u>1,816,915</u>	<u>1,830,914</u>
ATTRIBUTABLE TO					
Company's owners				1,810,327	1,829,334
Noncontrolling interests				6,588	1,580
				<u>1,816,915</u>	<u>1,830,914</u>
BASIC EARNINGS PER SHARE - R\$	21.b)	<u>3.3262</u>	<u>3.3620</u>	<u>3.3262</u>	<u>3.3620</u>
DILUTED EARNINGS PER SHARE - R\$	21.b)	<u>3.3218</u>	<u>3.3581</u>	<u>3.3218</u>	<u>3.3581</u>

COMPREHENSIVE INCOME

The Company did not record other comprehensive income. Accordingly, a statement of comprehensive income is not presented.

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

CIELO S.A. AND SUBSIDIARIES

STATEMENTS OF CHANGE IN EQUITY AS AT DECEMBER 31, 2011 AND 2010
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands of Brazilian reais - R\$)

	Company's owners								Total	Noncontrolling interests	Total shareholders' equity
	Note	Capital	Capital reserve	Treasury shares	Legal reserve	Earnings reserves		Earnings retention			
						Capital budget reserve	Proposed additional dividends				
BALANCES AS AT JANUARY 1, 2010		75,379	72,305	(69,228)	15,076	-	-	766,897	860,429	-	860,429
Allocation of earnings retention:											
Dividends paid		-	-	-	-	-	-	(603,775)	(603,775)	-	(603,775)
Interest on capital paid		-	-	-	-	-	-	(9,741)	(9,741)	-	(9,741)
Capital budget reserve		-	-	-	-	143,836	-	(143,836)	-	-	-
Capital increase		24,621	-	-	(15,076)	-	-	(9,545)	-	-	-
Treasury shares		-	-	(3,001)	-	-	-	-	(3,001)	-	(3,001)
Stock options granted		-	11,227	-	-	-	-	-	11,227	-	11,227
Stock options exercised during the year		-	-	3,406	-	-	-	-	3,406	-	3,406
Net income		-	-	-	-	-	-	1,829,334	1,829,334	1,580	1,830,914
Allocation of net income for the year-											
Legal reserve		-	-	-	20,000	-	-	(20,000)	-	-	-
Dividends paid		-	-	-	-	-	-	(773,941)	(773,941)	-	(773,941)
Dividends proposed		-	-	-	-	-	-	(110,722)	(110,722)	-	(110,722)
Interest on capital paid		-	-	-	-	-	-	(16,199)	(16,199)	-	(16,199)
Interest on capital proposed		-	-	-	-	-	-	(7,236)	(7,236)	-	(7,236)
Effect of noncontrolling interests		-	-	-	-	-	-	-	-	12,890	12,890
BALANCES AS AT DECEMBER 31, 2010		100,000	83,532	(68,823)	20,000	143,836	-	901,236	1,179,781	14,470	1,194,251
Allocation of earnings retention:											
Dividends paid	20.e)	-	-	-	-	-	-	(720,303)	(720,303)	-	(720,303)
Capital budget reserve	20.d)	-	-	-	-	180,934	-	(180,934)	-	-	-
Capital increase	20.a)	163,835	-	-	(20,000)	(143,835)	-	-	-	-	-
Stock options granted		-	5,356	-	-	-	-	-	5,356	-	5,356
Stock options exercised during the year		-	-	17,964	-	-	-	-	17,964	-	17,964
Net income		-	-	-	-	-	-	1,810,327	1,810,327	6,588	1,816,915
Allocation of net income for the year-											
Legal reserve	20.d)	-	-	-	52,767	-	-	(52,767)	-	-	-
Dividends paid	20.f)	-	-	-	-	-	-	(539,975)	(539,975)	-	(539,975)
Dividends proposed	20.f)	-	-	-	-	-	-	(311,879)	(311,879)	-	(311,879)
Dividends proposed supplemental to mandatory minimum dividends	20.f)	-	-	-	-	-	346,760	(346,760)	-	-	-
Interest on capital paid	20.f)	-	-	-	-	-	-	(24,100)	(24,100)	-	(24,100)
Interest on capital proposed	20.f)	-	-	-	-	-	-	(7,578)	(7,578)	-	(7,578)
Capital budget reserve	20.e)	-	-	-	-	527,267	-	(527,267)	-	-	-
Effect of noncontrolling interests		-	-	-	-	-	-	-	-	(6,087)	(6,087)
BALANCES AS AT DECEMBER 31, 2011		263,835	88,888	(50,859)	52,767	708,202	346,760	-	1,409,593	14,971	1,424,564

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

CIELO S.A. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS AS AT DECEMBER 31, 2011 AND 2010

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(In thousands of Brazilian reais - R\$)

		Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
	Note	2011	2010	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES					
Net income before income tax and social contribution		2,689,162	2,739,460	2,704,349	2,745,043
Adjustments to reconcile net income before income tax and social contribution to net cash provided by operating activities:					
Depreciation and amortization	9 and 11	228,749	190,013	237,792	193,371
Recognition (reversal) of allowance for losses on fixed and intangible assets, net		(1,108)	3,355	(1,108)	3,355
Residual value of fixed and intangible assets disposed of or sold	9 and 11	16,352	10,370	16,664	11,030
Share options granted	34	5,356	11,227	5,356	11,227
Loss from equipment lease		28,850	18,781	28,850	18,781
Provision for tax, civil and labor risks, net	18	147,572	100,164	151,263	99,627
Adjustment to present value of receivables	5	24,867	41,067	24,867	41,067
Noncontrolling interests		-	-	501	14,470
Equity in subsidiaries	8	(9,707)	(5,357)	-	-
Interest on borrowings and financing	31	1,327	-	1,327	-
(Increase) decrease in operating assets:					
Trade accounts receivable		(803,748)	(1,059,732)	(834,084)	(1,066,926)
Receivables from subsidiary		31	2,394	-	-
Prepaid and recoverable taxes		(146)	(30)	(539)	(207)
Other receivables (current and noncurrent)		38,458	158,530	30,238	166,492
Escrow deposits	18	(129,972)	(121,018)	(133,601)	(120,965)
Prepaid expenses		172	1,106	91	1,045
Increase (decrease) in operating liabilities:					
Payables to merchants		463,077	482,137	463,077	482,137
Trade accounts payable		84,384	31,832	109,054	58,296
Taxes payable		6,151	8,298	7,795	7,984
Payables to subsidiary		(14,891)	19,622	-	-
Other payables (current and noncurrent)		(19,680)	(143,116)	(13,939)	(144,671)
Provision for tax, civil and labor risks	18	(2,207)	(519)	(2,510)	(519)
Cash provided by operating activities		2,753,049	2,488,584	2,795,443	2,520,637
Interest received		1,596	9,716	1,596	9,716
Interest paid		(1,596)	(9,716)	(1,596)	(9,716)
Income tax and social contribution paid		(993,543)	(964,055)	(1,009,866)	(963,653)
Net cash provided by operating activities		1,759,506	1,524,529	1,785,577	1,556,984
CASH FLOW FROM INVESTING ACTIVITIES					
Capital increase in subsidiaries	8	(93,101)	(41,650)	-	-
Acquisition of equity interest in joint venture		-	-	(85,333)	(22,342)
Dividends received from subsidiary		2,836	-	-	-
Additions to fixed and intangible assets		(265,413)	(261,960)	(273,560)	(288,700)
Net cash used in investing activities		(355,678)	(303,610)	(358,893)	(311,042)
CASH FLOW FROM FINANCING ACTIVITIES					
Treasury shares	20.c)	-	(3,001)	-	(3,001)
Share options exercised	20.c)	17,964	3,406	17,964	3,406
Dividends and interest on capital paid	20.f)	(1,402,336)	(1,510,024)	(1,402,336)	(1,510,024)
Net cash used in financing activities		(1,384,372)	(1,509,619)	(1,384,372)	(1,509,619)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
		19,456	(288,700)	42,312	(263,677)
CASH AND CASH EQUIVALENTS					
Balance at end of year		240,998	221,542	292,915	250,603
Balance at beginning of year		221,542	510,242	250,603	514,280
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
		19,456	(288,700)	42,312	(263,677)

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

CIELO S.A. AND SUBSIDIARIES

STATEMENTS OF VALUE ADDED AS AT DECEMBER 31, 2011 AND 2010

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(In thousands of Brazilian reais - R\$)

		Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
	Note	2011	2010	2011	2010
REVENUES					
Revenue from services	22	4,514,574	4,377,809	4,706,146	4,460,979
Losses on equipment rent		(28,850)	(18,780)	(28,850)	(18,780)
		<u>4,485,724</u>	<u>4,359,029</u>	<u>4,677,296</u>	<u>4,442,199</u>
INPUTS PURCHASED FROM THIRD PARTIES					
Service costs		(953,818)	(841,432)	(1,043,608)	(893,508)
Materials, electric power, outside services and other		(455,763)	(331,167)	(373,691)	(267,023)
Other expenses, net		(40,836)	(12,956)	(63,920)	(12,956)
Gain on realization of assets		1,884	25,763	1,884	25,764
		<u>(1,448,533)</u>	<u>(1,159,792)</u>	<u>(1,479,335)</u>	<u>(1,147,723)</u>
GROSS VALUE ADDED		<u>3,037,191</u>	<u>3,199,237</u>	<u>3,197,961</u>	<u>3,294,476</u>
RETENTIONS					
Depreciation and amortization	9 and 11	(228,749)	(190,013)	(237,792)	(193,371)
WEALTH CREATED, NET		<u>2,808,442</u>	<u>3,009,224</u>	<u>2,960,169</u>	<u>3,101,105</u>
WEALTH RECEIVED IN TRANSFER					
Equity in subsidiaries	8	9,707	5,357	-	-
Noncontrolling interests		-	-	(6,588)	(1,580)
Financial income including exchange rate change, net and prepayment of receivables, net	31	<u>615,613</u>	<u>406,176</u>	<u>619,888</u>	<u>408,403</u>
		625,320	411,533	613,300	406,823
WEALTH FOR DISTRIBUTION		<u>3,433,762</u>	<u>3,420,757</u>	<u>3,573,469</u>	<u>3,507,928</u>
DISTRIBUTION OF WEALTH					
Employees and charges		(160,407)	(132,926)	(234,145)	(174,058)
Profit sharing	29	(37,118)	(34,796)	(50,192)	(43,439)
Taxes and contribution		(1,355,048)	(1,385,203)	(1,396,161)	(1,415,719)
Accrued interest and rentals		(70,862)	(38,498)	(82,644)	(45,378)
Dividends and interest on capital paid	20.f)	(564,075)	(790,140)	(564,075)	(790,140)
Dividends and interest on capital proposed	20.f)	(319,457)	(117,958)	(319,457)	(117,958)
Earnings retention	20.e)	(926,795)	(921,236)	(926,795)	(921,236)
WEALTH DISTRIBUTED		<u>(3,433,762)</u>	<u>(3,420,757)</u>	<u>(3,573,469)</u>	<u>(3,507,928)</u>

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

CIELO S.A. AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

(In thousands of Brazilian reais - R\$, unless otherwise stated)

1. GENERAL INFORMATION

Cielo S.A. (“Company” or “Cielo”) was established on November 23, 1995 in Brazil, and is primarily engaged in providing services related to credit and debit cards and other payment methods, as well as providing related services, such as signing up of merchants and service providers, rental, installation and maintenance of Point of Sales - POS equipment, and data capture and processing of electronic and manual transactions.

Cielo is a corporation based in Barueri, State of São Paulo, registered with BM&FBOVESPA S.A. - São Paulo Stock, Mercantile and Futures Exchange. Cielo is controlled by Banco do Brasil Group and Bradesco Group.

On January 23, 2003, the Company set up a branch in Grand Cayman, Cayman Islands (note 24), for the specific purpose of conducting abroad a receivables securitization transaction denominated in foreign currency (notes 6 and 24).

The operations of the Company’s direct and indirect subsidiaries are as follows:

Direct subsidiaries

- Servinet Serviços Ltda. (“Servinet”) - engaged in the provision of maintenance and contacts with merchants and service providers for acceptance of credit and debit cards and other payment methods; development of related activities in the service segment that are of interest to Servinet; and holding investments in other companies as partner or shareholder.
- Servrede Serviços S.A. (“Servrede”) - engaged in holding investments in other companies as partner or shareholder.
- CieloPar Participações Ltda. (“CieloPar”) - engaged in holding investments in other companies as partner or shareholder.
- Companhia Brasileira de Gestão de Serviços (“Orizon”), formerly Orizon Brasil Processamento de Informações de Saúde Ltda. - engaged in the provision of consulting and data processing services to medical companies in general; management of back office services for health operators in general; electronic network interconnection services between health operators and medical and hospital service providers (e.g.: hospitals, clinics and laboratories), and other health system agents and drugstores, in general, based on a single technology platform; scanning and process automation services, card issuance, call center services and other solutions; card reading and nonfinancial transactions routing services; lease or sale of card readers, other computer-based equipment and systems used for providing its services and equipment technical assistance; and holding investments in local or foreign companies as partner or shareholder.

Indirect subsidiaries

- Prevsaúde Comercial de Produtos e de Benefícios de Farmácia Ltda. (“Prevsaúde”) - Orizon’s subsidiary engaged in medicine benefit services to corporate customers, healthcare plans, public customers, and large laboratories. Prevsaúde manages the relationship of its customers’ employees with drugstores, doctors and the contracting company itself.
- Precisa Comercialização de Medicamentos Ltda. (“Precisa”) - Orizon’s subsidiary engaged in the sale of medicines in general, with focus on health prevention and maintenance, with a scheduled delivery system. Precisa is a “drugstore” focused on the distribution of medicines to Prevsaúde’s customers, especially chronic patients. It is responsible for delivering medicines regularly administered to Prevsaúde’s customers with chronicle diseases, such as diabetes, cancer and heart and blood pressure conditions, which allows monitoring the delivery and use of medicines, increasing the treatment’s effectiveness.
- Multidisplay Comércio e Serviços Tecnológicos S.A. (“Multidisplay”) - Servrede’s subsidiary engaged in data transmission services to load fixed or mobile phone credits, the sale of mobile or fixed phone credits, as well as technology, software development and licensing consulting services, product sale, and technology and sales representation services.
- M4 Produtos e Serviços S.A. (“M4 Produtos”) - Multidisplay’s subsidiary engaged in data transmission services to load fixed or mobile phone, prepaid television, prepaid transportation and similar credits; mobile payment and technology consulting services; and software development and licensing.
- Paggo Soluções e Meios de Pagamento S.A. (“Paggo Soluções”) - a subsidiary of CieloPar, is engaged in the accreditation of merchants for acceptance of credit and debit cards; the supply and provision of solutions and electronic means for transaction capture and processing arising from the use of credit and debit cards; and the management of payables to and receivables from the network of authorized merchants, through the capture, transmission, data processing and settlement of electronic transactions with credit and debit cards for mobile payments.
- Braspag Tecnologia em Pagamento Ltda. (“Braspag”) - a subsidiary of CieloPar, engaged in developing computer software; processing electronic transactions; providing advisory services and IT services relating to collection and management of payables and receivables by internet; managing third parties’ credit cards; obtaining, on behalf of credit card holders and accredited stores, financing with financial institutions; and providing guarantees to the parties under credit card businesses.

Cielo and its subsidiaries are also defined as “Group” in this report.

Beginning of the multi-brand environment

The cards industry, specifically the accreditation segment, started experiencing a new competitive scenario beginning July 1, 2010, the date the acquiring companies began to capture and process transactions of all main cards brands. This change is in line with two recommendations suggested by the group formed by the Central Bank of Brazil (BACEN), the Department of Economic Law (SDE) and the Economic Monitoring Department (SEAE): opening accreditation activities and POS interoperability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Declaration of conformity

The Company's financial statements comprise:

- The Company's individual financial statements, which have been prepared in accordance with accounting practices adopted in Brazil, identified as "Company - BR GAAP".
- The Company's consolidated financial statements, which have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board - IASB and in accordance with accounting practices adopted in Brazil, identified as "Consolidated - IFRS and BR GAAP".

The accounting practices adopted in Brazil comprise the policies incorporated to the Brazilian Corporate Law and the technical pronouncements, instructions and technical interpretations issued by the Accounting Pronouncements Committee (CPC) and approved by the Brazilian Securities and Exchange Commission (CVM).

In the individual financial statements, investments in subsidiaries and joint ventures are stated under the equity method, as required by the legislation prevailing in Brazil. Therefore, these individual financial statements are not considered fully compliant with IFRS, which require these investments to be stated at fair value or cost in the separate financial statements.

Since there is no difference between the consolidated shareholders' equity and the consolidated net income attributable to the Company's shareholders recorded in the consolidated financial statements prepared under IFRS and the accounting practices adopted in Brazil and the Company's shareholders' equity and net income recorded in the individual financial statements prepared under the Brazilian accounting practices, the Company elected to present the individual and consolidated financial statements as a single set in the side-by-side comparison format.

2.2. Basis of preparation

The financial statements have been prepared based on the historical cost, except if otherwise stated in the following accounting policies. The historical cost is usually based on the fair value of the consideration paid in exchange for an asset.

2.3. Functional and reporting currency

The individual and consolidated financial statements are presented in Brazilian reais (R\$), which is the functional and reporting currency of the Company.

2.4. Cash and cash equivalents

Include cash, bank accounts and highly-liquid short-term investments with low risk of change in the value, stated at cost plus interest earned. Cash and cash equivalents are classified as loans and receivables and their income is recorded in profit or loss for the period.

2.5. Receivables from card-issuing banks and payables to merchants
(transactions pending transfer)

Refer to transactions carried out by the holders of credit and debit cards issued by financial institutions, consisting of receivables from card-issuing banks less interchange fees and payables to merchants less processing fees (discount rate), both with maturities of less than one year (see note 13).

2.6. Property and equipment

Stated at historical cost, less depreciation. Depreciation is calculated under the straight-line method, based on the estimated useful lives of the assets. The estimated useful lives, the residual values, and depreciation methods are reviewed on an annual basis, and the effects from any changes in estimates are recorded prospectively.

Subsequent costs are added to the residual value of property and equipment or recognized as a specific item, as appropriate, only if the economic benefits associated to these items are probable and the amounts can be reliably measured. Other repairs and maintenance are recognized directly in income when incurred.

A fixed asset is written off after sale or when there are no future economic benefits arising from its continuous use. Any gains or losses on the sale or write-off of fixed assets are calculated based on the difference between the amounts received and its carrying amount and are recognized in the income statement.

2.7. Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately with finite useful lives are stated at cost, less amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis according to the estimated useful lives of the assets. The estimated useful life and amortization method are reviewed on an annual basis and the effect of any changes in estimate is accounted for on a prospective basis.

Intangible assets acquired separately with indefinite useful lives are stated at cost less accumulated impairment losses.

Internally-generated intangible assets - research and development costs

Research costs are charged to expense as incurred.

The internally-generated intangible assets resulting from development costs (or an internal project's development stage) are recognized only if the following conditions are met:

- The technical feasibility for completing the intangible asset for use or sale.
- The intention to complete the intangible asset to use it or sell it.
- The ability to use the intangible asset or sell it.

- How the intangible asset is reasonably likely to generate future economic benefits.
- The availability of appropriate technical, financial and other resources to complete the development of the intangible asset to use it or sell it.
- The ability to reliably measure the expenses attributable to the intangible asset while it is developed.

The amount originally recorded of internally generated intangible assets corresponds to the sum up of the expenses that have been incurred since the asset started to meet the recognition criteria previously mentioned. If no internally generated intangible asset may be recognized, the development costs are recognized in the income statement when incurred. Subsequently to the initial recognition, internally generated intangible assets are stated at cost, less amortization and accumulated impairment losses, similarly to intangible assets acquired separately.

Intangible assets acquired in a business combination

In the consolidated financial statements, the intangible assets acquired in a business combination and recognized separately from the goodwill are recorded at fair value, which corresponds to its cost on the acquisition date.

Write-off of intangible assets

An intangible asset is written off after sale or when future economic benefits will not result from its use. Gains or losses on the write-off of an intangible asset are calculated based on the difference between the net revenue from sale and its carrying amount and are recognized in the income statement when the asset is written off.

2.8. Impairment of tangible and intangible assets excluding goodwill

At the end of each year, the Group reviews the carrying amount of its tangible and intangible assets to determine if there is any indication that the assets might be impaired. If there is some indication of impairment, the recoverable amount of the asset is estimated to measure the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit of the asset. When a reasonable and consistent basis of allocation may be identified, the corporate assets are also allocated to the individual cash-generating unit or to the smallest group of cash-generating units of this basis of allocation.

The recoverable amount of an asset is the higher of its fair value less selling costs or its value in use. In appraising the value in use, the estimated future cash flows are discounted to present value at the discount rate, before taxes, that reflects a current market assessment of the time value of money and the specific risks to the asset to which the estimated future cash flows were not adjusted.

If the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the carrying amount is reduced to its recoverable amount, and impairment losses are immediately recognized in the income statement.

2.9. Business combinations

In the consolidated financial statements, business acquisitions are recorded under the purchase method. The amount transferred in a business combination is measured at fair value. Acquisition costs are recognized in the income statement when incurred.

On the acquisition date, the identifiable assets acquired and liabilities assumed are recognized at fair value.

Goodwill is measured based on the exceeding amount arising from the sum up of the amount transferred, the noncontrolling interest in the acquiree and the fair value of the acquirer's interest previously held in the acquiree on the net amounts on the date of acquisition of the identifiable assets acquired and liabilities assumed.

The noncontrolling interests that correspond to current interests and entitle their holders to a proportional portion of the entity's net assets in case of liquidation are measured based on the proportional stake of the noncontrolling interests in the acquiree's identifiable net asset amounts recognized.

Individual financial statements

In the individual financial statements (identified hereafter as "BR GAAP") the Company complies with Technical Interpretation ICPC 09 - Individual Financial Statements, Separate Financial Statements, Consolidated Financial Statements and Adoption of the Equity Method, according to which the amounts exceeding the acquisition cost on the Company's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities on the acquisition date are recognized as goodwill. Goodwill is added to the carrying amount of the investment. The Company's interests in the fair value of the identifiable assets, liabilities and contingent liabilities exceeding the acquisition cost, after revaluation, is immediately recognized in the income statement. The amounts transferred and the fair value of assets and liabilities are measured based on the same criteria applicable to the consolidated financial statements.

2.10. Goodwill

Goodwill arising from a business combination is stated at cost on the date of the business combination, net of accumulated impairment loss, if any.

For impairment test purposes, goodwill is allocated to each one of the cash generating units which will benefit from the business combination synergies.

The cash-generating units to which goodwill was allocated are tested for impairment annually or more frequently, when there is any indication of impairment. If the recoverable value of a cash-generating unit is lower than its carrying amount, impairment losses are firstly allocated to write down the carrying amount of any goodwill allocated to the Cash Generating Units - CGU and subsequently to the other assets of the CGU, prorated to the carrying amount of each of its assets. Impairment losses on goodwill are directly recorded in income statement for the year. Impairment losses are not reversed in subsequent years.

When the related cash-generating unit is sold, the amount corresponding to the goodwill is included in the calculation of the gains or losses on the sale.

2.11. Investments in subsidiaries and joint ventures

A subsidiary is an entity, including an unincorporated entity such as a partnership, in which the parent owns, directly or through other subsidiaries, shareholder rights that entitle it, on a permanent basis, to prevail in corporate decisions and grant it the power to elect the majority of the officers. Prevalence in corporate decision-making and the power to elect the majority of the officers, on a permanent basis, presumably occur when the investor owns more than 50% of the voting capital in other entity. Under this method, the components of assets and liabilities and income and expenses of indirect subsidiaries are added to the fully consolidated accounting positions and the book value of noncontrolling interests, determined by applying the interest percentage of noncontrolling shareholders in the subsidiary's equity.

Joint ventures are those jointly controlled by the Company and one or more partners. Investments in joint ventures are recognized under the proportionate consolidation method, from the date the joint control is acquired. Under this method, the components of a joint venture's assets and liabilities, and income and expenses are added to the consolidated accounting positions proportionally to the venturer's interest in its capital. In the individual financial statements, interests in joint ventures are recognized under the equity method. When a Group company conducts transactions with joint ventures, the related gains and losses are recognized in the Group's consolidated financial statements only proportionately to the Group's interests in those joint ventures that are not related to the Group.

2.12. Current and deferred income tax and social contribution

The income tax and social contribution expense refers to the total current and deferred taxes.

Current taxes

The provision for income tax and social contribution is based on the taxable income for the year. Income tax was calculated at the rate of 15%, plus a 10% surtax on annual taxable income exceeding R\$240. Social contribution was calculated at the rate of 9% on adjusted net income. Taxable income differs from the income recorded in the income statement as it excludes income or expenses taxable or deductible in other years, and also nontaxable or nondeductible items on a permanent basis. The provision for income tax and social contribution is calculated individually (by Group company) based on the statutory rates prevailing at yearend.

Deferred taxes

Deferred income tax and social contribution are recognized on the differences between assets and liabilities recognized for tax purposes and related amounts recognized in the consolidated financial statements; however, they are not recognized if generated in the first-time recording of assets and liabilities in transactions that do not affect the tax bases, except in business combinations. Deferred income tax and social contribution are determined based on the tax rates and laws in effect at the date of the financial statements and applicable when the respective income tax and social contribution are paid. Deferred tax assets or liabilities are not recognized on temporary differences arising from goodwill or initial recognition (except for business combinations) of other assets and liabilities in a transaction that does not affect taxable income or book income.

Deferred income tax and social contribution assets are recognized only to the extent that it is probable that there will be a positive tax base for which temporary differences can be used and tax loss carryforwards can be offset. The recovery of deferred tax assets is reviewed at the end of each annual reporting period and, when it is no longer probable that future taxable income will be available to allow the recovery of all or part of the assets, these are adjusted for the expected recoverable amount.

Deferred tax assets and liabilities are measured at the applicable rates in the year in which the liability or asset are expected to be settled or realized, according to the tax legislation prevailing at the end of each reporting period or to a new legislation, when this has been substantially approved. The deferred tax assets and liabilities are measured to reflect the tax implication that would arise from the way in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of these assets and liabilities.

Current and deferred taxes are recognized in income statement except when they correspond to items recorded in “Other comprehensive income”, or directly in equity, when these current and deferred taxes are also recognized in “Other comprehensive income” or directly in equity, respectively. When current and deferred taxes arise from the initial recognition of a business combination, the tax effect is considered in the recognition of the business combination.

2.13. Employee benefits

The Company and its subsidiaries are co-sponsors of a defined contribution pension plan. Contributions are made based on a percentage of the employees’ compensation. Payments to defined contribution plans are recognized as expense when the services they entitle to are provided.

2.14. Financial assets and financial liabilities

a) Financial assets

Financial assets are classified in the following categories: (i) at fair value through profit or loss; (ii) held to maturity; (iii) loans and receivables; and (iv) available for sale. Classification is made according to the nature and purpose of the financial assets and is determined upon initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading or designated at fair value through profit or loss when acquired. A financial asset is classified as held for trading if it is:

- Purchased principally for the purpose of selling it in the near term.
- Part of a portfolio of identified financial instruments that are jointly managed and for which there is evidence of a recent actual pattern of short-term profit-taking.
- A derivative that is not a designated and effective hedging instrument in hedge accounting.

A financial asset that is not held for trading can be designated at fair value through profit or loss upon initial recognition when:

- This designation eliminates or significantly reduces an inconsistency that might arise upon measurement or recognition.
- It is part of a managed group of financial assets or liabilities, or both, and its performance is evaluated based on fair value according to the risk management or investment strategy documented by the Company, and the respective information is internally provided on the same basis.
- It is part of a contract containing one or more embedded derivatives, and CPC 38 and IAS 39 - Financial Instruments: Recognition and Measurement permits that the combined contract as a whole (assets or liabilities) be designated at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value, together with gains and losses recognized in income for the year. Net gains or losses recognized in income include dividends or interest earned by the financial asset.

Held-to-maturity

Financial assets with fixed or determinable payments and fixed maturities, which the Company has the intent and ability to hold to maturity are classified as held to maturity. Held-to-maturity financial assets are measured at amortized cost using the effective interest rate method, less the allowance for impairment losses. Revenue is recognized using the effective interest rate method.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market, measured at amortized cost using the effective interest rate method, less the allowance for impairment losses. Interest income is recognized by applying the effective rate method, except for short-term receivables when the recognition of interest would be immaterial.

Available for sale

Available-for-sale financial assets are non-derivative financial assets designated as available for sale and not classified in the any of the categories above.

Available-for-sale financial assets are measured at fair value. Interest, inflation adjustment and foreign exchange fluctuation, when applicable, are recognized in profit or loss when incurred. Changes arising from measurement at fair value are recognized in a specific line item of shareholders' equity when incurred, and are charged to income when realized or considered unrecoverable.

Effective interest rate method

A method used to calculate the amortized cost of a financial asset or a financial liability and allocating interest income or interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments of receipts (including all fees paid or received that are an integral part of the effective interest rate, transaction costs, and other premiums or discounts) through the expected financial asset life, or, when appropriate, for a shorter period.

b) Financial liabilities

Financial liabilities are classified at fair value through profit or loss or as other financial liabilities.

Financial liabilities at fair value through profit or loss

This category includes financial liabilities held for trading or when designated at fair value through profit or loss.

A financial liability is classified as held for trading if it is:

- Incurred principally for the purpose of repurchasing it in the near term.
- Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
- A derivative that is not designated as an effective hedging instrument.

Financial liabilities that are not held for trading can be designated at fair value through profit or loss upon initial recognition when:

- This designation eliminates or significantly reduces an inconsistency that might arise upon measurement or recognition.
- They are part of a managed group of financial assets or liabilities, or both, whose performance is valued based on its fair value, in accordance with the Company's documented risk management or investment strategy, and whose related information is provided internally on the same basis.
- They are part of a contract containing one or more embedded derivatives, and IAS 39 permits that the combined contract as a whole (assets or liabilities) is designated at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, together with gains and losses recognized in the income statement. Net gains or losses recognized in profit or loss comprise any interest paid on financial liabilities.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest rate method, with interest expense recognized on a yield basis. The effective interest rate method is a method for calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

2.15. Revenue recognition

Revenue is measured at the fair value of the amount received or receivable, less estimated returns, commercial discounts and/or bonuses granted and other similar deductions.

Revenues from credit and debit card transactions are recognized when transactions are processed. Revenues from credit card transactions payable in installments are recognized in income when each installment is processed. Revenues from services to associates and merchants are recognized when the service is provided.

The income from the dividends of investments is recognized when the shareholder's right to receive these dividends is established (provided that it is probable that the future economic benefits will flow to the Group and the amount may be measured reliably).

Interest income is recognized when it is probable that the future economic benefits will flow to the Group and the amount may be measured reliably. The interest income is recognized under the straight-line method based on the time and the effective interest rate on the outstanding principal. The effective interest rate is the rate that discounts the estimated future cash receipts during the estimated useful life of the financial assets in relation to the initial net carrying amount of this asset.

Revenues from the prepayment of receivables to merchants are recognized on a pro rata basis through their maturities.

2.16. Provision for contingent liabilities

Recognized when there is a present obligation (legal or constructive) as a result of a past event, with probable outflow of resources, and the amount of the obligation can be reliably estimated.

The amount recognized as a provision is the best estimate of the settlement amount at the balance sheet date, considering the risks and uncertainties related to the obligation. When the economic benefit required to settle a provision is expected to be received from third parties, this amount receivable is recorded as an asset, only when reimbursement is virtually certain.

Provisions recognized by the Company refer substantially to lawsuits arising in the normal course of business, filed by third parties or former employees. These contingencies are assessed by the Company's and its subsidiaries' management and its legal counsel, using criteria that allow their proper measurement, despite the uncertainty concerning the decision, their period and amount.

Provisions for tax lawsuits are recorded based on the total taxes under legal dispute, plus inflation adjustment and late payment interest incurred through the balance sheet date.

2.17. Dividends and interest on capital

The proposal for the distribution of dividends and interest on capital made by management of the Company that is included in the minimum mandatory dividend is recorded under current liabilities as “Dividends payable”, as it is considered a legal obligation under the Company’s bylaws; nevertheless, dividends exceeding the minimum mandatory, declared by Management after the reporting period, but prior to the authorization for issuance of the financial statements, are registered as “Proposed additional dividends”, in shareholders’ equity, and the effects are disclosed in note 20.f).

For statutory and accounting purposes, interest on capital is disclosed as allocation of net income in shareholders’ equity.

2.18. Foreign currency

Monetary assets and liabilities denominated in foreign currencies were translated into Brazilian reais at the exchange rate in effect at the balance sheet dates, and currency translation differences were recorded in the net income for the year.

2.19. Share-based compensation

The Company offers a stock option plan to its officers and executives, and the officers and executives of its subsidiary Servinet. Options are priced at fair value on the grant date of the plans and are recognized on a straight-line basis in income statement as a contra entry to shareholders’ equity. At the balance sheet dates, the Company reviews its estimates of the number of vested options based on the plan’s terms and conditions and recognizes the impact of the revision of initial estimates, if any, in the income statement, as a contra entry to shareholders’ equity, according to the criteria set out in CPC 10 and IFRS 2 - Share-based Payment.

2.20. Use of estimates

The preparation of financial statements requires the management of the Company and its subsidiaries to make estimates and assumptions that affect certain assets and liabilities, disclosure of contingent liabilities and the reported amounts of revenues and expenses during the year. Significant assets and liabilities subject to these estimates and assumptions include the net book value of property and equipment and intangible assets, allowance for doubtful accounts (on trade accounts receivable from lease of POS equipment), deferred tax and social contribution assets, impairment of goodwill and provision for contingencies. Actual results could differ from those estimates. The Company and its subsidiaries review estimates and assumptions annually.

2.21. Statement of value added (“DVA”)

The purpose of this statement is to present the wealth created by the Company and its distribution during the year and is presented by Cielo, as required by the Brazilian Corporate Law, as part of the individual financial statements and as supplemental information to the consolidated financial statements, since it is not required by the IFRS.

The statement of value added was prepared based on information obtained in the accounting records that serve as basis for the preparation of financial statements and in accordance with the provisions of CPC 09 - Statement of Value Added. In its first part, the statement of value added presents the wealth created by the Company, represented by the revenues (gross revenue from sales, including taxes, other revenues and the effects of the allowance for doubtful accounts), the inputs acquired from third parties (cost on sales and purchase of materials, electric power and third-party services, including taxes levied at the time of purchase, the effects of losses and recovery of assets amounts, and depreciation and amortization) and the value added received from third parties (equity in subsidiaries, financial income and other revenues). The second part of the DVA presents the distribution of wealth among employees, taxes and contributions, compensation to third parties and shareholders.

2.22. New and revised standards and interpretations

2.22.1 New and revised IFRSs adopted with no relevant impact in the individual and consolidated financial statements

The new and revised IFRSs below were adopted in the individual and consolidated financial statements. The adoption of these new and revised IFRS had no relevant effect, individually or combined, in the reported and/or disclosed figures in the current and prior period; however they may impact the accounting of future transactions or agreements.

- Amendments to IAS 1 - Presentation of Financial Statements - address that an entity can elect to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements.
- IAS 24 - Related-Party Disclosures (already adopted by CPC): IAS 24 (revised in 2009) changed two aspects: (a) IAS 24 (revised in 2009) introduces the partial exemption from disclosure requirements for government entities; and (b) IAS 24 (revised in 2009) changed the definition of related party.
- Amendments to IAS 32 - Classification of Rights: address the classification of certain rights denominated in foreign currency as equity instruments or financial liabilities.
- Amendments to IFRIC 14 - Prepayments of Minimum Funding Requirements: the amendments establish, among other aspects, when refunds of or deductions from future contributions are available pursuant to IAS 19.58.
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments: provides guidance on how to account for an extinguished financial liability by issuing equity instruments.
- Amendments to IFRS 3 - Business Combination: explain that the option to measure noncontrolling interests on the date of acquisition will be available only for noncontrolling interests representing those granting their holders the right to proportional interest in the entity's net assets in case of liquidation. The other types of noncontrolling interests are measured at fair value on the date of acquisition, unless other standards require the use of another measurement basis. In addition, IFRS 3 was amended to provide more information on the accounting for the share-based compensation proportionately to the shares held by the acquiree's employees.

2.22.2 New and revised standards and interpretations issued and not yet adopted

- Amendments to IFRS 7 - Disclosures - Transfers of Financial Assets (1) - enhance disclosure requirements for transactions involving financial assets. These amendments are intended to provide greater transparency for exposures to risks when a financial asset is transferred but the transferor retains some level of exposure in the asset. The amendments also require disclosure when the transfer of financial assets is not proportionately distributed over the period.
- IFRS 9 - Financial Instruments (2) - the most significant impact of IFRS 9 related to the classification and measurement of financial liabilities refers to the accounting of changes in fair value of a financial liability (designated at fair value through profit or loss) attributable to changes in such liability's credit risk. Therefore, the amount of the change in fair value of a financial liability attributable to changes in such liability's credit risk is recognized in "Other comprehensive income", unless the recognition of the effects of changes in the liability credit risk in "Other comprehensive income" results in or increases the accounting mismatch in profit or loss.
- IFRS 10 - Consolidated Financial Statements (2) - supersedes parts of IAS 27 - Consolidated and Separate Financial Statements that address the consolidated financial statements. SIC-12 Consolidation - Special Purpose Entities was superseded by IFRS 10. Under IFRS 10, there is one single basis of consolidation, i.e., control. Additionally, IFRS 10 provides a new definition of control.
- IFRS 11 - Joint Arrangements - supersedes IAS 31 - Interests in Joint Ventures and addresses how a joint arrangement where two or more parties holding joint control should be classified.
- IFRS 12 - Disclosure of Interests in Other Entities (2) - is a disclosure standard applicable to entities holding interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements under IFRS 12 are more comprehensive than those in the current standards.
- IFRS 13 - Fair Value Measurement (2) - sets out a single framework for measuring fair value and disclosing fair value measurements. The standard defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements.
- Amendments to IAS 1 - Presentation of Other Comprehensive Income (3) - allow the presentation of income and other comprehensive income in a single statement or in two separate and consecutive statements. However, the amendments to IAS 1 require additional disclosures in the other comprehensive income section so that other comprehensive income items are grouped in two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on other comprehensive income items will be similarly recognized.
- IAS 19 (revised in 2011) - Employee Benefits (2) - changes the recognition of defined benefit plans and termination benefits.

- IAS 27 (revised in 2011) - Separate Financial Statements (2) - reflect changed in the recognition of noncontrolling interest and address the accounting of changes in interest in subsidiaries subsequent to the acquisition of control, the accounting of loss in control of subsidiaries and the allocation of gain or loss to a subsidiary's controlling and noncontrolling interest.
- IAS 28 (revised in 2011) - Investments in Associates and Joint Ventures (2) - changes to IAS 28 aimed to clarify that: (i) an investment in an associate should be treated as a single asset for impairment test purposes in accordance with IAS 36 - Impairment of Assets; (ii) any impairment loss to be recognized should not be allocated to specific assets (specifically goodwill); and (iii) reversions of impairment are registered as an adjustment to the book value of the associate as long as its recoverable amount increases.

(1) Effective for annual periods beginning on or after July 1, 2011.

(2) Effective for annual periods beginning on or after January 1, 2013.

(3) Effective for annual periods beginning on or after July 1, 2012.

Management assessed the new rules and, except for the implementation of IFRS 10 and IFRS 11, does not expect significant impacts on the reported amounts. With the adoption of IFRS 10 and IFRS 11, it is possible that the Company may not proportionally consolidate some of its subsidiaries. However, Management have not completed its detailed analysis of the impact of the implementation of those rules and therefore, did not quantify the possible effects in the financial statements.

3. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries and joint ventures. Control is obtained when the Company has the power to control an entity's financial and operating policies to obtain benefits from its activities. In the Company's individual financial statements, the financial information on subsidiaries and joint ventures are recognized under the equity method.

The net income of the subsidiaries acquired during the year is included in the consolidated statements of income as of the actual acquisition date. The balance of comprehensive income is attributable to the Company's owners and noncontrolling interests, even if results presented are negative.

When necessary, the subsidiaries' financial statements are adjusted to conform their accounting policies to those of the Group. All intercompany transactions, balances and expenses are fully eliminated in the consolidated financial statements.

The consolidated financial statements include the account balances of the Company (parent company), its direct subsidiaries Servinet, Servrede and CieloPar (beginning September 2010), indirect subsidiaries Multidisplay (beginning August 2010), M4 Produtos (beginning August 2010) and Braspag (beginning May 23, 2011) and proportionally joint ventures Orizon (beginning January 1, 2010), Prevsáude, Precisa and Paggo Soluções (Beginning February 28, 2011). In preparing these consolidated financial statements, intercompany balances and transactions have been eliminated.

For subsidiaries, the full consolidation concept was applied, intended for investments in subsidiaries and entailing the recognition of all assets, liabilities, income and expenses in the parent company, thus requiring the recognition of noncontrolling interests.

The assets, liabilities, income and expenses of joint ventures Orizon, Prevsau de, Precisa and Paggo Solu  es have been included proportionately to the parent's interest in their capital, taking into consideration that the joint control was obtained under Shareholders' Agreements entered into between the Company and its partners in these joint ventures, and none of the parties has the power to unilaterally define their financial and operating policies.

The translation into Brazilian reais of the balance sheet of the Grand Cayman branch, originally prepared in U.S. dollars, was made using the exchange rates prevailing at the balance sheet dates and income was translated at the average closing exchange rates of each month.

3.1. Direct (individual control) and indirect subsidiaries:

The interests held in the consolidated subsidiaries are as follows:

	Equity interests - %			
	Total capital		Voting capital	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Direct subsidiaries:				
Servinet	99.99	99.99	99.99	99.99
Servrede	99.99	99.99	99.99	99.99
CieloPar	99.99	99.99	99.99	99.99
Indirect subsidiaries:				
Multidisplay	50.10	50.10	50.10	50.10
M4 Produtos	50.10	50.10	50.10	50.10
Braspag	100.00	-	100.00	-

The balances of assets and liabilities of direct and indirect subsidiaries and the main line items in the income statement for the years ended December 31, 2011 and 2010 are as follows:

	12/31/11					
	Servinet	Servrede	CieloPar	Multidisplay	M4 Produtos	Braspag
Assets:						
Current	29,361	1,848	1	10,651	42,419	9,676
Noncurrent	<u>48,454</u>	<u>64,835</u>	<u>94,746</u>	<u>10,102</u>	<u>8,575</u>	<u>689</u>
Total assets	<u>77,815</u>	<u>66,683</u>	<u>94,747</u>	<u>20,753</u>	<u>50,994</u>	<u>10,365</u>
Liabilities:						
Current	23,857	27	-	8,877	41,251	8,852
Noncurrent	31,795	29,801	5,605	-	5	16
Shareholders' equity	22,163	27,810	89,142	11,876	9,738	1,497
Noncontrolling interests	-	<u>9,045</u>	-	-	-	-
Total liabilities and shareholders' equity	<u>77,815</u>	<u>66,683</u>	<u>94,747</u>	<u>20,753</u>	<u>50,994</u>	<u>10,365</u>

	12/31/10				
	<u>Servinet</u>	<u>Servrede</u>	<u>CieloPar</u>	<u>Multidisplay</u>	<u>M4 Produtos</u>
Assets:					
Current	19,360	38,058	1	7,258	30,773
Noncurrent	<u>43,061</u>	<u>75,616</u>	<u>-</u>	<u>6,860</u>	<u>3,612</u>
Total assets	<u>62,421</u>	<u>113,674</u>	<u>1</u>	<u>14,118</u>	<u>34,385</u>
Liabilities:					
Current	16,396	33,810	-	6,444	27,357
Noncurrent	28,123	39,044	-	-	169
Shareholders' equity	17,902	26,350	1	7,674	6,859
Noncontrolling interests	<u>-</u>	<u>14,470</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and shareholders' equity	<u>62,421</u>	<u>113,674</u>	<u>1</u>	<u>14,118</u>	<u>34,385</u>

	12/31/11					
	<u>Servinet</u>	<u>Servrede</u>	<u>CieloPar</u>	<u>Multidisplay</u>	<u>M4 Produtos</u>	<u>Braspag</u>
Net income:						
Net revenue	102,457	-	-	81,174	37,385	6,073
Gross profit (loss)	96,891	(4,872)	5,468	3,478	20,175	3,334
Profit (loss) from operations before financial income (expenses)	5,396	3,328	(3,959)	13,893	15,363	(82)
Income (loss) before income tax and social contribution	6,307	3,494	(3,959)	13,922	16,053	92
Net income (loss) for the year	4,261	4,296	(3,959)	13,202	11,339	(127)

	12/31/10			
	<u>Servinet</u>	<u>Servrede</u>	<u>Multidisplay</u>	<u>M4 Produtos</u>
Net income:				
Net revenue		68,040	-	22,889
Gross profit		60,768	5,247	1,859
Profit from operations before financial income (expenses)		3,498	3,787	3,482
Income (loss) before income taxes and social contribution		4,198	3,759	3,434
Net income for the year		2,807	2,299	3,124

3.2. Joint ventures (jointly controlled entities)

Interests in joint ventures include:

	Equity interests - %			
	Total capital		Voting capital	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Joint ventures:				
Orizon	40.95	40.95	40.95	40.95
Prevsaúde	40.95	40.95	40.95	40.95
Precisa	40.95	40.95	40.95	40.95
Paggo Soluções	50.00	-	50.00	-

The condensed financial information of the joint ventures was consolidated under the proportionate consolidation method, considering the joint control exercised under shareholders agreements. All the balances of the joint ventures' assets and liabilities are as follows:

	12/31/11			
	<u>Orizon</u>	<u>Precisa</u>	<u>Prevsaúde</u>	<u>Paggo Soluções</u>
Assets:				
Current	57,207	20,909	2,404	10,348
Noncurrent	<u>56,846</u>	<u>680</u>	<u>321</u>	<u>92,951</u>
Total assets	<u>114,053</u>	<u>21,589</u>	<u>2,725</u>	<u>103,299</u>

Liabilities and shareholders' equity:				
Current	7,929	8,595	2,014	5,251
Noncurrent	1,545	2,954	47	-
Shareholders' equity	<u>104,579</u>	<u>10,040</u>	<u>664</u>	<u>98,048</u>
Total liabilities and shareholders' equity	<u>114,053</u>	<u>21,589</u>	<u>2,725</u>	<u>103,299</u>

	12/31/10		
	<u>Orizon</u>	<u>Precisa</u>	<u>Prevsaúde</u>
Assets:			
Current	41,124	17,034	2,102
Noncurrent	<u>62,004</u>	<u>525</u>	<u>403</u>
Total assets	<u>103,128</u>	<u>17,559</u>	<u>2,505</u>
Liabilities and shareholders' equity (deficit):			
Current	7,788	3,814	2,598
Noncurrent	3,239	4,890	-
Shareholders' equity (deficit)	<u>92,101</u>	<u>8,855</u>	<u>(93)</u>
Total liabilities and shareholders' equity (deficit)	<u>103,128</u>	<u>17,559</u>	<u>2,505</u>

The main line items of the income statement for the years ended December 31, 2011 and 2010 are as follows:

	12/31/11			
	Orizon	Precisa	Prevsaúde	Paggo Soluções
Net income:				
Net revenue	60,510	75,514	8,181	489
Gross profit (loss)	25,708	3,726	1,371	(17,982)
Profit (loss) from operations before financial income (expenses)	11,649	2,453	541	(18,656)
Income (loss) before income tax and social contribution	15,866	1,905	422	(18,599)
Net income (loss) for the year	12,478	1,185	375	(18,599)

	12/31/10		
	Orizon	Precisa	Prevsaúde
Net income:			
Net revenue	51,124	48,943	8,509
Gross profit	17,925	860	2,196
Profit (loss) from operations before financial income (expenses)	4,153	449	(997)
Income (loss) before income tax and social contribution	7,198	139	(1,029)
Net income (loss) for the year	4,472	(30)	(946)

4. CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	(BR GAAP)		(IFRS and BR GAAP)	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Cash and banks:				
Local currency	1,489	1,607	6,257	4,456
Foreign currency	15,453	11,643	15,453	11,643
Short-term investments:				
Debentures subject to repurchase agreements (a)	207,508	128,586	223,296	131,948
Bank Certificates of Deposit (CDBs) (a)	13,546	77,281	44,907	100,131
Money Market Deposit Account (MMDA) (b)	<u>3,002</u>	<u>2,425</u>	<u>3,002</u>	<u>2,425</u>
Total	<u>240,998</u>	<u>221,542</u>	<u>292,915</u>	<u>250,603</u>

The balances under caption “Cash and banks” consist of cash on hand and cash available in bank accounts in Brazil and abroad, derived primarily from deposits made by credit and debit card-issuing banks. Such amounts are used to settle transactions with merchants.

Short-term investments have the following characteristics:

- (a) As at December 31, 2011 and 2010, the average yield of debentures subject to repurchase agreements and CDBs was 101.8% and 101.3% of the interbank deposit rate (CDI), respectively.
- (b) The funds invested abroad (New York - USA) in MMDA earn yield at a fixed rate of 0.25% per year.

These short-term investments are highly liquid and their fair values do not differ from their carrying amounts.

The effect of exchange rate changes on the amounts held in bank accounts abroad is not material for the Company's financial statements.

5. TRADE ACCOUNTS RECEIVABLE

	Company		Consolidated	
	(BR GAAP)		(IFRS and BR GAAP)	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Prepayment of receivables (a)	2,924,791	2,178,161	2,924,791	2,178,161
Bank account blocking (b)	5,165	2,902	5,165	2,902
Electronic network interconnection services between health operators (c)	-	-	6,857	5,624
Meal ticket card and transport card capture and processing (d)	4,769	3,799	4,769	3,799
Receivables from mobile payment services (e)	-	-	38,276	11,743
Disputes of credit card charges - Chargeback (f)	34,956	234	34,956	234
Other receivables	<u>2,115</u>	<u>7,819</u>	<u>4,685</u>	<u>7,819</u>
Total	<u>2,971,796</u>	<u>2,192,915</u>	<u>3,019,499</u>	<u>2,210,282</u>

- (a) As at December 31, 2011, the balance corresponds to prepayment of receivables transactions from the issuing banks within up to 360 days after the date receivables are prepaid to merchants.

In addition, as at December 31, 2011, this amount is net of the adjustment to present value relating to the financial income received in advance on the date of release of cash in the amount of R\$100,900 (R\$76,033 in 2010), as it is related to the prepayment of receivables for installment sales with original maturity after the balance sheet dates.

- (b) The Company offers card-issuing banks bank account blocking services upon prior approval from merchants to block any transfer of receivables from such merchants to another bank. For these services, the Company receives a commission, which is paid in the month subsequent to the request of the bank account blocking by the card-issuing banks.
- (c) Receivables from the joint venture Orizon arising from the provision of electronic network interconnection services, based on a single technology platform, for exchange of information between health operators and medical and hospital service providers, and any other health system agents and drugstores.
- (d) Receivables from Companhia Brasileira de Soluções e Serviços (CBSS) arising from the provision of transportation and meal tickets card capture and processing services.

- (e) Receivables from electronic payment services provided by subsidiaries M4 Produtos and Multidisplay through cell phones and sale of phone credits with credit cards.
- (f) Refers substantially to receivables from disputes from credit card holders. Chargeback losses in the period ended December 31, 2011 total R\$4,289 (R\$587 in 2010).

The aging of trade accounts receivable is as follows:

	Company		Consolidated	
	(BR GAAP)		(IFRS and BR GAAP)	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current	2,936,840	2,192,681	2,984,543	2,210,048
Past-due up to 45 days	<u>34,956</u>	<u>234</u>	<u>34,956</u>	<u>234</u>
Total	<u>2,971,796</u>	<u>2,192,915</u>	<u>3,019,499</u>	<u>2,210,282</u>

6. RECEIVABLES - SECURITIZATION ABROAD

Refer to receivables from Banco Bradesco S.A. and Banco do Brasil S.A., contracted in July 2003, in the amount of US\$500 million, divided into US\$100 million and US\$400 million, respectively, with interest rates of 4.777% and 5.911% per year, for quarterly payments over a period of eight years and a grace period of two years.

As at December 31, 2011, there is no balance of principal and interest receivable from Banco Bradesco S.A. and Banco do Brasil S.A. considering that the transaction of securitization of foreign receivables was settled in the first half of 2011.

7. DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

Deferred income tax and social contribution arise from temporary differences mainly due to temporarily nondeductible provisions and are recorded in noncurrent assets.

Deferred income tax and social contribution reflect the tax effects attributable to temporary differences between the tax base of assets and liabilities and the respective book value. Reported amounts are monthly reviewed.

Deferred income tax and social contribution are as follows:

	Company		Consolidated	
	(BR GAAP)		(IFRS and BR GAAP)	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Temporary differences:				
Provision for risks	213,241	165,934	224,044	175,496
Accrual for sundry expenses	85,740	52,075	86,357	52,405
Discount to present value of prepayment of receivables	34,408	25,953	34,408	25,953
Allowance for losses on POS equipment	<u>1,053</u>	<u>1,362</u>	<u>1,053</u>	<u>1,362</u>
Total	<u>334,442</u>	<u>245,324</u>	<u>345,862</u>	<u>255,216</u>

Deferred income tax and social contribution liabilities relate to the effects of the adoption of CPC 15 - Business Combination on the acquisition of M4U (see note 10).

8. INVESTMENTS

	Company (BR GAAP)	
	<u>2011</u>	<u>2010</u>
Subsidiaries	139,115	44,253
Joint ventures	<u>36,945</u>	<u>31,835</u>
Total	<u>176,060</u>	<u>76,088</u>

Main information on subsidiaries, joint ventures and indirect subsidiaries

	Shareholders' equity		Net income (loss) for the year		Equity interests - %		Equity in subsidiaries		Investments	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Servinet	22,163	17,902	4,261	2,807	99.99	99.99	4,261	2,807	22,163	17,902
Servrede	27,810	26,350	4,296	719	99.99	99.99	4,296	719	27,810	26,350
Orizon (a) and (b)	104,579	92,101	12,478	4,472	40.95	40.95	5,109	1,831	36,945	31,835
Cielo Par	89,142	1	(3,959)	-	99.99	99.99	(3,959)	-	89,142	1
Total							<u>9,707</u>	<u>5,357</u>	<u>176,060</u>	<u>76,088</u>

Indirect joint ventures

	Shareholders' equity		Net income (loss) for the year		Equity interests - %	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Prevsaúde (b)	664	(93)	375	(946)	40.95	40.95
Precisa (b)	10,040	8,855	1,185	(30)	40.95	40.95
Multidisplay (b) (d)	11,876	7,674	13,202	611	50.10	50.10
M4 Produtos (b) (d)	9,738	6,859	11,339	480	50.10	50.10
Pago Soluções (c)	98,048	-	(18,599)	-	50.00	-
Braspag (c)	1,497	-	(127)	-	100.00	-

- (a) The amount of R\$5,880 is not reflected in the investment because it refers to the unrealized gain on capital contribution with goodwill, initially reflected in CBGS Ltda. and transferred to the indirect subsidiary CBGS as a result of the merger. In November 2009 CBGS was incorporated by Orizon, its subsidiary at that time.
- (b) The financial statements as at November 30, 2011 were used to measure investments as at December 31, 2011. Accordingly, the equity in subsidiaries balances refer to the twelve-month period ended November 30, 2011.
- (c) Net income (loss) for the nine and six-month periods ended November 30, 2011, which correspond to the period after the acquisition of interest, were used to determine equity in subsidiaries Pago Soluções and Braspag, respectively.

- (d) In 2010, it reflects only net income (loss) after August 2010, which corresponds to the post-acquisition period.

Changes in investments in the year ended December 31, 2011 are as follows:

January 1, 2010	29,081
Capital increase in subsidiaries:	
Servinet	11,000
Servrede	25,635
Orizon	5,015
Equity in subsidiaries	<u>5,357</u>
December 31, 2010	76,088
Capital increase in subsidiary:	
CieloPar	93,101
Equity in subsidiaries	9,707
Dividends received - Servrede	<u>(2,836)</u>
December 31, 2011	<u>176,060</u>

9. PROPERTY AND EQUIPMENT

	Annual depreciation rate - %	Company (BR GAAP)			
		2011			2010
		Cost	Accumulated depreciation	Net	Net
POS equipment (*)	33	955,574	(479,472)	476,102	326,942
Data processing equipment	20	39,752	(21,265)	18,487	8,988
Machinery and equipment	10	41,121	(38,671)	2,450	3,835
Facilities	10	13,017	(6,990)	6,027	2,742
Furniture and fixtures	10	6,495	(2,665)	3,830	2,981
Vehicles	20	<u>2,111</u>	<u>(748)</u>	<u>1,363</u>	<u>1,010</u>
Total		<u>1,058,070</u>	<u>(549,811)</u>	<u>508,259</u>	<u>346,498</u>

	Annual depreciation rate - %	Consolidated (IFRS and BR GAAP)			
		2011			2010
		Cost	Accumulated depreciation	Net	Net
POS equipment (*)	33	958,543	(482,137)	476,406	327,488
Data processing equipment	20	48,966	(27,269)	21,697	11,945
Machinery and equipment	10	45,438	(42,370)	3,068	4,294
Facilities	10	26,755	(12,984)	13,771	10,535
Furniture and fixtures	10	10,444	(4,379)	6,065	5,018
Vehicles	20	<u>2,138</u>	<u>(776)</u>	<u>1,362</u>	<u>1,010</u>
Total		<u>1,092,284</u>	<u>(569,915)</u>	<u>522,369</u>	<u>360,290</u>

- (*) As at December 31, 2011 and 2010, a provision for losses on POS equipment is recorded in the amounts of R\$3,099 and R\$4,007, respectively, as a reduction of the respective account.

Changes in property and equipment in the year ended December 31, 2011 are as follows:

	Company (BR GAAP)				12/31/11
	12/31/10	Additions/ transfers	Write- offs	Depreciation	
POS equipment	326,942	368,915	(14,686)	(205,069)	476,102
Data processing equipment	8,988	13,952	-	(4,453)	18,487
Machinery and equipment	3,835	18	-	(1,403)	2,450
Facilities	2,742	3,878	-	(593)	6,027
Furniture and fixtures	2,981	1,341	(4)	(488)	3,830
Vehicles	<u>1,010</u>	<u>660</u>	<u>-</u>	<u>(307)</u>	<u>1,363</u>
Total	<u>346,498</u>	<u>388,764</u>	<u>(14,690)</u>	<u>(212,313)</u>	<u>508,259</u>

	Company (BR GAAP)				12/31/10
	01/01/10	Additions/ transfers	Write- offs	Depreciation	
POS equipment	270,478	233,735	(9,888)	(167,383)	326,942
Data processing equipment	8,659	3,784	-	(3,455)	8,988
Machinery and equipment	3,574	2,924	(117)	(2,546)	3,835
Facilities	2,150	1,255	(358)	(305)	2,742
Furniture and fixtures	2,377	987	(7)	(376)	2,981
Vehicles	<u>938</u>	<u>339</u>	<u>-</u>	<u>(267)</u>	<u>1,010</u>
Total	<u>288,176</u>	<u>243,024</u>	<u>(10,370)</u>	<u>(174,332)</u>	<u>346,498</u>

	Consolidated (IFRS and BR GAAP)					12/31/11
	12/31/10	Additions/ transfers	Write- -offs	Depreciation	Merged net assets	
POS equipment	327,488	368,915	(14,695)	(205,302)	-	476,406
Data processing equipment	11,945	14,969	(4)	(5,363)	150	21,697
Machinery and equipment	4,294	258	(4)	(1,488)	8	3,068
Facilities	10,535	5,511	(394)	(1,891)	10	13,771
Furniture and fixtures	5,018	1,905	(147)	(769)	58	6,065
Vehicles	<u>1,010</u>	<u>684</u>	<u>(10)</u>	<u>(322)</u>	<u>-</u>	<u>1,362</u>
Total	<u>360,290</u>	<u>392,242</u>	<u>(15,254)</u>	<u>(215,135)</u>	<u>226</u>	<u>522,369</u>

	Consolidated (IFRS and BR GAAP)					12/31/10
	01/01/10	Additions/ transfers	Write- -offs	Depreciation	Merged net assets	
POS equipment	271,394	233,737	(9,901)	(167,742)	-	327,488
Data processing equipment	9,171	4,971	(57)	(3,904)	1,764	11,945
Machinery and equipment	3,798	3,196	(117)	(2,594)	11	4,294
Facilities	7,187	5,286	(814)	(1,340)	216	10,535
Furniture and fixtures	3,585	1,943	(8)	(596)	94	5,018
Vehicles	<u>986</u>	<u>339</u>	<u>(45)</u>	<u>(270)</u>	<u>-</u>	<u>1,010</u>
Total	<u>296,121</u>	<u>249,472</u>	<u>(10,942)</u>	<u>(176,446)</u>	<u>2,085</u>	<u>360,290</u>

As at December 31, 2011 and 2010, property and equipment arising from finance lease transactions are represented only by assets classified as data processing equipment in the net amounts of R\$120 and R\$409, respectively. The average term of depreciation for this equipment is approximately three years. The depreciation of IT equipment purchased through lease transactions for the years ended December 31, 2011 and 2010, recorded in “General and administrative expenses”, total R\$289 and R\$1,806, respectively.

As at December 31, 2011, the Company entered into loan agreements with the National Bank for Economic and Social Development (BNDES - Finaime) to acquire new POS equipment, as described in note 14.

As at December 31, 2011 and 2010, the Company does not have finance leases payable.

10. GOODWILL ON ACQUISITION OF INVESTMENTS

The breakdown of goodwill as at December 31, 2011 and 2010 is as follows:

	<u>Company</u> <u>(BR GAAP)</u> <u>2011 and</u> <u>2010</u>	<u>Consolidated</u> <u>(IFRS and</u> <u>BR GAAP)</u> <u>2011</u> <u>2010</u>	
Health Project:			
Goodwill on acquisition of subsidiary (a)	26,269	26,269	26,269
Reclassification of the tax benefit from the goodwill merged into Orizon	-	13,532	13,532
Prevsau�de	-	3,179	3,179
Precisa	-	1,457	1,457
M4U	-	31,348	31,348
Paggo Solu��es	-	46,979	-
Braspag	-	39,343	-
	<u>26,269</u>	<u>162,107</u>	<u>75,785</u>
Allowance for losses on goodwill	(16,126)	(16,126)	(16,126)
Unrealized income (b)	-	(5,880)	(5,880)
Total	<u>10,143</u>	<u>140,101</u>	<u>53,779</u>

(a) In calculating equity in subsidiaries CBGS Ltda. and CBGS in 2009, the effects of the Provision for Maintenance of Integrity of Shareholders’ Equity (PMIPL) in the amounts of R\$11,064 and R\$15,205, respectively, were eliminated, since the effects related to the goodwill originally reported therein have been reflected in the Company, as established by CVM Instructions 319/99 and 349/01, considering that the mergers carried out in 2009 did not change the economic substance of that goodwill. The recognition of the goodwill was recorded under “Other operating (expenses) income, net”.

(b) Refers to the elimination in the consolidated financial statements for 2009 of the capital gain generated by CBGS Ltda.’s investment at market value in Orizon, its then joint-controlled subsidiary CBGS, in the proportion of CBGS Ltda.’s interest in CBGS.

The Company reviews the carrying amount of goodwill and intangible assets with indefinite useful life on an annual basis, regardless of any indication of impairment. No provision for impairment on goodwill was recorded in the financial statements for the years ended December 31, 2011 and 2010.

Health Project

On January 2, 2008, CBGS subscribed 693,480 new common shares without par value in favor of its parent company CBGS Ltda., for R\$139,045, which represented its fair value as at that date.

As part of the payment, CBGS Ltda. delivered all the shares in Polimed Ltda. and Dativa Conectividade em Saúde Ltda. for R\$71,691, transferring the goodwill on the acquisition of these subsidiaries in the amounts of R\$47,145 and R\$9,108, respectively, net of amortization incurred through the transaction date, generating payables of R\$67,354 within two years after the transaction. In addition, as a result of the portion paid in cash, CBGS Ltda. generated goodwill of R\$16,764, net of the allowance for losses and amortization incurred through December 31, 2008.

The goodwill generated in CBGS Ltda.'s capital subscription process is as follows:

	<u>Goodwill</u>	<u>Equity interest - %</u>	<u>Net</u>
Goodwill recorded in CBGS Ltda. arising from the acquisition of 40.95% interest in CBGS	55,880	99.99	55,880
Allowance for losses on goodwill	(39,116)	99.99	(39,116)
	16,764		16,764
Goodwill recorded in joint venture CBGS:			
Orizon	47,145	40.95	19,306
Dativa	9,108	40.95	3,731
Total	<u>73,017</u>		<u>39,801</u>

Acquisition of control - Prevsáude and Precisa

On March 16, 2009, joint venture CBGS acquired all the shares in Prevsáude and Precisa. The investment recorded by CBGS includes a share premium amounting to R\$11,322, recorded as goodwill, which is based on expected future earnings of the companies based on the increase in operations expected for future years.

	<u>Goodwill</u>	<u>Equity interest - %</u>	<u>Net</u>
Prevsaúde	7,765	40.95	3,179
Precisa	3,557	40.95	1,457
Total	<u>11,322</u>		<u>4,636</u>

Acquisition of control - M4U

In August 2010, the Company acquired, through its direct subsidiary Servrede, 50.1% of the shares in Multidisplay and its wholly-owned subsidiary M4 Produtos, collectively constituting M4U, pioneering Brazilian company in and leader of the technology platform development segment both for loading cell phones and mobile payments. Under CPC 15 - Business Combinations, the goodwill was measured as the amount by which the sum up of: (a) the consideration transferred as payment for the control of the acquire; and (b) the amount of the noncontrolling interest on the acquiree exceeded the fair value (on the date of acquisition) of the identifiable assets acquired.

The acquisition of 50.1% of the capital of M4U totaled R\$50,650, of which R\$25,600 was paid on the acquisition date and the remaining balance, recorded as “Other payables” in noncurrent liabilities, will be paid in 37 monthly installments, beginning on the transaction date, contingent to the attainment of certain financial performance goals, set out in the Share Purchase and Sale Agreement.

The amount of the investment recorded by Servrede includes the goodwill on acquisition of shares in the amount of R\$31,348, generated as follows:

Net assets acquired	2,300
Fair value of assets acquired (*)	<u>17,002</u>
Fair value of net assets acquired	<u>19,302</u>
(-) Total consideration paid	<u>50,650</u>
Goodwill	<u>31,348</u>

(*) The fair value of the service agreements, software platform and non-compete clauses (identifiable assets acquired) of M4U in August 2010 were recognized based in the appraisal report prepared by independent appraisers. The assessment, which is in accordance with the International Valuation Standards, was conducted based on market evidences related to the prices of similar transactions. The adjustments related to the allocation of purchase price were recognized retrospectively on the amounts recorded upon acquisition, as if the business combination had been concluded on that date.

Acquisition of interest - Paggo Soluções

In September 2010, the Company, Tele Norte Leste Participações S.A. (“TNL”) and Paggo Acquirer Gestão de Meios de Pagamento Ltda. (“Paggo Acquirer”, a TNL subsidiary) entered into an Investment Agreement to govern the interests of Paggo Acquirer and the Company through its subsidiary CieloPar in a new company called Paggo Soluções de Meios de Pagamento S.A. (“Paggo Soluções”). With this acquisition, the Company intended to increase its product portfolio, in connection with its strategy for the mobile payment market.

Paggo Acquirer and the Company hold 50% each of the capital of Paggo Soluções. The interest in Paggo Soluções was acquired in February 28, 2011 for R\$47,000, whose amount was fully paid on the acquisition date.

The balance sheet as of February 28, 2011 considered as opening balance is as follows:

	Book value	Acquisition adjustments	Fair value on acquisition date
Net assets acquired:			
Cash and cash equivalents	35	-	35
Accounts receivable	8,627	-	8,627
Other assets	1,288	-	1,288
Intangible assets	104,406	(104,406)	-
Accounts payable	(9,776)	-	(9,776)
Other payables	(132)	-	(132)
	<u>104,448</u>	<u>(104,406)</u>	<u>42</u>

The amount of the investment recorded by CieloPar includes goodwill on acquisition of shares in the amount of R\$46,979, generated as follows:

Net assets acquired	52,224
Adjustment to the fair value of assets acquired (*)	(52,203)
	<u>21</u>
Total amount paid for the assets acquired	<u>47,000</u>
Goodwill	<u>46,979</u>

(*) Correspond basically to the provision for loss of software licenses recognized in jointly-owned subsidiary Paggo Soluções in the balance sheet as at February 28, 2011, date of recognition of the effects of allocation of goodwill on the acquisition of joint control. The adjustments related to the allocation of purchase price were recognized retrospectively on the amounts recorded upon acquisition, as if the business combination had been concluded on that date.

Based on the appraisal report on the allocation of goodwill arising from the acquisition of Paggo Soluções, prepared by independent appraisers, and according to CPC 15 - Business Combination, the Company's management believes that the amount paid is basically reflected in expected future earnings, i.e., goodwill.

Acquisition of control - Braspag

On May 23, 2011, the Company acquired, through its direct subsidiary CieloPar, 100% of the shares of Braspag Tecnologia em Pagamento Ltda. ("Braspag"), a leading payment processing company in the Brazilian e-commerce industry. All the shares in Braspag were acquired for R\$40,000, paid on the date of acquisition.

The balance sheet as of April 30, 2011 considered as opening balance is as follows:

	Book value	Acquisition adjustments	Fair value on acquisition date
Net assets acquired:			
Cash and cash equivalents	1,827	-	1,827
Accounts receivable	2,362	-	2,362
Property and equipment and intangible assets	764	4,638	5,402
Accounts payable	(407)	-	(407)
Other payables	(2,922)	(5,605)	(8,527)
	<u>1,624</u>	<u>(967)</u>	<u>657</u>

The amount of the investment recorded by CieloPar includes goodwill on acquisition of shares in the amount of R\$39,343, generated as follows:

Net assets acquired	1,624
(-) Fair value of net liabilities acquired (*)	<u>(967)</u>
Fair value of net assets acquired	657
	<u>40,000</u>
Goodwill	<u>39,343</u>

(*) According to the appraisal report used to allocate the purchase price of Braspag, prepared by independent appraisers taking into consideration the characteristics of the acquiree, the intangible assets identified were the software platform (Gateway) and the customer portfolio totaling R\$4,638. As a counter entry, a provision for probable losses with tax and social security risks in Braspag was recorded in the amount of R\$5,605. The adjustments related to the allocation of the purchase price were recognized retrospectively on the amounts recorded upon acquisition, as if the business combination had been concluded on the acquisition date.

11. OTHER INTANGIBLE ASSETS

	Annual amortization rate - %	Company (BR GAAP)			
		2011		2010	
		Cost	Accumulated amortization	Net	Net
Software licenses (a)	20	108,140	(76,372)	31,768	20,012
Project development (b)	20	<u>25,044</u>	<u>(7,565)</u>	<u>17,479</u>	<u>20,055</u>
Total		<u>133,184</u>	<u>(83,937)</u>	<u>49,247</u>	<u>40,067</u>

	Annual amortization rate - %	Consolidated (IFRS and BR GAAP)			
		2011			2010
		Accumulated		Net	Net
		Cost	amortization		
Software licenses (a)	20	133,165	(91,306)	41,859	25,447
Project development (b)	20	25,056	(7,577)	17,479	17,855
Non-compete agreements (c)	13.5	15,197	(2,539)	12,658	14,758
Service agreements (c)	4	17,810	(3,136)	14,674	17,446
Relationship with customers (d)	20	<u>1,444</u>	<u>(87)</u>	<u>1,357</u>	<u>-</u>
Total		<u>192,672</u>	<u>(104,645)</u>	<u>88,027</u>	<u>75,506</u>

- (a) Refers to items acquired from third parties and used to provide customers' data and business transactions processing services. There is no individually material software. Additionally, as at December 31, 2011 and 2010, the provision for discontinued software of R\$2,000 and R\$2,200 is recorded as a reduction of the balance in the related line item.
- (b) Represents expenses on the development of new products and services to increase the Company's and its subsidiaries' invoicing and revenues.
- (c) Correspond to allocations of goodwill on the acquisition of control of M4 Produtos and Multidisplay determined based on an appraisal report prepared by a specialized company on the acquisition date. The main components of calculation of intangible assets are:
- The amount of the non-compete agreement ("with and without") was calculated through the Income Approach methodology, by using a discount rate of 17.5% per year, perpetuity of 4% per year and estimated useful life of 89 months.
 - The four service agreements with telecommunication operators were measured based on the discounted cash flow of each agreement, by using a discount rate of 16.5% per year, during the residual life of each agreement, of approximately 53 months.
- (d) Correspond to allocations of goodwill on the acquisition of control of Braspag, determined based on an appraisal report prepared by a specialized company on the acquisition date. The main component of calculation of intangible assets is the customer relationship, which was measured based on the Income Approach method, taking into consideration the balance of active customers and the respective churn rate, using an estimated useful life of 120 months.

Changes in intangible assets in the year ended December 31, 2011 are as follows:

	Company (BR GAAP)				
	Write-offs				
	12/31/10	Additions	Amortization	12/31/11	
Software	20,012	26,848	(1,662)	(13,430)	31,768
Project development	<u>20,055</u>	<u>430</u>	<u>-</u>	<u>(3,006)</u>	<u>17,479</u>
Total	<u>40,067</u>	<u>27,278</u>	<u>(1,662)</u>	<u>(16,436)</u>	<u>49,247</u>

	Company (BR GAAP)				
	01/01/10	Additions	Write-offs	Amortization	12/31/10
Software	26,689	5,959	-	(12,636)	20,012
Project development	<u>13,478</u>	<u>9,622</u>	-	<u>(3,045)</u>	<u>20,055</u>
Total	<u>40,167</u>	<u>15,581</u>	-	<u>(15,681)</u>	<u>40,067</u>

	Consolidated (IFRS and BR GAAP)				
	12/31/10	Addition/ transfers	Write- -offs	Amortization	Merged net assets 12/31/11
Software	23,247	31,517	(1,410)	(14,692)	3,197
Project development	20,055	430	-	(3,006)	-
Non-compete agreements	14,758	-	-	(2,100)	-
Service agreements	17,446	-	-	(2,772)	-
Relationship with customers	-	-	-	(87)	1,444
Total	<u>75,506</u>	<u>31,947</u>	<u>(1,410)</u>	<u>(22,657)</u>	<u>4,641</u>

	Consolidated (IFRS and BR GAAP)				
	01/01/10	Addition/ transfers	Write- -offs	Amortization	Merged net assets (*) 12/31/10
Software	27,806	7,122	(88)	(13,077)	1,484
Project development	13,478	9,622	-	(3,045)	-
Non-compete agreements	-	15,197	-	(439)	-
Service agreements	-	<u>17,810</u>	-	<u>(364)</u>	-
Total	<u>41,284</u>	<u>49,751</u>	<u>(88)</u>	<u>(16,925)</u>	<u>1,484</u>

(*) Merged net assets represent the intangible assets from the acquisition of Paggo Soluções and Braspag in 2011, net of the acquisition adjustments, as required by CPC 15 - Business Combination.

Amortization expenses of intangible assets were recorded in line item ‘General and administrative expenses’ in the income statement.

12. TRANSACTIONS PENDING TRANSFER

The amounts due by credit cardholders through the card-issuing banks and the amounts to be transferred to merchants are recorded in memorandum accounts.

As at December 31, 2011, the corresponding balances pending transfer are:

	Company (BR GAAP) and Consolidated (IFRS)	
	2011	2010
Payable to merchants	39,227,878	27,885,371
Advances from card-issuing banks (*)	545,721	375,417
Balance receivable from card-issuing banks	<u>(38,113,232)</u>	<u>(27,092,348)</u>
Total	<u>1,660,367</u>	<u>1,168,440</u>

- (*) The Company conducts transactions for the advance of amounts card-issuing banks have to transfer to it.

In addition to the provision of services consisting of the transfer of credit and debit card transaction amounts between the card-issuing banks and the merchants, the Company also guarantees accredited merchants that they will receive the amounts paid with credit and debit cards.

As described in note 27.b), the Company has an instrument to mitigate the credit risk of card-issuing banks, used as a hedge against the risk of default by such banks. Based on the insignificant historical amount of Company's losses due to default from card-issuing banks and the current credit risks of these institutions, the Company estimates that the fair value of the guarantees provided to merchants is immaterial and, therefore, is not recognized as a liability.

13. PAYABLES TO MERCHANTS

The balance of R\$1,660,367 as at December 31, 2011 (R\$1,168,440 in 2010) corresponds to the difference between the amounts received from card-issuing banks for the transactions made by cardholders and the amounts to be transferred to merchants. In general, the period of collection by the Company from card-issuing banks is 27 days and the average period for payment by the Company to merchants is 30 days from the date of transaction. Therefore, the balance payable as at December 31, 2011 refers to a float of approximately 3 days.

14. BORROWINGS AND FINANCING

	Company		Consolidated (IFRS and BR GAAP)	
	(BR GAAP)		(IFRS and BR GAAP)	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current	19,666	-	19,666	-
Noncurrent	<u>131,182</u>	<u>-</u>	<u>131,182</u>	<u>-</u>
Total	<u>150,848</u>	<u>-</u>	<u>150,848</u>	<u>-</u>

	Annual charges	12/31/11
Current liabilities		
Equipment financing (FINAME) (a)	TJLP + 2.73% per year	19,666
Noncurrent liabilities		
Equipment financing (FINAME) (a)	TJLP + 2.73% per year	131,182

TJLP - Long-term interest rate.

The noncurrent portion matures as follows:

Maturity year:

2013	61,723
2014	49,340
2015	12,751
2016	<u>7,368</u>
Total	<u>131,182</u>

The Company is the beneficiary of a credit facility with the National Bank for Economic and Social Development (BNDES) relating to FINAME onlending transactions, i.e., a loan granted by BNDES to finance the acquisition of new machinery and equipment manufactured in Brazil.

The amount is transferred in the form of a loan to the Company, which will confer upon the financial institution authorized to operate as financial agent, in this case, Banco do Brasil S.A. and Banco Safra S.A., who enter into the aforementioned financing transactions with the Company.

The agreements are collateralized by the transfer of ownership of the assets acquired. Additionally, the Company is required to comply with the provisions applicable to BNDES agreements and the general regulatory conditions of FINAME-related transactions.

There are no financial covenants clauses in the agreements.

15. TRADE ACCOUNTS PAYABLE

	<u>Company</u>		<u>Consolidated</u>	
	<u>(BR GAAP)</u>		<u>(IFRS and BR GAAP)</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Trade accounts payable	80,754	59,115	140,310	69,583
Accrued payments to suppliers	<u>149,505</u>	<u>86,760</u>	<u>149,505</u>	<u>111,178</u>
Total	<u>230,259</u>	<u>145,875</u>	<u>289,815</u>	<u>180,761</u>

16. TAXES PAYABLE

	<u>Company</u>		<u>Consolidated</u>	
	<u>(BR GAAP)</u>		<u>(IFRS and BR GAAP)</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Income tax and social contribution, net of prepayments	345,327	370,915	346,875	371,947
COFINS (tax on revenue)	13,787	14,676	14,750	15,217
IRRF (withholding income tax)	11,838	8,056	12,776	8,525
ISS (service tax)	6,286	5,994	7,628	6,625
PIS (tax on revenue)	5,626	5,588	5,962	5,835
Other	<u>3,050</u>	<u>122</u>	<u>4,005</u>	<u>893</u>
Total	<u>385,914</u>	<u>405,351</u>	<u>391,996</u>	<u>409,042</u>

17. OTHER PAYABLES

	Company		Consolidated	
	(BR GAAP)		(IFRS and BR GAAP)	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current liabilities:				
Accrual for sundry expenses	42,148	20,506	42,346	20,779
Accrued vacation and related taxes	16,987	15,939	27,061	22,648
Profit sharing	37,118	34,796	52,215	43,755
Accrual for management retention (a)	12,324	-	12,324	-
Other payables	-	<u>8,607</u>	<u>1,851</u>	<u>10,015</u>
Total	<u>108,577</u>	<u>79,848</u>	<u>135,797</u>	<u>97,197</u>
Noncurrent liabilities:				
Payables on the acquisition of subsidiaries (b)	-	-	25,050	25,050
Accrual for management retention (a)	-	<u>5,452</u>	<u>530</u>	<u>6,536</u>
Total	-	<u>5,452</u>	<u>25,580</u>	<u>31,586</u>

- (a) Refers to the Management Retention Plan, approved by the Board of Directors in November 2009, applicable to the Company's main executive officers, that takes into consideration their performance and permanence in the Company for a period of two years; the expense and related reserve is recognized during the validity of the plan.
- (b) Remaining balance payable for the acquisition of Multidisplay and M4 Produtos, contingent to the attainment of certain financial performance goals, as described in note 10.

18. PROVISION FOR RISKS AND ESCROW DEPOSITS

a) Provision for risks

The Company and its subsidiaries are parties to lawsuits and administrative proceedings before courts and governmental bodies, arising in the normal course of business and involving tax, labor and civil matters.

Management, based on information and assessments made by its legal counsel, through the review of pending civil and labor lawsuits and, based on past experience on the amounts claimed in lawsuits, has recognized a provision in an amount considered sufficient to cover probable losses on pending proceedings, as follows:

	Company				
	(BR GAAP)				
	<u>12/31/10</u>	<u>Addition</u>	<u>Write-offs/</u>	<u>Inflation</u>	
		<u>(a)</u>	<u>reversals (b)</u>	<u>adjustment</u>	<u>Payments</u>
					<u>12/31/11</u>
Tax	474,040	128,293	(257)	930	(228)
Civil	7,373	6,412	(3,342)	1,800	(1,517)
Labor	<u>13,687</u>	<u>18,211</u>	<u>(4,733)</u>	<u>258</u>	<u>(462)</u>
Total	<u>495,100</u>	<u>152,916</u>	<u>(8,332)</u>	<u>2,988</u>	<u>(2,207)</u>
					<u>640,465</u>

	Consolidated (IFRS and BR GAAP)					
	12/31/10	Addition (a)	Write-offs/ reversals (b)	Inflation adjustment	Payments	Net assets acquired 12/31/11
Tax	496,683	128,358	(257)	1,148	(531)	2,990
Civil	7,373	12,017	(3,342)	1,800	(1,517)	-
Labor	<u>19,577</u>	<u>23,199</u>	<u>(8,997)</u>	<u>327</u>	<u>(462)</u>	<u>2,631</u>
Total	<u>523,633</u>	<u>160,584</u>	<u>(12,596)</u>	<u>3,275</u>	<u>(2,510)</u>	<u>5,621</u>

	Company (BR GAAP)					
	01/01/10	Addition (a)	Write-offs/ reversals (b)	Inflation adjustment	Payments	12/31/10
Tax	463,069	126,299	(28,915)	640	(87,053)	474,040
Civil	11,364	1,914	(6,889)	1,503	(519)	7,373
Labor	<u>8,075</u>	<u>5,490</u>	<u>(228)</u>	<u>350</u>	<u>-</u>	<u>13,687</u>
Total	<u>482,508</u>	<u>133,703</u>	<u>(36,032)</u>	<u>2,493</u>	<u>(87,572)</u>	<u>495,100</u>

	Consolidated (IFRS and BR GAAP)					
	01/01/10	Addition (a)	Write-offs/ reversals (b)	Inflation adjustment	Payments	12/31/10
Tax	484,446	134,243	(35,609)	656	(87,053)	496,683
Civil	11,368	1,914	(6,893)	1,503	(519)	7,373
Labor	<u>15,764</u>	<u>6,326</u>	<u>(3,020)</u>	<u>507</u>	<u>-</u>	<u>19,577</u>
Total	<u>511,578</u>	<u>142,483</u>	<u>(45,522)</u>	<u>2,666</u>	<u>(87,572)</u>	<u>523,633</u>

- (a) Correspond basically to the increase in provision for tax risks for the year ended December 31, 2011, related to suspended taxes, recorded as a contra entry to “Tax on services”, and the other additions to the provision for risks were recorded as “Other operating (expenses) income, net” in the income statement.
- (b) Basically represented by the reversal of the provision for tax, civil and labor risks due to statutes of limitation, lawsuits settled or change in the opinion of the Company and its subsidiaries’ legal counsel as to the likelihood of loss.
- (c) Basically represented by the settlement in 2010 of the lawsuit filed by the Company in January 2003, claiming against the increase in the PIS tax rate to 1.65%. The payment was made with the escrow deposit raised by the Attorney General’s Office to the Internal Revenue Service.

Civil lawsuits

Refer basically to collection of transactions made through the Company’s system that were not transferred to merchants in view of noncompliance with clauses of the affiliation contract, and compensation for losses caused by transactions not transferred at that time. As at December 31, 2011, the provision for probable losses on civil lawsuits totals R\$10,726 (Company) and R\$16,331 (Consolidated), and the escrow deposit is R\$4,759 (Company) and R\$6,334 (Consolidated).

In addition, as at December 31, 2011, the Company is a party to public civil lawsuits and civil investigations, most of them filed by the Public Prosecution Office or professional associations, whose intention is to defend collective interests (such as consumer rights and labor rights). Judicial decisions may grant rights to groups of people (even without their consent). In many situations, the group that will benefit from a favorable outcome will only be defined after the final decision.

Labor lawsuits

Include 247 labor lawsuits against Cielo and 70 labor lawsuits against Servinet as at December 31, 2011, 104 of which had been filed by former employees. The remaining labor lawsuits, totaling 213, were filed by subcontractors, some of whom claiming the recognition of an employment relationship.

Labor lawsuits, when started, are considered of possible likelihood of loss. Only after the court decision is issued, the lawsuits are reclassified to probable or remote loss, depending on the decision and based on the history of losses on similar lawsuits. In general, considering the history of losses, labor lawsuits are related to salary equalization, overtime, annual bonus, rights guaranteed by agreements between the employer and the labor union, recognition of employment relationship, tenure after occupational disease, and pain and suffering.

As at December 31, 2011, the provision for probable losses on labor lawsuits totals R\$26,961 (Company) and R\$36,276 (Consolidated), and the escrow deposit is R\$32 (Consolidated).

Tax lawsuits

Refer to differences in interpretation by tax authorities, especially regarding:

- COFINS - non-cumulativeness - in February 2004, the Company and its subsidiary Servinet filed an injunction to avoid payment of COFINS according to Law 10833/03 that requires the noncumulative calculation at the rate of 7.6%, and began to make escrow deposits for amounts determined monthly. As a result, the difference between the COFINS due calculated based on the rate established by the cumulative and noncumulative calculation method is being recorded as provision for contingencies since then. Escrow deposits have been made for unpaid COFINS amounts. As at December 31, 2011, the accrued balance is R\$ 579,256 - Company (R\$599,813 - Consolidated) and the balance of escrow deposits is R\$567,163 - Company (R\$588,360 - Consolidated). The lawsuit is awaiting judgment of the Federal Supreme Court.
- Amazon Investment Fund (FINAM) - in 2007, the Company received a tax assessment notice for calendar 2002, FY 2003. The Federal Revenue Service alleges that the Request for Review of Tax Incentive Issue Order (PERC) was not filed within the statutory deadline and, therefore, they do not recognize the portion of Corporate Income Tax (IRPJ) related to FINAM. The Company awaits the distribution of the Voluntary Appeal to the Panel of the Board of Tax Appeals. As at December 31, 2011, the accrued balance is R\$11,896 (Company and Consolidated).

- Provisional Act 212/95 PIS/PASEP - in April 1997, the subsidiary Servinet was granted an injunction that exempted it from the payment of PIS based on billings. The Federal Government filed an appeal that was upheld by the court. On August 26, 2010, the subsidiary filed a debt expiration claim with the Third Region Finance Attorney of São Paulo. As at December 31, 2011, the accrued balance is R\$1,892 (Consolidated).
- CSLL 2002 - In 2002, the Company, supported by a court injunction, offset one third of the COFINS amount paid, including social contribution. The Federal Government filed an appeal claiming the suspension of the amounts offset, thus disallowing the adjustment of accessory obligations. In 2011, the Company filed an action with the 2nd Civil Court in Osasco, São Paulo; the proceeding is awaiting analysis by authorities. The accrued balance is R\$11,297 (Company and Consolidated), and the escrow deposit is R\$10,895 (Company and Consolidated).

The Company and its subsidiaries are challenging other interpretations of the law by tax authorities and, therefore, as at December 31, 2011, recognized provisions for contingencies in the amounts of R\$329 (Company) and R\$503 (Consolidated). To make for lawsuits assessed with a possible or remote likelihood of loss by their legal counsel, the Company and its subsidiaries have escrow deposit in the amounts of R\$14,400 (Company) and R\$17,184 (Consolidated).

The management of the Company and its subsidiaries, based on the opinion of their legal counsel, believes that the actual disbursement of the provision for contingencies will not occur before December 31, 2016.

Additionally, as at December 31, 2011, the Company and its subsidiaries are parties to tax, civil and labor lawsuits assessed by their legal counsel as possible likelihood of losses, for which no provision was recorded, as follows:

	<u>Company</u> (BR GAAP)	<u>Consolidated</u> (IFRS and BR GAAP)
Tax	88,607	98,834
Civil	103,940	103,940
Labor	<u>15,648</u>	<u>18,865</u>
Total	<u>208,195</u>	<u>221,639</u>

b) Escrow deposits

As at December 31, 2011 and 2010, the Company and its subsidiaries have escrow deposits related to the provision for tax, labor and civil contingencies, broken down as follows:

	<u>Company (BR GAAP)</u>						
	<u>01/01/10</u>	<u>Addition</u>	<u>Write-off</u>	<u>12/31/10</u>	<u>Addition</u>	<u>Write-off</u>	<u>12/31/11</u>
Tax	430,881	135,528	(102,367)	464,042	128,416	-	592,458
Civil	<u>2,399</u>	<u>3,773</u>	<u>(2,969)</u>	<u>3,203</u>	<u>2,215</u>	(659)	<u>4,759</u>
Total	<u>433,280</u>	<u>139,301</u>	<u>(105,336)</u>	<u>467,245</u>	<u>130,631</u>	(659)	<u>597,217</u>

Consolidated (IFRS and BR GAAP)							
	<u>01/01/10</u>	<u>Addition</u>	<u>Write-off</u>	<u>12/31/10</u>	<u>Addition</u>	<u>Write-off</u>	<u>12/31/11</u>
Tax	452,078	135,951	(102,433)	485,596	130,843	-	616,439
Civil and labor	<u>3,214</u>	<u>4,425</u>	<u>(4,031)</u>	<u>3,608</u>	<u>3,429</u>	<u>(671)</u>	<u>6,366</u>
Total	<u>455,292</u>	<u>140,376</u>	<u>(106,464)</u>	<u>489,204</u>	<u>134,272</u>	<u>(671)</u>	<u>622,805</u>

19. PAYABLES - SECURITIZATION ABROAD

Refer to the securitization transaction described in notes 1 and 6, representing the Company's obligation to deliver receivables denominated in foreign currency that were generated or will be generated by the Company against Visa International Service Association, arising mainly from purchases of goods/services with VISA credit and debit cards at Brazilian merchant outlets by individuals residing and domiciled abroad, which were the subject matter of an agreement for assignment of future flow of receivables to Brazilian Merchant Voucher Receivables Limited, a special purpose company established in Grand Cayman, which issued securities in the international market, backed by receivables assigned by the Company.

The installment portion recognized in current liabilities as at December 31, 2010 was settled in the first half of 2011.

20. SHAREHOLDERS' EQUITY

a) Capital

Capital as at December 31, 2011 is represented by 545,913,520 common shares (1,364,783,800 in 2010), fully subscribed and paid-in.

As commented in note 21.a), the number of shares outstanding as at December 31, 2011 is 544,529,228 (1,360,286,034 shares as at December 31, 2010).

Capital can be increased by up to 2,400,000,000 common shares, regardless of any amendments to bylaws, at the discretion of the Board of Directors, which has the power to establish the share issue price, the terms and conditions for subscription and payment of shares up to the authorized capital limit. Except in the cases described below, shareholders will have the preemptive right to subscribe for shares issued in a capital increase, which shall be exercised within 30 calendar days after the publication of the minutes of the Board of Directors' meeting that approved the capital increase. Within the authorized capital limit, the Company may grant stock option or subscription to management members and employees. The Board of Directors may exclude the preemptive right or reduce the term for exercising such right in the issuance of shares, debentures convertible into shares or subscription bonus whose placement shall be made upon trade in stock exchanges, public subscription or upon exchange for shares, within the authorized capital limit. The Board of Directors may also resolve on any shares that remained unsubscribed in the capital increase during the term for exercising the preemptive right and establish, prior to their sale on stock exchanges to the benefit of the Company, the apportionment, proportional to the amounts subscribed, among the shareholders that have indicated, in the subscription bulletin or list, interest in subscribing possible remaining shares.

According to the minutes of the Annual and Extraordinary Shareholders' Meetings held on April 29, 2011, a capital increase in the amount of R\$163,835 was approved. For the capital increase, the balance of legal reserve was used, in the amount of R\$20,000, as well as the amount of R\$143,835, from the capital budget reserve as at December 31, 2010.

b) Capital reserve

Represents share-based payment costs and goodwill on the subscription of shares related to capital contributions by shareholders exceeding the amount allocated to capital formation.

As at December 31, 2011, the capital reserve amounts to R\$88,888 (R\$83,532 as at December 31, 2010).

c) Treasury shares

On November 23, 2009, the Company's Board of Directors, in accordance with article 17 of its bylaws, article 30 of Law 6404/76, CVM Instruction 10/80, as amended, and CVM Instruction 358/02 and subsequent amendments thereto, approved the acquisition of up to 6 million common shares, with no par value, for cancellation, disposal or holding in treasury and, especially, to fulfill the exercise of options granted under the Company's Stock Option Plan, without capital reduction, within 180 days from said date, ending on May 21, 2010. In addition, these share buybacks are limited to the balance available in the capital reserve calculated in the year, pursuant to articles 1 and 12 of CVM Instruction 10/80.

The Company's management should define the number of shares that will be bought back, within the authorized limits, and the buyback timing.

Changes in treasury shares are stated as follows:

	Company (BR GAAP) and Consolidated (IFRS and BR GAAP)		
	Shares	Amount	Average cost - R\$ per share
Balance at January 1, 2010	4,532,300	(69,228)	15.27
Buyback - May 2010	188,000	(3,001)	15.96
Exercise of stock options:			
July 2010	(91,265)	1,397	15.30
August 2010	(73,832)	1,130	15.30
September 2010	(6,956)	106	15.30
October 2010	(21,898)	335	15.30
November 2010	(8,800)	135	15.30
December 2010	(19,783)	303	15.32
Closing balance as at December 31, 2010	4,497,766	(68,823)	15.32
Exercise of stock options:			
January 2011	(7,100)	92	12.92
March 2011	(4,999)	64	12.94
April 2011	(10,966)	145	12.76
Balance of treasury shares before the bonus	4,474,701	-	-
Increase in treasury shares due to the bonus (a)	894,940	-	-
Exercise of stock options - May 2011	(1,500)	58	38.80
Balance of treasury shares before the reverse split	5,368,141		

	Company (BR GAAP) and Consolidated (IFRS and BR GAAP)		
	Shares	Amount	Average cost - R\$ per share
Decrease in treasury shares due to the reverse split (b)	(3,578,761)	-	-
Exercise of stock options:			
June 2011	(22,914)	893	38.99
July 2011	(71,696)	2,896	40.40
August 2011	(48,340)	1,963	40.61
September 2011	(100,656)	4,312	42.84
October 2011	(16,863)	749	44.41
November 2011	(137,305)	6,446	46.95
December 2011	(7,314)	346	47.33
Closing balance as at December 31, 2011	<u>1,384,292</u>	<u>(50,859)</u>	<u>47.33</u>

- (a) Bonus: new common shares were issued, with shareholders being assigned, gratuitously, one (1) new common share for each portion of five (5) common shares held by them, generating an effect of 894,940 new shares in the total number of shares.
- (b) Reverse split: in May 2011, due to the reverse split on the proportion of three (3) to one (1) share, an effect of reduction of 3,578,761 shares in the number of outstanding shares was recorded.

The shares bought back will be held in treasury to be later disposed of, cancelled or used in the exercise of stock options granted to the Company's officers and employees.

d) Earnings reserve - legal

Corresponds to 5% of net income for the period, pursuant to Article 193 of Law 6404/76, up to the limit of 20% of capital.

The legal reserve as at December 31, 2011 is R\$52,767 (R\$20,000 as at December 31, 2010).

e) Earnings reserve - budget capital

As at December 31, 2011, earnings reserve were recorded due to the retention of a portion of net income for the year, pursuant to article 196 of Law 6404/76 and article 5, sole paragraph, of CVM Instruction 469, dated May 2, 2008. Said retention for 2011 is based on the capital budget, prepared by Management and approved by the Board of Directors on February 8, 2012, and will be submitted for approval by the Annual General Meeting that will take place on April 20, 2012. The capital budget proposal is justified by the need of working capital, substantially to be used to fund the prepayments of receivables transactions. Should the proposal be approved by the Annual General Meeting, a portion of the amount retained will be used in the Company's capital increase. The capital budget reserve as at December 31, 2011 is R\$708,202 (R\$143,836 as of December 31, 2010).

f) Dividends and interest on capital

Shareholders are entitled to a minimum dividend of 50% of net income after the recognition of the legal reserve of 5% of net income for the year until the reserve equals 20% of the capital. The allocation of the remaining balance of net income is decided at the Shareholders' Meeting. At year-end, the Company accrues the minimum dividends not paid during the year up to the limit of the previously mentioned minimum mandatory dividend. The Company's bylaws allow the Company the right to prepare half-year, or inferior periods, financial statements and, based on those, the Board of Directors may approve dividends distribution, noting the legal limitations. The Board of Directors may also declare intermediate dividends based on exiting net income and on the financial statements last approved by Shareholders.

The Board of Directors decided in the meeting held on February 9, 2011 to distribute supplementary dividends and interest on capital on net income, based on the financial statements for the year ended December 31, 2010, totaling R\$838,261, of which R\$7,236 was distributed as interest on capital and R\$831,025 as dividends. Dividends were paid to shareholders on March 31, 2011.

Pursuant to the minutes of the meeting held on August 25, 2011, the Board of Directors approved, ad referendum by the Annual General Meeting, the distribution of 70% of net income for the six-month period ended June 30, 2011 in the amount of R\$564,075, of which R\$24,100 (R\$20,485 net of income tax withheld at source) was distributed as interest on capital and R\$539,975 as dividends. Proceeds were paid to shareholders on September 30, 2011.

In addition, on February 8, 2012 the Board of Directors approved, ad referendum by the Annual General Meeting that will take place on April 20, 2012, the proposal for the payment of dividends and interest on capital in the amounts of R\$658,636 and R\$7,578 (R\$6,441, net of income tax withheld at source), respectively, related to the net income for 2011, which, added to the amounts of R\$539,975 for dividends and R\$24,100 for interest on capital paid in September 2011, correspond to a distribution of approximately 70% of net income for 2011.

Dividends were calculated as follows:

Net income for the year	1,810,327
Earnings reserve - legal reserve	<u>(52,767)</u>
Minimum dividend base for calculation	1,757,560
Intermediate dividends paid	539,975
Dividends accrued	311,879
Interest on capital paid	24,100
Interest on capital accrued	7,578
Income tax withheld at source on interest on capital	<u>(4,752)</u>
Minimum mandatory annual dividend - 50%	<u>878,780</u>
Amount exceeding the minimum mandatory dividend	<u>346,760</u>

The portion of dividends exceeding the minimum mandatory, declared by the Company after the period to which these financial statements related, but prior to the authorization for their issuance, should not be registered as a liability in the related financial statements, but, instead, be disclosed in the notes. Therefore, as of December 31, 2011, the amount of R\$346,760 exceeding the minimum mandatory was recorded in the shareholders' equity as "Proposed additional dividends".

21. EARNINGS PER SHARE

a) Change in the number of common shares

<u>Shares issued</u>	<u>Company (BR GAAP) and Consolidated (IFRS and BR GAAP) Common</u>
Balance at January 1, 2010	1,360,251,500
Treasury shares buyback - May 2010	(188,000)
Exercise of stock options - July 2010	91,265
Exercise of stock options - August 2010	73,832
Exercise of stock options - September 2010	6,956
Exercise of stock options - October 2010	21,898
Exercise of stock options - November 2010	8,800
Exercise of stock options - December 2010	<u>19,783</u>
Shares as at December 31, 2010	1,360,286,034
Exercise of stock options:	
January 2011	7,100
March 2011	4,999
April 2011	10,966
Bonus effect	<u>272,061,820</u>
Balance after bonus	1,632,370,919
Exercise of stock options - May 2011	1,500
Reverse split effect	<u>(1,088,248,279)</u>
Balance after reverse split	544,124,140
Exercise of stock options:	
June 2011	22,914
July 2011	71,696
August 2011	48,340
September 2011	100,656
October 2011	16,863
November 2011	137,305
December 2011	<u>7,314</u>
	<u><u>544,529,228</u></u>

b) Earnings per share

In compliance with CPC 41 Earnings per Share, the following tables reconcile the net earnings and weighted average of outstanding shares with the amounts used to calculate the basic and diluted earnings per share.

On May 2, 2011, capital increased by R\$163,835 by means of the capitalization of capital budget and legal reserves, whereby the shareholders were assigned, gratuitously, as a bonus, one new share for each portion of five shares. Additionally, on May 4, 2011, the Company conducted a reverse split on the proportion of three to one share representing its capital. These events have been considered retrospectively in the calculation of basic and diluted earnings per share, as if they had occurred at the beginning of the latest reporting period, as follows:

Earnings per share - basic

	Company		Consolidated	
	(BR GAAP)		(IFRS and BR GAAP)	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net income for the year available to common shares	1,810,327	1,829,334	1,810,327	1,829,334
Weighted average of outstanding shares (in thousands)	<u>544,257</u>	<u>544,113</u>	<u>544,257</u>	<u>544,113</u>
Earnings per share (in R\$) - basic	<u>3.3262</u>	<u>3.3620</u>	<u>3.3262</u>	<u>3.3620</u>

Diluted earnings per share

	Company		Consolidated	
	(BR GAAP)		(IFRS and BR GAAP)	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net income for the year available to common shares	1,810,327	1,829,334	1,810,327	1,829,334
Diluted denominator:				
Weighted average of outstanding shares (in thousands) (*)	544,257	544,113	544,257	544,113
Potential increase in common shares as a result of the stock option plan	<u>724</u>	<u>634</u>	<u>724</u>	<u>634</u>
Total (in thousands)	<u>544,981</u>	<u>544,747</u>	<u>544,981</u>	<u>544,747</u>
Earnings per share (in R\$) - diluted	<u>3.3218</u>	<u>3.3581</u>	<u>3.3218</u>	<u>3.3581</u>

(*) Retrospectively adjusted to include the effects of bonus and reverse split in 2011.

22. NET REVENUE

	Company		Consolidated	
	(BR GAAP)		(IFRS and BR GAAP)	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Commissions	3,271,506	3,103,250	3,268,439	3,103,250
Rental	1,101,160	1,168,832	1,101,946	1,169,895
Other services	141,908	105,727	335,761	187,834
Tax on services	<u>(463,405)</u>	<u>(450,510)</u>	<u>(497,420)</u>	<u>(468,485)</u>
Total	<u>4,051,169</u>	<u>3,927,299</u>	<u>4,208,726</u>	<u>3,992,494</u>

23. EXPENSES BY NATURE

The Company elected to present the consolidated income statement by function.

The breakdown of costs of services and net operating expenses by nature is presented below:

	Company		Consolidated	
	(BR GAAP)		(IFRS and BR GAAP)	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Personnel expenses	211,008	192,255	311,090	250,535
Depreciation and amortization	228,749	190,013	237,792	193,371
Professional services	214,887	150,006	100,211	77,672
Acquiring costs (a)	986,701	877,896	990,306	880,493
Marketing and sales (b)	184,665	123,506	184,885	123,664
Costs with medicines and mobile phone credits in subsidiaries (c)	-	-	100,848	39,962
Other	<u>95,884</u>	<u>32,162</u>	<u>132,878</u>	<u>56,176</u>
Total	<u>1,921,894</u>	<u>1,565,838</u>	<u>2,058,010</u>	<u>1,621,873</u>
Classified as:				
Cost of services	1,273,584	1,110,924	1,425,240	1,180,827
Personnel expenses	118,254	110,949	195,116	157,790
General and administrative expenses	290,482	214,487	195,580	153,622
Marketing and sales	184,665	123,506	184,885	123,664
Other operating expenses	<u>54,909</u>	<u>5,972</u>	<u>57,189</u>	<u>5,970</u>
Total	<u>1,921,894</u>	<u>1,565,838</u>	<u>2,058,010</u>	<u>1,621,873</u>

(a) Acquiring costs are mainly represented by logistics and POS equipment maintenance, supplies to merchants, accreditation of clients, telecommunication services, capturing and processing of transactions.

(b) Marketing and sales expenses include brand development campaigns, advertising, marketing and sales incentives to partners and card-issuing banks.

- (c) Corresponds to the cost of sales of medicines and mobile phone credits by the subsidiaries Precisa and Multidisplay, respectively.

24. FOREIGN BRANCH

The Company conducts operations (note 1) through its branch in Grand Cayman, Cayman Islands. As at December 31, 2011, the balance sheet and income statement of this branch, consolidated with the Company's accounts (parent company), after eliminations, are as follows: current and noncurrent assets of R\$6,614 (R\$49,765 in 2010), current and noncurrent liabilities - none (R\$42,983 in 2010) and shareholders' equity of R\$6,614 (R\$6,782 in 2010). Net loss for the year ended December 31, 2011 was R\$167 (net income of R\$252 in 2010).

In the year ended December 31, 2011, the foreign exchange loss on the translation of the financial statements of the Grand Cayman branch, totaling R\$69 (gain of R\$148 in 2010) was recorded in "Financial income (expenses)".

25. RELATED-PARTY TRANSACTIONS

In the normal course of activities and under market conditions, the Company conducts transactions with related parties, such as receivables from card-issuing banks, which are the financial groups in which its controlling shareholders hold interests, and expenses on and income from services provided by Servinet, Orizon, Multidisplay, MP4 Produtos, Braspag and Paggo Soluções.

When conducting its business and engaging services, the Company makes market quotations and surveys intended to find the best technical and pricing terms, and the decision on whether or not a transaction should be conducted is made by the chief decision maker of the function purchasing the product or service, regardless of whether such transaction is conducted with related or unrelated parties.

Also, the type of business conducted by the Company requires it to enter into agreements with several card-issuing entities, some of which are its direct or indirect shareholders. The Company believes that all the agreements entered into with related parties are carried out on an arm's-length basis.

The tables below include the balances as at December 31, 2011 and 2010 and the amounts of transactions with the related parties, broken down by type of agreement, shareholder and subsidiaries, for the years then ended:

	Company (BR GAAP)						
	2011						2010
	Shareholders		Subsidiaries				
	Banco Bradesco S.A.	Banco do Brasil S.A.	Servinet	Orizon	M4U	CieloPar	Total
Assets (liabilities):							
Short-term investments (a)	141,740	19,560	-	-	-	-	161,300
Trade accounts receivable	853	1,361	-	-	-	-	2,214
Receivables from subsidiary	-	-	-	134	-	-	134
Receivables - securitization abroad (d)	-	-	-	-	-	-	-
Payables to subsidiaries (f)	-	-	(10,926)	-	(129)	-	(11,055)

	Company						
	(IFRS and BR GAAP)						
	2011						2010
	Shareholders		Subsidiaries				
	Banco Bradesco S.A.	Banco do Brasil S.A.	Servinet	Orizon	M4U	CieloPar	Total
Income:							
Income from short-term investments (a)	14,390	3,052	-	-	-	-	17,442
Revenue from other services (b)	6,452	6,552	-	-	3,347	-	16,351
Revenue from the rental of POS equipment (c)	-	-	-	1,839	-	-	1,839
Revenue from securitization of receivables abroad (d)	-	-	-	-	-	-	-
Expenses:							
Other operating expenses - membership commission	(7,165)	(5,755)	-	-	-	-	(12,920)
Other operating expenses (e)	(10,398)	(1,921)	-	-	-	-	(12,319)
Service agreement with Servinet (f)	-	-	(119,436)	-	-	-	(119,436)

- (a) The terms, charges and interest rates of short-term investments were agreed under conditions similar to those applicable to unrelated parties.
- (b) Corresponds to fraud prevention and bank account blocking services provided by the Company to the shareholder banks and commissions for the processing of transactions for M4 Produtos and Multidisplay. These related-party transactions are carried out at prices and under conditions similar to the transactions carried out with other issuer banks.
- (c) See note 5.(c)
- (d) See note 6.
- (e) Services contracted with shareholder banks, relating to: (i) corporate collective life insurance, (ii) health and dental insurance and (iii) private pension agreement. The Company understands that the financial conditions adopted by the shareholder banks in respect of prices, terms and other conditions were applied under conditions similar to those adopted with respect to third parties.
- (f) The Company engaged Servinet to provide POS equipment installation and maintenance service to merchants. The payment for the services provided is determined based on the costs incurred by Servinet when the service is provided, plus taxes and a payment margin.

Main related-party transactions

- Balances of issuer banks

Receivables from issuer banks, whose net amounts are recorded under “payables to merchants”, refer to the amounts that have to be transferred by the issuers to the Company arising from the transactions carried out with credit and debit cards, which will be subsequently transferred by the company to the authorized merchants. These related-party transactions are carried out at prices and under conditions similar to the transactions carried out with other issuers of credit or debit cards.

- Domicile bank incentives

The company entered into agreements with domicile banks to promote the invoicing of commissions and prepayment of receivables. In these agreements, the company remunerates the banks based on the performance goals established therein.

- Prepayment of the receivables from card—issuing banks

The Company has agreements for the prepayments of maturing amounts relating to the transfers shareholder card-issuing bank should make it for the transactions made by the bank's clients holding cards. Such prepayment transactions are made to fund working capital, and the amounts deposited in bank accounts are net of prepayment taxes, "pro rata temporis", calculated based on market rates that do not substantially differ from those used by card-issuing Banks that are not the Company's shareholders.

- Services for the use of Cielo network ("Value Added Network" - VAN)

The Company has contracts for services with Companhia Brasileira de Soluções e Serviços ("CBSS"). Such services include capturing, authorizing and processing of transactions with VISA/VALE card, as well as serving merchants, operational and financial back office services, fraud prevention, and issuance of statements and financial control of electronic transactions resulting from such transactions. Taxes and rates charged for such transactions with related parties are under the same prices and conditions as those applied with third parties.

- VAN services and connectivity tax - Amex

On June 30, 2010, the Company signed a non-exclusive agreement for the rendering of services for capturing of card transactions with Amex Brand (VAN), with BankPar S.A. (BankPar), a company of Bradesco S.A. Group licensed to the right of American Express Brand in Brasil. In addition, on December 2011, and additive to the agreement for the rendering of services was signed aiming to renew the VAN agreement until December 31, 2012, as well as to balance the economic benefits of the Company and of BankPar from the agreement, according to an assessment made with the assistance of a specialized investment bank. In financial terms, such balancing was made with the inclusion of a connectivity tax due by the Company to BankPar, relating to the availability of technology that grants the Company access to the acquiring systems base of merchants affiliated to the American Express (Amex) brand, and resulted in a payment of R\$38 million. The expansion of the partnership with the Amex brand has a high potential for generating value to the Company as it increases its brands portfolios. The signing of those agreements was approved by the Board of Directors, according to the legal requirements.

- Bank account blocking

Refer to bank account blocking service agreements entered into with various banks, whose service consists of ensuring to the banks the blocking of the bank accounts of the authorized merchants that carry out financial transactions with them. These related-party transactions are carried out at prices and under conditions similar to the transactions carried out with other domicile banks.

- Recordkeeping of Cielo's shares

Cielo stock book entry service agreement entered into with Banco Bradesco S.A., whereby it provides stock book entry and share certificate issuance services.

- Operating services - stock option program

Service agreement consisting of the rendering of operating services for the stock option program and the related grants entered into with Bradesco S.A. Corretora de Títulos e Valores Mobiliários

- Other widespread agreements

In addition to the balances recorded, the Company engages other services from the main shareholders:

- Cash Management Services.
- Insurance.
- Private pension services.
- Corporate credit card.
- International guarantees.
- Suppliers' payment services.

26. INCOME TAX AND SOCIAL CONTRIBUTION

The reconciliation of the effective income tax and social contribution rate for the years ended December 31, 2011 and 2010 is as follows:

	Company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
	2011	2010	2011	2010
Income before income tax and social contribution	2,689,162	2,739,460	2,704,349	2,745,043
Statutory tax rates - %	34	34	34	34
Income tax and social contribution at statutory rates	(914,315)	(931,416)	(919,479)	(933,315)
Interest on capital tax benefit	10,770	11,280	10,770	11,280
Tax incentives (a)	20,542	16,600	20,542	16,600
Effect on permanent differences, net (b)	4,168	(6,590)	733	(8,694)
Income tax and social contribution	<u>(878,835)</u>	<u>(910,126)</u>	<u>(887,434)</u>	<u>(914,129)</u>
Current	(967,953)	(945,450)	(978,080)	(947,310)
Deferred	89,118	35,324	90,646	33,181

- (a) Corresponds to tax incentives from the Rouanet Law, Funds for Child and Adolescent's Rights, Workers' Support Program (PAT) and Sports Law.
- (b) Represented substantially by reserves for risks and equity in subsidiaries, nondeductible from the calculation of taxable income and tax loss carryforwards.

27. FINANCIAL INSTRUMENTS

The estimated fair values of the financial instruments of the Company and its subsidiaries have been determined using available market inputs and appropriate valuation methodologies. However, considerable judgment was required to interpret market data and then develop the most appropriate fair value estimates. Accordingly, estimates presented herein are not necessarily indicative of the amounts that could be realized in the market. The use of different market methodologies may have a material effect on the estimated fair values.

These financial instruments are managed through operating strategies, aimed at liquidity, profitability and security. The control policy consists of permanent monitoring of the contracted rates compared to market rates. The Company and its subsidiaries do have transactions for speculative purposes, derivatives or any other risk assets.

a) Financial assets and financial liabilities

The Company's and its subsidiaries' financial assets and financial liabilities refer to cash and cash equivalents, trade accounts receivable, escrow deposits and trade accounts payable. The estimated fair values of financial instruments as at December 31, 2011 are as follows:

		12/31/2011			
		Company		Consolidated	
		(BR GAAP)		(IFRS and BR GAAP)	
	Type	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Loans and receivables	240,998	240,998	292,915	292,915
Trade accounts receivable	Loans and receivables	2,971,796	2,971,796	3,019,499	3,019,499
Receivables from subsidiary	Loans and receivables	134	134	-	-
Escrow deposits	Loans and receivables	597,217	597,217	622,805	622,805
Trade accounts payable	Other financial liabilities	230,259	230,259	289,815	289,815
Payables to subsidiary	Other financial liabilities	11,055	11,055	-	-
Accounts payable - acquisition of subsidiary	Other financial liabilities	-	-	25,050	25,050
Payables to merchants	Other financial liabilities	1,660,367	1,660,367	1,660,367	1,660,367
Borrowings and financing	Other financial liabilities	150,848	150,848	150,848	150,848

The fair value of financial assets and short- and long-term financing was determined, when applicable, by using current interest rates available for transactions conducted under similar conditions and with similar maturity dates.

b) Credit risk

The Company has an instrument to mitigate the credit risk of the VISA card-issuing banks, used as a hedge against the risk of default by such banks. This hedging instrument consists of the commitment assumed by the VISA brand, pursuant to foreign regulations, to guarantee the transfer to the Company's merchants of all sales made with VISA cards on the related due dates in the event of default by an issuer. The guarantee model implemented by the VISA brand together with the Company prescribes the provision of guarantees

(collaterals or bank guarantees) considering the credit risk of the issuer, sales volume with VISA cards and residual risk of default by cardholders. The provision of guarantees is mandatory for all card-issuing banks with credit risk, and amounts are reviewed periodically by VISA and the Company. If the issuer does not provide the requested guarantees, it is not accepted as a member of the system or is disqualified as such.

Since July 1, 2010, the Company has also started accrediting the MASTERCARD brand, and the related credit risk is guaranteed by the MASTERCARD brand itself, in case of default by the card-issuing banks with the Company. The MASTERCARD brand requires card-issuing banks participating in the system to provide guarantees, collaterals or bank guarantees. If the issuer does not provide the requested guarantees, it is not accepted as a member of the system or is disqualified as such.

The brands systems also prescribe that cardholders can contest transactions made with credit cards within certain timeframes from the date of the transaction. For this purpose, the Company enters into an affiliate agreement with authorized merchants establishing all rules for acceptance of these cards at the point of sale. If transactions are contested by cardholders and the merchant is no longer an affiliated member at the date of the contestation or has no amounts receivable from the Company, then collection will be made through debit to bank account or outside collection agencies and there may be losses to the Company.

The Company leases POS equipment to all affiliated merchants that do not have their own systems to capture transactions. The rent is deducted, on the due date, from the amount of transactions payable to merchants. However, the rent may not be received on the due date whenever there are no amounts payable to merchants. In these cases, the Company collects the rent through debit to future sales, bank account or outside collection agencies, and losses on rent may be incurred.

c) Risk of fraud

The Company uses a sophisticated antifraud system to monitor transactions with credit and debit cards, which detects and identifies suspected fraud at the time of the authorization and sends an alert message to the card-issuing bank for it to contact the cardholder.

d) Currency risk

The Company enters into forward exchange transactions for U.S. dollars to hedge against fluctuations in exchange rates, which reduces significantly potential currency risks.

There are no other material transactions in foreign currency that might cause a significant impact on the income or loss of the Company due to the effects of the volatility of the exchange rate on other assets and liabilities denominated in foreign currencies, principally the U.S. dollar.

As at December 31, 2011, the net exposure to foreign exchange rate risk, in thousands of U.S. dollars, is as follows:

	Company (BR GAAP) and Consolidated (IFRS and BR GAAP)
Assets:	
Cash and banks	8,234
Short-term investments	<u>1,601</u>
	<u>9,835</u>
Liabilities-	
Payables to merchants	(5,534)
Long position in U.S. dollars	<u>4,301</u>

e) Interest rate risk

The Company's results of operations are subject to significant fluctuations resulting from short-term investments with floating interest rates.

Pursuant to its financial policies, the Company has maintained its short-term investments at prime banks and has not entered into transactions with financial instruments for speculative purposes.

f) Interest rate sensitivity analysis - short-term investments and borrowings and financing

The funds from the Company's short-term investments are impacted by changes in the interbank deposit rate (CDI), and borrowings and financing by changes in TJLP. As at December 31, 2011, assuming an increase or reduction of 10%, 25% and 50% in the interest rates, there would be an increase or decrease in revenues (expenses) as follows:

	<u>10%</u>	<u>25%</u>	<u>50%</u>
Short-term investments	2,938	7,345	14,691
Borrowings and financing	(115)	(285)	(578)

g) Derivatives

During the periods ended December 31, 2011 and 2010, the Company had no derivative transactions.

h) Financial instruments by category

		Company		Consolidated	
Type		(BR GAAP)		(IFRS and BR GAAP)	
		12/31/11	12/31/10	12/31/11	12/31/10
<u>Assets:</u>					
Cash and cash equivalents	Loans and receivables	240,998	221,542	292,915	250,603
Trade accounts receivable	Loans and receivables	2,971,796	2,192,915	3,019,499	2,210,282
Receivables from subsidiary	Loans and receivables	134	165	-	-
Escrow deposits	Loans and receivables	597,217	467,245	622,805	489,204
Receivables - securitization abroad	Loans and receivables	-	42,983	-	42,983
Total		<u>3,810,145</u>	<u>2,924,850</u>	<u>3,935,219</u>	<u>2,993,072</u>
Type		Company		Consolidated	
		(BR GAAP)		(IFRS and BR GAAP)	
		12/31/11	12/31/10	12/31/11	12/31/10
<u>Liabilities</u>					
Payables to merchants	Other financial liabilities	1,660,367	1,168,440	1,660,367	1,168,440
Trade accounts payable	Other financial liabilities	230,259	145,875	289,815	180,761
Payables to subsidiaries	Other financial liabilities	11,055	25,946	-	-
Payables - securitization abroad	Other financial liabilities	-	42,959	-	42,959
Accounts payable - acquisition of subsidiary	Other financial liabilities	-	-	25,050	25,050
Borrowings and financing	Other financial liabilities	<u>150,848</u>	<u>-</u>	<u>150,848</u>	<u>-</u>
Total		<u>2,052,529</u>	<u>1,383,220</u>	<u>2,126,080</u>	<u>1,417,210</u>

28. COMMITMENTS

The Company is engaged in the capture, transmission, processing and settlement of transactions with credit and debit cards. To conduct said activities, the Company entered into the following agreements:

a) Lease agreements

As at December 31, 2011, future annual payments under lease agreements are as follows:

<u>Year</u>	
2012	5,019
2013	5,421
2014	<u>5,855</u>
Total	<u>16,295</u>

Most contracts specify a termination fine equivalent to three-month rent, and a partial return can be negotiated for each case.

b) Telecommunications, technology and logistics services

As at December 31, 2011, future payments under telecommunications, technology and logistics service agreements in effect are comprised as follows:

<u>Year</u>	
2012	520,885
2013	562,555
2014	<u>607,560</u>
Total	<u>1,691,000</u>

Transactions capture and processing agreements stipulate termination fines totaling R\$21,760. Logistics service agreements are in effect since June 2007, with a minimum period of 12 months and a termination fine of R\$10,170. Telecommunication agreements do not provide for a termination fine.

c) Bank guarantees

As at December 31, 2011, based on the agreements in effect, bank guarantees are as follows:

Type

Guarantee for Personal Recharge and Multioperator (*) 400

(*) Collateral assigned to the subsidiary Multidisplay by financial institutions to secure the payment of agreements with mobile telephone companies (TIM/VIVO).

29. PROFIT SHARING

The Company and its subsidiaries pay profit sharing to their employees and officers, subject to the achievement of operational goals and specific objectives, established and approved at the beginning of each year.

Employees and management profit sharing amounts for the years ended December 31, 2011 and 2010 were recorded in line item "Personnel expenses" in the income statement, as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>(BR GAAP)</u>		<u>(IFRS and</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Employees	27,734	26,434	40,808	35,077
Officers	<u>9,384</u>	<u>8,362</u>	<u>9,384</u>	<u>8,362</u>
Total	<u>37,118</u>	<u>34,796</u>	<u>50,192</u>	<u>43,439</u>

30. MANAGEMENT COMPENSATION

Key management includes members of the Board of Directors and of the Supervisory Board, the president and officers.

	<u>Compensation 2011</u>		
	<u>Fixed</u>	<u>Variable</u>	<u>Total</u>
		<u>(*)</u>	
Officers	4,145	12,487	16,632
Board of Directors	1,042	-	1,042
Supervisory Board	<u>309</u>	<u>-</u>	<u>309</u>
Total	<u>5,496</u>	<u>12,487</u>	<u>17,983</u>

Management's overall annual compensation (Board of Executive Officers and Board of Directors) in 2011 set at the Annual Shareholders' Meeting of April 29, 2011 was R\$20,000, whereas the annual compensation payable to the members of the Supervisory Board was R\$309.

(*) Excluding stock option (note 34).

31. FINANCIAL INCOME (EXPENSES)

	Company		Consolidated	
	(BR GAAP)		(IFRS and BR GAAP)	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Financial income:				
Earnings from short-term investments	26,313	25,410	29,381	27,073
Interest on postponed receivables	-	3,037	-	3,037
Interest - securitization abroad	1,596	10,395	1,596	10,395
Other financial income	<u>364</u>	<u>4,522</u>	<u>1,571</u>	<u>5,086</u>
	<u>28,273</u>	<u>43,364</u>	<u>32,548</u>	<u>45,591</u>
Prepayment of receivables:				
Income from prepayment of receivables (a)	611,534	402,946	611,534	402,946
Present value adjustment expenses (b)	<u>(24,867)</u>	<u>(41,067)</u>	<u>(24,867)</u>	<u>(41,067)</u>
	<u>586,667</u>	<u>361,879</u>	<u>586,667</u>	<u>361,879</u>
Exchange rate variation, net (c)	<u>673</u>	<u>933</u>	<u>673</u>	<u>933</u>
Financial expenses:				
Interest - securitization abroad	(1,596)	(10,395)	(1,596)	(10,395)
Late payment interest and fines	(104)	(191)	(152)	(296)
Risks' fine and interest	(2,826)	(2,645)	(3,155)	(2,687)
Prepayment of receivables from card-issuing banks	(51,087)	(16,818)	(51,088)	(16,818)
Other financial expenses	<u>(9,820)</u>	<u>(3,485)</u>	<u>(10,264)</u>	<u>(3,785)</u>
	<u>(65,433)</u>	<u>(33,534)</u>	<u>(66,255)</u>	<u>(33,981)</u>
Total	<u>550,180</u>	<u>372,642</u>	<u>553,633</u>	<u>374,422</u>

(a) Revenue from the prepayment of receivables in the year ended December 31, 2011 comprises income from the transaction volume for the year then ended.

(b) As described in note 5.(a), the present value adjustment recorded in the consolidated financial statements was calculated on receivables prepayments. The assumptions adopted for the calculation are as follows:

- Interest rates used are the same as those contracted for the transactions of prepayment of receivables from clients.
- Calculations were carried out separately, discounting cash flows for each recorded receivable.

The Company's management recognized the present value adjustment of accounts receivable balance in view of the materiality of values adjusted, of interest rates and transaction terms.

Monthly, Management reviews the assumptions mentioned and the changes are recorded in the statement of income.

- (c) Arises basically from the amount received in U.S. dollars from Visa International Service Association related to transactions with foreign credit and debit cards, the receivables securitization abroad transaction, and gains and losses originally denominated in foreign currency, represented by income in the amount of R\$1,730 (R\$1,242 in 2010) and expenses totaling R\$1,057 (R\$3,089 in 2010).

32. OTHER OPERATING INCOME (EXPENSES), NET

Represented by:

	<u>Company</u>		<u>Consolidated</u>	
	<u>(BR GAAP)</u>		<u>(IFRS and BR GAAP)</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Contractual fine on termination of service agreement (a)	(1,818)	(33,682)	(1,818)	(33,682)
Doubtful accounts (b)	(29,275)	(19,115)	(29,275)	(19,115)
Financial incentive to service provider (c)	-	30,000	-	30,000
Losses with frauds and chargeback	(4,289)	(587)	(4,289)	(587)
Provision (reversal) for risks, net	(28,560)	8,687	(32,460)	8,687
Other operating income	<u>9,033</u>	<u>8,725</u>	<u>10,653</u>	<u>9,027</u>
Total	<u>(54,909)</u>	<u>(5,972)</u>	<u>(57,189)</u>	<u>(5,970)</u>

- (a) As at December 31, 2010, it refers to a contractual fine arising from the termination of a service agreement.

- (b) Includes the provision for and the loss on the lease of POS equipment.

- (c) Financial incentive contingent on the increase in the wage floor of the service provider.

33. INSURANCE

As at December 31, 2011, the Company has the following insurance agreements:

<u>Type</u>	<u>Insured amount</u>
Civil liability and Directors and Officers	105,000
Nominated risks (fire, windstorm and smoke, electrical damages, electronic equipment, theft and flood)	36,438
Loss of profits	11,177
Vehicles	809

34. STOCK OPTION PLAN

The Extraordinary Shareholders' Meeting held on September 22, 2008 approved the Company's common stock option plan. This plan was confirmed by the Extraordinary Shareholders' Meeting held on June 1, 2009 and is effective for ten years from the date the first benefits were granted.

Stock options may be granted provided that capital dilution does not exceed, at any time during the effectiveness of the plan, 0.3% per year. The Company's Board of Directors will define the beneficiaries eligible for the stock option plan annually or at the frequency considered appropriate.

At meetings held on July 1, 2009, September 23, 2009, July 6, 2010 and July 22, 2011, the Board of Directors approved the first, second, third and fourth grants of options for the purchase of common and/or restricted shares, respectively, as shown in the table below, without any option for the settlement of options in cash.

Under the Stock Option Plan and Vesting Agreement, the first portion of the stock options granted in 2009 and 2010, equivalent to 1/3 of total, will vest after one year.

The Extraordinary Shareholders' Meeting held on April 29, 2011 approved changes in the fourth grant (July 2011), changing the plan as follows: possibility of eligible employees choosing a stock option plan, a restricted stock plan or a combination of both; exercise of 50% of the options and/or restricted shares after two years and 50% after three years.

Grant date	Number of shares			Exercise price (R\$ per share)	Vesting period	Fair value of options (R\$ per share)
	Granted	Exercised	Balance			
July 2009	1,042,320	(601,034)	441,286	28.42	5 years	10.43
September 2009	220,480	-	220,480	42.38	5 years	13.75
July 2010	1,073,680	(51,153)	1,022,527	39.99	5 years	13.38
July 2011	<u>1,312,065</u>	<u>-</u>	<u>1,312,065</u>	31.26	6 years	12.48
Total	<u>3,648,545</u>	<u>(652,187)</u>	<u>2,996,358</u>			

The fair value of options was measured using the Black & Scholes pricing model. In 2011, the Company used the binomial methodology, based on the following economic assumptions:

	Granting date		
	July and September 2009	July 2010	July 2011
Dividend yield	6.66%	5.73%	8.87%
Share price volatility	36.67%	37.51%	38.27%
Vesting period	4 years	4 years	5 years

The fair value is allocated to net income for the period with a contra entry to the capital reserve on a straight-line basis over a term of up to 36 months. An expense in the amount of R\$10,775 was recognized in the year ended December 31, 2011 (R\$12,129 in 2010), recorded under "Personnel expenses", and 429,653 shares in the amount of R\$5,419 were exercised; the net balance of stock options granted of R\$5,356 was recorded under "Capital reserves" as at

December 31, 2011 (R\$11,227 in 2010).

35. PENSION PLAN

The Company contributes monthly to a defined contribution pension plan (“PGBL”) for its employees and contributions made during in the period ended December 31, 2011 totaled R\$5,367 (R\$3,894 in 2010), which were recorded in “Cost of services” and “Personnel expenses” (Consolidated).

36. ITEMS NOT AFFECTING CASH

	Company		Consolidated	
	BR GAAP		BR GAAP and IFRS	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Settlement of contingencies using escrow deposits	-	87,053	-	87,053
Increase in goodwill from earn out payments	-	-	-	25,050
Increase in goodwill with provision for risks in the purchase price allocation	-	-	5,149	-
Increase in intangible assets from noncontrolling shareholders’ share determined in business combination	-	-	-	13,878
Acquisition of POS equipment with FINAME	149,521	-	149,521	-

37. SEGMENT INFORMATION

The Company has a single segment, an information that is consistently reported with the internal reports used by the Chief Operating Decision-Maker - CODM.

This segment derives from services related to the capturing and processing of transactions with credit and debit cards, other payment methods and related services.

The financial information of the consolidated financial statements materially represents this segment.

38. APPROVAL OF THE FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Company’s Board of Directors and authorized for issuance on February 8, 2012.

*(Convenience Translation into English from
the Original Previously Issued in Portuguese)*

Cielo S.A. and Subsidiaries

*Financial Statements For the Year
Ended December 31, 2010 and
Independent Auditors' Report*

Deloitte Touche Tohmatsu Auditores Independentes

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITORS' REPORT

To the Management and Shareholders of
Cielo S.A.
Barueri, SP

1. We have audited the accompanying individual and consolidated financial statements of Cielo S.A. (the "Company"), identified as Company and Consolidated, which comprise the balance sheets as of December 31, 2010, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility over the financial statements

2. Management is responsible for the preparation and fair presentation of the individual financial statements in accordance with the Brazilian accounting practices and the consolidated financial statements in accordance with the international accounting standards (IFRS) issued by International Accounting Standards Board (IASB) and the Brazilian accounting practices, as well as for the internal controls considered by them as necessary to allow the preparation and fair presentation of these financial statements, that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit, which was conducted in accordance with Brazilian and international standards on auditing. These standards require that auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing selected procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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 the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements taken as a whole.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion on the individual financial statements

6. In our opinion, the individual financial statements referred to in paragraph 1 present fairly, in all material respects, the financial position of Cielo S.A. as of December 31, 2010 and its operating performance and cash flows for the year then ended in accordance with Brazilian accounting practices.

Opinion on the consolidated financial statements

7. In our opinion, the consolidated financial statements referred to in paragraph 1 present fairly, in all material respects, the consolidated financial position of Cielo S.A. as of December 31, 2010 and its consolidated operating performance and consolidated cash flows for the year then ended in accordance with the IFRS issued by IASB and the Brazilian accounting practices.
8. As described in note 2, the individual financial statements have been prepared in accordance with Brazilian accounting practices. For Cielo, these practices differ from IFRS, applicable to the separate financial statements, only with respect to the recognition of investments in subsidiaries and jointly-owned subsidiaries under the equity method, whereas for IFRS purposes these investments would be stated at cost or fair value.

Other matters

9. We have also audited the individual and consolidated statements of value added for the year ended December 31, 2010, whose presentation by publicly-held companies is required by Brazilian corporate law and considered supplemental information by IFRS, which does not require its presentation. These statements have been subjected to the same auditing procedures referred to above and, in our opinion, are fairly stated, in all material respects, in relation to the financial statements taken as a whole.
10. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, February 8, 2011



DELOITTE TOUCHE TOHMATSU
Auditores Independentes



Ismar de Moura
Engagement Partner

CIELO S.A. AND SUBSIDIARIES

(In thousands of Brazilian reais - R\$)

TOTAL ASSETS	3,666,710	2,924,227	2,463,115	3,771,406	2,967,826	2,532,524	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

CIELO S.A. AND SUBSIDIARIES

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

(In thousands of Brazilian reais - R\$, except earnings per share)

		<u>Company</u>		<u>Consolidated</u>	
	<u>Note</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
NET REVENUE	22	3,927,299	3,434,175	3,992,494	3,444,921
COST OF SERVICES		(1,110,924)	(910,698)	(1,180,827)	(936,312)
GROSS PROFIT		<u>2,816,375</u>	<u>2,523,477</u>	<u>2,811,667</u>	<u>2,508,609</u>
OPERATING EXPENSES					
Personnel		(110,949)	(79,660)	(157,790)	(130,209)
General and administrative		(214,487)	(205,912)	(153,622)	(147,145)
Marketing		(123,506)	(72,866)	(123,664)	(72,960)
Equity in subsidiaries	9	5,357	1,805	-	-
Other operating expenses, net	32	(5,972)	(67,312)	(5,970)	(55,216)
INCOME FROM OPERATIONS		<u>2,366,818</u>	<u>2,099,532</u>	<u>2,370,621</u>	<u>2,103,079</u>
FINANCIAL INCOME (EXPENSES)					
Financial income	31	43,364	93,886	45,591	99,751
Financial expenses	31	(33,534)	(49,994)	(33,981)	(56,519)
Income from prepayment of receivables	31	438,212	218,150	438,212	218,150
Discount to present value expense	31	(76,333)	(35,266)	(76,333)	(35,266)
Exchange rate change, net	31	<u>933</u>	<u>1,903</u>	<u>933</u>	<u>1,903</u>
		<u>372,642</u>	<u>228,679</u>	<u>374,422</u>	<u>228,019</u>
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		<u>2,739,460</u>	<u>2,328,211</u>	<u>2,745,043</u>	<u>2,331,098</u>
INCOME TAX AND SOCIAL CONTRIBUTION					
Current	26	(945,450)	(850,519)	(947,310)	(853,151)
Deferred	26	<u>35,324</u>	<u>56,102</u>	<u>33,181</u>	<u>55,847</u>
NET INCOME		<u>1,829,334</u>	<u>1,533,794</u>	<u>1,830,914</u>	<u>1,533,794</u>
ATTRIBUTABLE TO					
Controlling interests				1,829,334	-
Non-controlling interests				1,580	-
				<u>1,830,914</u>	<u>1,533,794</u>
BASIC EARNINGS PER SHARE - R\$	21.b)	<u>1.3449</u>	<u>1.1242</u>	<u>1.3460</u>	<u>1.1242</u>
DILUTED EARNINGS PER SHARE - R\$	21.b)	<u>1.3434</u>	<u>1.1237</u>	<u>1.3446</u>	<u>1.1237</u>

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

CIELO S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (COMPANY)
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands of Brazilian reais - R\$, except earnings per share)

	Note	Controlling interests						Noncontrolling interests	Total shareholders' equity	
		Earnings reserve								
		Capital reserve	Treasury shares	Legal reserve	Capital budget reserve	Earnings retention	Total controlling interests			
BALANCES AS OF DECEMBER 31, 2008		75,379	68,606	-	15,076	-	-	159,061	-	159,061
Total comprehensive income for the year		-	-	-	-	-	1,533,794	1,533,794	-	1,533,794
Allocation of net income:										
Dividends paid		-	-	-	-	-	(661,532)	(661,532)	-	(661,532)
Proposed dividends		-	-	-	-	-	(105,365)	(105,365)	-	(105,365)
Stock options granted	34	-	3,699	-	-	-	-	3,699	-	3,699
Treasury shares		-	-	(69,228)	-	-	-	(69,228)	-	(69,228)
BALANCES AS OF DECEMBER 31, 2009		75,379	72,305	(69,228)	15,076	-	766,897	860,429	-	860,429
Allocation of retained earnings:										
Dividends paid on retained earnings	20.f)	-	-	-	-	-	(603,775)	(603,775)	-	(603,775)
Interest on capital paid	20.f)	-	-	-	-	-	(9,741)	(9,741)	-	(9,741)
Capital increase	20.a)	24,621	-	-	(15,076)	-	(9,545)	-	-	-
Capital budget reserve	20.d)	-	-	-	-	143,836	(143,836)	-	-	-
Treasury shares	20.g)	-	-	(3,001)	-	-	-	(3,001)	-	(3,001)
Stock options granted	34	-	11,227	-	-	-	-	11,227	-	11,227
Stock options exercised during the year		-	-	3,406	-	-	-	3,406	-	3,406
Net income		-	-	-	-	-	1,829,334	1,829,334	1,580	1,830,914
Allocation of net income:										
Legal reserve	20.e)	-	-	-	20,000	-	(20,000)	-	-	-
Dividends paid	20.f)	-	-	-	-	-	(773,941)	(773,941)	-	(773,941)
Proposed dividends	20.f)	-	-	-	-	-	(110,722)	(110,722)	-	(110,722)
Interest on capital paid	20.f)	-	-	-	-	-	(16,199)	(16,199)	-	(16,199)
Interest on capital paid	20.f)	-	-	-	-	-	(7,236)	(7,236)	-	(7,236)
Effect of noncontrolling shareholders on consolidated entities		-	-	-	-	-	-	-	12,890	12,890
BALANCES AS OF DECEMBER 31, 2010		100,000	83,532	(68,823)	20,000	143,836	901,236	1,179,781	14,470	1,194,251

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

CIELO S.A. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands of Brazilian reais - R\$)

	Note	Company		Consolidated	
		2010	2009	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income before income tax and social contribution		2,739,460	2,328,211	2,745,043	2,331,098
Adjustments to reconcile net income before income tax and social contribution to net cash provided by operating activities:					
Depreciation and amortization		190,013	147,027	193,371	160,271
Recognition (reversal) of allowance for losses on property and equipment and intangible assets, net		3,355	(1,681)	3,355	9,387
Net book value of fixed and intangible assets written off or sold		10,370	6,410	11,031	7,274
Capital loss in exchange of interest in joint venture		-	4,431	-	4,431
Allowance for losses on other investments		-	16,126	202	-
Share options granted	34	11,227	3,699	11,227	3,699
Dividends received from subsidiaries		-	27,802	-	-
Loss from equipment lease		18,781	14,753	18,781	14,753
Reserve for contingencies.	18	100,164	140,939	99,627	141,116
Adjustment to present value of receivables	6	76,333	35,266	76,333	35,266
Equity in subsidiaries	9	(5,357)	(1,805)	-	-
(Increase) decrease in operating assets:					
Trade accounts receivable		(1,094,998)	(1,050,516)	(1,102,192)	(1,051,107)
Receivables from subsidiary		2,394	(2,353)	-	177
Prepaid and recoverable taxes		(30)	181	(207)	(1,284)
Other receivables (current and noncurrent)		158,530	276,659	161,641	268,707
Escrow deposits	18	(121,018)	(128,828)	(120,965)	(132,219)
Prepaid expenses		1,106	(1,406)	1,045	(1,408)
Increase (decrease) in operating liabilities:					
Payables to merchants		482,137	165,141	482,137	165,141
Trade accounts payable		31,832	19,932	58,296	19,839
Taxes payable		8,298	2,390	7,984	2,114
Payables to subsidiary		19,622	(4,074)	-	-
Other payables (current and noncurrent)		(143,116)	(267,871)	(144,637)	(268,959)
Reserve for contingencies (current and noncurrent)	18	(519)	(14,337)	(519)	(21,001)
Cash provided by (used in) operating activities		2,488,584	1,716,096	2,501,553	1,687,295
Interest received		9,716	22,208	9,716	(22,208)
Interest paid		(9,716)	(22,208)	(9,716)	22,208
Income tax and social contribution paid		(964,055)	(709,626)	(963,653)	(714,609)
Net cash provided by operating activities		1,524,529	1,006,470	1,537,900	972,686
CASH FLOWS FROM INVESTING ACTIVITIES					
Capital increase in subsidiaries	9	(41,650)	(38,952)	-	-
Acquisition of interest in joint venture		-	-	-	(20,813)
Acquisition of subsidiaries by joint venture, net of acquired cash		-	-	(3,258)	(4,403)
Additions to property and equipment and intangible assets		(261,960)	(227,724)	(288,700)	(231,201)
Net cash used in investing activities		(303,610)	(266,676)	(291,958)	(256,417)
CASH FLOWS FROM FINANCING ACTIVITIES					
Financing - lease transactions		-	(401)	-	(401)
Treasury shares	20.g)	(3,001)	(69,228)	(3,001)	(69,228)
Share options exercised	20.g)	3,406	-	3,406	-
Dividends and interest on capital paid	20.f)	(1,510,024)	(1,204,517)	(1,510,024)	(1,204,517)
Net cash used in financing activities		(1,509,619)	(1,274,146)	(1,509,619)	(1,274,146)
DECREASE IN CASH AND CASH EQUIVALENTS		(288,700)	(534,352)	(263,677)	(557,877)
CASH AND CASH EQUIVALENTS					
Balance at end of year		221,542	510,242	250,603	514,280
Balance at beginning of year		510,242	1,044,594	514,280	1,072,157
DECREASE IN CASH AND CASH EQUIVALENTS		(288,700)	(534,352)	(263,677)	(557,877)

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

CIELO S.A. AND SUBSIDIARIES

STATEMENTS OF VALUE ADDED
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands of Brazilian reais - R\$)

	Note	Company		Consolidated	
		<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
REVENUES					
Sales of services, net	22	3,927,299	3,434,175	3,992,494	3,444,921
Losses on equipment lease		<u>(18,781)</u>	<u>(14,753)</u>	<u>(18,781)</u>	<u>(14,753)</u>
		<u>3,908,519</u>	<u>3,419,422</u>	<u>3,973,714</u>	<u>3,430,168</u>
INPUTS PURCHASED FROM THIRD PARTIES					
Service costs		(841,432)	(680,234)	(893,508)	(694,552)
Materials, electric power, outside services and other		(331,167)	(272,073)	(267,023)	(197,668)
Other expenses, net		(12,956)	(68,569)	(12,956)	(68,569)
Gain on realization of assets		<u>25,764</u>	<u>16,010</u>	<u>25,764</u>	<u>16,010</u>
		<u>(1,159,792)</u>	<u>(1,004,866)</u>	<u>(1,147,723)</u>	<u>(944,779)</u>
GROSS VALUE ADDED		<u>2,748,727</u>	<u>2,414,556</u>	<u>2,825,991</u>	<u>2,485,389</u>
RETENTIONS					
Depreciation and amortization		(190,013)	(147,027)	(193,371)	(160,271)
WEALTH CREATED		<u>2,558,714</u>	<u>2,267,529</u>	<u>2,632,620</u>	<u>2,325,118</u>
WEALTH RECEIVED IN TRANSFER					
Equity in subsidiaries	9	5,357	1,805	-	-
Non-controlling interests		-	-	(1,580)	-
Financial income including net exchange rate change and prepayment of receivables, net	31	<u>406,176</u>	<u>278,673</u>	<u>408,403</u>	<u>284,538</u>
		411,533	280,478	406,823	284,538
WEALTH FOR DISTRIBUTION		<u>2,970,247</u>	<u>2,548,007</u>	<u>3,039,443</u>	<u>2,609,656</u>
DISTRIBUTION OF WEALTH					
Employees		(132,926)	(114,451)	(174,058)	(144,217)
Profit sharing	29	(34,796)	(28,602)	(43,439)	(36,620)
Taxes and contributions		(934,693)	(816,226)	(947,234)	(826,659)
Accrued interest and leases		(38,498)	(54,934)	(45,378)	(68,366)
Legal reserve	20.c)	(20,000)	-	(20,000)	-
Dividends and interest on capital paid	20.f)	(790,140)	(661,532)	(790,140)	(661,532)
Proposed dividends and interest on capital	20.f)	(117,958)	(105,365)	(117,958)	(105,365)
Earnings retention	20.e)	<u>(901,236)</u>	<u>(766,897)</u>	<u>(901,236)</u>	<u>(766,897)</u>
WEALTH DISTRIBUTED		<u>(2,970,247)</u>	<u>(2,548,007)</u>	<u>(3,039,443)</u>	<u>(2,609,656)</u>

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

CIELO S.A. AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands of Brazilian reais - R\$)

	<u>2010</u>	<u>2009</u>
NET INCOME	<u>1,829,334</u>	<u>1,533,794</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>1,829,334</u>	<u>1,533,794</u>

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

CIELO S.A. AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

1. OPERATIONS

Cielo S.A. (the “Company” or “Cielo”) was established on November 23, 1995 in Brazil, and is primarily engaged in providing services related to credit and debit cards and other payment methods, as well as providing related services, such as signing up of merchants and service providers, rental, installation and maintenance of Point of Sales - POS equipment, and data capture and processing of electronic and manual transactions.

Cielo is a corporation based in the city of Barueri, State of São Paulo, registered with the BM&FBOVESPA S.A. (São Paulo Mercantile and Futures Exchange). Banco do Brasil and Bradesco’s conglomerates are the Company’s parent companies. The addresses of the head office and main local of business are provided in the introduction to the Annual Management Report.

On January 23, 2003, the Company set up a branch in Grand Cayman, Cayman Islands (note 24), for the specific purpose of conducting abroad a receivables securitization transaction denominated in foreign currency (notes 7, 19 and 24).

The operations of the Company’s direct and indirect subsidiaries are as follows:

Direct subsidiaries:

- Servinet Serviços Ltda. (“Servinet”) - engaged in the provision of maintenance and contacts with merchants and service providers for acceptance of credit and debit cards and other payment methods; development of related activities in the service segment that are of interest to Servinet; and holding investments in other companies.
- Servrede Serviços S.A. (“Servrede”) - engaged in the provision of network technology management services, including data transmission, corporate solutions, private communication systems and electronic payment systems, in addition to application and data center services, development of other related activities in the service segment that are of interest to Servrede, and holding investments in other companies.
- CieloPar Participações Ltda. (“CieloPar”) - engaged in holding investments in other companies as partner or shareholder. As of December 31, 2010, CieloPar was not operational.
- Companhia Brasileira de Gestão de Serviços (“Orizon”), formerly Orizon Brasil Processamento de Informações de Saúde Ltda. - engaged in the provision of consulting and data processing services to medical companies in general; management of back office services for health operators in general; electronic network interconnection services between health operators and medical and hospital service providers (e.g.:

hospitals, clinics and laboratories), and other health system agents and drugstores, based on a single technology platform; scanning and process automation services, cards issuance, call center services and other solutions; card reading and nonfinancial transactions routing services; lease or sale of card readers, other computer-based equipment and systems used for providing its services and equipment technical assistance; and holding investments in local or foreign companies as partner or shareholder.

- CBGS - Gestão e Processamento de Informações de Saúde Ltda. (“CBGS Ltda.”) - mainly engaged in holding investments in other companies as partner or shareholder. In November 2009, CBGS Ltda. was merged into CBGS, its jointly-owned subsidiary at the time, at book value and on the base-date October 31, 2009.
- Companhia Brasileira de Gestão de Serviços (“CBGS”) - mainly engaged in holding investments in other companies as partner or shareholder. In December 2009, CBGS was merged into Orizon, its jointly-owned subsidiary at the time, at book value on the base-date November 30, 2009.

Indirect subsidiaries

- Prevsaúde Comercial de Produtos e de Benefícios de Farmácia Ltda. (“Prevsaúde”) - Orizon’s subsidiary engaged in medicine benefit services to corporate customers, healthcare plans, public customers, and large laboratories. Prevsaúde manages the relationship of its customers’ employees with drugstores, doctors and the contracting company itself.
- Precisa Comercialização de Medicamentos Ltda. (“Precisa”) - Orizon’s subsidiary engaged in the sale of medicines in general, with focus on health prevention and maintenance, with a scheduled delivery system. Precisa is a “drugstore” focused on the distribution of medicines to Prevsaúde’s customers, especially chronic patients. It is responsible for delivering medicines regularly administered to Prevsaúde’s customers with chronicle diseases, such as diabetes, cancer and heart and blood pressure conditions, which allows monitoring the delivery and use of medicines, increasing the treatment’s effectiveness.
- Multidisplay Comércio e Serviços Tecnológicos S.A. (“Multidisplay”) - Servrede’s subsidiary engaged in data transmission services to load fixed or mobile phone credits, the sale of mobile or fixed phone credits, as well as technology, software development and licensing consulting services, product sale, and technology and sales representation services.
- M4 Produtos e Serviços S.A. (“M4 Produtos”) - Multidisplay’s subsidiary engaged in data transmission services to load fixed or mobile phone, prepaid television, prepaid transportation and similar credits; mobile payment and technology consulting services; and software development and licensing.

Restructuring of subsidiaries - Health Project

On August 28, 2006, the Company established CBGS Ltda. to operate in the health segment.

On November 8, 2006, the Company (through its subsidiary CBGS Ltda.), Bradesco Saúde S.A. (“Bradesco Saúde”) and Caixa de Assistência dos Funcionários do Banco do Brasil (“CASSI”), entered into an agreement to operate together in the electronic network interconnection services and other segments between health operators and health service providers. Under this agreement, Bradesco Saúde and Cassi established CBGS and granted this company access to their customer master file to provide these services on an exclusivity basis. The subsidiary CBGS Ltda. committed to acquire a 40.95% interest in CBGS for R\$139,045, through new capital contributions with the assignment of assets.

On December 28, 2006, Bradesco Saúde (70.87%) and Cassi (29.13%) established CBGS, with capital of R\$1,000, fully subscribed and paid in cash. The capital of CBGS is represented by 1,000,000 registered common shares without par value.

On January 2, 2008, CBGS subscribed in favor of its parent company CBGS Ltda. 693,480 new common shares, without par value, for R\$139,045.

Said amount was paid in through the transfer of ownership interest and in cash and entitled CBGS Ltda. to a 40.95% interest in that company. Accordingly, as the formation of a joint venture is specifically excluded from the scope of IFRS 3 - Business Combinations, the transfer of ownership interest to CBGS (joint venture) was accounted for at the same carrying amounts recognized at CBGS Ltda. (venturer) and the capital gain was accounted for in the Company’s consolidated under IAS 31 - Interests in Joint Ventures and SIC 13 - Jointly Controlled Entities - Nonmonetary Contributions by Venturers. These pronouncements require, therefore, the recognition of a gain or a loss reflecting the substance of the transaction, i.e., when the assets are retained by a joint venture and the venturer transfers significantly all the risk and rewards incidental to ownership to the joint venture, the venturer recognizes the portion of gain or loss attributed to the interest of the other venturers.

Said amount was paid in by CBGS Ltda. as follows:

- R\$60,773 through the immediate delivery of 46,661,888 Polimed Ltda. (“Polimed”) shares, currently Orizon, the net book value of which was R\$39,339 as of December 31, 2007, with a capital gain in the amount of R\$21,434. This capital gain was eliminated from the consolidated financial statements proportionally to CBGS Ltda.’s interest in subsidiary CBGS.
- R\$10,918 through the immediate delivery of 1,709,999 Dativa Conectividade em Saúde Ltda. (“Dativa”) shares, the net book value of which was R\$11,005 as of December 31, 2007, with a capital loss of R\$87 (merged into Orizon, then its parent company, on May 29, 2008).
- R\$67,354 to be paid in within two years, through the delivery of assets that can be valued in cash and/or in local currency, which would be adjusted based on the fluctuation of the extended consumer price index (IPCA) plus 11.85% per year, on a pro rata basis, from the delivery date to the date when it is paid up, and recorded by CBGS Ltda. in line item ‘Payables to joint ventures’ and by CBGS in ‘Receivables from joint ventures’. As of December 31, 2009, this balance was fully paid in.

After the share subscription, the shareholding structure of the joint venture CBGS is as follows:

	<u>%</u>
CBGS Ltda.	40.95
Bradesco Saúde	41.85
Cassi	17.20

Pursuant to the Shareholders' Agreement, corporate resolutions and new investments require the approval of the majority of the shareholders; accordingly, CBGS was classified as a jointly-controlled entity (joint venture) and its financial statements were accounted for by the Company under the proportionate consolidation method, as recommended by IAS 31.

On March 16, 2009, jointly controlled entity CBGS acquired all the shares of Prevsáude and Precisa, as shown below:

	<u>Prevsáude</u>	<u>Precisa</u>
Net assets (liabilities) acquired	1,628	(2,381)
(-) Total acquisition price considered	<u>9,000</u>	<u>1,000</u>
Goodwill	<u>7,372</u>	<u>3,381</u>

In November 2009, direct subsidiary CBGS Ltda. was merged into indirect subsidiary CBGS and on December 1, 2009, CBGS was merged into Orizon.

As a result of the mergers, all the operations of the merged companies were transferred to the acquirers, which succeeded the merged companies in all their assets, rights and obligations, for all legal purposes and with no interruptions, with the consequent termination of the merged companies.

Acquisition of subsidiaries - Multidisplay and M4 Produtos

In August 2010, the Company acquired, through its direct subsidiary Servrede, the control of Multidisplay Comércio e Serviços Tecnológicos S.A. ("Multidisplay") and its wholly-owned subsidiary M4 Produtos e Serviços S.A. ("M4 Produtos"), which collectively form M4U, pioneering Brazilian company in and leader of the technology platform development segment both for loading cell phones and mobile payments.

M4U is mainly engaged in the provision of data transmission services to load fixed or mobile phone credits, the sale of mobile or fixed phone credits, technology and technology consulting services, software development, and sales representation. The price for the acquisition of 50.1% of the capital of M4U totaled R\$50,100, of which R\$25,050 was paid on the acquisition date and the remaining balance, recorded as 'Other payables' in noncurrent liabilities, will be paid in 37 monthly installments, beginning on the transaction date, contingent to the attainment of certain financial performance goals, set out in the Share Purchase and Sale Agreement.

Investment Agreement - Paggo Soluções joint venture

On September 29, 2010, the Company, Tele Norte Leste Participações S.A. (“TNL”) and Paggo Acquirer Gestão de Meios de Pagamento Ltda. (“Paggo Acquirer”, a TNL subsidiary) entered into an Investment Agreement to govern the interests of Paggo Acquirer and the Company through its subsidiary Cielo Par in a new company called Paggo Soluções de Meios de Pagamento S.A. (“Paggo Soluções”). Paggo Acquirer and the Company will hold 50% each of the capital of Paggo Soluções. Paggo Soluções will engage in the capture, transmission, processing and financial settlement of business transactions originated from or completed in mobile handsets, using mobile payment technology; and will promote the accreditation of the current and new merchants with its acquisition network of transaction originated in mobile handsets, using the existing nationwide relationships of the Company and Paggo Acquirer.

The transactions above have been submitted to Brazilian competition authorities within the statutory deadlines and it is expected that such transaction will be implemented within approximately six months from the date of the agreements.

Beginning of the multi-brand environment

The cards market, specifically the accreditation segment, started experiencing a new competitive scenario beginning July 1, 2010, the date the acquirers began to capture and process transactions of all main cards brands. This change is in line with two recommendations suggested by the group formed by the Central Bank of Brazil (BACEN), the Department of Economic Law (SDE) and the Economic Monitoring Department (SEAE): deregulation of accreditation activities and POS interoperability.

Beginning July 1, 2010, the Company started capturing and processing MASTERCARD transactions. Other partnerships have also already been announced with AMEX (Banco Bankpar S.A. and Tempo Serviços Ltda.) and national brands, such as AURA (part of MASTERCARD operations in Brazil) and SOROCRED (Sorocred Meios de Pagamento Ltda.). In addition, in 2010 the Company announced an operating partnership with Caixa Econômica Federal (“CEF”) and HSBC Bank Brasil S.A.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Statement of compliance

The Company’s financial statements comprise:

- The Company’s consolidated financial statements, which have been prepared in accordance with the international accounting standards (IFRS) issued by the International Accounting Standards Board (“IASB”), the interpretation of the International Financial Reporting Interpretations Committee (“IFRIC”) and Brazilian accounting practices, identified as “Consolidated”.
- The Company’s individual financial statements have been prepared in accordance with Brazilian accounting practices, identified as “Company”.

The Brazilian accounting practices comprise the Brazilian Corporate Law and the Pronouncements, Instructions and Interpretations issued by the Accounting Pronouncements Committee (CPC) and approved by the Brazilian Securities and Exchange Commission (CVM).

In the individual financial statements, investments in subsidiaries and jointly-owned subsidiaries are stated under the equity method, as required by the legislation prevailing in Brazil. Therefore, these individual financial statements are not considered fully compliant with IFRS, which require these investments to be stated at fair value or cost in the separate financial statements.

Since there is no difference between the consolidated shareholders' equity and the consolidated net income attributable to the Company's shareholders recorded in the consolidated financial statements prepared under IFRS and the Brazilian accounting practices and the Company's shareholders' equity and net income recorded in the individual financial statements prepared under the Brazilian accounting practices, the Company elected to present the individual and consolidated financial statements as a single set in the side-by-side comparison format.

2.2. Basis of preparation

The financial statements have been prepared based on the historical cost, except for certain financial instruments measured at fair value, as described in the following accounting practices. The historical cost is usually based on the fair value of the compensation paid in exchange for the assets.

The effects of the adoption of IFRS and the new pronouncements issued by CPC are discussed in notes 3 and 4.

2.3. Functional and reporting currency

The Company's individual and consolidated financial statements are presented in Brazilian reais (R\$), which is the functional and reporting currency.

2.4. Cash and cash equivalents

Include cash, bank accounts and highly-liquid short-term investments with low risk of change in the value, stated at cost plus interest earned. Cash and cash equivalents are classified as financial assets measured at fair value and their income is recorded in profit or loss for the period.

2.5. Receivables from card-issuing banks and payables to merchants (transactions pending transfer)

Refer to transactions carried out by the holders of credit and debit cards issued by financial institutions, consisting of receivables from card-issuing banks less interchange fees and payables to merchants less net processing fees (discount rate), both with maturities of less than one year (see note 14).

2.6. Property and equipment

Stated at historical cost, less depreciation. Depreciation is calculated under the straight-line method, based upon the estimated useful lives of the assets. The estimated useful lives, residual value and depreciation methods are reviewed at the balance sheet date and the effects of any changes in estimates is accounted for prospectively.

Subsequent costs are added to the residual value of property and equipment or recognized as a specific item, as appropriate, only if the economic benefits associated to these items are probable and the amounts can be reliably measured. Other repairs and maintenance are recognized directly in income for the year when incurred.

A fixed asset is written off after sale or when there are no future economic benefits arising from its continuous use. Any gains or losses on the sale or write-off of a fixed asset are calculated based on the difference between the amounts received and its carrying amount and are recognized in the statement of income.

2.7. Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately with finite useful lives are stated at cost, less amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis according to the estimated useful lives of the assets. The estimated useful lives and the amortization method are reviewed at the end of each year and the effect of any changes in estimates is accounted for prospectively. Intangible assets acquired separately with indefinite useful lives are stated at cost, less accumulated impairment losses.

Internally developed intangible assets - research and development costs

Research expenses are recognized as expense in the period in which they incur.

The internally generated intangible asset arising from development costs (or an internal project's development stage) is recognized only if the following conditions are met:

- The technical feasibility of completing the intangible asset for use or sale;
- The intention to complete the intangible asset to use it or sell it;
- The ability to use the intangible asset or sell it;
- How the intangible asset is reasonably likely to generate future economic benefits;
- The availability of appropriate technical, financial and other resources to complete the development of the intangible asset to use or sell it; and
- The ability to reliably measure the expenses attributable to the intangible asset while it is developed.

The amount originally recorded of internally generated intangible assets corresponds to the sum up of the expenses that have been incurred since the asset started to meet the recognition criteria previously mentioned. If no internally generated intangible asset may be recognized, the development costs are recognized in the statement of income when incurred. Subsequently to initial recognition, internally generated intangible assets are stated at cost, less amortization and accumulated impairment losses, similarly to intangible assets acquired separately.

Intangible assets acquired in a business combination

In the consolidated financial statements, the intangible assets acquired in a business combination and recognized separately from the goodwill are recorded at fair value, which corresponds to its cost on the acquisition date.

Write-off of intangible assets

An intangible asset is written off after sale or when no future economic benefits may arise from its continuous use. Gains or losses on the write-off of an intangible asset are calculated based on the difference between the net revenue from sale and its carrying amount and are recognized in the statement of income when the asset is written off.

2.8. Impairment of tangible and intangible assets, excluding goodwill

At the end of each year, the Company and its subsidiaries (“Group”) review the carrying amount of its tangible and intangible assets to determine if there is any indication of impairment. If there is some indication of impairment, the recoverable amount of the asset is estimated to measure the amount of loss, if any. When it is not possible to estimate the recoverable amount of an asset, the Group calculates the recoverable amount of the cash generating unit of the asset. When a reasonable and consistent basis of allocation may be identified, the corporate assets are also allocated to the individual cash generating unit or to the smallest group of cash generating units of this basis of allocation.

The recoverable amount of an asset is the higher of its fair value less selling costs or its value in use. In appraising the value in use, the estimated future cash flows are discounted to present value at the discount rate, before taxes, that reflects a current market assessment of the time value of money and the specific risks of the asset to which the estimated future cash flows were not adjusted.

If the calculated carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the carrying amount is reduced to its recoverable amount. The impairment losses are immediately recognized in the statement of income.

2.9. Allowance for impairment of long-lived assets

Management reviews the carrying amount of long-lived assets, especially property and equipment and intangible assets, to be held and used in the Company’s operations, to determine and assess possible impairment on a periodic basis or whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets might not be recovered.

Analyses are performed annually to identify circumstances that could require testing long-lived assets for impairment and measure potential impairment losses. Assets are grouped and tested for impairment based on expected future discounted cash flows over the estimated remaining useful lives of the assets. In this case, an impairment loss would be recognized based on the amount by which the carrying amount exceeds the probable recoverable value of a long-lived asset. The probable recoverable value of an asset is determined as the higher of: (a) fair value of assets less estimated costs to sell, and (b) its value in use, which is equal to the present value of discounted cash flows derived from the asset or cash generating unit. As of December 31, 2010, no events indicating the need to recognize an allowance for losses were identified and, therefore, no allowance for losses was recorded in the financial statements for the year then ended.

2.10. Business combinations

In the consolidated financial statements, business acquisitions are recorded under the purchase method. The amount transferred in a business combination is measured at fair value. The acquisition costs are recognized in the statement of income when incurred.

On the acquisition date, the identifiable assets acquired and liabilities assumed are recognized at fair value.

The goodwill is measured based on the exceeding amount arising from the sum up of the amount transferred, the noncontrolling interest in the acquiree and the fair value of the acquirer's interest previously held in the acquiree on the net amounts on the date of acquisition of the identifiable assets acquired and liabilities assumed.

The noncontrolling interests that correspond to current interests and entitle their holders to a proportional portion of the entity's net assets in case of liquidation are measured based on the proportional stake of the noncontrolling interests in the acquiree's identifiable net asset amounts recognized.

Individual financial statements

In the individual financial statements, the Company complies with Technical Interpretation ICPC – 09, Individual Financial Statements, Separate Financial Statements, Consolidated Financial Statements and Adoption of the Equity Method, according to which the amounts exceeding the acquisition cost on the Company's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities on the acquisition date are recognized as goodwill. The goodwill is added to the carrying amount of the investment. The Company's interests in the fair value of the identifiable assets, liabilities and contingent liabilities exceeding the acquisition cost, after revaluation, is immediately recognized in the statement of income. The amounts transferred and the fair value of assets and liabilities are measured based on the same criteria applicable to the consolidated financial statements.

2.11. Goodwill

The goodwill arising from a business combination is stated at cost on the date of the business combination, net of the accumulated impairment loss, if any.

For impairment test purposes, goodwill is allocated to each one of the cash generating units which will benefit from the business combination synergies

The cash generating units to which the goodwill was allocated are tested for impairment annually or more frequently, when there is any indication of impairment. If the recoverable value of a cash generating unit is lower than its carrying amount, impairment losses are firstly allocated to write down the carrying amount of any goodwill allocated to Cash Generating Units – CGU and subsequently to the other assets of the CGU, prorated to the carrying amount of each of its assets. Impairment losses on goodwill are directly recorded in the statement of income for the year. Impairment losses are not reversed in subsequent periods.

When the related cash generating unit is sold, the amount corresponding to the goodwill is included in the calculation of the gains or losses on the sale.

2.12. Investments in subsidiaries and jointly-owned subsidiaries (joint ventures)

A subsidiary is an entity, including an unincorporated entity such as a partnership, in which the parent owns, directly or through other subsidiaries, shareholder rights that entitle it, on a permanent basis, to prevail in corporate decisions and grant it the power to elect the majority of the officers. Prevalence in corporate decision-making and the power to elect the majority of the officers, on a permanent basis, presumably occur when the investor owns more than 50% of the voting capital in other entity. Under this method, the components of assets and liabilities and income and expenses of indirect subsidiaries are added to the fully consolidated accounting positions and the book value of non-controlling interests, determined by applying the interest percentage of non-controlling shareholders in the subsidiary's equity.

Joint ventures are those jointly-controlled by the Company and one or more partners. Investments in joint ventures are recognized under the proportionate consolidation method, from the date the jointly control is acquired. Under this method, the components of a joint venture's assets and liabilities, and income and expenses are added to the consolidated accounting positions proportionally to the venturer's interest in its capital social. In the individual financial statements, interests in jointly-owned subsidiaries are recognized under the equity method. When a Group company carries out transactions with its jointly-owned subsidiaries, the related gains and losses are recognized in the Group's consolidated financial statements only proportionately to the Group's interests in those jointly-owned subsidiaries that are not related to the Group.

2.13. Current and deferred income tax and social contribution

The income tax and social contribution expense refers to the total current and deferred taxes.

Current

Income tax and social contribution are based on annual taxable income. Income tax was calculated at the rate of 15%, plus a 10% surtax on annual taxable income exceeding R\$240. Social contribution was calculated at the rate of 9% on adjusted net income. The taxable income is different from net income as it does not include taxable or deductible expenses in other years and nontaxable and permanently nondeductible items. Income tax and social contribution is calculated individually (per Group company) based on the statutory rates prevailing at year end.

Deferred

Deferred income tax and social contribution are recognized, according to CPC 32 and IAS - 12 Income Taxes, on the differences between assets and liabilities recognized for tax purposes and related amounts recognized in the consolidated financial statements; however, they are not recognized if generated in the first-time recording of assets and liabilities in transactions that do not affect the tax bases, except in business combinations. Deferred income tax and social contribution are determined based on the tax rates and laws in effect at the date of the financial statements and applicable when the respective income tax and social contribution are paid. Deferred tax assets or liabilities are not recognized on temporary differences arising from goodwill or initial recognition (except for business combinations) of other assets and liabilities in a transaction that does not affect taxable or book income.

Deferred income tax and social contribution assets are recognized only to the extent that it is probable that there will be a positive tax base for which temporary differences can be used and tax loss carryforwards can be offset. The recovery of the deferred tax asset balance is reviewed at the end of each year and when it is no longer probable that future taxable income will be available to allow the recovery of all or part of assets, the asset balance is adjusted based on the expected recoverable amount.

Deferred tax assets and liabilities are measured based on the applicable rates in the period in which the liability or asset are expected to be settled or realized, according to the tax legislation prevailing at the end of each reporting period or to a new legislation, when this has been substantially approved. The deferred tax assets and liabilities are measured to reflect the tax implication that would arise from the way in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of these assets and liabilities.

Current and deferred taxes are recognized in the statement of income except when they correspond to items recorded in 'Other comprehensive income' or directly in shareholders' equity, when these current and deferred taxes are also recognized in 'Other comprehensive income' or directly in shareholders' equity, respectively. When current and deferred taxes arise from the initial recognition of a business combination, the tax effect is considered in the recognition of this business combination.

2.14. Employee benefits

The Company and its subsidiaries are co-sponsors of a defined contribution pension plan. Contributions are made based on a percentage of the employees' compensation. Payments to defined contribution plans are recognized as expense when the services they entitle to are provided.

2.15. Financial assets and financial liabilities

a) Financial assets

Financial assets are classified in the following categories: (i) at fair value through profit or loss; (ii) held to maturity; (iii) loans and receivables; and (iv) available for sale. Classification is made according to the nature and purpose of the financial assets and is determined upon initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading or designated at fair value through profit or loss when acquired. A financial asset is classified as held for trading if it is:

- Purchased principally for the purpose of selling it in the near term.
- Part of a portfolio of identified financial instruments that are jointly managed and for which there is evidence of a recent actual pattern of short-term profit-taking.
- A derivative that is not a designated and effective hedging instrument in hedge accounting.

A financial asset that is not held for trading can be designated at fair value through profit or loss upon initial recognition when:

- This designation eliminates or significantly reduces an inconsistency that might arise upon measurement or recognition.
- It is part of a managed group of financial assets or liabilities, or both, and its performance is evaluated based on fair value according to the risk management or investment strategy documented by the Company, and the respective information is internally provided on the same basis.
- It is part of a contract containing one or more embedded derivatives, and IAS 39 - Financial Instruments: Recognition and Measurement permits that the combined contract as a whole (assets or liabilities) be designated at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value, together with gains and losses recognized in income for the reporting period. Net gains or losses recognized in income include dividends or interest income by the financial asset.

Held-to-maturity

Financial assets with fixed or determinable payments and fixed maturities, which the Company has the intent and ability to hold to maturity are classified as held to maturity. Held-to-maturity financial assets are measured at amortized cost using the effective interest method, less the allowance for impairment losses. Revenue is recognized using the effective interest method.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market, measured at amortized cost using the effective interest method, less the allowance for impairment losses. Interest income is recognized by applying the effective rate method, except for short-term receivables when the recognition of interest would be immaterial.

Available-for-sale

Available-for-sale financial assets are non-derivative financial assets designated as available for sale and not classified in the any of the categories above.

Available-for-sale financial assets are measured at fair value. Interest, inflation adjustment and foreign exchange fluctuation, when applicable, are recognized in profit or loss when incurred. Changes arising from measurement at fair value are recognized in a specific line item of shareholders' equity when incurred, and are charged to income when realized or considered unrecoverable.

Effective interest method

A method used to calculate the amortized cost of a financial asset or a financial liability and allocating interest income or interest expenses over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments of receipts (including all fees paid or received that are an integral part of the effective interest rate, transaction costs, and other premiums or discounts) through the expected financial asset life, or, when appropriate, for a shorter period.

b) Financial liabilities

Financial liabilities are classified at fair value through profit or loss or as other financial liabilities.

Financial liabilities at fair value through profit or loss

This category includes financial liabilities held for trading or when designated at fair value through profit or loss.

A financial liability is classified as held for trading if it is:

- Incurred principally for the purpose of repurchasing it in the near term.
- Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
- A derivative that is not designated as an effective hedging instrument.

Financial liabilities that are not held for trading can be designated at fair value through profit or loss upon initial recognition when:

- This designation eliminates or significantly reduces an inconsistency that might arise upon measurement or recognition.

- They are part of a managed group of financial assets or liabilities, or both, whose performance is valued based on its fair value, in accordance with the Company's documented risk management or investment strategy, and whose related information is provided internally on the same basis.
- They are part of a contract containing one or more embedded derivatives, and CPC 38 and IAS 39 permit that the combined contract as a whole (assets or liabilities) is designated at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, together with gains and losses recognized in income for the reporting period. Net gains or losses recognized in profit or loss comprise any interest paid on financial liabilities.

Other financial liabilities

Other financial liabilities initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on a yield basis. The effective interest method is a method for calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

2.16. Revenue recognition

Revenue is measured at the fair value of the amount received or receivable, less estimated returns, commercial discounts and/or bonuses granted and other similar deductions.

Revenues from credit and debit card transactions are recognized when transactions are processed. Revenues from credit card transactions payable in installments are recognized in income when each installment is processed. Revenues from services to associates and merchants are recognized when the service is provided.

The income from the dividends of investments is recognized when the shareholder's right to receive these dividends is established (provided that it is probable that the future economic benefits will flow to the Group and the amount may be measured reliably).

Interest income is recognized when it is probable that the future economic benefits will flow to the Group and the amount may be measured reliably. The interest income is recognized under the straight-line method based on the time and the effective interest rate on the outstanding principal. The effective interest rate is the rate that discounts the estimated future cash receipts during the estimated useful life of the financial assets in relation to the initial net carrying amount of this asset.

Revenues from the advance transfer to merchants are recognized on a pro rata basis through their maturities.

2.17. Reserve for contingencies

Recognized when there is a present obligation (legal or constructive) as a result of a past event, with probable outflow of resources, and the amount of the obligation can be reliably estimated.

The amount recognized as a provision is the best estimate of the settlement amount at the balance sheet date, considering the risks and uncertainties related to the obligation. When the economic benefit required to settle a provision is expected to be received from third parties, this amount receivable is recorded as an asset, only when reimbursement is virtually certain.

Provisions recognized by the Company refer substantially to lawsuits arising in the normal course of business, filed by third parties or former employees. These contingencies are assessed by the Company's and its subsidiaries' management and its legal counsel, using criteria that allow their proper measurement, despite the uncertainty concerning the decision, their period and amount.

Reserves for tax lawsuits are recorded based on the total taxes under legal dispute, plus inflation adjustment and late payment interest incurred through the balance sheet date.

2.18. Foreign currency

Monetary assets and liabilities denominated in foreign currencies were translated into Brazilian reais at the exchange rate in effect at the balance sheet dates, and currency translation differences were recorded in the net income for the years.

2.19. Share-based compensation

The Company offers a stock option plan to its officers and executives, and the officers and executives of its subsidiary Servinet. Options are priced at fair value on the grant date of the plans and are recognized on a straight-line basis as a contra entry to shareholders' equity. At the balance sheet dates, the Company reviews its estimates of the number of vested options based on the plan's terms and conditions and recognizes the impact of the revision of initial estimates, if any, in the statement of income, as a contra entry to shareholders' equity, according to the criteria set out in CPC 10 and IFRS 2 - Share-based Payment.

2.20. Use of estimates

The preparation of financial statements requires the management of the Company and its subsidiaries to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period. Significant assets and liabilities subject to these estimates and assumptions include the net book value of property and equipment and intangible assets, allowance for doubtful accounts (on trade accounts receivable from lease of POS equipment), deferred tax and social contribution assets, impairment of goodwill and reserve for contingencies. Actual results could differ from those estimates. The Company and its subsidiaries review estimates and assumptions annually.

2.21. Statement of Value Added

The purpose of this statement is to present the wealth created by the Company and its distribution during the year and is presented by Cielo, as required by the Brazilian Corporate Law, as part of the individual financial statements and as supplemental information to the consolidated financial statements, since it is not required by the IFRS.

The statement of value added was prepared based on information obtained in the accounting records that serve as a basis for the preparation of financial statements and in accordance with the provisions in CPC 09 - Statement of Value Added. In its first part, the statement of value added presents the wealth created by the Company, represented by the revenues (gross revenue from sales, including taxes, other revenues and the effects of the allowance for doubtful accounts), the inputs acquired by third parties (cost on sales and purchase of materials, electric power and third-party services, including taxes levied at the time of purchase, the effects of losses and recovery of assets amounts, and depreciation and amortization) and the value added received from third parties (equity in subsidiaries, financial income and other revenues). The second part of the statement of value added presents the distribution of wealth among employees, taxes and contributions, compensation to third parties and shareholders.

2.22. New and revised standards and interpretations already issued but not yet adopted

The Company and its subsidiaries did not adopt the following new and revised IFRS already issued but not yet in force:

Rule	Title/Change	Validity
Changes to IFRS 1	Limited exemption from comparative IFRS 7 disclosures for companies adopting IFRS for the first-time	Applicable to annual periods beginning on or after July 1, 2010
Changes to IFRS 1	Elimination of Fixed Dates for companies adopting IFRS for the first time	Applicable to annual periods beginning on or after July 1, 2011
Changes to IFRS 7	Disclosures - Transfers of Financial Assets	Applicable to annual periods beginning on or after January 1, 2013
IFRS 9 (according to the change in 2010)	Financial Instruments	Applicable to annual periods beginning on or after January 1, 2011
Changes to IAS 12	Deferred Taxes - Recovery of the Underlying Assets When the Asset is Measured under the Fair Value Framework of IAS 407	Applicable to annual periods beginning on or after January 1, 2012
Changes to IAS 32	Classification of Rights	Applicable to annual periods beginning on or after February 1, 2010
Changes to IFRIC 14	Prepayments of Minimum Funding Requirements	Applicable to annual periods beginning on or after January 1, 2011

The Company's management understands that the application of the pronouncements mentioned to its consolidated financial statements on the required dates may affect the balances previously reported. However, it is not possible to reasonably estimate such impact before a detailed review is conducted at the time of adoption.

CPC has not yet issued the pronouncements and changes related to the new and revised IFRS mentioned above. Since CPC and CVM committed to maintain the standards issued adjusted based on IASB's adjustments, these pronouncements and changes are expected to be issued by CPC and approved by CVM by the date their adoption becomes mandatory.

3. EFFECTS OF THE ADOPTION OF IFRS AND THE NEW CPC PRONOUNCEMENTS

3.1. Effects of the adoption of the IFRS in the consolidated financial statements

3.1.1. Application of IFRS 1

The Company prepared its opening balance sheet assuming January 1, 2008 as the transition date, pursuant to IFRS 1; the Company, therefore, applied the mandatory exemptions and certain optional exemptions to the full retrospective application of IFRSs.

3.1.2. Exemptions to the full retrospective application elected by the Company on the date of transition to IFRS

The Company adopted the utilization of the following optional exemptions to the full retrospective application of IFRSs:

- a) Exemption for business combinations: the Company elected not to remeasure business acquisitions carried out prior to the transition date to IFRSs, in conformity with IFRS 3; and thus, goodwill arising on acquisitions prior to this date was maintained at the balances net of amortization, determined on the IFRS transition date, in conformity with Brazilian accounting practices (BRGAAP).

Therefore, the concepts of IFRS 3 were not applied to the interest acquisition in subsidiaries CBGS, Prevsáude and Precisa.

- b) Exemption for presenting the fair value of fixed assets as cost of purchase: the Company opted not to remeasure its property and equipment on the transition date at fair value and elected to maintain the cost of purchase adopted under BRGAAP as the amount of property and equipment.
- c) Exemption related to compound financial instruments measurement: the Company does not have compound financial instruments on the IFRS transition date.
- d) Exemption related to the recognition of interests in subsidiaries, joint ventures (jointly controlled entities) and associates: the Company's subsidiaries, jointly-owned subsidiaries, and associates did not present IFRS financial statements as of the transition date; accordingly, the Company elected to adopt the same IFRS transition date for all its subsidiaries, joint ventures, and associates.
- e) Exemption related to the classification of financial instruments: the Company elected to designate financial assets and financial liabilities on the IFRS transition date.

3.1.3. Mandatory full retrospective application exemptions followed by the Company

We did not identify any impacts on the Company's consolidated financial statements arising on the application of mandatory exemptions set out in IFRS 1.

3.2. Adoption of the new accounting practices adopted in Brazil

In the preparation of the Company and consolidated financial statements, the Company has adopted all the pronouncements and the respective technical interpretations and instructions issued by the CPC and approved by the CFC which, jointly with the accounting practices included in the Brazilian Corporate Law, are known as Brazilian accounting practices (BR GAAP).

The Company applied the accounting policies described in note 2 to all years presented, including the opening balance sheet as of January 1, 2009, although the opening balance sheet as of January 1, 2008 was used for IFRS purposes, since the Company's financial statements were already presented under IFRS. The purpose of presenting the opening balance sheet as of January 1, 2009, and the reconciliations below is to show the effects of the CPC pronouncements in the financial statements presented under the Brazilian accounting practices prior to the full adoption of CPC. To measure the adjustments and prepare this opening balance sheet, the company applied CPC 43(R1) - First-time Adoption of Technical Pronouncements CPC 15 to CPC 40, and its individual and consolidated financial statements were adjusted to the periods presented.

The adjustments arising from the application of the CPC Pronouncements in the individual (Company) and consolidated financial statements are described below.

Balance sheet - consolidated:

	December 31, 2009			January 1, 2009		
	Prior accounting practices	Effects of transition to CPC	CPC	Prior accounting practices	Effects of transition to CPC	CPC
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	514,280	-	514,280	1,072,157	-	1,072,157
Trade accounts receivable	1,178,784	-	1,178,784	162,943	-	162,943
Receivables from subsidiary	-	-	-	177	-	177
Deferred income tax and social contribution	58,299	(58,299)	-	37,054	(37,054)	-
Prepaid and recoverable taxes	2,503	-	2,503	1,219	-	1,219
Receivables - securitization abroad	163,850	-	163,850	4,941	-	4,941
Interest receivable - securitization abroad	2,914	-	2,914	207,979	-	207,979
Prepaid expenses	5,896	-	5,896	6,341	-	6,341
Other receivables	18,448	-	18,448	4,488	-	4,488
Total current assets	1,944,974	(58,299)	1,886,675	1,497,299	(37,054)	1,460,245
NONCURRENT ASSETS						
Long-term assets:						
Deferred income tax and social contribution	177,233	44,767	222,000	132,344	37,054	169,398
Receivables - securitization abroad	42,445	-	42,445	277,000	-	277,000
Escrow deposits	-	455,292	455,292	-	323,073	323,073
Other receivables	1,811	-	1,811	1,877	-	1,877
Property and equipment	296,121	-	296,121	213,295	-	213,295
Intangible assets:						
Goodwill on acquisition of investments	8,666	13,532	22,198	17,795	20,766	38,561
Other intangible assets	41,284	-	41,284	49,075	-	49,075
Total noncurrent assets	567,560	513,591	1,081,151	691,386	380,893	1,072,279
TOTAL ASSETS	2,512,534	455,292	2,967,826	2,188,685	343,839	2,532,524

	December 31, 2009			January 1, 2009		
	Prior accounting practices	Effects of transition to CPC	CPC	Prior accounting practices	Effects of transition to CPC	CPC
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>						
CURRENT LIABILITIES						
Financing - lease transactions	-	-	-	401	-	401
Payables to merchants	667,522	-	667,522	487,628	-	487,628
Trade accounts payable	116,443	-	116,443	96,604	-	96,604
Taxes payable	416,945	-	416,945	275,066	-	275,066
Payables to joint ventures	-	-	-	-	20,766	20,766
Payables - securitization abroad	163,911	-	163,911	207,943	-	207,943
Interest received in advance - securitization abroad	2,914	-	2,914	6,341	-	6,341
Dividends payable	105,365	-	105,365	542,985	(542,985)	-
Other payables	80,041	-	80,041	66,526	-	66,526
Total current liabilities	1,553,141	-	1,553,141	1,683,494	(522,219)	1,161,275
NONCURRENT LIABILITIES						
Reserve for contingencies	56,286	455,292	511,578	68,390	323,073	391,463
Payables - securitization abroad	42,445	-	42,445	277,000	-	277,000
Deferred income tax and social contribution	-	-	-	-	-	-
Other payables	233	-	233	740	-	740
Total noncurrent liabilities	98,964	455,292	554,256	346,130	323,073	669,203
SHAREHOLDERS' EQUITY						
Capital	75,379	-	75,379	75,379	-	75,379
Capital reserve	72,305	-	72,305	68,606	-	68,606
Treasury shares	(69,228)	-	(69,228)	-	-	-
Earnings reserves	781,973	-	781,973	15,076	542,985	558,061
Controlling shareholders' interest	860,429	-	860,429	159,061	542,985	702,046
Non-controlling interests	-	-	-	-	-	-
Total shareholders' equity	860,429	-	860,429	159,061	542,985	702,046
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,512,534	455,292	2,967,826	2,188,685	343,839	2,532,524

Balance sheet - Company:

	December 31, 2009			January 1, 2009		
	Prior accounting practices	Effects of transition to CPC	CPC	Prior accounting practices	Effects of transition to CPC	CPC
<u>ASSETS</u>						
CURRENT ASSETS						
Cash and cash equivalents	510,242	-	510,242	1,044,594	-	1,044,594
Trade accounts receivable	1,174,250	-	1,174,250	159,000	-	159,000
Receivables from subsidiary	2,559	-	2,559	206	-	206
Deferred income tax and social contribution	50,319	(50,319)	-	32,891	(32,891)	-
Prepaid and recoverable taxes	411	-	411	592	-	592
Receivables - securitization abroad	9,225	-	9,225	3,668	-	3,668
Interest receivable - securitization abroad	163,850	-	163,850	207,979	-	207,979
Prepaid expenses	2,914	-	2,914	6,341	-	6,341
Other receivables	5,887	-	5,887	4,481	-	4,481
Total current assets	1,919,657	(50,319)	1,869,338	1,459,752	(32,891)	1,426,861
NONCURRENT ASSETS						
Long-term assets:						
Deferred income tax and social contribution	159,681	50,319	210,000	121,007	32,891	153,898
Receivables - securitization abroad	42,445	-	42,445	277,000	-	277,000
Escrow deposits	-	433,280	433,280	-	304,452	304,452
Other receivables	1,597	-	1,597	1,703	-	1,703
Investments in subsidiaries	29,081	-	29,081	46,826	-	46,826
Property and equipment	288,176	-	288,176	204,128	-	204,128
Intangible assets:						
Goodwill on acquisition of investments	10,143	-	10,143	-	-	-
Other intangible assets	40,167	-	40,167	48,247	-	48,247
Total noncurrent assets	571,290	483,599	1,054,889	698,911	337,343	1,036,254
TOTAL ASSETS	2,490,947	433,280	2,924,227	2,158,663	304,452	2,463,115

	December 31, 2009			January 1, 2009		
	Prior accounting practices	Effects of transition to CPC	CPC	Prior accounting practices	Effects of transition to CPC	CPC
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>						
<u>CURRENT LIABILITIES</u>						
Financing - lease transactions	-	-	-	401	-	401
Payables to merchants	667,522	-	667,522	487,628	-	487,628
Trade accounts payable	114,043	-	114,043	94,111	-	94,111
Taxes payable	416,660	-	416,660	273,378	-	273,378
Payables to joint ventures	6,324	-	6,324	10,398	-	10,398
Payables - securitization abroad	163,911	-	163,911	207,943	-	207,943
Interest received in advance - securitization abroad	2,914	-	2,914	6,341	-	6,341
Dividends payable	105,365	-	105,365	542,985	(542,985)	-
Other payables	62,106	-	62,106	47,963	-	47,963
Total current liabilities	1,538,845	-	1,538,845	1,671,148	(542,985)	1,128,163
<u>NONCURRENT LIABILITIES</u>						
Reserve for contingencies	49,228	433,280	482,508	51,454	304,452	355,906
Payables - securitization abroad	42,445	-	42,445	277,000	-	277,000
Total noncurrent liabilities	91,673	433,280	524,953	328,454	304,452	632,906
<u>SHAREHOLDERS' EQUITY</u>						
Capital	75,379	-	75,379	75,379	-	75,379
Capital reserve	72,305	-	72,305	68,606	-	68,606
Treasury shares	(69,228)	-	(69,228)	-	-	-
Earnings reserves	781,973	-	781,973	15,076	542,985	558,061
Total shareholders' equity	860,429	-	860,429	159,061	542,985	702,046
<u>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>2,490,947</u>	<u>433,280</u>	<u>2,924,227</u>	<u>2,158,663</u>	<u>304,452</u>	<u>2,463,115</u>

Reconciliation of shareholders' equity:

	Company		Consolidated	
	12.31.09	1.1.2009	12.31.09	1.1.2009
Shareholders' equity under prior accounting practices	860,429	159,061	860,429	159,061
Effects of transition to IFRS	-	-	-	-
Reversal of proposed dividends exceeding minimum mandatory dividends	-	542,985	-	542,985
Shareholders' equity under CPC	<u>860,429</u>	<u>702,046</u>	<u>860,429</u>	<u>702,046</u>

Reconciliation of net income for 2009:

	Company			Consolidated		
	Prior accounting practices	Effects of transition to CPC	CPC	Prior accounting practices	Effects of transition to CPC	CPC
Net revenue	3,434,175	-	3,434,175	3,434,175	-	3,434,175
Gross profit	2,523,477	-	2,523,477	2,523,477	-	2,523,477
Income from operations	2,099,532	-	2,099,532	2,099,532	-	2,099,532
financial income (expenses)	228,679	-	228,679	228,679	-	228,679
Income before income tax and social contribution	2,328,211	-	2,328,211	2,328,211	-	2,328,211
Net income for the year	1,533,794	-	1,533,794	1,533,794	-	1,533,794

Reconciliation of cash flows for 2009:

	Company			Consolidated		
	Prior accounting practices	Effects of transition to CPC	CPC	Prior accounting practices	Effects of transition to CPC	CPC
From operating activities	1,006,470	-	1,006,470	972,686	-	972,686
From investing activities	(266,676)	-	(266,676)	(256,417)	-	(256,417)
From financing activities	(534,352)	-	(534,352)	(557,877)	-	(557,877)

Notes to the reconciliations

The date of transition defined for preparation of financial statements in compliance with CPC was January 1, 2009. To prepare the reconciliation of shareholders' equity and net income, the Company reflected all the adjustments required by CPC, the main of which are reflected in the tables above and are described below:

a) Deferred income tax and social contribution

Under CPC, deferred taxes are presented in noncurrent assets. Under the prior accounting practices, the Company recorded deferred tax assets, whose realization was expected in the short term, in current assets.

b) Escrow deposits

Under CPC, escrow deposits are presented as assets, since they do not meet the compensation requirements of assets against liabilities.

c) Proposed dividends

Under CPC, proposed dividends exceeding minimum mandatory dividends are not accrued as of the reporting date.

4. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries and jointly-owned subsidiaries. Control is obtained when the Company has the power to control an entity's financial and operating policies to obtain benefits from its activities.

In the Company's individual financial statements, the financial information on subsidiaries and jointly-owned subsidiaries are recognized under the equity method.

The net income of the subsidiaries acquired during the year is included in the consolidated statements of income and comprehensive income as of the actual acquisition date. The balance of comprehensive income is attributable to the Company's owners and noncontrolling interests, even if results presented are negative.

When necessary, the subsidiaries' financial statements are adjusted to conform their accounting policies to those of the Group. All intercompany transactions and balances were fully eliminated in the consolidated financial statements.

The consolidated financial statements include the account balances of the Company (parent company), its subsidiaries Servinet, Servrede, CieloPar (beginning September 2010) and CBGS Ltda. (until October 31, 2009), joint ventures CBGS (until November 30, 2009) and Orizon (since January 1, 2010), and indirect subsidiaries Prevsáude and Precisa (since February 28, 2009), and Multidisplay and M4 Produtos (since August 2010). In the preparation of these consolidated financial statements, intercompany balances and transactions have been eliminated.

The assets, liabilities, income and expenses of joint ventures CBGS (merged into Orizon on November 30, 2009), Orizon, Prevsáude, and Precisa have been included proportionately to the Company's interest in their capital.

For subsidiaries, the full consolidation concept was applied, intended for investments in subsidiaries and entailing the recognition of all assets, liabilities, income and expenses of each subsidiary in the parent company financial statements, thus requiring the recognition of non-controlling interests.

The translation into Brazilian reais of the balance sheet of the Grand Cayman branch, originally prepared in US dollars, was made using the exchange rate prevailing at the balance sheet dates and income was translated at the average closing exchange rates of each month.

4.1. Direct (individual control) and indirect subsidiaries

The interests held in the consolidated subsidiaries are as follows:

	Equity interest - %					
	Total capital			Voting capital		
	<u>2010</u>	<u>2009</u>	<u>1/1/2009</u>	<u>2010</u>	<u>2009</u>	<u>1/1/2009</u>
Direct subsidiaries:						
Servinet	99.99	99.99	99.99	99.99	99.99	99.99
Servrede	99.99	99.99	99.99	99.99	99.99	99.99
CBGS Ltda.	-	-	99.99	-	-	99.99
CieloPar	99.99	-	-	99.99	-	-
Indirect subsidiaries:						
M4 Produtos	50.10	-	-	50.10	-	-
Multidisplay	50.10	-	-	50.10	-	-

The table below shows all the balances of the direct and indirect subsidiaries' assets and liabilities:

	2010				
	<u>Servinet</u>	<u>Servrede</u>	<u>CieloPar</u>	<u>Multidisplay</u>	<u>M4 Productos</u>
Assets:					
Current assets	19,360	38,058	1	7,258	30,773
Noncurrent assets	<u>43,061</u>	<u>75,616</u>	<u>-</u>	<u>6,860</u>	<u>3,612</u>
Total assets	<u>62,421</u>	<u>113,674</u>	<u>1</u>	<u>14,118</u>	<u>34,385</u>
Liabilities and shareholders' equity:					
Current liabilities	16,396	33,810	-	6,444	27,357
Noncurrent liabilities	28,123	39,044	-	-	169
Shareholders' equity	<u>17,902</u>	<u>40,820</u>	<u>1</u>	<u>7,674</u>	<u>6,859</u>
Total liabilities and shareholders' equity	<u>62,421</u>	<u>113,674</u>	<u>1</u>	<u>14,118</u>	<u>34,385</u>

	2009		1/1/2009		<u>CBGS</u>
	<u>Servinet</u>	<u>Servrede</u>	<u>Servinet</u>	<u>Servrede</u>	
Assets:					
Current assets	8,268	2	43,606	2	226
Noncurrent assets	<u>18,164</u>	<u>-</u>	<u>18,332</u>	<u>-</u>	<u>34,635</u>
Total assets	<u>26,432</u>	<u>2</u>	<u>61,938</u>	<u>2</u>	<u>34,861</u>
Liabilities and shareholders' equity:					
Current liabilities	16,514	-	18,684	-	9,952
Noncurrent liabilities	5,822	6	14,754	-	705
Shareholders' equity	<u>4,096</u>	<u>(4)</u>	<u>28,500</u>	<u>2</u>	<u>24,204</u>
Total liabilities and shareholders' equity	<u>26,432</u>	<u>2</u>	<u>61,938</u>	<u>2</u>	<u>34,861</u>

	2010			
	<u>Servinet</u>	<u>Servrede</u>	<u>Multidisplay</u>	<u>M4 Productos</u>
Income:				
Net revenue	68,040	-	22,889	9,593
Gross profit	60,768	5,247	1,859	4,201
Income from operations before financial income (expenses)	3,498	3,787	3,482	3,871
Income before taxes on income	4,198	3,759	3,434	3,893
Net income	2,807	2,299	3,124	2,742

	2009	
	<u>Servinet</u>	<u>Servrede</u>
Income:		
Net revenue	72,118	-
Gross profit	64,213	-
Income (loss) from operations before financial income		
(expenses)	3,890	(45)
Income before taxes on income	5,498	(72)
Net (loss) income	3,400	(72)

4.2. Joint ventures (jointly controlled entities)

Interests in joint ventures include the interests in CBGS (until December 31, 2009), Orizon, Prevsáude, and Precisa (since February 28, 2009), as follows:

	Equity interest - %					
	Total capital			Voting capital		
	<u>2010</u>	<u>2009</u>	<u>1/1/2009</u>	<u>2010</u>	<u>2009</u>	<u>1/1/2009</u>
Joint ventures:						
Orizon	40.95	40.95	40.95	40.95	40.95	40.95
Prevsaúde	40.95	40.95	-	40.95	40.95	-
Precisa	40.95	40.95	-	40.95	40.95	-
CBGS	-	-	40.95	-	-	40.95

The condensed financial information of the joint ventures was consolidated under the proportionate consolidation method. All the balances of these entities' assets and liabilities are as follows:

	2010			2009		
	<u>Orizon</u>	<u>Precisa</u>	<u>Prevsaúde</u>	<u>Orizon</u>	<u>Precisa</u>	<u>Prevsaúde</u>
Assets:						
Current assets	41,124	17,034	2,102	16,091	3,842	2,412
Noncurrent assets	<u>62,004</u>	<u>525</u>	<u>403</u>	<u>14,642</u>	<u>176</u>	<u>386</u>
Total assets	<u>103,128</u>	<u>17,559</u>	<u>2,505</u>	<u>30,733</u>	<u>4,018</u>	<u>2,798</u>
Liabilities and shareholders' equity						
(deficit):						
Current liabilities	7,788	3,814	2,598	8,759	1,551	1,121
Noncurrent liabilities	3,239	4,890	-	3,250	-	(177)
Shareholders' equity (deficit)	<u>92,101</u>	<u>8,855</u>	<u>(93)</u>	<u>18,724</u>	<u>2,467</u>	<u>1,854</u>
Total liabilities and shareholders' equity						
(deficit)	<u>103,128</u>	<u>17,559</u>	<u>2,505</u>	<u>30,733</u>	<u>4,018</u>	<u>2,798</u>
Income:						
Net revenue	51,124	48,943	8,509	44,169	8,867	5,214
Gross profit	17,925	860	2,196	10,476	156	1,466
Income (loss) from operations before						
financial income (expenses)	4,153	449	(997)	2,296	156	1,254
Income before taxes on income	7,198	139	(1,029)	2,122	34	1,133
Net (loss) income	4,472	(30)	(946)	1,007	34	839

	1/1/2009	
	<u>Orizon</u>	<u>CBGS</u>
Assets:		
Current assets	10,876	10,211
Noncurrent assets	<u>17,541</u>	<u>72,535</u>
Total assets	<u>28,417</u>	<u>82,746</u>
Liabilities and shareholders' equity (deficit):		
Current liabilities	6,721	103
Noncurrent liabilities	5,414	-
Shareholders' equity (deficit)	<u>16,282</u>	<u>82,643</u>
Total liabilities and shareholders' equity (deficit)	<u>28,417</u>	<u>82,746</u>
Income:		
Net revenue	27,031	-
Gross profit	2,179	-
Loss from operations before financial income (expenses)	(21,940)	(31,330)
Income before taxes on income	(23,313)	(21,381)
Net loss	(24,227)	(22,157)

5. CASH AND CASH EQUIVALENTS

	Company			Consolidated		
	<u>2010</u>	<u>2009</u>	<u>1/1/2009</u>	<u>2010</u>	<u>2009</u>	<u>1/1/2009</u>
Cash and banks:						
Local currency	1,607	453	7,686	4,456	1,945	8,184
Foreign currency	11,643	12,456	6,513	11,643	12,456	6,513
Short-term investments:						
Debentures subject to repurchase agreements (a)	128,586	58,085	596,081	131,948	58,085	616,653
Bank certificates of deposit (CDBs) (a)	77,281	436,933	429,899	100,131	439,479	436,381
Money Market Deposit Account (MMDA) (b)	<u>2,425</u>	<u>2,315</u>	<u>4,415</u>	<u>2,425</u>	<u>2,315</u>	<u>4,426</u>
Total	<u>221,542</u>	<u>510,242</u>	<u>1,044,594</u>	<u>250,603</u>	<u>514,280</u>	<u>1,072,157</u>

Cash and banks consist of an imprest cash fund and cash available in bank accounts in Brazil and abroad, derived primarily from deposits made by card-issuing banks. Such amounts are used to settle transactions with merchants.

Short-term investments have the following characteristics:

- (a) As of December 31, 2010 and 2009, the average yield of debentures subject to repurchase agreements and CDBs was 101.3% and 102.4% of the interbank deposit rate (CDI), respectively.

- (b) The funds invested abroad (New York - USA) in MMDA earn yield at a fixed rate of 0.1% per year.

These short-term investments are highly liquid and their fair values do not differ from their carrying amounts.

6. TRADE ACCOUNTS RECEIVABLE

	Company			Consolidated		
	<u>2010</u>	<u>2009</u>	<u>1/1/2009</u>	<u>2010</u>	<u>2009</u>	<u>1/1/2009</u>
Prepayment of receivables (a)	2,178,161	1,164,376	146,643	2,178,161	1,164,376	146,643
Bank account blocking (b)	2,902	2,333	6,051	2,902	2,333	6,051
Electronic network interconnection services between health operators (c)	-	-	-	5,624	4,534	3,943
Meal ticket and transport card capture and processing (d)	3,799	3,351	3,353	3,799	3,351	3,353
Receivables from mobile payment services (e)	-	-	-	11,743	-	-
Other receivables	<u>8,053</u>	<u>4,190</u>	<u>2,953</u>	<u>8,053</u>	<u>4,190</u>	<u>2,953</u>
Total	<u>2,192,915</u>	<u>1,174,250</u>	<u>159,000</u>	<u>2,210,282</u>	<u>1,178,784</u>	<u>162,943</u>

- (a) On September 1, 2008 and January 5, 2009, the Company started to provide prepayment services of receivables in cash and in installments, respectively, to affiliated merchants. As of December 31, 2010, the balance corresponds to prepayment of receivables transactions receivable from the issuing banks within up to 360 days after the date receivables are prepaid to merchants.

As of December 31, 2010, this amount is net of the present value adjustment related to the financial income received prior to the date of release of the cash amount of R\$76,333 (R\$35,266 as of December 31, 2009).

- (b) The Company offers card-issuing banks bank account blocking services upon prior approval from merchants to block any transfer of receivables from such merchants to another bank. For these services, the Company receives a commission, which is paid in the month subsequent to the request of the bank account blocking by the card-issuing banks.
- (c) Receivables from the jointly-owned subsidiary Orizon arising from the provision of electronic network interconnection services, based on a single technology platform, for exchange of information between health operators and medical and hospital service providers, and any other health system agents and drugstores.
- (d) Receivables from Companhia Brasileira de Soluções e Serviços (CBSS) arising from the provision of transportation and meal tickets card capture and processing services.
- (e) Receivables from electronic payment services provided by subsidiaries M4 Produtos and Multidisplay through cell phones and sale of phone credits with credit and debit cards.

The aging of trade accounts receivable is as follows:

	Company			Consolidated		
	<u>2010</u>	<u>2009</u>	<u>1/1/2009</u>	<u>2010</u>	<u>2009</u>	<u>1/1/2009</u>
Current	2,192,681	1,170,768	157,054	2,210,048	1,175,302	160,997
Overdue for up to 45 days	<u>234</u>	<u>3,482</u>	<u>1,946</u>	<u>234</u>	<u>3,482</u>	<u>1,946</u>
Total	<u>2,192,915</u>	<u>1,174,250</u>	<u>159,000</u>	<u>2,210,282</u>	<u>1,178,784</u>	<u>162,943</u>

7. RECEIVABLES - SECURITIZATION ABROAD

Refer to receivables from Banco Bradesco S.A. and Banco do Brasil S.A., contracted in July 2003, in the amount of US\$500 million, divided into US\$100 million and US\$400 million, respectively, with interest rates of 4.777% and 5.911% per year, for quarterly payments over a period of eight years and a grace period of two years.

As of December 31, 2010, the principal receivable from Banco Bradesco S.A. and Banco do Brasil S.A. totals R\$42,027 (R\$206,295 as of December 31, 2009, of which R\$42,445 was classified in noncurrent based on the maturity schedule).

Interest is received and paid in advance, on a quarterly basis, and recorded in line items 'Interest receivable - securitization abroad' and 'Interest payable - securitization abroad', and totals R\$956 (R\$2,914 as of December 31, 2009).

These receivables were contracted at the same rates and terms as the Company's obligation to Brazilian Merchant Voucher Receivables Limited, a special purpose entity established in Grand Cayman (note 19).

8. DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

Deferred income tax and social contribution arise from temporary differences mainly due to temporarily nondeductible provisions and are recorded in noncurrent assets.

Deferred income tax and social contribution reflect the tax effects attributable to temporary differences between the tax base of assets and liabilities and their reported amounts in the financial statements. Reported amounts are monthly reviewed.

Deferred income tax and social contribution are as follows:

	Company			Consolidated		
	<u>2010</u>	<u>2009</u>	<u>1/1/2009</u>	<u>2010</u>	<u>2009</u>	<u>1/1/2009</u>
Temporary differences:						
Reserve for contingencies	165,934	159,681	121,007	175,496	169,100	132,343
Accrual for sundry expenses	64,065	37,359	31,350	53,520	38,014	33,245
Discount to present value of prepayment of receivables	13,963	11,990	-	13,963	11,990	-
Allowance for losses on POS equipment	1,362	970	1,541	1,362	970	1,541
Allowance for losses on deferred expenses	-	-	-	10,875	1,926	2,269
Total	<u>245,324</u>	<u>210,000</u>	<u>153,898</u>	<u>255,216</u>	<u>222,000</u>	<u>169,398</u>

9. INVESTMENTS IN SUBSIDIARIES AND JOINTLY-OWNED SUBSIDIARIES

	<u>2010</u>	<u>2009</u>	<u>1/1/2009</u>
Subsidiaries	44,253	4,092	46,826
Jointly-owned subsidiaries	<u>31,835</u>	<u>24,989</u>	-
Total	<u>76,088</u>	<u>29,081</u>	<u>46,826</u>

Main information on subsidiaries, jointly-owned subsidiaries and indirect subsidiaries:

	<u>Shareholders' equity</u>		<u>Net income (loss)</u>		<u>Equity interest - %</u>		<u>Equity in subsidiaries</u>		<u>Investments</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Servinet	17,902	4,096	2,807	3,401	99.99	99.99	2,807	3,401	17,902	4,096
Servrede	26,350	(4)	719	(72)	99.99	99.99	719	(72)	26,350	(4)
CBGS Ltda. (a)	-	31,749	-	(12,900)	-	99.99	-	(1,836)	-	-
CBGS (b) (d)	-	75,384	-	(36,368)	-	40.95	-	312	-	24,989
Orizon (c), (d), (e)	92,101	-	4,472	-	40.95	-	1,831	-	31,835	-
Cielo Par	1	-	-	-	99.99	-	-	-	1	-
Total							<u>5,357</u>	<u>1,805</u>	<u>76,088</u>	<u>29,081</u>

	<u>Shareholders' equity</u>		<u>Net income (loss)</u>		<u>Equity interest - %</u>		<u>Equity in subsidiaries</u>		<u>Investments</u>	
	<u>1/1/2009</u>	<u>1/1/2009</u>	<u>1/1/2009</u>	<u>1/1/2009</u>	<u>1/1/2009</u>	<u>1/1/2009</u>	<u>1/1/2009</u>	<u>1/1/2009</u>	<u>1/1/2009</u>	<u>1/1/2009</u>
Servinet		28,500		3,679		99.99		3,679		28,500
Servrede		2		(7)		99.99		17		2
CBGS Ltda.		18,324		(70,017)		99.99		(70,017)		18,324
Total								<u>(66,321)</u>		<u>46,826</u>

Indirect jointly-owned subsidiaries:

	<u>Shareholders' equity</u>		<u>Net income (loss)</u>		<u>Equity interest - %</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Orizon	-	18,724	-	1,007	-	40.95
Prevsau de (e)	(93)	1,854	(946)	839	40.95	40.95
Precisa (e)	8,855	2,467	(30)	34	40.95	40.95
Multidisplay (c) (e)	7,674	-	611	-	50.10	-
M4 Produtos (c) (e)	6,859	-	480	-	50.10	-

(a) In November 2009, CBGS Ltda. was merged into the indirect subsidiary CBGS.

(b) In December 2009, jointly-owned subsidiary CBGS was merged into Orizon, then its subsidiary.

(c) Beginning January 1, 2010, after the merger of CBGS, the Company became a direct holder of Orizon, then its indirect subsidiary.

(d) The amount of R\$5,880 is not reflected in the investment because it refers to the unrealized gain on capital contribution with goodwill, initially reflected in CBGS Ltda. and transferred to the indirect subsidiary CBGS as a result of the merger.

(e) The financial statements of November 30, 2010 and 2009 were used for the purpose of calculating investments as of December 31, 2010 and 2009, respectively.

Changes in investments for the year ended December 31, 2010 are as follows:

December 31, 2009	29,081
Capital increase in subsidiaries:	
Servinet	11,000
Servrede	25,635
Orizon	5,015
Equity in subsidiaries	<u>5,357</u>
December 31, 2010	<u>76,088</u>

10. PROPERTY AND EQUIPMENT

	Annual depreciation rate - %	Company				
		2010			2009	1/1/2009
		Cost	Accumulated depreciation	Net	Net	Net
POS equipment (*)	33	698,744	(371,802)	326,942	270,478	185,419
Data processing equipment	20	25,799	(16,811)	8,988	8,659	7,666
Machinery and equipment	10	67,402	(63,567)	3,835	3,574	7,082
Facilities	10	9,139	(6,397)	2,742	2,150	1,466
Furniture and fixtures	10	5,157	(2,176)	2,981	2,377	2,220
Vehicles	20	<u>1,450</u>	<u>(440)</u>	<u>1,010</u>	<u>938</u>	<u>275</u>
Total		<u>807,691</u>	<u>(461,193)</u>	<u>346,498</u>	<u>288,176</u>	<u>204,128</u>

	Annual depreciation rate - %	Consolidated				
		2010			2009	1/1/2009
		Cost	Accumulated depreciation	Net	Net	Net
POS equipment (*)	33	701,748	(374,260)	327,488	271,394	186,645
Data processing equipment	20	33,713	(21,768)	11,945	9,171	8,082
Machinery and equipment	10	71,444	(67,150)	4,294	3,798	7,177
Facilities	10	21,705	(11,170)	10,535	7,187	7,324
Furniture and fixtures	10	8,641	(3,623)	5,018	3,585	3,638
Vehicles	20	<u>1,478</u>	<u>(468)</u>	<u>1,010</u>	<u>986</u>	<u>429</u>
Total		<u>838,729</u>	<u>(478,439)</u>	<u>360,290</u>	<u>296,121</u>	<u>213,295</u>

(*) As of December 31, 2010 and 2009, obsolescence reserves for POS equipment were recorded in the amounts of R\$4,007 and R\$2,851, respectively, as a reduction of the related account.

Changes in property and equipment for the year ended December 31, 2010 is as follows:

	Company				
	2009	Additions/ transfers	Write- offs	Depreciation	2010
POS equipment	270,478	233,735	(9,888)	(167,383)	326,942
Data processing equipment	8,659	3,784	-	(3,455)	8,988
Machinery and equipment	3,574	2,924	(117)	(2,546)	3,835
Facilities	2,150	1,255	(358)	(305)	2,742
Furniture and fixtures	2,377	987	(7)	(376)	2,981
Vehicles	<u>938</u>	<u>339</u>	<u>-</u>	<u>(267)</u>	<u>1,010</u>
Total	<u>288,176</u>	<u>243,024</u>	<u>(10,370)</u>	<u>(174,332)</u>	<u>346,498</u>

	Consolidated					2010
	2009	Additions/ transfers	Write- offs/ reversals	Depreciation	Merged net assets	
POS equipment	271,394	233,737	(9,901)	(167,742)	-	327,488
Data processing equipment	9,171	4,971	(57)	(3,904)	1,764	11,945
Machinery and equipment	3,798	3,196	(117)	(2,594)	11	4,294
Facilities	7,187	5,286	(814)	(1,340)	216	10,535
Furniture and fixtures	3,585	1,943	(8)	(596)	94	5,018
Vehicles	986	339	(45)	(270)	-	1,010
Total	<u>296,121</u>	<u>249,472</u>	<u>(10,942)</u>	<u>(176,446)</u>	<u>2,085</u>	<u>360,290</u>

As of December 31, 2010 and 2009, property and equipment arising from finance lease transactions are represented only by assets classified as data processing equipment in the net amounts of R\$409 and R\$2,215, respectively. Average term of depreciation for this equipment is approximately three years. The depreciation of IT equipment purchased through lease transactions for the years ended December 31, 2010 and 2009, recorded in 'General and administrative expenses', total R\$1,806 and R\$3,988, respectively.

As of December 31, 2010 and 2009, the Company does not have finance leases payable.

11. GOODWILL ON ACQUISITION OF INVESTMENTS

The breakdown of goodwill as of December 31, 2010 is as follows:

	<u>Company</u>	<u>Consolidated</u>
Health Project:		
Goodwill on acquisition of subsidiary (a)	26,269	26,269
Reclassification of the tax benefit from the goodwill merged into Orizon	-	13,532
Previsaúde	-	3,019
Precisa	-	1,385
M4U	-	31,348
	<u>26,269</u>	<u>75,553</u>
Allowance for losses on goodwill	(16,126)	(16,126)
Unrealized income (b)	-	(5,648)
Total	<u>10,143</u>	<u>53,779</u>

(a) In the calculation of the equity in subsidiaries on subsidiaries CBGS Ltda. and CBGS in 2009, the effects of the Provision for Maintenance of Integrity of Shareholders' Equity (PMIPL) in the amount of R\$11,064 and R\$15,205, respectively, were eliminated, since the effects related to the goodwill originally reported therein have been reflected in the parent company, as established by CVM Instructions 319/99 and 349/01, considering that the mergers carried out in 2009 did not change the economic substance of that goodwill. The recognition of the goodwill was recorded under "Other operating (expenses) income, net".

- (b) Refers to the elimination of the capital gain in the consolidated financial statements, generated by CBGS Ltda.'s investment at market value in Orizon, its jointly-owned subsidiary CBGS at the time, in the proportion of CBGS Ltda.'s interest in CBGS, as described in note 1.

Health Project:

As discussed in note 1, on January 2, 2008, CBGS subscribed 693,480 new common shares without par value in favor of its parent company CBGS, for R\$139,045, which represented its fair value as of that date.

As part of the payment, CBGS Ltda. delivered all the shares of Polimed and Dativa in the amount of R\$71,691 and transferred these subsidiaries' goodwill on acquisition of third parties in the amounts of R\$47,145 and R\$9,108, respectively, net of the amortization incurred through the transaction date, which generated payables of R\$67,354 within 2 years after the transaction. In addition, as a result of the portion paid in cash, CBGS Ltda. generated goodwill of R\$16,764, net of the allowance for losses and amortization incurred through December 31, 2008.

The goodwill generated in CBGS Ltda.'s capital subscription process is as follows:

	<u>Goodwill</u>	<u>Equity interest %</u>	<u>Net</u>
Goodwill recorded in CBGS Ltda. arising from the acquisition of 40.95% interest in CBGS	55,880	99.99	55,880
Allowance for losses on goodwill	<u>(39,116)</u>	99.99	<u>(39,116)</u>
	16,764		16,764
Goodwill recorded in jointly-owned subsidiary CBGS:			
Orizon	47,145	40.95	19,306
Dativa	<u>9,108</u>	40.95	<u>3,731</u>
	<u>73,017</u>		<u>39,801</u>

Acquisition of control - Prevsáude and Precisa

As described in note 1, on March 16, 2009, jointly-owned subsidiary CBGS acquired all the shares of Prevsáude and Precisa. The investment recorded by CBGS includes a share premium amounting to R\$10,753, recorded as goodwill, which is based on expected future earnings of the companies based on the increase in operations expected for the coming years.

	<u>Goodwill</u>	<u>Equity interest %</u>	<u>Net</u>
Prevsaúde	7,372	40.95	3,019
Precisa	<u>3,381</u>	40.95	<u>1,385</u>
	<u>10,753</u>		<u>4,404</u>

Acquisition of control - M4U

As described in note 1, in August 2010 subsidiary Servrede acquired 50.1% of the shares of Multidisplay and its wholly-owned subsidiary M4 Produtos. Under CPC 15 - Business Combinations, the goodwill was measured as the amount by which the sum up of: i) the consideration transferred as payment for the control of the acquiree, and ii) the amount of the noncontrolling interest on the acquiree exceeded the fair value (on the date of acquisition) of the identifiable assets acquired.

The amount of the investment recorded by Servrede includes the goodwill on acquisition of shares in the amount of R\$31,348, generated as follows:

Net assets acquired	2,300
(-) Total consideration paid	<u>50,650</u>
	48,350
Fair value of assets acquired	<u>17,002</u>
Goodwill	<u>31,348</u>

The fair value of the service agreements, software platform and non-compete clauses (identifiable assets acquired) of M4U in August 2010 were recognized based in the appraisal report prepared by independent appraisers. The assessment, which is in accordance with the International Valuation Standards, was conducted based on market evidences related to the prices of similar transactions.

12. OTHER INTANGIBLE ASSETS

	Annual amortization rate - %	Company				
		2010			2009	1/1/2009
		<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net</u>	<u>Net</u>	<u>Net</u>
Software licenses (a)	20	84,613	(64,601)	20,012	26,689	35,100
Project development (b)	20	<u>24,614</u>	<u>(4,559)</u>	<u>20,055</u>	<u>13,478</u>	<u>13,147</u>
		<u>109,227</u>	<u>(69,160)</u>	<u>40,067</u>	<u>40,167</u>	<u>48,247</u>
	Annual amortization rate - %	Consolidated				
		2010			2009	1/1/2009
		<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net</u>	<u>Net</u>	<u>Net</u>
Software licenses (a)	20	93,933	(68,486)	25,447	27,806	35,928
Project development (b)	20	22,414	(4,559)	17,855	13,478	19,820
Non-compete agreements (c)	13.5	15,197	(439)	14,758	-	-
Service agreements (c)	4	17,810	(364)	17,446	-	-
Allowance for losses on projects		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,673)</u>
		<u>149,354</u>	<u>(73,848)</u>	<u>75,506</u>	<u>41,284</u>	<u>49,075</u>

- (a) Refers to items acquired from third parties and used to provide customers' data and business transactions processing services. There is no individually material software. Additionally, as of December 31, 2010, the provision for discontinued software of R\$2,200 is recorded as a reduction of the balance in the related account.
- (b) Represents expenses on the development of new products and services to increase the Company's and its subsidiaries' invoicing and revenues.
- (c) Correspond to allocations of goodwill on the acquisition of control of M4 Produtos and Multidisplay determined based on an appraisal report prepared by a specialized company on the acquisition date. The main components of calculation of intangible assets are:
- The amount of the non-compete agreement ('With and without') was calculated through the Income Approach methodology, by using a discount rate of 17.5% p.a., perpetuity of 4% p.a. and estimated useful life of 89 months.
 - The four service agreements with telecommunication operators were measured based on the discounted cash flow of each agreement, by using a discount rate of 16.5% p.a., during the residual life of each agreement, of approximately 53 months.

Changes in intangible assets for the year ended December 31, 2010 are as follows:

	Company			
	<u>2009</u>	<u>Additions</u>	<u>Amortization</u>	<u>2010</u>
Software licenses	26,689	8,159	(12,636)	22,212
Project development	<u>13,478</u>	<u>7,422</u>	<u>(3,045)</u>	<u>17,855</u>
Total	<u>40,167</u>	<u>15,581</u>	<u>(15,681)</u>	<u>40,067</u>

	Consolidated					
	<u>2009</u>	<u>Additions/ transfers</u>	<u>Write-offs/ reversals</u>	<u>Amortization</u>	<u>Merged net assets</u>	<u>2010</u>
Software licenses	27,806	9,322	(88)	(13,077)	1,484	25,447
Project development	13,478	7,422	-	(3,045)	-	17,855
Non-compete agreements	-	15,197	-	(439)	-	14,758
Service agreements	-	<u>17,810</u>	-	<u>(364)</u>	-	<u>17,446</u>
Total	<u>41,284</u>	<u>49,751</u>	<u>(88)</u>	<u>(16,925)</u>	<u>1,484</u>	<u>75,506</u>

Amortization expenses of intangible assets were recorded in line item 'General and administrative expenses' in the statement of income.

13. TRANSACTIONS PENDING TRANSFER

The amounts due by credit cardholders through the card-issuing banks and the amounts to be transferred to merchants are recorded in memorandum accounts. As of December 31, 2010, the balances are R\$26,610,870 (R\$25,963,741 as of December 31, 2009) and R\$27,779,310 (R\$26,631,263 as of December 31, 2009), respectively.

In addition to the provision of services consisting of the transfer of credit card transaction amounts between the card-issuing banks and the merchants, the Company also guarantees accredited merchants that they will receive the amounts paid with credit cards.

As described in note 25.b), the Company has an instrument to mitigate the credit risk of card-issuing banks, used as a hedge against the risk of default by such banks. Based on the immaterial historical amount of the Company's losses due to default from card-issuing banks and the current credit risks of these financial institutions, the Company estimates that the fair value of the guarantees provided to merchants is immaterial and, therefore, is not recognized as a liability.

14. PAYABLES TO MERCHANTS

The balance of R\$1,168,440 as of December 31, 2010 (R\$667,522 as of December 31, 2009) corresponds to the difference between the amounts received from cardholders through the card-issuing banks and the amounts to be transferred to merchants. In general, the period of collection from card-issuing banks is 27 days and the average period for payment to merchants is 30 days from the date of transaction. Therefore, the balance payable as of December 31, 2010 refers to a float of approximately three days.

15. TRADE ACCOUNTS PAYABLE

	Company			Consolidated		
	<u>2010</u>	<u>2009</u>	<u>1/1/2009</u>	<u>2010</u>	<u>2009</u>	<u>1/1/2009</u>
Trade accounts payable	59,115	63,782	20,903	69,583	66,156	22,877
Accrued payments to suppliers	<u>86,760</u>	<u>50,261</u>	<u>73,208</u>	<u>111,178</u>	<u>50,287</u>	<u>73,727</u>
Total	<u>145,875</u>	<u>114,043</u>	<u>94,111</u>	<u>180,761</u>	<u>116,443</u>	<u>96,604</u>

16. TAXES PAYABLE

	Company			Consolidated		
	<u>2010</u>	<u>2009</u>	<u>1/1/2009</u>	<u>2010</u>	<u>2009</u>	<u>1/1/2009</u>
Income tax and social contribution, net of prepayments	370,915	389,520	248,630	371,947	388,289	248,525
Service tax (ISS)	5,994	5,452	4,636	6,625	6,098	5,477
Withholding income tax (IRRF)	8,056	5,103	5,270	8,525	5,016	5,661
Tax on revenue (COFINS)	14,676	13,411	12,016	15,217	13,928	12,430
Tax on revenue (PIS)	5,588	2,935	2,699	5,835	3,051	2,798
Other	<u>122</u>	<u>239</u>	<u>127</u>	<u>893</u>	<u>563</u>	<u>175</u>
Total	<u>405,351</u>	<u>416,660</u>	<u>273,378</u>	<u>409,042</u>	<u>416,945</u>	<u>275,066</u>

17. OTHER PAYABLES

	Company			Consolidated		
	<u>2010</u>	<u>2009</u>	<u>1/1/2009</u>	<u>2010</u>	<u>2009</u>	<u>1/1/2009</u>
Current liabilities:						
Accrual for sundry expenses	20,506	17,751	18,057	20,779	21,861	19,864
Accrued vacation and related taxes	15,939	14,037	12,433	22,648	19,503	17,374
Profit sharing	34,796	28,602	15,253	43,755	36,619	20,743
Other	<u>8,607</u>	<u>1,716</u>	<u>2,220</u>	<u>10,015</u>	<u>2,058</u>	<u>8,545</u>
Total	<u>79,848</u>	<u>62,106</u>	<u>47,963</u>	<u>97,197</u>	<u>80,041</u>	<u>66,526</u>
Noncurrent liabilities:						
Payables on the acquisition of subsidiaries (a)	-	-	-	25,050	-	-
Accrual for management retention plan (b)	5,452	-	-	5,452	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,084</u>	<u>233</u>	<u>740</u>
Total	<u>5,452</u>	<u>-</u>	<u>-</u>	<u>31,586</u>	<u>233</u>	<u>740</u>

- (a) Remaining balance payable for the acquisition of Multidisplay and M4 Produtos, contingent to the attainment of certain financial performance goals, as described in note 1.
- (b) Refers to the Management Retention Plan, approved by the Board of Directors in November 2009, applicable to the Company's main executive officers that takes into consideration their performance and permanence in the Company for a period of three years; the expense and related reserve is recognized during the validity of the plan.

18. RESERVE FOR CONTINGENCIES AND ESCROW DEPOSITS

a) Reserve for contingencies

The Company and its subsidiaries are parties to lawsuits and administrative proceedings before courts and governmental bodies, arising in the normal course of business and involving tax, labor and civil matters.

Management, based on information and assessments made by its legal counsel, through the review of pending civil and labor lawsuits and, based on past experience on the amounts claimed in lawsuits, has recognized a reserve in an amount considered sufficient to cover probable losses on pending proceedings, as follows:

	Company					
	<u>2009</u>	<u>Additions</u>	<u>Write-offs/</u>	<u>Inflation</u>	<u>Payments</u>	<u>2010</u>
		<u>(a)</u>	<u>reversals (b)</u>	<u>adjustment</u>	<u>(c)</u>	
Tax	463,069	126,299	(28,915)	640	(87,053)	474,040
Civil	11,364	1,914	(6,889)	1,503	(519)	7,373
Labor	<u>8,075</u>	<u>5,490</u>	<u>(228)</u>	<u>350</u>	<u>-</u>	<u>13,687</u>
	<u>482,508</u>	<u>133,703</u>	<u>(36,032)</u>	<u>2,493</u>	<u>(87,572)</u>	<u>495,100</u>

	Consolidated					
	<u>2009</u>	<u>Additions</u> <u>(a)</u>	<u>Write-offs/</u> <u>reversals (b)</u>	<u>Inflation</u> <u>adjustment</u>	<u>Payments</u> <u>(c)</u>	<u>2010</u>
Tax	484,446	134,243	(35,609)	656	(87,053)	496,683
Civil	11,368	1,914	(6,893)	1,503	(519)	7,373
Labor	<u>15,764</u>	<u>6,326</u>	<u>(3,020)</u>	<u>507</u>	<u>-</u>	<u>19,577</u>
	<u>511,578</u>	<u>142,483</u>	<u>(45,522)</u>	<u>2,666</u>	<u>(87,572)</u>	<u>523,633</u>

- (a) Correspond basically to the increase in reserve for contingencies for the year ended December 31, 2010, related to suspended taxes, recorded as a contra entry to 'General and administrative expenses' and 'Other operating (expenses) income, net' in the statement of income.
- (b) Basically represented by the reversal of the reserve for tax contingencies due to toll of statute of limitation or change in the opinion of the Company's legal counsel as to the likelihood of loss.
- (c) Represented mainly by the settlement of the lawsuits brought by the Company as of January 2003, which challenged in court the increase of the tax on revenue (PIS) rate to 1.65%. This payment was made through the calculation of the related escrow deposit by the National Treasury Attorney General on behalf of the Federal Revenue Service.

Civil lawsuits

Refer basically to collection of transactions made through the Company's system that were not transferred to merchants in view of noncompliance with clauses of the affiliation contract, and compensation for losses caused by transactions not transferred at that time. As of December 31, 2010, the reserve for probable losses on civil lawsuits totals R\$7,373 (Company and Consolidated).

In addition, as of December 31, 2010, the Company is a party to public civil lawsuits and civil investigations, most of them filed by the Public Prosecution Office or professional associations, whose intention is to defend collective interests (such as consumer rights and labor rights). Judicial decisions may grant rights to groups of people (even without their consent). In many situations, the group that will benefit from a favorable outcome will only be defined after the final decision.

Labor lawsuits

Include 191 labor lawsuits against Cielo and 71 labor lawsuits against Servinet as of December 31, 2010, 92 of which had been filed by former employees. The remaining labor lawsuits, totaling 170, were filed by subcontractors, some of whom claiming the recognition of an employment relationship.

Labor lawsuits, when started, are considered of possible likelihood of loss. Only after the court decision is issued, the lawsuits are reclassified to probable or remote loss, depending on the decision and based on the history of losses on similar lawsuits. In general, considering the history of losses, labor lawsuits are related to salary equalization, overtime, annual bonus, rights guaranteed by agreements between the employer and the labor union, recognition of employment relationship, tenure after occupational disease, and pain and suffering.

As of December 31, 2010, the reserve for probable losses on labor lawsuits amounts to R\$13,687 (Company) and R\$19,577 (consolidated).

Tax lawsuits

Refer to differences in interpretation by tax authorities, especially regarding:

- COFINS - non-cumulativeness - in February 2004, the Company and its subsidiary Servinet filed an injunction to avoid payment of COFINS according to Law 10833/03 that requires the noncumulative calculation at the rate of 7.60%, and began to make escrow deposits for amounts determined monthly. As a result, the difference between the COFINS due calculated based on the rate established by the cumulative and noncumulative calculation method is being recorded as reserve for contingencies since then. Escrow deposits have been made for unpaid COFINS amounts. As of December 31, 2010, the accrued balance is R\$461,996 - Company (R\$482,553 - consolidated) and the balance of escrow deposits is R\$450,820 - Company (R\$472,017 - consolidated). The lawsuit is awaiting judgment of the Federal Supreme Court.
- Amazon Investment Fund (FINAM) - in 2007, the Company received a tax assessment notice for calendar 2002, FY 2003. The Federal Revenue Service alleges that the Request for Review of Tax Incentive Issue Order (PERC) was not filed within the statutory deadline and, therefore, they do not recognize the portion of Corporate Income Tax (IRPJ) related to FINAM. The Company awaits the distribution of the Voluntary Appeal to the Panel of the Board of Tax Appeals. As of December 31, 2010, the accrued balance is R\$11,450 (Company and consolidated).
- Provisional Act 212/95 PIS/PASEP - in April 1997, the subsidiary Servinet was granted an injunction that exempted it from the payment of PIS based on billings. The Federal Government filed an appeal that was upheld by the court. On August 26, 2010, the subsidiary filed a debt expiration claim with the Third Region Finance Attorney of São Paulo. As of December 31, 2010, the accrued balance is R\$1,675 (consolidated).

The Company and its subsidiaries are challenging other interpretations of the law by tax authorities and, therefore, as of December 31, 2010, recognized reserves for contingencies totaling R\$594 (Company) and R\$1,005 (consolidated).

The management of the Company and its subsidiaries, based on the opinion of their legal counsel, believes that the actual disbursement of the reserves for contingencies will not occur before December 31, 2015.

Additionally, as of December 31, 2010, the Company and its subsidiaries are parties to tax, civil and labor lawsuits assessed by their legal counsel as possible likelihood of losses, for which no reserve was recorded, as follows:

	<u>Company</u>	<u>Consolidated</u>
Tax	49,740	97,415
Civil	96,124	96,124
Labor	<u>12,758</u>	<u>12,758</u>
Total	<u>158,622</u>	<u>206,297</u>

b) Escrow deposits

As of December 31, 2010, the Company and its subsidiaries have escrow deposits related to the reserves for tax, labor and civil contingent liabilities, broken down as follows:

	<u>Company</u>			
	<u>2009</u>	<u>Addition</u>	<u>Write-off</u>	<u>2010</u>
Tax	430,881	135,528	(102,367)	464,042
Civil	<u>2,399</u>	<u>3,773</u>	<u>(2,969)</u>	<u>3,203</u>
Total	<u>433,280</u>	<u>139,301</u>	<u>(105,336)</u>	<u>467,245</u>

	<u>Consolidated</u>			
	<u>2009</u>	<u>Addition</u>	<u>Write-off</u>	<u>2010</u>
Tax	452,078	135,951	(102,433)	485,596
Civil	3,188	4,425	(4,025)	3,588
Labor	<u>26</u>	<u>-</u>	<u>(6)</u>	<u>20</u>
Total	<u>455,292</u>	<u>140,376</u>	<u>(106,464)</u>	<u>489,204</u>

19. PAYABLES - SECURITIZATION ABROAD

Refer to the securitization transaction described in notes 1 and 7, representing the Company's obligation to deliver receivables denominated in foreign currency that were generated or to be generated by the Company against Visa International Service Association, arising mainly from purchases of goods/services with VISA credit and debit cards at Brazilian merchant outlets by individuals residing and domiciled abroad, which were the subject matter of an agreement for assignment of future flow of receivables to Brazilian Merchant Voucher Receivables Limited, a special purpose company established in Grand Cayman, which issued securities in the international market, backed by receivables assigned by the Company.

Pursuant to the indenture, Brazilian Merchant Voucher Receivables Limited will pay total obligations in connection with the securitization transaction with the flow of receivables in foreign currency from Visa International Services Association.

The banks participating in this transaction (Banco Bradesco S.A. and Banco do Brasil S.A.) entered into a cross guarantee agreement whereby, in the event of default by one of the parties, the other party guarantees the transaction and has the right to exercise the stock option for all or a part of the interest held by the default bank in the Company.

The amortization period of the amount recorded in current liabilities as of December 31, 2010 matures in the first-half of 2011 and the payment schedule of the short-term portion is the schedule disclosed in note 7.

20. SHAREHOLDERS' EQUITY

a) Capital

Capital as of December 31, 2010 and 2009 is represented by 1,364,783,800 common shares, fully subscribed and paid-in. As commented in item (g) below, due to the changes in treasury shares, the number of shares outstanding as of December 31, 2010 is 1,360,286,034 (1,360,251,500 shares as of December 31, 2009).

The Annual and Extraordinary Shareholders Meeting held on April 30, 2010 approved the capital increase of R\$24,621, from R\$75,379 to R\$100,000, with no issuance of new shares. The legal reserve balance of R\$15,076 and the earnings retention reserve of R\$9,545 were used in the capital increase.

b) Capital reserve

Represents share-based payment costs and goodwill on the subscription of shares related to capital contributions by shareholders exceeding the amount allocated to capital formation.

The capital reserve is R\$83,532 as of December 31, 2010 (R\$72,305 as of December 31, 2009).

c) Earnings reserve - legal

Recognized with amounts corresponding to 5% of net income for the year, pursuant to Article 193 of Law 6,404/76, up to the limit of 20% of capital.

The earnings reserve - legal is R\$20,000 as of December 31, 2010 (R\$15,076 as of December 31, 2009).

d) Earnings reserve - capital budget

The Annual and Extraordinary Shareholders' Meeting held on March 30, 2010 approved the capital budget proposed by the Company's management, pursuant to Article 196 of Law 6,404/76 and Article 5, sole paragraph, of CVM Instruction 469, of May 2, 2008. Said reserve is aimed to allow future share buybacks.

The capital budget reserve balance is R\$143,836 as of December 31, 2010.

e) Earnings retention

As of December 31, 2010, the balance of the “Earnings retention” reserve of R\$901,236 is composed of the net income for the year then ended in the amount of R\$1,829,334, less the legal reserve of R\$20,000, the prepayment of dividends and interest on capital in the amount of R\$790,140 and the proposed dividends and interest on capital at yearend in the amount of R\$117,958.

The allocation of the “Earnings retention” reserve will be decided in the next Annual Shareholders’ Meeting.

f) Dividends and interest on capital

Dividends are recognized as liabilities when approved by the Company’s shareholders. Under Company’s bylaws, shareholders are entitled to a minimum dividend of 50% of net income after the recognition of the legal reserve of 5% of net income for the year until the reserve equals 20% of the capital. The allocation of any remaining balance of net income is decided at the Shareholders’ Meeting. At year-end, the Company accrues the minimum dividends not paid during the year up to the limit of the previously mentioned minimum mandatory dividend.

The Board of Directors decided in the meeting held on March 4, 2010 to distribute the balance of net income, based on the financial statements for the year ended December 31, 2009, totaling R\$613,516, of which R\$9,741 was distributed as interest on capital and R\$603,775 as dividends. These amounts were paid to shareholders on March 31, 2010.

In addition, pursuant to the minutes of the meeting held on September 1, 2010, the Board of Directors approved the distribution of net income for the six-month period ended June 30, 2010 in the amount of R\$790,140, of which R\$16,199 was distributed as interest on capital and R\$773,941 as dividends. Proceeds were paid to shareholders on September 30, 2010.

As of December 31, 2010, R\$110,722 and R\$7,236 were recognized as proposed dividends and interest on capital, respectively, corresponding to the balance of minimum mandatory dividends calculated on the net income for the year then ended.

g) Treasury shares

On November 23, 2009, the Company’s Board of Directors, in compliance with Article 17 of its bylaws, Article 30 of Law 6,404/76, CVM Instruction 10/80, as subsequently amended, and CVM Instruction 358/02, as subsequently amended, approved the buyback of up to 6,000,000 common shares without par value, to be canceled, sold or held in treasury and, primarily, to meet the exercise of the options granted under the Company’s Stock Option Plan, with no capital reduction, within 180 days from that date, expiring, therefore, on May 21, 2010. In addition, these share buybacks are limited to the balance available in the capital reserve calculated in the year, pursuant to Articles 1 and 12 of CVM Instruction 10/80.

The Company's management should define the number of shares that will be bought back, within the authorized limits, and the buyback timing.

Changes in treasury shares are stated as follows:

	<u>Shares</u>	<u>Amount</u>	<u>Average price - R\$ per share</u>
Opening balance as of December 31, 2009	4,532,300	(69,228)	15.27
Buyback - May 2010	188,000	(3,001)	15.96
Exercise of stock options:			
July 2010	(91,265)	1,397	15.30
August 2010	(73,832)	1,130	15.30
September 2010	(6,956)	106	15.30
October 2010	(21,898)	335	15.30
November 2010	(8,800)	135	15.30
December 2010	<u>(19,783)</u>	<u>303</u>	<u>15.32</u>
Closing balance as of December 31, 2010	<u>4,497,766</u>	<u>(68,823)</u>	<u>15.32</u>

The shares bought back will be held in treasury to be later disposed of, cancelled or used in the future exercise of stock options granted to the Company's officers and employees.

21. EARNINGS PER SHARE

a) Change in the number of common shares:

<u>Shares issued</u>	<u>Common shares</u>
Shares as of December 31, 2008 (*)	1,364,783,800
Buyback of shares into treasury - November 2009	(513,100)
Buyback of shares into treasury - December 2009	<u>(4,019,200)</u>
Shares as of December 31, 2009	1,360,251,500
Buyback of shares into treasury - May 2010	(188,000)
Exercise of stock options - July 2010	91,265
Exercise of stock options - August 2010	73,832
Exercise of stock options - September 2010	6,956
Exercise of stock options - October 2010	21,898
Exercise of stock options - November 2010	8,800
Exercise of stock options - December 2010	<u>19,783</u>
Shares as of December 31, 2010	<u>1,360,286,034</u>

(*) Considering the 2-for-1 stock split undertaken on September 22, 2008.

b) Earnings per share

In compliance with CPC 41 and IAS 33 - Earnings per Share, the following tables reconcile the net earnings and weighted average of outstanding shares with the amounts used to calculate the basic and diluted earnings per share.

Basic earnings per share

	<u>Company</u>		<u>Consolidated</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Net income for the year available to common shares	1,829,334	1,533,794	1,830,914	1,533,794
Weighted average of outstanding shares (in thousands)	<u>1,360,229</u>	<u>1,364,364</u>	<u>1,360,229</u>	<u>1,364,364</u>
Earnings per share (in R\$) - basic	<u>1.3449</u>	<u>1.1242</u>	<u>1.3460</u>	<u>1.1242</u>

Diluted earnings per share

	<u>Company</u>		<u>Consolidated</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Net income for the year available to common shares	1,829,334	1,533,794	1,830,914	1,533,794
Diluted denominator:				
Weighted average of outstanding shares (in thousands)	1,360,229	1,364,364	1,360,229	1,364,364
Potential increase in common shares as a result of the stock option plan	<u>1,493</u>	<u>576</u>	<u>1,493</u>	<u>576</u>
Total (in thousands)	<u>1,361,722</u>	<u>1,364,940</u>	<u>1,361,722</u>	<u>1,364,940</u>
Earnings per share (in R\$) - diluted	<u>1.3434</u>	<u>1.1237</u>	<u>1.3446</u>	<u>1.1237</u>

22. NET REVENUE

	<u>Company</u>		<u>Consolidated</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Commissions	3,103,250	2,649,860	3,103,250	2,649,860
Rental	1,168,832	1,066,386	1,169,895	1,067,136
Other services	105,727	110,479	187,834	135,456
Taxes on services	<u>(450,510)</u>	<u>(392,550)</u>	<u>(468,485)</u>	<u>(407,531)</u>
Total	<u>3,927,299</u>	<u>3,434,175</u>	<u>3,992,494</u>	<u>3,444,921</u>

23. EXPENSES BY NATURE

The Company elected to report the consolidated income and expenses by nature. As required by CPC and IFRS, the breakdown of costs of services and net operating expenses by nature is presented below:

	Company		Consolidated	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Personnel expenses	192,255	164,378	250,535	221,722
Depreciation and amortization	190,013	147,027	193,371	160,271
Professional services	832,047	748,377	773,727	682,628
Other expenses	<u>351,523</u>	<u>276,666</u>	<u>404,240</u>	<u>277,221</u>
Total	<u>1,565,838</u>	<u>1,336,448</u>	<u>1,621,873</u>	<u>1,341,842</u>
Classified as:				
Cost of services	1,110,924	910,698	1,180,827	936,312
Personnel expenses	110,949	79,660	157,790	130,209
General and administrative expenses	214,487	205,912	153,622	147,145
Marketing	123,506	72,866	123,664	72,960
Other operating expenses	<u>5,972</u>	<u>67,312</u>	<u>5,970</u>	<u>55,216</u>
Total	<u>1,565,838</u>	<u>1,336,448</u>	<u>1,621,873</u>	<u>1,341,842</u>

24. FOREIGN BRANCH

The Company conducts operations (note 1) through its branch in Grand Cayman, Cayman Islands. As of December 31, 2010, the balance sheet and income accounts statement of this branch, consolidated with the Company's accounts (parent company), after eliminations, are as follows: current and noncurrent assets of R\$49,765 (R\$215,800 as of December 31, 2009), current and noncurrent liabilities of R\$42,283 (R\$209,270 as of December 31, 2009) and shareholders' equity of R\$6,782 (R\$7,760 as of December 31, 2009). Net income for the year ended December 31, 2010 amounted to R\$252 (R\$1,230 as of December 31, 2009).

In the year ended December 31, 2010, the foreign exchange gains on the translation of the financial statements of the Grand Cayman branch, totaling R\$148 (R\$1,824 as of December 31, 2009) was recorded in line item 'Financial income (expenses)'.

25. RELATED-PARTY TRANSACTIONS

In the normal course of activities, the Company conducts transactions with related parties, such as receivables from card-issuing banks, which are the financial groups in which its controlling shareholders hold interests, and expenses on and income from services provided by Servinet and Orizon.

When conducting its business and engaging services, the Company makes market quotations and surveys intended to find the best technical and pricing terms, and the decision on whether or not a transaction should be conducted is made by the chief decision maker of the function purchasing the product or service, regardless of whether such transaction is conducted with related or unrelated parties.

Also, the type of business conducted by the Company requires it to enter into agreements with several card-issuing entities, some of which are its direct or indirect shareholders. The Company believes that all the agreements entered into with related parties are carried out on an arm's-length basis.

The tables below include the balances as of December 31, 2010 and 2009 and the amounts of transactions with the related parties, broken down by type of agreement, shareholder and subsidiaries, for the years ended December 31, 2010 and 2009:

	Company							2009
	2010							
	Shareholders		Subsidiaries					
	<u>Banco</u> <u>Bradesco S.A.</u>	<u>Banco do</u> <u>Brasil S.A.</u>	<u>Servinet</u>	<u>Orizon</u>	<u>Multidisplay</u>	M4 <u>Produtos</u>	<u>Total</u>	<u>Total</u>
Assets (liabilities):								
Short-term investments (a)	1,444	84,663	-	-	-	-	86,107	449,521
Trade accounts receivable	599	250	-	-	64	415	849	1,447
Receivables - securitization abroad (d)	23,804	19,179	-	-	-	-	42,983	209,209
Receivables from subsidiary	-	-	-	165	-	-	165	2,559
Payables to subsidiaries:	-	-	-	-	-	-	-	-
Service Agreement with Servinet (f)	-	-	(6,565)	-	-	-	(6,565)	(6,324)
Agreement for the transfer of funds (g)	-	-	-	-	(2,857)	(16,524)	(19,381)	-

	Company							2009
	2010							
	Shareholders		Subsidiaries					
	<u>Banco Bradesco S.A.</u>	<u>Banco do Brasil S.A.</u>	<u>Servinet</u>	<u>Orizon</u>	<u>Multidisplay</u>	<u>M4 Produtos</u>	<u>Total</u>	<u>Total</u>
Revenues:								
Income from short-term investments (a)	914	6,703	-	-	391	696	8,704	22,000
Revenue from other services (b)	7,040	2,823	-	-	-	-	9,863	35,161
Revenue from the rental of POS equipment (c)	-	-	-	2,460	-	-	2,460	4,029
Revenue from securitization of receivables abroad (d)	264	212	-	-	-	-	476	472
Expenses:								
Other operating expenses (e)	(13,689)	(6,425)	-	-	-	(711)	(20,825)	(40,360)
Service agreement with Servinet (f)	-	-	(79,300)	-	-	-	(79,300)	(83,991)

(a) The terms, charges and interest rates of short-term investments were agreed under conditions similar to those applicable to unrelated parties.

(b) Corresponds to fraud prevention and bank account blocking services provided by the Company to the shareholder banks and commissions for the processing of transactions for M4 Produtos and Multidisplay. These related-party transactions are carried out at prices and under conditions similar to the transactions carried out with other issuer banks.

(c) See note 6.c).

(d) See note 7.

- (e) Services contracted with shareholder banks, relating to (i) corporate collective life insurance, (ii) health and dental insurance and (iii) private pension agreement. The Company understands that the financial conditions adopted by the shareholder banks in respect of prices, terms and other conditions were applied under conditions similar to those adopted with respect to third parties.
- (f) The Company engaged Servinet to provide POS equipment installation and maintenance service to merchants. The payment for the services provided is determined based on the costs incurred by Servinet when the service is provided, plus taxes and a payment margin.
- (g) Corresponds to balances received from merchants for transactions related to cell phone loading, transferred to the subsidiaries M4 Produtos and Multidisplay.

Main related-party transactions

- Balances of issuer banks

Receivables from issuer banks, whose net amounts are recorded under “Payables to merchants”, refer to the amounts payable by the issuers to the Company arising from the transactions carried out with credit and debit cards, which will be subsequently transferred by the Company to the authorized merchants. These related-party transactions are carried out at prices and under conditions similar to the transactions carried out with other issuers of credit or debit cards authorized by Visa and Mastercard brands.

- Domicile bank incentives

The Company entered into agreements with domicile banks to promote the invoicing of commissions and prepayment of receivables. In these agreements, the Company remunerates the banks based on the performance goals established therein.

- Bank account blocking

Refer to Bank Account Blocking Service agreements entered into with various banks, whose service consists of ensuring to the banks the blocking of the bank accounts of the authorized merchants that carry out financial transactions with them. These related-party transactions are carried out at prices and under conditions similar to the transactions carried out with other domicile banks.

- Recordkeeping of Cielo’s shares

Cielo stock book entry service agreement entered into with Banco Bradesco S.A., whereby it provides stock book entry and share certificate issuance services.

- Operating services - stock option program

Service agreement consisting of the rendering of operating services for the stock option program and the related grants entered into with Bradesco S.A. Corretora de Títulos e Valores Mobiliários.

- Other widespread agreements

In addition to the balances recorded, the Company engages other services from the main shareholders:

- Cash Management Services
- Insurance.
- Private pension services.
- Corporate credit card.
- International guarantees.
- Suppliers' payment services.
- Other

26. INCOME TAX AND SOCIAL CONTRIBUTION

The effective rate of income tax and social contribution for the years ended December 31, 2010 and 2009 is as follows:

	Company		Consolidated	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Income before income tax and social contribution	2,739,460	2,328,211	2,745,043	2,331,098
Statutory tax rates - %	<u>34</u>	<u>34</u>	<u>34</u>	<u>34</u>
Income tax and social contribution at statutory rates	(931,416)	(791,592)	(933,315)	(792,573)
Interest on capital tax benefit	11,280	-	11,280	-
Tax incentives (a)	16,600	-	16,600	-
Effect on permanent differences, net (b)	<u>(6,590)</u>	<u>(2,825)</u>	<u>(8,694)</u>	<u>(4,731)</u>
Income tax and social contribution	<u>(910,126)</u>	<u>(794,417)</u>	<u>(914,129)</u>	<u>(797,304)</u>
Current	(945,450)	(850,519)	(947,310)	(853,151)
Deferred	35,324	56,102	33,181	55,847

- (a) Corresponds to tax incentives from the Rouanet Law, Funds for Child and Adolescent's Rights, Workers' Support Program (PAT) and Sports Law.
- (b) Represented substantially by reserves for contingencies and equity in subsidiaries, nondeductible from the calculation of taxable income and tax loss carryforwards.

27. FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments of the Company and its subsidiaries have been determined using available market inputs and appropriate valuation methodologies. However, considerable judgment was required to interpret market data and then develop the most appropriate fair value estimates. Accordingly, estimates presented herein are not necessarily indicative of the amounts that could be realized in the market. The use of different market methodologies may have a material effect on the estimated fair values.

These instruments are managed through operating strategies, aimed at liquidity, profitability and security. The control policy consists of permanent monitoring of contracted rates compared to market rates. The Company and its subsidiaries do not have transactions for speculative purposes, derivatives or any other risk assets.

- a) The Company's and its subsidiaries' financial assets and financial liabilities refer to cash and cash equivalents, trade accounts receivable, receivables and payables from securitization abroad, payables to merchants, and trade accounts payable. The estimated fair values of financial instruments as of December 31, 2010 are as follows:

	12.31.2010			
	Company		Consolidated	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	221,542	221,542	250,603	250,603
Trade accounts receivable	2,192,915	2,192,915	2,210,282	2,210,282
Receivables - securitization abroad	42,027	41,189	42,027	41,189
Payables - securitization abroad	42,003	41,189	42,003	41,189
Trade accounts payable	145,875	145,875	180,761	180,761
Payables to merchants	1,168,440	1,168,440	1,168,440	1,168,440

The fair value of financial assets and short- and long-term financing was determined, when applicable, by using current interest rates available for transactions conducted under similar conditions and with similar maturity dates.

- b) Credit risk

The Company has an instrument to mitigate the credit risk of the VISA card-issuing banks, used as a hedge against the risk of default by such banks. This hedging tool consists in the commitment assumed by the VISA brand, pursuant to foreign regulations, to guarantee the transfer to the Company's merchants of all sales made with VISA cards on the related due dates in the event of default by an issuer. The guarantee model implemented by the VISA brand together with the Company prescribes the provision of guarantees (collaterals or bank guarantees) considering the credit risk of the issuer, sales volume with VISA cards and residual risk of default by cardholders. The provision of guarantees is mandatory for all card-issuing banks with credit risk, and amounts are reviewed periodically by VISA and the Company. If the issuer does not provide the requested guarantees, it is not accepted as a member of the system or is disqualified as such.

Since July 1, 2010, the Company has also started accrediting the MASTERCARD brand, and the related credit risk is guaranteed by the MASTERCARD brand itself, in case of default by the card-issuing banks with the Company. The MASTERCARD brand requires card-issuing banks participating in the system to provide guarantees, collaterals or bank guarantees. If the issuer does not provide the requested guarantees, it is not accepted as a member of the system or is disqualified as such.

The VISA and MASTERCARD systems also prescribe that cardholders can contest transactions made with credit cards within certain timeframes from the date of the transaction. For this purpose, the Company enters into an affiliate agreement with authorized merchants establishing all rules for acceptance of these cards at the point of sale. If transactions are contested by cardholders and the merchant is no longer an affiliated member at the date of the contestation or has no amounts receivable from the Company, then collection will be made through debit to bank account or outside collection agencies and there may be losses to the Company.

The Company leases POS equipment to all affiliated merchants that do not have their own systems to capture transactions. The rent is deducted, on the due date, from the amount of transactions payable to merchants. However, the rent may not be received on the due date whenever there are no amounts payable to merchants. In these cases, the Company collects the rent through debit to future sales, bank account or outside collection agencies, and losses on rent may be incurred.

c) Risk of fraud

The Company uses a sophisticated antifraud system to monitor transactions with credit and debit cards, which detects and identifies suspected fraud at the time of the authorization and sends an alert message to the card-issuing bank for it to contact the cardholder.

d) Currency risk

The Company enters into forward exchange transactions for US dollars to hedge against fluctuations in exchange rates, which reduces significantly potential currency risks.

There are no other material transactions in foreign currency that might cause a significant impact on the income or loss of the Company due to the effects of the volatility of the exchange rate on other assets and liabilities denominated in foreign currencies, principally the US dollar.

As of December 31, 2010, the net exposure to foreign exchange rate risk, in thousands of US dollars, is as follows:

	<u>Company and consolidated</u>
Assets:	
Cash and banks	6,984
Short-term investments	1,456
Receivables - securitization abroad	<u>24,430</u>
	<u>32,870</u>
Liabilities:	
Payables to merchants	(3,456)
Payables - securitization abroad	<u>(24,430)</u>
	<u>(27,886)</u>
Long position in US dollars	<u>4,984</u>

e) Interest rate risk

The Company's results of operations are subject to significant fluctuations resulting from short-term investments with floating interest rates.

Pursuant to its financial policies, the Company has maintained its short-term investments at prime banks and has not entered into transactions with financial instruments for speculative purposes.

f) Interest rate sensitivity analysis - short-term investments

The funds from the Company's short-term investments are impacted by changes in the interbank deposit rate (CDI). As of December 31, 2010, assuming an increase or decrease of 10%, 25% and 50% in the interest rates, there would be an increase or decrease of approximately R\$2,707, R\$6,768 and R\$13,537 in financial income, respectively. This amount was calculated considering the impact of hypothetical increases or decreases in interest rates on the average balance of short-term investments in 2010.

g) Derivatives

During the years ended December 31, 2010 and 2009, the Company had no derivative transactions.

h) Financial instruments per category

	Loans and receivables			
	Company		Consolidated	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<u>Assets</u>				
Cash and cash equivalents	221,542	510,242	250,603	514,280
Trade accounts receivable	2,192,915	1,174,250	2,210,282	1,178,784
Receivables - securitization abroad	42,983	209,209	42,983	209,209
Total	<u>2,457,440</u>	<u>1,893,701</u>	<u>2,503,868</u>	<u>1,902,273</u>
	Other financial liabilities			
	Company		Consolidated	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<u>Liabilities</u>				
Payables to merchants	1,168,440	667,522	1,168,440	667,522
Trade accounts payable	145,875	114,043	180,761	116,443
Payables - securitization abroad	42,959	209,270	42,959	209,270
Total	<u>1,357,274</u>	<u>990,835</u>	<u>1,392,160</u>	<u>993,235</u>

28. COMMITMENTS

The Company is engaged in the capture, transmission, processing and settlement of transactions with credit and debit cards. To conduct said activities, the Company entered into the following agreements:

a) Lease agreements

As of December 31, 2010, future annual payments under lease agreements in effect are estimated as follows:

<u>Year</u>	
2011	9,648
2012	10,420
2013	<u>11,254</u>
Total	<u>31,322</u>

Most contracts specify a termination fine equivalent to three-month rent, and a partial return can be negotiated for each case.

b) Telecommunications, technology and logistics services

As of December 31, 2010, future payments under telecommunications, technology and logistics service agreements in effect are estimated as follows:

Year

2011	482,301
2012	520,885
2013	<u>562,555</u>
Total	<u>1,565,741</u>

Transactions capture and processing agreements stipulate termination fines totaling R\$77,242. Telecommunications service agreements, which vary according to the operating demand and it is not possible to determine an average term, are subject to an average termination fine of R\$1,573. Logistics service agreements are in effect since June 2007, with a minimum period of 12 months and a termination fine of R\$13,611.

c) Bank guarantees

As of December 31, 2010, based on the agreements in effect, bank guarantees are as follows:

Type

Guarantee for Personal Recharge and Multioperator (*)	<u>2,900</u>

(*) Collateral assigned to the subsidiary Multidisplay by financial institutions to secure the payment of agreements with mobile telephone companies (OI/TIM/VIVO).

29. PROFIT SHARING

The Company and its subsidiaries pay profit sharing to their employees and officers, subject to the achievement of operational goals and specific objectives, established and approved at the beginning of each year.

Employees and management profit sharing amounts for the years ended December 31, 2010 and 2009 were recorded in line item 'Personnel expenses' in the statement of income, as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Employees	26,434	22,351	35,077	30,369
Management	<u>8,362</u>	<u>6,251</u>	<u>8,362</u>	<u>6,251</u>
Total	<u>34,796</u>	<u>28,602</u>	<u>43,439</u>	<u>36,620</u>

30. MANAGEMENT COMPENSATION

	2010				
	Consolidated				
	Compensation			Stock option grant	
	Fixed	Variable	Total	Stock options balance (a)	Exercise price (b)
Officers	5,309	7,013	12,322	2,316,600	14.47
Directors	<u>690</u>	<u>-</u>	<u>690</u>	<u>-</u>	<u>-</u>
Total	<u>5,999</u>	<u>7,013</u>	<u>13,012</u>	<u>2,316,600</u>	<u>14.47</u>

(a) Refers to the number of vested options not exercised by December 31, 2010.

(b) Refers to the weighted average exercise price of the options at the time they were granted.

31. FINANCIAL INCOME (EXPENSES)

	Company		Consolidated	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Financial income:				
Income from short-term investments	25,410	48,979	27,073	50,218
Interest on postponed receivables	3,037	3,742	3,037	3,742
Interest - securitization abroad	10,395	22,208	10,395	22,208
Reversal of contingencies' fine and interest	3,100	3,282	3,100	4,490
Reversal of fines and interest on payment of federal taxes in installments	-	14,610	-	17,712
Other	<u>1,422</u>	<u>1,065</u>	<u>1,986</u>	<u>1,381</u>
	<u>43,364</u>	<u>93,886</u>	<u>45,591</u>	<u>99,751</u>
Financial expenses:				
Interest - securitization abroad	(10,395)	(22,208)	(10,395)	(22,208)
Late payment interest and fines	(191)	(10,490)	(296)	(12,206)
Contingencies' fine and interest	(2,645)	(1,994)	(2,687)	(2,830)
Fines and interest on payment of federal taxes in installments	-	(9,572)	-	(11,103)
Interest on early exchange	(16,818)	(2,995)	(16,818)	(2,995)
Other	<u>(3,485)</u>	<u>(2,735)</u>	<u>(3,785)</u>	<u>(5,177)</u>
	<u>(33,534)</u>	<u>(49,994)</u>	<u>(33,981)</u>	<u>(56,519)</u>
Prepayment of receivables:				
Income from prepayment of receivables (a)	438,212	218,150	438,212	218,150
Present value adjustment expenses (b)	<u>(76,333)</u>	<u>(35,266)</u>	<u>(76,333)</u>	<u>(35,266)</u>
	<u>361,879</u>	<u>182,884</u>	<u>361,879</u>	<u>182,884</u>
Exchange rate variation, net (c)	<u>933</u>	<u>1,903</u>	<u>933</u>	<u>1,903</u>
Total	<u>372,642</u>	<u>228,679</u>	<u>374,422</u>	<u>228,019</u>

- (a) Revenue from the prepayment of receivables in the year ended December 31, 2010 comprises income from the transaction volume of R\$402,946, for the year then ended, plus revenue recognized over the maturities, previously adjusted to present value through December 31, 2009, amounting R\$35,266, within their accrual period.
- (b) As described in note 6.(a), the present value adjustment recorded in the consolidated financial statements was calculated on receivables prepayments. The assumptions adopted for the calculation are as follows:
- Interest rates used are those contracted for the transactions of up to 5.19% p.m.
 - Calculations were carried out separately, discounting cash flows for each recorded receivable.
- The Company's management recognized the present value adjustment of accounts receivable balance in view of the materiality of values adjusted, of interest rates and transaction terms.
- Monthly, Management reviews the assumptions mentioned and the changes are recorded in the statement of income.
- (c) Arises basically from the amount received in US dollars from Visa International Service Association and from Mastercard Worldwide related to transactions with foreign credit and debit cards, the receivables securitization abroad transaction, and gains and losses originally denominated in foreign currency, represented by income in the amount of R\$1,242 (R\$126,625 as of December 31, 2009) and expenses totaling R\$309 (R\$124,722 as of December 31, 2009).

32. OTHER OPERATING EXPENSES, NET

Represented by:

	Company		Consolidated	
	2010	2009	2010	2009
Fine on termination of agreement with service provider (a)	(33,682)	(30,992)	(33,682)	(30,992)
Write-off of goodwill from subsidiary (b)	-	(7,231)	-	(11,197)
Write-off of uncollectible receivables	(19,115)	(15,461)	(19,115)	(15,461)
Allowance for losses on investments in jointly-owned subsidiary (c)	-	(16,126)	-	-
Financial incentive to service provider (d)	30,000	-	30,000	-
Payment of federal taxes in installments	-	(2,116)	-	(2,088)
Loss on the merger of CBGS Ltda.	-	(4,431)	-	(4,431)
Allowance for losses on inactive POS equipment	(3,354)	(2,331)	(3,354)	(2,331)
Reserve for contingencies	(2,002)	(14,858)	(2,002)	(15,496)
Reversal for contingencies (f)	10,689	-	10,689	-
Other operating income, net (e)	<u>11,492</u>	<u>26,234</u>	<u>11,494</u>	<u>26,780</u>
Total	<u>(5,972)</u>	<u>(67,312)</u>	<u>(5,970)</u>	<u>(55,216)</u>

- (a) Refers to the fine imposed on the termination of agreement with a service provider.
- (b) Refers to capital contributions made by the Company and its subsidiary CBGS Ltda. to CBGS that exceed expected realization of goodwill. Therefore, these capital contributions were recorded as expense directly in the statement of income for the year ended December 31, 2009.
- (c) As discussed in note 11, on December 31, 2008, the Company's management decided to review the estimated realization of existing goodwill on that date, wrote off part of the goodwill from the acquisition of CBGS Ltda. and recorded a provision for loss on its share in CBGS' goodwill.
- (d) Financial incentive to service provider contingent to the increase in contractual cap.

- (e) As of December 31, 2009, refer basically to the refund to shareholder banks of expenses incurred on the Company's IPO.
- (f) Refers to the reversal of tax claims relating to taxes on revenue (PIS and COFINS), social contribution (CSLL) e withholding income tax (IRRF) tax assessment notices, as well as relating to State VAT (ICMS) on POS import lawsuits, for which the assessment of the likelihood of loss by the Company's legal advisors changed from probable to possible.

33. INSURANCE

As of December 31, 2010, the Company has the following insurance agreements:

<u>Type</u>	<u>Insured amount</u>
Civil liability and Directors and Officers	105,000
Nominated risks (fire, windstorm and smoke, electrical damages, electronic equipment, theft and flood)	27,566
Loss of profits	10,100
Vehicles	670
Other	2,030

34. STOCK OPTION PLAN

The Extraordinary Shareholders' Meeting held on September 22, 2008 approved the Company's common stock option plan. This plan was confirmed by the Extraordinary Shareholders' Meeting held on June 1, 2009 and is effective for ten years from the date the first benefits were granted.

Stock options may be granted provided that capital dilution does not exceed, at any time during the effectiveness of the plan, 0.3% per year. Options granted to beneficiaries will be subject to a five-year vesting period from the grant date approved by the Board of Directors. The Company's Board of Directors will define the beneficiaries eligible for the stock option plan annually or at the frequency considered appropriate.

At meetings held on July 1, September 23, 2009, and July 6, 2010, the Board of Directors approved the first, second, and third grants of options for the purchase of common shares, respectively, as shown in the table below, without any option for the settlement of options in cash.

Under the Stock Option Plan, the first portion of the stock options granted, equivalent to 1/3 of total, will vest after one year.

<u>Grant date</u>	<u>Number of shares</u>			<u>Exercise price (R\$)</u>	<u>Vesting period</u>	<u>Fair value of options (R\$ per share)</u>
	<u>Granted</u>	<u>Cancelled</u>	<u>Balance</u>			
July 1, 2009	2,848,700	(242,900)	2,605,800	11.25 (a)	5 years	3.86
September 23, 2009	551,200	-	551,200	16.84 (b)	5 years	4.55
July 6, 2010	<u>2,684,200</u>	<u>-</u>	<u>2,684,200</u>	15.88 (c)	5 years	5.23
Total	<u>6,084,100</u>	<u>(242,900)</u>	<u>5,841,200</u>			

(a) Equivalent to 75% of the share price for the Company's IPO.

(b) Equivalent to the weighted average of trading sessions between August 7 and September 18, 2009.

(c) Equivalent to the weighted average of the last 30 trading sessions prior to June 29, 2010.

The fair value of options was measured using the Black & Scholes pricing model, based on the following economic assumptions:

	<u>Granting date:</u>		
	<u>July 2009</u>	<u>September 2009</u>	<u>July 2010</u>
Dividend yield	6.66%	6.66%	5.73%
Share price volatility	36.67%	36.67%	37.51%
Vesting period	4 years	4 years	4 years

The fair value is allocated to net income for the year with a contra entry to the capital reserve on a straight-line basis over a term of up to 36 months. An expense in the amount of R\$12,129 was recognized in the year ended December 31, 2010 (R\$3,699 as of December 31, 2009), recorded under "Personnel expenses", and 222,534 shares in the amount of R\$902 were exercised; the net balance of stock options granted of R\$11,227 (R\$3,699 as of December 31, 2009) was recorded under "capital reserves" as of December 31, 2010.

35. OTHER INFORMATION

- The Company contributes monthly to a defined contribution pension plan ("PGBL") for its employees and contributions made during the year ended December 31, 2010 totaled R\$3,894 (R\$3,471 as of December 31, 2009), which were recorded in 'Cost of services' and 'Personnel expenses' (in consolidated).
- Tax on Financial Transactions (IOF) expenses for the year ended December 31, 2010, amounted to R\$20 (R\$368 as of December 31, 2009) and were recorded in line item 'General and administrative expenses'.

36. NON-CASH ITEMS

	<u>Company</u>		<u>Consolidated</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Settlement of contingencies using escrow deposits	87,053	20,501	87,053	20,501
Increase in goodwill from earn out payments	-	-	25,050	-
Increase in intangible assets from noncontrolling shareholders' share determined in business combination - Multidisplay and M4 Productos	-	-	13,878	-

37. APPROVAL OF THE FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Company's Board of Directors and authorized for issuance on February 8, 2011.

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cielo

ANNEX B

2018 and 2017 Audited Financial Statements

[See attached.]

Cielo S.A.

Consolidated Financial Statements of the
Prudential Conglomerate for the Year Ended
December 31, 2018 and Independent
Auditor's Report

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Independent Auditor's Report on the Consolidated Financial Statements of Prudential Conglomerate

To the Shareholders and Board of Directors of Cielo S.A.

Barueri - SP

Opinion

We have audited the consolidated financial statements of Prudential Conglomerate of Cielo S.A. ("the Company"), which comprises the consolidated statement of financial position as of December 31, 2018 and the respective consolidated statements of income, changes in shareholders' equity and cash flows, for the six-month period and year then ended, as well as the related explanatory notes, including a summary of the main accounting policies. These special purpose financial statements have been prepared according to specific procedures established in Resolution No. 4,280, dated October 31, 2013, of the National Monetary Council (CMN) and supplementary regulations of the Central Bank of Brazil (BACEN), described in notes 2 and 3.

In our opinion, the accompanying financial statements, present fairly, in all material respects, the consolidated financial position of the Prudential Conglomerate of Cielo S.A. as of December 31, 2018, the consolidated performance of its operations and its consolidated cash flows, for the six-month period and year then ended, in accordance with the regulation for the the elaboration of the Prudential Conglomerate financial statements previewed in Resolution 4,280 of CMN, and supplementary regulations of BACEN, for the preparation of these special purpose financial statements, as described in notes 2 and 3 of these financial statements.

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards, are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company and its subsidiaries, in accordance with the ethical requirements established in the Accountant's Professional Ethics for Accountants and the professional standards issued by the Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis - Basis of preparation of the Prudential Conglomerate consolidated financial statements

We draw attention to note 2 that disclose that the consolidated financial statements of the Prudential

Conglomerate were prepared by management to meet the requirements of Resolution 4,280, of CMN, and supplementary regulations of BACEN. Consequently, our report on these consolidated financial statements has been prepared solely for meeting these specific requirements and thus may not be appropriate for other purposes. Our opinion does not contain modification related to this matter.

Other matters

The Company prepared a set of individual financial statements for general purposes referred to the six-month period and year ended December 31, 2018, in accordance with the accounting practices adopted in Brazil applicable to payment institutions authorized to operate by the BACEN, for which we issued an audit report without modifications dated January 28, 2019.

Responsibilities of management and those charge with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of consolidated financial statements in accordance with Resolution 4,280 of CMN, and supplementary regulations of BACEN, which main criteria and accounting policies are described in note 2 and for such internal controls as management determines is necessary to enable the preparation of these consolidated financial statements of the Prudential Conglomerate that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going concern basis of accounting in the preparation of the consolidated financial statements, unless management either intends to liquidate the Company and the entities included in the Prudential Conglomerate or to cease its operations, or has no realistic alternative but to do so.

Those charged with governance of the Company and the entities included in the Prudential Conglomerate are those responsible for overseeing the financial reporting process for the preparation and fair presentation of the consolidated financial statements.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements of the Prudential Consolidated, prepared by management in accordance with Resolution 4,280, of CMN, and supplementary regulations of BACEN, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Brazilian and International Auditing Standards always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Brazilian and International Standards on Auditing, taking into account NBC TA 800 (Special Conditions – Auditing of Financial Statements according to Special Purpose Accounting Structures) 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, 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 opinion. The risk

of not detecting material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omissions or misrepresentations.

- Obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control and the entities included in the Prudential Conglomerate.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and the related disclosures made by management.
- Conclude on the appropriateness of 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 Company and the entities included in the Prudential Conglomerate ability to continue as a going concern. If we conclude that a relevant uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements, or if such disclosures are inadequate to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and the entities included in the Prudential Conglomerate to cease 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 represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit and, consequently, for the audit opinion.

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.

Osasco, February 26, 2018

KPMG Auditores Independentes
CRC 2SP028567/O-1 F SP

Original report in Portuguese signed by
João Paulo Dal Poz Alouche
Accountant CRC 1SP245785/O-2

Prudential Conglomerate - Cielo S.A.

Statements of financial position at June 30, 2018 and 2017
(In thousands of Brazilian Reals - R\$)

Assets	Notes	06/30/2018	06/30/2017	Liabilities and equity	Notes	12/31/2018	12/31/2017
Current assets				Current liabilities			
Cash	4	431,619	322,884	Borrowings	12	1,032,941	2,827,084
Interbank investments	5	274,929	815,981	Derivative financial instruments	6 c)	75,692	-
Securities and derivative financial instruments	6	2,189,116	4,891,290	Other payables		58,218,455	62,152,467
Other receivables	7	63,882,454	66,635,329	Social and statutory		213,815	347,577
Income receivable	7	854,626	714,843	Tax and social security	8 c)	779,811	804,592
Sundry		63,212,864	66,064,117	Sundry		57,224,829	61,000,298
Receivables from issuers	7	62,219,320	65,075,191	Payables to merchants		53,631,588	57,796,536
Receivables from related parties		19,397	8,322	Payables to related parties	13	138,303	20,660
Tax credits	8	510,677	406,791	Obligations with senior quotas	6 b)	2,209,842	2,000,545
Taxes and contributions for offset/recoverable		387,851	537,967	Others		1,245,096	1,182,557
Others		75,619	35,846	Total current liabilities		59,327,088	64,979,551
Allowance for other doubtful debts	7	(185,036)	(143,631)	Long-term liabilities			
Other assets		61,257	40,199	Borrowings	12	5,265,627	5,084,140
Total current assets		66,839,375	72,705,683	Other payables		2,997,328	2,787,034
				Deferred income tax and social contribution	8 a)	7,667	23,424
Long-term assets				Provision for contingencies	14 a)	1,762,346	1,726,687
Other receivables	7	2,235,469	2,211,332	Others		1,227,315	1,036,923
Escrow deposits	14 b)	1,624,563	1,610,072	Provision for obligations with investees	9	682,758	1,009,856
Tax credits	8 a)	590,668	581,796	Other trade payables		544,557	27,067
Others		20,238	19,464	Total long-term liabilities		8,262,955	7,871,174
Other assets		87	87	Equity			
				Issued capital	15	5,700,000	4,700,000
Permanent assets				Capital reserve	15	71,255	62,620
Investments	9	11,541,287	11,739,671	Earnings reserves	15	3,583,971	5,293,153
Property and equipment	10	296,866	282,805	Carrying value adjustments	15	59,622	149,019
Intangible assets	11	548,049	486,999	Treasury shares	15	(50,578)	(53,925)
		10,696,372	10,969,867	Attributable to:			
Total long-term and permanent assets		13,776,843	13,951,090	Owners of the Company		9,364,270	10,150,867
				Noncontrolling interests		3,661,905	3,655,181
Total assets		80,616,218	86,656,773	Total equity		13,026,175	13,806,048
				Total liabilities and equity		80,616,218	86,656,773

The accompanying notes are an integral part of these consolidated financial statements.

Prudential Conglomerate - Cielo S.A.

Statements of profit or loss

For the six-month period ended December 31, 2018 and years ended December 31, 2018 and 2017

(In thousands of Brazilian Reals - R\$)

	Notes	2nd Half/18	FY/18	FY/17
Net revenue	16	5,604,869	11,001,193	11,037,732
Cost of services provided	17	(2,865,229)	(5,540,569)	(5,199,921)
Gross profit		2,739,640	5,460,624	5,837,811
Operating income (expenses)				
Personnel	17	(219,928)	(422,871)	(396,512)
General and administrative	17	(400,164)	(736,725)	(690,646)
Sales and marketing	17	(150,112)	(274,941)	(188,424)
Share of profit (loss) of investees	9	(27,552)	3,399	(199,875)
Other operating expenses, net	17 and 18	(208,516)	(335,413)	(232,717)
Operating profit		1,733,368	3,694,073	4,129,637
Finance income (costs)				
Finance income	24	170,073	344,568	404,882
Finance costs	24	(283,175)	(579,658)	(897,458)
Purchase of receivables	24	664,284	1,532,787	2,291,844
Exchange differences, net	24	2,087	(264,424)	(22,994)
		553,269	1,033,273	1,776,274
Operating profit before income tax and social contribution		2,286,637	4,727,346	5,905,911
Income tax and social contribution				
Current	8	(803,108)	(1,397,041)	(1,887,413)
Deferred	8	128,532	25,068	42,151
Profit for the period		1,612,061	3,355,373	4,060,649
Attributable to:				
Owners of the Company		1,498,463	3,140,103	3,854,807
Noncontrolling interests		113,597	215,270	205,842
		1,612,060	3,355,373	4,060,649

The accompanying notes are an integral part of these consolidated financial statements.

Cielo S.A.

Statements of changes in equity

For the six-month period ended December 31, 2018 and years ended December 31, 2018 and 2017
(In thousands of Brazilian Reals - R\$)

	Attributable to owners of the Company										Total equity
	Earnings reserves								Carrying value adjustments	Total owners of the Company	
	Issued capital	Capital reserve	Treasury shares	Legal reserve	Capital budget	Additional dividends	Earnings retention				
Balance as at July 1, 2018	5,700,000	68,014	(51,512)	974,822	2,341,628	623,823	406,461	62,776	10,136,011	3,657,438	13,783,449
Acquisition of treasury shares	-	-	(8,495)	-	-	-	-	-	(8,495)	-	(8,495)
Stock options granted	-	12,471	-	-	-	-	-	-	12,471	-	12,471
Sale / Transfer of treasury shares under the stock option plan	-	(9,229)	9,429	-	-	-	-	-	200	-	200
Profit for the six-month period	-	-	-	-	-	-	1,498,463	-	1,498,463	113,597	1,612,060
Allocation of profit for the six-month period:											-
Legal reserve	-	-	-	74,923	-	-	(74,923)	-	-	-	-
Interest on capital proposed	-	-	-	-	-	-	(165,500)	-	(165,500)	-	(165,500)
Interest on capital paid	-	-	-	-	-	-	(152,500)	-	(152,500)	-	(152,500)
Additional dividends to the mandatory minimum dividends proposed	-	-	-	-	-	85,677	(85,677)	-	-	-	-
Additional dividends proposed to the mandatory minimum dividends paid	-	-	-	-	-	-	(1,943,226)	-	(1,943,226)	-	(1,943,226)
Capital budget reserve	-	-	-	-	(516,902)	-	516,902	-	-	-	-
Effect of noncontrolling interests on consolidated entities	-	-	-	-	-	-	-	-	-	(109,130)	(109,130)
Carrying value adjustments:											
Exchange differences on net foreign investments	-	-	-	-	-	-	-	(3,154)	(3,154)	-	(3,154)
Balance as at December 31, 2018	5,700,000	71,255	(50,578)	1,049,745	1,824,726	709,500	-	59,622	9,364,270	3,661,905	13,026,175
Balance as at January 1, 2017	3,500,000	63,062	(103,967)	700,000	3,583,898	-	-	162,611	7,905,604	3,654,804	11,560,408
Capital increase	1,200,000	-	-	-	(1,200,000)	-	-	-	-	-	-
Stock options granted	-	24,025	-	-	-	-	-	-	24,025	-	24,025
Sale / Transfer of treasury shares under the stock option plan	-	(24,467)	50,042	-	-	-	3,854,807	-	3,854,807	205,842	4,060,649
Profit for the year	-	-	-	-	-	-	-	-	-	-	-
Allocation of profit for the year:											-
Legal reserve	-	-	-	192,740	-	-	(192,740)	-	-	-	-
Interest on capital proposed	-	-	-	-	-	-	(318,200)	-	(318,200)	-	(318,200)
Interest on capital paid	-	-	-	-	-	-	(325,300)	-	(325,300)	-	(325,300)
Dividends paid	-	-	-	-	-	-	(1,002,052)	-	(1,002,052)	-	(1,002,052)
Additional dividends to the mandatory minimum dividends proposed	-	-	-	-	-	1,058,785	(1,058,785)	-	-	-	-
Additional dividends proposed to the mandatory minimum dividends paid	-	-	-	-	957,730	-	(957,730)	-	-	-	-
Capital budget reserve	-	-	-	-	-	-	-	-	-	-	-
Effect of noncontrolling interests on consolidated entities	-	-	-	-	-	-	-	-	-	(205,465)	(205,465)
Carrying value adjustments:											
Exchange differences on net foreign investments	-	-	-	-	-	-	-	(13,592)	(13,592)	-	(13,592)
Balance as at December 31, 2017	4,700,000	62,620	(53,925)	892,740	3,341,628	1,058,785	-	149,019	10,150,867	3,655,181	13,806,048
Capital increase	1,000,000	-	-	-	(1,000,000)	-	-	-	-	-	-
Acquisition of treasury shares	-	-	(20,127)	-	-	-	-	-	(20,127)	-	(20,127)
Stock options granted	-	24,062	-	-	-	-	-	-	24,062	-	24,062
Sale / Transfer of treasury shares under the stock option plan	-	(15,427)	23,474	-	-	-	-	-	8,047	-	8,047
Profit for the year	-	-	-	-	-	-	3,140,103	-	3,140,103	215,270	3,355,373
Allocation of profit for the year:											-
Legal reserve	-	-	-	157,005	-	-	(157,005)	-	-	-	-
Interest on capital proposed	-	-	-	-	-	-	(165,500)	-	(165,500)	-	(165,500)
Interest on capital paid	-	-	-	-	-	-	(465,000)	-	(465,000)	-	(465,000)
Dividends paid	-	-	-	-	-	-	(216,773)	-	(216,773)	-	(216,773)
Additional dividends to the mandatory minimum dividends proposed	-	-	-	-	-	709,500	(709,500)	-	-	-	-
Additional dividends proposed to the mandatory minimum dividends paid	-	-	-	-	-	(1,058,785)	(1,943,227)	-	(3,002,012)	-	(3,002,012)
Capital budget reserve	-	-	-	-	(516,902)	-	516,902	-	-	(208,546)	(208,546)
Effect of noncontrolling interests on consolidated entities	-	-	-	-	-	-	-	-	-	-	-
Carrying value adjustments:											
Exchange differences on net foreign investments	-	-	-	-	-	-	-	(89,397)	(89,397)	-	(89,397)
Balance as at December 31, 2018	5,700,000	71,255	(50,578)	1,049,745	1,824,726	709,500	-	59,622	9,364,270	3,661,905	13,026,175

The accompanying notes are an integral part of these consolidated financial statements.

Prudential Conglomerate - Cielo S.A.

Statements of cash flows

For the six-month period ended December 31, 2018 and years ended December 31, 2018 and 2017

(In thousands of Brazilian Reais - R\$)

	Notes	2nd Half/18	FY/18	FY/17
Cash flows from operating activities				
Profit before income tax and social contribution		2,286,637	4,727,346	5,905,911
Adjustments to reconcile profit before income tax and social contribution to net cash generated by operating activities:				
Depreciation and amortization	9, 10 and 11	422,907	844,855	873,933
Recognition (reversal) of provision for losses on property and equipment		4,013	2,454	(17,862)
Residual value of property and equipment and intangible assets disposed of	10 and 11	11,756	20,378	34,087
Stock options granted	23	12,470	24,062	24,025
Loss on doubtful debts and fraud	18	(395,022)	(274,710)	213,760
Provision for tax, civil and labor risks	14.a)	37,952	49,783	107,589
Exchange differences relating to interest on foreign borrowings		38,144	469,865	98,048
Gains (losses) on financial instruments		144,075	(75,692)	(77,130)
Interest on borrowings		177,685	398,322	683,507
Share of profit (loss) of investees	9	27,552	(3,399)	199,875
(Increase) decrease in operating assets:				
Receivables from issuers		(3,388,250)	3,032,203	5,026,882
Receivables from related parties		8,562	(11,075)	(2,296)
Prepaid and recoverable taxes		(142,444)	150,116	(38,666)
Other receivables (current and noncurrent)		(10,778)	(21,058)	(7,568)
Tax credits	14.b)	(216,222)	(112,758)	205,842
Escrow deposits		(8,138)	(14,491)	(95,683)
Others		17,177	(40,547)	(18,582)
Increase (decrease) in operating liabilities:				
Payables to merchants		2,866,562	(4,164,948)	(2,593,717)
Other payables (current and noncurrent)		47,997	62,539	(312,506)
Taxes payable		(36,680)	2,146	(88,281)
Payables to related parties		96,993	117,643	-
Social and statutory		(88,292)	(133,762)	-
Sundry - others		432,496	445,862	130,397
Payment of tax, civil and labor lawsuits	14.a)	(5,018)	(14,125)	(15,650)
Cash generated from operations		2,342,134	5,481,009	10,235,915
Interest paid	12	(183,004)	(441,260)	(807,920)
Income tax and social contribution paid		(468,755)	(1,599,479)	(1,895,218)
Net cash generated by operating activities		1,690,375	3,440,270	7,532,777
Cash flows from investing activities				
Capital increase in subsidiaries, joint ventures and associate	9	(80,000)	(135,000)	-
Acquisition of interest in subsidiary	9	(117,833)	(117,833)	-
Dividends received from subsidiaries	9	-	27,445	32,918
Additions to property and equipment and intangible assets	10 and 11	(399,559)	(604,145)	(457,557)
Net cash used in investing activities		(597,392)	(829,533)	(424,639)
Cash flows from financing activities				
Acquisition of treasury shares	15.c)	(8,369)	(20,127)	-
Sale/transfer of treasury shares under the stock option plan		74	8,047	25,574
Obligations with senior quotas - FIDC	6	257,027	209,297	2,000,545
Borrowings	12	1,000,000	1,000,000	1,165,144
Payment of principal, net of derivatives	12	(1,333,605)	(3,039,583)	(2,687,808)
Dividends and interest on capital		(2,573,314)	(4,001,985)	(2,215,427)
Net cash generated by (used in) financing activities		(2,658,187)	(5,844,351)	(1,711,972)
Effect of exchange rate changes on cash and cash equivalents of foreign subsidiary		29,573	138,588	32,962
Increase in cash and cash equivalents		(1,535,631)	(3,095,026)	5,429,128
Cash and cash equivalents				
Closing balance	4	2,895,664	2,895,664	5,990,690
Opening balance	4	4,431,295	5,990,690	561,562
Increase in cash and cash equivalents		(1,535,631)	(3,095,026)	5,429,128

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements of the Prudential Conglomerate

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

1 Operations

Cielo S.A. (the "Company" or "Cielo") was established in Brazil on November 23, 1995, and is primarily engaged in providing services related to credit and debit cards and other means of payment, including signing up of merchants and service providers, rental, installation and maintenance of POS (point-of-sale) terminals, data capture and processing of electronic and manual transactions.

Cielo is a corporation headquartered in the City of Barueri, State of São Paulo. Its shares are traded on B3 S.A. - Brasil, Bolsa, Balcão, under ticker symbol "CIEL3", and Cielo and its subsidiaries are part of the Banco do Brasil and Bradesco groups.

The Company's direct and indirect subsidiaries and joint ventures that, together with Cielo, are also referred to as "Group" throughout this report, provide services related to means of payment or complementary to the acquiring services, such as provision of services in processing means of payments that involve cards, maintenance services and contacts with merchants for acceptance of credit and debit cards, data transmission services to load fixed or mobile phone credits, development and licensing of computer software, electronic transaction's processing, IT services for collection and management of accounts payable and receivable using the Internet, data processing services and support services to medical companies.

New corporate events

On January 18, 2018, Cielo S.A., through its subsidiary Aliança Pagamentos e Participações Ltda. ("Aliança"), entered into a purchase and sale agreement with Companhia Brasileira de Solução e Serviços ("CBSS") for the acquisition of 70% interest in the share capital of Stelo S.A., which now holds 100% of the share capital of Stelo S.A. ("Stelo"). The purchase price established was R\$ 87,492 calculated based on the statement of financial position as at December 31, 2017.

On September 14, 2018, after the conclusion of the process of analysis and approval of the transaction by the regulatory agencies, the transaction was effected through the payment and transfer of control of the shares in question.

As defined in the agreement, the purchase price was restated based on the variation of the CDI rate accumulated between the signing date and the effective date of conclusion of the transaction, being settled for R\$ 91,163.

Within 60 days as from the closing date (September 14, 2018) of the acquisition, a reference statement of financial position was drawn up to define the amounts to be recognized for the transaction, as well as for calculation of the final purchase price, net of the adjustments established in the agreement (net debt and working capital).

Accordingly, the reference purchase price, calculated based on the reference statement of financial position as at September 14, 2018, was R\$ 67,320, resulting in a bargain purchase in the amount of R\$ 18,200, recognized in the line item "Others" in the account group "Other

operating expenses" in the Consolidated Statement of Profit or Loss.

2 Summary of significant accounting practices

2.1 Statement of compliance and approval of the Financial Statements

The consolidated financial statements of Cielo's Prudential Conglomerate were prepared to comply with the requirements of Resolution No. 4,280/13 of the National Monetary Council ("CMN") and additional rules of the Brazilian Central Bank ("BACEN" or "Central Bank"). Thus, specific requirements were applied in the consolidation and/or combination of the entities specified in the referred Resolution No. 4,280/13, which are not the same as those established by corporate law, by CMN, by BACEN and by the Brazilian Securities and Exchange Commission ("CVM") for the preparation of general-purpose consolidated financial statements. In this sense, they include the consolidated financial statements of Cielo's Prudential Conglomerate, the domestic and foreign subsidiaries that operate as payment institutions and the investment funds (FIDCs and FIC), as required by Articles 1 and 4 of Resolution No. 4,280/13, which are presented in Note 3.

The consolidated financial statements of Cielo's Prudential Conglomerate were approved by the Company's Executive Board and authorized for issue on February 26, 2019.

2.2 Regulation from the Brazilian Central Bank

On April 27, 2017, Cielo was authorized by the BACEN to operate as an accrediting payment institution, as published in the Federal Official Gazette. As a result of the obtainment of such authorization, the Company started to adopt procedures applicable to payment institutions that are members of the Brazilian Payment System (SPB), including as regards the form of preparation and disclosure of its financial statements, in accordance with the criteria determined by the Central Bank.

It should be highlighted that in order to improve the SPB efficiency and in compliance with the regulation issued by the Central Bank, in November 2017, the Company implemented a system for clearing and settlement of transactions on a centralized basis through the Interbank Payment Clearing House (CIP).

2.3 Main judgments, estimates and accounting assumptions

The preparation of the consolidated financial statements of the Prudential Conglomerate requires the Company's and its subsidiaries' Management to make estimates that affect certain assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses for the reporting period. Significant assets and liabilities subject to these estimates and assumptions include the residual value of property and equipment and intangible assets, allowance for doubtful debts (on receivables from lease of POS equipment and receivables from issuers, for example), deferred income tax and social contribution (tax assets), impairment of goodwill, provision for risks and fair value measurement of financial instruments. Since Management's judgment involves making estimates concerning the probability of occurrence of future events, actual results may differ from those estimates. The Company and its subsidiaries review the estimates and assumptions at least semiannually.

2.4 Functional and presentation currency

The consolidated financial statements of the Prudential Conglomerate are presented in Brazilian reais (R\$), which is the Company's functional and presentation currency.

Management determined that the functional currency of its foreign subsidiaries is the US dollar. For Cielo USA, the main factor to determine the functional currency was the raising of US dollar denominated borrowings for the acquisition of control of Me-S. These borrowings will be settled using the cash generated from foreign operations. In addition, with respect to Me-S, the cash flows and services provided are fully denominated in US dollars.

For purposes of presentation of the consolidated financial statements of the Prudential Conglomerate, the assets and liabilities of subsidiary Me-S (based in the USA), originally denominated in US dollars, were translated into Brazilian Reais at the exchange rates prevailing at each period-end. Profits or losses were translated at the average monthly exchange rates. Exchange differences resulting from such translations were classified in carrying value adjustments and accumulated in equity.

Goodwill and its amortization and fair value adjustments of identifiable assets acquired and liabilities assumed arising from the acquisition of a foreign operation are recognized as assets and liabilities of such operation and translated at the exchange rate prevailing at the end of the reporting period. Exchange differences are recognized in equity.

2.5 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, less estimated returns, trade discounts and/or bonuses granted and other similar deductions.

Revenues from the capture of transactions with credit and debit cards are recognized on the date of capture/processing of the transactions. Revenues from credit and debit card transactions and payment accounts management services, as well as other services provided to partners and merchants are recognized when the services are provided.

The income from dividends on investments is recognized when the shareholder's right to receive these dividends is established (provided that it is probable that future economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income is recognized when it is probable that future economic benefits will flow to the Group and the amount of revenue can be measured reliably.

The income from purchase of receivables to merchants is recognized on a "*pro rata temporis*" basis considering their maturities.

In the case of Me-S, in the context of its agreements with the banks, it assumes liabilities of the acquirer bank and is, therefore, accountable for the interchange fees. The bank also receives market rates for its services and, therefore, is not exposed to the agreement's risks and rewards. Additionally, there are factors such as the portability of the contracts with merchants and the fact that Me-S has a direct interaction with its customers in its daily routines and it holds the transaction's credit risk. As a result, Me-S is the main debtor and recognizes revenue based on its gross amount and the interchange fee is recognized as cost of services provided.

2.6 Cash and cash equivalents

For purposes of the statement of cash flows, this balance includes cash and cash equivalents that are represented by cash in local currency, in foreign currency, investments in repurchase agreements, investments in interbank deposits and investments in foreign currency, with maturities equal to or less than 90 days from the investment date and with insignificant risk of change in fair value.

2.7 Interbank investments

Interbank investments are stated at cost, plus income earned through the end of the reporting period, less a provision for impairment, when applicable.

2.8 Securities

The securities acquired for own portfolio are recorded at the amount actually paid, including brokerage fees and charges, and are classified into three different categories according to the Company's Management intent, in accordance with BACEN Circular Letter No. 3,068/01:

Trading securities

The trading securities are those acquired for the purpose of being actively and frequently traded. They are stated at cost, plus income earned and adjusted to fair value with a balancing entry in profit or loss for the period;

Available-for-sale securities

The available-for-sale securities are those that are not classified as trading securities or as held-to-maturity. They are stated at cost, plus income earned with a balancing entry in profit or loss for the period and adjusted to fair value with a balancing entry in equity, less tax effects, which will only be recognized in profit or loss upon their actual realization; and

Held-to-maturity securities

The held-to-maturity securities are those acquired for this purpose and for which there is financial ability to hold them to maturity. They are stated at cost, plus income earned with a balancing entry in profit or loss for the period, and are not measured at fair value.

The securities classified in the categories of trading securities and available-for-sale securities, as well as the derivative financial instruments, are stated in the consolidated statement of financial position at their estimated fair value. Generally, the fair value is based on market price quotations or market price quotations for assets or liabilities with similar characteristics. If these market prices are not available, the fair values are based on quotations from market operators, pricing models, discounted cash flows or similar techniques, for which the fair value measurement can require significant judgment or estimate by Management.

The securities are assessed to verify if there is objective evidence that a loss has occurred in their carrying amount. The objective evidence that securities have lost value may include non-payment or late payment by the counterparty, indications of bankruptcy proceedings or even a significant or prolonged decline in the value of the asset. An impairment loss on a security is recognized in the statement of profit or loss for the period if the carrying amount exceeds its recoverable amount.

As determined by sole paragraph of article 7 of Circular Letter No. 3,068 of 11/08/2001 from

BACEN, securities classified as trading securities are presented in the statement of financial position, in current assets, irrespective of their maturity dates.

2.9 Derivative financial instruments and hedge operations

The Company enters into derivative financial instruments mainly to manage its exposure to fluctuations in interest rates and exchange rates. The Company measures its derivative financial instruments based on quotations obtained from market participants, at fair value at the end of the reporting period.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifying as a cash flow hedge or a hedge of exchange differences on foreign investments are recognized as carrying value adjustments, and when qualifying as a fair value hedge, the hedged item and the hedging instrument are recognized in the statement of profit or loss at their fair values.

The Company assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When a hedging instrument is sold, terminated, expires or is exercised, the cumulative unrealized gain or loss, which had been recognized in carrying value adjustments, is immediately reported in the statement of profit or loss. Additionally, changes in the fair value of financial instruments not qualifying as hedge or qualifying as fair value hedge are recognized in the line item of (Losses) gains on financial instruments, net, in the statement of profit or loss.

2.10 Operating receivables and payables to customers

a) Operating receivables

Receivables from card-issuing banks

Refers to amounts of transactions carried out by holders of debit and credit cards issued by financial institutions, and the balances of receivables from card-issuing banks are net of interchange fees with receipt terms of less than one year.

Purchase of receivables

Receivables from card-issuing banks related to purchase of receivables, stated at purchased value, determined on an individual basis, less cash flows from each of the receivables recorded using the interest rates applied to such transactions.

Receivables for processed financial transactions

Refer mainly to receivables from card association members for financial transactions processed by Me-S that have been authorized but not yet received. These receivables are generally settled on the following business day.

Receivables from merchants

Represent interchange and service fees for transaction processing receivable from merchants, as a result of Me-S's practice to settle transactions at full amounts to merchants and collect these fees at the beginning of the next month.

b) Payables to customers

Payables to merchants

Refer to the obligation to pay for the purchase of products and services made with cards to merchants accredited by the Company.

Payables to merchants for transactions processed by Me-S

Refer to the balances due to customers for processed transactions that have not yet been paid. Me-S pays merchants the amounts received from card associations on the business day subsequent to the day the transaction is captured.

Merchant deposits

Me-S maintains funds as a security deposit to hedge against the risk of a customer going bankrupt and being unable to pay for the services provided. The amount retained from each customer is based on the risk factors associated to the customer, which include, among others, the type of business and the volume of completed transactions.

2.11 Investments

In the consolidated financial statements of the Prudential Conglomerate, the investments in subsidiaries and joint ventures are accounted for under the equity method of accounting, based on the equity value of the subsidiary or associate, except for the subsidiaries that meet the requirements of Resolution No. 4,280/13, as amended by Resolution No. 4,517/16, which were fully consolidated. The composition of these companies is shown in Note 3.

The financial statements of foreign subsidiaries are conformed to the accounting criteria of the parent company and translated into the real currency at the period-end rate.

2.12 Property and equipment

Stated at historical cost, less accumulated depreciation and accumulated impairment losses. Depreciation is calculated under the straight-line method, based on the estimated useful lives of the assets, at the rates shown in note 10. The estimated useful lives, residual values, and depreciation methods are reviewed on an annual basis, and the effect of any changes in estimates is accounted for on a prospective basis.

An item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its continued use. Any gain or loss from the sale or derecognition of an item of property and equipment is determined by the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.13 Intangible assets

Intangible assets correspond to the rights acquired that have as object incorporeal property for the maintenance of the Company's activities or exercised for this purpose. Intangible assets are comprised by:

Separately acquired intangible assets

Separately acquired intangible assets with finite useful lives are stated at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis, based on the estimated useful lives of the assets. The estimated useful life and amortization method are reviewed on an annual basis and the effect of any changes in estimates is accounted

for on a prospective basis.

Internally generated intangible assets

Costs of research activities are recognized as expense in the period in which they are incurred. When no internally generated intangible asset can be recognized, the development costs are recognized in profit or loss when incurred.

2.14 Impairment of tangible and intangible assets

Semiannually, and if there is evidence, the Group reviews the carrying amount of its tangible and intangible assets to determine if there is any indication that these assets might be impaired.

Recoverable amount is the higher of the fair value less costs to sell and the value in use. If the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount, and the impairment loss is immediately recognized in profit or loss.

2.15 Goodwill

Goodwill corresponds to the amount exceeding the carrying amount of the investments acquired at fair value, arising from the expected future profitability and supported by economic and financial studies on which the purchase price of the businesses was based.

Goodwill based on expected future earnings is amortized according to the projection periods that justified it, and is subject to impairment test annually or more frequently, whenever there is indication that the cash-generating unit is impaired.

The goodwill arising from investments in subsidiaries, associate and joint ventures is included in the carrying amount of the investment in the consolidated financial statements of the Prudential Conglomerate.

2.16 Income tax and social contribution - current and deferred

Income tax and social contribution expenses represent the sum of current and deferred taxes.

Current taxes

The provision for the Company's income tax and social contribution is calculated based on the taxable profit for the year. Income tax was calculated at the rate of 15%, plus 10% surtax on annual taxable profit exceeding R\$240. Social contribution was calculated at the rate of 9% on adjusted profit.

Deferred taxes

Deferred income tax and social contribution are recognized on the differences between assets and liabilities recognized for tax purposes and the related amounts recognized in the consolidated financial statements of the Prudential Conglomerate. Deferred income tax and social contribution are determined based on the tax rates and laws in effect at the end of the reporting period, considering the criteria established by CMN Resolution No. 3,059/02, amended by CMN Resolutions No. 3,355/2006, No. 4,192/13 and No. 4,441/15, and are supported by a realization study. The recovery of deferred tax assets is reviewed at the end of each reporting period and

when it is no longer probable that future taxable profits will be available to allow the recovery of all or part of the assets, these are adjusted to their expected recoverable amount.

Current and deferred taxes are recognized in profit or loss, except when they relate to items recognized in “Carrying value adjustments”, or directly in equity. In these cases, current and deferred taxes are recognized in “Carrying value adjustments”, in equity.

When current and deferred taxes result from the initial recognition of a business combination, the tax effect is considered in the recognition of the business combination.

2.17 Employee benefits

Supplementary Pension Plan

Refers to amounts in which the Company is co-sponsor of a defined contribution pension plan. Contributions are made based on a percentage of the employee’s compensation. Payments to defined contribution plans are recognized as expense when the services that entitle to such payments are provided.

Post-employment benefit

Represents amounts in which the Company has an actuarial liability resulting from post-employment benefit, relating to the expected expenses on healthcare plan.

2.18 Provision for risks

Recognized when there is a present obligation (legal or constructive) as a result of a past event, with probable outflow of resources, and the amount of the obligation can be reliably estimated. The amount recognized as a provision is the best estimate of the settlement amount at the end of the reporting period, taking into consideration the risks and uncertainties related to the obligation. Provisions for tax risks are recognized based on the total taxes under litigation, plus inflation adjustment and late payment interest incurred through the end of the reporting period. Contingent liabilities classified as possible losses are not recognized in the financial statements and are disclosed in the notes to the financial statements, and those classified as remote do not require provision or disclosure.

The recognition, measurement and disclosure of provisions, contingent assets and liabilities and legal obligations are made according to the criteria defined in CPC 25 – Provisions, Contingent Liabilities and Contingent Assets, approved by CMN Resolution No. 3,823/09 (Note 14).

2.19 Dividends and interest on capital

The proposal for payment of dividends and interest on capital made by the Company’s Management that does not exceed the minimum mandatory dividends is recognized in line item “Dividends payable” in current liabilities as it is considered a legal obligation under the Company’s bylaws. However, the portion of dividends exceeding minimum mandatory dividends, when applicable, declared by Management after the accounting period to which the financial statements refer but before the issuance of the financial statements is authorized is recognized in line item “Additional dividends proposed” in equity, whose effects are disclosed in note 15(g). For corporate and accounting purposes, interest on capital is included in the minimum mandatory dividends.

2.20 Stock option plan and restricted stock plan

The Company offers a stock option plan and restricted stock plan to its officers and some of its employees. Options or shares are priced at fair value at the grant date of the plans and are recognized on a straight-line basis in profit or loss over the term of the option or stock plan as a balancing entry to equity. At the end of each reporting period, the Company reviews its estimates of the number of options/shares that will be vested based on the plan's terms and conditions and recognizes the impact of the revision of initial estimates, if any, in the statements of profit or loss, as a balancing entry to equity.

3 Consolidated information of the Prudential Conglomerate

The consolidated financial information includes the financial information of the Company and its subsidiaries which operate as payment institutions in Brazil and abroad, or which fall within the other criteria defined in Articles 1 and 4 of Resolution No. 4,280/13 of the National Monetary Council (CMN). When necessary, the subsidiaries' financial information is adjusted to conform their accounting policies to those set by the Group and / or those required by said Resolution No. 4,280/13.

For the subsidiaries which fall within Article 1 of Resolution No. 4,280/13, the full consolidation concept was applied, which requires to account for investments in subsidiaries reflecting their total assets, liabilities, income and expenses in the parent, thus requiring the recognition of noncontrolling interests. The balances of the statement of financial position and statement of profit or loss and of the transactions between the consolidated companies are eliminated.

As required by Article 4 of Resolution No. 4,280/13, the Company consolidates the financial information of the FIDCs because they were created with the main purpose of concentrating the operation of purchase of receivables derived from payment transactions made by Cielo acquisition system, and a significant part of the risks and rewards related to the FIDCs yield is linked to the quotas held by the Company. Likewise, the Company consolidates FIC's financial information, since it was created with the main purpose of concentrating financial investments of the companies of the Conglomerate, of which the risks and rewards are retained by the companies of the Conglomerate. In the process of consolidation of the FIDCs and FIC, assets and liabilities and gains and losses on transactions between the Company and the FIDCs and FIC were eliminated.

The equity interests in joint ventures, which meet the requirements of Article 1 of Resolution No. 4,280/13, as amended by Resolution No. 4,517/16, are recorded in the Prudential Conglomerate using the equity method, as required by Article 5 of said Resolution (Paggo Soluções e Meios de Pagamento S.A - "Paggo").

Other investments in subsidiaries and joint ventures, which do not meet the requirements of Article 1 of Resolution No. 4,280/13, amended by Resolution No. 4,517/16, are recorded in Prudential Conglomerate using the equity method, namely: Servinet Serviços Ltda. ("Servinet"), Cielo USA Inc. ("Cielo USA"), Multidisplay Comércio e Serviços Tecnológicos S.A. ("Multidisplay"), Braspag Tecnologia em Pagamentos Ltda. ("Braspag"), Aliança Pagamentos e Participações Ltda. ("Aliança"), Cielo Cayman Island ("Cielo Cayman") and Companhia Brasileira de Gestão de Serviços ("Orizon").

The consolidated financial statements of the Prudential Conglomerate include the following direct and indirect subsidiaries, the FIDCs and FIC:

Companies	Interest in the capital (%)		Main Activities
	12/31/2018	12/31/2017	
Direct subsidiaries, FIDCs and FIC:			
Cateno Gestão de Contas de Pagamentos S.A. ("Cateno")	70.00	70.00	Provision of services in processing means of payments that involve credit, debit and multiple cards of private and prepaid labels (not including credit card management).
Fundo de Investimento em Direitos Creditórios Não-Padronizados Cielo ("FIDC")	100.00	100.00	Acquisition of eligible credit rights arising from payment transactions originating from Cielo's acquisition system and other financial assets.
Fundo de Investimentos em Direitos Creditórios Não-Padronizados Cielo ("FIDC Plus")	78.19	77.10	Acquisition of eligible credit rights arising from payment transactions originating from Cielo's acquisition system and other financial assets.
Fundo de Investimento em Cotas de Fundo de Investimentos ("FIC")	100.00	100.00	Fund for investment in financial assets with indeterminate duration.
Indirect subsidiaries			
Merchant e-Solutions, Inc. ("Me-S")	100.00	100.00	Provision of services related to electronic payments with credit or debit cards.
Stelo S.A. ("Stelo")	100.00	30.00	Facilitator for online payments and digital portfolio, both for the physical world and for electronic commerce.
Direct joint ventures:			
Paggo Soluções e Meios de Pagamento S.A. ("Paggo")	50.00	50.00	Provision of services relating to signing up of merchants for acceptance of credit and debit cards through the capture, transmission, data processing and settlement of electronic transactions.

4 Cash and cash equivalents

At December 31, 2018 and 2017, the balance of cash and cash equivalents of the Prudential Conglomerate's is comprised of the cash and cash equivalents presented below and by interbank investments, cash investments and bank deposit certificates presented in notes 5 and 6.

	12/31/2018	12/31/2017
Cash:		
Local currency	28,665	3,674
Foreign currency	402,954	319,210
Total	431,619	322,884

The balances in line item "Cash" consist of cash available in bank accounts in Brazil and abroad.

5 Interbank investments

	Weighted average rate of DI per year				Total at 12/31/2018	Total at 12/31/2017
		0 - 30	31 - 180	181 - 365		
Investments in Open Market						
Debentures subject to repurchase agreements	105%	-	204,335	-	204,335	647,387
Investments in foreign currency	-	-	70,594	-	70,594	168,594
Total		-	274,929	-	274,929	815,981

The result obtained from the investments described above is shown in note 24 – Finance income (costs).

6 Securities and derivative financial instruments (assets and liabilities)

As at December 31, 2018 and 2017, the Prudential Conglomerate's securities and derivative financial instruments balance comprises the following balances:

	12/31/2018	12/31/2017
Assets:		
Securities	2,189,116	4,851,825
Derivative financial instruments	-	39,465
Total	2,189,116	4,891,290
Liabilities:		
Derivative financial instruments	75,692	-
Total	75,692	-

a. Carrying amounts and classification of the portfolio by category and terms

	Weighted average rate of DI per year	12/31/2018				12/31/2017	
		Maturity range				Total	
		0 - 30	31 - 180	181 - 365	Over 365	Fair value (*)	Cost (*)
Trading securities							
Private securities							
Bank certificates of deposit - CDB	100.2%	-	-	161	261,764	261,925	261,925
Investment fund shares		-	-	-	1,877,778	1,877,778	1,877,778
Others		-	-	-	49,413	49,413	49,413
Total		-	-	161	2,188,955	2,189,116	2,189,116
						2,189,116	4,851,825

(*) The market value of the securities is determined according to the market price quotation available at the end of the reporting period. If there is no available market price quotation, the values are estimated based on distributor quotes, pricing models, quotations models or price quotes for instruments with similar characteristics. In the case of investments in investment funds, the updated cost reflects the market value of the respective shares.

The result obtained from the investments described above is shown in Note 24 – Finance income (costs).

b. Investment fund in credit rights

Fundo de Investimento em Direitos Creditórios Não-Padronizados Cielo (“FIDC”) started its operations on August 5, 2016 in the form of an open-ended condominium, exclusive and for an indeterminate period, and Fundo de Investimento em Direitos Creditórios Cielo (“FIDC Plus”) began its activities on July 28, 2017 in the form of a closed condominium, restricted to professional investors and with indefinite term. Both are governed by CMN Resolution No. 2,907/01, by CVM Instructions No. 356/01 and No. 444/06, by the terms of the Regulation, and by all other applicable legal and regulatory provisions. Since July 31, 2017, the FIDC has not made any purchase of receivables.

The yield of the senior and mezzanine shares of FIDC Plus is amortized monthly, and an extraordinary amortization of mezzanine and subordinated shares is possible, as long as the minimum subordination level is 20%. The Fitch Ratings agency assigned to senior shares the risk rating “AAA”.

The purpose of the funds is to provide shareholders with an appreciation of the shares through the investment of their funds mainly in credit rights arising from payment transactions made by end users using payment instruments, for purchase of goods, products and services in merchants, on Cielo’s acquisition system, complying with the other applicable rules and standards.

The FIDCs shall keep after 90 days from the beginning of activities, at least 50% of its equity in the purchase of eligible credit rights.

The credit rights are measured at the purchase price and remunerated based on the internal rate of return (TIR) of the contracts, under the *pro rata temporis* criterion. The internal rate is calculated based on the purchase price, amount on maturity and term for receiving the credit rights.

The equity structure of the FIDC and FIDC Plus as at December 31, 2018 is presented below:

	Number of shares	Total value of shares	Cielo’s interest	Third parties’ interest
FIDC	832	1,171	1,171	-
FIDC Plus				
Senior	4,000,000	4,000,014	2,000,507	2,000,507
Mezzanine	500,000	500,135	500,135	-
Subordinated	3,686,481	4,669,309	4,669,309	-
Total – FIDC Plus	8,186,481	9,170,458	7,169,951	2,000,507
Total			7,171,122	2,000,507

The statements of financial position as at December 31, 2018 and 2017 are as follows:

	12/31/2018			12/31/2017		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
FIDC	1,385	215	1,170	542,539	1,193	541,346
FIDC Plus	9,199,494	29,035	9,170,459	8,741,634	4,234	8,737,400
Total	9,200,879	29,250	9,171,629	9,284,173	5,427	9,278,746

The funds' statements of profit or loss for the six-month periods December 31, 2018 and 2017 are as follows:

	12/31/2018			
	Income from purchase of receivables	Yield on shares	Profit (loss) before finance income and costs	Profit for the six-month period
FIDC	20,469	2,985	(1,527)	21,927
FIDC Plus	1,584,243	71,200	(1,469)	1,653,974

	12/31/2017			
	Income from purchase of receivables	Yield on shares	Profit before finance income and costs	Profit for the six-month period
FIDC	1,686,286	1,683,913	1,683,913	1,683,913
FIDC Plus	658,836	682,793	682,793	682,793

c. Hedge transactions

Hedge of market risk

The Company, upon contracting of Swap Financial Instrument, designated it as hedging instrument for the borrowing in US dollars in the amount of US\$297,327, equivalent to R\$1,000,000, due and settled on June 22, 2017. On September 1, 2017, the Company entered into a new borrowing of US\$316,255 equivalent to R\$1,000,000 due and settled on August 30, 2018. On August 30, 2018, a new borrowing was taken out in the amount of US\$ 239,166, equivalent to R\$ 1,000,000, maturing on August 31, 2019, for which a new swap transaction was entered into to provide hedge against the risk of foreign currency fluctuations and exposure to interest rates.

The terms of the borrowing, as mentioned in note 12, and swap agreements were entered into so that the comparison between the swap's long position (Company's accounts receivable) and the borrowing balance (Company's accounts payable), both adjusted at fair value, does not present losses or gains deriving from exchange differences and changes in interest rates contracted for the hedged item.

Accordingly, as at December 31, 2018, the Company remains exposed only to swap's short position, which has notional value in reais in the amount of R\$1,000,000 remunerated at 99.85% of the average daily interest rate of the DI.

In order to document the designation strategy adopted and the effectiveness of the derivative financial instrument, the Company used the hypothetical derivative method, which is based on a comparison of change in the fair value of a hypothetical derivative with terms identical to the

critical terms of the variable-rate liability, and this change in the fair value is considered as a representation of the present value of the cumulative change in the expected future cash flow of the hedged liability. Accordingly, gains and losses on the hedging instrument and the hedged item are recognized at fair value in profit or loss for the period in which they occur.

The method used by the Company to determine the fair value consists in calculating the future value based on contracted conditions and determine the present value based on market curves extracted from Brazilian stock exchange B3 – Brasil, Bolsa, Balcão S.A.

As at December 31, 2018, the swap agreement position reflected a fair value payable of R\$ 75,692 (receivable of R\$ 39,465 as at December 31, 2017), as shown below:

	12/31/2018					12/31/2017	
	Appreciation					Fair value (market value)	Fair value (market value)
	Operation maturity	Notional value R\$	Long position	Short position	MTM adjustment	Amount receivable / (payable)	Amount receivable / (payable)
Swap – variable rate in US\$: 2.9660% p.a. - From 08/31/18 to 02/27/19	08/30/2019	1,000,000	(74,987)	-	(706)	(75,692)	39,465
3.0660% p.a. - From 02/28/19 to 08/30/19							
vs. variable rate in R\$ (99.85% for DI)							

As at December 31, 2018, the hedging relationships established by the Company were effective, according to prospective tests performed. Therefore, no reversal due to ineffectiveness of the hedge was recognized.

7 Other receivables

	12/31/2018	12/31/2017
Income receivable – Payment transactions	854,626	714,843
Receivables from merchants (a)	436,847	422,754
Income receivable from payment transactions	417,779	292,089
Sundry	65,448,333	68,275,449
Receivables from card-issuing banks	62,219,320	65,075,191
Receivables from card-issuing banks (b)	61,518,321	64,720,365
Challenge of credit card holders - chargeback (c)	36,843	27,560
Purchase of receivables (d)	599	1,059
Receivables from financial transactions processed (e)	466,744	167,013
Receivables for interchange fees to merchants (f)	163,845	133,912
Others	32,968	25,282
Receivables from related parties (Note 26)	19,397	8,322
Escrow deposits (Note 14b)	1,624,563	1,610,072
Tax credits (Note 8a)	1,101,345	988,587
Taxes and contributions for offset/recoverable	387,851	537,967
Others	95,857	55,310
Allowance for other doubtful debts	(185,036)	(143,631)
Total	66,117,923	68,846,661
Current	63,882,454	66,635,329
Noncurrent	2,235,469	2,211,332
Total	66,117,923	68,846,661

(a) Commissions received by subsidiary Cateno for payment account management services under the Ourocard Payment Arrangement.

(b) Receivables from card-issuing banks for transactions made with credit and debit cards by cardholders, already deducting the advances with issuing banks as at December 31, 2018.

Additionally, the Company may advance the amounts for the generation of short-term working capital. These advances have an average term of approximately six business days. As at December 31, 2018 and 2017, there was no advance with card-issuing banks.

- (c) Refers basically to receivables for transactions challenged by credit card holders that are under analysis by the Parent Company at the end of the reporting period (chargeback).
- (d) Refers to purchase of receivables from merchants performed by the Company and by the FIDCs, relating to card transactions that will be received from card-issuing banks within 360 days from the purchase date, this amount is net of the income from purchase of receivables, to be recognized to the maturity dates of the transactions, since it is related to the purchase of receivables for cash and installment sales with original maturity after the end of the reporting periods.
- (e) Receivables recognized in subsidiary Me-S relating to amounts due from card association members for processed transactions that had been authorized but not yet received by Me-S by the end of the reporting periods. These amounts receivable are usually received on the business day following the transaction capture date. Card associations send to Me-S the amounts due to merchants for processing, net of the interchange fee retained by the card-issuing banks.
- (f) These are represented by the amounts receivable related to interchange fees and service fees charged for the processing of transactions receivable from merchants, a result of the practice adopted by Me-S to settle transactions for the full amounts to merchants and to collect these fees at the beginning of the following month.
- (g) Refers to the allowance for doubtful accounts arising from operations carried out by the Company with commercial establishments, based on the estimate of expected losses and operations already in arrears. The 2017 figures were reclassified in relation to the balances published for better comparability.

8 Income tax, social contribution and other taxes

a. Deferred income tax and social contribution

Deferred income tax and social contribution arise from temporary differences caused mainly by temporarily non-deductible provisions, and are classified in current and noncurrent assets and noncurrent liabilities, according to the expected realization of the credit.

Deferred income tax and social contribution reflect future tax effects attributable to temporary differences between the tax base of assets and liabilities and the related carrying amounts. The reported amounts are reviewed monthly.

Breakdown of deferred income tax and social contribution - Assets

	12/31/2017	12/31/2016
Temporary differences:		
Provision for tax, labor and civil risks	590,668	581,796
Accrual for sundry expenses	439,080	331,116
Allowance for losses on POS equipment and bad debts	71,597	75,675
Total	1,101,345	988,587

The Company did not recognize deferred income tax on goodwill amortization because these tax assets are not expected to be realized.

According to the best estimate of Management, tax credits recorded on provisions for miscellaneous expenses, provision for losses on POS equipment for capturing transactions and provision for bad debts and fraud, in the amount of R\$ 510,677 will be realized mainly in the next 12 months. The portion of tax credits on provisions for risks, in the amount of R\$ 590,668, will be realized at the end of each lawsuit, estimated partially in up to 5 years, except for 26.41% of provisions for labor risks, with estimated realization within 10 years, according to the process described in note 14.

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	Income tax	Social Contribution	Total	Present value
Temporary differences:				
2019	375,498	135,179	510,677	478,387
After 2021	434,315	156,353	590,668	553,318
Total	809,813	291,532	1,101,345	1,031,705

Breakdown of deferred income tax - Liabilities recognized in foreign companies

	12/31/2018	12/31/2017
Temporary differences:		
Other temporary differences	7,667	23,424
Total	7,667	23,424

b. Current income tax and social contribution

The effective rate of income tax and social contribution is as follows:

	2nd Half/18	12/31/2018	12/31/2017
Profit before income tax and social contribution	2,286,636	4,727,345	5,905,911
Statutory rates - %	34%	34%	34%
Income tax and social contribution at statutory rates	(777,456)	(1,607,297)	(2,008,010)
Tax benefit of interest on capital	108,120	214,370	218,790
Tax benefit of R&D ("Lei do Bem")	6,744	16,130	22,410
Share of profit (loss) of investees	(9,368)	1,156	(67,958)
Goodwill on acquisition of investment	(4,417)	(8,835)	(8,835)
Effect on permanent differences, net	1,801	12,503	(1,659)
Income tax and social contribution	(674,576)	(1,371,973)	(1,845,262)
Current	(803,108)	(1,397,041)	(1,887,413)
Deferred	128,532	25,068	42,151

Incentives to Cultural and Artistic Activities ("Rouanet Law"), Sports, Child and Adolescent Rights Fund, Fund for the Elderly and the National Program for Support and Health of Physically Challenged People (PRONAS/PCD) are recognized in line item "Income tax expenses – current". The tax incentives recorded as income tax expense - current, totaled R\$ 41,563 in the year ended December 31, 2018 (R\$ 45,938 in the year ended December 31, 2017).

c. Taxes payable

	12/31/2018	12/31/2017
Income tax and social contribution, net of prepayments	660,742	703,426
Contribution for Social Security Funding - Cofins	34,781	65,147
Tax on Services – ISS	63,857	10,379
Social Integration Program – PIS	7,527	13,676
Other taxes payable	12,904	11,964
Total	779,811	804,592

As from 2018, after amendments to Supplementary Law n. 157/16, the Tax on Services of any kind ("ISS") is now due in the municipality where the commercial establishments, service takers related to means of payment, are domiciled. In March 2018, the effectiveness of the first article of Supplementary Law n. 157/16 was suspended due to an injunction granted by the honorable STF justice Alexandre de Moraes. The Company has been involved in discussions with industry associations, other taxpayers involved and representatives of Brazilian municipalities, in order to

provide means to enable the proper application of the new legislation. In addition, with the suspension of Supplementary Law No. 157/16 and the reinstatement of the previous legislation, the Company, based on the opinion of its legal advisors, returned to pay the ISS in the municipality in which it is domiciled, as well as reversed the ISS estimate accrued under Supplementary Law 157/16, since the suspension thereof.

9 Investments

	<u>12/31/2018</u>	<u>12/31/2017</u>
In subsidiaries	160,488	129,140
In joint ventures and associates	119,055	110,358
Goodwill on acquisition of investments (a)	17,323	43,307
Total	<u>296,866</u>	<u>282,805</u>

(a) The goodwill arising on investments in subsidiaries and joint ventures is included in the carrying amount of the investment.

The consolidation of the financial statements for subsidiary Me-S and Stelo were based on the financial information as at November 30, 2018 to calculate the investments as at December 31, 2018. Accordingly, the share of profit (loss) of investees refers to the twelve-month period ended November 30, 2018.

Similarly, for calculating the share of profit (loss) of subsidiaries and joint ventures Multidisplay, Braspag, Cielo USA, Orizon and M4Produtos, the financial information as at November 30, 2018 was used for purposes of calculating the investments at December 31, 2018. Accordingly, the share of profit (loss) of investees refers to the twelve-month period ended November 30, 2018.

The main information on direct and indirect subsidiaries and joint ventures relating to investment amounts and share of profit (loss) of investees recorded in the financial statements is shown in the table below:

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12/31/2018															
	Ownership interest - %	Number of shares (in thousands)		Assets			Liabilities	Equity	Net revenues	Gross profit(loss)	Operating profit (loss) before finance income (costs)	Profit (loss)	Share of profit(loss) of investees for the year ended	Share of profit(loss) of investees for the six-month period	Investments
		Common	Preferred												
Subsidiaries:															
Servinet	99.99	11,010	-	103,619	64,223	39,396		173,550	170,910		9,721	7,502	7,502	4,468	39,396
Multidisplay (*)	91.44	16	-	112,645	48,321	64,324		579,224	28,688		27,798	26,361	24,104	12,347	60,226
Braspag	99.99	621	-	46,787	5,311	41,476		41,382	24,559		10,468	7,796	7,796	6,904	41,476
Cielo USA	100.00	1	-	983,063	1,665,801	(682,738)		-	(99,507)		(58,566)	(16,819)	(57,761)	(57,129)	-
Aliança (**)	99.99	99,770	-	162,168	6,830	137,223		4,675	4,734		14,645	8,743	13,081	2,143	19,390
Subtotal													(5,278)	(31,267)	160,488
Joint ventures:															
Orizon (***)	40.95	151,865	-	333,784	28,693	305,091		142,865	46,689		15,373	21,256	8,704	3,729	119,055
Paggo	50.00	112,357	-	299	340	(41)		-	-		22,344	(56)	(28)	(14)	-
Subtotal													8,676	3,715	119,055
Total													3,399	(27,552)	279,543

(*) The investment held by Cielo includes adjustment in the equity of subsidiary Multidisplay due to the special goodwill reserve generated in the corporate restructuring process in which Servrede was merged into its then subsidiary Multidisplay, in the amount of R\$16,439.

(**) The amount of investment in Aliança is adjusted by the effect of consolidation of Stelo(subsidiary of Aliança) in the Prudential Conglomerate of Cielo.

(***) The amount of R\$5,880 is not reflected in the investment because it refers to the unrealized gain on capital contribution with goodwill, initially reflected in CBGS Ltda. and transferred to the indirect subsidiary CBGS as a result of the merger. In November 2009, CBGS was merged into its then subsidiary Orizon.

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12/31/2017												
	Ownership interest - %	Number of shares (in thousands)		Assets	Liabilities	Equity	Net revenues	Gross profit(loss)	Operating profit (loss) before finance income (costs)	Profit (loss)	Share of profit(loss) of investees for the year ended	Investments
		Common	Preferred									
Subsidiaries:												
Servinet	99.99	11,010	-	79,805	47,910	31,894	134,492	132,238	7,366	5,900	5,900	31,895
Multidisplay (*)	91.44	16	-	108,321	40,344	67,977	471,683	23,812	31,994	31,640	28,932	63,565
Braspag	99.99	621	-	40,592	6,912	33,680	33,313	19,649	2,278	(1,482)	(1,482)	33,680
Cielo USA	100.00	1	-	928,692	1,505,215	(576,522)	-	(86,658)	(218,141)	(239,890)	(239,890)	-
Aliança	99.99	44,770	-	4,183	4,183	-	4,837	4,882	(9,486)	(9,481)	(9,481)	-
Subtotal										(216,021)		129,140
Joint ventures:												
Orizon (**)	40.95	151,865	-	312,385	28,551	283,834	149,459	59,979	32,576	39,499	16,174	110,350
Paggo	50.00	112,357	-	355	340	15	-	-	(56)	(56)	(28)	8
Subtotal										16,146		110,358
Total										(199,875)		239,498

(*) The investment held by Cielo includes adjustment in the equity of subsidiary Multidisplay due to the special goodwill reserve generated in the corporate restructuring process in which Servrede was merged into its then subsidiary Multidisplay, in the amount of R\$16,439.

(**) The amount of R\$5,880 is not reflected in the investment because it refers to the unrealized gain on capital contribution with goodwill, initially reflected in CBGS Ltda., and transferred to the indirect subsidiary CBGS as a result of the merger. In November 2009, CBGS was merged into its then subsidiary Orizon.

Acquisition of control - Multidisplay

In August 2010, the Company acquired through its direct subsidiary Servrede, 50.1% of the shares representing the capital of Multidisplay and its wholly-owned subsidiary M4Produtos, which collectively are referred to as M4U, for R\$50,650, generating initial goodwill of R\$31,348.

In the corporate restructuring process carried out in 2012, Servrede was merged into its then subsidiary Multidisplay, the tax benefit on goodwill of R\$10,658 was merged into Multidisplay and the remaining goodwill of R\$20,690 was re-established in the Company, as provided for in CVM Instructions No. 319/99 and No. 349/01. The tax benefit is amortized according to its realization and the goodwill was amortized over the period of the study of projections of future results that justified it.

In July 2016, the Company concluded an additional acquisition of a 41.34% interest in subsidiary Multidisplay, increasing its interest to 91.44%, as follows:

Net assets acquired	17,849
Amounts paid on the closing date	(92,309)
Amount payable Earn-out	(7,824)
Goodwill	<u>(82,284)</u>

(*) Remaining balance recorded as “Other payables” in noncurrent liabilities to be paid in 43 months from the closing date, inflation adjusted based on 100% of the DI rate, contingent upon the attainment of certain “performance” goals established in the Share Purchase and Sale Agreement.

The goodwill is subject to straight-line amortization over the period of study of projections of future results that justified it. As at December 31, 2018, the goodwill balance is R\$ 17,323 (R\$ 43,307 as at December 31, 2017). Amortization recognized in the years ended December 31, 2018 and 2017 amounted to R\$ 25,984, in each such year.

Changes in investments for the years ended December 31, 2018 and 2017 are as follows:

Balance at December 31, 2016	295,172
Provision for obligations with investees (*)	246,410
Dividends received:	
Multidisplay	(32,918)
Share of profit (loss) of investees	(199,875)
Amortization of goodwill	(25,984)
Balance at December 31, 2017	282,805
Provision for obligations with investees (*)	46,924
Dividends received:	
Multidisplay	(27,445)
Capital contribution - Aliança	135,000
Acquisition of interest in subsidiaryies	(117,833)
Share of profit (loss) of investees	3,399
Amortization of goodwill	(25,984)
Balance at December 31, 2018	<u>296,866</u>

(*) Refers to investments with negative equity, recognized in line item Other Payables – Sundry.

10 Property and equipment

	Annual depreciation rate - %	12/31/2018		12/31/2017	
		Cost	Accumulated depreciation	Net	Net
POS equipment	33	1,557,233	(1,123,400)	433,833	361,194
Data processing equipment	20	214,193	(159,846)	54,347	62,702
Machinery and equipment	10 - 20	47,813	(31,886)	15,927	17,562
Facilities	10	51,994	(16,427)	35,567	37,847
Furniture and fixtures	10	14,634	(6,259)	8,375	7,676
Vehicles	20	378	(378)	-	18
Total		1,886,245	(1,338,196)	548,049	486,999

Changes in property and equipment for the years ended December 31, 2018 and 2017 are as follows:

	12/31/2017	Additions	(Disposals/Estimated losses)	Depreciation	Exchange differences	12/31/2018
POS equipment	361,194	332,988	(11,369)	(249,011)	31	433,833
Data processing equipment	62,702	20,059	(2)	(29,851)	1,439	54,347
Machinery and equipment	17,562	1,132	-	(4,543)	1,776	15,927
Facilities	37,847	2,887	-	(5,167)	-	35,567
Furniture and fixtures	7,676	2,642	(526)	(1,506)	89	8,375
Vehicles	18	-	-	(18)	-	-
Total	486,999	359,708	(11,897)	(290,096)	3,335	548,049

	12/31/2016	Additions	(Disposals/Estimated losses)	Depreciation	Exchange differences	12/31/2017
Total	612,818	247,451	(18,145)	(354,862)	(263)	486,999

As at December 31, 2018 and 2017, estimated losses on POS equipment amount to R\$24,418 and R\$21,964, respectively.

11 Intangible assets

The breakdown of intangible assets is as shown below:

	Annual amortization rate - %	12/31/2018		12/31/2017	
		Cost	Accumulated amortization	Net	Net
Software (a)	6.66-20	777,444	(445,503)	331,941	294,176
Project development (b)	20	953	(826)	127	175
Relationship with customers (c)	4-20	431,112	(171,843)	259,269	178,901
Non-compete agreement (d)	7.5-50	100,179	(88,573)	11,606	17,526
Trademarks (e)	10	73	-	73	-
Right to use Ourocard Payment-Arrangement (f)	3.33	11,572,000	(1,478,644)	10,093,356	10,479,089
Total		12,893,755	(2,197,383)	10,696,372	10,969,867

(a) **Software** - refers to software licenses acquired from third parties and used to provide services relating to information processing and business transactions with customers.

(b) **Project development** - refers to expenses on development of new products or services designed to increase the Company's and its subsidiaries' invoicing and revenues.

There are other intangible assets generated from the allocation of the price paid for the acquisition of control of Me-S, in August 2012. These intangible assets were recorded based on appraisal reports prepared as of those dates by independent appraisers, and the criteria used to measure the value of these intangible assets are described as follows:

(c) **Relationship with customers** - Me-S customers portfolio was classified in three main groups: "e-commerce", "bank customer" and "B2B/Other". Each portfolio was assessed separately using the "Excess Earnings" methodology, considering their specific and individual characteristics. As discount rate, 10% per year was used for "e-commerce" and "bank customer" portfolios, and 11% for "B2B/Other". The

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estimated useful life was based on the years in which each portfolio reaches approximately 80% to 90% of the accumulated amount of the discounted cash flow. An interval between the lowest and the highest values obtained was adopted.

- (d) **Non-compete agreement** - Me-S entered into an agreement with Synovus Financial Corporation, under which no competition shall exist in relation to the portfolio acquired from Columbus Bank and Trust Company ("CB&T") and any new customers acquired through CB&T as a result of the Recommendation Agreement. The fair value of this agreement was estimated using the "With and Without" methodology, while its useful life was defined to be the expiration date of the agreement.
- (e) **Trademarks** – evaluated using the "Relief-from-Royalty" methodology, assuming royalty fee of 0.3% based on parameters obtained from the "Royalty Source Intellectual Property Database" and discount rate of 10%.
- (f) **Right to Use Ourcard Payment Arrangement** - Under the scope of the association agreement between the Company and BB Elo Cartões, a wholly-owned subsidiary of Banco do Brasil, in February 2015 Cateno was granted rights over post-paid payment accounts management activities under the Ourocard Payment Arrangement, rights over the management of the purchase functionalities through debit under the Ourocard Payment Arrangement, and participation in the Ourocard Payment Arrangement as a Payment Institution. By means of an Economic and Financial Appraisal Report issued by an independent auditing firm and prepared based on a Future Profitability method using a discounted cash flow, the rights under the above-described Ourocard Payment Arrangement were valued at R\$11,572,000 with a 30-year finite useful life. The intangible assets are amortized under the straight-line method at a rate of 3.33% per year. The useful life and amortization method are reviewed annually.

Changes in intangible assets for the years ended December 31, 2018 and 2017 are as follows:

	12/31/2017	Additions	(Disposals) / Reversals	Amortizations	Exchange differences	12/31/2018
Software	294,176	152,405	(5,790)	(112,572)	3,722	331,941
Relationship with customers	178,901	91,959	(2,691)	(21,946)	13,046	259,269
Project development	175	-	-	(48)	-	127
Non-compete agreement	17,526	-	-	(8,476)	2,556	11,606
Trademarks	-	73	-	-	-	73
Right to use Ourocard Payment-Arrangement	10,479,089	-	-	(385,733)	-	10,093,356
Total	10,969,867	244,437	(8,481)	(528,775)	19,324	10,696,372

	12/31/2016	Additions	(Disposals) / Reversals	Amortizations	Exchange differences	12/31/2017
Total	11,249,499	210,106	1,920	(493,088)	1,430	10,969,867

Expenses on depreciation of property and equipment and amortization of intangible assets were recognized in "General and administrative expenses" and "Cost of services provided" in the statement of profit or loss.

12 Borrowings

	Interest rate per year	12/31/2018	12/31/2017
Private debentures (a)	100% to 111% of DI	3,414,717	3,429,566
Public debentures (b)	105.8% of DI	-	1,556,418
Long-term financing – "ten-year bonds" (c)	3.75%	1,824,423	1,555,536
Operation 4,131 (d)	1.96% to 2.07%	925,379	1,042,779
FINAME (e)	9.36%	-	170,278
R&D Financing	4.0%	134,049	156,647
Total		6,298,568	7,911,224
Current		1,032,941	2,827,084
Noncurrent		5,265,627	5,084,140
Total		6,298,568	7,911,224

(a) **Private debentures**

On February 27, 2015, the Parent Company conducted the first, second and third single series, simple, unsecured, nonconvertible debenture private placement issues. The three issuances totaled R\$3,459,449 with maturity date on December 30, 2023. The private debentures' yield includes interest based on the cumulative percentage change between 100.00% and 111.00% of the average daily interest rate of the DI, as applicable, as shown in the table below:

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	Principal	Remuneration
1st issuance	2,359,449	111% of DI
2nd issuance	700,000	100% of DI until 3/31/2015 and 111% of DI after 3/31/2015
3rd issuance	400,000	100% of DI from the payment date to the day of removal from office of the "Transition Committee", or until the end of the nine-year period counted from the base date to be defined in the amendment to the Deed. In case of any of the events, interest will be based on 111% of DI.

Interest will be paid on a semiannual basis as of the issuance date, except for the last accrual period that will be shorter as it will start on August 27, 2023, and will end with payment on the maturity date together with the principal amount. Exceptionally on March 27, 2015, the principal amount of R\$122,324 related to the 1st issuance of private debentures was partially paid. There are no covenants imposing financial restrictions related to the financial transaction of issuance of Private Debentures.

(b) Public Debentures

On April 13, 2015, the Company conducted the fourth issuance of simple, unsecured debentures in a single series, not convertible into shares and for public distribution pursuant to the terms of CVM Instruction 400/03. The issuance totaled R\$4,600,000 with maturity date on April 13, 2018. The amount of R\$ 4,600,000 was fully used in the early redemption of the Promissory Notes issued on December 29, 2014.

The remuneration of the Public Debentures includes remuneration interest based on the cumulative percentage variation of 105.8% of the average daily interest rate of DI - Interbank Deposits. The amount of principal was amortized in 3 equal and annual installments, in April of each year, and interest was paid semiannually in April and October of each year. On April 30, 2018, the amounts of R\$ 1,533,336 of principal and R\$ 54,340 of interest were settled, liquidating the operation.

(c) Long-term financing - Ten-year bonds

In November 2012, the Company and its subsidiary Cielo USA completed a financial transaction whereby bonds were issued in the total amount of US\$875 million, of which US\$470 million were issued by the Company and US\$405 million were issued by subsidiary Cielo USA. The amount raised by Cielo USA was used to pay the acquisition of control of Me-S. The proceeds raised by the Company were used to increase its working capital. The financing obtained is subject to an interest rate of 3.75% per year. Interest is paid on a semiannual basis and principal will be paid in November 2022. Costs directly associated with the issuance of these bonds (banks, auditors and attorney's fees) were recognized in liabilities and are being allocated to profit or loss over the term of the agreement, based on the amortized cost method. There are no covenants imposing financial restrictions related to the financial transaction of issuance of bonds.

(d) Operation 4.131

On December 22, 2016, a loan was taken out from BTMU in the amount of US\$ 297,327, equivalent to R\$ 1,000,000, which includes fixed interest rate of 1.78% p.a. for the period from 12/22/2016 to 03/22/2017 and 1.88% p.a. for the period from 03/22/2017 until maturity of the loan agreement on 06/22/2017. In addition, the Company took out Swap with the purpose of hedging said loan from fluctuations related to exchange rate variation and interest rate, with short position (remuneration of the bank), considering all transaction costs, equivalent to 101.4% of the average daily interest rate of DI - Interbank Deposits. The interest on the loan and the settlement of the financial instrument taken out were paid on 03/22/2017 and 06/22/2017, the latter together with the balance of loan principal.

On August 31, 2018, a new transaction was taken out from Bank of Tokyo-Mitsubishi UFJ, Ltd - "BTMU" in the amount of US\$ 239,166, equivalent to R\$ 1,000,000, which includes fixed interest of 3.3897% p.a. for the period from 08/31/2018 to 02/28/2019 and 3.5040% p.a. for the period of 02/28/2019 until maturity of the agreement on 08/30/2019. In addition, the Company took out a Swap with the purpose of hedging said loan from fluctuations related to exchange variation and interest rate, with short position (remuneration of the bank), considering all costs of the transaction, equivalent to 99.85% of the average daily DI interest rate. The interest on the loan and settlement of the financial instrument taken out will be paid on 02/28/2019, 05/31/2019 and 08/30/2019, the latter together with the balance of loan principal.

The loans obtained from Bank of Tokyo-Mitsubishi UFJ, Ltd have covenants that oblige the Company to maintain the Net Debt / Consolidated Adjusted EBITDA ratio equal to or less than 3, measured annually.

(e) FINAME

The weighted average rate of financial charges is 9.36% p.a. at December 31, 2018 (8.31% p.a. at December 31, 2017). The Company is the beneficiary of a credit facility with BNDES relating to FINAME onlending transactions to finance the purchase of new machinery and equipment manufactured in Brazil. Such onlending occurs through the extension of credit to the Company, generating rights to receipt by the accredited financial institution as a financial agent that contracts such financing transactions with the Company.

The contracts are guaranteed by the transfer of fiduciary ownership of property purchased through FINAME. On February 15, 2018, the transaction was settled.

The Company was compliant with the financial ratio related to the covenants of its borrowings described above.

Changes in borrowings for the years ended December 31, 2018 and 2017 are as follows:

Balance at December 31, 2016	9,478,071
New borrowings	1,165,144
Payment of principal	(2,687,808)
Exchange differences (principal and interest)	100,043
Mark-to-market (MTM) adjustment	(11,422)
Accrued interest and charges	675,116
Interest paid	(807,920)
Balance at December 31, 2017	7,911,224
New borrowings	1,000,000
Payment of principal	(3,039,583)
Exchange differences (principal and interest)	469,865
Mark-to-market (MTM) adjustment	1,491
Accrued interest and charges	396,831
Interest paid	(441,260)
Balance at December 31, 2018	6,298,568

Hedge accounting

As at December 31, 2018, Cielo has financial instruments designated as hedging instrument against fluctuations in foreign exchange and interest rates of its borrowings, as described in note 6 (c).

Breakdown of borrowings recorded in noncurrent liabilities

Borrowings classified as noncurrent as at December 31, 2018 by maturity date are broken down as follows:

Year of maturity

2020	22,252
2021	22,252
2022	1,843,408
2023	3,359,378
2024	22,252
Total borrowings	5,269,542
Debt issue costs	(3,915)
Total	5,265,627

13 Other payables – Sundry - Payables to customers

	<u>12/31/2018</u>	<u>12/31/2017</u>
Payables to customers (a)	52,878,277	57,377,277
Payables to merchants (b)	607,416	305,425
Merchant deposits (c)	145,894	113,834
Total	53,631,587	57,796,536

- (a) **Payables to customers** – Refer to the obligation to pay the amount of purchase of products and services made with credit and debit cards to merchants accredited by the Company. The balance of payables to merchants (accounts payable to merchants and accounts payable to FIDCs resulting from the advances made by them) is higher than the balance of receivables from card-issuing banks, in assets, because in general, the payment term for the Company's credit card issuers is 28 days, while the Company's average payment term for merchants is 30 days (a float of approximately two days).

- (b) **Payables to merchants** - Represented by amounts due to merchants by the subsidiary Me-S to its merchants, relating to transactions captured and processed until the end of the reporting period. These amounts are paid on the business day following the date on which transactions are captured.
- (c) **Merchant deposits** - The subsidiary Me-S requires deposits from customers in order to cover potential risks of complaints from card holders due to fraud in the transaction or bankruptcy of the merchant.

In addition to the services of payments of the amounts transacted in credit and debit cards to merchants, the Company also guarantees accredited merchants that they will receive the amounts from credit card transactions. Based on the immaterial amount of the Company's history of losses due to default from card-issuing banks and the current credit risks of these institutions, the Company estimates that the fair value of the guarantees provided to merchants is not material and, therefore, is not recognized as a liability.

14 Provisions, contingent assets and contingent liabilities

a. Provision for tax, civil and labor risks

The Prudential Conglomerate is a party to lawsuits and administrative proceedings before courts and government agencies, arising in the normal course of business and involving tax, labor, civil and other matters.

Management, based on information from its legal counsel, on the analysis of pending lawsuits and past experience on the amounts claimed in labor, civil and tax lawsuits, recognized a provision in an amount considered sufficient to cover probable future cash disbursements on pending lawsuits in the years ended December 31, 2018 and 2017, as follows:

	12/31/2017	Additions (a)	Write-offs/ reversals (b)	Inflation adjustment	Payments (c)	12/31/2018
Tax	1,580,089	50,928	(10,902)	961	-	1,621,076
Labor	53,675	26,959	(33,912)	4,387	(9,423)	41,686
Civil	92,923	20,761	(10,743)	1,345	(4,702)	99,584
Total	1,726,687	98,648	(55,557)	6,693	(14,125)	1,762,346

	12/31/2016	Additions (a)	Write-offs/ reversals (b)	Inflation adjustment	Payments (c)	12/31/2017
Total	1,634,748	145,540	(45,388)	7,437	(15,650)	1,726,687

- (a) Refer mainly to the increase in the provision for tax risks for the years ended December 31, 2018 and 2017, relating to taxes with suspended payment, recorded as a balancing entry to "Taxes on services" and "Other operating expenses, net", and other additions to the provision for civil and labor risks, represented by new lawsuits and changes in the assessment of the likelihood of loss made by the legal counsel, which were recorded as a balancing entry to "Other operating expenses, net", in the statement of profit or loss.
- (b) Mainly represented by the reversal of the provision for civil and labor risks due to elapsing of the allowed time to start legal proceedings, settlement of lawsuits or change in the risk of loss as assessed by the Prudential Conglomerate's legal counsel.
- (c) In 2018, the Prudential Conglomerate, whether due to court agreements or unfavorable decisions, settled 1,484 civil and labor lawsuits, totaling R\$ 14.125.

Tax lawsuits

The balances below refer to the provision for tax risks, arising from diverging interpretation by tax authorities, and related escrow deposits:

Main tax lawsuits (ii)	Provision for tax risk		Escrow deposit	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Noncumulative Cofins (a)	1,517,142	1,517,142	1,517,142	1,517,142
Amazon Investment Fund -FINAM (b)	17,398	17,398	-	-
Social contribution on Net Income (CSLL) 2002 (c)	10,895	10,895	10,895	10,895
Negative balance of IRPJ of the calendar year 2008 (d)	7,045	7,045	7,045	7,045
Others	68,596	27,609	20,255	19,923
Total	1,621,076	1,580,089	1,555,337	1,555,005

- (a) **Cofins - Non-cumulative Regime** - the Company filed a writ of mandamus in February 2004, seeking to eliminate the demand for Cofins under the Law at a rate of 7.6%, making a deposit in court for the amounts calculated on a monthly basis and recording the difference between the cumulative and non-cumulative regimes as provision for risks. In May 2017, after the judgment of Extraordinary Appeal No. 570,122 / RS - with general repercussion recognized in relation to the matter raised and outcome unfavorable to the Taxpayers -, the Company decided to stop making deposits in court, starting to pay the taxes and to benefit from the deductibility referred to in Decree No. 3,000/99 and Normative Ruling No. 1,700/17. The writ of mandamus, however, remains awaiting a decision at a higher court for a final settlement of the dispute, as a result of the judgment not yet published in the records of the Extraordinary Appeal. As at December 31, 2018, the amount of the provision for risks recognized and the amount of the escrow deposit is R\$ 1,517,142.
- (b) **Amazonas Investment Fund - FINAM** - In 2007, the Company received a tax assessment notice related to the calendar year 2002, fiscal year 2003. The Federal Revenue of Brazil alleges the non-filing of the Request for Revision of Order of Issuance of Tax Incentives - PERC within the required deadlines and, therefore, does not recognize the portion of Corporate Income Tax (IRPJ) for FINAM. The administrative proceeding is pending judgment of the Company's voluntary appeal by the Administrative Board of Tax Appeals - CARF. As at December 31, 2018, the amount of the provision for risks recognized is R\$ 17,398.
- (c) **Social Contribution on Net Income - CSLL 2002** - In 2007, a tax assessment notice was issued against the Company to require CSLL (adjustment share) for calendar year 2002, plus a fine of 75% and interest on late payment, as well as a fine of 50% on the amounts of "estimates" of CSLL that would not have been paid. After the maintenance of the tax assessment notice at the administrative sphere, in July 2011, the Company opted for a judicial discussion. The full amount of the tax credit is deposited in court and is being contested in a writ of annulment, distributed in August 2011. In the first judicial instance, a judgment was rendered dismissing the annulment action. Currently, the process awaits judgment of the company's appeal. As at December 31, 2018, the amount of the provision for risks recognized and the amount of the escrow deposit are R\$ 10,895.
- (d) **Negative IRPJ Balance of Calendar Year 2008** - In 2009, the parent company offset the negative IRPJ balance of calendar year 2008 for tax debts owed in 2009 upon filing of the Offset Return (PER / DCOMP). When analyzing the aforementioned offset return in 2012, the Brazilian Federal Revenue Office did not approve the tax credit and, consequently, issued Decision Order No. 02240539. In January 2013, the parent company filed an Ordinary Tax Debt Annulment Action, at the Civil Court of the Judicial Branch of Osasco / SP, with the purpose of demonstrating and proving the credit of negative balance of calendar year 2008. The full amount of the tax credit is deposited in court. As at December 31, 2018, the amount of the provision for risks recognized and the amount of the escrow deposit are R\$ 7,045.

In addition, in December 2018, a tax notice was issued against the Company claiming PIS and COFINS at 9.25% on revenues from acquisition of receivables ("ARV"), for calendar years 2014 and 2015, plus automatic fine and interest on arrears, in the amount of R\$655,673. Based on the opinion of the Company's legal advisors, the case was assessed as involving remote unfavorable outcome.

Based on the opinion of its legal counsel, the Company's Management estimates that the actual disbursement of the provision for tax risks will occur within 5 years and understands that the development of the lawsuits will depend on external factors not under the Prudential Conglomerate's control.

Civil lawsuits

Refer basically to collection of transactions made through the Company's system that were passed on to merchants in view of noncompliance with clauses of the accreditation contract, and compensation for losses caused by transactions not passed on at that time. As at December 31, 2018, the provision for probable losses on civil lawsuits totals R\$ 41,686 (R\$ 53,675 at December 31, 2017), and the escrow deposit balance is R\$ 11,481 (R\$ 8,460 at December 31, 2017).

Based on the opinion of its legal counsel, the Company's Management estimates that the actual disbursement of the mentioned provision for civil risks will occur within 5 years and understands that the development of the lawsuits will depend on external factors not under the Prudential Conglomerate's control.

Additionally, as at December 31, 2018, the Company is a party to public civil lawsuits and civil inquiries, most of them filed by the Public Prosecutor's Office or associations, whose intention is to defend collective interests (such as consumers' rights and labor rights). Court decisions may grant rights to groups of people (even without their consent). In many situations, the group's decision on availing a favorable outcome will only be made after the final decision.

Labor lawsuits

Refer to labor lawsuits that, as at December 31, 2018, included 596 claims against the Prudential Conglomerate (484 claims at December 31, 2017). Of these claims as at December 31, 2018, 204 were filed by former employees (170 claims as at December 31, 2017) and the remaining 392 (314 as at December 31, 2017) were filed by employees of subcontractors, some of whom claiming the recognition of an employment relationship.

The risk of loss on labor claims, when these are started, is assessed as possible. As a rule, only after the decisions of the higher or lower courts are issued, the lawsuits are reclassified to probable or remote loss, depending on the decision and based on the history of losses on similar lawsuits. In general, labor lawsuits are related to salary equalization, overtime and effects of annual bonus, rights guaranteed by agreements between the employer and the labor union, recognition of employment relationship, and pain and suffering.

As at December 31, 2018, the provision for probable losses on labor lawsuits is R\$ 99,584 (R\$ 92,923 at December 31, 2017), and the balance of escrow deposits is R\$ 57,745 (R\$ 46,607 as at December 31, 2017).

Based on the opinion of its legal counsel, the Prudential Conglomerate's management estimates that the actual disbursement of 73.59% of the mentioned provision for labor risks will occur within 5 years, and 26.41% within 10 years, and understands that the development of the lawsuits will depend on external factors not under the Conglomerate's control.

Additionally, as at December 31, 2018, the Conglomerate is a party to tax, civil and labor lawsuits assessed by their legal counsel as possible likelihood of losses, for which no provision was recognized, as follows:

	<u>12/31/2018</u>	<u>12/31/2017</u>
Tax	139,617	131,586
Civil	206,592	148,160
Labor	91,575	75,868
Total	<u>437,784</u>	<u>355,614</u>

b. Escrow deposits

In the years ended December 31, 2018 and 2017, the Prudential Conglomerate has escrow deposits related to the provision for tax, labor and civil risks, broken down as follows:

	<u>12/31/2017</u>	<u>Additions</u>	<u>Write-offs</u>	<u>12/31/2018</u>
Tax	1,555,005	332	-	1,555,337
Civil	8,460	3,035	(14)	11,481
Labors	46,607	11,242	(104)	57,745
Total	<u>1,610,072</u>	<u>14,609</u>	<u>(118)</u>	<u>1,624,563</u>
	<u>12/31/2016</u>	<u>Additions</u>	<u>Write-offs</u>	<u>12/31/2017</u>
Total	<u>1,514,389</u>	<u>95,714</u>	<u>(31)</u>	<u>1,610,072</u>

15 Equity

a. Issued capital

Capital as at December 31, 2018 is R\$ 5,700,000 represented by 2,714,233,626 common shares (R\$ 4,700,000 represented by 2,716,815,061 common shares as at December 31, 2017), all of them subscribed and paid in.

The number of shares net of treasury shares as at December 31, 2018 is 2,714,233,626 (2,714,173,216 shares as at December 31, 2017).

The Company's capital can be increased by up to 2,400,000,000 additional common shares, regardless of any amendments to bylaws, at the discretion of the Board of Directors, which has the power to establish the share issue price, the terms and conditions for subscription and payment of shares up to the limit of the authorized capital.

b. Capital reserve

Represents share-based payment costs and goodwill on subscription of shares related to capital contributions by shareholders exceeding the amount allocated to capital formation.

The capital reserve balance as at December 31, 2018 is R\$ 71,255 (R\$ 62,620 as at December 31, 2017).

c. Treasury shares

On February 23, 2018, the Company's Board of Directors, pursuant to article 8, paragraph 3 of CVM Instruction No. 567/15, approved the acquisition of up to 1,550,000 common shares, without par value, issued by the Company itself, to allow the exercise of the options and/or shares to be granted under the Company's Stock Option Plan ("Plan"), approved and amended in the Annual and Extraordinary General Meetings, respectively, and for the eligible statutory and non-statutory directors according to the rules set out in the Plan, within 365 days from February 22, 2018 to February 22, 2019. Moreover, these acquisitions of shares issued by the Company itself are limited to the balance available in line item "Capital reserve" determined during the fiscal year, in compliance with articles 1 and 12 of Instruction CVM 10/80.

The Company's Management is responsible for defining the timing and the number of shares to be acquired, within authorized limits.

Changes in treasury shares are as follows:

	Shares	Amount	Average cost R\$ per share
Balance at December 31, 2017	(2,641,845)	(53,925)	20.41
Sale in January	270,721	5,526	20.41
Sale in February	57,346	1,171	20.41
Sale in March	306,475	6,256	20.41
Repurchase in March	(490,000)	(11,758)	20.41
Sale in April	6,003	126	21.12
Sale in June	51,741	1,093	21.12
Sale in July	425,000	8,975	21.12
Sale in August	5,118	107	21.12
Repurchase in September	(583,254)	(8,370)	19.59
Sale in September	11,260	221	19.59
Balance at December 31, 2018	(2,581,435)	(50,578)	19.59

d. Carrying value adjustments

Represent cumulative adjustments for translation into the foreign currency of the foreign investments. The balances below reflect cumulative adjustments at the end of the reporting period, as follows:

	Prudential Conglomerate	
	12/31/2018	12/31/2017
Exchange differences on foreign investments	59,622	149,019

e. Earnings reserve - legal

Is represented by the amounts set up at the rate of 5% of the profit for the year, pursuant to article 193 of Law No. 6,404/76, up to the limit of 20% of the capital. The legal reserve balance as at December 31, 2018 is R\$ 1,049,745 (R\$ 892,740 as at December 31, 2017).

f. Earnings reserve - capital budget

At the Board of Directors' meeting held on February 01, 2018, the financial statements for the year ended December 31, 2017 and the capital budget proposal for the current year were appreciated and submitted for approval at the Annual General Meeting of Shareholders held on April 20, 2018. The capital budget consists of the equivalent to 26.2% of the profit for fiscal year 2017, already deducting the legal reserve. The capital budget proposal was justified by the need to improve the working capital and assure greater robustness and financial stability to the Company, facilitating the financing of its operations, as well as the investment in shares of the Fundo de Investimento em Direitos Creditórios Cielo in order to foster the acquisition of sale receivables ("ARV"), and provide funds for any repurchase of the Company's shares.

The capital budget reserve balance as at December 31, 2018 is R\$ 1,824,726 (R\$ 3,341,628 as at December 31, 2017).

g. Dividends and interest on capital

The statutory shareholders are entitled to a mandatory minimum dividend of 30% calculated on the profits earned (after the legal reserve) at the end of each fiscal year.

The remaining balance of profit for the fiscal year will be allocated in accordance with the Annual General Meeting resolution. At the end of the fiscal year, the Company records a provision for the minimum dividend amount that has not yet been distributed during the year up to the limit of the minimum mandatory dividend described above. The Company's bylaws provide that the Company may prepare semiannual statements of financial position or in shorter periods and, in compliance with the limits established by law, the Board of Directors may declare dividends computed on the profit account posted in these statements of financial position. Furthermore, the Board of Directors may declare interim dividends computed on the existing profit account, based on the last statement of financial position approved by the shareholders.

At meetings of the Company's Board of Directors held on December 13, 2017 and February 1, 2018, the distribution of dividends and interest on capital was approved, ad referendum of the Annual General Meeting to be held on April 20, 2018, referring to profit for the second half of 2017, in the amount of R\$ 318,200 (R\$ 270,470 net of IRRF) and R\$ 1,058,785, respectively, paid on March 29, 2018, which added to the income of R\$ 1,327,352 paid on September 29, 2017, correspond to 73.8% of net income.

Interim dividends and interest on capital for the first half of 2018 were provisioned in the amount of R\$ 1,750,000 represented by the sum of R\$ 216,773, recorded as mandatory minimum dividends and R\$ 312,500 as interest on capital and by R\$1,220,727 as additional dividends to mandatory minimum dividends, paid on September 28, 2018, as approved by the Board of Directors' Meetings held on July 30, 2018 and June 20, 2018, respectively.

In the 3rd quarter of 2018, Cielo recorded dividends of R\$875,000 based on profit for the quarter, comprising interest on capital of R\$152,500 and additional dividends of R\$722,500, paid on December 26, 2018.

In the 4th quarter of 2018, interest on capital of R\$165,500 was provisioned and dividends of R\$709,500 will be provisioned after approval of the Annual General Meeting, totaling R\$875,00, which will be paid in the first quarter of 2019.

h. Regulatory capital

Central Bank Circular Letter No, 3,681/13 requires accredited payment institutions to maintain permanently equity adjusted by profit or loss accounts in an amount corresponding to at least 2% of the average monthly amount of the payment transactions processed by the institution in the last twelve months.

As at December 31, 2018, the Company maintains the minimum regulatory capital required.

16 Net operating revenue

	<u>2nd Half/18</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Gross operating revenue	6,135,281	12,117,774	12,131,685
Taxes on services	<u>(530,412)</u>	<u>(1,116,581)</u>	<u>(1,093,953)</u>
Total	<u>5,604,869</u>	<u>11,001,193</u>	<u>11,037,732</u>

The gross operating revenue is derived from the capture, transmission, processing and financial settlement of the transactions made with credit and debit cards, management of payment accounts related to Ourocard Payment Arrangement, rental of POS equipment and provision of services in data transmission to load fixed or mobile phone credits.

17 Expenses by nature

The Company elected to present the consolidated statement of profit or loss by function.

The breakdown of cost of services provided and net operating expenses by nature is as follows:

Cielo S.A.
*Consolidated financial statements of the Prudential Conglomerate
for the year ended December 31, 2018 and
independent auditor's report*

	<u>2nd Half/18</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Personnel expenses	(316,984)	(614,659)	(583,287)
Depreciation and amortization	(422,826)	(844,858)	(873,933)
Professional services	(390,779)	(665,827)	(616,382)
Acquisition costs (a)	(2,591,058)	(4,976,875)	(4,468,933)
Sales and marketing (b)	(150,112)	(274,941)	(188,424)
Others	27,810	66,641	22,739
Total	<u>(3,843,949)</u>	<u>(7,310,519)</u>	<u>(6,708,220)</u>
Classified as:			
Cost of services provided	(2,865,229)	(5,540,569)	(5,199,921)
Personnel expenses	(219,928)	(422,871)	(396,512)
General and administrative expenses	(400,164)	(736,725)	(690,646)
Sales and marketing	(150,112)	(274,941)	(188,424)
Other operating expenses, net	(208,516)	(335,413)	(232,717)
Total	<u>(3,843,949)</u>	<u>(7,310,519)</u>	<u>(6,708,220)</u>

(a) Acquiring costs are mainly represented by expenses on logistics and maintenance of POS equipment, supplies to merchants, customer registration and service, telecommunication services, and capture and processing of transactions.

(b) Sales and marketing expenses include campaigns for trademark development, advertising and publicity, internal marketing, sales incentives to partners and issuing banks, and commercial actions for new customers registration.

18 Other operating expenses, net

Represented by:

	<u>2nd Half/18</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Allowance for doubtful debts and fraud (a)	(154,398)	(274,710)	(213,760)
Provision for risks, net	(54,450)	(60,821)	(26,295)
Write-offs and provision for loss on property and equipment	(11,328)	(13,565)	5,655
Others (b)	11,660	13,683	1,683
Total	<u>(208,516)</u>	<u>(335,413)</u>	<u>(232,717)</u>

(a) Losses on fraud refer to operating losses on sales contested by cardholders that have already been settled to merchants.

(b) The period ended September 30 - Consolidated is mainly impacted by the bargain purchase of Stelo in the amount of R\$18,200.

19 Commitments

The Company is primarily engaged in the capture, transmission, processing and financial settlement of transactions made using credit and debit cards. In order to conduct said activities, the Company entered into the following agreements:

a. Lease agreements

As at December 31, 2018, future annual payments under lease agreements in effect are estimated as follows:

	<u>12/31/2018</u>
Up to 1 year	12,091
1 year to 5 years	1,007
Total	<u>13,098</u>

Most agreements specify a penalty for termination equivalent to three-month rent, and a partial return can be negotiated for each case.

b. Suppliers of telecommunications, technology (processing of transactions), logistics services, call center and back office

As at December 31, 2018, based on contracts in effect, the minimum commitments with suppliers of

technology, telecommunications, logistics services, call center, back office and telesales are as follows:

	<u>12/31/2018</u>
Up to 1 year	268,570
1 year to 5 years	550,774
Total	<u>819,344</u>

The contracts of call center, capture and processing of transactions as well as the telecommunications and back office contracts do not provide for fine on their termination.

20 Employee benefits

Post-employment benefit

The Company has an actuarial liability arising from post-employment benefits, referring to the expectations of expenses with medical assistance, whose amount provisioned as at December 31, 2018 is R\$ 7,728 (R\$ 7,031 as at December, 31, 2017).

Pension Plan

The Company contributes monthly to a defined contribution pension plan ("PGBL") for its employees, and contributions made during the year ended December 31, 2018 amounted to R\$6,683 (R\$8,245 during the year ended December 31, 2017), recognized in line items "Cost of services provided" and "Personnel expenses".

Other benefits

Besides the benefit of pension plan, the Company and its subsidiaries offer to their employees, health insurance, dental care, life and personal accident insurance and professional training, the amount of these expenses totaled R\$37,847 in the year ended December 31, 2018 (R\$39,182 in the year ended December 31, 2017).

The Company has a Corporate Education Program that aims to leverage learning, ensuring the mapping and the dissemination of key knowledge through practical and educational activities that encourage the creation, acquisition, dissemination, use and sharing of knowledge, focusing on business results. In addition, in the Company, actions are developed for all employees, for example, leadership development, e-learning, contract training, on-demand training, continued education and languages. The costs related to the actions described are recognized in profit or loss when incurred.

21 Profit sharing

The Company and its subsidiaries pay profit sharing to their employees and officers, subject to the achievement of operational goals and specific objectives established and approved at the beginning of each fiscal year.

The shares of employees and officers in profit for the second half of 2018 and years ended December 31, 2018 and 2017 are presented as follows:

	<u>2nd Half/18</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Employees	34,922	60,677	66,553
Statutory directors	3,864	9,419	10,317
Total	<u>38,786</u>	<u>70,096</u>	<u>76,870</u>

22 Compensation of key management personnel and Supervisory Board

Key management personnel include the members of the Board of Directors and the statutory directors. Expenses recognized in profit for the periods are as follows:

	2nd Half/18			12/31/2018			12/31/2017		
	Fixed	Others (*)	Total	Fixed	Others (*)	Total	Fixed	Others (*)	Total
Statutory Directors	4,646	5,500	10,146	8,818	10,495	19,313	8,408	10,744	19,152
Board of Directors	1,870	-	1,870	2,594	-	2,594	2,237	-	2,237
Total	6,516	5,500	12,016	11,412	10,495	21,907	10,645	10,744	21,389

(*) Balance corresponds to variable remuneration and severance pay of statutory directors and not including the stock option plan (see note 23).

Management (Board of Executive Officers and Board of Directors) and the Supervisory Board overall compensation in 2018, set at the Annual and Extraordinary General Meeting held on April 20, 2018, was R\$47,000, already considered the taxes and contributions thereon, as prescribed by the prevailing laws.

For the Supervisory Board, the annual compensation approved for the years ended December 31, 2018 was R\$503 (R\$ 515 in the year ended December 31, 2017).

23 Stock option plan and restricted stock plan

At the Extraordinary General Meeting held on June 1, 2009, the shareholders approved the stock option plan relating to the Company's common shares, effective for ten years from the date of the first grant to beneficiaries.

Within the limit of the authorized capital, the Company may grant shares or stock options or subscription of shares to its officers, employees and natural persons that provide services to the Company, as well as to officers and employees of other companies that are directly or indirectly controlled by the Company. Stock options or restricted stock options may be granted, in a manner that the dilution of the share capital does not exceed, at any time, during the effective period of the plan, 0.3% per year. The beneficiaries of the plan will be defined annually or in a periodicity considered convenient by the Board of Directors.

At the Extraordinary General Meeting held in April 2011, the shareholders approved changes to the Plan, introducing the possibility of eligible beneficiaries electing stock option plan, restricted stock option plan or a combination of both plans, and the exercise of the options and/or restricted shares can be made 50% after two years and 50% after three years. The beneficiaries of the stock options granted in 2010, under the Stock Option Plan and Contract, could exercise the first portion, equivalent to 1/3 of the total stock options granted to them, after one year from the grant date.

At meetings of the Board of Directors held on June 22, 2011, June 20, 2012, June 19, 2013, June 25, 2014, June 24, 2015, June 29, 2016, June 28, 2017 and June 20, 2018, the Directors approved the fourth, fifth, sixth, seventh, eighth, ninth and tenth grants of stock options relating to common shares and/or restricted shares, respectively, as shown in the table below, and there is not option to settle the options in cash. The tenth grant was made on July 6, 2018, totaling 1,047,740

restricted shares.

At a meeting of the Board of Directors held on February 29, 2012, the Directors approved the annual retention plan for the Company's executive officers and talents under the "Restricted Shares" plan, named "*Sócio Cielo*". The purpose of this program is to minimize the risk of loss of Company's officers and also increase their commitment to long-term results. The "*Sócio Cielo*" program lasted two years from 2012 to 2016. As from 2017, the program started to have phased grace period according to the following percentages: 33% after one year, 33% after two years and 33% after three years. The transfer of shares is conditional upon permanence of the executive at the Company. The Board of Directors' Meetings of February 26, 2014, February 25, 2015, January 27, 2016, January 26, 2017 and February 23, 2018 approved the "*Sócio Cielo*" plans 2014, 2015, 2016, 2017 and 2018 – "Restricted Shares", granted in March of the same years.

As at December 31, 2018, the position of the stock option plan and stock option plans of restricted shares was as follows:

Grant date	Number of shares									Strike price (R\$ per share)	Fair value of options (R\$ per share)
	Granted	Canceled	Exercised	Bonus					Balance		
				2013	2014	2015	2016	2017			
July 2012	986,475	(243,708)	(2,398,039)	188,945	1,047,455	254,514	107,483	59,828	2,953	10.73	4.42
July 2013	1,049,141	(288,971)	(2,429,564)	-	989,734	370,317	263,000	122,584	76,241	12.52	5.83
July 2014	1,561,552	(368,647)	(1,742,267)	-	-	303,607	311,729	214,442	280,416	18.87	8.70
July 2016	650,947	(153,502)	(368,098)	-	-	-	-	101,984	231,331	-	27.43
March 2017	121,470	(28,683)	(41,668)	-	-	-	-	24,294	75,413	-	22.51
July 2017	828,878	(173,719)	(29,915)	-	-	-	-	-	625,244	-	23.26
March 2018(*)	437,187	(47,460)	-	-	-	-	-	-	389,727	-	25.32
July 2018	901,888	(30,233)	(4,575)	-	-	-	-	-	867,080	-	16.77
Total	6,537,538	(1,334,923)	(7,014,126)	188,945	2,037,189	928,438	682,212	523,132	2,548,405		

(*) At a meeting of the Board of Directors held on February 23, 2018, plan "*Sócio Cielo*" 2018 "Restricted shares", granted in March of the same year, was approved.

The fair value of the options, between the years 2011 and 2014, was measured using the Black & Scholes pricing model. The assumptions adopted are described below:

	Grant date		
	July 2012	July 2013	July 2014
Dividend yield	5.36%	3.71%	3.31%
Share price volatility	31.65%	30.06%	23.15%
Vesting period	6 years	6 years	6 years

From 2015, the Company elected to use the binomial model for the pricing of its options.

The fair value of the options and the shares is being posted to profit or loss for the year and the balancing entry is posted to the capital reserve on a straight-line basis for the terms of up to 24 months (for the "*Sócio Cielo*" plans) and 36 months (for the restricted stock option plans).

As at December 31, 2018, a provision of R\$ 24,062 net of charges (R\$ 24,025 as at December 31, 2017) was recognized, with a corresponding entry to "Personnel Expenses". Of these amounts, the amount of R\$ 7,616 net of charges (R\$ 10,012 as at December 31, 2017) corresponds to a portion of statutory officers.

The rights relating to 1,133,664 shares were exercised in the amount of R\$ 15,427 as at December 31, 2018 (2,325,266 shares in the amount of R\$ 24,467 as at December 31, 2017) and the movement of stock options granted was recorded in the caption "Capital reserve" in equity, as at December 31, 2018, in the amount of R\$ 8,635 (R\$ 442 as at December 31, 2017).

24 Finance income (costs)

	2nd Half/18	12/31/2018	12/31/2017
Finance income:			
Interest on short-term investments	171,631	350,498	419,101
Pis and Cofins (a)	(14,366)	(21,039)	(18,440)
Other finance income	12,808	15,109	4,221
Total	170,073	344,568	404,882
Finance costs:			
Late payment interest and fines	(5)	(69)	(389)
Fines and interest on provision for risks	(12,123)	(15,872)	(7,072)
Interest on borrowings	(214,680)	(408,720)	(780,301)
Third parties' interest – FIDC Plus	(54,671)	(139,888)	(66,516)
Other finance costs	(1,696)	(15,109)	(43,180)
Total	(283,175)	(579,658)	(897,458)
Purchase of receivables:			
Income from purchase of receivables (b)	688,669	1,597,669	2,400,601
Pis and Cofins (a)	(24,385)	(64,882)	(108,757)
Total	664,284	1,532,787	2,291,844
Exchange differences, net:	2,087	(264,424)	(22,994)
Total	553,269	1,033,273	1,776,274

(a) Expenses on Pis and Cofins (computed under the noncumulative tax regime) on finance income earned by the Prudential Conglomerate, at the rates of 0.65% and 4%, respectively, as laid down in Decree No. 8,426/15, effective July 1, 2015. The expenses incurred in the period were recognized as "Finance Income" and "Purchase of Receivables", in the proportion of their levy, for better presentation of the line items.

(b) In Prudential Conglomerate, the balance refers to the purchase of receivables net of *pro rata temporis* adjustment for the years ended December 31, 2018 and 2017, comprising income from receivables relating to cash and installment sales transactions carried out by the Company, by the FIDC and FIDC Plus, recognized according to the maturity date of the transactions.

	2nd Half/18	12/31/2018	12/31/2017
Exchange differences, net:			
Income	549,150	836,539	104,923
Expenses	(547,063)	(1,100,963)	(127,917)
Total	2,087	(264,424)	(22,994)

25 Financial instruments

The estimated realizable values of the Prudential Conglomerate's financial assets and liabilities were determined using available market inputs and appropriate valuation methodologies. However, considerable judgment was required to interpret market inputs and then develop the most appropriate realizable value estimates. Accordingly, estimates presented herein are not necessarily indicative of the amounts that could be realized in the market. The use of different market methodologies may have a significant effect on the estimated realizable values.

These financial instruments are managed through operating strategies that aim at obtaining liquidity, profitability and safety. The control policy consists of ongoing monitoring of the contracted rates compared to market rates. The Prudential Conglomerate does not make investments for speculative purposes, either in derivatives or in other risk assets.

a. Capital risk management

The Prudential Conglomerate manages its capital to ensure that its companies can continue as going concerns, and at the same time maximize the return to all their stakeholders by optimizing the debt and equity balance.

The Prudential Conglomerate's capital structure consists of its equity and net debt (borrowings less cash and cash equivalents, derivative financial instruments and financial investments).

Cielo complies with a minimum equity, under the BACEN regulations, corresponding to 2% of the monthly average of the payment transactions (see note 15).

From the granting of the authorization to operate as a Payment Institution by the BACEN, on April 27, 2017, Cielo is subject to compliance with the regulations, which include, but are not limited to, risk management, minimum equity and compliance with requirements similar to those applicable to a Financial Institution.

The indebtedness ratio at the end of the reporting period is as follows:

	<u>12/31/2018</u>	<u>12/31/2017</u>
Debt (i)	(6,298,568)	(7,911,224)
Derivative financial instruments	(75,692)	39,465
Cash	431,619	322,884
Interbank investments	274,929	815,981
Securities	2,189,116	4,851,825
Net debt	<u>(3,478,596)</u>	<u>(1,881,069)</u>
Equity (ii)	<u>13,026,175</u>	<u>13,806,048</u>
Net debt ratio	<u>26.70%</u>	<u>13.62%</u>

(i) Debt is defined as short and long-term borrowings, as mentioned in note 12.

(ii) Equity includes the entire share capital and the Group's reserves, managed as capital.

b. Credit risk

In Cielo's operations of merchant acquiring, the primary risk refers to the possibility of default of card issuers, which are required to transfer to Cielo the amounts charged relating to transactions carried out by holders of the cards issued by them, so that Cielo can make the payment of such amounts to accredited merchants. There is also a residual risk for the Company relating to the possible default of the card holders with the issuer in a situation of default.

These primary and residual risks may or may not exist for Cielo, depending on the risk/guarantee model adopted by the card brand in its operation with the card issuers and accredited institutions.

Each brand has its own guarantee system, which is specified in its regulations. Considering the variation of the guarantee model and the risk level of the accrediting entities, the Company assesses and manages such risks according to the model of each brand, requiring or waiving the provision of guarantees. In accordance with BACEN Circular Letter No, 3,682, of November 2013, the brands (denominated "payment institutions" in the relevant regulation), submitted their respective regulations for the appreciation of the BACEN, which are currently under analysis. Therefore, the Company's credit risk may change, depending on the brands' regulations to be

approved and disclosed.

There is also, for the Company, risk of losses on chargeback on operations of purchase of receivables (ARV) with accredited merchants, especially those that make deferred sales (with future delivery of products and/or services). To mitigate this risk, the Company adopts risk analysis and control procedures that prevent the merchant from advancing the full amount available in its financial schedule with the Company.

In its operation, the Company also has the risk with affiliated sub-acquirers, as they may not pass on to their affiliated merchants the amounts received from Cielo relating to card transactions. Such risk is mitigated by the provisions in the term of adhesion to the agreement of accreditation to the Cielo system, which provides that the sub-acquirers shall assume the responsibility of transferring the amounts to their affiliates, exempting Cielo from any responsibility. The Company also adopts risk assessment and control procedures that prevent sub-acquirers from being able to advance all the amounts available in their financial agenda with the Company. In addition, the Company may, as the case may be, request guarantees as bank guarantee to cover its risk.

The Company has rights subject to credit risk with financial institutions recorded in line items cash, interbank investments, securities, derivative financial instruments and receivables from card-issuing banks, totaling R\$ 67,781,427 in Prudential Conglomerate (R\$71,105,346 as at December 31, 2017).

c. Fraud risk

The Company uses an antifraud system to monitor transactions with credit and debit cards, which detects and identifies suspected fraud at the time of the authorization and sends an alert message to the card-issuing bank for it to contact the cardholder.

d. Transactions with derivative financial instruments

Policy on the use of derivatives

According to the internal policy, the Company's finance income (costs) must arise from the generation of cash from its activities rather than from gains in the financial market. Accordingly, it considers that derivatives should only be used to hedge against potential exposures arising from the risks to which it is subject, without speculative purposes. A derivative transaction should be matched against an unhedged asset or liability.

The criterion adopted for definition of the notional value of the derivatives is linked to the amount of the debt and/or assets denominated in foreign currency.

e. Foreign exchange rate risk

The Group conducts a few transactions in foreign currency, mainly represented by transactions performed by foreigners holding credit card in merchants located in Brazil. In addition, on August 31, 2012, the Company acquired the control of Me-S through its holding Cielo USA, both located in the United States of America, whose transactions are conducted in the functional currency, the US dollar.

The exposures to foreign exchange rate risks are managed according to parameters established by policies approved by using currency futures contracts.

As at December 31, 2018 and 2017, the exposure to foreign exchange rate risk, net of hedging instruments, in thousands of US dollars, is as follows:

	12/31/2018	12/31/2017
Assets:		
Cash and cash equivalents	164,070	150,559
Operating receivables	153,976	138,469
Investments in foreign currency	(304,993)	(174,281)
Total	13,053	114,747
Liabilities:		
Repayment of foreign borrowings – Principal and Interest	(470,364)	(476,609)
Tax effect on Bonds	159,800	159,800
Total	(310,564)	(316,809)
Long (short) position - US dollar	(297,511)	(202,062)

The Company enters into forward exchange transactions for US dollars to hedge against fluctuations in exchange rates, which reduces significantly potential currency risks.

Foreign currency sensitivity analysis

The Prudential Conglomerate is mainly exposed to US dollar fluctuations.

The sensitivity analysis includes only monetary items outstanding and denominated in foreign currency and adjusts their translation at the end of each reporting period for a change of 10%, 25% and 50% in exchange rates. The sensitivity analysis includes borrowings from third parties when they are denominated in a currency different from that of the creditor or debtor.

As at December 31, 2018 and 2017, estimating an increase or decrease by 10%, 25% and 50% in exchange rates, there would be an increase or decrease in profit or loss and equity, in thousands of Brazilian reais (R\$), as follows:

	12/31/2018			12/31/2017		
	Probable scenario 10%	Possible scenario 25%	Remote scenario 50%	Probable scenario 10%	Possible scenario 25%	Remote scenario 50%
Profit or loss	(1,209)	(3,023)	(6,046)	(2,592)	(6,480)	(12,960)
Equity	(679)	(1,696)	(3,393)	103,868	259,671	519,342

Refers mainly to the exposure of balances receivable and payable in US dollars at the end of each reporting period.

f. Interest rate risk on financial investments

The Company's results of operations are subject to significant fluctuations resulting from financial investments with floating interest rates. Pursuant to its financial policies, the Company has invested its resources in first-tier banks. The Company operates with financial instruments within the limits of approval established by Management.

g. Liquidity risk

The Prudential Conglomerate manages the liquidity risk by maintaining appropriate reserves, bank and other credit facilities to raise new borrowings that it considers appropriate, based on an ongoing monitoring of budgeted and actual cash flows, and the combination of the maturity profiles of financial assets and liabilities.

h. Interest rate sensitivity analysis - Financial investments and borrowings

Income from financial assets and interest on the Company's borrowings are mainly affected by the variations in DI rate (source: Cetip). As at December 31, 2018, the balances exposed to variations in DI rate in Prudential Conglomerate are R\$ 1,648,380 for financial investments and R\$ 4,340,476 for borrowings. Estimating an increase or a decrease of 10%, 25% or 50% in interest rates would increase or decrease revenues or expenses as follows:

	12/31/2018			12/31/2017		
	Probable scenario 10%	Possible scenario 25%	Remote scenario 50%	Probable scenario 10%	Possible scenario 25%	Remote scenario 50%
Financial investments	35,050	87,624	175,249	40,488	101,221	202,441
Borrowings	(40,872)	(102,180)	(204,360)	(89,746)	(224,365)	(448,729)

26 Related-party balances and transactions

In the normal course of their activities and under market conditions, the Company and its subsidiaries conduct transactions with related parties, such as receivables from card-issuing banks (related to operations of purchase of receivables), which are part of financial groups in which the controlling shareholders, Banco Bradesco S.A. and Banco do Brasil, hold interests, as well as expenses and income from services provided by Servinet, Orizon, Multidisplay, M4Produtos, Cateno, Braspag, Aliança and Stelo.

In conducting their business and engaging services, the Company and its subsidiaries make market quotations and researches to find the best technical and pricing terms. Also, the type of business conducted by the Company requires it to enter into agreements with several card issuers, some of which are its direct and indirect shareholders. The Company and its subsidiaries believe that all the agreements entered into with related parties are carried out on an arm's-length basis.

The tables below include the balances as at December 31, 2018 and 2017, by type of agreement, shareholders and subsidiaries, of transactions with related parties conducted by the Company, its subsidiaries and associate, as well as the movements, related to the years ended December 31, 2018 and 2017:

	12/31/2018				12/31/2017
	Controlling interests (i)	Direct subsidiaries (ii)	Indirect subsidiaries (iii)	Total	Total
Assets (Liabilities):					
Cash and cash equivalents (a)	13,440	-	-	13,440	10,070,127
Operating receivables (b)	20,306,124	-	-	20,306,124	5,406
Loans and financing (h)	(3,414,565)	-	-	(3,414,565)	(3,429,567)
Receivables from related parties (i)	-	18,636	761	19,397	8,322
Payables to related parties	-	(59,736)	(78,567)	(138,303)	(20,660)
Revenues:					
Financial investments yield (a)	7,005	-	-	7,005	171,482
Revenue from other services rendered (c)	55,212	10,971	2,385	68,569	65,861
Revenue from lease of POS equipment (d)	81,680	-	-	81,680	50,242
Expenses:					
Other operating expenses – Affiliation commission	(5,872)	-	-	(5,872)	(5,978)
Other operating expenses (e)	(40,814)	(3,015)	(6,796)	(50,626)	(44,066)
Service agreements with Servinet and Aliança (f)	-	(207,233)	-	(207,233)	(162,128)
Data processing services (g)	-	(10,702)	-	(10,702)	(24,572)
Finance costs (h)	(231,933)	-	-	(231,933)	(357,810)

The related parties consist of: (i) Banco Bradesco and Banco do Brasil; (ii) Servinet, Multidisplay, Braspag, Cateno and Aliança and (iii) M4Products.

- (a) Balances corresponding to the amounts held in current account and financial investments, whose terms, charges and rates of remuneration were made under conditions similar to those that would apply to unrelated parties.
- (b) Receivables from issuing banks refer to the amounts to be settled by the issuers to the Company as a result of transactions carried out with credit and debit cards, which will be subsequently paid by the Company to accredited establishments.
- (c) Correspond to fraud prevention services and bank account lock services provided by the Company to the shareholding banks, commission on transaction processing for companies M4Products, Multidisplay and Orizon, provision of financial, administrative, procurement, legal and HR services for the company Braspag and acquisition of receivables from Multidisplay and collection and settlement services for FIDC and FIC. These transactions with related parties are carried out at prices and conditions similar to those practiced with other issuing banks and in the market in general.
- (d) Corresponds to leasing of POS equipment to Orizon.
- (e) Services contracted with shareholder banks, regarding: (i) corporate life insurance; (ii) hospital and dental insurance; and (iii) the private pension agreement. Services of development of mobile capture solution for the company M4Products and services of pre-processing of transactions for the company Braspag. The Company understands that the financial conditions practiced by the shareholders, in terms of prices, terms and other conditions, were carried out in conditions similar to those practiced with third parties.
- (f) Provision of services by subsidiaries Servinet and Aliança to prospect for the accreditation and maintenance of contacts with merchants and service providers for acceptance of credit and debit cards, as well as other means of payment. The remuneration provided for the services rendered is established based on the costs incurred by Servinet and Aliança when rendering said services, plus taxes and contributions, as well as the remuneration margin.
- (g) Refers to data processing services provided by M4Produtos and Braspag.
- (h) Correspond to the balances related to the issuance of Private Debentures (see note 12.b) maintained by BB Elo Cartões, a company of the Banco do Brasil conglomerate.
- (i) Mainly refers to the balance of advance for future capital increase of Aliança, made in September/18, in the amount of R\$18,114.

Main related-party transactions

Balances of card-issuing banks

Receivables from card-issuing banks refer to amounts payable by the issuers to the Company for transactions carried out with credit and debit cards, which will be subsequently paid by the Company to the accredited merchants.

Domicile bank incentives

The Company entered into agreements with domicile banks to stimulate the invoicing of commissions and purchase of receivables. Under these agreements, the Company remunerates the banks based on the performance and metrics established therein.

Prepayment of receivables from card-issuing banks

The Company has agreements for advance of amounts that will still fall due, related to transfers of amounts that the issuing bank must make to the Company for transactions carried out by the bank's customers holders of credit cards. These advance transactions are performed in order to generate short-term working capital and the amounts deposited in checking account are net of advance fees, on a pro rata basis, calculated at the market rates that do not significantly differ from those adopted by the card-issuing banks that are not the Company's shareholders.

These transactions with related parties are carried out at prices and under conditions similar to the transactions carried out with other issuers of credit or debit cards.

Use of Cielo authorized network (Value Added Network - VAN)

The Company entered into service agreements with Companhia Brasileira de Soluções e Serviços – CBSS. These services include the capture, authorization and processing of transactions with ALELO cards, as well as services provided to merchants, operational and financial back office

services, fraud prevention, issuance of statements and financial control over the electronic transactions resulting from these transactions. The fees and rates charged for these related-party transactions are at prices and under conditions similar to the transactions carried out with other third party partners.

VAN services and connectivity rate - Amex

The Company entered into a nonexclusive service agreement for the capture of transactions of cards issued by Amex Brand (VAN), with Banco Bradesco Cartões S.A. (which merged Bankpar S.A.) ("Banco Bradesco Cartões"), a Bradesco Group's company which holds the rights over the American Express ("Amex") brand in Brazil. The agreement established, until 2015, the remuneration of Banco Bradesco Cartões by the Company, through the payment of a connectivity rate, relating to the Company's access to the merchants affiliated to the Amex brand acquisition systems. The partnership with the Amex brand has high potential for generating value to the Company since it complements its brand portfolio. The signing of such agreements was approved by the Board of Directors, with abstention from those legally impeded by conflict of interest. The prices charged for the provision of the service are similar to those practiced with other third party partners.

Participation of Accredited Merchants in Elo Payment Arrangements

The Company participates in Elo Payment Arrangements, established by Elo Serviços S.A. The Company participates in Elo Arrangements as Accrediting Institution, which includes the provision of services relating to accreditation and maintenance of merchants, the participation in the processing and settlement of transactions made with payment instruments of Elo Arrangements and license for the use of Elo brands, in conformity with the technical specifications contained in its manuals. The Company pays Elo for its participation as accrediting institution in Elo Arrangements, and the conditions and prices of such participation are similar to those practiced with the other accrediting institutions.

Bank account lock

Refers to bank account lock service agreements entered into with various banks, whose service consists of ensuring to the banks the locking of the bank accounts of the accredited merchants that carry out financial transactions with them. These related-party transactions are carried out at prices and under conditions similar to the transactions carried out with other domicile banks.

Share bookkeeping services

A share bookkeeping service agreement entered into between Cielo and Banco Bradesco S.A., whereby the latter provides share bookkeeping and share certificate issuance services to the Company.

Operating services - Stock option program

Service agreement consisting of rendering operating services for the stock option program and the related grants entered into with Bradesco S.A. Corretora de Títulos e Valores Mobiliários.

Payment management services

Banco do Brasil entered into an agreement with Cateno in order to operate as Payment Institution in managing post-paid accounts and purchase functions through debit under the Ourocard Payment Arrangement while Cateno's Granted Rights are not exercised by it. The agreement has a clause for compensation of 0.01% on the total financial volume of transactions under the Contracting party's management.

Securities bookkeeping services

Agreement entered into with Banco Bradesco S.A. for the provision of debenture bookkeeping and custodian agent services.

Securities management services

Agreement entered into with Banco Bradesco BBI S.A. for the provision of services of coordination and distribution of promissory notes and debentures, the latter pursuant to the terms of CVM Instruction No. 400.

Public and private securities operating management services

The agreement entered into with Banco do Brasil S.A. is aimed at regulating the provision of services relating to movement, custody and financial settlement of transactions carried out with public securities registered with SELIC and with private securities registered with CETIP.

Representation services with CIP

Agreement entered into with Banco do Brasil S.A. for the bank's representation with CIP (Interbank Payment Clearing House) aiming at the provision of services relating to settlement of transactions carried out with credit and/or debit cards and provision of STR (Reserve Transfer System) issuance services.

Other widespread agreements

In addition to the balances recorded, the Company provides platform processing and license services to Elo Serviços S.A. and engages other services from the main shareholders, namely:

- Cash management services.
- Insurance.
- Health insurance and private pension services.
- Corporate credit card.
- Payment to suppliers.

27 Noncash transactions

In the preparation of the statements of cash flows of the Prudential Conglomerate, only the transactions that effectively affected the Prudential Conglomerate's cash were included in the net cash provided by financing and investing activities. The table below shows all other movements in the balances of investments and financing that did not involve the use of cash and/or cash equivalents:

	12/31/2018	12/31/2017
Exchange differences on net foreign investment	173,956	12,994
Exchange differences on borrowings	469,865	42,787
Capital increase using capital budget reserve	1,000,000	-
Minimum dividends and interest on capital proposed	875,000	1,329,255

28 Insurance

As at December 31, 2018, the Company has the following insurance coverage:

Type	Insured amount
Civil liability of Directors and Officers	270,000
Named perils (fire, windstorm and smoke, electrical damages, electronic equipment, theft and flood)	231,332
Loss of profits	19,894
POS equipment warehousing	230,000
POS equipment transportation	2,500,000

29 Events after the reporting period

As per the material news release disclosed to the market on January 4, 2019, after approval by the Board of Directors, the Company took out, on January 7, 2019, a non-deliverable forward (NDF) derivative instrument to provide hedge against the effect from foreign exchange rate variation on bonds, originally denominated in US dollars.

DEAR SHAREHOLDERS:

We present the Comments on Performance and the Financial Statements of Cielo S. A. (“Company” or “Cielo”) and its subsidiaries and associate (“Group”), for the fiscal year ended December 31, 2017, accompanied by the Independent Auditor’s Report and the Supervisory Board’s Opinion.

With the authorization granted by the Brazilian Central Bank in April 2017 to operate as an accrediting payment institution, Cielo started to observe common rules applicable to payment institutions, including the preparation and disclosure of financial statements in accordance with accounting criteria and rules defined in the Chart of Accounts of the Institutions of the National Financial System (“COSIF”). Consequently, the individual (parent company) and consolidated financial statements have been prepared in conformity with the accounting guidelines from Law No. 6,404/76 (Corporation Law), including the changes introduced by Laws No. 11,638/07 and No. 11,941/09, as well as the standards and instructions from the National Monetary Council (CMN), the Brazilian Central Bank (BACEN) and the Brazilian Securities and Exchange Commission (CVM), when applicable (together referred to as “COSIF”).

The consolidated financial information includes the accounts of Cielo (parent company), its direct subsidiaries Multidisplay, Servinet, Braspag, Cielo USA, Cateno and Aliança, and indirect subsidiaries MeS and M4Produtos, as well as FIDCs and FIC. The profit or loss of the joint ventures Orizon and Paggo and the associate Stelo is accounted for under the equity method in the consolidated financial information. When necessary, adjustments are made to the financial information of these investees to bring their accounting policies into line with the Group’s accounting policies. All intragroup transactions, income and expenses are fully eliminated in the consolidated financial information.

MESSAGE FROM MANAGEMENT

With hard work, dedication and pride to be part of this Company that is - and we will strive to ensure it will continue to be - the most solid and innovative payment service provider in the Brazilian market, we ended 2017 with the feeling that we are taking but the first steps on a new journey. After investing in our technological structure, the backbone of our business, we successfully delivered our new STAR platform, with relevant gains of agility and efficiency for Cielo and, above all, convenience and ease for our clients to better manage their business. We expect to conclude the entire process in 2018, but more is yet to come in terms of speed, efficiency and development of solutions for our clients.

By leveraging our increasingly efficient, modern and agile structure, we developed and implemented new products and services. By meeting the varied needs of our clients, we have today over 140,000 merchants using Cielo Controle (fixed amount plans relying on sales), additional thousands of clients adopting Cielo Farol (business analytics services for small and medium-sized retailers) and a satisfaction level of our new bank statement exceeding 90%. Cielo LIO, the pioneer smart terminal in the Brazilian market became the first channel of interaction between clients and the company’s ecosystem (Cielo Open Platform), following the global trend of adopting open platforms to develop retail solutions. Today we have over 35,000 LIOs installed and we see a great potential for adopting such new solution with the new hardware model, which has been distributed since December (LIO v2). Exploring the open platform concept, with over 60 apps confirmed to date, we want to keep one step ahead with innovation, based on the mass customization concept to meet the most diverse formats and business sizes.

Agile work, a result of the Company’s digital evolution process the company is going through, with a new IT platform, enabled us to deliver new solutions within a shorter period than previously estimated. Our time to market significantly dropped, with new products delivered on substantially short time. This gives us confidence that we are on the right path to continue exposure to the promising electronic payment market, helping our clients to record better results with innovative tools that will assist them to manage their businesses and potentialize their sales.

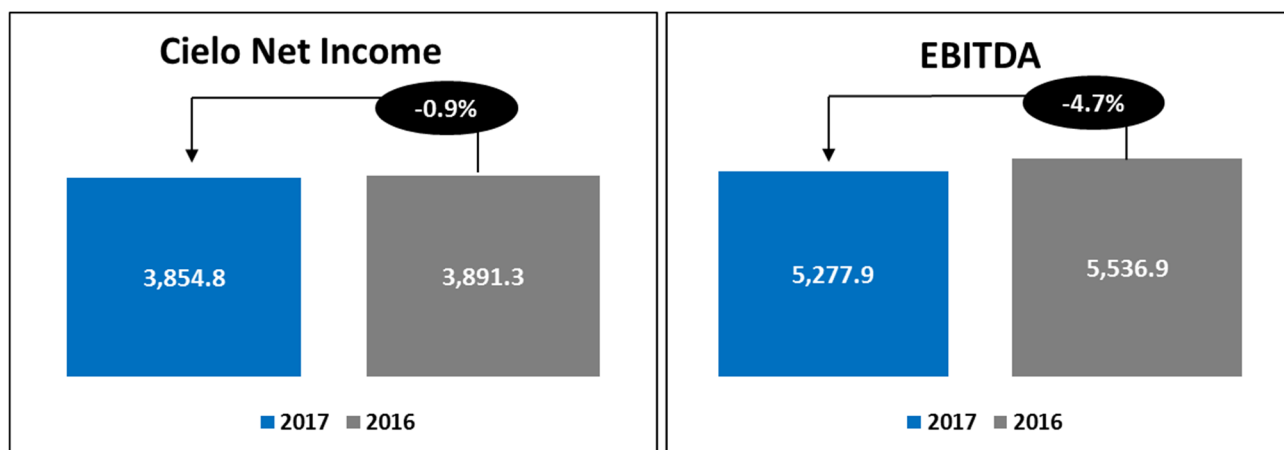
In addition, we successfully complied with all regulatory requirements, obtaining the license to operate as a payment service provider, granted by the Brazilian Central Bank in April 2017 and, subsequently, we adopted the centralized settlement of our transactions by means of the Payment Interbank Chamber (CIP). With a robust

control structure and unique financial strength in our target market, we are confident that we will be ready to adapt to a rapidly changing business environment, ensuring, as the market leader, the strength required by the payments market.

Now, after going through the most severe period of Brazil's economy, we begin 2018 with the feeling that the worst is behind us. For the fifth consecutive month, Cielo Broad Retail Index (ICVA) recorded real growth, signaling a clear upward trend of Brazil's retail sector. Cielo, in turn, provided operational signs of gradual recovery in the second half of the year, with volumes speeding up, a slower pace of decline in our POS base. Thus, Cielo reported a net income of R\$4.1 billion, in IFRS criteria. Reiterating our commitment to the market and shareholder value creation, we increased dividend distribution to 70% of income. Amid a more favorable economic scenario, a challenging, but rational competitive market, we are confident of what is to come: let us proceed.

HIGHLIGHTS 2017

- Financial volume of transactions totaled R\$625.6 billion, up 7.0% compared to 2016, or R\$40.7 billion;
- Net operating revenue totaled R\$11,600.3 million, down 5.7% year-on-year, or R\$0.7 billion;
- Purchase of Receivables (ARV), before cost of equity and debt, totaled R\$2,291.8 million, decrease of 10.9% year-on-year. Purchase of Receivables reached 18.4% over the financial credit volume in 2017, down 1.8 p.p compared to 2016.
- Total expenditures (costs and expenses) were R\$7,462.0 million, down 7.4% year-on-year, or R\$597.8 million;
- Cielo's profit totaled R\$3,854.8 million, down 0.9% year-on-year, or R\$36.5 million; and
- EBITDA of R\$5,277.9 million, down 4.6% year-on-year, or R\$259.0 million.



OPERATING PERFORMANCE 2017

Transaction Financial Volume

Annual Evolution

In 2017, the transaction financial volume totaled R\$625.6 billion, an expansion of 7.0%, or R\$40.7 billion, compared to R\$584.9 billion in 2016.

Specifically with credit cards, financial volume totaled R\$344.1 billion in 2017, up 4.5% or R\$14.8 billion compared to 2016.

With debit cards, financial volume totaled R\$281.5 billion in 2017, an increase of 10.1% or R\$25.9 billion compared to 2016.

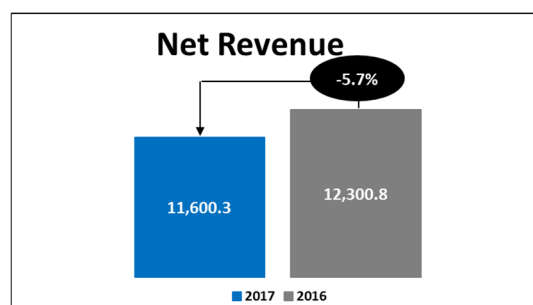
In addition, Cielo captured 7.324 billion transactions in 2017, an increase of 8.8% compared to 2016.

FINANCIAL PERFORMANCE 2017

COMPARISON OF THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Net Revenue

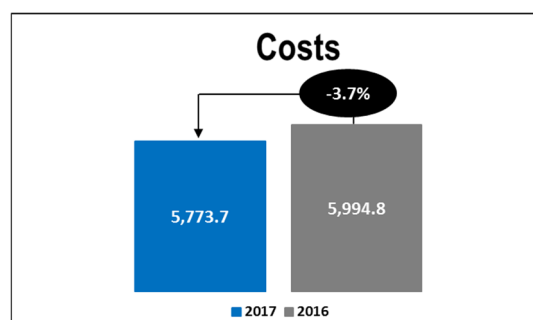
Annual Evolution



Cielo's consolidated net revenue totaled R\$11.6 billion in 2017, decrease by R\$0.7 billion or 5.7%, compared to R\$12.3 billion in 2016. Lower net revenue from capture, transmission, processing and financial settlement of credit and debit card transactions is due to reduced average price in view of a competitive environment, concentration in clients of the Large Accounts segment and higher percentage from debit product. The year 2017 also recorded lower revenues from POS equipment rental due to a drop in installed POS base, lower revenues from subsidiary M4U (due to change in business model from resale to commission on mobile credit sales), as well as decreased revenues from subsidiary Me-S (as a result of average US dollar depreciation in 2017 compared to 2016), partially offset by revenue growth of subsidiary Cateno (continuous business expansion), lower incentives paid due to the change in the remuneration model of domestic brand and growth in other services of the Parent Company, mainly related to the product "Receba Rápido" and revenues from Elo brand licensing and processing (initiated in the second half of 2017).

Cost of Services Provided

Annual Evolution

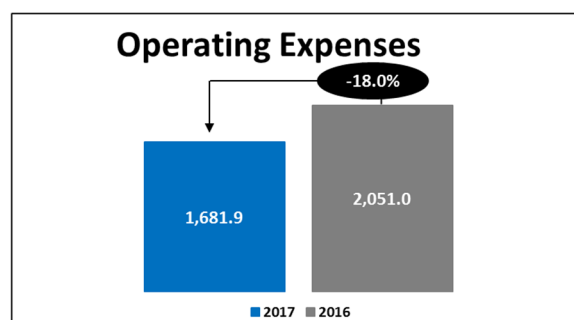


The **cost of services provided** totaled R\$5,773.7 million in 2017, decrease by R\$221.0 million, or 3.7%, compared to 2016. The decrease, although we had a growth in the captured financial volume, was due to the following:

- (i) Decrease of R\$81.7 million or 9.1% in **transaction-costs**, excluding brand fees, such as merchants, call center, telecommunications, supplies and POS base, due to cost-savings and operational efficiency actions, partially offset by higher processing costs and settlement of transactions, due to higher volume of transactions captured in 2017;
- (ii) Increase of R\$207.3 million or 30.8% in **brand fee costs**, mainly impacted by the change in the remuneration model of domestic brand resulting from the market opening to other acquirers (higher brand fee offsetting the positive effects on revenue), as well as starting of payment of fees to the brands Amex and Hiper in 4Q17;
- (iii) Decrease of R\$59.5 million or 7.9% in the **costs related to equipment** directly connected with lower demand for maintenance and installation of POS terminals, in light of decreased volumetric analysis deriving from the drop in the POS base and active merchants and cost-savings actions in 2017;
- (iv) Decrease of R\$177.5 million or 25.2% in the **costs of subsidiary M4U**, due to change in the remuneration model of certain products, which changed from resale to commission on sales from 3Q16;
- (v) Decrease of R\$66.7 million or 4.1% in the costs related to the **management of the Ourocard Arrangement** payment accounts, due to lower volume of card renewal, specific seasonality of operation, and call center cost-savings initiatives, partially offset by higher brand fees expenses, in view of higher volume of transactions captured in 2017;
- (vi) Decrease of R\$43.0 million or 3.1% in the **costs of subsidiary Merchant e-Solutions**, due to annual average US dollar depreciation between the years, partially offset by higher interchange expenses, brand fees and processing of transactions, in line with higher volume of transactions captured.

Operating Expenses

Annual Evolution



Operating expenses totaled R\$1,681.9 million in 2017, decrease by R\$369.1 million or 18.0% compared to 2016. The main variations are described below:

Personnel Expenses – Personnel expenses decreased R\$3.6 million or 0.7% to R\$522.5 million in 2017, compared to R\$526.1 million in 2016. This decrease is chiefly due to higher expenses with retirement and executives severance pay in the Parent Company in 2016, lower share-based compensation expenses (“Stock Option”) from 3Q17, due to criteria update, considering retroactive effects, partially offset by average adjustment defined in collective bargaining agreement in the Parent Company, termination of an executive in 2017 and higher personnel expenses in subsidiaries Cateno and Braspag in 2017.

General and Administrative Expenses – General and administrative expenses, excluding depreciation, increased R\$5.4 million or 1.1% to R\$493.0 million in 2017, compared to R\$487.6 million in 2016. This increase is related to higher expenses of strategic projects in the Parent Company and Cateno, partially offset by lower expenses of accreditation actions and activation of clients in the Parent Company and lower administrative expenses at Merchant e-Solutions, due to the headquarters’ move from California to Atlanta in 2016 and average US dollar depreciation in the period.

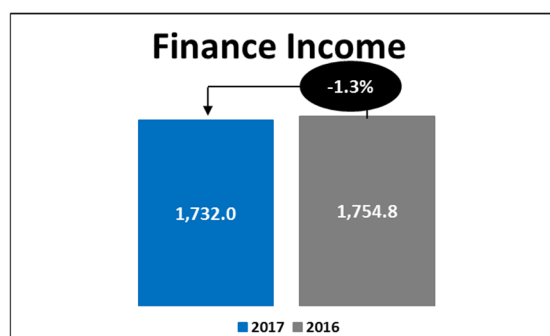
Depreciation and amortization – Depreciation and amortization expenses decreased by R\$132.7.1 million or 34.0%, to R\$257.8 million in 2017, compared to R\$390.6 million in 2016. The reduction is substantially related to the termination of the amortization of goodwill recorded in the US subsidiary Cielo USA in July 2017 and the respective effect of the depreciation of the average dollar in the period, partially offset by the beginning of amortization of goodwill arising on the acquisition of 41.34% of Multidisplay, as from July 2016.

Sales and Marketing Expenses – sales and marketing expenses decreased R\$131.4 million or 41.0% to R\$189.0 million in 2017, compared to R\$320.4 million in 2016. This decrease is due to lower expenses with joint marketing actions with issuers and partners, and television media in 2017.

Other Net Operating Expenses – Other net operating expenses decreased R\$114.3 million or 33.6% to R\$226.0 million in 2017, compared to R\$340.3 million in 2016. This decrease is chiefly due to lower POS equipment losses, lower expected loss contingencies, and lower transaction losses at Cateno due to “operational efficiency and security” actions, partially offset by the increase in the expectation of losses on doubtful debts.

Finance Income

Annual Evolution



The finance income totaled R\$1,732.0 million in 2017, down 1.3% or R\$22.8 million over 2016, which reported a figure of R\$1,754.8 million. The decrease was due to the following events:

Finance Income – Finance income increased R\$166.1 million or 67.9% to R\$410.9 million in 2017, compared to R\$244.8 million in 2016. This increase is chiefly due to higher average balance invested in 2017 by the Parent Company, deriving from cash generated in its operations, even considering the drop in average DI interest rate, and revenue from investment of cash surplus i in FIDC Plus startup.

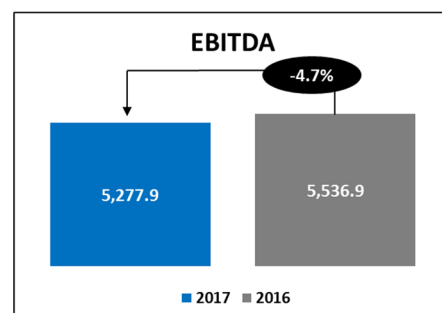
Finance Costs – Finance costs decreased R\$406.4 million or 30.0% to R\$947.6 million in 2017, compared to R\$1,354.0 million in 2016. This decrease mainly derives from reduced average indebtedness with third parties, due to the amortization of the second tranche of public debentures in April 2017 and lower borrowing costs mainly influenced by the drop in DI interest rate.

Purchase of Receivables (ARV) – Purchase of receivables, before cost of equity and debt, net of taxes totaled R\$2,291.8 million in 2017, presenting a reduction of R\$279.4 million or 10.9%, when compared to R\$2,571.2 million in 2016. This decrease is chiefly due to the drop in DI interest rate in the period, lower expected volume (drop partially offset by the migration to the product “Receba Rápido”) and reduced average term of operations.

Exchange variation - Exchange variation decreased R \$ 315.9 million to negative R\$ 23.2 million in 2017, compared to a positive R\$ 292.7 million in 2016. The decrease is chiefly due to the effect of the closing dollar appreciation between the periods on the balance of “ten years bonds” long-term financing.

EBITDA

Evolução Anual



The EBTIDA totaled R\$5,277.9 million in 2017, down 4.7% over 2016 as shown below:

EBITDA (R\$ million)	2017	2016
Cielo Net Income	3,854.8	3,891.3
Shareholders other than Cielo S.A.	208.6	178.0
Financial Income (Expenses)	(1,732.0)	(1,754.8)
Tax and Social Contribution	1,813.4	1,940.5
Depreciação e Amortização	1,133.1	1,281.9
EBITDA	5,277.9	5,536.9
% EBITDA margin	45.5%	45.0%

EBITDA consists of profit, plus income tax and social contribution, depreciation and amortization expenses, and finance income (costs). It should be noted that, for its calculation, noncontrolling interests are added to the Parent Company's profit.

Management believes that the EBITDA is an important parameter for the investors because it provides relevant information about our operating results and profitability.

The EBITDA is not an accounting measurement used in accounting practices adopted in Brazil, it does not represent the cash flow for the reporting periods and it should not be considered as an alternative to profit as an operating performance indicator or as an alternative to cash flow as a liquidity indicator. Additionally, the EBITDA has limitations that impair its use as a profitability indicator since it does not consider certain costs related to the business, which could significantly impact the profit, such as finance costs, taxes, depreciation, capital expenditures and other related charges.

CORPORATE GOVERNANCE

Corporate Governance is a priority for the Company, which has as one of its goals its continuous improvement, in a continuous and long term process, to support sustainable corporate performance. In this spirit, the Company voluntarily adopts the best corporate governance practices besides those required for companies listed on B3 (Brasil, Bolsa e Balcão) Novo Mercado, evidencing the commitment of the Company and its Management to the interest of its shareholders and investors.

The maximization of its efficiency and creation of long-term value translate, for example, into: (a) the adoption of appropriate decision-making system and the monitoring of its compliance by the system; (b) the maintenance of a Corporate Governance Office, which aims to support management agencies and committees/advisory forums of the Company and its subsidiaries, as well as to ensure the compliance with the best corporate governance practices; (c) the adoption of ethical and sustainable conduct; (d) the formal performance assessment of the Board of Directors members on an individual and group basis; (e) the presence of distinct personnel holding the positions of Chairman of the Board of Directors and Chief Executive Officer; (f) the existence of an annual calendar and minimum agenda for the Board of Directors, covering the subjects to be discussed over the year in meetings previously scheduled; (g) the exchange of information through the Corporate Governance Electronic Portal; (h) the existence of a Policy on Related Party Transactions and situations involving Conflicts of Interest; and (i) the existence of a Code of Ethics mandatorily adhered by all employees and Management, which establishes rules of conduct in relationships with all stakeholders.

It is worth pointing out that since 2013 the Company has been adopting a Policy on Related Party Transactions and other situations concerned with conflict of interests ("Policy"), which aims at consolidating the procedures to be observed in the Company's businesses involving related parties, as well as other situations involving potential conflict of interests, conferring transparent procedures to its shareholders and the market in general, ensuring its strict alignment with the Company's interests, always in compliance with the best Corporate Governance practices.

The issues referring to conflict of interests/related parties shall be addressed to the Corporate Governance Committee so that by means of assumptions, filters and mechanisms defined in the Policy, such committee may direct them for the Board of Directors' resolution. When referring to the issues concerned with conflict of interests/related parties between shareholders composing the controlling interest and the Company, the Corporate Governance Committee, exceptionally, will be composed of two independent members, and the second member shall be summoned to analyze the matter as "ad hoc" member of the Corporate Governance Committee, in replacement of Controlling Shareholders' representatives.

As practical examples, we have (a) the incentive policy to banks exclusively approved by independent members of the Board of Directors and (b) Cateno incorporation (a result of association between Cielo and Banco do Brasil) exclusively approved by independent members and by members of the Board of Directors appointed by Banco Bradesco.

Referring to the Company's corporate governance bodies, the Board of Directors, acting collectively, is composed of 11 (eleven) members, who do not perform management activities, out of which 3 (three) are independent, where their independence aims to protect the interests of the Company and its minority shareholders. The Board of Directors is responsible, among other attributions, for setting the general direction of the Company's business, electing the members of the Executive Board and oversee its management. Currently, the Company's Statutory Board is composed of seven (7) members and performs the general management of the Company, respecting the guidelines defined by the Board of Directors. Moreover, as another evidence of the Company's adherence to the best Corporate Governance practices, the Board of Directors has five (5) advisory committees, namely: Audit Committee, Finance Committee, Corporate Governance Committee, People Management Committee and Sustainability Committee; and the Executive Board has 10 (ten) advisory forums: Risk Forum, Issuer Risk Forum, Earnings Release Forum, Ethics Forum, Expenses Forum, Business Continuity Management Forum, Social and Cultural Investments Forum, Pricing Forum, Projects Forum, and Diversity Forum.

The Company's Supervisory Board, an independent management body, is currently set up to oversee management activities, and is composed of 5 (five) members, of which 1 (one) is an independent member, and 5 (five) substitutes.

The Company is committed to the inclusion of issues related to Sustainability in its practices, aiming at ensuring the successful business in the long term, contributing to a healthy environment, a fairer society and Brazil's social and economic development.

Such commitment occurs on the day by day, by means of consistent environmental practices, such as, for example, the establishment of a climate strategy, which includes the conducting and dissemination of a Greenhouse Gas (GHG) Inventory, in line with the best global practices, audited and published in the Public Registry of Emissions of GHG Protocol Brazilian Program and the compensation of carbon emissions; the investment in social projects which promote innovation, entrepreneurship, transformation and social inclusion, broadening the access of most vulnerable public to culture, sports, education and health activities; and business solutions that promote the financial inclusion and ensure the formalization of economy.

The generation of value to the Company and the stakeholders with whom we maintain relationship occurs by means of an ethical conduct, assumption which guides and permeates all Cielo's activities. Through the Code of Ethics, Cielo seeks to ensure the best corporate practices in the relationship with all its stakeholders.

In accordance with the principle of transparency, in April 2017, the Company published its 2016 Sustainability Report, which was prepared based on the guidelines of the Global Reporting Initiative (GRI), G4 version, providing information on the Company's performance regarding the most significant aspects for the business sustainability, seeking to demonstrate its ability to generate value and performing on a longstanding basis.

Such agenda of sustainability promotes business opportunities and enables competitive advantages to Cielo, perceived by the financial market and the entire society. As an example, Cielo, for the fifth consecutive year adheres to the portfolio of the Corporate Sustainability Index (ISE) of B3 (Brasil, Bolsa e Balcão), an acknowledgment which attests, amongst the Company's initiatives, good corporate governance practices, suppliers management – taking into account social and environmental aspects and actions to promote its employees' life quality. Since 2015, the Company has been joining the Sustainability index Euronext-Vigeo EM70, which encompasses 70 companies with high performance in corporate responsibility in emerging markets, launched in 2015 by Vigeo, leading global rating agency focused on sustainability.

In 2017, Cielo joined for the second consecutive year, the portfolio of the Dow Jones Sustainability Index (DJSI), under the World category. In order to be included, companies go through a strict selection process, which analyzes the economic data, environmental and social performance, corporate governance, risk management, mitigation of climate change, labor practices, among other aspects. And, since 2011, the Company has been issuing the American Depositary Receipts (ADRs), Level I, listed on the international over-the-counter market OTCQX.

RELATIONSHIP WITH INDEPENDENT AUDITORS

Under CVM Rule 381/03, we inform that during 2017, the Company contracted the independent audit services of KPMG.

The Company's Policy for contracting independent audit services seeks to ensure that there are no conflicts of interest, loss of independence or objectivity. With this purpose, Cielo adopts in its policy to engage auditors the following internationally accepted principles: (a) the auditor should not audit his or her own work, (b) the auditor should not function in the role of management, and (c) the auditor should not serve in an advocacy role for his or her client.

Cielo declares that the independent auditors have provided services not related to external audit, consisting of assurance of the Sustainability Report and Greenhouse Gases Inventory, at Cielo. This contract meets the company's corporate governance requirements, under which any extraordinary engagement of the independent audit firm that audits its financial statements directly or indirectly, needs to be previously analyzed by the Audit Committee and authorized by the Board of Directors. The amounts of the contracts represent 1.8% of the total audit fees related to the 2017 financial statements of Cielo and its subsidiaries Cateno, Cielo USA, Merchant e-Solutions, Orizon and associate Stelo.

Performance report information on EBITDA, financial volume and number of transactions, industry and sector information, net revenue additions, number of employees, presented to justify the variations, was not subject to the audit performed by the independent auditors.

STATEMENT BY THE BOARD OF DIRECTORS

In compliance with CVM Instruction No. 480/09, the Board of Executive Officers declares that it has reviewed, discussed and agreed with the opinions expressed in the independent auditors' report and with the financial statements related to the fiscal year ended December 31, 2017.

Cielo S.A.

Individual and Consolidated Financial
Statements for the Year Ended December 31,
2017 and Independent Auditor's Report
(*COSIF*)

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Independent auditors' report on the individual and consolidated financial statements

To the Shareholders and the Board of Directors of

Cielo S.A.

Barueri - SP

Opinion

We have audited the individual and consolidated financial statements of Cielo S.A. ("Company"), respectively referred to as Company and Consolidated, which comprise the balance sheet as of December 31, 2017 and the statements of income, changes in shareholders' equity and cash flows for the six-month period and year then ended, as well as the corresponding notes, comprising the significant accounting policies and other clarifying information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of Cielo S.A. as of December 31, 2017, the individual and consolidated performance of its operations and its individual and consolidated cash flows, for the six-month period and year then ended, in accordance with the accounting practices adopted in Brazil, applicable to payment institutions authorized to operate by the Central Bank of Brazil - Bacen.

Basis for opinion

Our audit was carried out in accordance with Brazilian and international standards on auditing. Our responsibilities, in conformity with these standards, are described in the following section denominated "Auditor's responsibilities for the audit of the individual and consolidated financial statements". We are independent of the Company and its subsidiaries, according to the significant ethical principles provided in the Accountant's Code of Professional Ethics and the professional standards issued by the Federal Accounting Council, and we comply with the other ethical responsibilities according to such standards. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those that, in our professional judgment, were the most significant in our audit of current year. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and, therefore, we do not express a separate opinion on these matters.

1 Impacts of the authorization from the Central Bank of Brazil to act as a Payment Institution (individual and consolidated)

As explained in Note 4, on April 27, 2017, the Company obtained authorization from the Central Bank of Brazil (Bacen) to act as a payment institution in the modality of accreditation body. Thus, the Company's financial statements began to reflect the accounting practices adopted in Brazil applicable to payment institutions authorized to operate by Bacen. The main accounting impact related to the adoption of the Chart of Accounts for National Financial System Institutions



("COSIF") refers to the treatment of goodwill, which, unlike the treatment adopted by international accounting standards (IFRS), should be amortized according to the periods of projections that justified the goodwill. Hence, the Company recorded the amortization of the goodwill balance retrospectively, from the initial date of the investment acquisition by the Company, according to the estimated realization projection periods. Due to the relevance of the initial process of adopting the accounting rules defined in the COSIF plan and the high degree of judgment involved in the process of determining the amortization periods of the goodwill, which may impact the amount recorded in the consolidated financial statements and the amount of the investment recorded by the equity method in the parent company's financial statements, we considered this area to be relevant to our audit.

How our audit conducted this matter

We evaluated the design, implementation and operational effectiveness of key internal controls related to the process of mapping and recording the impacts of adopting the COSIF plan, as well as the controls related to the calculation and recording of amortization of the goodwill. We also analyzed the Company's mapping of the accounting and operational impacts related to the adoption of the COSIF plan in relation to the Company and its Subsidiaries. We evaluated the calculation of the accounting impacts identified, which included the effects of the amortization of goodwill, as well as the harmonization adjustments of accounting practices of the investees that were prepared by the Company, in order to be in line with current accounting practices. Our procedures also included the assessment of disclosures made by the Company in the individual and consolidated financial statements.

Based on evidence from the procedures described above, we consider acceptable the process of adequacy of the Company to accounting rules established in COSIF, the calculation of goodwill amortization and the disclosures in the context of the individual and consolidated financial statements taken as a whole.

2 Process of capturing, processing and settling transactions (individual and consolidated)

The Company has a plan for continuous systemic investments aimed at guaranteeing that it will continue as going concern in relation to the capture, processing and settlement of transactions with credit and debit cards and maintaining the security and reliability of the information presented in the individual and consolidated financial statements. Additionally, the company has implemented a transaction record and settlement monitoring process, which includes reconciliations, matching of information with third party's reports, among other internal controls, support the integrity and accuracy of transaction records and automated recognition of operating income and other information presented in the individual and consolidated financial statements, mainly related to balances payable to merchants and accounts receivable from issuing banks. In view of the high complexity inherent in the automated transaction capturing, processing and settling process of transactions, which is the basis for recognizing operating income and may affect the amount registered in consolidated financial statements and the investments amount registered under the equity method in parent company's financial statements, the importance of monitoring internal controls and the materiality of the involved amounts, we consider this area relevant to our audit.

How our audit conducted this matter

With the technical support of our experts in technology, we evaluated the design, implementation and operational effectiveness of the key information technology general controls associated to capture, processing and settlement of transactions with related credit and debit cards. Such evaluation considers the aspects as per logical and physical access controls, changes and development of systems in programs and infrastructure, copy and backup of information, in addition to key automated controls related to the business processes considered relevant, executing the mapping and evaluation of accounting interfaces, access controls, business rules setups, and automated calculations. We also performed, using sampling, tests of the key controls



related to the process of recording and monitoring the equity accounts concerning the transactions made (capture, processing and settlement of transactions) and the record of the respective operating income, as well as ran, using sampling, tests of the accounting reconciliations of the main balances, evaluating the supporting documentation and the integrity of the records made. Our procedures also included the assessment of disclosures made by the Company in the individual and consolidated financial statements described in notes 8 and 14.

Based on the evidence obtained by means of procedures aforementioned, we consider acceptable the measurement of process of capturing, processing and settlement of transactions and disclosures in the context of individual and consolidated financial statements taken as a whole.

3 Evaluation of the recoverable value of intangible assets with defined useful lives (individual and consolidated)

As described in Note 10 and 12, the individual and consolidated financial statements include amounts of intangible assets with defined useful life whose realization is supported by estimates of future profitability based on the business plan prepared by the Company. In view of the relevance and the high level of judgment involved in the process of determining the estimates of future profitability of cash generating units for purposes of evaluating the recoverable value of such assets, may affect the amount of such assets in consolidated financial statements, and the amount of investment under the equity method in parent company's financial statements, we consider this area as relevant to our audit.

How our audit addressed this matter

We evaluated the design, implementation, and operational effectiveness of key internal controls related to the preparation and review of the business plan, budget and analyses in order to verify evidence of impairment of the cash generating units to which the intangible assets were allocated. Our procedures also included the assessment of disclosures made by the Company in the individual and consolidated financial statements described in notes 10 and 12.

Based on the evidence obtained by means of procedures aforementioned, we consider acceptable the measurement of intangible assets of defined useful life and disclosures in the context of individual and consolidated financial statements taken as a whole.

Other matters

Statements of added value

Individual and consolidated statements of added value (DVA) for the six-month period and year ended December 31, 2017, prepared under responsibility of Company's management, and presented as supplementary information in relation to accounting practices adopted in Brazil applicable to payment institutions authorized by Central Bank of Brazil - BACEN, were submitted to audit procedures carried out together with the audit of Company's financial statements. In order to form our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria defined in CPC 09 Technical Pronouncement - Statement of Added Value. In our opinion, these statements of added value were prepared, in all material respects, in accordance with the criteria defined in this Technical Pronouncement and are consistent in relation to the individual and consolidated financial statements taken as a whole.

Other information accompanying individual and consolidated financial statements and the auditor's report

The Company's management is responsible for this other information that comprise the Management Report.

Our opinion on the individual and consolidated financial statements does not include the



Management Report and we do not express any form of audit conclusion on such report.

Regarding the audit of individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is, in a material way, inconsistent with the financial statements or with our knowledge gained in the audit or otherwise appears to be materially misstated. If, based on the works performed, we conclude that there is a material misstatement in the Management Report, we are required to disclose this fact. We have nothing to report in this regard.

Responsibilities of management and governance for the individual and consolidated financial statements

Management is responsible for the preparation and adequate presentation of the individual and consolidated financial statements in accordance with the accounting practices adopted in Brazil, applicable to payment institutions authorized to operate by the Central Bank of Brazil, and the internal controls it deemed necessary to enable the preparation of these financial statements free of significant distortions, regardless of whether the latter were caused by fraud or error.

In the preparation of individual and consolidated financial statements, Management is responsible for assessing the ability of the Company to continue as a going concern, disclosing, where applicable, the matters relating to its going concern and the use of this basis of accounting in preparing the financial statements, unless management intends to wind-up the Company and its subsidiaries or cease its operations, or has no realistic alternative to avoid the closure of operations.

Those charged with governance of the Company and its subsidiaries are the people responsible for overseeing the process of preparation of the financial statements.

Auditors' responsibilities for the audit of the individual and consolidated financial statements

Our purposes are to obtain reasonable assurance that the individual and consolidated financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error, and to issue audit report containing our opinion. Reasonable assurance means a high level of security, but not a guarantee that an audit conducted in accordance with Brazilian and international auditing standards always detects any existing material misstatements. Misstatements may be due to fraud or error and are considered material when, individually or taken as a whole, can influence, within a reasonable perspective, the economic decisions of users taken based on these financial statements.

As part of the audit conducted in accordance with Brazilian and international auditing standards, we exercise professional judgment and maintain our professional skepticism throughout the audit. In addition:

- We identify and evaluate the risks of material misstatement in the individual and consolidated financial statements, whether caused by fraud or error, we plan and perform audit procedures in response to such risks, and we obtain proper and sufficient audit evidence to support our opinion. The risk of not detecting material misstatement resulting from fraud is higher than that from error, as fraud may involve the act of cheating internal controls, collusion, falsification, omission or intentional misrepresentations.
- We obtain an understanding of the internal controls relevant to the audit to plan the audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal controls of the Company and its subsidiaries.
- We evaluated the adequacy of the accounting policies used and the reasonableness of the



accounting estimates and the respective disclosures made by the management.

- We concluded on the adequacy of the use, by the management, of the operational continuity accounting base and, based on the audit evidences obtained, if there is relevant uncertainty in relation to events or conditions that may raise significant doubt on the Company's ability of operational continuity and its subsidiaries. If we conclude that there is a material uncertainty, we must highlight the related disclosures in the individual and consolidated financial statements in our report, or include a modification in our opinion if disclosures are inadequate. Our conclusions are based on the audit evidences obtained through our reporting date. However, future events or conditions may lead the Company and its subsidiaries to no longer remain as a going concern.
- We evaluate the overall presentation, structure and content of financial statements, including disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner consistent with the objective of fair presentation.
- We obtain appropriate and sufficient audit evidence regarding the financial information of the entities or business activities of the group to express an opinion on the individual and consolidated financial statements. We are responsible for directing, supervising and carrying out the group's audit and, therefore, for the audit opinion.

We report to those responsible for governance regarding, among other aspects, the planned scope, the audit timing, and the significant audit findings, including the possible any significant deficiencies in internal controls that we identify during our works.

We also provide to those responsible for governance a statement that we fulfilled the material ethical requirements, including the applicable independence requirements, and report all the possible relationships or matters that could considerably affect our independence, including, when applicable, the respective disclaimers.

Of the matters that were subject of communication with those charged with Management, we determine those that were considered the most significant in the audit of the financial statements for the current year and, thus, represent the main audit matters. We describe these matters in our audit report, unless a law or regulation has prohibited the public disclosure of the matter, or when, under extremely rare circumstances, we determine that the matter shall not be reported in our report, because the adverse consequences from such report may, from a reasonable perspective, exceed the benefits from the report for public interest.

Osasco, February 1, 2018

KPMG Auditores Independentes
CRC 2SP028567/O-1 F-SP

Original report in Portuguese signed by
João Paulo Dal Poz Alouche
Accountant CRC 1SP245785/O-2

Statements of financial position at December 31, 2017 and 2016
(In thousands of brazilian reais - R\$)

Assets	Notes	Parent Company		Consolidated		Liabilities and equity	Notes	Parent Company		Consolidated	
		12/31/2017	12/31/2016	12/31/2017	12/31/2016			12/31/2017	12/31/2016	12/31/2017	12/31/2016
Current assets						Current liabilities					
Cash	5	15.163	30.303	323.651	564,532	Borrowings	13	2,827,084	2,920,324	2,827,719	2,921,002
Interbank investments	6	269.191	902.09	855.154	932,409	Derivative financial instruments	7	-	37,665	-	37,665
Securities and derivative financial instruments	7	10,942,833	8,386,593	4,909,289	1,237,496	Other payables		68,223,453	61,715,494	62,296,503	63,198,518
Other receivables		65,488,988	60,014,912	66,782,105	69,783,702	Social and statutory	16	343,599	657,386	375,893	686,855
Income receivable	8	292.089	254.486	839.306	736,957	Tax and social security	9	403,393	493,573	818,455	814,006
Sundry		65,331,032	59,906,515	66,094,147	69,196,283	Sundry		67,476,461	60,564,535	61,102,155	61,697,657
Receivables from issuers	8	64,774,155	59,477,121	65,075,191	68,299,138	Payables to merchants	14	57,377,277	59,671,944	57,796,536	60,399,222
Receivables from related parties		8.41	1.661	-	-	Payables to related parties		9,294,052	21,472	-	-
Tax credits	9	305.1	260.602	424.1	418,328	Others		805,132	871,119	3,305,619	1,298,435
Taxes and contributions for offset/recoverable		215.633	125.956	543.191	413,458	Total current liabilities		71,050,537	64,673,483	65,124,222	66,157,185
Others		27.734	41.175	51.665	65,359	Long-term liabilities					
Allowance for other doubtful debts	8	(134,133)	(146,089)	(151,348)	(149,538)	Borrowings	13	5,084,140	6,557,747	6,417,634	7,870,107
Other assets		31.986	11.838	41.381	23,016	Other payables		2,335,092	2,019,418	1,975,611	1,918,191
Total current assets		76,748,161	69,345,736	72,911,580	72,541,155	Deferred taxes and contributions	9	-	-	194,512	224,329
Noncurrent assets						Provision for contingencies	15 a.	1,724,985	1,634,748	1,741,317	1,659,419
Other receivables		2,213,529	2,139,548	2,228,693	2,120,434	Others		610,107	384,670	39,782	34,443
Debtors for guarantee deposits	15 b.	1,610,072	1,514,389	1,621,861	1,522,612	Total noncurrent liabilities		7,419,232	8,577,165	8,393,245	9,788,298
Tax credits	9	584,005	610,117	587,132	558,279	Equity					
Others		19,452	15,042	19,700	39,543	Capital	16	4,700,000	3,500,000	4,700,000	3,500,000
Other assets		87	87	1,648	110	Capital reserves	16	62,620	63,062	62,620	63,062
Permanent assets						Earnings reserves	16	5,293,153	4,283,898	5,293,153	4,283,898
Investments		8,811,562	8,823,049	110,358	94,211	Carrying value adjustments	16	149,019	162,611	149,019	162,611
Interests in domestic associates and subsidiaries	10	8,811,562	8,823,049	110,358	94,211	(-) Treasury shares	16	(53,925)	(103,967)	(53,925)	(103,967)
Property and equipment	11	463,595	586,401	512,596	640,099	Attributable to:					
Intangible assets		383,702	261,431	11,563,052	12,114,667	Participation of owners of the Company		10,150,867	7,905,604	10,150,867	7,905,604
Goodwill on acquisition of investments	12 a.	-	-	57,667	251,441	Participation of noncontrolling interests		-	-	3,659,593	3,659,589
Other intangible assets	12 b.	383,702	261,431	11,505,385	11,863,226	Total equity		10,150,867	7,905,604	13,810,460	11,565,193
Total noncurrent and permanent assets		11,872,475	11,810,516	14,416,347	14,969,521	Total liabilities and equity					
Total assets		88,620,636	81,156,252	87,327,927	87,510,676	Total liabilities and equity					

The accompanying notes are an integral part of these financial statements.

Cielo S.A.

Statements of profit or loss

For the six-month periods and years ended December 31, 2017 and 2016

(In thousands of brazilian reais - R\$, except earnings per share)

		Parent Company			Consolidated		
	Notes	2nd Half/17	12/31/2017	12/31/2016	2nd Half/17	12/31/2017	12/31/2016
Net revenue	18	3,491,690	6,836,036	7,366,989	5,968,025	11,600,341	12,300,784
Cost of services provided	19	(1,301,688)	(2,390,959)	(2,313,785)	(3,009,966)	(5,773,721)	(5,994,759)
Gross profit		2,190,002	4,445,077	5,053,204	2,958,059	5,826,620	6,306,025
Operating income (expenses)							
Personnel	19	(125,244)	(271,304)	(283,001)	(249,354)	(522,484)	(526,130)
General and administrative	19	(217,947)	(427,420)	(430,161)	(329,043)	(750,880)	(878,148)
Sales and marketing	19	(98,343)	(176,059)	(308,841)	(105,317)	(188,967)	(320,413)
Share of profit (loss) of investees	10	243,924	308,945	83,664	2,805	6,410	14,003
Other operating expenses, net	19 and 20	(95,452)	(195,463)	(239,831)	(104,827)	(225,952)	(340,316)
Operating profit		1,896,940	3,683,776	3,875,034	2,172,323	4,144,747	4,255,021
Finance income (costs)							
Finance income	26	127,362	251,498	110,213	215,277	410,883	244,783
Finance costs	26	(303,097)	(830,148)	(1,298,205)	(395,206)	(947,566)	(1,353,955)
Purchase of receivables and FIDCs	26	1,054,894	2,246,913	2,572,080	1,098,577	2,291,844	2,571,218
Exchange differences, net	26	(2,691)	(22,994)	292,679	(2,694)	(23,184)	292,743
		<u>876,468</u>	<u>1,645,269</u>	<u>1,676,767</u>	<u>915,954</u>	<u>1,731,977</u>	<u>1,754,789</u>
Operating profit before income tax and social contribution		2,773,408	5,329,045	5,551,801	3,088,277	5,876,724	6,009,810
Income tax and social contribution							
Current	9	(793,222)	(1,492,624)	(1,881,051)	(1,021,559)	(1,885,935)	(2,204,050)
Deferred	9	<u>43,898</u>	<u>18,386</u>	<u>220,551</u>	<u>75,608</u>	<u>72,569</u>	<u>263,587</u>
Profit for the period		2,024,084	3,854,807	3,891,301	2,142,326	4,063,358	4,069,347
Attributable to:							
Owners of the Company					2,024,084	3,854,807	3,891,301
Noncontrolling interests					<u>118,242</u>	<u>208,551</u>	<u>178,046</u>
					2,142,326	4,063,358	4,069,347
Earnings per share (in R\$) - Basic	17	<u>0.74581</u>	<u>1.42088</u>	<u>1.43567</u>	<u>0.74581</u>	<u>1.42088</u>	<u>1.43567</u>
Earnings per share (in R\$) - Diluted	17	<u>0.74506</u>	<u>1.41945</u>	<u>1.43325</u>	<u>0.74506</u>	<u>1.41945</u>	<u>1.43325</u>

The accompanying notes are an integral part of these financial statements.

Cielo S.A.

Statements of changes in equity

For the six-month periods and years ended December 31, 2017 and 2016

(In thousands of brazilian reais - R\$)

Attributable to owners of the Company												
Earnings reserves												
		Issued capital	Capital reserve	Trasury shares	Legal reserve	Capital budget	Additional dividends	Earnings retention	Carrying value adjustments	Total owners of the Company	Noncontrolling interests	Total equity
Balance as at January 1, 2016		2,500,000	60,678	(140,648)	500,000	2,129,692	-	-	133,565	5,183,287	3,643,289	8,826,576
Capital increase	16.a)	1,000,000	-	-	-	(1,000,000)	-	-	-	-	-	-
Acquisition of treasury shares		-	-	(24,904)	-	-	-	-	-	(24,904)	-	(24,904)
Stock options granted	25	-	31,067	-	-	-	-	-	-	31,067	-	31,067
Sale / Transfer of treasury shares under the stock option plan	25 and 16.c)	-	(28,683)	61,585	-	-	-	-	-	32,902	-	32,902
Profit for the six-month period		-	-	-	-	-	-	3,891,301	-	3,891,301	178,046	4,069,347
Allocation of profit for the six-month period:												
Legal reserve	16.e)	-	-	-	200,000	-	-	(200,000)	-	-	-	-
Interest on capital paid	16.g)	-	-	-	-	-	-	(238,000)	-	(238,000)	-	(238,000)
Mandatory minimum dividends paid	16.g)	-	-	-	-	-	-	(374,365)	-	(374,365)	-	(374,365)
Mandatory minimum dividends	16.g)	-	-	-	-	-	-	(376,930)	-	(376,930)	-	(376,930)
Interest on capital proposed	16.g)	-	-	-	-	-	-	(247,800)	-	(247,800)	-	(247,800)
Capital budget reserve	16.f)	-	-	-	-	2,454,206	-	(2,454,206)	-	-	-	-
Effect of noncontrolling interests on consolidated entities		-	-	-	-	-	-	-	-	-	(161,746)	(161,746)
Comprehensive income:												
Exchange differences on net foreign investments	16.d)	-	-	-	-	-	-	-	29,046	29,046	-	29,046
Balances as at December 31, 2016		3,500,000	63,062	(103,967)	700,000	3,583,898	-	-	162,611	7,905,604	3,659,589	11,565,193
Balance as at July 1, 2017		4,700,000	64,283	(84,419)	791,536	2,795,733	741,675	-	150,613	9,159,421	3,655,861	12,815,282
Stock options granted	25	-	9,662	-	-	-	-	-	-	9,662	-	9,662
Sale / Transfer of treasury shares under the stock option plan	25 and 16.c)	-	(11,325)	30,494	-	-	-	-	-	19,169	-	19,169
Profit for the six-month period		-	-	-	-	-	-	2,024,084	-	2,024,084	118,242	2,142,326
Allocation of profit for the six-month period:												
Legal reserve	16.e)	-	-	-	101,204	-	-	(101,204)	-	-	-	-
Interest on capital proposed	16.g)	-	-	-	-	-	-	(318,200)	-	(318,200)	-	(318,200)
Mandatory minimum dividends	16.g)	-	-	-	-	-	(741,675)	-	-	(741,675)	-	(741,675)
Additional dividends proposed	16.g)	-	-	-	-	-	1,058,785	(1,058,785)	-	-	-	-
Capital budget reserve	16.f)	-	-	-	-	545,895	-	(545,895)	-	-	-	-
Effect of noncontrolling interests on consolidated entities		-	-	-	-	-	-	-	-	-	(114,510)	(114,510)
Comprehensive income:												
Exchange differences on net foreign investments	16.d)	-	-	-	-	-	-	-	(1,594)	(1,594)	-	(1,594)
Balances as at December 31, 2017		4,700,000	62,620	(53,925)	892,740	3,341,628	1,058,785	-	149,019	10,150,867	3,659,593	13,810,460
Balance as at January 1, 2017		3,500,000	63,062	(103,967)	700,000	3,583,898	-	-	162,611	7,905,604	3,659,589	11,565,193
Capital increase	16.a)	1,200,000	-	-	-	(1,200,000)	-	-	-	-	-	-
Stock options granted	25	-	24,025	-	-	-	-	-	-	24,025	-	24,025
Sale / Transfer of treasury shares under the stock option plan	25 and 16.c)	-	(24,467)	50,042	-	-	-	-	-	25,575	-	25,575
Profit for the year		-	-	-	-	-	-	3,854,807	-	3,854,807	208,551	4,063,358
Allocation of profit for the year:												
Legal reserve	16.e)	-	-	-	192,740	-	-	(192,740)	-	-	-	-
Interest on capital proposed	16.g)	-	-	-	-	-	-	(318,200)	-	(318,200)	-	(318,200)
Interest on capital paid	16.g)	-	-	-	-	-	-	(325,300)	-	(325,300)	-	(325,300)
Dividends paid	16.g)	-	-	-	-	-	-	(1,002,052)	-	(1,002,052)	-	(1,002,052)
Additional dividends proposed	16.g)	-	-	-	-	-	1,058,785	(1,058,785)	-	-	-	-
Capital budget reserve	16.f)	-	-	-	-	957,730	-	(957,730)	-	-	-	-
Effect of noncontrolling interests on consolidated entities		-	-	-	-	-	-	-	-	-	(208,547)	(208,547)
Comprehensive income:												
Exchange differences on net foreign investments	16.d)	-	-	-	-	-	-	-	(13,592)	(13,592)	-	(13,592)
Balances as at December 31, 2017		4,700,000	62,620	(53,925)	892,740	3,341,628	1,058,785	-	149,019	10,150,867	3,659,593	13,810,460

The accompanying notes are an integral part of these financial statements.

Cielo S.A.
Statements of cash flows

For the six-month periods and years ended December 31, 2017 and 2016
(In thousands of Brazilian reais - R\$)

Notes	Parent Company			Consolidated		
	2nd Half/17	12/31/2017	12/31/2016	2nd Half/17	12/31/2017	12/31/2016
Cash flows from operating activities						
Profit before income tax and social contribution	2,773,408	5,329,045	5,551,801	3,088,277	5,876,724	6,009,810
Adjustments to reconcile profit before income tax and social contribution to net cash generated by operating activities:						
Depreciation and amortization	212,481	440,516	439,363	503,841	1,133,122	1,266,722
Recognition (reversal) of provision for losses on property and equipment	(6,281)	(16,832)	14,107	(6,281)	(16,832)	14,107
Residual value of property and equipment and intangible assets disposed of	25,109	34,060	35,488	23,876	33,215	39,295
Stock options granted	25	9,662	24,025	9,662	24,025	31,067
Loss on doubtful debts and fraud	20	94,111	180,247	110,605	213,760	221,070
Provision for tax, civil and labor risks	15.a)	14,840	105,857	8,296	97,951	250,429
Noncontrolling interests		-	-	118,242	208,551	178,046
Exchange differences relating to interest on foreign borrowings		94,277	99,026	(503,003)	105,001	(503,003)
Unrealized gains (losses) on financial instruments		(39,465)	(77,130)	(39,465)	(77,130)	202,531
Interest on borrowings	13	252,525	683,508	1,114,941	733,324	1,169,352
Provision for losses on investments	10	-	-	277,547	-	23,997
Share of profit (loss) of investees	10	(243,924)	(308,945)	(2,805)	(6,410)	(14,003)
Yield from interest in FIDC	7	(1,170,830)	(2,366,706)	-	-	-
(Increase) decrease in operating assets:						
Operating receivables		(14,493,427)	(5,509,700)	(5,926,794)	2,905,359	157,670
Receivables from related parties		17,478	(6,749)	(74)	-	459
Prepaid and recoverable taxes		-	-	677	(2,541)	(7,602)
Other receivables (current and noncurrent)		(1,529)	59,933	(8,889)	57,246	(2,924)
Escrow deposits	15.b)	(15,822)	(95,683)	(17,442)	(99,249)	(220,157)
Prepaid expenses		7,715	(20,148)	11,777	(19,958)	(6,420)
Increase (decrease) in operating liabilities:						
Payables to merchants		5,012,301	(2,294,667)	4,951,614	(2,593,719)	(494,655)
Trade payables		72,112	(89,822)	170,392	72,221	174,369
Taxes payable		117,320	12,122	43,798	14,163	40,137
Payables to related parties		9,260,478	9,272,580	3,664	-	(398)
Other payables (current and noncurrent)		85,761	27,614	22,271	(109,105)	(120,944)
Payment of tax, civil and labor lawsuits	15.a)	(8,696)	(15,650)	(10,784)	(9,099)	(11,279)
Cash generated from operations		2,059,604	5,466,501	3,441,125	8,394,946	8,397,676
Interest paid	13	(549,303)	(807,920)	(598,139)	(856,756)	(1,208,344)
Income tax and social contribution paid		(833,161)	(1,684,604)	(1,034,769)	(2,031,339)	(2,053,521)
Net cash generated by operating activities		677,140	2,973,977	1,808,217	5,506,851	5,135,811
Cash flows from investing activities						
Interbank investments and securities		872,834	902,895	(892,812)	2,306,787	2,107,808
Capital increase in subsidiaries, joint ventures and associate	10	-	-	(12,040)	-	(9,240)
Acquisition of shares of FIDC		(6,657,090)	(12,900,174)	(8,149,644)	-	-
Redemption of shares of FIDC		9,142,182	16,281,142	430,807	-	-
Dividends received from subsidiaries	10	262,727	512,337	(4,466)	-	-
Additions to property and equipment and intangible assets	11 and 12	(294,744)	(431,226)	(450,257)	(472,217)	(526,718)
Net cash used in investing activities		3,325,909	4,364,974	1,987,019	1,635,591	(1,770,273)
Cash flows from financing activities						
Acquisition of treasury shares	16.c)	-	-	(24,904)	-	(24,904)
Sale/transfer of treasury shares under the stock option plan		19,168	25,574	32,902	19,168	32,902
Payables for senior shares of FIDC		-	-	2,000,545	2,000,545	-
Acquisition of interest in subsidiary, with no change of control		-	-	(100,133)	-	(100,133)
Borrowings	13	1,064,691	1,165,144	1,114,441	1,064,691	1,114,441
Payment of principal, net of derivatives	13	135,445	(2,687,808)	(2,772,171)	135,445	(2,772,171)
Dividends and interest on capital		(1,326,287)	(1,962,643)	(1,490,686)	(2,219,194)	(1,390,981)
Net cash generated by (used in) financing activities		(106,983)	(3,459,733)	1,729,163	(1,715,739)	(3,140,846)
Effect of exchange rate changes on cash and cash equivalents of foreign subsidiary		-	-	37,489	32,962	(50,241)
Increase (decrease) in cash and cash equivalents		3,896,066	3,879,218	(4,251)	5,561,888	174,451
Cash and cash equivalents						
Closing balance	5	3,909,521	3,909,521	30,303	6,024,197	564,532
Opening balance	5	13,455	30,303	34,554	462,309	564,532
Increase (decrease) in cash and cash equivalents		3,896,066	3,879,218	(4,251)	5,561,888	174,451

The accompanying notes are an integral part of these financial statements.

Cielo S.A.

Statements of value added

For the six-month periods and years ended December 31, 2017 and 2016

(In thousands of Brazilian reais - R\$)

	Notes	Parent Company			Consolidated		
		2nd Half/17	12/31/2017	12/31/2016	2nd Half/17	12/31/2017	12/31/2016
Revenues							
Sales of services	18	3,888,649	7,608,433	8,194,258	6,579,214	12,781,721	13,543,949
Losses on doubtful debts and fraud	20	(94,111)	(180,247)	(161,363)	(110,605)	(213,760)	(221,070)
		3,794,538	7,428,186	8,032,895	6,468,609	12,567,961	13,322,879
Inputs purchased from third parties							
Cost of services provided		(1,029,287)	(1,829,832)	(1,759,136)	(2,528,466)	(4,804,214)	(5,041,684)
Materials, electric energy, outside services and others		(285,047)	(538,568)	(685,504)	(279,938)	(509,534)	(618,154)
Other expenses, net		(3,915)	(20,873)	(34,774)	3,302	(17,601)	(52,149)
Gain (loss) on disposal of assets		2,571	5,655	(46,693)	2,476	5,409	(71,845)
		(1,315,678)	(2,383,618)	(2,526,107)	(2,802,626)	(5,325,940)	(5,783,832)
Gross value added		2,478,860	5,044,568	5,506,788	3,665,983	7,242,021	7,539,047
Retentions							
Depreciation and amortization	11 e 12	(212,481)	(440,516)	(439,363)	(503,836)	(1,133,117)	(1,281,879)
Wealth created, net		2,266,379	4,604,052	5,067,425	3,162,147	6,108,904	6,257,168
Wealth received in transfer							
Share of profit (loss) of investees	10	243,924	308,945	83,664	2,805	6,410	14,003
Finance income, including purchase of receivables and exchange differences, net	26	1,237,258	2,596,477	3,105,006	1,371,803	2,807,033	3,245,319
		1,481,182	2,905,422	3,188,670	1,374,608	2,813,443	3,259,322
Total wealth for distribution		3,747,561	7,509,474	8,256,095	4,536,755	8,922,347	9,516,490
Distribution of wealth							
Personnel and related taxes		(142,029)	(316,162)	(318,410)	(272,829)	(575,627)	(575,667)
Profit sharing	23	(41,432)	(73,129)	(69,826)	(51,878)	(97,166)	(93,695)
Taxes and contributions		(1,237,757)	(2,436,364)	(2,681,783)	(1,668,324)	(3,225,950)	(3,416,666)
Interest and rental expenses		(302,259)	(829,012)	(1,294,775)	(401,398)	(960,246)	(1,362,865)
Dividends and interest on capital paid		(1,327,352)	(1,327,352)	(612,365)	(1,327,352)	(1,327,352)	(612,365)
Dividends and interest on capital proposed		(49,633)	(1,376,985)	(624,730)	(49,633)	(1,376,985)	(624,730)
Earnings retention		(647,099)	(1,150,470)	(2,654,206)	(647,099)	(1,150,470)	(2,652,456)
Noncontrolling interests		-	-	-	(118,242)	(208,551)	(178,046)
Wealth distributed		(3,747,561)	(7,509,474)	(8,256,095)	(4,536,755)	(8,922,347)	(9,516,490)

The accompanying notes are an integral part of these financial statements.

Notes to the individual and consolidated financial statements

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

1 Operations

Cielo S.A. (the "Company" or "Cielo") was established in Brazil on November 23, 1995, and is primarily engaged in providing services related to credit and debit cards and other means of payment, including signing up of merchants and service providers, rental, installation and maintenance of POS (point-of-sale) terminals, data capture, and processing of electronic and manual transactions.

Cielo is a corporation headquartered in the City of Barueri, State of São Paulo. Its shares are traded on B3 S.A. - Brasil, Bolsa, Balcão, under ticker symbol "CIEL3", and Cielo and its subsidiaries are part of the Banco do Brasil and Bradesco groups.

The Company's direct and indirect subsidiaries, joint ventures and associate that, together with Cielo, are also referred to as "Group" throughout this report, provide services related to means of payment or complementary to the acquiring services, such as provision of services in processing means of payments that involve cards, maintenance services and contacts with merchants for acceptance of credit and debit cards, data transmission services to load fixed or mobile phone credits, development and licensing of computer software, electronic transaction's processing, IT services for collection and management of accounts payable and receivable using the Internet, data processing services and support services to medical companies.

Significant events for the period

We highlight the following events that significantly affected the Company's financial position for the six-month period and year ended December 31, 2017:

- *In April 2017, Cielo was authorized by the Brazilian Central Bank ("BACEN" or "Central Bank") to operate as an accrediting payment institution. Due to the new regulatory framework, there was a change in the Company's operation model in which Cielo became a debtor to the merchant, guaranteeing the payment of the transaction to the merchant from the moment the transaction is carried out, and no longer as a clearing house, and started recognizing in its accounting records (i) as an asset, the right to receive the amount of purchase of products and services from card-issuing institutions (receivables from card-issuing banks), and (ii) as a liability, the obligation to pay the amount of purchase of products and services made with credit and debit cards to merchants accredited by the Company (payables to customers);*
- *In a shareholders' meeting held on April 12, 2017, the shareholders approved a capital increase in the Company by R\$ 1,200,0000 using the balance of the capital budget reserve;*
- *Cielo's profit in 2017 totaled R\$3,854,807, a 1% decrease as compared with 2016;*
- *Payment on April 13, 2017 of the second installment of the principal of the public debentures in the amount of R\$ 1,740,165;*
- *Settlement on June 22, 2017 of the borrowing in foreign currency – "operation 4,131" in the amount of R\$ 993,272, and consequently of the derivative financial instruments (swaps), in the amount of R\$ 32,800;*

- *On July 28, 2017, the Investment Fund in Credit Rights ("FIDC Plus") started its operations with R\$ 5.0 billion in senior, mezzanine and subordinated shares, in the form of a closed-end condominium, restricted to professional investors and with indefinite term, with the specific purpose of concentrating the purchase of receivables operated through the Cielo acquisition system. The FIDC Plus was created with the main purpose of fostering the operation of purchase of receivables using a known instrument of the capital market, regulated by the Brazilian Securities and Exchange Commission. See note 07 for further details on the creation and accounting treatment of the FIDC Plus.*
- *On September 1, 2017, the Company raised borrowings in foreign currency amounting to R\$ 1,000,000 and entered into derivative financial instruments ("Swaps") to hedge the transactions against fluctuations in foreign exchange and interest rates;*
- *On September 29, 2017, dividends and interest on capital in the amount of R\$ 1,327,352 were paid relating to the profit for the first half of 2017. For the second half of 2017, the payment of dividends and interest on capital amounting to R\$ 1,376,985 was approved, totaling R\$ 2,704,337 of proceeds for 2017.*

2 Summary of significant accounting practices

2.1 Statement of compliance and approval of the Financial Statements

The individual (Parent Company) and consolidated financial statements have been prepared in accordance with the accounting guidelines established by Law No. 6,404/76 (Brazilian Corporation Law), including the changes introduced by Laws No. 11,638/07 and No. 11,941/09, and the rules and instructions of the National Monetary Council (CMN), Brazilian Central Bank (BACEN) and Brazilian Securities and Exchange Commission (CVM), when applicable (together referred to as "COSIF").

The individual and consolidated financial statements were approved by the Company's Board of Directors and authorized for issue on February 1, 2018.

2.2 Regulation from the Brazilian Central Bank (BACEN)

On April 27, 2017, Cielo was authorized by the BACEN to operate as an accrediting payment institution, as published in the Federal Official Gazette. As a result of the obtainment of such authorization, the Company started to adopt procedures applicable to payment institutions that are members of the Brazilian Payment System (SPB), including as regards the form of preparation and disclosure of its financial statements, in accordance with the criteria determined by the Central Bank.

The effects of the first-time adoption of the COSIF accounting practices, and of the change of the Company's operation model are shown in Note 4.

As determined by BACEN through Circular Letter 3,765/15, in November 2017, Cielo implemented a new financial settlement process centralized at the CIP - Interbank Payment Chamber, for certain Payment Arrangements also defined by BACEN. The new financial settlement process has no impact on the Company's financial position.

2.3 Main judgments, estimates and accounting assumptions

The preparation of individual and consolidated financial statements requires the Company's and its subsidiaries' Management to make estimates that affect certain assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses for the reporting period. Significant assets and liabilities subject to these estimates and assumptions include the residual value of property and equipment and intangible assets, allowance for doubtful debts (on receivables from rental of POS equipment and receivables from issuers, for example), deferred income tax and social contribution (tax assets), impairment of goodwill, provision for risks and fair value measurement of financial instruments. Since Management's judgment involves making estimates concerning the probability of occurrence of future events, actual results may differ from those estimates. The Company and its subsidiaries review the estimates and assumptions at least semiannually.

2.4 Functional and presentation currency

The individual and consolidated financial statements are presented in Brazilian reais (R\$), which is the Company's functional and presentation currency.

Management determined that the functional currency of its foreign subsidiaries is the US dollar. For Cielo USA, the main factor to determine the functional currency was the raising of US dollar denominated borrowings for the acquisition of control of Me-S. These borrowings will be settled using the cash generated from foreign operations. In addition, with respect to Me-S, the cash flows and services provided are fully denominated in US dollars.

For purposes of presentation of the consolidated financial statements, the assets and liabilities of subsidiaries Cielo USA and Me-S (based in the USA), originally denominated in US dollars, were translated into Brazilian reais at the exchange rates prevailing at period-end. Revenues and expenses were translated at the average monthly exchange rates. Exchange differences resulting from such translations were classified in carrying value adjustments and accumulated in equity.

Goodwill and its amortization and fair value adjustments of identifiable assets acquired and liabilities assumed arising from the acquisition of a foreign operation are recognized as assets and liabilities of such operation and translated at the exchange rate prevailing at the end of the reporting period. Exchange differences are recognized in equity.

2.5 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, less estimated returns, trade discounts and/or bonuses granted and other similar deductions.

Revenues from the capture of transactions with credit and debit cards are recognized on the date of capture/processing of the transactions. Revenues from credit and debit card transactions and payment accounts management services, as well as other services provided to partners and merchants are recognized when the services are provided.

The income from dividends on investments is recognized when the shareholder's right to receive these dividends is established (provided that it is probable that future economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income is recognized when it is probable that future economic benefits will flow to the Group and the amount of revenue can be measured reliably.

The income from purchase of receivables to merchants is recognized on a “*pro rata temporis*” basis considering their maturities.

In the case of Me-S, in the context of its agreements with the banks, it assumes liabilities of the acquirer bank and is, therefore, accountable for the interchange fees. The bank also receives market rates for its services and, therefore, is not exposed to the agreement’s risks and rewards. Additionally, there are factors such as the portability of the contracts with merchants and the fact that Me-S has a direct interaction with its customers in its daily routines and it holds the transaction’s credit risk. As a result, Me-S is the main debtor and recognizes revenue based on its gross amount and the interchange fee is recognized as cost of services provided.

2.6 Cash and cash equivalents

For purposes of the statement of cash flows, this balance includes cash and cash equivalents that are represented by cash in local currency, in foreign currency, investments in repurchase agreements, investments in interbank deposits, and investments in foreign currency, with maturities equal to or less than 90 days from the investment date and with insignificant risk of change in fair value.

The breakdown of the cash and investments recorded in cash and cash equivalents is presented in Note 5.

2.7 Interbank investments

Interbank investments are stated at cost, plus income earned through the end of the reporting period, less a provision for impairment, when applicable.

The breakdown and terms of the interbank investments are presented in Note 6 and income earned is presented in Note 26.

2.8 Securities

The securities acquired for own portfolio are recorded at the amount actually paid, including brokerage fees and charges, and are classified into three different categories according to the Company’s Management intent, in accordance with BACEN Circular Letter No. 3,068/01:

Trading securities

The trading securities are those acquired for the purpose of being actively and frequently traded. They are stated at cost, plus income earned and adjusted to fair value with an offsetting entry in profit or loss for the period;

Available-for-sale securities

The available-for-sale securities are those that are not classified as trading securities nor as held-to-maturity. They are stated at cost, plus income earned with an offsetting entry in profit or loss for the period and adjusted to fair value with an offsetting entry in equity, less tax effects, which will only be recognized in profit or loss upon their actual realization; and

Held-to-maturity securities

The held-to-maturity securities are those acquired for this purpose and for which there is financial ability to hold them to maturity. They are stated at cost, plus income earned with an offsetting entry in profit or loss for the period, and are not measured at fair value.

The securities classified in the categories of trading securities and available-for-sale securities, as well as the derivative financial instruments, are stated in the consolidated statement of financial position at their estimated fair value. Generally, the fair value is based on market price quotations or market price quotations for assets or liabilities with similar characteristics. If these market prices are not available, the fair values are based on quotations from market operators, pricing models, discounted cash flows or similar techniques, for which the fair value measurement can require significant judgment or estimate by Management.

The securities are assessed to verify if there is objective evidence that a loss has occurred in its carrying amount. The objective evidence that securities have lost value may include non-payment or late payment by the counterparty, indications of bankruptcy proceedings or even a significant or prolonged decline in the value of the asset. An impairment loss on a security is recognized in the statement of profit or loss for the period if the carrying amount exceeds its recoverable amount.

As determined by sole paragraph of article 7 of Circular Letter No. 3,068 of 11/08/2001 from BACEN, securities classified as trading securities are presented in the statement of financial position, in current assets, irrespective of their maturity dates.

The classification, breakdown and segmentation of the securities are presented in Note 7.

2.9 Derivative financial instruments and hedge operations

The Company enters into derivative financial instruments mainly to manage its exposure to fluctuations in interest rates and exchange rates. The Company measures its derivative financial instruments based on quotations obtained from market participants, at fair value at the end of the reporting period.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifying as a cash flow hedge or a hedge of exchange differences on foreign investments are recognized as carrying value adjustments, and when qualifying, as a fair value hedge, the hedged item and the hedging instrument are recognized in the statement of profit or loss at their fair values.

The Company assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When a hedging instrument is sold, terminated, expires or is exercised, the cumulative unrealized gain or loss, which had been recognized in carrying value adjustments, is immediately reported in the statement of profit or loss. Additionally, changes in the fair value of financial instruments not qualifying as hedge or qualifying as fair value hedge are recognized in the line item of (Losses) gains on financial instruments, net, in the statement of profit or loss.

2.10 Operating receivables and payables to customers

a) Operating receivables

Receivables from card-issuing banks

Refer to amounts of transactions carried out by holders of debit and credit cards issued by financial institutions, and the balances of receivables from card-issuing banks are net of interchange fees with receipt terms of less than one year.

Purchase of receivables

Receivables from card-issuing banks related to purchase of receivables, stated at purchased value, determined on an individual basis, less cash flows from each of the receivables recorded using the interest rates applied to such transactions.

Receivables for processed financial transactions

Refer mainly to receivables from card association members for financial transactions processed by Me-S that have been authorized but not yet received. These receivables are generally settled on the following business day.

Receivables from clients

Represent interchange and service fees for transaction processing receivable from merchants, as a result of Me-S's practice to settle transactions at full amounts to merchants and collect these fees at the beginning of the next month.

b) Payables to customers

Payables to merchants

Refer to the obligation to pay for the purchase of products and services made with cards to merchants accredited by the Company.

Payables to merchants for transactions processed by Me-S

Refer to the balances due to customers for processed transactions that have not yet been paid. Me-S pays merchants the amounts received from card associations on the business day subsequent to the day the transaction is captured.

Merchant deposits

Me-S maintains funds as a security deposit to hedge against the risk of a customer going bankrupt and being unable to pay for the services provided. The amount retained from each customer is based on the risk factors associated to the customer, which include, among others, the type of business and the volume of completed transactions.

2.11 Investments

In the individual financial statements, the investments in subsidiaries, joint ventures and associates are accounted for under the equity method of accounting, based on the equity value of the subsidiary or associate.

In the consolidated financial statements, subsidiaries are fully consolidated and associates and joint ventures are accounted for under the equity method of accounting.

The financial statements of foreign subsidiaries are conformed to the accounting criteria of the parent company and translated into the real currency at the period-end rate.

2.12 Property and equipment

Stated at historical cost, less accumulated depreciation and accumulated impairment losses. Depreciation is calculated under the straight-line method, based on the estimated useful lives of the assets, at the rates shown in note 11. The estimated useful lives, residual values, and depreciation methods are reviewed on an annual basis, and the effect of any changes in estimates is accounted for on a prospective basis.

An item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its continued use. Any gain or loss from the sale or derecognition of an item of property and equipment is determined by the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss. The breakdown of property and equipment balances and their respective depreciation is presented in Note 11.

2.13 Intangible assets

Intangible assets correspond to the rights acquired that have as object incorporeal property for the maintenance of the Company's activities or exercised for this purpose. Intangible assets are comprised by:

Separately acquired intangible assets

Separately acquired intangible assets with finite useful lives are stated at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis, based on the estimated useful lives of the assets. The estimated useful life and amortization method are reviewed on an annual basis and the effect of any changes in estimates is accounted for on a prospective basis.

Internally generated intangible assets

Costs of research activities are recognized as expense in the period in which they are incurred. When no internally generated intangible asset can be recognized, the development costs are recognized in profit or loss when incurred.

2.14 Impairment of tangible and intangible assets

Annually, and if there is evidence, the Group reviews the carrying amount of its tangible and intangible assets to determine if there is any indication that these assets might be impaired.

Recoverable amount is the higher of the fair value less costs to sell and the value in use. If the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount, and the impairment loss is immediately recognized in profit or loss.

2.15 Goodwill

Goodwill corresponds to the amount exceeding the carrying amount of the investments acquired at fair value, arising from the expected future profitability and supported by economic and financial studies on which the purchase price of the businesses was based.

Goodwill based on expected future earnings is amortized according to the projection periods that justified it, and is subject to impairment test annually or more frequently, whenever there is indication that the cash-generating unit is impaired.

The goodwill arising from investments in subsidiaries, associate and joint ventures is included in the carrying amount of the investment in the individual financial statements. In the consolidated financial statements, the goodwill arising from the acquisition of subsidiaries is recognized in intangible assets.

2.16 Income tax and social contribution - current and deferred

Income tax and social contribution expenses represent the sum of current and deferred taxes.

Current taxes

The provision for the Company's income tax and social contribution is calculated based on the taxable profit for the year. Income tax was calculated at the rate of 15%, plus a 10% surtax on annual taxable profit exceeding R\$240. Social contribution was calculated at the rate of 9% on adjusted profit.

Deferred taxes

Deferred income tax and social contribution are recognized on the differences between assets and liabilities recognized for tax purposes and the related amounts recognized in the consolidated financial statements. Deferred income tax and social contribution are determined based on the tax rates and laws in effect at the end of the reporting period, applicable when the income tax and social contribution are realized. The recovery of deferred tax assets is reviewed at the end of each reporting period and when it is no longer probable that future taxable profits will be available to allow the recovery of all or part of the assets, these are adjusted to their expected recoverable amount.

Current and deferred taxes are recognized in profit or loss, except when they relate to items recognized in "Carrying Value Adjustments", or directly in equity. In these cases, current and deferred taxes are recognized in "Carrying Value Adjustments", in equity.

When current and deferred taxes result from the initial recognition of a business combination, the tax effect is considered in the recognition of the business combination.

2.17 Employee benefits

Supplementary Pension Plan

Refers to amounts in which the Company is co-sponsor of a defined contribution pension plan. Contributions are made based on a percentage of the employee's compensation. Payments to defined contribution plans are recognized as expense when the services that entitle to such payments are provided.

Post-employment benefit

Represents amounts in which the Company has an actuarial liability resulting from post-employment benefit, relating to the expected expenses on healthcare plan.

2.18 Provision for risks

Recognized when there is a present obligation (legal or constructive) as a result of a past event, with probable outflow of resources, and the amount of the obligation can be reliably estimated. The amount recognized as a provision is the best estimate of the settlement amount at the end of the reporting period, taking into consideration the risks and uncertainties related to the obligation. Provisions for tax risks are recognized based on the total taxes under litigation, plus inflation adjustment and late payment interest incurred through the end of the reporting period. Contingent liabilities classified as possible losses are not recognized in the financial statements and are disclosed in the notes to the financial statements, and those classified as remote do not require provision nor disclosure.

The recognition, measurement and disclosure of provisions, contingent assets and liabilities and legal obligations are made according to the criteria defined in CPC 25 – Provisions, Contingent Liabilities and Contingent Assets, approved by CMN Resolution No. 3,823/09 (Note 15).

2.19 Dividends and interest on capital

The proposal for payment of dividends and interest on capital made by the Company's Management that does not exceed the minimum mandatory dividends is recognized in line item "Dividends payable" in current liabilities as it is considered a legal obligation under the Company's bylaws. However, the portion of dividends exceeding minimum mandatory dividends, when applicable, declared by Management after the accounting period to which the financial statements refers but before the issuance of the financial statements is authorized is recognized in line item "Additional dividends proposed" in equity, whose effects are disclosed in note 16(g). For corporate and accounting purposes, interest on capital is included in the minimum mandatory dividends.

2.20 Stock option plan and restricted stock option plan

The Company offers a stock option plan and restricted stock option plan to its officers and some of its employees, and to the officers and employees of its subsidiary Servinet. Options or shares are priced at fair value at the grant date of the plans and are recognized on a straight-line basis in profit or loss as an offsetting entry to equity. At the end of each reporting period, the Company reviews its estimates of the number of options/shares that will be vested based on the plan's terms and conditions and recognizes the impact of the revision of initial estimates, if any, in the statements of profit or loss, as an offsetting entry to equity.

3 Consolidated information

The consolidated financial information includes the financial information of the Company and its subsidiaries. When necessary, the subsidiaries' financial information is adjusted to conform their accounting policies to those set by the Group.

For subsidiaries and investment funds (FIDCs and FIC), the full consolidation concept was applied, which requires to account for investments in subsidiaries reflecting their total assets, liabilities, income and expenses in the parent, thus requiring the recognition of noncontrolling interests. Changes in interest in subsidiaries that do not result in loss of control are accounted for as capital transactions between shareholders, and any differences between the amount by which noncontrolling interests have been adjusted and the fair value of the amount received or paid is recognized directly in equity attributable to the owners of the parent company.

In the Company's individual financial information, the financial information on subsidiaries, joint ventures and associate is accounted for under the equity method.

In the preparation of the consolidated financial statements, further to the provisions of the Chart of Accounts of Financial Institutions (COSIF), the consolidation procedures established by Technical Pronouncement CPC 36 (R3) – Consolidated Financial Statements were applied.

The consolidated financial information includes the following direct and indirect subsidiaries, joint ventures, associate and investment funds:

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	Interest in the capital (%)		
Companies	12/31/2017	12/31/2016	Main Activities
Direct subsidiaries and FIDCs:			
Servinet Serviços Ltda. (“Servinet”)	99.99	99.99	Provision of maintenance services and contacts with merchants for acceptance of credit and debit cards.
Cateno Gestão de Contas de Pagamentos S.A. (“Cateno”)	70.00	70.00	Provision of services in processing means of payments that involve credit, debit and multiple cards of private and prepaid labels (not including credit card management).
Cielo USA Inc. (“Cielo USA”)	100.00	100.00	Holding ownership interests in other companies as partner or shareholder.
Multidisplay Comércio e Serviços Tecnológicos S.A. (“Multidisplay”) (*)	91.44	91.44	Provision of services in data transmission to load fixed or mobile phone credits.
Braspag Tecnologia em Pagamento Ltda. (“Braspag”)	99.99	99.99	Development and licensing of software for electronic transaction processing; IT services for collection and management of accounts payable and receivable using the Internet.
Aliança Pagamentos e Participações Ltda. (“Aliança”)	99.99	99.99	Provision of services of contacts developing and maintenance with merchants and holding of ownership interests in other companies as partner or shareholder.
Cielo Cayman Island (“Cielo Cayman”)	100.00	100.00	Holding of ownership interests in other companies as partner or shareholder. Cielo Cayman did not carry out any operational, non-operational, equity or financial activity in the year ended December 31, 2017.
Fundo de Investimento em Direitos Creditórios Não-Padronizados Cielo (“FIDC”) (**)	100.00	100.00	Acquisition of eligible credit rights arising from payment transactions originating from Cielo’s acquisition system and other financial assets.
Fundo de Investimentos em Direitos Creditórios Não-Padronizados Cielo (“FIDC Plus”) (***)	77.10	-	Acquisition of eligible credit rights arising from payment transactions originating from Cielo’s acquisition system and other financial assets.
Fundo de Investimento em Cotas de Fundo de Investimentos (“FIC”)	100.00	-	Fund for investment in financial assets with indeterminate duration
Indirect subsidiaries			
M4Produtos e Serviços S.A. (“M4Produtos”) (*)	91.44	91.44	Provision of services in data transmission to load fixed or mobile phone, prepaid transportation, and mobile payment.
Merchant e-Solutions, Inc. (“Me-S”)	100.00	100.00	Provision of services related to electronic payments with credit or debit cards.
Direct joint ventures:			
Companhia Brasileira de Gestão de Serviços. (“Orizon”)	40.95	40.95	Provision of data processing services for healthcare companies, management of back office services for health operators, electronic network interconnection services between health operators and medical and hospital service providers and other health system agents and drugstores.

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Paggo Soluções e Meios de Pagamento S.A. ("Paggo")	50.00	50.00	Provision of services relating to signing up of merchants for acceptance of credit and debit cards through the capture, transmission, data processing and settlement of electronic transactions.
Indirect joint ventures:			
Prevsauê Comercial de Produtos e de Benefícios de Farmácia Ltda. ("Prevsauê")	40.95	40.95	Provision of medicine benefit services to corporate customers, healthcare plans, public customers, and large laboratories.
Guilher Comércio, Importação, Exportação e Distribuição de Medicamentos e Tecnologia para Saúde Ltda. ("Guilher")	40.95	40.95	Import, export, distribution, and sale of medicines and pharmaceutical raw materials, products and technology equipment for health.
Indirect associate:			
Stelo S.A. ("Stelo")	30.00	30.00	Facilitator for online payments and digital portfolio, both for the physical world and for electronic commerce. ²

(*) In July 2016 the Company completed the additional acquisition of the 41.34% interest in subsidiary Multidisplay (note 12)

(**) Fund established on August 5, 2016 (note 7.b)

(***) Fund established on September 30, 2017 (note 7.b)

4 First-time adoption of accounting practices based on the Chart of Accounts for Institutions of the National Financial System

On October 9, 2013, Law No. 12,865 was published establishing, among other matters, the concepts, principles and general rules on payment arrangements and payment institutions, which became members of the SPB and subject to the regulations from the BACEN.

Law No. 12,865/13 and the set of rules issued by the CMN and by the BACEN define a new regulatory framework applicable to payment arrangements and payment institutions, including the merchant accreditation activity, as developed by the Company. This set of rules has as main objective to modernize the payment instruments with focus on efficiency and security of the SPB, and their application and the oversight of the so-called payment institutions (like the Company) are now the responsibility of the Central Bank.

In this scenario, on April 27, 2017, Cielo S.A. obtained authorization to operate as an accrediting payment institution, and started complying with the common rules applicable to payment institutions, including the preparation and disclosure of financial statements according to the accounting criteria and rules defined by the Chart of Accounts of the Institutions of the National Financial System ("COSIF").

Among the main differences between the International Financial Reporting Standards ("IFRS") and the accounting practices adopted in Brazil ("CPC") in relation to the new accounting rule of the Central Bank that was adopted by the Company (COSIF) are the treatment of goodwill. Differently from the treatment adopted by IFRS, under the criteria from COSIF, goodwill recorded based on the forecast of future results should be amortized according to the projection periods that justified it, and should be subjected to an annual impairment testing.

Accordingly, in line with the precepts of Accounting Pronouncement 23 – Accounting Policies, Changes in Accounting Estimates and Errors, issued by the Accounting Pronouncements Committee (CPC) and approved by Resolution from the National Monetary Council (CMN) No. 4,077/11, as well as the early-adoption procedures defined in Circular Letter No. 3,833/17, from

BACEN, the amortization of the goodwill balance was made on a retrospectively basis, from the date of investment acquisition by the Company and according to the periods of the projects that justified it, limited to five (5) years.

Additionally, due to the new regulatory framework there was a change in the Company's operation model in which Cielo became a debtor to the merchant, and started recognizing in its accounting records (1) as an asset, the right to receive the amount of purchase of products and services from card-issuing institutions (receivables from card-issuing banks) and (2) as a liability, the obligation to pay the amount of purchase of products and services made with cards to merchants accredited by the Company (payables to customers).

We present below the effects on profit for the year ended December 31, 2016, as well as on equity and total assets and liabilities as at December 31, 2015 and 2016 arising from the first-time adoption of the set of accounting rules issued by BACEN and from the change of the Company's operation model:

Statement of financial position at December 31, 2015 and December 31, 2016

	Parent Company					
	12/31/2015 Published (IFRS)	Effect of First- time Adoption	12/31/2015 COSIF Balance	12/31/2016 Published (IFRS)	Effect of First- time Adoption	12/31/2016 COSIF Balance
Assets:						
Current assets	10,440,157	57,453,286	67,893,443	10,983,497	58,362,239	69,345,736
Receivables from card-issuing banks	10,094,141	56,524,259	66,618,400	1,657,527	57,819,594	59,477,121
Others (*)	346,016	929,027	1,275,043	9,325,970	542,645	9,868,615
Noncurrent assets	12,830,401	(1,292,381)	11,538,020	13,132,676	(1,322,160)	11,810,516
Amortization of goodwill	-	(1,337,390)	(1,337,390)	-	(1,420,082)	(1,420,082)
Others	12,830,401	45,009	12,875,410	13,132,676	97,920	13,230,596
Total assets	23,270,558	56,160,905	79,431,463	24,116,173	57,040,079	81,156,252
Liabilities and equity:						
Current liabilities	6,899,469	57,453,285	64,352,754	6,647,165	58,026,318	64,673,483
Payables to customers	891,898	57,793,449	58,685,347	1,196,978	58,474,966	59,671,944
Others (*)	6,007,571	(340,164)	5,667,407	5,450,187	(448,648)	5,001,539
Noncurrent liabilities (**)	9,850,412	45,010	9,895,422	8,225,607	351,558	8,577,165
Equity	6,520,677	(1,337,390)	5,183,287	9,243,401	(1,337,797)	7,905,604
Total liabilities and equity	23,270,558	56,160,905	79,431,463	24,116,173	57,040,079	81,156,252

(*) Refers to several reclassifications arising from the adoption of the new chart of accounts established by BACEN, Chart of Accounts of Financial Institutions of the National Financial System (COSIF).

(**) Refers to the provision for obligations with investees, resulting from investments that became negative after the amortization of goodwill based on expected future profitability.

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	Consolidated					
	12/31/2015	Effect of First-	12/31/2015	12/31/2016	Effect of First-	12/31/2016
	Published (IFRS)	time Adoption	COSIF Balance	Published (IFRS)	time Adoption	COSIF Balance
Assets:						
Current assets	12,675,854	57,689,801	70,365,655	13,743,400	58,797,755	72,541,155
Receivables from card-issuing banks	10,704,756	56,524,259	67,229,015	10,479,543	57,819,595	68,299,138
Others (*)	1,971,098	1,165,542	3,136,640	3,263,857	978,160	4,242,017
Noncurrent assets	17,301,947	(1,337,461)	15,964,486	16,800,670	(1,831,149)	14,969,521
Amortization of goodwill	-	(1,337,390)	(1,337,390)	-	(1,420,082)	(1,420,082)
Others	17,301,947	(71)	17,301,876	16,800,670	(411,067)	16,389,603
Total assets	29,977,801	56,352,340	86,330,141	30,544,070	56,966,606	87,510,676
Liabilities and equity:						
Current liabilities	8,063,954	57,677,405	65,741,359	7,852,780	58,304,405	66,157,185
Payables to customers	1,503,254	57,793,449	59,296,703	1,924,255	58,474,967	60,399,222
Others (*)	6,560,700	(116,044)	6,444,656	5,928,525	(170,562)	5,757,963
Noncurrent liabilities (*)	11,749,880	12,325	11,762,205	9,788,300	(2)	9,788,298
Equity	10,163,967	(1,337,390)	8,826,577	12,902,990	(1,337,797)	11,565,193
Total liabilities and equity	29,977,801	56,352,340	86,330,141	30,544,070	56,966,606	87,510,676

(*) Refers to several reclassifications arising from the adoption of the new chart of accounts established by BACEN, Chart of Accounts of Financial Institutions of the National Financial System (COSIF).

Statement of profit or loss for the year ended December 31, 2016:

	Parent Company			Consolidated		
	12/31/2016 Published (IFRS)	Effect of First-time Adoption	12/31/2016 COSIF Balance	12/31/2016 Published (IFRS)	Effect of First-time Adoption	12/31/2016 COSIF Balance
Net revenue	7,366,989	-	7,366,989	12,300,784	-	12,300,784
Gross profit	5,053,204	-	5,053,204	6,306,025	-	6,306,025
Operating profit before finance income (costs)	4,189,479	(314,445)	3,875,034	4,569,466	(314,445)	4,255,021
Operating profit before income tax and social contribution	5,562,767	(10,966)	5,551,801	6,020,776	(10,966)	6,009,810
Profit for the year	4,005,450	(114,149)	3,891,301	4,183,496	(114,149)	4,069,347

In the year ended December 31, 2017, the impact of goodwill amortization on profit for the year in Parent Company and Consolidated is R\$ 186,102 (recognized in Depreciation and amortization and Share of profit (loss) of investees in Parent Company and in Depreciation and amortization in Consolidated), and on other carrying value adjustments is R\$ 15,169 (due to the exchange differences on goodwill recorded in US subsidiaries).

5 Cash and cash equivalents

As at December 31, 2017 and 2016, the Company's and the Group's cash and cash equivalents balance comprises the following cash balances:

	Parent Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Cash:				
Local currency	3,650	7,519	4,362	11,232
Foreign currency	11,513	22,784	319,289	553,300
Total	15,163	30,303	323,651	564,532

The balances in line item "Cash" consist of cash available in bank accounts in Brazil and abroad.

In addition to the availability in national currency and foreign currency, the cash balance and cash equivalents presented in the cash flow statement are made up of interbank liquidity applications, fund applications and bank deposit certificates presented in Notes 6 and 7.

6 Interbank investments

	Weighted average rate of DI per year	Parent Company				
		0 - 30	31 - 180	181 - 365	Total at 12/31/2017	12/31/2016
Investments in Open Market						
Debentures subject to repurchase agreements	99.09%	-	858	268,333	269,191	902,090
Total		-	858	268,333	269,191	902,090

	Weighted average rate of DI per year	Consolidated				
		0 - 30	31 - 180	181 - 365	Total at 12/31/2017	12/31/2016
Investments in Open Market						
Debentures subject to repurchase agreements	99.09%	49,030	50,598	586,932	686,560	932,409
Investments in foreign currency	-	168,594	-	-	168,594	-
Total		217,624	50,598	586,932	855,154	932,409

The result obtained from the investments described above is shown in note 26 – Finance income (costs).

7 Securities and derivative financial instruments (assets and liabilities)

As at December 31, 2017 and 2017, the Company's and the Group's securities and derivative financial instruments balance comprises the following cash balances:

	Parent Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Assets:				
Securities	10,903,368	8,386,593	4,869,824	1,237,496
Derivative financial instruments	39,465	-	39,465	-
Total	<u>10,942,833</u>	<u>8,386,593</u>	<u>4,909,289</u>	<u>1,237,496</u>
Liabilities:				
Derivative financial instruments	-	37,665	-	37,665
Total	<u>-</u>	<u>37,665</u>	<u>-</u>	<u>37,665</u>

a. Carrying amounts and classification of the portfolio by category and terms

	Weighted average rate of DI per year	Parent Company							
		12/31/2017						12/31/2016	
		Maturity range				Total		Total	
		0 - 30	31 - 180	181 - 365	Over 365	Fair value (*)	Cost (*)	Fair value	Cost
Available for sale									
Private securities									
Investment fund shares - FIDC	(**)	-	-	-	7,278,201	7,278,201	7,278,201	8,310,457	8,310,457
Trading securities									
Private securities									
Investment fund shares - FIC	102.24%	-	-	-	3,624,969	3,624,969	3,624,969	-	-
Bank certificates of deposit - CDB	96.24%	-	153	23	22	198	198	655	655
Held to maturity									
Private securities									
Bank certificates of deposit - CDB	100.98%	-	-	-	-	-	-	75,481	75,481
Total		-	153	23	10,903,192	10,903,368	10,903,368	8,386,593	8,386,593

(*) The market value of the securities is determined according to the market price quotation available at the end of the reporting period. If there is no available market price quotation, the values are estimated based on distributor quotes, pricing models, quotations models or price quotes for instruments with similar characteristics. In the case of investments in investment funds, the updated cost reflects the market value of the respective shares.

(**) The funds have different categories of shares, senior shares have a yield of 102.95% of the CDI and mezzanine shares a yield of 110% of the DI – Interbank Deposit. Subordinated shares have the net yield of the fund.

		Consolidated							
Weighted average rate of DI per year		12/31/2017						12/31/2016	
		Maturity range				Total		Total	
		0 - 30	31 - 180	181 - 365	Over 365	Fair value (*)	Cost (*)	Fair value	Cost
Trading securities									
Private securities									
Bank certificates of deposit - CDB	99.87%	1,092	25,840	798	611	28,341	28,341	603,345	603,345
Investment fund shares	103.82%	-	-	-	4,812,227	4,812,227	4,812,227	309,921	309,921
Others		27,827	-	-	1,429	29,256	29,256	248,749	248,749
Held to maturity									
Private securities									
Bank certificates of deposit - CDB	100.98%	-	-	-	-	-	-	75,481	75,481
Total		28,919	25,840	798	4,814,267	4,869,824	4,869,824	1,237,496	1,237,496

(*) The market value of the securities is determined according to the market price quotation available at the end of the reporting period. If there is no available market price quotation, the values are estimated based on distributor quotes, pricing models, quotations models or price quotes for instruments with similar characteristics. In the case of investments in investment funds, the updated cost reflects the market value of the respective shares.

The result obtained from the investments described above is shown in note 26 – Finance income (costs).

b. Investment fund in credit rights

Fundo de Investimento em Direitos Creditórios Não-Padronizados Cielo (“FIDC”) started its operations on August 5, 2016 in the form of an open-ended condominium, exclusive and for an indeterminate period, and Fundo de Investimento em Direitos Creditórios Cielo (“FIDC Plus”) began its activities on July 28, 2017 in the form of a closed condominium, restricted to professional investors and with indefinite term. Both are governed by CMN Resolution No. 2,907/01, by CVM Instructions No. 356/01 and No. 444/06, by the terms of the Regulation, and by all other applicable legal and regulatory provisions. Since 31, 2017, the FIDC has not made any purchase of receivables.

The yield of the senior and mezzanine shares of FIDC Plus is amortized monthly, and an extraordinary amortization of mezzanine and subordinated shares is possible, as long as the minimum subordination level is 20%. The Fitch Ratings agency assigned to senior shares the risk rating “AAA”.

The purpose of the funds is to provide shareholders with an appreciation of the shares through the investment of their funds mainly in credit rights arising from payment transactions made by end users using payment instruments, for purchase of goods, products and services in merchants, on Cielo’s acquisition system, complying with the other applicable rules and standards.

The FIDCs shall keep after 90 days from the beginning of activities, at least 50% of its equity in the purchase of eligible credit rights.

The credit rights are measured at the purchase price and remunerated based on the internal rate of return (TIR) of the contracts, under the pro rata temporis criterion. The internal rate is calculated based on the purchase price, amount on maturity and term for receiving the credit rights.

The equity structure of the FIDC and FIDC Plus as at December 31, 2017 is presented below:

	Number of shares	Value of shares	Cielo’s interest	Third parties’ interest
FIDC	331,157	541,346	541,346	-
Total - FIDC	331,157	541,346	541,346	-
FIDC Plus				
Senior	2,000,000	4,001,090	2,000,545	2,000,545
Mezzanine	500,000	500,145	500,145	-
Subordinated	3,037,377	4,236,165	4,236,165	-
Total – FIDC Plus	5,537,377	8,737,400	6,736,855	2,000,545
Total			7,278,201	2,000,545

The statements of financial position as at December 31, 2017 and 2016 are as follows:

	12/31/2017			12/31/2016		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
FIDC	542,539	1,193	542,539	8,310,627	169	8,310,458
FIDC Plus	8,741,634	4,234	8,737,400	-	-	-
Total	9,284,173	5,427	9,279,939	8,310,627	169	8,310,458

The funds' statements of profit or loss for 2017 and 2016 are as follows:

	12/31/2017			
	Income from purchase of receivables	Yield on shares	Profit before finance income and costs	Profit for the year
FIDC	1,686,286	1,683,913	1,683,913	1,683,913
FIDC Plus	658,836	682,793	682,793	682,793

	12/31/2016			
	Income from purchase of receivables	Yield on shares	Profit before finance income and costs	Profit for the year
FIDC	592,455	591,622	591,622	591,622

c. Hedge transactions

Hedge of market risk

The Company, upon contracting of Swap Financial Instrument, designated it as hedging instrument for the borrowing in US dollars in the amount of US\$297,327, equivalent to R\$1,000,000, due and settled on June 22, 2017. On September 1, 2017, the Company entered into a new borrowing of US\$316,255 equivalent to R\$1,000,00 maturing on August 31, 2018 to hedge against the risk of foreign currency fluctuations and exposure to interest rates.

The terms of the borrowing, as mentioned in note 13, and swap agreements were entered into so that the comparison between the swap's long position (Company's accounts receivable) and the borrowing balance (Company's accounts payable), both adjusted at fair value, does not present losses or gains deriving from exchange differences and changes in interest rates contracted for the hedged item. Accordingly, as at December 31, 2017, the Company remains exposed only to swap's short position, which has notional value in reais in the amount of R\$1,000,000 remunerated at 100.2% of the average daily interest rate of the DI.

In order to document the designation strategy adopted and the effectiveness of the derivative financial instrument, the Company used the hypothetical derivative method, which is based on a comparison of change in the fair value of a hypothetical derivative with terms identical to the critical terms of the variable-rate liability, and this change in the fair value is considered as a representation of the present value of the cumulative change in the expected future cash flow of the hedged liability. Accordingly, gains and losses on the hedging instrument and the hedged item are recognized at fair value in profit or loss for the period in which they occur.

The method used by the Company to determine the fair value consists in calculating the future value based on contracted conditions and determine the present value based on market curves extracted from Brazilian stock exchange B3 – Brasil, Bolsa, Balcão S.A.

As at December 31, 2017, the individual and consolidated position of the swap contract reflected a fair value receivable of R\$ 39,465 (R\$ 37,665 payable as at December 31, 2016, in individual and consolidated).

As at December 31, 2017 and 2016, the hedging relationships established by the Company were effective, according to prospective tests performed. Therefore, no reversal due to ineffectiveness of the hedge was recognized.

8 Other receivables – Operating receivables

	Parent Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Income receivable – Payment transactions	292,089	254,486	839,306	736,957
Receivables from merchants (a)	-	-	422,754	360,922
Income receivable from payment transactions	292,089	254,486	299,052	262,372
Receivables for “mobile services payment” (b)	-	-	117,500	113,663
Sundry				
Receivables from card-issuing banks	64,774,155	59,477,121	65,075,191	68,299,138
Receivables from card-issuing banks (c)	64,720,365	57,763,696	64,720,365	57,763,696
Challenge of credit card holders - chargeback (d)	27,561	32,282	27,560	32,282
Purchase of receivables (e):	947	1,657,527	1,059	9,967,645
Receivables from financial transactions processed (f)	-	-	167,013	374,840
Receivables for interchange fees to merchants (g)	-	-	133,912	137,058
Others	25,282	23,616	25,282	23,617
Allowance for other doubtful debts	(134,133)	(146,089)	(151,348)	(149,538)

- (a) Commissions received by subsidiary Cateno for payment account management services under the Ourocard Payment Arrangement.
- (b) Receivables for electronic payment services performed through mobile phones and sale of phone credits with credit and debit cards.
- (c) Receivables from card-issuing banks for transactions made with credit and debit cards by cardholders, already deducting the advances with issuing banks as at December 31, 2017.
- (d) Additionally, the Company may advance the amounts for the generation of short-term working capital. These advances have an average term of approximately six business days and the weighted average interest rate is charged. As at December 31, 2017, there was no advance with card-issuing banks and, as at December 31, 2016, in parent company and consolidated, the corresponding balance of advance of receivables with card-issuing banks is R\$ 574,604.
- (e) Refers basically to receivables for transactions challenged by credit card holders that are under analysis by the Parent Company at the end of the reporting period (chargeback).
- (f) Refers to purchase of receivables from merchants performed by the Company and by the FIDCs, relating to card transactions that will be received from card-issuing banks within 360 days from the purchase date, this amount is net of the income from purchase of receivables, to be recognized to the maturity dates of the transactions, since it is related to the purchase of receivables for cash and installment sales with original maturity after the end of the reporting periods.
- (g) Receivables recognized in subsidiary Me-S relating to amounts due from card association members for processed transactions that had been authorized but not yet received by Me-S by the end of the reporting periods. These amounts receivable are usually received on the business day following the transaction capture date. Card associations send to Me-S the amounts due to merchants for processing, net of the interchange fee retained by the card-issuing banks.
- (h) These are represented by the amounts receivable related to interchange fees and service fees charged for the processing of transactions receivable from merchantss, a result of the practice adopted by Me-S to settle transactions for the full amounts to merchants and to collect these fees at the beginning of the following month.

The aging of “Operating receivables” is as follows:

	Parent Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Current	65,028,036	59,699,325	65,876,289	69,003,813
Up to 45 days past-due	38,208	32,282	38,208	32,282
Total	65,066,244	59,731,607	65,914,497	69,036,095

9 Income tax, social contribution and other taxes

a. Deferred income tax and social contribution

Deferred income tax and social contribution arise from temporary differences caused mainly by temporarily non-deductible provisions, and are classified in current and noncurrent assets and noncurrent liabilities, according to the expected realization of the credit.

Deferred income tax and social contribution reflect future tax effects attributable to temporary differences between the tax base of assets and liabilities and the related carrying amounts. The reported amounts are reviewed monthly.

Breakdown of deferred income tax and social contribution - Assets

	Parent Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Temporary differences:				
Provision for tax, labor and civil risks	581,796	549,704	586,575	557,700
Accrual for sundry expenses	232,360	262,007	349,708	359,899
Allowance for losses on POS equipment, doubtful debts and fraud	74,949	59,008	74,949	59,008
Total	889,105	870,719	1,011,232	976,607

The Company did not recognize deferred income tax on goodwill amortization because these tax assets are not expected to be realized.

Breakdown of deferred income tax - Liabilities recognized in foreign companies

	Consolidated	
	12/31/2017	12/31/2016
Temporary differences:		
Fair value of Me-S's intangible assets, acquired in 2012	171,088	207,406
Other temporary differences	23,424	16,923
Total	194,512	224,329

According to Management's best estimate, tax credits recognized on the accrual for sundry expenses, allowance for losses on POS equipment, doubtful debts and fraud in the amount of R\$ 305,100 (R\$ 424,100 in consolidated) will be realized mainly during 2018. The portion of tax credits on the provision for risks, in the amount of R\$584,005 in parent company (R\$587,132 in consolidated), will be realized upon the final outcome of each lawsuit partially estimated in up to 5 years, except for 32.63% in parent company (33.73% in consolidated) of the provision for labor risks which is estimated to be realized in up to 10 years, according to the development of the lawsuit described in note 15.

The table below shows the realization of the tax credit:

	Parent Company				Consolidated			
	Income tax	Social contribution	Total	Present value	Income tax	Social contribution	Total	Present value
Temporary differences:								
2018	224,339	80,762	305,100	270,000	311,839	112,262	424,100	375,310
After 2021	429,415	154,589	584,005	516,818	431,715	155,417	587,132	519,586
Total	653,754	235,351	889,105	786,818	743,554	267,679	1,011,232	894,896

b. Current income tax and social contribution

The effective rate of income tax and social contribution for the years ended December 31, 2017 and 2016 is as follows:

	Parent Company			Consolidated		
	2nd Half/17	12/31/2017	12/31/2016	2nd Half/17	12/31/2017	12/31/2016
Profit before income tax and social contribution	2,773,408	5,329,045	5,551,801	3,088,277	5,876,724	6,009,810
Statutory rates - %	<u>34%</u>	<u>34%</u>	<u>34%</u>	<u>34%</u>	<u>34%</u>	<u>34%</u>
Income tax and social contribution at statutory rates	(942,959)	(1,811,875)	(1,887,613)	(1,050,015)	(1,998,086)	(2,043,337)
Tax benefit of interest on capital	108,188	218,790	165,172	108,188	218,790	165,172
Tax benefit of R&D ("Lei do Bem")	10,434	22,410	23,088	10,434	22,410	23,088
Share of profit (loss) of investees	82,934	105,041	27,851	954	2,179	4,761
Goodwill on acquisition of investments	(4,417)	(8,835)	(5,153)	(12,499)	(65,426)	(106,671)
Effect on permanent differences, net	<u>(3,504)</u>	<u>231</u>	<u>16,155</u>	<u>(3,013)</u>	<u>6,767</u>	<u>16,524</u>
Income tax and social contribution	<u>(749,324)</u>	<u>(1,474,238)</u>	<u>(1,660,500)</u>	<u>(945,951)</u>	<u>(1,813,366)</u>	<u>(1,940,463)</u>
Current	(793,222)	(1,492,624)	(1,881,051)	(1,021,559)	(1,885,935)	(2,204,050)
Deferred	43,898	18,386	220,551	75,608	72,569	263,587

Incentives to Cultural and Artistic Activities ("Rouanet Law"), Sports, Child and Adolescent Rights Fund and Fund for the Elderly are recognized in line item "Income tax expenses – current". The tax incentives recorded as income tax expense - current, in parent company and consolidated, totaled R\$ 41,095 in the year ended December 31, 2017 (R\$ 45,939 in the year ended December 31, 2016).

c. Taxes payable

	Parent Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Income tax and social contribution, net of prepayments	329,969	433,330	709,298	728,476
Contribution for Social Security Funding - Cofins	47,273	34,447	66,427	45,263
Tax on Services – ISS	4,690	6,663	12,540	14,384
Social Integration Program - PIS	9,827	10,849	14,097	13,707
Other taxes payable	11,634	8,284	16,093	12,176
Total	403,393	493,573	818,455	814,006

10 Investments

	Parent Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
In subsidiaries	8,657,897	8,659,545	-	-
In joint ventures and associate	110,358	94,211	110,358	94,211
Goodwill on acquisition of investments (a)	43,307	69,293	-	-
Total	8,811,562	8,823,049	110,358	94,211

The goodwill arising on investments in subsidiaries, associate and joint ventures is included in the carrying amount of the investment in the individual financial statements. In the consolidated financial statements, the goodwill arising on acquisition of subsidiaries is recognized in intangible assets (see note 12).

The consolidation of the financial statements for direct subsidiaries Multidisplay, Braspag and Cielo USA, as well as for indirect subsidiaries M4Produtos and Me-S, was based on the financial information as at November 30, 2017 to calculate the investments as at December 31, 2017. Accordingly, the share of profit (loss) of investees refers to the year ended November 30, 2017.

The details of the nature of goodwill on acquisition of investments recognized in the line item "Investments" are described in note 12 (a) – Goodwill on acquisition of investments.

The main information on direct and indirect subsidiaries, joint ventures and associate relating to investment amounts and share of profit (loss) of investees recorded in the individual and consolidated financial information is shown in the table below:

Cielo S.A.
*Individual and consolidated financial statements for the year ended
December 31, 2017 and independent auditor's report
(COSIF)*

Main information on direct and indirect subsidiaries, joint ventures and associate

	Ownership interest - %	12/31/2017								12/31/2016								
		Assets	Liabilities	Equity	Investments	Share capital	Number of shares (in thousands)		Interest in voting capital %	Ownership interest- %	Assets	Liabilities	Equity	Investments	Share capital	Number of shares (in thousands)		Interest in voting capital %
							Common stock	Preferred stock								Common stock	Preferred stock	
Subsidiaries:																		
Servinet	99.99	79,804	47,910	31,894	31,894	11,010	11,010	-	99.99	99.99	88,699	62,703	25,995	25,995	11,010	11,010	-	99.99
Multidisplay(*)	91.44	108,321	40,334	67,977	63,568	11,394	16	-	91.44	50.10	107,798	35,462	72,337	67,552	72,337	16	-	50.10
Braspag	99.99	40,592	6,912	33,680	33,678	13,470	621	-	99.99	99.99	44,809	9,648	35,161	35,161	13,470	621	-	99.99
Cielo USA	100.00	928,693	1,505,214	(576,521)	-	630,452	1	-	100.00	100.00	1,168,884	1,520,444	(351,559)	-	630,452	1	-	100.00
Cateno	70.00	12,881,293	697,355	12,183,938	8,528,757	414,000	10,787,400	1,198,600	70.00	70.00	12,721,902	539,221	12,182,681	8,527,877	414,000	10,787,400	1,198,600	70.00
Aliança	99.99	4,183	4,183	-	-	44,770	44,770	-	99.99	99.99	3,807	847	2,961	2,960	44,770	42,730	-	99.99
Total		14,042,886	2,301,908	11,740,968	8,657,897	1,125,096					14,135,899	2,168,325	11,967,576	8,659,545	1,186,039			
Joint ventures:																		
Orizon (**)	40.95	312,385	28,551	283,834	110,351	219,930	151,865	-	40.95	40.95	275,759	31,423	244,335	94,175	146,654	140,962	-	40.95
Paggo	50.00	355	339	15	7	143,757	112,357	-	50.00	50.00	411	338	72	36	143,758	112,357	-	50.00
Total		312,740	28,890	283,849	110,358	363,687					276,170	31,761	244,407	94,211	290,412			
Associate:																		
Stelo	30.00	135,847	138,309	(2,462)	-	139,900	109,100	-	30.00	30.00	78,619	54,187	24,432	-	139,900	109,100	-	30.00

(*) The investment held by Cielo includes adjustment to the equity of subsidiary Multidisplay due to the special goodwill reserve generated in the corporate restructuring process in which Servrede was merged into its then subsidiary Multidisplay in the amount of R\$16,484.

(**) The amount of R\$5,880 is not reflected in the investment because it refers to the unrealized gain on capital contribution with goodwill initially reflected in CBGS Ltda, and transferred to indirect subsidiary CBGS as a result of the merger. In November 2009, CBGS was merged into its then subsidiary Orizon.

Cielo S.A.
*Individual and consolidated financial statements for the year ended
December 31, 2017 and independent auditor's report
(COSIF)*

	12/31/2017				Second half of 2017		12/31/2016			
	Net revenue	Gross profit (loss)	Operating profit (loss) before finance income (costs)	Profit (loss) before income tax and social contribution	Profit (loss) for the period	Share of profit (loss) of investees for the period	Profit (loss) for the period	Share of profit (loss) of investees for the period	Profit (loss) for the period	Share of profit (loss) of investees for the period
Subsidiaries:										
Servinet	134,492	132,238	7,366	9,099	5,900	5,900	2,899	2,899	6,932	6,932
Multidisplay	471,683	23,812	31,994	32,867	31,640	28,932	17,569	16,065	26,390	18,482
Braspag	33,313	19,649	2,278	3,537	(1,482)	(1,482)	1,400	1,400	4,941	4,941
Cielo USA Inc,	-	(86,658)	(218,141)	(267,957)	(211,370)	(211,370)	(188,833)	(51,758)	(335,596)	(335,596)
Cateno	2,594,451	1,022,829	914,112	1,039,741	686,141	480,298	389,130	272,390	567,124	403,986
Aliança	4,837	4,882	(9,486)	(9,390)	(9,481)	(9,481)	(4,900)	(4,900)	(33,174)	(33,174)
Subtotal	3,238,776	1,116,752	728,123	807,897	501,348	292,799	217,265	236,096	236,617	65,571
Joint ventures										
Orizon	149,459	59,979	32,576	49,325	39,499	16,174	19,151	7,842	44,246	18,120
Paggo	-	-	(56)	(56)	(56)	(28)	(28)	(14)	(56)	(27)
Subtotal	149,459	59,979	32,520	49,269	39,443	16,146	19,123	7,828	44,190	18,093
Total – Parent Company						308,945		243,924		83,664
Associate:										
Stelo	700	(10,955)	(49,208)	(53,512)	(26,894)	(9,736)	(16,743)	(5,023)	(42,520)	(11,090)
Total - Consolidated						6,410		2,805		14,003

The main financial information relating to indirect subsidiaries and indirect joint ventures is as follows:

	12/31/2017				12/31/2016			
	Ownership interest - %	Assets	Liabilities	Equity	Ownership interest - %	Assets	Liabilities	Equity
Indirect subsidiaries:								
M4Produtos	91.44	140,120	114,779	25,341	91.44	128,654	96,909	31,745
Me-S	100.00	947,006	520,192	426,814	100.00	1,344,579	813,870	530,709
Indirect joint ventures:								
Prevsau�de	40.95	11,992	1,613	10,379	40.95	30,386	1,356	29,030
Guilher	40.95	10,993	9,954	978	40.95	14,860	12,475	2,385

	12/31/2017						12/31/2016				
	Net revenue	Gross profit	Operating profit before finance income (costs)	Profit before income tax and social contribution	Profit for the year	Profit for the second half	Net revenue	Gross profit	Operating profit before finance income (costs)	Profit before income tax and social contribution	Profit for the year
Indirect subsidiaries:											
M4Produtos	136,214	82,634	42,915	44,474	29,318	15,976	59,716	32,872	15,790	16,126	13,820
Me-S	1,606,519	369,393	45,614	44,617	28,521	14,768	1,719,103	445,099	92,195	91,331	56,857
Indirect joint ventures:											
Prevsau�de	11,098	7,954	545	9,401	7,377	3,078	11,874	8,448	7,621	10,682	8,285
Guilher	7,264	813	(135)	1,044	734	445	6,632	808	32	1,699	1,091

Changes in investments for the years ended December 31, 2017 and 2016 are as follows:

	Parent Company	Consolidated
Balance at December 31, 2015	8,642,381	93,215
Advances for future capital increase – Stelo	12,040	9,240
Provision for loss on investment	-	(22,247)
Acquisition of additional interest in Multidisplay	100,133	-
Provision for obligations with investees (*)	335,596	-
Dividends received:		
Multidisplay	(117)	-
Cateno	(335,492)	-
Share of profit (loss) of investees	83,664	14,003
Amortization of goodwill	(15,156)	-
Balance at December 31, 2016	8,823,049	94,211
Provision for obligations with investees (*)	217,889	9,737
Dividends received:		
Multidisplay	(32,918)	-
Cateno	(479,419)	-
Share of profit (loss) of investees	308,945	6,410
Amortization of goodwill	(25,984)	-
Balance at December 31, 2017	8,811,562	110,358

(*) Refers to investments with negative equity, recognized in line item Other Payables – Sundry.

11 Property and equipment

		Parent Company			
		12/31/2017		12/31/2016	
	Annual depreciation rate - %	Cost	Accumulated depreciation	Net	Net
POS equipment	33	1,532,580	(1,171,709)	360,871	474,951
Data processing equipment	20	167,370	(115,116)	52,254	57,097
Machinery and equipment	10 - 20	29,063	(22,814)	6,249	5,662
Facilities	10	48,306	(10,946)	37,360	41,066
Furniture and fixtures	10	11,336	(4,493)	6,843	7,517
Vehicles	20	378	(360)	18	108
Total		1,789,033	(1,325,438)	463,595	586,401

		Consolidated			
		12/31/2017		12/31/2016	
	Annual depreciation rate - %	Cost	Accumulated depreciation	Net	Net
POS equipment	33	1,532,693	(1,171,499)	361,194	475,278
Data processing equipment	20	206,318	(141,450)	64,868	71,857
Machinery and equipment	10 - 20	48,808	(30,374)	18,434	18,538
Facilities	10	81,549	(24,246)	57,303	62,851
Furniture and fixtures	10	18,051	(7,304)	10,747	11,414
Vehicles	20	476	(426)	50	161
Total		1,887,895	(1,375,299)	512,596	640,099

Changes in property and equipment for the years ended December 31, 2017 and 2016 are as follows:

Parent Company						
	12/31/2016	Additions	(Disposals/Losses)	Depreciation		12/31/2017
POS equipment	474,951	219,784	(17,045)	(316,819)		360,871
Data processing equipment	57,097	17,610	-	(22,453)		52,254
Machinery and equipment	5,662	2,139	-	(1,552)		6,249
Facilities	41,066	1,067	-	(4,773)		37,360
Furniture and fixtures	7,517	540	(138)	(1,076)		6,843
Vehicles	108	-	(45)	(45)		18
Total	586,401	241,140	(17,228)	(346,718)		463,595
	12/31/2015	Additions	(Disposals/Losses)	Depreciation		12/31/2016
Total	720,204	289,473	(49,596)	(373,680)		586,401
Consolidated						
	12/31/2016	Additions	(Disposals/Losses)	Depreciation	Exchange differences	12/31/2017
POS equipment	475,278	219,836	(17,807)	(316,941)	828	361,194
Data processing equipment	71,857	21,812	(163)	(28,810)	172	64,868
Machinery and equipment	18,538	5,031	(1)	(3,858)	(1,276)	18,434
Facilities	62,851	2,784	(124)	(8,208)	-	57,303
Furniture and fixtures	11,414	1,255	(162)	(1,773)	13	10,747
Vehicles	161	-	(46)	(65)	-	50
Total	640,099	250,718	(18,303)	(359,655)	(263)	512,596
	12/31/2015	Additions	(Disposals/Losses)	Depreciation	Exchange differences	12/31/2016
Total	751,517	327,199	(51,090)	(384,610)	(2,917)	640,099

As at December 31, 2017 and 2016, estimated losses on POS equipment amount to R\$21,964 and R\$39,826.

12 Intangible assets

Parent Company		Consolidated	
	12/31/2017	12/31/2016	
Goodwill on acquisition of investments	-	-	57,667
Other intangible assets	383,702	261,431	11,505,385
Total	383,702	261,431	11,563,052
			12,114,667

a. Goodwill on acquisition of investments

As at December 31, 2017, the goodwill on acquisition of investments in subsidiaries is recognized in line item "Intangible assets" in the consolidated statement of financial position, broken down as follows:

Consolidated	
	12/31/2017
Multidisplay	52,316
Braspag	5,351
Me-S	-
Total	57,667
	251,441

Acquisition of control - Multidisplay

In August 2010, the Company acquired through its direct subsidiary Servrede, 50.1% of the shares representing the capital of Multidisplay and its wholly-owned subsidiary M4Produtos, which collectively are referred to as M4U, for R\$50,650, generating initial goodwill of R\$31,348.

In the corporate restructuring process carried out in 2012, Servrede was merged into its then subsidiary Multidisplay, the tax benefit on goodwill of R\$10,658 was merged into Multidisplay and the remaining goodwill of R\$20,690 was re-established in the Company, as provided for in CVM Instructions No. 319/99 and No. 349/01. The tax benefit is amortized according to its realization and the goodwill was amortized over the period of the study of projections of future results that justified it.

In July 2016, the Company concluded an additional acquisition of a 41.34% interest in subsidiary Multidisplay, increasing its interest to 91.44%, as follows:

Net assets acquired	17,849
Amounts paid on the closing date	(92,309)
Amount payable Earn-out	(7,824)
Goodwill	<u>(82,284)</u>

(*) Remaining balance recorded as "Other payables" in noncurrent liabilities to be paid in 43 months from the closing date, inflation adjusted based on 100% of the DI rate, contingent upon the attainment of certain "performance" goals established in the Share Purchase and Sale Agreement.

The goodwill is subject to straight-line amortization over the period of study of projections of future results that justified it. As at December 31, 2017, the goodwill balance is R\$ 52,316 (R\$ 79,183 as at December 31, 2016).

Acquisition of control - Braspag

In May 2011, the Company acquired, through its then direct subsidiary CieloPar, 100% of the shares of Braspag, for R\$40,000. The amount of the investment recorded until then by CieloPar included goodwill on acquisition of shares of R\$39,343.

In the restructuring process carried out in 2012, CieloPar was merged into its then subsidiary Braspag. The tax benefit on goodwill of R\$13,377 was merged into Braspag and the remaining goodwill of R\$25,966 was re-established in the Company as provided for in CVM Instructions No. 319/99 and No. 349/01. The tax benefit is amortized according to its realization and the goodwill was amortized over the period of study of projections of future results that justified it.

As at December 31, 2017, the goodwill balance is R\$ 5,351 (R\$ 8,275 as at December 31, 2016).

Acquisition of control - Me-S

In August 2012, the Company completed the acquisition, through its direct subsidiary Cielo USA, of 100% of the shares of Me-S.

Cielo USA allocated the fair value of Me-S's assets acquired and liabilities assumed based on a purchase price allocation ("PPA") report prepared by an independent specialized firm; accordingly, the net assets acquired recorded in the books for R\$180,098 on August 31, 2012 were appraised at R\$627,581 at fair value.

The amount of the investment recorded by Cielo USA includes the initial goodwill on the acquisition of shares of R\$818,875, generated by the difference between the total fair value of R\$ 627,581 and the purchase price of R\$1,365,256, plus the balance of cash and cash equivalents acquired of R\$81,200. The variation in the consolidated goodwill balance for the year is due to the dollar fluctuation and the straight-line amortization over the period of study of projections of future results that justified it.

As at December 31, 2017, the goodwill balance is zero due to its full amortization (as at December 31, 2016, the balance is R\$ 163,983).

Changes in goodwill in the years ended December 31, 2017 and 2016 are as follows:

	Consolidated
Balance at December 31, 2015	559,479
Exchange differences	(68,257)
Tax benefit on goodwill	(5,869)
Amortization of goodwill for the period	(316,196)
Goodwill - Acquisition of control of Multidisplay	82,284
Balance at December 31, 2016	251,441
Exchange differences	(3,866)
Tax benefit on goodwill	(3,806)
Amortization of goodwill for the period	(186,102)
Balance at December 31, 2017	57,667

b. Other intangible assets

The breakdown of other intangible assets is as shown below:

		Parent Company			
		12/31/2017		12/31/2016	
	Annual amortization rate - %	Cost	Accumulated amortization	Net	Net
Software (b)	20	533,348	(264,743)	268,605	209,944
Project development (c)	20	138,577	(23,654)	114,923	49,878
Relationship with customers (f)	10	11,994	(11,994)	-	-
Non-compete agreement (e)	7.5	10,284	(10,284)	-	1,387
Service agreements (d)	20	953	(779)	174	222
Total		695,156	(311,454)	383,702	261,431

		Consolidated			
		12/31/2017		12/31/2016	
	Annual amortization rate - %	Cost	Accumulated amortization	Net	Net
Right to use Ourocard Payment-Arrangement (a)	3,33	11,572,000	(1,092,911)	10,479,089	10,864,823
Software (b)	6,66-20	1,037,356	(515,718)	521,638	484,713
Project development (c)	4-20	521,311	(249,745)	271,566	318,556
Relationship with customers (f)	20	430,840	(243,850)	186,990	132,202
Non-compete agreement (e)	7,5-5	142,772	(107,910)	34,862	49,632
Service agreements (d)	8-20	31,544	(20,304)	11,240	13,300
Trademarks (g)	10	3,308	(3,308)	-	-
Total		13,739,131	(2,233,746)	11,505,385	11,863,226

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- (a) **Right to Use Ourcard Payment Arrangement** - Under the scope of the association agreement between the Company and BB Elo Cartões, a wholly-owned subsidiary of Banco do Brasil, in February 2015 Cateno was granted rights over post-paid payment accounts management activities under the Ourocard Payment Arrangement, rights over the management of the purchase functionalities through debit under the Ourocard Payment Arrangement, and participation in the Ourocard Payment Arrangement as a Payment Institution. By means of an Economic and Financial Appraisal Report issued by an independent auditing firm and prepared based on a Future Profitability method using a discounted cash flow, the rights under the above-described Ourocard Payment Arrangement were valued at R\$11,572,000 with a 30-year definite useful life. The intangible assets are amortized under the straight-line method at a rate of 3.33% per year. The useful life and amortization method are reviewed annually.
- (b) **Software** - refers to software licenses acquired from third parties and used to provide services relating to information processing and business transactions with customers. Additionally, in 2012, when 100% of Me-S's capital stock was acquired, the fair value adjustment of the software platform was recognized in Cielo USA in the amount of R\$223,300 (equivalent to US\$110,000). The independent appraisal firm engaged to issue the appraisal report measured the software platform's fair value using the average of the values obtained from applying the Relief-from-Royalty (at a 16% royalty fee) and Cost Approach - Third-party Cost Estimates methodologies. The useful life defined for this software platform is 12 years.
- (c) **Project development** - refers to expenses on development of new products or services designed to increase the Company's and its subsidiaries' invoicing and revenues.

There are other intangibles generated from the allocation of the price paid for the acquisition of control of M4U, Braspag and Me-S, in August 2010, May 2011 and August 2012, respectively. These intangibles were recorded based on appraisal reports prepared as of those dates by independent appraisers, and the criteria used to measure the value of these intangible assets are described as follows:

- (d) **Relationship with customers:**
- **Braspag** - The main component of intangible assets is the customers portfolio, which was appraised using the "Income Approach" methodology, considering the balance of active customers and the respective churn rate, using estimated useful life of 120 months.
 - **Me-S** - Me-S customers portfolio was classified in three main groups: "e-commerce", "bank customer" and "B2B/Other". Each portfolio was assessed separately using the "Excess Earnings" methodology, considering their specific and individual characteristics. As discount rate, 10% per year was used for "e-commerce" and "bank customer" portfolios, and 11% for "B2B/Other". The estimated useful life was based on the years in which each portfolio reaches approximately 80% to 90% of the accumulated amount of the discounted cash flow. An interval between the lowest and the highest values obtained was adopted.
- (e) **Non-compete agreement:**
- **Multidisplay and M4Produtos** - Non-compete agreement ("with and without") value was calculated using the "Income Approach" methodology, with discount rate of 17.5% per year, perpetuity of 4% per year and estimated useful life of 89 months.
 - **Me-S** - Me-S entered into an agreement with Synovus Financial Corporation, under which no competition shall exist in relation to the portfolio acquired from Columbus Bank and Trust Company ("CB&T") and any new customers acquired through CB&T as a result of the Recommendation Agreement. The fair value of this agreement was estimated using the "With and Without" methodology, while its useful life was defined to be the expiration date of the agreement.
- (f) **Service agreements:**
- **Multidisplay and M4Produtos** - the four service agreements with telecommunication operators were measured based on the discounted cash flow of each agreement, by using a discount rate of 16.5% per year, during the residual life of each agreement, of approximately 53 months.
 - **Me-S** - when Me-S acquired CB&T's customer portfolio, it entered into an agreement under which it would have preference in referring new customers. The fair value of this agreement was estimated based on the "Excess Earnings" methodology, and its useful life was defined to be the expiration date of the agreement, that is, 2020.
- (g) **Trademarks** - estimated using the "Relief-from-Royalty" methodology, having as assumption a royalty fee of 0.3% based on parameters obtained from the "Royalty Source Intellectual Property Database", and a discount rate of 10%.

Changes in intangible assets for the years ended December 31, 2017 and 2016 are as follows:

	Parent Company				
	12/31/2016	Additions	(Disposals)/ Reversals	Amortizations	12/31/2017
Software	209,944	119,701	2,000	(63,041)	268,604
Project development	49,878	68,384	-	(3,338)	114,924
Non-compete agreement	1,387	-	-	(1,387)	-
Relationship with customers	222	-	-	(48)	174
Total	261,431	188,085	2,000	(67,814)	383,702
	Parent Company				
	12/31/2015	Additions	(Disposals)/ Reversals	Amortizations	12/31/2016
Total	151,174	160,784	-	(50,527)	261,431

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	Consolidated					12/31/2017
	12/31/2016	Additions	(Disposals)/ Reversals	Amortizations	Exchange differences	
Right to use Ourocard Payment-Arrangement	10,864,823	-	-	(385,733)	-	10,479,090
Software	484,713	147,280	1,978	(114,596)	2,261	521,636
Relationship with customers	318,556	-	-	(49,928)	2,938	271,566
Project development	132,202	74,219	(58)	(20,420)	1,048	186,991
Non-compete agreement	49,632	-	-	(15,332)	562	34,862
Service agreements	13,300	-	-	(1,357)	(703)	11,240
Total	11,863,226	221,499	1,920	(587,366)	6,106	11,505,385

	Consolidated					12/31/2016
	12/31/2015	Additions	(Disposals)/ Reversals	Amortizations	Exchange differences	
Total	12,405,522	199,519	(2,311)	(581,073)	(158,431)	11,863,226

Expenses on depreciation of property and equipment and amortization of intangible assets were recognized in “General and administrative expenses” and “Cost of services provided” in the statement of profit or loss.

13 Borrowings

	Interest rate per year	Parent Company		Consolidated	
		12/31/2017	12/31/2016	12/31/2017	12/31/2016
Private debentures (a)	100% to 111% of DI	3,429,566	3,502,012	3,429,566	3,502,012
Public debentures (b)	105.8% of DI	1,556,418	3,152,500	1,556,418	3,152,500
Long-term financing – “ten-year bonds” (c)	3.75%	1,555,536	1,531,251	2,889,665	2,844,289
Operation 4,131 (d)	1.96% to 2.07%	1,042,779	964,918	1,042,779	964,918
FINAME	9.36%	170,278	268,734	170,278	268,734
R&D Financing	4.0%	156,647	58,656	156,647	58,656
Total		7,911,224	9,478,071	9,245,353	10,791,109

Current		2,827,084	2,920,324	2,827,719	2,921,002
Noncurrent		5,084,140	6,557,747	6,417,634	7,870,107
Total		7,911,224	9,478,071	9,245,353	10,791,109

(a) Private debentures

On February 27, 2015, the Parent Company conducted the first, second and third single series, simple, unsecured, nonconvertible debenture private placement issues. The three issuances totaled R\$3,459,449 with maturity date on December 30, 2023. The private debentures’ yield includes interest based on the cumulative percentage change between 100.00% and 111.00% of the average daily interest rate of the DI, as applicable, as shown in the table below:

	Principal	Remuneration
1st issuance	2,359,449	111% of DI
2nd issuance	700,000	100% of DI until 3/31/2015 and 111% of DI after 3/31/2015
3rd issuance	400,000	100% of DI from the payment date to the day of removal from office of the “Transition Committee”, or until the end of the nine-year period counted from the base date to be defined in the amendment to the Deed, In case of any of the events, interest will be based on 111% of DI.

Interest will be paid on a semiannual basis as of the issuance date, except for the last accrual period that will be shorter as it will start on August 27, 2023, and will end with payment on the maturity date together with the principal amount. Exceptionally on March 27, 2015, the principal amount of R\$122,324 related to the 1st issuance of private debentures was partially paid. There are no covenants imposing financial restrictions related to the financial transaction of issuance of Private Debentures.

(b) Public Debentures

On April 13, 2015, the Company conducted the fourth issuance of simple, unsecured debentures in a single series, not convertible into shares and for public distribution pursuant to the terms of CVM 400. The issuance totaled R\$4,600,000 with maturity date on April 13, 2018. The remuneration of the Public Debentures includes interest based on the cumulative percentage change of 105.8% of the average

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daily interest rate of the DI. The principal amount will be amortized in three equal and annual installments, in April of each year, and the interest will be paid on a semiannual basis, in April and October of each year.

Public Debentures have covenants that require the Company to comply with a Net Debt/Adjusted Consolidated EBITDA ratio equal to or lower than 3, measured on an annual basis. The Company was compliant with the financial ratio related to the covenants of the public debentures described above.

(c) **Long-term financing - Ten-year bonds**

In November 2012, the Company and its subsidiary Cielo USA completed a financial transaction whereby bonds were issued in the total amount of US\$875 million, of which US\$470 million were issued by the Company and US\$405 million were issued by subsidiary Cielo USA. The amount raised by Cielo USA was used to pay the acquisition of control of Me-S. The proceeds raised by the Company were used to increase its working capital. The financing obtained is subject to an interest rate of 3.75% per year. Interest is paid on a semiannual basis and principal will be paid in November 2022. Costs directly associated with the issuance of these bonds (banks, auditors and attorney's fees) were recognized in liabilities and are being allocated to profit or loss over the term of the agreement, based on the amortized cost method. There are no covenants imposing financial restrictions related to the financial transaction of issuance of bonds.

(d) **Operation 4,131**

On September 1, 2017, the Company obtained a new borrowing from Bank of Tokyo-Mitsubishi UFJ, Ltd - "BTMU" in the amount of US\$ 316,255 equivalent to R\$ 1,000,000, which comprises a fixed interest rate of 1.96% per year for the period from September 1, 2017 to March 1, 2018 and 2.07% per year for the period from March 1, 2018 to the agreement maturity on August 31, 2018. In addition, the Company entered into a swap agreement to hedge the borrowing against fluctuations in foreign exchange and interest rates, and the short position (bank's remuneration), considered all transaction costs, equivalent to 100.2% of the daily average interest rate of the DI. Interest on borrowings and the financial instrument will be paid on February, 28, 2018, May 31, 2018 and August 31, 2018, the latter together with the principal balance of the borrowing.

The borrowings from Bank of Tokyo-Mitsubishi UFJ, Ltd have covenants that require the Company to comply with a Net Debt/Consolidated Adjusted EBITDA ratio equal to or lower than 3, measured on an annual basis.

(e) **FINAME**

The weighted average interest rate is 9.36% per year as at December 31, 2017 (8.31% per year as at December 31, 2016). The Company is the beneficiary of a credit facility with BNDES relating to FINAME onlending transactions to finance the purchase of new machinery and equipment manufactured in Brazil. Such onlending occurs through the extension of credit to the Company, generating rights to receipt by the accredited financial institution as a financial agent that contracts such financing transactions with the Company. The contracts are guaranteed by the transfer of fiduciary ownership of property purchased through FINAME.

The Company was compliant with the financial ratio related to the covenants of its borrowings described above.

Changes in borrowings for the years ended December 31, 2017 and 2016 are as follows:

	<u>Parent Company</u>	<u>Consolidated</u>
Balance at December 31, 2015	11,727,888	13,299,493
New borrowings	1,114,441	1,114,441
Payment of principal	(2,820,619)	(2,820,619)
Exchange differences (principal and interest)	(503,003)	(763,214)
Mark-to-market (MTM) adjustment	7,039	7,039
Accrued interest and charges	1,107,902	1,162,313
Interest paid	(1,155,577)	(1,208,344)
Balance at December 31, 2016	9,478,071	10,791,109
New borrowings	1,165,144	1,165,144
Payment of principal	(2,687,808)	(2,687,808)
Exchange differences (principal and interest)	100,043	120,153
Mark-to-market (MTM) adjustment	(11,422)	(11,422)
Accrued interest and charges	675,116	724,933
Interest paid	(807,920)	(856,756)
Balance at December 31, 2017	<u>7,911,224</u>	<u>9,245,353</u>

Hedge accounting

As at December 31, 2017, Cielo has financial instruments designated as hedging instrument against fluctuations in foreign exchange and interest rates of its borrowings, as described in note 7 (c).

Breakdown of borrowings recorded in noncurrent liabilities

Borrowings classified as noncurrent as at December 31, 2017 by maturity date are broken down as follows:

Year of maturity	Parent Company	Consolidated
2019	79,934	79,934
2020	28,317	28,317
2021	22,303	22,303
2022	1,577,063	2,916,803
2023	3,359,428	3,359,428
2024	22,303	22,303
Total borrowings	5,089,348	6,429,088
Debt issue costs	(5,208)	(11,454)
Total	5,084,140	6,417,634

14 Other payables – Sundry - Payables to customers

	Parent Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Payables to customers (a)	57,377,277	59,671,944	57,377,277	59,671,944
Payables to merchants (b)	-	-	305,425	589,919
Merchant deposits (c)	-	-	113,834	137,359
Total	57,377,277	59,671,944	57,796,536	60,399,222

- (a) **Payables to customers** – Refer to the obligation to pay the amount of purchase of products and services made with credit and debit cards to merchants accredited by the Company. The balance of payables to merchants is higher than the balance of receivables from card-issuing banks, in assets, because in general, the payment term for the Company's credit card issuers is 28 days, while the Company's average payment term for merchants is 30 days (a float of approximately two days).
- (b) **Payables to merchants** - Represented by amounts due to merchants by the subsidiary Me-S to its merchants, relating to transactions captured and processed until the end of the reporting period. These amounts are paid on the business day following the date on which transactions are captured.
- (c) **Merchant deposits** - The subsidiary Me-S requires deposits from customers in order to cover potential risks of complaints from card holders due to fraud in the transaction or bankruptcy of the merchant.

In addition to the services of payments of the amounts transacted in credit and debit cards to merchants, the Company also guarantees accredited merchants that they will receive the amounts from credit card transactions. Based on the immaterial amount of the Company's history of losses due to default from card-issuing banks and the current credit risks of these institutions, the Company estimates that the fair value of the guarantees provided to merchants is not material and, therefore, is not recognized as a liability.

15 Provisions, contingent assets and contingent liabilities

a. Provision for tax, civil and labor risks

The Company and its subsidiaries are parties to lawsuits and administrative proceedings before courts and government agencies, arising in the normal course of business and involving tax, labor, civil and other matters.

Management, based on information from its legal counsel, on the analysis of pending lawsuits and past experience on the amounts claimed in labor, civil and tax lawsuits, recognized a provision in an amount considered sufficient to cover probable future cash disbursements on pending lawsuits in the years ended December 31, 2017 and 2016, as follows:

Parent Company						
	12/31/2016	Additions (a)	Disposals/ reversals (b)	Inflation adjustment	Payments (c)	12/31/2017
Tax	1,499,662	79,291	(2,285)	1,774	(55)	1,578,387
Labor	93,615	33,652	(31,535)	855	(3,664)	92,923
Civil	41,471	30,895	(11,568)	4,808	(11,931)	53,675
Total	1,634,748	143,838	(45,388)	7,437	(15,650)	1,724,985

	12/31/2015	Additions (a)	Disposals/ reversals (b)	Inflation adjustment	Payments (c)	12/31/2016
Total	1,401,073	253,036	(14,947)	6,370	(10,784)	1,634,748

Consolidated						
	12/31/2016	Additions (a)	Disposals/ reversals (b)	Inflation adjustment	Payments (c)	12/31/2017
Tax	1,499,662	82,152	(3,448)	1,779	(55)	1,580,090
Labor	117,205	36,052	(43,019)	890	(4,067)	107,061
Civil	42,552	30,895	(12,158)	4,808	(11,931)	54,166
Total	1,659,419	149,099	(58,625)	7,477	(16,053)	1,741,317

	12/31/2015	Additions (a)	Disposals/ reversals (b)	Inflation adjustment	Payments (c)	12/31/2016
Total	1,420,270	266,672	(22,676)	6,432	(11,279)	1,659,419

- (a) Refer mainly to the increase in the provision for tax risks for the years ended December 31, 2017 and 2016, relating to taxes with suspended payment, recorded as an offsetting entry to "Taxes on services" and "Other operating expenses, net", and other additions to the provision for civil and labor risks, represented by new lawsuits and changes in the assessment of the likelihood of loss made by the legal counsel, which were recorded as an offsetting entry to "Other operating expenses, net", in the statement of profit or loss.
- (b) Mainly represented by the reversal of the provision for civil and labor risks due to prescription of the allowed time to start legal proceedings, settlement of lawsuits or change in the risk of loss as assessed by the Company's and its subsidiaries' legal counsel.
- (c) As at December 31, 2017, the Company and its subsidiaries, whether due to court agreements or unfavorable decisions, settled 1,105 civil and labor lawsuits, totaling R\$ 15,650 and R\$ 16,053 in Parent Company and Consolidated, respectively.

Tax lawsuits

The balances below refer to the provision for tax risks, arising from diverging interpretation by tax authorities, and related escrow deposits:

	Provision for tax risk Parent Company		Provision for tax risks Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Main tax lawsuits (ii)				
Noncumulative Cofins (a)	1,517,142	1,457,287	1,517,142	1,457,287
Amazon Investment Fund -FINAM (b)	17,398	16,544	17,398	16,544
Social contribution on Net Income (CSLL) 2002 (c)	10,895	10,895	10,895	10,895
Negative balance of IRPJ of the calendar year 2008 (d)	7,045	7,045	7,045	7,045
Others	25,907	7,891	27,610	7,891
Total	1,578,387	1,499,662	1,580,090	1,499,662

	Escrow deposits Parent Company		Escrow deposits Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Main tax lawsuits				
Noncumulative Cofins (a)	1,517,142	1,439,218	1,517,142	1,439,218
Amazon Investment Fund - FINAM (b)	-	-	-	-
Social Contribution on Net Income - CSLL 2002 (c)	10,895	10,895	10,895	10,895
Negative balance of IRPJ of the calendar year 2008 (d)	7,045	7,045	7,045	7,045
Others	19,923	19,906	23,024	23,004
Total	1,555,005	1,477,064	1,558,106	1,480,162

- (a) **Cofins - Non-cumulative Regime** - the Company filed a writ of mandamus in February 2004, seeking to eliminate the demand for Cofins under the Law at a rate of 7.6%, making a deposit in court for the amounts calculated on a monthly basis and recording the difference between the cumulative and non-cumulative regimes as provision for risks. In May 2017, after the judgment of Extraordinary Appeal No. 570,122 / RS - with general repercussion recognized in relation to the matter raised and outcome unfavorable to the Taxpayers -, the Company decided to stop making deposits in court, starting to collect taxes and to benefit from the deductibility referred to in Decree No. 3,000/99 and Normative Ruling No. 1,700/17. The writ of mandamus, however, remains awaiting a decision at a higher court for a final settlement of the dispute, as a result of the judgment not yet published in the records of the Extraordinary Appeal. As at December 31, 2017, the amount of the provision for risks recognized and the amount of the escrow deposit is R\$ 1,517,142, in parent company and consolidated.
- (b) **Amazonas Investment Fund - FINAM** - In 2007, the Company received a tax assessment notice related to the calendar year 2002, fiscal year 2003, The Federal Revenue of Brazil alleges the non-filing of the Request for Revision of Order of Issuance of Tax Incentives - PERC within the required deadlines and, therefore, does not recognize the portion of Corporate Income Tax (IRPJ) for FINAM. The administrative proceeding is pending judgment of the Company's voluntary appeal by the Administrative Board of Tax Appeals - CARF. As at December 31, 2017, the amount of the provision for risks recognized is R\$ 17,398 in parent company and consolidated.
- (c) **Social Contribution on Profit - CSLL 2002** - In 2007, a tax assessment notice was issued against the Company to require CSLL (adjustment share) for calendar year 2002, plus a fine of 75% and interest on late payment, as well as a fine of 50% on the amounts of "estimates" of CSLL that would not have been paid. After the maintenance of the tax assessment notice at the administrative sphere, in July 2011, the Company opted for a judicial discussion. The full amount of the tax credit is deposited in court and is being contested in a writ of annulment, distributed in August 2011. In the first judicial instance, a judgment was rendered dismissing the annulment action. Currently, the process awaits judgment of the company's appeal. As at December 31, 2017, the amount of the provision for risks recognized is R\$ 10,895 and the amount of the escrow deposit is R\$ 10,895, in parent company and consolidated.
- (d) **Negative IRPJ Balance of Calendar Year 2008** - In 2009, the parent company offset the negative IRPJ balance of calendar year 2008 for tax debts owed in 2009 upon filing of the Offset Return (PER / DCOMP). When analyzing the aforementioned offset return in 2012, the Brazilian Federal Revenue Office did not approve the tax credit and, consequently, issued Decision Order No. 02240539. In January 2013, the parent company filed an Ordinary Tax Debt Annulment Action, at the Civil Court of the Judicial Branch of Osasco / SP, with the purpose of demonstrating and proving the credit of negative balance of calendar year 2008. The full amount of the tax credit is deposited in court. As at December 31, 2017, the amount of the provision for risks recognized is R\$ 7,045 and the amount of the escrow deposit is R\$ 7,045, in parent company and consolidated.

Based on the opinion of its legal counsel, the management of the Company and its subsidiaries estimates that the actual disbursement of the provision for tax risks will occur within 5 years and understands that the development of the lawsuits will depend on external factors not under the Company's control.

Civil lawsuits

Refer basically to collection of transactions made through the Company's system that were passed on to merchants in view of noncompliance with clauses of the accreditation contract, and compensation for losses caused by transactions not passed on at that time. As at December 31, 2017, the provision for probable losses on civil lawsuits totals R\$ 53,675 in parent company and R\$ 54,166 in consolidated (R\$ 41,471 in parent company and R\$ 42,552 in consolidated as at December 31, 2016), and the escrow deposit balance is R\$ 8,460 in parent company and R\$ 8,491 in consolidated (R\$ 5,517 in parent company and R\$ 5,535 in consolidated as at December 31, 2016).

Based on the opinion of its legal counsel, the management of the Company and its subsidiaries estimates that the actual disbursement of the mentioned provision for civil risks will occur within 5 years and understands that the development of the lawsuits will depend on external factors not under the Company's control.

Additionally, as at December 31, 2017, the Company is a party to public civil lawsuits and civil inquiries, most of them filed by the Public Prosecutor's Office or associations, whose intention is to defend collective interests (such as consumers' rights and labor rights). Court decisions may grant rights to groups of people (even without their consent). In many situations, the group's decision on availing a favorable outcome will only be made after the final decision.

Labor lawsuits

Refer to labor lawsuits that, as at December 31, 2017, included 490 claims against the Company and 63 against the subsidiaries, totaling 553 claims (351 claims against the Company and 72

against the subsidiaries, totaling 423 claims as at December 31, 2016). Of these claims as at December 31, 2017, 179 were filed by former employees (150 claims as at December 31, 2016) and the remaining 374 (273 as at December 31, 2016) were filed by employees of subcontractors, some of whom claiming the recognition of an employment relationship.

The risk of loss on labor claims, when these are started, is assessed as possible. As a rule, only after the decisions of the higher or lower courts are issued, the lawsuits are reclassified to probable or remote loss, depending on the decision and based on the history of losses on similar lawsuits. In general, labor lawsuits are related to salary equalization, overtime and effects of annual bonus, rights guaranteed by agreements between the employer and the labor union, recognition of employment relationship, and pain and suffering.

As at December 31, 2017, the provision for probable losses on labor lawsuits is R\$ 92,923 in parent company and R\$ 107,061 in consolidated (R\$ 93,615 in parent company and R\$ 117,205 in consolidated as at December 31, 2016), and the balance of escrow deposits is R\$ 46,607 in parent company and R\$ 55,264 in consolidated (R\$ 31,808 in parent company and R\$ 36,915 in consolidated as at December 31, 2016).

Based on the opinion of its legal counsel, the Management of the Company and its subsidiaries estimates that the actual disbursement of 66.27% of the mentioned provision for labor risks will occur within 5 years, and 33.73% within 10 years, and understands that the development of the lawsuits will depend on external factors not under the Company's control.

Additionally, as at December 31, 2017, the Company and its subsidiaries are parties to tax, civil and labor lawsuits assessed by their legal counsel as possible likelihood of losses, for which no provision was recognized, as follows:

	Parent Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Tax	131,586	89,069	132,119	93,407
Civil	148,160	124,543	149,094	124,543
Labor	75,868	94,896	92,542	117,445
Total	355,614	308,508	373,755	335,395

b. Escrow deposits

In the years ended December 31, 2017 and 2016, the Company and its subsidiaries have escrow deposits related to the provision for tax, labor and civil risks, broken down as follows:

	Parent Company			
	12/31/2016	Additions	Write-offs	12/31/2017
Tax	1,477,064	77,943	(2)	1,555,005
Labor	31,808	14,827	(28)	46,607
Civil	5,517	2,944	(1)	8,460
Total	1,514,389	95,714	(31)	1,610,072
	12/31/2015	Additions	Write-offs	12/31/2016
Total	1,296,203	220,505	(2,319)	1,514,389

	Consolidated			
	12/31/2016	Additions	Write-offs	12/31/2017
Tax	1,480,162	77,946	(2)	1,558,106
Labor	36,915	18,390	(41)	55,264
Civil	5,535	2,958	(2)	8,491
Total	1,522,612	99,294	(45)	1,621,861
	12/31/2015	Additions	Write-offs	12/31/2016
Total	1,302,455	222,670	(2,513)	1,522,612

16 Equity

a. Issued capital

Capital as at December 31, 2017 is R\$4,700,000 represented by 2,716,815,061 common shares (R\$ 3,500,000 represented by 2,264,012,551 common shares as at December 31, 2016), all of them subscribed and paid in.

As mentioned in note 17, the number of shares net of treasury shares as at December 31, 2017 is 2,714,173,216 (2,259,768,045 shares as at December 31, 2016).

The Company's capital can be increased by up to 2,400,000,000 additional common shares, regardless of any amendments to bylaws, at the discretion of the Board of Directors, which has the power to establish the share issue price, the terms and conditions for subscription and payment of shares up to the limit of the authorized capital.

b. Capital reserve

Represents share-based payment costs and goodwill on subscription of shares related to capital contributions by shareholders exceeding the amount allocated to capital formation.

The capital reserve balance as at December 31, 2017 is R\$ 62,620 (R\$ 63,062 as at December 31, 2016).

c. Treasury shares

On February 26, 2016, the Company's Board of Directors approved the acquisition of up to 1,000,000 common shares, without par value, issued by the Company itself, to allow the exercise of the options and/or shares to be granted under the Company's Stock Option Plan ("Plan"), approved and amended at the Annual and Extraordinary General Meetings, respectively, and for the eligible statutory and non-statutory directors according to the rules set out in the Plan, within 365 days from February 26, 2016 to February 25, 2017. Moreover, these acquisitions of shares issued by the Company itself are limited to the balance available in line item "Capital reserve" determined during the fiscal year, in compliance with articles 1 and 12 of Instruction No. 10/80.

The Company's Management is responsible for defining the timing and the number of shares to be acquired, within authorized limits.

Changes in treasury shares are as follows:

	Parent Company and Consolidated		
	Shares	Amount	Average cost R\$ per share
Balance at December 31, 2016	(4,244,506)	(103,967)	24.49
Sale in January	74,099	1,815	24.49
Sale in February	344,221	8,432	24.49
Sale in March	67,409	1,651	24.49
Sale in April	145,747	3,570	24.49
Balance of treasury shares before bonus	(3,613,030)	(88,499)	24.49
Increase in treasury shares as a result of the bonus (*)	(722,605)	-	
Sale in April	27,804	568	20.41
Sale in May	53,412	1,090	20.41
Sale in June	118,655	2,422	20.41
Sale in July	1,107,337	22,603	20.41
Sale in August	34,311	700	20.41
Sale in September	111,212	2,270	20.41
Sale in October	63,961	1,306	20.41
Sale in November	78,645	1,605	20.41
Sale in December	98,453	2,010	20.41
Balance at December 31, 2017	(2,641,845)	(53,925)	20.41

(*) **Bonus** new common shares were issued, attributed to shareholders, free of charge, as a bonus in the proportion of one new common share for each batch of five common shares held, generating a total effect of 722,605 new shares in treasury.

d. Carrying value adjustments

Represent cumulative adjustments for translation into the foreign currency of the foreign investments. The balances below reflect cumulative adjustments at the end of the reporting period, as follows:

	Parent Company and Consolidated	
	12/31/2017	12/31/2016
Exchange differences on foreign investments	149,019	162,611

e. Earnings reserve - legal

Is represented by the amounts set up at the rate of 5% of the profit for the year, pursuant to article 193 of Law No. 6,404/76, up to the limit of 20% of the capital. The legal reserve balance as at December 31, 2017 is R\$ 892,740 (R\$ 700,000 as at December 31, 2016).

f. Earnings reserve - capital budget

At the Board of Director's meeting held on January 30, 2017, the financial statements for the year ended December 31, 2016 and the capital budget proposal for the current year were appreciated and submitted for approval at the Annual General Meeting of Shareholders held on April 12, 2017. The capital budget consists of the equivalent to 67.5% of the profit for fiscal year 2016, less the legal reserve, and the remaining balance of the earnings reserve in the year ended 2015. The capital budget proposal was justified by the need to improve the working capital and assure greater financial robustness and stability to the Company, facilitating the financing of its operations, especially the acquisition of sale receivables ("ARV"), and provide funds for an eventual repurchase of the Company shares.

At the Extraordinary General Meeting held on April 12, 2017, the capital increase in the Company of R\$ 1,200,000 was approved, using the balance available in the earnings reserve.

At the Board of Directors' meeting held on February 1, 2018, the financial statements for the year ended December 31, 2017 and the capital budget proposal for the current year were appreciated and will be submitted for approval at the Annual General Meeting of Shareholders to be held on April 20, 2018. The capital budget will be equivalent to 26.2% of the profit for fiscal year 2017, less the legal reserve, and the remaining balance of the earnings reserve in the year ended 2016. The capital budget proposal was justified by the need to improve the working capital and assure greater financial stability to the Company, facilitating the financing of its operations, as well as the investment in shares of the Investment Fund in Credit Rights Cielo to foster the operation of acquisition of sale receivables ("ARV"), and provide funds for an eventual repurchase of the Company shares.

The capital budget reserve balance as at December 31, 2017 is R\$ 3,341,628 (R\$ 3,583,898 as at December 31, 2016).

g. Dividends and interest on capital

Under the Company's bylaws, shareholders are entitled to a mandatory minimum dividend of 30% of the profits earned (after the recognition of the legal reserve) at the end of each financial year.

The allocation of the remaining balance of the profit for the year will be decided at the AGM. At year-end, the Company recognizes the provision for the minimum dividend that has not yet been distributed during the year up to the limit of the aforementioned mandatory minimum dividend. Under the bylaws, the Company may prepare semiannual or shorter period statements of financial position and, in accordance with the limits provided for in applicable law, the Board of Directors may approve the distribution of dividends from the profit account. The Board of Directors may also propose interim dividends from the existing profit account based on the latest statement of financial position approved by the shareholders.

At meetings of the Company's Board of Directors held on June 23, 2017 and August 1, 2017, the proposal for payment of interest on capital of R\$ 325,300 and interim dividends of R\$ 1,002,052 was approved, both relating to the first half of 2017 and paid on September 29, 2017.

In addition, the meetings of the Company's Board of Directors held on December 13, 2017 and February 1, 2018 approved, subject to ratification by the Annual General Meeting to be held on April 20, 2018, the payment of dividends and interest on capital, relating to the profit earned in the second half of 2017, in the amounts of R\$ 1,058,785 and R\$ 318,200 (R\$ 270,470, net of withholding income tax), respectively, to be paid on March 29, 2018, which added to the R\$ 1,327,352 paid on September 29, 2017, correspond to 73.8% of the corporate profit.

h. Regulatory capital

Central Bank Circular Letter No. 3,681/13 requires accredited payment institutions to maintain permanently equity adjusted by profit or loss accounts in an amount corresponding to at least 2% of the average monthly amount of the payment transactions processed by the institution in the last twelve months.

As at December 31, the Company's equity is R\$ 10,150,867, higher than 2% of the average monthly amount of payment transactions processed by the institution in the last 12 months, which corresponds to R\$ 1,042,698,

17 Earnings per share

a. Change in the number of common shares

Shares issued	Common
Shares at December 31, 2016	2,259,768,045
Exercise of stock options:	
January	74,099
February	344,221
March	67,409
April	145,747
Effect of stock bonus (*)	452,079,905
Exercise of stock options:	
April	27,804
May	53,412
June	118,655
July	1,107,337
August	34,311
September	111,212
October	63,961
November	78,645
December	98,453
Total	2,714,173,216

(*) **Bonus:** new common shares were issued, attributed to shareholders, free of charge, as a bonus in the proportion of one new common share for each batch of five common shares held, generating a total effect of 452,079,905 new common shares.

Earnings per share

In compliance with CPC 41 - Earnings per share, the following tables reconcile the profit and the weighted average number of outstanding shares with the amounts used to calculate the basic and diluted earnings per share.

Basic earnings per share

	Parent Company and Consolidated		
	2nd Half/17	12/31/2017	12/31/2016
Profit for the period available for common shares	2,024,084	3,854,807	3,891,301
Weighted average number of outstanding common shares (in thousands)	2,713,944	2,712,977	2,710,449
Earnings per share (in R\$) – basic	0.74581	1.42088	1.43567

Diluted earnings per share

	Parent Company and Consolidated		
	2nd Half/17	12/31/2017	12/31/2016
Profit for the period available for common shares	2,024,084	3,854,807	3,891,301
Diluted denominator:			
Weighted average number of outstanding common shares (in thousands)	2,713,944	2,712,977	2,710,449
Potential increase in common shares as a result of the stock option plan	2,726	2,726	4,566
Total (in thousands)	2,716,670	2,715,703	2,715,015
Earnings per share (in R\$) – diluted	0.74506	1.41945	1.43325

18 Net operating revenue

	Parent Company			Consolidated		
	2nd Half/17	12/31/2017	12/31/2016	2nd Half/17	12/31/2017	12/31/2016
Gross operating revenue	3,888,649	7,608,433	8,194,258	6,579,214	12,781,721	13,543,949
Taxes on services	(396,959)	(772,397)	(827,269)	(611,189)	(1,181,380)	(1,243,165)
Total	3,491,690	6,836,036	7,366,989	5,968,025	11,600,341	12,300,784

The gross operating revenue is derived from the capture, transmission, processing and financial settlement of the transactions made with credit and debit cards, management of payment accounts related to Ourocard Payment Arrangement, rental of POS equipment, and provision of services in data transmission to load fixed or mobile phone credits.

19 Expenses by nature

The Company elected to present the consolidated statement of profit or loss by function.

The breakdown of cost of services provided and net operating expenses by nature is as follows:

	Parent Company			Consolidated		
	2nd Half/17	12/31/2017	12/31/2016	2nd Half/17	12/31/2017	12/31/2016
Personnel expenses	210,296	442,132	436,961	366,959	755,588	747,106
Depreciation and amortization	212,481	440,516	439,363	503,836	1,133,117	1,281,879
Professional services	197,568	404,113	429,142	222,194	447,559	475,042
Acquiring costs (a)	1,103,353	1,954,010	1,852,022	2,366,670	4,461,531	4,490,456
Sales and marketing (b)	98,343	176,059	308,841	105,317	188,967	320,413
Costs of mobile phone credits in subsidiaries (c)	-	-	-	226,000	451,247	623,484
Others	16,633	44,375	109,290	7,531	23,995	121,386
Total	1,838,674	3,461,205	3,575,619	3,798,507	7,462,004	8,059,766
Classified as:						
Cost of services provided	1,301,688	2,390,959	2,313,785	3,009,966	5,773,721	5,994,759
Personnel expenses	125,244	271,304	283,001	249,354	522,484	526,130
General and administrative expenses	217,947	427,420	430,161	329,043	750,880	878,148
Sales and marketing	98,343	176,059	308,841	105,317	188,967	320,413
Other operating expenses, net	95,452	195,463	239,831	104,827	225,952	340,316
Total	1,838,674	3,461,205	3,575,619	3,798,507	7,462,004	8,059,766

- (a) Acquiring costs are mainly represented by expenses on logistics and maintenance of POS equipment, supplies to merchants, customer registration and service, telecommunication services, and capture and processing of transactions.
- (b) Sales and marketing expenses include campaigns for trademark development, advertising and publicity, internal marketing, sales incentives to partners and issuing banks, and commercial actions for new customers registration.
- (c) Refer to the cost of the product sold related to the credit minutes for cell phones sold by the direct subsidiary Multidisplay.

20 Other operating expenses, net

Represented by:

	Parent Company			Consolidated		
	2nd Half/17	12/31/2017	12/31/2016	2nd Half/17	12/31/2017	12/31/2016
Allowance for doubtful debts and fraud	94,111	180,247	161,363	110,605	213,760	221,070
Provision for risks, net	5,606	26,295	31,765	(2,658)	16,823	38,228
Write-offs and provision for loss on property and equipment	(2,571)	(5,655)	46,693	(2,566)	(5,499)	47,848
Provision for loss on investments	-	-	-	-	-	22,247
Others	(1,694)	(5,424)	10	(554)	868	10,923
Total	95,452	195,463	239,831	104,827	225,952	340,316

21 Commitments

The Company is primarily engaged in the capture, transmission, processing and financial settlement of transactions made using credit and debit cards. In order to conduct said activities, the Company entered into the following agreements:

a. Lease agreements

As at December 31, 2017, future annual payments under lease agreements in effect are as follows:

	Consolidated
Up to 1 year	16,829
1 year to 5 years	23,481
Over 5 years	8,941
Total	49,251

Most agreements specify a penalty for termination equivalent to three-month rent, and a partial return can be negotiated for each case.

b. Suppliers of telecommunications, technology (processing of transactions), logistics services, call center and back office

As at December 31, 2017, based on contracts in effect, the minimum commitments with suppliers of technology, telecommunications, logistics services, call center, back office and telesales are as follows:

	Consolidated
Up to 1 year	283,069
1 year to 5 years	328,833
Total	611,902

The call center contracts contain penalties for termination in the amount of R\$ 7,400. The transaction capture and processing contracts, as well as the telecom and back office contracts, do not provide for penalty for termination.

22 Employee benefits

Pension Plan

The Company and its subsidiary Servinet contribute monthly to a defined contribution pension plan ("PGBL") for their employees, and contributions made during the year ended December 31, 2017 amounted to R\$ 8,769 (R\$ 7,367 during the year ended December 31, 2016), recognized in line items "Cost of services provided" and "Personnel expenses".

Post-employment benefit

The Company has an actuarial liability arising from post-employment benefits, relating to estimated expenses on healthcare plan, the amount provisioned for these expenses as at December 31, 2017 is R\$ 7,031.

Other benefits

Besides the benefit of pension plan, the Company and its subsidiaries offer their employees health insurance, dental care, life and personal accident insurance and professional training, of these expenses totaled R\$ 66,586 in the year ended December 31, 2017 (R\$ 53,503 in the year ended December 31, 2016).

The Company has a Corporate Education Program that aims to leverage learning, ensuring the mapping and the dissemination of key knowledge through practical and educational activities that encourage the creation, acquisition, dissemination, use and sharing of knowledge, focusing on business results. In addition, in the Company, actions are developed for all employees, for example, leadership development, e-learning, contract training, on-demand training, continued education and languages. The costs related to the actions described are recognized in profit or loss when incurred.

23 Profit sharing

The Company and its subsidiaries pay profit sharing to their employees and officers, subject to the achievement of operational goals and specific objectives established and approved at the beginning of each fiscal year.

The shares of employees and officers in profit for the second half of 2017 and years ended December 31, 2017 and 2016 were recognized in line item "Personnel expenses" in the statement of profit or loss and are presented as follows:

	Parent Company			Consolidated		
	2nd Half/17	12/31/2017	12/31/2016	2nd Half/17	12/31/2017	12/31/2016
Employees	37,704	64,281	58,775	46,294	86,290	81,148
Statutory directors	3,728	8,848	11,051	5,584	10,876	12,547
Total	41,432	73,129	69,826	51,878	97,166	93,695

24 Compensation of key management personnel

Key management personnel include the members of the Board of Directors and the statutory directors. Expenses recognized in Parent Company's profit for the years are as follows:

	2nd Half/17			12/31/2017			12/31/2016		
	Fixed	Others (*)	Total	Fixed	Others (*)	Total	Fixed	Others (*)	Total
Statutory Directors	3,415	3,647	7,062	8,408	11,655	20,063	7,673	10,347	18,020
Board of Directors	1,119	-	1,119	2,237	-	2,237	2,037	-	2,037
Total	4,534	3,647	8,181	10,645	11,655	22,300	9,710	10,347	20,057

(*) Balance corresponds to variable remuneration and severance pay of statutory directors and not including the stock option plan (see note 25).

Management (Board of Executive Officers and Board of Directors) and the Supervisory Board overall compensation in 2017, set at the Annual and Extraordinary General Meeting held on April 12, 2017, was R\$47,000, already considered the taxes and contributions thereon, as prescribed by the prevailing laws.

For the Supervisory Board, the annual compensation approved for the years ended December 31, 2017 and 2016 was R\$515.

25 Stock option plan and restricted stock option plan

At the Extraordinary General Meeting held on June 1 2009, the shareholders approved the stock option plan relating to the Company's common shares, effective for ten years from the date of the first grant to beneficiaries.

At the Extraordinary General Meeting held in April 2011, the shareholders approved changes to the Plan, introducing the possibility of eligible beneficiaries electing stock option plan, restricted stock option plan or a combination of both plans, and the exercise of the options and/or restricted shares can be made 50% after two years and 50% after three years. The beneficiaries of the stock options granted in 2010, under the Stock Option Plan and Contract, could exercise the first portion, equivalent to 1/3 of the total stock options granted to them, after one year from the grant date.

Within the limit of the authorized capital mentioned in note 16. a), the Company may grant shares or stock options or subscription of shares to its officers, employees and natural persons that provide services to the Company, as well as to officers and employees of other companies that are directly or indirectly controlled by the Company. Stock options or restricted stock options may be granted, in a manner that the dilution of the share capital does not exceed, at any time, during the effective period of the plan, 0.30% per year. The beneficiaries of the plan will be defined annually or in a periodicity considered convenient by the Board of Directors.

At meetings of the Board of Directors held on June 22, 2011, June 20, 2012, June 19, 2013, June 25, 2014, June 24, 2015, June 29, 2016 and June 14, 2017, the Directors approved the fourth, fifth, sixth, seventh, eighth, ninth and tenth grants of stock options relating to common shares and/or restricted shares, respectively, as shown in the table below, and there is not option to settle the options in cash. The tenth grant was made on July 14, 2017, totaling 828,878 restricted shares.

At a meeting of the Board of Directors held on February 29, 2012, the Directors approved the annual retention plan for the Company's executive officers and talents under the "Restricted Shares" plan, named "Sócio Cielo". The purpose of this program is to minimize the risk of loss of Company's officers and also increase their commitment to long-term results. Each executive officer retention program lasts two years and the shares granted will be donated to the officers that remain at the Company at the end of the program. At meetings of the Board of Directors held on February 26, 2014, February 25, 2015, January 27, 2016 and January 24, 2017, the Directors approved the plans *Sócio Cielo 2014, 2015, 2016 and 2017 - "Restricted shares"*, granted in March of the same years.

As at December 31, 2017, the position of the stock option plan and restricted stock option plan was as follows:

Grant date	Number of shares								Strike price (R\$ per share)	Fair value of options	
	Granted	Canceled	Exercised	Bonus							
				2013	2014	2015	2016	2017			Balance
July 2012	986,475	(242,017)	(2,303,466)	188,945	1,047,455	254,514	107,483	59,828	99,217	10.73	4.42
July 2013	1,049,141	(281,870)	(2,376,640)	-	989,734	370,317	263,000	122,584	136,266	12.52	5.83
July 2014	1,561,552	(331,448)	(1,405,482)	-	-	303,607	311,729	214,442	654,400	18.87	8.7
July 2015	557,354	(149,107)	(395,860)	-	-	-	105,050	86,862	204,299	-	28.83
March 2016	235,536	-	(174,803)	-	-	-	47,108	21,568	129,409	-	22.06
July 2016	650,947	(82,712)	(101,563)	-	-	-	-	101,984	568,656	-	27.43
March 2017	121,470	(11,866)	-	-	-	-	-	24,294	133,898	-	22.51
July 2017	828,878	(24,442)	(4,676)	-	-	-	-	-	799,760	-	23.26
Total	5,991,353	(1,123,462)	(6,762,490)	188,945	2,037,189	928,438	834,370	631,562	2,725,905		

The fair value of the options, between the years 2011 and 2014, was measured using the Black & Scholes pricing model. The assumptions adopted are described below:

	Grant date		
	July 2012	July 2013	July 2014
Dividend yield	5.36%	3.71%	3.31%
Share price volatility	31.65%	30.06%	23.15%
Vesting period	6 years	6 years	6 years

From 2015, the Company elected to use the binomial model for the pricing of its options.

The fair value of the options and shares is being recognized in the statement of profit or loss and the offsetting entry in the capital reserve on a straight-line basis over up to 24 months (for plans “Sócio Cielo”) and 36 months (for restricted stock option plan).

In the year ended December 31, 2017, a provision of R\$ 24,045 was recognized, net of charges (R\$ 31,067 as at December 31, 2016), with an offsetting entry in line item “Personnel expenses”.

These amounts correspond to the portion of Statutory Directors in the amount of R\$ 10,012 net of charges (R\$ 15,817 as at December 31, 2016).

2,641,845 shares in the amount of R\$ 24,467 for the year ended December 31, 2017 (2,437,288 shares in the amount of R\$ 28,683 for the year ended December 31, 2016) were exercised, and the total balance of stock options granted recorded in line item “Capital Reserve” in equity as at December 31, 2017 was R\$ 442 (R\$ 2,384 as at December 31, 2016).

26 Finance income (costs)

	Parent Company			Consolidated		
	2nd Half/17	12/31/2017	12/31/2016	2nd Half/17	12/31/2017	12/31/2016
Finance income:						
Interest on short-term investments	133,036	260,958	114,936	222,380	424,980	255,338
Pis and Cofins (b)	(6,249)	(12,303)	(7,001)	(9,197)	(18,733)	(13,542)
Other finance income	575	2,843	2,278	2,094	4,636	2,987
Total	127,362	251,498	110,213	215,277	410,883	244,783
Finance costs:						
Late payment interest and fines	(264)	(315)	(621)	(355)	(435)	(660)
Fines and interest on provision for risks	(2,445)	(7,062)	(6,409)	(2,445)	(7,083)	(6,471)
Interest on borrowings	(371,305)	(780,300)	(1,270,241)	(396,328)	(830,117)	(1,324,652)
Third parties' interest – FIDC Plus	-	-	-	(66,516)	(66,516)	-
Other finance costs	70,917	(42,471)	(20,934)	70,438	(43,415)	(22,172)
Total	(303,097)	(830,148)	(1,298,205)	(395,206)	(947,566)	(1,353,955)
Purchase of receivables:						
Income from purchase of receivables and yield (a)	1,106,339	2,355,670	2,695,113	1,150,023	2,400,601	2,694,251
Pis and Cofins (b)	(51,445)	(108,757)	(123,033)	(51,446)	(108,757)	(123,033)
Total	1,054,894	2,246,913	2,572,080	1,098,577	2,291,844	2,571,218
Exchange differences, net: (c)	(2,691)	(22,994)	292,679	(2,694)	(23,184)	292,743
Total	876,468	1,645,269	1,676,767	915,954	1,731,977	1,754,789

- (a) In parent company, the balance refers to the yield on the shares of Fidec and FIDC Plus and the finance income from the purchase of receivables made by the company. In consolidated, the balance refers to the purchase of receivables net of pro rata temporis adjustment for the years ended December 31, 2017 and 2016, comprising income from receivables relating to cash and installment sales transactions carried out by the parent company, by the FIDC and FIDC Plus, recognized according to the maturity date of the transactions.

- (b) Expenses on Pis and Cofins on finance income earned by the Group companies, at the rates of 0.65% and 4%, respectively, as laid down in Decree No. 8,426/15, effective July 1, 2015. The expenses incurred in the period were recognized as "Finance Income" and "Purchase of Receivables", in the proportion of their levy, for better presentation of the line items.
- (c) Derives basically from exchange differences relating to borrowing in US dollars from Bank of Tokyo-Mitsubishi UFJ, Ltd. (see note 13) and the variation of the financial instruments contracted to hedge such transactions, as mentioned in note 7 (c), as well as the exchange rate fluctuation on other balances of assets and liabilities in foreign, represented by:

	Parent Company			Consolidated		
	2nd Half/17	12/31/2017	12/31/2016	2nd Half/17	12/31/2017	12/31/2016
Exchange differences, net:						
Income	30,074	104,923	478,593	30,097	104,935	478,703
Expenses	(32,765)	(127,917)	(185,914)	(32,791)	(128,119)	(185,960)
Total	(2,691)	(22,994)	(292,679)	(2,694)	(23,184)	292,743

27 Financial instruments

The estimated realizable values of the Group's financial assets and liabilities were determined using available market inputs and appropriate valuation methodologies. However, considerable judgment was required to interpret market inputs and then develop the most appropriate realizable value estimates. Accordingly, estimates presented herein are not necessarily indicative of the amounts that could be realized in the market. The use of different market methodologies may have a significant effect on the estimated realizable values.

These financial instruments are managed through operating strategies that aim at obtaining liquidity, profitability and safety. The control policy consists of ongoing monitoring of the contracted rates compared to market rates. The Group does not make investments for speculative purposes, either in derivatives or in other risk assets.

a. Capital risk management

The Group manages its capital to ensure that its companies can continue as going concerns, and at the same time maximize the return to all their stakeholders by optimizing the debt and equity balance.

The Group's capital structure consists of its equity and net debt (borrowings less cash and cash equivalents, derivative financial instruments and financial investments).

The subsidiary Cateno maintains a minimum equity, in accordance with the BACEN regulations, corresponding to 2% of the monthly average of the payment transactions under the Ourocard Payment Arrangement.

From the granting of the authorization to operate as a Payment Institution by the BACEN on April 27, 2017 (mentioned in note 2.2), the parent company Cielo is subject to compliance with the regulations, which include, but are not limited to, risk management, minimum equity, and compliance with requirements similar to those applicable to a Financial Institution. (see note 16.h).

There is no requirement of compliance with minimum equity for the other Group companies.

The indebtedness ratio at the end of the reporting period is as follows:

	Parent Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Debt (i)	(7,911,224)	(9,478,071)	(9,245,353)	(10,791,109)
Derivative financial instruments	39,465	(37,665)	39,465	(37,665)
Cash	15,163	30,303	323,651	564,532
Interbank investments	269,191	902,090	855,154	932,409
Securities (except FIDCs)	3,625,167	76,136	4,869,824	1,237,496
Net debt	(3,962,238)	(8,507,207)	(3,157,259)	(8,094,337)
Equity (ii)	10,150,867	7,905,604	13,810,460	11,565,193
Net debt ratio	39.03%	107.61%	22.86%	69.99%

- (i) Debt is defined as short- and long-term borrowings, as mentioned in note 13.
- (ii) Equity includes the entire share capital and the Group's reserves, managed as capital.

b. Financial assets and financial liabilities

The Group's financial assets and liabilities are cash, interbank investments and securities, operating receivables, receivables from related parties, investment fund in credit rights, escrow deposits, payables to merchants, payables to related parties, trade payables and borrowings.

The estimated fair values of financial instruments as at December 31, 2017 are as follows:

		12/31/2017			
		Parent Company		Consolidated	
	Type	Carrying amount	Fair value	Carrying amount	Fair value
Cash	Fair value through profit or loss	15,163	15,163	323,651	323,651
Interbank investments	Fair value through profit or loss	269,191	269,191	855,154	855,154
Securities (except FIDCs)	Fair value through profit or loss	3,625,167	3,625,167	4,909,289	4,909,289
Operating receivables	Loans and receivables	65,066,244	65,066,244	65,914,497	65,914,497
Receivables from related parties	Loans and receivables	8,410	8,410	-	-
Investment fund in credit rights	Available-for-sale financial assets	7,278,201	7,278,201	-	-
Escrow deposits	Loans and receivables	1,610,072	1,610,072	1,621,861	1,621,861
Payables to merchants	Other financial liabilities	57,377,277	57,377,277	57,796,536	57,796,536
Payables to related parties	Other financial liabilities	9,294,052	9,294,052	-	-
Derivative financial instrument (swap)	Fair value through profit or loss	39,465	39,465	39,465	39,465
Borrowings	Fair value through profit or loss	1,047,311	1,042,779	1,047,311	1,042,779
Borrowings	Loans and receivables	6,863,913	6,868,445	8,198,042	8,202,574

The fair value of financial assets and liabilities and short- and long-term borrowings was determined, when applicable, by using current interest rates available for transactions conducted under similar conditions and with similar maturity dates.

The fair value measurements of the financial assets and liabilities are made at the following hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on data adopted by the market (that is, unobservable inputs) (Level 3).

The table below presents the Group's assets and liabilities as at December 31, 2017:

	Parent Company			Consolidated		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Cash	15,163	-	-	323,651	-	-
Interbank investments	-	269,191	-	-	855,154	-
Securities (except FIDCs)	-	3,625,167	-	-	4,869,824	-
Investment fund in credit rights	-	7,278,201	-	-	-	-
Others (loans and receivables)	-	66,684,726	-	-	67,536,358	-
Derivative financial instruments (swap)	-	39,465	-	-	39,465	-
Liabilities:						
Borrowings	1,555,536	6,355,688	-	2,889,664	6,355,688	-
Others (other financial liabilities)	-	57,377,277	-	-	57,796,536	-

The methodologies used to estimate the fair value are defined below:

- **Cash:** Its fair value is the updated balance of the bank accounts.
- **Interbank investments:** Its fair value is calculated based on the current quotation of the repurchase agreements backed by debentures in organized markets of the stock exchange.
- **Securities:** Its fair value is calculated based on the values adjusted for DI interest rates released to the market through official agencies (Cetip, BACEN, etc.) for investments in CDBs and based on the updated values of the quotas disclosed on the CVM site for investments in investment funds.
- **Investment funds in credit rights:** Under normal conditions, the value of the fund's share is an adequate indicator of the fair value.
- **Loans and receivables:** The fair value was calculated based on the expected receipts of principal and interest to maturity at the rates set forth in the contract.
- **Borrowings:** For borrowings, the fair value was calculated based on the expected payments of principal and interest to maturity at the rates set forth in the contract. For ten years Bonds, which are classified as level 1, its fair value is measured considering the quotation obtained from market institutions.
- **Derivative financial asset:** Its cash flows are discounted to present value based on the yield curves obtained mainly from prices of exchange of derivatives at B3.

c. Credit risk

In Cielo's operations of merchant acquiring, the primary risk refers to the possibility of default of card issuers, which are required to transfer to Cielo the amounts charged relating to transactions carried out by holders of the cards issued by them, so that Cielo can make the payment of such amounts to accredited merchants. There is also a residual risk for the Company relating to the possible default of the card holders with the issuer in a situation of default.

These primary and residual risks may or may not exist for Cielo, depending on the risk/guarantee model adopted by the card brand in its operation with the card issuers and accredited institutions.

Each brand has its own guarantee system, which is specified in its regulations. Considering the variation of the guarantee model and the risk level of the accrediting entities, the Company assesses and manages such risks according to the model of each brand, requiring or waiving the provision of guarantees. In accordance with BACEN Circular Letter No, 3,682, of November 2013, the brands (denominated "payment institutions" in the relevant regulation), submitted their respective regulations for the appreciation of the BACEN, which are currently under analysis. Therefore, the Company's credit risk may change, depending on the brands' regulations to be approved and disclosed.

There is also, for the Company, risk of losses on chargeback on operations of purchase of receivables (ARV) with accredited merchants, especially those that make deferred sales (with future delivery of products and/or services). To mitigate this risk, the Company adopts risk analysis and control procedures that prevent the merchant from advancing the full amount available in its financial schedule with the Company.

The Company has rights subject to credit risk with financial institutions recorded in line items cash, interbank investments, securities, derivative financial instruments and receivables from card-issuing banks, totaling R\$52,090,803 in parent company and R\$63,392,759 in consolidated.

d. Fraud risk

The Company uses an antifraud system to monitor transactions with credit and debit cards, which detects and identifies suspected fraud at the time of the authorization and sends an alert message to the card-issuing bank for it to contact the cardholder.

e. Transactions with derivative financial instruments

Policy on the use of derivatives

According to the internal policy, the Company's finance income (costs) must arise from the generation of cash from its activities rather than from gains in the financial market. Accordingly, it considers that derivatives should only be used to hedge against potential exposures arising from the risks to which it is subject, without speculative purposes. The offsetting entry to a derivative transaction should be an unhedged asset or liability.

The criterion adopted for definition of the notional value of the derivatives is linked to the amount of the debt and/or assets denominated in foreign currency.

f. Foreign exchange rate risk

The Group conducts a few transactions in foreign currency, mainly represented by transactions performed by foreigners holding credit card in merchants located in Brazil. In addition, on August 31, 2012, the Company acquired the control of Me-S through its holding Cielo USA, both located in the United States of America, whose transactions are conducted in the functional currency, the US dollar.

The exposures to foreign exchange rate risks are managed according to parameters established by policies approved by using currency futures contracts.

As at December 31, 2017, the exposure to foreign exchange rate risk, net of hedging instruments, in thousands of US dollars, is as follows:

	Parent Company	Consolidated
Assets:		
Cash and cash equivalents	6,991	158,382
Operating receivables	845	88,944
Other assets	-	7,843
Investments in foreign currency	(11,627)	-
Property and equipment	-	6,783
Intangible assets, including goodwill	-	187,944
Total	(3,791)	449,896
Liabilities:		
Payables to merchants	-	(126,741)
Other liabilities	-	(23,430)
Repayment of foreign borrowings – Principal	(470,000)	(875,000)
Repayment of foreign borrowings – Interest	(6,610)	(7,237)
Repayment of foreign borrowings – Charges	-	(2,324)
Deferred income tax	-	(61,760)
Tax effect on Bonds	159,800	159,800
Total	(316,810)	(936,692)
Long (short) position - US dollar	(320,602)	(486,796)

The Company enters into forward exchange transactions for US dollars to hedge against fluctuations in exchange rates, which reduces significantly potential currency risks.

Foreign currency sensitivity analysis

The Group is mainly exposed to US dollar fluctuations.

The sensitivity analysis includes only monetary items outstanding and denominated in foreign currency and adjusts their translation at the end of each reporting period for a change of 10%, 25% and 50% in exchange rates. The sensitivity analysis includes borrowings from third parties when they are denominated in a currency different from that of the creditor or debtor. As at December 31, 2017, estimating an increase or decrease by 10%, 25% and 50% in exchange rates, there would be an increase or decrease in profit or loss and equity, in thousands of Brazilian reais (R\$), as follows:

	Parent Company and Consolidated		
	Probable scenario 10 %	Possible scenario 25 %	Remote scenario 50 %
Profit or loss (i)	(2,592)	(6,480)	(12,960)
Equity (i)	103,868	259,671	519,342

(i) Refers mainly to the exposure of balances receivable and payable in US dollars at the end of each reporting period.

g. Interest rate risk on financial investments

The Company's results of operations are subject to significant fluctuations resulting from financial investments with floating interest rates.

Pursuant to its financial policies, the Company has invested its resources in first-tier banks. The Company operates with financial instruments within the limits of approval established by Management.

h. Liquidity risk

The Group manages the liquidity risk by maintaining appropriate reserves, bank and other credit facilities to raise new borrowings that it considers appropriate, based on an ongoing monitoring of budgeted and actual cash flows, and the combination of the maturity profiles of financial assets and liabilities.

i. Interest rate sensitivity analysis - Financial investments and borrowings

Income from financial assets and interest on the Company's borrowings are mainly affected by the variations in DI rate (source: Cetip). As at December 31, 2017, the balances exposed to variations in DI rate are R\$ 3,909,521 in parent company and R\$ 6,048,629 in consolidated for financial investments and R\$ 4,981,078 in parent company and consolidated for borrowings. Estimating an increase or a decrease of 10%, 25% or 50% in interest rates would increase or decrease revenues or expenses as follows:

	Parent Company			Consolidated		
	Probable scenario 10 %	Possible scenario 25 %	Remote scenario 50 %	Probable scenario 10 %	Possible scenario 25 %	Remote scenario 50 %
Financial investments	25,150	62,874	125,749	41,088	102,721	205,441
Borrowings	(83,015)	(207,537)	(415,074)	(94,757)	(236,891)	(473,783)

28 Related-party balances and transactions

In the normal course of their activities and under market conditions, the Company, its subsidiaries and associate conduct transactions with related parties, such as receivables from card-issuing banks (related to operations of purchase of receivables), which are part of financial groups in which the controlling shareholders, Banco Bradesco S.A, and Banco do Brasil, hold interests, as well as expenses and income from services provided by Servinet, Orizon, Multidisplay, M4Produtos, Cateno, Braspag, Aliança, Stelo.

In conducting their business and engaging services, the Company and its subsidiaries make market quotations and researches to find the best technical and pricing terms. Also, the type of business conducted by the Company requires it to enter into agreements with several card issuers, some of which are its direct and indirect shareholders. The Company and its subsidiaries believe that all the agreements entered into with related parties are carried out on an arm's-length basis.

The tables below include the balances as at December 31, 2017 and 2016, by type of agreement, shareholders and subsidiaries, of transactions with related parties conducted by the Company, its subsidiaries and associate, as well as the movements, related to the years ended December 31, 2017 and 2016:

Cielo S.A.
*Individual and consolidated financial statements for the year ended
December 31, 2017 and independent auditor's report
(COSIF)*

Parent Company													
12/31/2017													12/31/2016
Shareholders		Subsidiaries, joint ventures and associate											
Banco Bradesco	Banco do Brasil	Servinet	Multidisplay	M4Produtos	Braspag	Cateno	FIC	FIDC	FIDC Plus	Aliança	Total	Total	
Assets (Liabilities):													
Cash and cash equivalents (a)	545	253,601	-	-	-	-	-	3,624,969	-	-	-	3,879,115	340,038
Operating receivables	3,515	1,891	-	-	-	-	-	-	-	-	-	5,406	5,599
Borrowings (g)	-	(3,429,567)	-	-	-	-	-	-	-	-	-	(3,429,567)	(3,502,012)
Receivables from related parties	-	-	39	7,652	612	19	38	-	50	-	-	8,410	1,661
Payables to related parties	-	-	(9,021)	-	(8,231)	(2,914)	-	-	(537,832)	(8,735,561)	(493)	9,294,052	(21,472)
Consolidated													
12/31/2017													12/31/2016
Shareholders		Subsidiaries, joint ventures and associate											
Banco Bradesco	Banco do Brasil	Servinet	Multidisplay	M4Produtos	Braspag	Cateno	FIC	FIDC	FIDC Plus	Aliança	Total	Total	
Assets (Liabilities):													
Cash and cash equivalents (a)	421,294	499,984	-	-	-	-	-	4,018,414	-	-	-	4,939,692	674,602
Operating receivables	3,515	1,891	-	-	-	-	-	-	-	-	-	5,406	5,599
Borrowings (g)	-	(3,429,567)	-	-	-	-	-	-	-	-	-	(3,429,567)	(3,502,012)
Receivables from related parties	-	-	-	-	-	-	-	-	-	-	-	-	-
Payables to related parties	-	-	-	-	-	-	-	-	-	-	-	-	-

Cielo S.A.
*Individual and consolidated financial statements for the year ended
December 31, 2017 and independent auditor's report
(COSIF)*

	Parent Company													
	12/31/2017													12/31/2016
	Shareholders		Subsidiaries, joint ventures and associate											
	Banco Bradesco	Banco do Brasil	Servinet	Multidisplay	M4Produtos	Braspag	Cateno	FIC	FIDC	FIDC Plus	Aliança	Total	Total	
Revenues:														
Income from financial investments (a)	732	38,772	-	-	-	-	-	-	-	-	-	39,504	49,159	
Income from other services (b)	41,058	20,603	-	17,230	3,996	192	-	-	725	-	-	83,804	94,240	
Income from rental of POS equipment (c)	-	-	-	-	-	-	-	-	-	-	-	-	47	
Expenses:														
Other operating expenses - affiliation commission	(3,420)	(2,558)	-	-	-	-	-	-	-	-	-	(5,978)	(5,391)	
Other operating expenses (d)	(41,437)	(2,629)	-	-	(20,357)	(2,525)	-	-	-	-	-	(66,948)	(30,820)	
Service agreement with Servinet and Aliança (e)	-	-	(156,487)	-	-	-	-	-	-	-	(5,641)	(162,128)	(168,807)	
Provision of data processing services (f)	-	-	-	-	-	(10,053)	-	-	-	-	-	(10,053)	(3,950)	
Finance costs (g)	-	(357,810)	-	-	-	-	-	-	-	-	-	(357,810)	(497,549)	
Provision of service for the placement of promissory notes	-	-	-	-	-	-	-	-	-	-	-	-		

Cielo S.A.
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	Consolidated												
	12/31/2017											12/31/2016	
	Shareholders		Subsidiaries, joint ventures and associate										
	Banco Bradesco	Banco do Brasil	Servinet	Multidisplay	M4Produtos	Braspag	Cateno	FIC	FIDC	FIDC Plus	Aliança	Total	Total
Revenues:													
Income from financial investments (a)	732	170,750	-	-	-	-	-	125,268	-	-	-	296,750	183,683
Income from other services (b)	41,058	20,603	-	-	-	-	-	-	-	-	-	61,661	59,868
Income from rental of POS equipment (c)	-	-	-	-	-	-	-	-	-	-	-	-	47
Expenses:													
Other operating expenses - affiliation commission	(3,420)	(2,558)	-	-	-	-	-	-	-	-	-	(5,978)	(5,391)
Other operating expenses (d)	(41,437)	(2,629)	-	-	-	-	-	-	-	-	-	(44,066)	(30,820)
Finance costs (g)	-	(357,810)	-	-	-	-	-	-	-	-	-	(357,810)	(497,549)
Provision of payment management services (h)	-	(24,572)	-	-	-	-	-	(953)	-	-	-	(24,572)	(23,793)

- (a) Balances corresponding to the amounts held in checking account and financial investments whose terms, charges and interest rates were established under conditions similar to those applicable to unrelated parties.
- (b) Refer to fraud prevention services and receivables-based financing provided by the Company to the shareholder banks, commission on processing of transactions for the companies M4Produtos, Multidisplay and Orizon, provision of financial, administrative, procurement, legal, and HR services for the company Braspag and purchase of receivables from the company Multidisplay and fare collection and settlement services for FIDC and FIC. These related-party transactions are carried out at prices and conditions similar to those applied with other issuing banks.
- (c) Refers to rental of transaction capture equipment to Orizon.
- (d) Services contracted with shareholder banks, relating to: (i) corporate collective life insurance; (ii) hospital and dental insurance; and (iii) private pension agreement. Development of mobile capture solution services for the company M4Produtos and transactions pre-processing services for the company Braspag. The Company understands that the financial conditions adopted by the shareholders in respect of prices, terms and other conditions were applied under conditions similar to those applied with third parties.
- (e) Provision of services by the subsidiaries Servinet and Aliança related to accreditation and maintenance of contacts with merchants and service providers for the acceptance of credit and debit cards, as well as other means of payment. The remuneration for services provided is established based on costs incurred by Servinet and Aliança upon the provision of such services, plus taxes and contributions, as well as remuneration margin.
- (f) Refer to data processing services provided by M4Produtos and Braspag.
- (g) Refer to the balances of the Private Debenture issuance (see note 13.b) held by BB Elo Cartões, a company of the Banco do Brasil group.
- (h) Provision of services by Banco do Brasil to Cateno to operate as Payment Institution in the management of post-paid accounts and purchase functions through debt under the Ourocard Payment Arrangement while Cateno's Granted Rights are not exercised by it.

Main related-party transactions

Balances of card-issuing banks

Receivables from card-issuing banks refer to amounts payable by the issuers to the Company for transactions carried out with credit and debit cards, which will be subsequently paid by the Company to the accredited merchants. As at December 31, 2017, the total balance to be received from Cielo's shareholder banks ("card-issuing banks") is approximately R\$ 21,2 billion.

Domicile bank incentives

The Company entered into agreements with domicile banks to stimulate the invoicing of commissions and purchase of receivables. Under these agreements, the Company remunerates the banks based on the performance and metrics established therein.

Prepayment of receivables from card-issuing banks

The Company has agreements for advance of amounts that will still fall due, related to transfers of amounts that the issuing bank must make to the Company for transactions carried out by the bank's customers holders of credit cards. These advance transactions are performed in order to generate short-term working capital and the amounts deposited in checking account are net of advance fees, on a pro rata basis, calculated at the market rates that do not significantly differ from those adopted by the card-issuing banks that are not the Company's shareholders.

These transactions with related parties are carried out at prices and under conditions similar to the transactions carried out with other issuers of credit or debit cards.

Use of Cielo authorized network (Value Added Network - VAN)

The Company entered into service agreements with Companhia Brasileira de Soluções e Serviços – CBSS. These services include the capture, authorization and processing of transactions with ALELO cards, as well as services provided to merchants, operational and financial back office services, fraud prevention, issuance of statements and financial control over the electronic transactions resulting from these transactions. The fees and rates charged for these related-party transactions are at prices and under conditions similar to the transactions

carried out with other third party partners.

VAN services and connectivity rate - Amex

The Company entered into a nonexclusive service agreement for the capture of transactions of cards issued by Amex Brand (VAN), with Banco Bradesco Cartões S.A. (which merged Bankpar S.A.) ("Banco Bradesco Cartões"), a Bradesco Group's company which holds the rights over the American Express ("Amex") brand in Brazil. The agreement established, until 2015, the remuneration of Banco Bradesco Cartões by the Company, through the payment of a connectivity rate, relating to the Company's access to the merchants affiliated to the Amex brand acquisition systems. The partnership with the Amex brand has high potential for generating value to the Company since it complements its brand portfolio. The signing of such agreements was approved by the Board of Directors, with abstention from those legally impeded by conflict of interest. The prices charged for the provision of the service are similar to those practiced with other third party partners.

Participation of Accredited Merchants in Elo Payment Arrangements

The Company participates in Elo Payment Arrangements, established by Elo Serviços S.A. The Company participates in Elo Arrangements as Accrediting Institution, which includes the provision of services relating to accreditation and maintenance of merchants, the participation in the processing and settlement of transactions made with payment instruments of Elo Arrangements and license for the use of Elo brands, in conformity with the technical specifications contained in its manuals. The Company pays Elo for its participation as accrediting institution in Elo Arrangements, and the conditions and prices of such participation are similar to those practiced with the other accrediting institutions.

Bank account lock

Refers to bank account lock service agreements entered into with various banks, whose service consists of ensuring to the banks the locking of the bank accounts of the accredited merchants that carry out financial transactions with them. These related-party transactions are carried out at prices and under conditions similar to the transactions carried out with other domicile banks.

Share bookkeeping services

A share bookkeeping service agreement entered into between Cielo and Banco Bradesco S.A., whereby the latter provides share bookkeeping and share certificate issuance services to the Company.

Operating services - Stock option program

Service agreement consisting of rendering operating services for the stock option program and the related grants entered into with Bradesco S.A. Corretora de Títulos e Valores Mobiliários.

Payment management services

Banco do Brasil entered into an agreement with Cateno in order to operate as Payment Institution in managing post-paid accounts and purchase functions through debit under the Ourocard Payment Arrangement while Cateno's Granted Rights are not exercised by it. The agreement has a clause for compensation of 0.01% on the total financial volume of transactions under the Contracting party's management.

Securities bookkeeping services

Agreement entered into with Banco Bradesco S.A. for the provision of debenture bookkeeping and custodian agent services.

Securities management services

Agreement entered into with Banco Bradesco BBI S.A. for the provision of services of coordination and distribution of promissory notes and debentures, the latter pursuant to the terms of CVM Instruction No. 400.

Public and private securities operating management services

The agreement entered into with Banco do Brasil S.A. is aimed at regulating the provision of services relating to movement, custody and financial settlement of transactions carried out with public securities registered with SELIC and with private securities registered with CETIP.

Representation services with CIP

Agreement entered into with Banco do Brasil S.A. for the bank's representation with CIP (Interbank Payment Clearing House) aiming at the provision of services relating to settlement of transactions carried out with credit and/or debit cards and provision of STR (Reserve Transfer System) issuance services.

Other widespread agreements

In addition to the balances recorded, the Company provides platform processing and license services to Elo Serviços S.A. and engages other services from the main shareholders, namely:

- Cash management services.
- Insurance.
- Health insurance and private pension services.
- Corporate credit card.
- Payment to suppliers.

29 Segment information

Information by operating segments is presented consistently with the internal reports provided to the Chief Operating Decision-Maker – CODM.

A business segment is an identifiable component of the Group intended to provide an individual product or service or a group of related products or services and subject to risks and rewards that are differentiated from the other business segments.

As of the establishment of Cateno in February 2015, with operating activities relating basically to managing payment accounts within the scope of the Ourocard Payment Arrangement, which differs essentially from the aforementioned segment, the Group now holds two types of business: (i) service provision related to capture and processing of transactions with credit and debit cards, other means of payment, accreditation of merchants and related services, and (ii) management of transactions arising from credit and debit card transactions, among which issuing cards, managing payment accounts, providing support to the management and control of transaction security, payments of fees to the brands and payment arrangements, and other services related to managing payment accounts.

Cielo S.A.
*Individual and consolidated financial statements for the year ended
December 31, 2017 and independent auditor's report
(COSIF)*

	Six-month period ended December 31, 2017			Year ended December 31, 2017			Year ended December 31, 2016		
	Capture and processing of transactions	Management of payment accounts	Consolidated	Capture and processing of transactions	Management of payment accounts	Consolidated	Capture and processing of transactions	Management of payment accounts	Consolidated
Domestic market	3,780,338	1,378,275	5,158,613	7,399,371	2,594,451	9,993,822	8,094,589	2,487,092	10,581,681
Foreign market	809,412	-	809,412	1,606,519	-	1,606,519	1,719,103	-	1,719,103
Net operating revenue	4,589,750	1,378,275	5,968,025	9,005,890	2,594,451	11,600,341	9,813,692	2,487,092	12,300,784
Cost of services provided	(1,983,405)	(595,140)	(2,578,546)	(3,712,557)	(1,185,889)	(4,898,447)	(3,850,819)	(1,252,618)	(5,103,437)
Depreciation and amortization	(238,554)	(192,866)	(431,420)	(489,541)	(385,733)	(875,274)	(505,589)	(385,733)	(891,322)
Gross profit	2,367,791	590,269	2,958,059	4,803,792	1,022,829	5,826,620	5,457,284	848,741	6,306,025
Operating expenses	(655,020)	(58,299)	(713,320)	(1,315,592)	(108,438)	(1,424,031)	(1,542,985)	(117,464)	(1,660,448)
Depreciation and amortization	(72,267)	(149)	(72,416)	(257,564)	(278)	(257,842)	(390,416)	(140)	(390,556)
Operating profit	1,640,504	531,821	2,172,323	3,230,636	914,113	4,144,747	3,523,884	731,137	4,255,021
Finance income (costs)	1,075,748	(159,794)	915,954	2,185,074	(453,097)	1,731,977	2,627,606	(872,817)	1,754,789
Profit (loss) before taxes	2,716,252	372,027	3,088,277	5,414,710	461,016	5,876,724	6,151,490	(141,680)	6,009,810
Income tax and social contribution	(819,437)	(126,514)	(945,951)	(1,656,533)	(156,833)	(1,813,366)	(1,991,001)	50,538	(1,940,463)
Profit (loss) for the period	1,896,815	245,513	2,142,326	3,759,177	304,183	4,063,358	4,160,489	(91,142)	4,069,347
Attributable to:									
Owners of the Company	1,895,313	128,774	2,024,084	3,756,469	98,341	3,854,807	4,152,580	(261,279)	3,891,301
Noncontrolling interests	1,502	116,739	118,242	2,708	205,842	208,551	7,909	170,137	178,046

The balances by segment as at December 31, 2017 and 2016, are as follows:

	Statements of financial position at 12/31/2017		
	Capture and processing of transactions	Management of payment accounts	Consolidated
Total assets	74,446,634	12,881,293	87,327,927

	Statements of financial position at 12/31/2016		
	Capture and processing of transactions	Management of payment accounts	Consolidated
Total assets	74,788,774	12,721,902	87,510,676

30 Noncash transactions

	Parent Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Exchange differences on net foreign investment	12,994	(202,708)	12,994	(202,708)
Exchange differences on borrowings	22,983	(303,479)	42,787	(563,689)
Minimum dividends and interest on capital proposed	1,329,255	587,560	1,329,255	624,730
Dividends and interest on capital receivable from direct subsidiary	6,400	-	-	-

31 Insurance

As at December 31, 2017, the Company has the following insurance coverage:

Type	Insured amount
Civil liability of Directors and Officers	270,000
Named perils (fire, windstorm and smoke, electrical damages, electronic equipment, theft and flood)	266,096
Loss of profits	19,895
POS equipment warehousing	388,561
POS equipment transportation	2,097,091
POS equipment FINAME	687,657

32 Events after the reporting period

In a Notice to the Market on January 18, 2018, Cielo informed the acquisition, through its subsidiary Aliança, of 70% of Stelo shares. Aliança already held 30% of Stelo shares and, once the transaction is completed, Cielo will indirectly hold 100% of Stelo shares, for the purchase price of R\$ 87.5 million. The equity interest to be acquired by Aliança is held by Companhia Brasileira de Soluções e Serviços ("Alelo") which, in turn, is controlled by Banco do Brasil S.A. and Banco Bradesco S.A. Company's majority shareholders.

In line with the Company's objective of diversifying the offer of solutions and services, the acquisition of Stelo will allow to explore new business initiatives, such as the sale of POS equipment through an own brand and an independent structure, and to improve the business strategy in order to meet the most varied demands of its customers.

The completion of the transaction will take place after the compliance with certain conditions precedent, including the approval by the appropriate agencies, that is, Brazilian Central Bank and the Administrative Council for Economic Defense – CADE.

ANNEX C

1Q2019 Interim Financial Results

[See attached.]

Cielo S.A.

Individual and Consolidated Financial
Statements for the three-month period ended
March 31, 2019 and Independent Auditor's
Report
(*COSIF*)

DEAR SHAREHOLDERS

We present the Comments on Performance and the Interim Financial Information of Cielo S.A. (“Parent Company” or “Cielo”), its subsidiaries and associate (together referred to as “Group”), for the quarter ended March 31, 2019, accompanied by the Independent Auditor’s Report on the review of the quarterly information (ITR).

With the authorization granted by the Brazilian Central Bank in April 2017 to operate as an accrediting payment institution, the individual financial statements (Parent Company) and the Consolidated financial statements have been prepared in conformity with the accounting guidelines from Law No. 6,404/76 (Corporation Law), including the changes introduced by Laws No. 11,638/07 and No. 11,941/09, and the standards and instructions from the National Monetary Council (CMN), the Brazilian Central Bank (BACEN) and the Brazilian Securities and Exchange Commission (CVM), when applicable (together herferred to as “COSIF”).

The consolidated financial information includes the account balances of Cielo (Parent Company), direct subsidiaries Multidisplay, Servinet, Braspag, Cielo USA, Cateno and Aliança and indirect subsidiaries Stelo, Merchant e-Solutions and M4Produtos. The results of the jointly-controlled subsidiaries Orizon and Paggo, (wihtout operating activities), were accounted for under the equity method in the consolidated financial information. When necessary, this accounting information was adjusted to conform its accounting practices to those established by the Group. All transactions, revenues and expenses among Group companies were eliminated in full in the consolidated financial information.

In addition, we were granted authorization by the Brazilian Central Bank (BACEN) in September 2018 for the acquisition of the remaining 70% interest in indirect subsidiary Stelo by subsidiary Aliança.

Pursuant to National Monetary Council – CMN Resolution No. 3,853 /10 and Brazilian Central Bank – BACEN Circular Letter No. 3,447 / 10, the Company elected to prepare its individual and consolidated quarterly financial statements in accordance with accounting practices adopted in Brazil, applicable to Payment Institutions authorized to operate by the Brazilian Central Bank. Therefore, we fill only the tables referring to the standardized data of the individual information, since the tables referring to the standardized data of the consolidated information are applicable only to the preparation of Consolidated Financial Statements in accordance with the Pronouncements issued by the Accounting Pronouncements Committee (CPC), approved by the Brazilian Securities and Exchange Commission (CVM), in alignment with the international accounting standards issued by the International Accounting Standards Board (IASB). We present below the reconciliation of 1Q19 results between COSIF and IFRS accounting practices (used up to 4Q18 to complete the Quarterly Information):

R\$ million	1Q19	
	Net Profit	Equity
COSIF	548.5	9,040.1
(-) goodwill amortization (a)	6.5 (a)	1,774.2 (c)
(-) Exchange difference net of taxes	6.8 (b)	-
(-) Reclassification of equity transaction between partners	-	82.3 (d)
IFRS/CPC	561.8	10,896.6

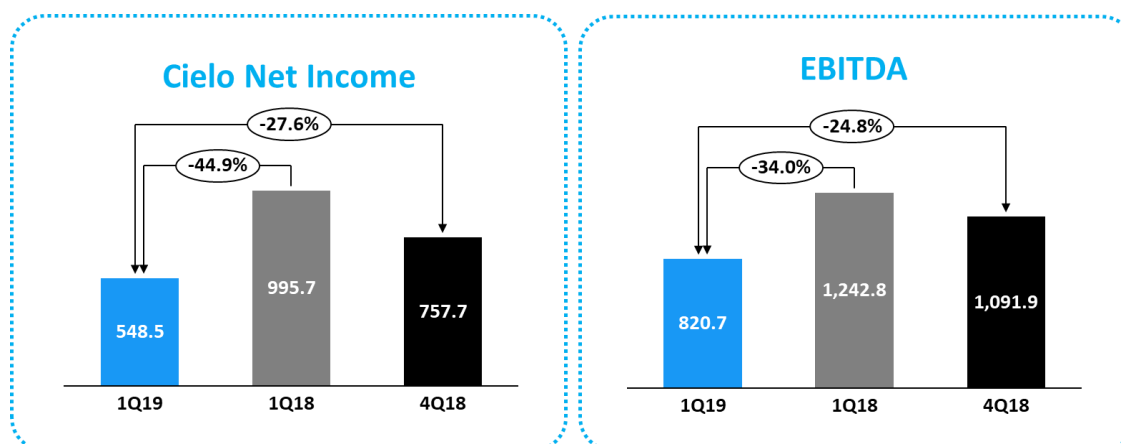
(a) It refers to amortization of goodwill arising from acquisition of controlling interest in Multidisplay.

(b) Forex variation on the 10-Year Bonds issued by Cielo, net of taxes, was recognized in the income statement for the year under COSIF. Differently, under IFRS, forex variation on the 10-Year Bonds impacts “Other Comprehensive Income” heading, in Equity, due to designated effective hedge accounting between the US dollar investment in the subsidiary Cielo USA and the US dollar-denominated debt (bonds).

- (c) It refers to the accumulated amortization of goodwill originated in the acquisition of investments by Cielo and its subsidiaries.
- (d) It refers to goodwill paid by Cielo, in July 2016, upon the additional acquisition of 41.34% interest in subsidiary Multidisplay, now holding 91.44% stake. Under IFRS, this operation was treated as a capital transaction among partners directly recorded in Equity. Under COSIF, the amount composes the group of intangible assets, under assets of the consolidated financial statements.

HIGHLIGHTS 1Q19

- Cielo's financial volume of transactions totaled R\$156.8 billion, down 7.1% compared to 4Q18, or R\$12.1 billion, and up 2.7% compared to 1Q18, or R\$4.1 billion;
- Consolidated net revenue totaled R\$2,773.1 million, down 7.9% compared to 4Q18, or R\$238.5 million, and also down 0.4% compared to 1Q18, or R\$11.6 million;
- Purchase of receivables (ARV), before cost of equity and debt, totaled R\$302.0 million, a decrease of 3.4% compared to 4Q18, and down 34.8% compared to 1Q18. The ARV reached 17.6% on the financial volume of credit captured by Cielo in the quarter, an increase of 1.7 percentage point compared to 4Q18, and an increase of 0.1 percentage point compared to 1Q18;
- Total Consolidated expenditures (costs and expenses) amounted to R\$2,189.3 million, up 1.2% compared to 4Q18, or R\$26.5 million and up 22.4% compared to 1Q18, or R\$401.1 million;
- Cielo's net income totaled R\$548.5 million, down 27.6% compared to 4Q18, or R\$209.2 million and down 44.9% compared to 1Q18, or R\$447.1 million; and
- Consolidated EBITDA of R\$820.7 million was down 24.8% compared to 4Q18, or R\$271.2 million, and down 34.0% compared to 1Q18, or R\$422.0 million.



OPERATING PERFORMANCE 1Q19

Transaction Financial Volume

Quarterly Evolution

In 1Q19, Cielo's financial volume of transactions totaled R\$156.8 billion, a reduction of 7.1%, or R\$12.1 billion, compared to R\$168.9 billion in 4Q18 and a reduction of 2.7%, or R\$4.1 billion, compared to R\$152.7 billion in 1Q18.

Specifically with credit cards, the financial volume of transactions totaled R\$93.2 billion in 1Q19, down 5.0% compared to 4Q18 and up 6.4% compared to 1Q18.

With debit cards, financial volume of transactions totaled R\$63.5 billion in 1Q19, a decrease of 10.1% compared to 4Q18 and a decrease of 2.3% compared to 1Q18.

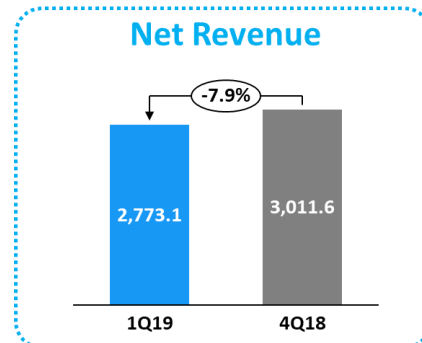
In addition, Cielo captured 1.7 billion transactions in 1Q19, a decrease of 6.0% compared to 4Q18 and a decrease of 2.3% compared to 1Q18.

FINANCIAL PERFORMANCE 1Q19

COMPARISON FOR THE QUARTERS ENDED MARCH 31, 2019 AND DECEMBER 31, 2018

Net Revenue

Quarterly Evolution

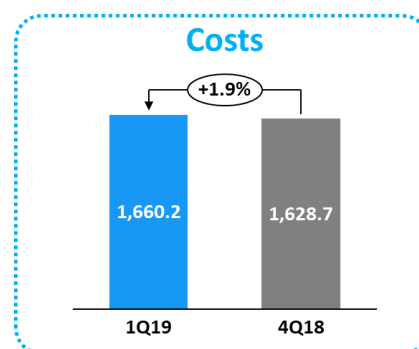


Consolidated net revenue totaled R\$2,773.1 million in 1Q19, a decrease of R\$238.5 million or 7.9%, when compared to R\$3,011.6 million in 4Q18.

Lower net revenue from capture, transmission, processing and financial settlement of debit and credit card transactions was due to the seasonality in the business of the Parent Company and its subsidiaries Cateno and Merchant e-Solutions in 4Q18, mainly due to the sales at year end, as well as the decrease in commission revenues, owing to the pressure on prices practiced and the Parent Company's rental revenue, in a competitive environment. The decrease in consolidated net revenue was partially offset by the expansion in the online load services of subsidiary Multidisplay, and the growth in merchant acquiring services of indirect subsidiary Stelo.

Cost Of Services Provided

Quarterly Evolution

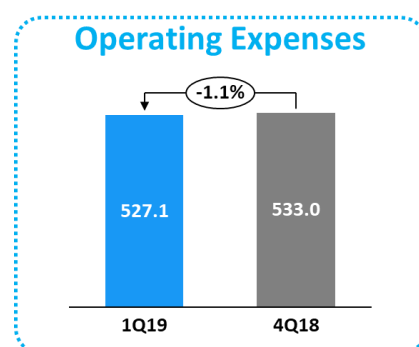


Consolidated cost of services rendered totaled R\$1,660.2 million in 1Q19, an increase of R\$31.5 million, or 1.9% compared to 4Q18. This increase was mainly due to the following events:

- (i) Increase of R\$46.1 million or 27.6% in **cost of services rendered of subsidiary Multidisplay**, directly related to service revenues in the quarter, due to the expansion in businesses and revenue from new online load channels;
- (ii) Net increase of R\$10.5 million in cost of **merchant acquiring activities and other costs**, of **indirect subsidiary Stelo**, directly related to the increase in the subsidiary's revenues in the quarter, due to the expansion in businesses;
- (iii) Net increase of R\$27.7 million in cost of **merchant acquiring activities** of Cielo, referring to the reduction of tax credit on inputs (PIS/Cofins) captured in the quarter, increase in **fees of the brands**, as well as increase in cost with the **processing of transactions**;
- (iv) Partially offset by the net reduction of R\$37.8 million or 10.2% in **cost of services rendered by subsidiary Merchant e-Solutions**, mainly related to the decrease in volume of services of the subsidiary, when compared to 4Q18, due to the business seasonality related to sales at year end; and
- (v) Partially offset by the net reduction of R\$20.2 million or 6.1% in the Parent Company's **cost related to POS equipment and other costs**, mainly related to the reduction in **depreciation** costs, due to the change in the estimated useful life of POS equipment from three to five years, as well as reduction of **other processing services**, partially offset by the increase in **maintenance/activation of terminals of customers**..

Operating Expenses

Quarterly Evolution



Operating expenses totaled R\$527.1 million in 1Q19, a decrease by R\$5.9 million or 1.1%, compared to 4Q18. This decrease was mainly due to the following events:

Sales and marketing expenses – Sales and marketing expenses decreased by R\$49.3 million or 59.3%, to R\$33.9 million in 1Q19, compared to R\$83.2 million in 4Q18. This decrease was mainly due to the concentration of expenses in 4Q18 with institutional marketing campaigns and commercial actions, which were reduced in 1Q19;

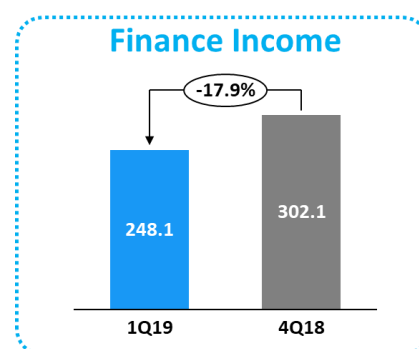
Personnel expenses – Personnel expenses increased by R\$23.6 million or 14.5%, to R\$187.4 million in 1Q19, compared to R\$163.8 million in 4Q18. This increase was mainly due to the increase in the sales headcount, following the Parent Company's commercial strategy, as well as the increase in personnel expenses in subsidiary Merchant e-Solutions;

General and administrative expenses – General and administrative expenses increased by R\$12.2 million or 7.1%, to R\$184.4 million in 1Q19, compared to R\$172.2 million in 4Q18. This increase was mainly due to the increase in amortization expenses of POS sales subsidy of indirect subsidiary Stelo, partially offset by the reduction in the Parent Company's professional and consulting services; and

Other net operating expenses including Contingencies – Other net operating expenses, including contingencies, increased by R\$8.3 million or 7.2%, to R\$123.3 million in 1Q19, compared to R\$115.0 million in 4Q18. This increase was due to higher write-offs for fraud events in subsidiary Cateno.

Finance Income

Quarterly Evolution



Finance income, net totaled R\$248.1 million in 1Q19, down 17.9% or R\$54.0 million compared to 4Q18, which reported a figure of R\$302.1 million. This decrease was mainly due to the following events:

Finance income – Finance income decreased by R\$32.1 million or 41.6%, to R\$45.2 million in 1Q19, compared to R\$77.3 million in 4Q18. The decrease in finance income was due cash used in order to foster ARV operations in 1Q19 and, consequently the decrease in the average financial investment balance;

Finance costs – Finance costs increased by R\$16.0 million or 12.3%, to R\$146.7 million in 1Q19, compared to R\$130.7 million in 4Q18. This increase was mainly due to the increase in average debt balance, owing to cash used to foster purchase of receivables (ARV) in 1Q19;

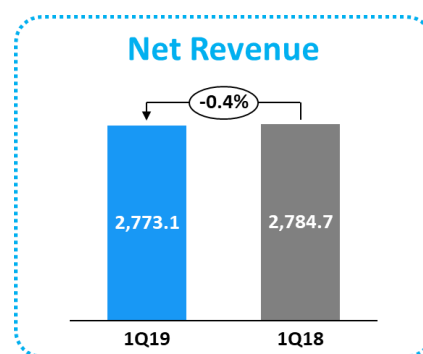
Purchase of receivables (ARV) – Purchase of receivables, before cost of equity and debt, net of taxes, totaled R\$302.0 million in 1Q19, presenting a reduction of R\$10.5 million or 3.4%, when compared to R\$312.5 million in 4Q18. This reduction was due to the reduction in the volume acquired, due to the seasonality of the business, as well as the reduction in the average rate practiced;

Exchange variation, net – Exchange variation, net totaled R\$47.6 million in 1Q19, a gain of R\$4.8 million or 11.1%, when compared to R\$42.8 million in 4Q18. This gain was due to higher appreciation of the Brazilian real in 1Q19, without contracting derivatives in the period to provide hedge against exchange variation, compared to 4Q18.

COMPARISON FOR THE QUARTERS ENDED MARCH 31, 2019 AND MARCH 31, 2018

Net Revenue

Quarterly Evolution

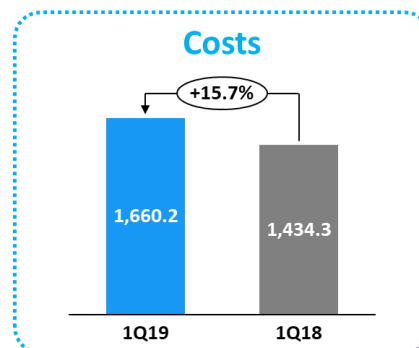


Cielo's consolidated net revenue totaled R\$2,773.1 million in 1Q19, down 0.4% or R\$11.6 million, when compared to R\$2,784.7 million in 1Q18.

The decrease in consolidated net revenue is a consequence of the decrease in commission revenues that were affected by the competitive environment posing pressure on prices practiced and leading to a decrease in revenue from rental of POS equipment, due to the decrease in the fees charged, as well as the increase in the percentage of clients from the Large Accounts segment. This decrease was offset by the increase in the Parent Company's revenue from the *Receba Rápido* ("Quick Credit Receipt") product, as well as the increase related to the expansion of the businesses and the online load services of subsidiary Multidisplay, the consolidation of indirect subsidiary Stelo as from 3Q18, as well as the increase in revenue of subsidiary Merchant e-Solutions, due to the US dollar appreciation, and increase in revenues of subsidiary Cateno related to the increase in the volume purchased in this quarter compared to the same quarter of the prior year.

Cost Of Services Provided

Quarterly Evolution



Cost of services rendered totaled R\$1,660.2 million in 1Q19, an increase of R\$225.9 million or 15.7%, when compared to R\$1,434.3 million in the same quarter of the prior year. This increase was due to the following events:

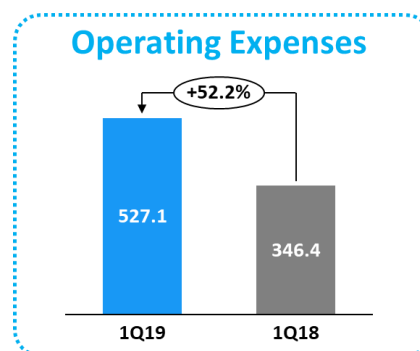
- (i) Increase of R\$85.1 million or 66.3% in **cost of services rendered of subsidiary Multidisplay**, directly related to revenue from services rendered in the quarter, due to the expansion in businesses and revenue from new online load channels;
- (ii) Increase of R\$48.0 million or 13.1% in costs in connection with management of **Ourocard Arrangement payment accounts**, related to **fees of the brands** and **Customer Services**, due to the higher volume of purchases in 1Q19 compared to the same quarter of the prior year, partially offset by the effect of measures to improve operating efficiency on the lines of costs with printing and mailing of invoiced bills and documents;
- (iii) Net increase of R\$47.4 million or 16.5% in cost of Cielo's **merchant acquiring activities**, due to the increase in expenses with **fees of the brands**, mainly due to the end of discounts granted and the beginning of collection of e-commerce transactions in 2019 by MasterCard brand, as well as

the impacts due to the changes in the contractual models of the brands, as well as the increase in measured volume of purchases occurred between the periods;

- (iv) Increase of R\$35.2 million or 11.8% in **costs of subsidiary Merchant e-Solutions**, mainly due to appreciation of the US dollar in the period;
- (v) Net increase of R\$24.2 million in cost **of merchant acquiring activities and other costs** of indirect subsidiary **Stelo**, due to its consolidation as from 3Q18;
- (vi) Partially offset by the net reduction of R\$17.8 million or 5.4% in Cielo's **costs related to POS equipment and other costs**, mainly due to the reduction in **depreciation** costs, due to the change in the estimated useful life of POS equipment from three to five years, partially offset by the increase in **other processing services**.

Operating Expenses

Quarterly Evolution



Operating expenses totaled R\$527.1 million in 1Q19, an increase of R\$180.7 million or 52.2% when compared to R\$346.4 million in 1Q18. This increase occurred mainly due to the following events:

Personnel expenses - Personnel expenses increased by R\$61.2 million or 48.5%, to R\$187.4 million in 1Q19, compared to R\$126.2 million in 1Q18. This increase was mainly due to the increase in sales headcount, following the Parent Company's strategy, as well as salary increase (collective labor agreement) in 2H18 and consolidation of indirect subsidiary Stelo, which has been in continuous growth since 3Q18;

General and administrative expenses - General and administrative expenses increased by R\$50.8 million or 38.1%, to R\$184.4 million in 1Q19, compared to R\$133.6 million in 1Q18. This increase is basically related to the consolidation of indirect subsidiary Stelo as from 3Q18, as well as the increase in the Parent Company's commercial expenses and higher expenses in Merchant E-Solutions due to the US dollar appreciation;

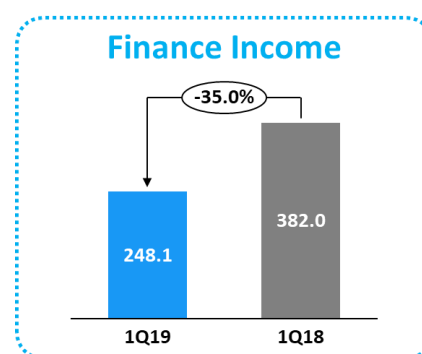
Other net operating expenses, including Contingencies - Other net operating expenses, including contingencies, increased by R\$60.7 million or 97.0%, to R\$123.3 million in 1Q19, compared to R\$62.6 million in 1Q18. This increase is due to the higher write-off of uncollectible receivables by the Parent Company and subsidiary Cateno in 1Q19;

Sales and marketing expenses - Sales and marketing expenses increased by R\$2.4 million or 7.5%, to R\$33.9 million in 1Q19, compared to R\$31.5 million in 1Q18. This increase is due to the increase in expenses with marketing campaigns and commercial actions, when compared to the same quarter of the prior year; and

Share of profit (loss) of investees - Share of profit (loss) of investees decreased by R\$5.6 million or 73.7%, to R\$2.0 million in 1Q19, compared to R\$7.6 million in 1Q18. This decrease in share of profit (loss) of investees was mainly due to consolidation of indirect subsidiary Stelo, accounted for under the equity method, in subsidiary Aliança until 3Q18.

Finance Income

Quarterly Evolution



Finance income, net totaled R\$248.1 million in 1Q19, a decrease by R\$133.9 million or 35.0% compared to finance income of R\$382.0 million in 1Q18. This decrease occurred mainly due to the following events:

Finance income - Finance income decreased by R\$54.8 million or 54.8%, to R\$45.2 million in 1Q19, compared to R\$100.0 million in 1Q18. This decrease in finance income was due to use of cash to foster the purchase of receivables (ARV) in 1Q19 and, as a consequence, lower average financial investment balance;

Finance costs - Finance costs decreased by R\$10.9 million or 6.4%, to R\$146.7 million in 1Q19, compared to R\$157.7 million in 1Q18. This decrease was due to the reduction of the average indebtedness with third parties, due to the amortization of public debentures and FINAME loans;

Purchase of receivables (ARV) – Purchase of receivables, before cost of equity and debt, net of taxes, totaled R\$302.0 million in 1Q19, a reduction of R\$161.3 million or 34.8%, when compared to R\$463.3 million in 1Q18. This reduction was related to the reduction in the effective average rate, partially offset by the increase in volume in the period; and

Exchange variation, net – Exchange gain, net totaled R\$47.6 million in 1Q19, presenting a gain of R\$71.3 million, when compared to exchange loss of R\$23.7 million in 1Q18. The gain refers to the exchange variation on the Bonds, whose management, on January 7, 2019, hedged the exchange variation with derivative contracts.

EBITDA

EBITDA

Evolução Trimestral

EBITDA totaled R\$820.7 million in 1Q19, a decrease of 34.0% compared to 4Q18 and a decrease of 24.8% compared to 1Q18, as shown below:

EBITDA (R\$ million)	1Q19	1Q18	4Q18
Cielo Net Income	548.5	995.7	757.7
Shareholders other than not of Cielo S.A.	40.7	49.9	56.1
Finance Income (Expenses)	(248.1)	(382.0)	(302.1)
Tax and Social Contribution	244.6	340.4	338.3
Depreciation and Amortization	235.0	238.8	242.0
EBITDA	820.7	1,242.8	1,091.9
% EBITDA margin	29.6%	44.6%	36.3%

EBITDA corresponds to the net income, plus income tax and social contribution, depreciation and amortization expenses and finance income net of finance costs. We point out that for such calculation, the parent company's net income includes the non-controlling interests.

Management believes that EBITDA is an important parameter for investors because it provides relevant information about our operating results and profitability.

However, EBITDA is not an accounting measurement used in the accounting practices adopted in Brazil and, according to the International Financial Reporting Standards (IFRS), it does not represent the cash flow for the reporting periods and it should not be considered as an alternative to net income as an operating performance measure or as an alternative to operating cash flow or as a measurement of liquidity. In addition, the EBITDA has a limitation which jeopardizes its use as a measure of profitability, since it does not consider certain costs deriving from businesses, which may significantly affect profit, such as financial expenses, taxes, depreciation, capital expenditures and other related charges.

CORPORATE GOVERNANCE

Corporate Governance is a priority for the Parent Company, which has as one of its goals its continuous improvement to support sustainable, long-term corporate performance. In this spirit, the Parent Company voluntarily adopts the best corporate governance practices besides those required for companies listed on B3's Novo Mercado, evidencing the commitment of the Parent Company and its Management to the interest of its shareholders and investors.

The maximization of its efficiency and creation of long-term value translate, for example, into: (a) the adoption of an appropriate decision-making system and the monitoring of compliance therewith; (b) the maintenance of a Corporate Governance Office, which aims to support management bodies and committees/advisory forums of the Parent Company and its subsidiaries, as well as to ensure compliance with the best corporate governance practices; (c) the adoption of ethical and sustainable conduct; (d) the formal performance assessment of the Board of Directors members and related advisory bodies on an individual and group basis; (e) the presence of distinct personnel holding the positions of Chairman of the Board of Directors and Chief Executive Officer; the existence of an annual calendar and minimum agenda for the Board of Directors, covering the subjects to be discussed over the year in meetings previously scheduled; (g) the exchange of information through the Corporate Governance Electronic Portal; (h) the existence of a Policy on Related Party Transactions and situations involving Conflicts of Interest; and (i) a Code of Ethics mandatorily adhered to by all employees and Management, which establishes rules of conduct in relationships with all stakeholders.

It is worth pointing out that since 2013 the Parent Company has been adopting a Policy on Related Party Transactions and other situations concerned with conflict of interests ("Policy"), which aims at consolidating the procedures to be followed in the Parent Company's businesses involving related parties, as well as other situations involving potential conflict of interests, conferring transparent procedures to its shareholders and the market in general, ensuring its strict alignment with the Parent Company's interests, always in compliance with the best Corporate Governance practices. In June 2018, the Policy was updated.

The issues referring to conflict of interests/related parties shall be addressed to the Corporate Governance Committee so that by means of assumptions, filters and mechanisms defined in the Policy, such committee may direct them for the Board of Directors' resolution. When referring to the issues concerned with conflict of interests/related parties between shareholders composing the controlling interest and the Parent Company, the Corporate Governance Committee, exceptionally, will be composed of all the independent members, and two members shall be appointed to analyze the matter as "ad hoc" members of the Corporate Governance Committee, in replacement of Controlling Shareholders' representatives.

As practical examples, we have (a) the incentive policy to banks exclusively approved by independent members of the Board of Directors and (b) the acquisition of all the shares of Stelo S.A. (a result of association between Cielo and its subsidiary Aliança Pagamentos e Participações Ltda.) exclusively performed by the independent members of the Board of Directors.

Referring to the Parent Company's corporate governance bodies, the Board of Directors which is a joint committee is composed of 11 (eleven) members, who do not perform management activities, out of which 3 (three) are independent, where their independence aims to protect the interests of the Parent Company and its minority shareholders. The Board of Directors is responsible, among other attributions, for setting the general direction of the Parent Company's business, electing the members of the Executive Board and overseeing its management. Currently, the Parent Company's Statutory Board is composed of eight (8) members and performs

the general management of the Parent Company, respecting the guidelines defined by the Board of Directors. Moreover, as another evidence of the Parent Company's adherence to the best Corporate Governance practices, the Board of Directors has seven (7) advisory committees, namely: Audit Committee, Finance Committee, Corporate Governance Committee, People Management Committee, Sustainability Committee, Innovation Committee and Risk Committee; and the Executive Board has 8 (eight) advisory forums: Earnings Release Forum, Ethics Forum, Expenses Forum, Social and Cultural Investments Forum, Pricing Forum, Projects Forum, Diversity Forum and Products and Services Forum.

The Parent Company's Supervisory Board, an independent management body, is currently installed to oversee the Management activities and is composed of 5 (five) members, 01 (one) of them is an independent member.

Cielo is committed to the inclusion of Sustainability-related issues in its practices, aiming at ensuring success of the business in the long term, contributing to a wholesome environment, a fairer society and Brazil's social and economic development.

To better structure the achievement of these commitments, in 2017 the Parent Company also revised its Sustainability Strategic Plan. Adherent to the Parent Company's business plan, approved by the Board of Executive Officers, the Sustainability Committee and the Board of Directors, this plan enabled a clearer understanding of how sustainability may effectively add value and boost the Parent Company's business, which has an enormous potential to stimulate the Brazilian economy. At the end of the process, the plan structure foresees initiatives of potential competitive advantage in the market – employees' commitment to a culture of sustainability, the incentive to entrepreneurship and enhancement of the good practices already adopted by Cielo – environmental management, private social investment and critical suppliers' management from the sustainability viewpoint.

The good practices, already implemented by the Parent Company are adopted every day, by means of consistent environmental initiatives, such as for instance, the creation of a climate strategy, which includes the elaboration of greenhouse gas emission inventories (GHG) in line with the best world-class practices, audited and published in the Public Registry of Brazil GHG Protocol Program and the offset of carbon emissions; the investment in social projects which promote education, by means of actions contributing to improved basic education and/or technical education, as well as initiatives that enable income generation also contributing to the development of Brazilian entrepreneurs.

The generation of value to the Parent Company and the stakeholders with whom we maintain relationship occurs by means of an ethical conduct, assumption that guides and permeates all Cielo's activities. Through the Code of Ethical Conduct, Cielo seeks to ensure the best corporate practices in the relationship with all of its stakeholders.

In accordance with the principle of transparency, in April 2018, the Parent Company published its 2017 Sustainability Report, which was prepared based on the guidelines of the Global Reporting Initiative (GRI), GRI Standards version, providing information on the Parent Company's performance regarding the most significant aspects for the business sustainability, seeking to demonstrate its ability to generate value and performing on a longstanding basis.

Such agenda of sustainability promotes business opportunities and enables competitive advantages to Cielo, perceived by the financial market and the entire society. As an example, Cielo, for the sixth consecutive year adheres to the portfolio of the Corporate Sustainability Index (ISE) of B3, an acknowledgment which attests, amongst the Parent Company's initiatives, to good corporate governance practices, suppliers management – taking into account social and environmental aspects and actions to promote its employees' life quality.

In 2018, Cielo joined for the third consecutive year, the portfolio of the Dow Jones Sustainability Index (DJSI), under the World category (effective until September 2019). In order to be included, companies go through a strict selection process, which analyzes the economic data, environmental and social performance, corporate governance, risk management, mitigation of climate change and labor practices, among other aspects. And, since 2011, the Parent Company has been issuing the American Depositary Receipts (ADRs), Level I, listed on the OTCQX International market.

RELATIONSHIP WITH AUDITORS

Pursuant to CVM Instruction No. 381/03, we inform that during 1Q19, the Parent Company engaged the independent auditing services of KPMG.

The Parent Company's policy when contracting independent auditor's services assures there is no conflict of interests, no loss of independence or objectivity. Therefore, Cielo's policy to engage independent auditors adopts the following internationally accepted principles: (a) the auditor shall not audit his own work, (b) the auditor shall not perform managerial duties at his client and (c) the auditor shall not promote the interests of its client.

Cielo declares that the independent auditors provided services not related to independent audit in 1Q19, which consisted of provision of limited assurance about the Environmental, Social and Governance (ASG) information of Cielo's 2019 Sustainability Report, pursuant to the Global Reporting Initiative (GRI) Standards, as well as limited assurance about the Cielo's Inventory of Greenhouse Gases, for 2018, and reasonable assurance about compliance by Cielo with the clauses (obligations) of the Commitment Agreement ("TCC") executed by it with the Brazilian Administrative Council for Economic Defense ("CADE"). These engagements comply with the parent company's corporate governance requirement, which determines that every extraordinary engagement of independent auditor who audits its financial statements, directly or indirectly, needs to be previously analyzed by the Audit Committee and authorized by the Board of Directors. The contractual amount totaled R\$266.6 thousand and represents nearly 12.7% of total auditor's fees referring to the 2019 financial statements of the Parent Company Cielo and its subsidiary Cateno.

Cielo S.A.

Individual and Consolidated Financial
Statements for the three-month period ended
March 31, 2019 and Independent Auditor's
Report
(*COSIF*)

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Report on Review of Interim Financial Information

To
The Shareholders and Board of Directors of
Cielo S.A.
Barueri - SP

Introduction

We have reviewed the accompanying individual and consolidated interim financial information of Cielo S.A. ("Company") included in the Interim Financial Information Form (ITR) for the quarter ended March 31, 2019, which comprises the balance sheet at March 31, 2019, the statements of income, comprehensive income, changes in equity and cash flows for the quarter then ended, and notes to the interim financial information.

The Company's management is responsible for the preparation and presentation of this individual company and consolidated interim financial information in accordance with the accounting practices adopted in Brazil applicable to the payments institutions authorized to operate by the Central Bank of Brazil, as well as for the presentation of this information in accordance with the standards issued by the Securities and Exchange Commission of Brazil (CVM), applicable to the preparation of interim financial information. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with Brazilian and international review standards applicable to interim financial information (NBC TR 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of people responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion on the interim financial information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying individual and consolidated interim financial information referred to above are not prepared, in all material respects, in accordance with the accounting practices adopted in Brazil applicable to the payments institutions authorized to operate by the Central Bank of Brazil, as well as for the presentation of this information in accordance with the standards issued by the Securities and Exchange Commission of Brazil (CVM), applicable to the preparation of interim financial information.



Other issues

Statement of value added

The individual and consolidated statements of value added for the quarter ended March 31, 2019, prepared under the responsibility of the Company's management, whose presentation is not required by the accounting practices adopted in Brazil applicable to the payments institutions authorized to operate by the Central Bank of Brazil, were submitted to the same review procedures of the review of the Company's interim financial information. In order to form our opinion, we evaluated whether these statements are reconciled to the interim financial information and to the accounting records, as applicable, and whether their form and content are in accordance with the criteria set on Technical Pronouncement CPC 09 - Statement of Value Added. Based on our review, nothing has come to our attention that causes us to believe that the accompanying statements of value added are not prepared, in all material respects, in accordance with the individual and consolidated interim financial information taken as a whole.

Osasco, April 23, 2019

KPMG Auditores Independentes
CRC 2SP028567/O-1 F-SP

Original report in Portuguese signed by
João Paulo Dal Poz Alouche
CRC 1SP245785/O-2

Statements of financial position at March 31, 2019 and 2018
(In thousands of Brazilian Reais - R\$)

Assets	Notes	Parent Company		Consolidated		Liabilities and equity	Notes	Parent Company		Consolidated	
		03/31/2019	12/31/2018	03/31/2019	12/31/2018			03/31/2019	12/31/2018	03/31/2019	12/31/2018
Circulante						Current liabilities					
Cash	4	25,581	36,880	490,744	433,961	Borrowings	12	1,921,889	1,032,941	1,937,348	1,033,618
Interbank investments	5	-	-	207,365	236,173	Derivative financial instruments	6	132,603	75,692	132,603	75,692
Securities and derivative financial instruments	6	7,801,213	7,261,906	2,977,298	2,232,912	Other payables		65,343,746	63,553,441	57,435,905	56,076,857
Other receivables		63,971,788	62,266,504	64,857,295	63,501,559	Social and statutory		145,813	207,103	159,579	242,626
Income receivable	7	402,846	372,148	897,763	885,015	Tax and social security		249,694	339,720	396,615	796,244
Sundry		63,759,399	62,074,333	64,161,241	62,805,365	Sundry		64,948,239	63,006,618	56,879,711	55,037,987
Receivables from issuers	7	63,441,736	61,618,543	63,635,016	62,219,320	Payables to clients	13	55,075,489	52,878,277	55,591,693	53,631,587
Receivables from related parties		26,768	19,457	400	-	Payables to related parties	27	9,176,939	9,425,751	-	-
Tax credits	8	96,355	323,379	189,466	90,166	Others		695,811	702,590	1,288,018	1,406,400
Taxes and contributions for offset/recoverable		102,927	59,610	162,948	392,975	Total current liabilities		67,398,238	64,662,074	59,505,856	57,186,167
Others		91,613	53,344	173,411	102,904	Long-term liabilities					
Allowance for other doubtful debts	7	(190,457)	(179,977)	(201,709)	(188,821)	Borrowings	12	5,270,626	5,265,627	6,843,624	6,829,359
Other assets		61,010	53,576	79,845	63,433	Other payables		2,560,014	2,465,495	4,120,027	4,061,935
Total current assets		71,859,592	69,618,866	68,612,547	66,468,038	Provision for contingencies	14	1,793,777	1,755,232	1,818,952	1,782,197
						Deferred taxes and contributions		-	-	108,230	115,246
						Others		766,237	710,263	2,192,846	2,164,492
						Total noncurrent liabilities		7,830,640	7,731,122	10,963,651	10,891,294
Noncurrent assets						Equity					
Other receivables		2,485,577	2,235,128	2,619,140	2,691,214	Capital	15	5,700,000	5,700,000	5,700,000	5,700,000
Sundry		2,485,577	2,235,128	2,619,140	2,691,214	Capital reserves	15	74,333	71,255	74,333	71,255
Escrow deposits	14	1,625,437	1,624,223	1,640,222	1,637,377	Earnings reserves	15	3,275,202	3,583,971	3,275,202	3,583,971
Tax credits	8	840,521	590,668	958,251	1,033,367	Carrying value adjustments	15	49,129	59,622	49,129	59,622
Others		19,619	20,237	20,667	20,470	(-) Treasury shares	15	(58,534)	(50,578)	(58,534)	(50,578)
Other assets		87	87	118	1,356	Attributable to:					
						Participation of owners of the Company		9,040,130	9,364,270	9,040,130	9,364,270
Permanent assets	9	8,895,027	8,959,143	118,989	119,055	Noncontrolling interests				3,656,702	3,666,004
Property and equipment	10	621,512	523,853	689,389	580,794	Total equity		9,040,130	9,364,270	12,696,832	13,030,274
Intangible assets	11	407,213	420,389	11,126,156	11,247,278						
Total noncurrent and permanent assets		12,409,416	12,138,600	14,553,792	14,639,697						
Total assets		84,269,008	81,757,466	83,166,339	81,107,735	Total liabilities and equity		84,269,008	81,757,466	83,166,339	81,107,735

The accompanying notes are an integral part of these financial statements.

Statements of profit or loss

For the three-month periods ended March 31, 2019 and 2018

(In thousands of Brazilian Reals - R\$, except earnings per share)

	Notes	Parent Company		Consolidated	
		03/31/2019	12/31/2018	03/31/2019	12/31/2018
NET REVENUE	17	1,432,490	1,631,110	2,773,094	2,784,684
COST OF SERVICES PROVIDED	18	<u>(643,922)</u>	<u>(614,665)</u>	<u>(1,660,224)</u>	<u>(1,434,328)</u>
GROSS PROFIT		<u>788,568</u>	<u>1,016,445</u>	<u>1,112,870</u>	<u>1,350,356</u>
OPERATING INCOME (EXPENSES)					
Personnel	18	(85,768)	(61,062)	(187,444)	(126,217)
General and administrative	18	(128,777)	(93,029)	(184,435)	(133,591)
Sales and marketing	18	(28,788)	(28,055)	(33,912)	(31,548)
Share of profit (loss) of investees	9	54,007	181,128	1,987	7,546
Other operating expenses, net	19	<u>(98,853)</u>	<u>(51,887)</u>	<u>(123,308)</u>	<u>(62,579)</u>
OPERATING PROFIT		<u>500,389</u>	<u>963,540</u>	<u>585,758</u>	<u>1,003,967</u>
FINANCE INCOME (COSTS)					
Finance income	25	5,686	58,417	45,176	100,015
Finance costs	25	(97,843)	(111,681)	(146,714)	(157,661)
Purchase of receivables and FIDCs	25	275,256	443,342	302,037	463,310
Exchange differences, net	25	<u>47,611</u>	<u>(23,703)</u>	<u>47,615</u>	<u>(23,681)</u>
		<u>230,710</u>	<u>366,375</u>	<u>248,114</u>	<u>381,983</u>
OPERATING PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		731,099	1,329,915	833,872	1,385,950
INCOME TAX AND SOCIAL CONTRIBUTION					
Current	8	(202,535)	(328,785)	(281,918)	(327,967)
Deferred	8	<u>19,967</u>	<u>(5,478)</u>	<u>37,306</u>	<u>(12,391)</u>
PROFIT FOR THE PERIOD		<u>548,531</u>	<u>995,652</u>	<u>589,260</u>	<u>1,045,592</u>
Attributable to:					
Participation of owners of the Company				548,531	995,652
Noncontrolling interests				<u>40,729</u>	<u>49,940</u>
				<u>589,260</u>	<u>1,045,592</u>
 Earnings per share (in R\$) - Basic	16	<u>0.20197</u>	<u>0.36681</u>	<u>0.20197</u>	<u>0.36681</u>
 Earnings per share (in R\$) - Diluted	16	<u>0.20177</u>	<u>0.36647</u>	<u>0.20177</u>	<u>0.36647</u>

The accompanying notes are an integral part of these financial statements.

Interim statements of comprehensive income

(In thousands of Brazilian Reals - R\$)

For the three-month periods ended March 31, 2019 and 2018

	Parent Company		Consolidated	
	03/31/2019	03/31/2018	03/31/2019	03/31/2018
Profit for the period	548,531	995,652	589,260	1,045,592
Comprehensive income				
Exchange differences on translating foreign operations:				
Exchange differences on foreign investments	(4,936)	(699)	(4,936)	(699)
Post-employment benefits	(5,557)	-	(5,557)	-
Changes for the period	(10,493)	(699)	(10,493)	(699)
Total comprehensive income for the period	538,038	994,953	578,767	1,044,893
Attributable to:				
Owners of the Company			538,038	994,953
Noncontrolling interests			40,729	49,940

The accompanying notes are an integral part of these interim financial statements.

Statements of changes in equity

For the three-month periods ended March 31, 2019 and 2018

(In thousands of Brazilian Reais - R\$)

		Attributable to owners of the Company										
		Earnings reserves						Carrying value adjustments	Total owners of the Company	Noncontrolling interests	Total Equity	
		Issued capital	Capital reserve	Trasury shares	Legal reserve	Capital budget	Additional dividends					Earnings retention
Balances as at January 1, 2018		4,700,000	62,620	(53,925)	892,740	3,341,628	1,058,785	-	149,019	10,150,867	3,659,593	13,810,460
Acquisition of treasury shares	15.c)	-	-	(11,758)	-	-	-	-	-	(11,758)	-	(11,758)
Stock options granted	24	-	5,663	-	-	-	-	-	-	5,663	-	5,663
Sale / Transfer of treasury shares under the stock option plan	24 e 15.c)	-	(5,614)	12,951	-	-	-	-	-	7,337	-	7,337
Profit for the three-month period		-	-	-	-	-	-	995,653	-	995,653	49,941	1,045,594
Allocation of profit for the three-month period:												
Legal reserve	15.e)	-	-	-	47,260	-	-	(47,260)	-	-	-	-
Interest on capital proposed	15.g)	-	-	-	-	-	-	(150,600)	-	(150,600)	-	(150,600)
Additional dividends proposed	15.g)	-	-	-	-	-	(1,058,785)	-	-	(1,058,785)	-	(1,058,785)
Capital budget reserve	15.f)	-	-	-	-	797,793	-	(797,793)	-	-	-	-
Comprehensive income:												
Exchange differences on net foreign investments	15.d)	-	-	-	-	-	-	-	(699)	(699)	-	(699)
Effect of noncontrolling interests on consolidated entities		-	-	-	-	-	-	-	-	-	(49,252)	(49,252)
Balances as at March 31, 2018		4,700,000	62,669	(52,732)	940,000	4,139,421	-	-	148,320	9,937,678	3,660,282	13,597,960
Balances as at January 1, 2019		5,700,000	71,255	(50,578)	1,049,745	1,824,726	709,500	-	59,622	9,364,270	3,666,004	13,030,274
Acquisition of treasury shares	15.c)	-	-	(11,758)	-	-	-	-	-	(11,758)	-	(11,758)
Stock options granted	24	-	6,880	-	-	-	-	-	-	6,880	-	6,880
Sale / Transfer of treasury shares under the stock option plan	24 e 15.c)	-	(3,802)	3,802	-	-	-	-	-	-	-	-
Profit for the three-month period		-	-	-	-	-	-	548,531	-	548,531	40,729	589,260
Allocation of profit for the three-month period:												
Legal reserve	15.e)	-	-	-	27,427	-	-	(27,427)	-	-	-	-
Interest on capital proposed	15.g)	-	-	-	-	-	-	(147,800)	-	(147,800)	-	(147,800)
Mandatory minimum dividends							37,574	(37,574)	-	-	-	-
Dividends paid	15.g)	-	-	-	-	-	(709,500)	-	-	(709,500)	-	(709,500)
Mandatory minimum dividends proposed	15.g)	-	-	-	-	-	179,399	(179,399)	-	-	-	-
Capital budget reserve	15.f)	-	-	-	-	156,331	-	(156,331)	-	-	-	-
Comprehensive income:												
Exchange differences on net foreign investments	15.d)	-	-	-	-	-	-	-	(4,936)	(4,936)	-	(4,936)
Post-employment benefits		-	-	-	-	-	-	-	(5,557)	(5,557)	-	(5,557)
Effect of noncontrolling interests on consolidated entities		-	-	-	-	-	-	-	-	-	(50,031)	(50,031)
Balances as at March 31, 2019		5,700,000	74,333	(58,534)	1,077,172	1,981,057	216,973	-	49,129	9,040,130	3,656,702	12,696,832

The accompanying notes are an integral part of these financial statements.

Statements of cash flows**For the three-month periods ended March 31, 2019 and 2018***(In thousands of Brazilian Reals - R\$)*

		Parent Company		Consolidated	
	Nota	03/31/2019	12/31/2018	03/31/2019	12/31/2018
Cash flows from operating activities					
Profit before income tax and social contribution		731,099	1,329,915	833,872	1,385,950
Adjustments to reconcile profit before income tax and social contribution to net cash generated by operating activities:					
Depreciation and amortization	9, 10 e 11	73,988	82,307	235,572	216,306
Recognition (reversal) of provision for losses on property and equipment		(6,575)	(4,304)	(6,575)	(4,304)
Residual value of property and equipment and intangible assets disposed of	10 e 11	8,520	23,519	33,748	23,851
Stock options granted	24	6,880	5,663	6,880	5,663
Loss on doubtful debts and fraud	19	74,983	49,446	92,801	66,447
Provision for tax, civil and labor risks	14.a)	40,734	(3,321)	39,564	(2,138)
Exchange differences relating to interest on foreign borrowings		29,018	13,297	39,791	32,624
Gains (losses) on financial instruments		(4,065)	34,987	(4,065)	34,987
Interest on borrowings	12	82,686	108,707	95,581	108,707
Share of profit (loss) of investees	9	(54,007)	(181,128)	(1,987)	(7,545)
Yield from interest in FIDC		(286,486)	(464,937)	-	-
(Increase) decrease in operating assets:					
Operating receivables		(1,892,550)	5,362,346	(1,500,463)	5,099,794
Receivables from related parties		(7,311)	(9,263)	(400)	(10,074)
Prepaid and recoverable taxes		(43,317)	(45,670)	230,027	210,488
Other receivables (current and noncurrent)		(7,434)	(2,791)	(15,174)	(978)
Income receivable		(30,698)	(9,129)	(12,748)	14,683
Tax credits		(22,828)	5,478	(22,818)	15,331
Escrow deposits	14.b)	(1,214)	(4,011)	(2,845)	(4,162)
Sundry - others		(101,722)	50,854	(107,041)	(6,277)
Increase (decrease) in operating liabilities:					
Payables to clients		2,197,212	(5,018,130)	1,960,106	(4,712,893)
Payables to related parties		(248,812)	(80,509)	1,339	-
Social and statutory		104,210	137,964	82,453	121,449
Taxes payable		(288,118)	(259,364)	(519,932)	(512,595)
Sundry - others		86,845	(62,890)	(102,667)	(43,954)
Payment of tax, civil and labor lawsuits	14.a)	(2,189)	(4,387)	(2,189)	(4,434)
Cash generated from operations		438,849	1,054,649	1,352,830	2,026,926
Interest paid	12	(132,119)	(157,485)	(132,119)	(157,485)
Income tax and social contribution paid		(206,978)	(274,340)	(292,294)	(301,991)
Net cash generated by (used in) operating activities		99,752	622,824	928,417	1,567,450
Cash flows from investing activities					
Capital increase in subsidiaries, joint ventures and associate		-	(55,000)	-	(55,106)
Acquisition of shares of FIDC		(1,056,689)	-	-	-
Redemption of shares of FIDC		1,488,185	442,664	-	-
Dividends received from subsidiaries	9	135,824	123,536	-	-
Additions to property and equipment and intangible assets	10 e 11	(160,495)	(48,259)	(256,338)	(56,959)
Net cash generated by (used in) investing activities		406,825	462,941	(256,338)	(112,065)
Cash flows from financing activities					
Acquisition of treasury shares		(11,758)	(11,758)	(11,758)	(11,758)
Sale/transfer of treasury shares under the stock option plan		-	7,337	-	7,337
Borrowings	12	920,000	-	920,000	-
Payment of principal, net of derivatives	12	(5,639)	(167,003)	(5,639)	(167,003)
Dividends and interest on capital		(875,000)	(1,376,985)	(924,421)	(1,426,406)
Net cash generated by (used in) financing activities		27,603	(1,548,409)	(21,818)	(1,597,830)
Effect of exchange rate changes on cash and cash equivalents of foreign subsidiary		-	-	(14,568)	(40,009)
Increase (decrease) in cash and cash equivalents		534,180	(462,644)	635,693	(182,454)
Cash and cash equivalents					
Closing balance	4	661,844	3,446,877	3,538,739	3,766,532
Opening balance	4	127,664	3,909,521	2,903,046	3,948,986
Increase (decrease) in cash and cash equivalents		534,180	(462,644)	635,693	(182,454)

The accompanying notes are an integral part of these financial statements.

Statements of value added

For the three-month periods ended March 31, 2019 and 2018

(In thousands of Brazilian Reais - R\$)

		Parent Company		Consolidated	
	Notes	03/31/2019	12/31/2018	03/31/2019	12/31/2018
Revenues					
Sales of services	17	1,597,286	1,852,416	3,061,312	3,125,014
Losss on doubtful debts and fraud	19	(74,983)	(58,586)	(92,801)	(66,447)
		1,522,303	1,793,830	2,968,511	3,058,567
Inputs purchased from third parties					
Cost of services provided		(532,943)	(463,617)	(1,436,300)	(1,181,238)
Materials, electric energy, outside services and others		(145,949)	(110,603)	(137,442)	(101,095)
Other expenses, net		(15,971)	(2,062)	(22,609)	(5,199)
Gain (loss) on disposal of assets		(7,898)	(3,766)	(7,898)	(3,766)
		(702,761)	(580,048)	(1,604,249)	(1,291,298)
Gross value added					
		819,542	1,213,782	1,364,262	1,767,269
Retentions					
Depreciation and amortization		(73,988)	(104,087)	(235,572)	(238,784)
Wealth created, net					
		745,554	1,109,695	1,128,690	1,528,485
Wealth received in transfer					
Share of profit (loss) of investees	9	54,007	181,128	1,987	7,546
Finance income, including purchase of receivables and exchange differences, net	25	328,553	517,085	394,829	581,600
		382,560	698,213	396,816	589,146
Total wealth for distribution					
		1,128,114	1,807,908	1,525,506	2,117,631
Distribution of wealth					
Personnel and related taxes		(98,473)	(77,182)	(201,771)	(144,561)
Profit sharing	22	(18,835)	(13,348)	(26,966)	(18,932)
Taxes and contributions		(362,597)	(596,295)	(556,138)	(731,296)
Interest and rental expenses		(99,678)	(125,430)	(136,162)	(177,248)
Dividends and interest on capital paid		(37,574)	-	(37,574)	-
Dividends and interest on capital proposed		(327,199)	(150,600)	(327,199)	(150,600)
Earnings retention		(183,758)	(845,053)	(189,665)	(845,053)
Noncontrolling interests		-	-	(50,031)	(49,941)
Wealth distributed					
		(1,128,114)	(1,807,908)	(1,525,506)	(2,117,631)

The accompanying notes are an integral part of these financial statements.

Notes to the individual and consolidated financial statements

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

1 Operations

Cielo S.A. (the “Company” or “Cielo”) was established in Brazil on November 23, 1995, and is primarily engaged in providing services related to credit and debit cards and other means of payment, including signing up of merchants and service providers, rental, installation and maintenance of POS (point-of-sale) terminals, data capture and processing of electronic and manual transactions.

Cielo is a corporation headquartered in the City of Barueri, State of São Paulo. Its shares are traded on B3 S.A. - Brasil, Bolsa, Balcão, under ticker symbol “CIEL3”, and Cielo and its subsidiaries are part of the Banco do Brasil and Bradesco groups.

The Company’s direct and indirect subsidiaries and joint ventures that, together with Cielo, are also referred to as “Group” throughout this report, provide services related to means of payment or complementary to the acquiring services, such as provision of services in processing means of payments that involve cards, maintenance services and contacts with merchants for acceptance of credit and debit cards, data transmission services to load fixed or mobile phone credits, development and licensing of computer software, electronic transaction's processing, IT services for collection and management of accounts payable and receivable using the Internet, data processing services and support services to medical companies.

Significant events for the period

We highlight the following events that significantly affected the Company’s financial position for the three-month period ended March 31, 2019:

- On January 7, 2019, a Non-Deliverable Forward (NDF) derivative transaction was contracted to provide hedge against the exchange variation on Bonds, in the amount of USD 475 million, with maturity on July 1, 2019;
- In March 2019, the amount of R\$ 920 million was raised through a bank credit bill (CCB) maturing in April 2019;
- On March 11, 2019, interest on equity was paid in the amount of R\$ 165,500 related to the fourth quarter of 2018;
- On March 20, 2019, interest on capital for the first quarter of 2019 was approved, in the amount of R\$ 147,800, which will be paid on June 27, 2019, as approved at the meetings of the Board of Directors;
- On February 22, 2019, approval was granted for the payment of dividends in the amount of R\$ 709,500, for the fourth quarter of 2018. Which was payed on March 11, 2019.
- On April 18, 2019, dividends were approved, referring to the first quarter of 2019, which were recorded in the amount of R\$ 216,973.

New corporate events

On January 18, 2018, Cielo S.A, through its subsidiary Aliança, entered into a purchase and sale agreement with Companhia Brasileira de Solução e Serviços (“CBSS”) for the acquisition of 70% equity interest in Stelo S.A., and now holds 100% equity interest in said company. The purchase value was established at R\$ 87,492 based on the statement of financial position as at December 31, 2017.

On September 14, 2018, after conclusion of the process of analysis and approval of the transaction by the applicable regulatory agencies, the transaction was effected through payment and transfer of control of said shares.

As defined in the agreement, the purchase price was restated by reference to cumulative CDI rate variation from the signing date to the effective date of conclusion of the transaction, being settled in the amount of R\$ 91,163.

Within 60 days from the purchase agreement closing date (September 14, 2018), a reference statement of financial position was prepared to define the amounts to be recognized in the operation, as well as to calculate the final purchase value, net of the adjustments contractually provided for (net debt and working capital).

Accordingly, the purchase notional value, calculated based on the statement of financial position as at September 14, 2018, was R\$ 67,320, thus resulting in a bargain purchase in the amount of R\$ 18,200 recognized in line item "Others" under "Other Operating Income (Expenses) in the Consolidated Statement of Profit or Loss.

2 Summary of significant accounting practices

2.1 Statement of compliance and approval of the Financial Statements

The individual (Parent Company) and consolidated financial statements have been prepared in accordance with the accounting guidelines established by Law No. 6,404/76 (Brazilian Corporation Law), including the changes introduced by Laws No. 11,638/07 and No. 11,941/09, and the rules and instructions of the National Monetary Council (CMN), Brazilian Central Bank (BACEN) and Brazilian Securities and Exchange Commission (CVM), when applicable (together referred to as "COSIF").

The individual and consolidated financial statements were approved by the Company's Board of Directors and authorized for issue on April 23, 2019.

2.2 Main judgments, estimates and accounting assumptions

The preparation of individual and consolidated financial statements requires the Company's and its subsidiaries' Management to make estimates that affect certain assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses for the reporting period. Significant assets and liabilities subject to these estimates and assumptions include the residual value of property and equipment and intangible assets, allowance for doubtful debts (on receivables from rental of POS equipment and receivables from issuers, for example), deferred income tax and social contribution (tax assets), impairment of goodwill, provision for risks and fair value measurement of financial instruments. Since Management's judgment involves making estimates concerning the probability of occurrence of future events, actual results may differ from those estimates. The Company and its subsidiaries review the estimates and assumptions at least annually.

2.3 Functional and presentation currency

The individual and consolidated financial statements are presented in Brazilian reais (R\$), which is the Company's functional and presentation currency.

Management determined that the functional currency of its foreign subsidiaries is the US dollar.

For Cielo USA, the main factor to determine the functional currency was the raising of US dollar denominated borrowings for the acquisition of control of Me-S. These borrowings will be settled using the cash generated from foreign operations. In addition, with respect to Me-S, the cash flows and services provided are fully denominated in US dollars.

For purposes of presentation of the consolidated financial statements, the assets and liabilities of subsidiaries Cielo USA and Me-S (based in the USA), originally denominated in US dollars, were translated into Brazilian reais at the exchange rates prevailing at period-end. Revenues and expenses were translated at the average monthly exchange rates. Exchange differences resulting from such translations were classified in comprehensive income and accumulated in equity.

2.4 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, less estimated returns, trade discounts and/or bonuses granted and other similar deductions.

Revenues from the capture of transactions with credit and debit cards are recognized on the date of capture/processing of the transactions. Revenues from credit and debit card transactions and payment accounts management services, as well as other services provided to partners and merchants are recognized when the services are provided.

The income from dividends on investments is recognized when the shareholder's right to receive these dividends is established (provided that it is probable that future economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income is recognized when it is probable that future economic benefits will flow to the Group and the amount of revenue can be measured reliably.

The income from purchase of receivables to merchants is recognized on a "*pro rata temporis*" basis considering their maturities.

In the case of Me-S, in the context of its agreements with the banks, it assumes liabilities of the acquirer bank and is, therefore, accountable for the interchange fees. The bank also receives market rates for its services and, therefore, is not exposed to the agreement's risks and rewards. Additionally, there are factors such as the portability of the contracts with merchants and the fact that Me-S has a direct interaction with its customers in its daily routines and it holds the transaction's credit risk. As a result, Me-S is the main debtor and recognizes revenue based on its gross amount and the interchange fee is recognized as cost of services provided.

2.5 Cash and cash equivalents

For purposes of the statement of cash flows, this balance includes cash and cash equivalents that are represented by cash in local currency, in foreign currency, investments in repurchase agreements, investments in interbank deposits and investments in foreign currency, with maturities equal to or less than 90 days from the investment date and with insignificant risk of change in fair value.

2.6 Interbank investments

Interbank investments are stated at cost, plus income earned through the end of the reporting period, less a provision for impairment, when applicable.

2.7 Securities

The securities acquired for own portfolio are recorded at the amount actually paid, including brokerage fees and charges, and are classified into three different categories according to the Company's Management intent, in accordance with BACEN Circular Letter No. 3,068/01:

Trading securities

The trading securities are those acquired for the purpose of being actively and frequently traded. They are stated at cost, plus income earned and adjusted to market value in the statement of financial position, in current assets, irrespective of their maturity, pursuant to sole paragraph of article 7 of BACEN Circular No. 3,068/01. Securities classified as for trading are stated in the statement of financial position, in current assets, irrespective of their maturity, with a matching entry to profit or loss for the period;

Available-for-sale securities

The available-for-sale securities are those that are not classified as trading securities or as held-to-maturity. They are stated at cost, plus income earned with a matching entry in profit or loss for the period and adjusted to market value with a matching entry in equity, less tax effects, which will only be recognized in profit or loss upon their actual realization; and

Held-to-maturity securities

The held-to-maturity securities are those acquired for this purpose and for which there is financial ability to hold them to maturity. They are stated at cost, plus income earned with a matching entry in profit or loss for the period, and are not measured at market value.

The securities classified in the categories of trading securities and available-for-sale securities, as well as the derivative financial instruments, are stated in the consolidated statement of financial position at their estimated fair value. Generally, the fair value is based on market price quotations or market price quotations for assets or liabilities with similar characteristics. If these market prices are not available, the fair values are based on quotations from market operators, pricing models, discounted cash flows or similar techniques, for which the fair value measurement can require significant judgment or estimate by Management.

The securities are assessed to verify if there is objective evidence that a loss has occurred in their carrying amount. The objective evidence that securities have lost value may include non-payment or late payment by the counterparty, indications of bankruptcy proceedings or even a significant or prolonged decline in the value of the asset. An impairment loss on a security is recognized in the statement of profit or loss for the period if the carrying amount exceeds its recoverable amount.

2.8 Derivative financial instruments and hedge operations

The Company enters into derivative financial instruments mainly to manage its exposure to fluctuations in interest rates and exchange rates. The Company measures its derivative financial instruments based on quotations obtained from market participants, at fair value at the end of the reporting period.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifying as a cash flow hedge or a hedge of exchange differences on foreign investments are recognized as carrying value adjustments, and when qualifying, as a fair value hedge, the hedged item and the hedging instrument are recognized in the statement of profit or loss at their fair values.

The Company assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When a hedging instrument is sold, terminated, expires or is exercised, the cumulative unrealized gain or loss, which had been recognized in carrying value adjustments, is immediately reported in the statement of profit or loss. Additionally, changes in the fair value of financial instruments not qualifying as hedge or qualifying as market risk hedge are recognized in the line item of (Losses) gains on financial instruments, net, in the statement of profit or loss.

2.9 Operating receivables and payables to customers

a) Operating receivables

Receivables from card-issuing banks

Refer to amounts of transactions carried out by holders of debit and credit cards issued by financial institutions, and the balances of receivables from card-issuing banks are net of interchange fees with receipt terms of less than one year.

Purchase of receivables

Receivables from card-issuing banks related to purchase of receivables, stated at purchased value, determined on an individual basis, less cash flows from each of the receivables recorded using the interest rates applied to such transactions.

Receivables for processed financial transactions

Refer mainly to receivables from card association members for financial transactions processed by Me-S that have been authorized but not yet received. These receivables are generally settled on the following business day.

Receivables from clients

Represent interchange and service fees for transaction processing receivable from merchants, as a result of Me-S's practice to settle transactions at full amounts to merchants and collect these fees at the beginning of the next month.

b) Payables to customers

Payables to customers

Refer to the obligation to pay for the purchase of products and services made with cards to merchants accredited by the Company.

Payables to customers for transactions processed by Me-S

Refer to the balances due to customers for processed transactions that have not yet been paid. Me-S pays merchants the amounts received from card associations on the business day subsequent to the day the transaction is captured.

Merchant deposits

Me-S maintains funds as a security deposit to hedge against the risk of a customer going bankrupt and being unable to pay for the services provided. The amount retained from each customer is based on the risk factors associated to the customer, which include, among others, the type of business and the volume of completed transactions.

2.10 Investments

In the individual financial statements, the investments in subsidiaries, joint ventures and associates are accounted for under the equity method of accounting, based on the equity value of the subsidiary or associate.

In the consolidated financial statements, subsidiaries are fully consolidated and associates and joint ventures are accounted for under the equity method of accounting.

The financial statements of foreign subsidiaries are conformed to the accounting criteria of the parent company and translated into the real currency at the period-end rate.

2.11 Property and equipment

Stated at historical cost, less accumulated depreciation and accumulated impairment losses. Depreciation is calculated under the straight-line method, based on the estimated useful lives of the assets. The estimated useful lives, residual values, and depreciation methods are reviewed on an annual basis, and the effect of any changes in estimates is accounted for on a prospective basis.

An item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its continued use. Any gain or loss from the sale or derecognition of an item of property and equipment is determined by the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.12 Intangible assets

Intangible assets correspond to the rights acquired that have as object incorporeal property for the maintenance of the Company's activities or exercised for this purpose. Intangible assets are comprised by:

Separately acquired intangible assets

Separately acquired intangible assets with finite useful lives are stated at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis, based on the estimated useful lives of the assets. The estimated useful life and amortization method are reviewed on an annual basis and the effect of any changes in estimates is accounted for on a prospective basis.

Internally generated intangible assets

Costs of research activities are recognized as expense in the period in which they are incurred. When no internally generated intangible asset can be recognized, the development costs are recognized in profit or loss when incurred.

2.13 Impairment of tangible and intangible assets

Annually, and if there is evidence, the Group reviews the carrying amount of its tangible and intangible assets to determine if there is any indication that these assets might be impaired.

Recoverable amount is the higher of the fair value less costs to sell and the value in use. If the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount, and the impairment loss is immediately recognized in profit or loss.

2.14 Goodwill

Goodwill corresponds to the amount exceeding the carrying amount of the investments acquired at fair value, arising from the expected future profitability and supported by economic and financial studies on which the purchase price of the businesses was based.

Goodwill based on expected future earnings is amortized according to the projection periods that justified it, and is subject to impairment test annually or more frequently, whenever there is indication that the cash-generating unit is impaired.

The goodwill arising from investments in subsidiaries, associate and joint ventures is included in the carrying amount of the investment in the individual financial statements. In the consolidated financial statements, the goodwill arising from the acquisition of subsidiaries is recognized in intangible assets.

2.15 Income tax and social contribution - current and deferred

Income tax and social contribution expenses represent the sum of current and deferred taxes.

Current taxes

The provision for the Company's income tax and social contribution is calculated based on the taxable profit for the year. Income tax was calculated at the rate of 15%, plus a 10% surtax on annual taxable profit exceeding R\$240. Social contribution was calculated at the rate of 9% on adjusted book profit.

Deferred taxes

Deferred income tax and social contribution are recognized on the differences between assets and liabilities recognized for tax purposes and the related amounts recognized in the consolidated financial statements. Deferred income tax and social contribution are determined based on the tax rates and laws in effect at the end of the reporting period, applicable when the income tax and social contribution are realized. The recovery of deferred tax assets is reviewed at the end of each reporting period and when it is no longer probable that future taxable profits will be available to allow the recovery of all or part of the assets, these are adjusted to their expected recoverable amount.

Current and deferred taxes are recognized in profit or loss, except when they relate to items recognized in "Carrying Value Adjustments", or directly in equity. In these cases, current and deferred taxes are recognized in "Carrying Value Adjustments", in equity.

When current and deferred taxes result from the initial recognition of a business combination, the tax effect is considered in the recognition of the business combination.

2.16 Employee benefits

Supplementary Pension Plan

Refers to amounts in which the Company is co-sponsor of a defined contribution pension plan. Contributions are made based on a percentage of the employee's compensation. Payments to defined contribution plans are recognized as expense when the services that entitle to such payments are provided.

Post-employment benefit

Represents amounts in which the Company has an actuarial liability resulting from post-employment benefit, relating to the expected expenses on healthcare plan.

2.17 Provision for risks

Recognized when there is a present obligation (legal or constructive) as a result of a past event, with probable outflow of resources, and the amount of the obligation can be reliably estimated. The amount recognized as a provision is the best estimate of the settlement amount at the end of the reporting period, taking into consideration the risks and uncertainties related to the obligation. Recognition, measurement and disclosure of provisions, contingent assets and liabilities and legal obligations are made pursuant to the criteria defined in CPC 25 - Provisions, Contingent Liabilities and Contingent Assets, approved by CMN Resolution n. No. 3,823 / 09.

The recognition, measurement and disclosure of provisions, contingent assets and liabilities and legal obligations are made according to the criteria defined in CPC 25 – Provisions, Contingent Liabilities and Contingent Assets, approved by CMN Resolution No. 3,823/09 (Note 15).

2.18 Dividends and interest on capital

The proposal for payment of dividends and interest on capital made by the Company's Management that does not exceed the minimum mandatory dividends is recognized in line item "Dividends payable" in current liabilities as it is considered a legal obligation under the Company's bylaws. However, the portion of dividends exceeding minimum mandatory dividends, when applicable, declared by Management after the accounting period to which the financial statements refer but before the issuance of the financial statements is authorized is recognized in line item "Additional dividends proposed" in equity. For corporate and accounting purposes, interest on capital is included in the minimum mandatory dividends.

2.19 Stock option plan and restricted stock option plan

The Company offers a stock option plan and restricted stock option plan to its officers and some of its employees. Options or shares are priced at fair value at the grant date of the plans and are recognized on a straight-line basis in profit or loss as a matching entry to equity. At the end of each reporting period, the Company reviews its estimates of the number of options/shares that will be vested based on the plan's terms and conditions and recognizes the impact of the revision of initial estimates, if any, in the statements of profit or loss, as a matching entry to equity.

3 Consolidated financial information

The consolidated financial information includes the financial information of the Company and its subsidiaries. When necessary, the subsidiaries' financial information is adjusted to conform their accounting policies to those set by the Group.

For subsidiaries and investment funds (FIDCs and FIC), the full consolidation concept was applied, which requires to account for investments in subsidiaries reflecting their total assets, liabilities, income and expenses in the parent, thus requiring the recognition of noncontrolling interests.

In the Company's individual financial information, the financial information of subsidiaries and joint ventures is accounted for under the equity method.

As regards the FIDC, the Company consolidates the financial information of the FIDC because it believes that it was created with the main purpose of concentrating the operation of purchase of receivables derived from payment transactions made by Cielo acquisition system, and a significant part of the risks and rewards related to the FIDC's yield is linked to the quotas held by the Company. In the process of consolidation of the FIDC, assets and liabilities and gains and losses on transactions between the Company and the FIDC were eliminated.

In the preparation of the consolidated financial statements, further to the provisions of the Chart of Accounts of Financial Institutions (COSIF), the consolidation procedures established by Technical Pronouncement CPC 36 (R3) – Consolidated Financial Statements were applied.

As of March 31, 2019, the Group is composed of the following companies:

	Equity interest (%)		
Companies	03/31/2018	03/31/2017	Main Activities
Direct subsidiaries and FIDCs:			
Servinet Serviços Ltda. (“Servinet”)	99.99	99.99	Provision of maintenance services and contacts with merchants for acceptance of credit and debit cards.
Cateno Gestão de Contas de Pagamentos S.A. (“Cateno”)	70.00	70.00	Provision of services in processing means of payments that involve credit, debit and multiple cards of private and prepaid brands (not including credit card management).
Cielo USA Inc, (“Cielo USA”)	100.00	100.00	Holding ownership interests in other companies as partner or shareholder.
Multidisplay Comércio e Serviços Tecnológicos S.A. (“Multidisplay”)	91.44	91.44	Provision of services in data transmission to load fixed or mobile phone credits.
Braspag Tecnologia em Pagamento Ltda. (“Braspag”)	99.99	99.99	Development and licensing of software for electronic transaction processing; IT services for collection and management of accounts payable and receivable using the Internet.
Aliança Pagamentos e Participações Ltda. (“Aliança”)	99.99	99.99	Provision of services of contacts developing and maintenance with merchants and holding of ownership interests in other companies as partner or shareholder.
Cielo Cayman Island (“Cielo Cayman”)	100.00	100.00	Holding of ownership interests in other companies as partner or shareholder. Cielo Cayman did not carry out any operational, non-operational, equity or financial activity in the three-month period ended March 31, 2019.
Fundo de Investimento em Direitos Creditórios Não-Padronizados Cielo (“FIDC”)	100.00	100.00	Acquisition of eligible credit rights arising from payment transactions originating from Cielo’s acquisition system and other financial assets.
Fundo de Investimentos em Direitos Creditórios Não-Padronizados Cielo (“FIDC Plus”)	77.84	78.19	Acquisition of eligible credit rights arising from payment transactions originating from Cielo’s acquisition system and other financial assets.
Fundo de Investimento em Cotas de Fundo de Investimentos (“FIC”)	100.00	100.00	Fund for investment in financial assets with indeterminate duration

Indirect subsidiaries

M4Produtos e Serviços S.A. ("M4Produtos")	91.44	91.44	Provision of services in data transmission to load fixed or mobile phone, prepaid transportation, and mobile payment.
Merchant e-Solutions, Inc. ("Me-S")	100.00	100.00	Provision of services related to electronic payments with credit or debit cards.
Stelo S.A. ("Stelo")	30.00	30.00	Stelo is a payment solutions company, committed to providing safe, simple and easy payment solutions to small retailers, self-employed professionals and individuals who wish to process payments at the point of sale..

Direct joint ventures:

Companhia Brasileira de Gestão de Serviços. ("Orizon")	40.95	40.95	Provision of data processing services for healthcare companies, management of back office services for health operators, electronic network interconnection services between health operators and medical and hospital service providers and other health system agents and drugstores.
Paggo Soluções e Meios de Pagamento S.A. ("Paggo")	50.00	50.00	Provision of services relating to signing up of merchants for acceptance of credit and debit cards through the capture, transmission, data processing and settlement of electronic transactions.

Indirect joint ventures:

Prevsáude Comercial de Produtos e de Benefícios de Farmácia Ltda. ("Prevsáude")	40.95	40.95	Provision of medicine benefit services to corporate customers, healthcare plans, public customers, and large laboratories.
Guilher Comércio, Importação, Exportação e Distribuição de Medicamentos e Tecnologia para Saúde Ltda. ("Guilher")	40.95	40.95	Import, export, distribution, and sale of medicines and pharmaceutical raw materials, products and technology equipment for health.

4 Cash and cash equivalents

At March 31, 2019 and December 31, 2018, the balance of cash and cash equivalents of the Company comprises the cash balances below, as well as interbank investments, investments in investment fund shares and bank deposit certificates presented in notes 5 and 6.

	Parent Company		Consolidated	
	03/31/2019	12/31/2018	03/31/2019	12/31/2018
Cash:				
Local currency	25,075	25,574	42,038	30,914
Foreign currency	506	11,306	448,706	403,047
Total	25,581	36,880	490,744	433,961

5 Interbank investments

As of March 31, 2019 and December 31, 2018, the Company did not have interbank investments.

	<u>Weighted average rate of DI per year</u>	<u>Consolidated</u>				<u>Total at</u>
		<u>0 - 30</u>	<u>31 - 180</u>	<u>181 - 365</u>	<u>03/31/2019</u>	<u>12/31/2018</u>
Investments in Open Market						
Debentures subject to repurchase agreements	60.00%	841	-	-	841	63,545
Investments in foreign currency	-	206,524	-	-	206,524	172,628
Total		207,365	-	-	207,365	236,173

The result obtained from the investments described above is shown in note 25 – Finance income (costs).

6 Securities and derivative financial instruments (assets and liabilities)

As at March 31, 2019 and December 31, 2018, the Company's and the Group's securities and derivative financial instruments balance comprises the following cash balances:

	Parent Company		Consolidated	
	03/31/2019	12/31/2018	03/31/2019	12/31/2018
Assets:				
Securities	7,664,545	7,261,906	2,840,630	2,232,912
Derivative financial instruments	136,668	-	136,668	-
Total	7,801,213	7,261,906	2,977,298	2,232,912
Liabilities:				
Derivative financial instruments	132,603	75,692	132,603	75,692
Total	132,603	75,692	132,603	75,692

a. Carrying amounts and classification of the portfolio by category and terms

	Weighted average rate of DI per year	Parent Company							
		03/31/2019					12/31/2018		
		Maturity range				Total		Total	
		0 - 30	31 - 180	181 - 365	Over 365	Fair value (*)	Cost (*)	Fair value	Cost
Available for sale									
Private securities									
Investment fund shares - FIDC	(**)	-	-	7,028,305	7,028,305	7,028,305	7,171,122	7,171,122	
Trading securities									
Private securities									
Investment fund shares	101.26%	-	-	-	623,942	623,942	623,942	82,300	82,300
Bank certificates of deposit - CDB	81.26%	166	-	8,425	2,686	11,300	11,300	8,484	8,484
Others		-	-	1,021	-	1,021	1,021	-	-
		166	-	9,445	7,654,933	7,664,568	7,664,568	7,261,906	7,261,906

(*) The market value of the securities is determined according to the market price quotation available at the end of the reporting period. If there is no available market price quotation, the values are estimated based on distributor quotes, pricing models, quotations models or price quotes for instruments with similar characteristics. In the case of investments in investment funds, the updated cost reflects the market value of the respective shares.

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(**) The funds have different categories of shares, senior shares have a yield of 102.95% of the CDI and mezzanine shares a yield of 110% of the DI – Interbank Deposit. Subordinated shares have the net yield of the fund.

Weighted average rate of DI per year		Consolidated							
		03/31/2019						12/31/2018	
		Maturity range				Total		Total	
		0 - 30	31 - 180	181 - 365	Over 365	Fair value (*)	Cost (*)	Fair value	Cost
Trading securities									
Private securities									
Bank certificates of deposit - CDB	99.87%	166	278,903	8,424	35,615	323,108	323,108	269,120	269,120
Investment fund shares	103.82%	-	-	-	2,429,901	2,429,901	2,429,901	1,882,672	1,882,672
Others		10,121	-	1,021	76,479	86,621	86,621	81,120	81,120
Total		10.187	278.903	9.445	2,541.991	2,840.630	2,840.630	2,232,912	2,232,912

(*) The market value of the securities is determined according to the market price quotation available at the end of the reporting period. If there is no available market price quotation, the values are estimated based on distributor quotes, pricing models, quotations models or price quotes for instruments with similar characteristics. In the case of investments in investment funds, the updated cost reflects the market value of the respective shares.

The result obtained from the investments described above is shown in note 25 – Finance income (costs).

b. Investment fund in credit rights

Fundo de Investimento em Direitos Creditórios Não-Padronizados Cielo (“FIDC”) started its operations on August 5, 2016 in the form of an open-ended condominium, exclusive and for an indeterminate period, and Fundo de Investimento em Direitos Creditórios Cielo (“FIDC Plus”) began its activities on July 28, 2017 in the form of a closed condominium, restricted to professional investors and with indefinite term. Both are governed by CMN Resolution No. 2,907/01, by CVM Instructions No. 356/01 and No. 444/06, by the terms of the Regulation, and by all other applicable legal and regulatory provisions. Since July 31, 2017, the FIDC has not made any purchase of receivables.

The yield of the senior and mezzanine shares of FIDC Plus is amortized monthly, and an extraordinary amortization of mezzanine and subordinated shares is possible, as long as the minimum subordination level is 20%. The Fitch Ratings agency assigned to senior shares the risk rating “AAA”.

The purpose of the funds is to provide shareholders with an appreciation of the shares through the investment of their funds mainly in credit rights arising from payment transactions made by end users using payment instruments, for purchase of goods, products and services in merchants, on Cielo’s acquisition system, complying with the other applicable rules and standards.

The credit rights are measured at the purchase price and remunerated based on the internal rate of return (TIR) of the contracts, under the pro rata temporis criterion. The internal rate is calculated based on the purchase price, amount on maturity and term for receiving the credit rights.

The equity structure of the FIDC and FIDC Plus as at March 31, 2019 is presented below:

	Number of shares	Value of shares	Cielo's interest	Third parties' interest
FIDC	832	1,168	1,168	-
Total - FIDC	832	1,168	1,168	-
FIDC Plus				
Senior	4,000,000	4,001,014	2,000,507	2,000,507
Mezzanine	500,000	500,135	500,135	-
Subordinated	4,687,897	4,526,493	4,526,495	-
Total – FIDC Plus	9,187,897	9,027,642	7,027,135	2,000,507
Total			7,028,305	2,000,507

The statements of financial position as at March 31, 2019 and December 31, 2018 are as follows:

	03/31/2019			12/31/2017		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
FIDC	1,313	144	1,168	1,385	215	1,171
FIDC Plus	9,030,124	2,481	9,027,644	9,199,494	29,035	9,170,458
Total	9,031,437	2,625	9,028,812	9,200,879	29,250	9,171,629

The funds' statements of profit or loss for the three-month periods ended March 31, 2019 and 2018 are as follows:

	03/31/2019			
	Income from purchase of receivables	Yield on shares	Profit before finance income and costs	Profit for the year
FIDC	-	18	(21)	(2)
FIDC Plus	315,461	3,979	(242)	319,681
	03/31/2018			
	Income from purchase of receivables	Yield on shares	Profit before finance income and costs	Profit for the year
FIDC	18,605	2,652	594	20,663
FIDC Plus	466,300	10,874	331	476,844

c. Hedge transactions

Hedge of market risk

The Company, upon contracting the Derivative Financial Instrument on June 22, 2017 in the form of a swap operation, designated it as a hedge instrument for the US dollar borrowing in the amount of US\$ 316,255, equivalent to R\$1,000,000, matured and settled on August 30, 2018. On August 30, 2018, a new borrowing was taken out in the amount of US\$ 239,166, equivalent to R\$ 1,000,000, maturing on August 31, 2019, for which a new swap operation was contracted to provide hedge against the currency risk and interest rate exposure.

The loan agreement (as described in Note 12) and the swap agreement were entered into in such a way that the comparison between the long position (receivables of the Company) of the swap

and the loan balance (payables of the Company), both adjusted at fair value, does not result in losses or gains arising from the exchange differences and interest rate contracted in the hedged item.

Thus, as at March 31, 2019, the Company remained exposed only to the swap short position, which has a notional amount in reais of R\$ 1,000,000, remunerated at 99.85% of average daily DI interest.

In order to document the designation strategy adopted and the effectiveness of the derivative financial instrument, the Company used the hypothetical derivative method, which is based on a comparison of change in the fair value of a hypothetical derivative with terms identical to the critical terms of the variable-rate liability, and this change in the fair value is considered as a representation of the present value of the cumulative change in the expected future cash flow of the hedged liability. Accordingly, gains and losses on the hedging instrument and the hedged item are recognized at fair value in profit or loss for the period in which they occur.

The method used by the Company to determine the market value consists in calculating the future value based on contracted conditions and determine the present value based on market curves extracted from Brazilian stock exchange B3 – Brasil, Bolsa, Balcão S.A.

As at March 31, 2019, the individual and consolidated position of the swap contract reflected a fair value payable of R\$ 65,991 (R\$ 75,692 payable as at December 31, 2018, in individual and consolidated).

	03/31/2019					12/31/2018
	Valuation					Fair value (market)
	Operation maturity	Notional Value R\$	Long Position	Short Position	MTM Adjust ment	Amount receivable / (payable)
Swap – floating rate in US\$: 2.9660% p.a. - From 08/31/18 to 02/27/19 3.0660% p.a. - From 02/28/19 to 08/30/19 vs. floating rate in R\$ (99.85% of DI)	08/30/2019	1,000,000	-	(69,380)	3,390	(65,991)
						(75,692)

As at March 31, 2019 and 2018, the hedging relationships established by the Company were effective, according to prospective tests performed. Therefore, no reversal due to ineffectiveness of the hedge was recognized.

Non-Deliverable Forward “NDF”

On January 7, 2019, the Company contracted a Financial Instrument (non-deliverable forward - NDF) and designated it as a hedge instrument for the US dollar borrowing transaction ("Bonds") in the amount of US\$ 475,000, equivalent to R\$ 1,831,449 as at March 31, 2019.

Under the NDF contractual terms, settlement date is July 1, 2019 and future exchange rate is USD 3.7850. This operation is aimed at providing hedge against the currency risk (US dollar).

The method of calculating the market value used by the Company consists in calculating the future value based on the conditions contracted and determining the present value based on market curves.

As at March 31, 2019, the NDF position corresponded to a fair value receivable of R\$ 70,056, as

under:

03/31/2019					12/31/2018	
Value					Fair value (market)	Fair value (market)
Operation maturity	Notional R\$	Long Position	Short Position	MTM Adjust ment	Amount receivable / (payable)	Amount receivable / (payable)
07/01/2019	1,831,449	116,280	(62,233)	16,998	70,056	-

7 Other receivables – Operating receivables

	Parent Company		Consolidated	
	03/31/2019	12/31/2018	03/31/2019	12/31/2018
Receivables	402,846	372,148	897,763	885,015
Receivables from payment transactions	402,846	372,148	897,763	885,015
Sundry	66,244,976	64,309,461	66,780,381	65,496,579
Receivables from issuers	63,441,736	61,618,543	63,635,016	62,219,320
Receivables from issuers (a)	63,342,828	61,548,307	63,360,651	61,548,219
Chargebacks (b)	65,178	36,843	65,178	36,843
Purchase of receivables (c)	48	426	136	599
Receivables from financial transactions processed (d)	-	-	28,719	436,847
Receivables from customer interchange (e)	-	-	146,650	163,845
Others	33,682	32,967	33,682	32,967
Receivables - related parties	26,768	19,457	400	-
Debtors for guarantee deposits (Note 14b)	1,625,437	1,624,223	1,640,222	1,637,377
Tax credits (Note 8a)	936,876	914,047	1,147,717	1,123,533
Taxes and contributions for offset/recoverable	102,927	59,610	162,948	392,975
Others	111,232	73,581	194,078	123,374
Provision for other doubtful debts (f)	(190,457)	(179,977)	(201,709)	(188,821)
Total	66,457,365	64,501,632	67,476,435	66,192,773
Current	63,971,788	62,266,504	64,857,295	63,501,559
Noncurrent	2,485,577	2,235,128	2,619,140	2,691,214
Total	66,457,365	64,501,632	67,476,435	66,192,773

- (a) Receivables from card-issuing banks for transactions made with credit and debit cards by cardholders, already deducting the advances with issuing banks.
- (b) Refer basically to receivables for transactions challenged by credit card holders that are under analysis by the Parent Company at the end of the reporting period (chargeback).
- (c) Refer to purchase of receivables from merchants performed by the Company, relating to card transactions that will be received from card-issuing banks within 360 days from the purchase date, this amount is net of the income from purchase of receivables, to be recognized to the maturity dates of the transactions (since it is related to the purchase of receivables for cash and installment sales with original maturity after the end of the reporting periods).
- (d) Receivables recognized in subsidiary Me-S relating to amounts due from card association members for processed transactions that had been authorized but not yet received by Me-S by the end of the reporting periods. These amounts receivable are usually received on the business day following the transaction capture date. Card associations send to Me-S the amounts due to merchants for processing, net of the interchange fee retained by the card-issuing banks.
- (e) These are represented by the amounts receivable related to interchange fees and service fees charged for the processing of transactions receivable from merchants, a result of the practice adopted by Me-S to settle transactions for the full amounts to merchants and to collect these fees at the beginning of the following month.
- (f) Refers to the provision for doubtful debts resulting from transactions of the Company with merchants, recognized based on expected losses on transactions already in arrears.

8 Income tax, social contribution and other taxes

a. Current income tax and social contribution

The effective rate of income tax and social contribution for the three-month periods ended March 31, 2019 and 2018 is as follows:

	Parent Company		Consolidated	
	03/31/2019	03/31/2018	03/31/2019	03/31/2018
Profit before income tax and social contribution	731,099	1,329,915	833,872	1,385,950
Statutory rates - %	34%	34%	34%	34%
Income tax and social contribution at statutory rates	(248,574)	(452,171)	(283,516)	(471,223)
Tax benefit of interest on capital	50,252	51,204	50,252	51,204
Tax benefit of R&D ("Lei do Bem")	1,268	6,296	1,268	6,296
Share of profit (loss) of investees	18,362	61,584	676	2,566
Goodwill on acquisition of investments	(2,209)	(1,458)	(2,209)	(2,209)
Effect on permanent differences, net	(1,668)	282	(11,082)	(2,105)
Income tax and social contribution	<u>(182,568)</u>	<u>(334,263)</u>	<u>(244,612)</u>	<u>(340,358)</u>
Current	(202,535)	(328,785)	(281,918)	(327,967)
Deferred	19,967	(5,478)	37,306	(12,391)

Incentives to Cultural and Artistic Activities ("Rouanet Law"), Sports, Child and Adolescent Rights Fund, Fund for the Elderly and National Program for the Support and Health Care of Physically Disabled People (PRONAS/PCD) are recognized in line item "Income tax expenses – current". The tax incentives recorded as income tax expense - current, in parent company and consolidated, totaled R\$ 3,564 in the three-month period ended March 31, 2019 (R\$ 10,304 in the three-month period ended March 31, 2018).

b. Deferred income tax and social contribution

Deferred income tax and social contribution arise from temporary differences caused mainly by temporarily non-deductible provisions, and are classified in current and noncurrent assets and noncurrent liabilities, according to the expected realization of the credit.

Deferred income tax and social contribution reflect future tax effects attributable to temporary differences between the tax base of assets and liabilities and the related carrying amounts. The reported amounts are reviewed monthly.

Breakdown of deferred income tax and social contribution - Assets

	Parent Company		Consolidated	
	03/31/2019	12/31/2018	03/31/2019	12/31/2018
Temporary differences:				
Provision for tax, labor and civil risks	597,746	590,668	604,151	597,234
Accrual for sundry expenses	263,615	249,925	374,941	454,702
Income tax and social contribution tax losses (Stelo)	-	-	93,110	-
Allowance for losses on POS equipment, doubtful debts and fraud	75,515	73,454	75,515	71,597
Total	<u>936,876</u>	<u>914,047</u>	<u>1,147,717</u>	<u>1,123,533</u>

Breakdown of deferred income tax - Liabilities recognized in foreign companies

	Consolidated	
	03/31/2019	12/31/2018
Temporary differences:		
Fair value of Me-S's intangible assets, acquired in 2012	14,874	101,391
Other temporary differences	87,168	7,667
Deferred tax liability on negative goodwill (a)	6,188	6,188
Total	108,230	115,246

- (a) Stelo's acquisition in September 2018 generated negative goodwill that, pursuant to Law No. 12,973/14, should be deferred for tax purposes.

According to Management's best estimate, tax credits recognized on the accrual for sundry expenses, allowance for losses on POS equipment, doubtful debts and fraud in the amount of R\$ 96,355 (R\$ 189,466 in consolidated) will be realized mainly during the next 12 months. The portion of tax credits on the provision for risks, in the amount of R\$840,521 in parent company (R\$958,251 in consolidated), will be realized upon the final outcome of each lawsuit partially estimated in up to 5 years, except for 28.07% in parent company (27.52% in consolidated) of the provision for labor risks which is estimated to be realized in up to 10 years, according to the development of the lawsuit described in note 14.

The table below shows the realization of the tax credit:

	Parent Company				Consolidated			
	Income tax	Social contribution	Total	Present value	Income tax	Social contribution	Total	Present value
Temporary differences:								
2019	70,850	25,506	96,355	94,438	139,313	50,153	189,466	185,696
After 2023	618,030	222,491	840,521	823,798	704,597	253,654	958,251	939,186
Total	688,880	247,997	936,876	918,236	843,910	303,807	1,147,717	1,124,882

c. Taxes payable

	Parent Company		Consolidated	
	03/31/2019	12/31/2018	03/31/2019	12/31/2018
Income tax and social contribution, net of prepayments	202,052	275,322	275,560	660,024
Contribution for Social Security Funding - Cofins	14,552	21,642	30,358	38,418
Withholding Income Tax - IRRF	13,597	-	18,430	6,022
Tax on Services – ISS	4,516	26,184	43,418	66,176
Social Integration Program - PIS	3,025	4,714	5,251	7,406
Other taxes payable	11,952	11,858	23,328	18,120
Total	249,694	339,720	396,615	796,166

As from 2018, after amendments to Complementary Law No. 157/16, the Tax on Services ("ISS") is now due in the municipality where the commercial establishments taking services related to means of payment are domiciled. In March 2018, the effect of article 1 of Complementary Law No. 157/16 was suspended due to an injunction granted by the Honorable Federal Supreme Court (STF) Justice Alexandre de Moraes. The Company has been involved in the discussions with industry associations, other taxpayers affected and representatives of Brazilian municipalities, in order to provide means to enable proper application of the new legislation.

In addition, with the suspension of Complementary Law No. 157/16 and the reinstatement of the previous legislation, the Company, based on the opinion of its legal counselors, started to pay ISS again in the municipality in which it is domiciled, as well as reversed the estimated provision for ISS, pursuant to Complementary Law No. 157/16, since the date of its suspension.

9 Investments

	Parent Company		Consolidated	
	03/31/2019	12/31/2018	03/31/2019	12/31/2018
In subsidiaries	8,765,209	8,822,765	-	-
In joint ventures and associates	118,989	119,055	118,989	119,055
Goodwill on acquisition of investments (a)	10,829	17,323	-	-
Total	8,895,027	8,959,143	118,989	119,055

The goodwill arising on investments in subsidiaries and joint ventures is included in the carrying amount of the investment in the individual financial statements. In the consolidated financial statements, the goodwill arising on acquisition of subsidiaries is recognized in intangible assets (see note 11).

The consolidation of the financial statements for direct subsidiaries Multidisplay, Braspag and Cielo USA, as well as for indirect subsidiaries M4Produtos, Me-S and Stelo, was based on the financial information as at February 28, 2019 to calculate the investments as at March 31, 2018. Accordingly, the share of profit (loss) of investees refers to the three-month period ended February 28, 2019.

The details of the nature of goodwill on acquisition of investments recognized in the line item "Investments" are described in note 11 (a) – Goodwill on acquisition of investments.

The main information on direct and indirect subsidiaries and joint ventures relating to investment amounts and share of profit (loss) of investees recorded in the individual and consolidated financial information is shown in the table below:

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				03/31/2019						03/31/2019		
	% Equity Interest	Quantity of shares (in thousands)		Assets	Liabilities	Equity	Revenues	Gross Profit	Operating profit before finance income (costs)	Profit (Loss)	Share of profit (loss) of investees for the quarter	Investment
Subsidiaries:												
Servinet	99.99	11,010	-	83,822	48,722	35,100	62,794	62,069	3,816	2,704	2,704	35,100
Multidisplay (i)	91.44	16	-	134,101	72,219	61,882	209,932	11,370	5,258	4,682	4,281	57,992
Braspag	99.99	621	-	52,066	22,142	29,924	10,675	5,599	2,958	1,957	1,957	29,924
Cielo USA (iii)	100.00	1	-	955,188	1,675,626	(720,438)	-	(25,668)	(27,702)	(32,763)	(32,763)	-
Cateno	70.00	10,787,400	1,198,600	12,596,439	420,399	12,176,040	644,523	228,888	178,174	134,426	94,098	8,523,228
Aliança	99.99	44,770	-	143,739	6,659	137,080	1,133	1,151	(18,459)	(18,257)	(18,257)	118,965
Subtotal				13,965,355	2,245,767	11,719,588	929,057	283,409	144,045	92,749	52,020	8,765,209
Joint ventures:												
Orizon (ii)	40.95	151,865	-	333,037	28,106	304,931	35,617	12,011	2,774	4,870	1,994	118,989
Paggo (iii)	50.00	112,357	-	285	340	(55)	-	-	(14)	(14)	(7)	-
Subtotal				333,322	28,446	304,876	36,617	12,011	2,760	4,856	1,987	118,989
Total Parent Company				14,298,677	2,274,213	12,024,464	964,674	295,420	146,805	97,605	54,007	8,884,198
Total Consolidated				333,322	28,446	304,876	35,617	12,011	2,760	4,856	1,987	118,989
Indirect Subsidiaries:												
M4Produtos	91.44	-	-	161,605	129,802	31,803	28,313	13,510	4,404	4,342	3,970	29,081
Me-S	100.00	-	-	978,009	478,222	499,787	422,646	88,827	(4,509)	(2,034)	(2,034)	499,787
Stelo	100.00	109,100	-	289,549	162,238	129,311	37,278	13,045	(22,360)	(18,464)	(18,464)	129,311
Indirect joint ventures:												
Prevsáude	40.95	-	-	17,654	1,408	16,246	2,027	1,461	1,184	892	365	6,653
Guilher	40.95	-	-	10,001	8,445	1,556	1,563	159	(42)	147	60	637

- (i) The investment held by Cielo includes adjustment to the equity of subsidiary Multidisplay due to the special goodwill reserve generated in the corporate restructuring process in which Servrede was merged into its then subsidiary Multidisplay in the amount of R\$16,484.
- (ii) The amount of R\$5,880 is not reflected in the investment because it refers to the unrealized gain on capital contribution with goodwill initially reflected in CBGS Ltda, and transferred to indirect subsidiary CBGS as a result of the merger. In November 2009, CBGS was merged into its then subsidiary Orizon.
- (iii) At 03/31/2019, Cielo USA and Paggo had negative equity (capital deficit), for this reason the investment amount was reclassified to Other payables - sundry.

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				12/31/2018			03/31/2018				03/31/2018	12/31/2018
		% Equity Interest	Quantity of shares (in thousands)	Assets	Liabilities	Equity	Revenues	Gross Profit	Operating profit before finance income (costs)	Profit (Loss)	Share of profit (loss) of investees for the quarter	Investment
Subsidiaries:												
Servinet		99.99	11,010	-	101,628	62,231	39,397	31,392	34,862	2,019	1,492	39,397
Multidisplay (i)		91.44	16	-	112,345	48,021	64,324	116,648	5,956	3,569	2,947	60,225
Braspag		99.99	621	-	45,893	4,417	41,476	7,790	4,664	1,542	1,540	41,476
Cielo USA (iii)		100.00	1	-	983,063	1,665,801	(682,738)	-	(22,081)	(58,566)	(16,819)	-
Cateno		70.00	10,787,400	1,198,600	12,589,636	383,287	12,206,349	598,470	253,072	225,214	165,550	8,544,445
Aliança		99.99	44,770	-	162,145	6,807	155,338	1,003	1,184	5,433	5,498	137,223
Subtotal					15,795,057	2,170,563	13,624,493	755,303	277,657	232,218	125,714	9,940,375
Joint ventures:												
Orizon (ii)		40.95	151,865	-	327,311	22,220	305,091	36,472	11,579	3,840	5,334	119,054
Paggo (iii)		50.00	112,357	-	169	210	(41)	-	-	(14)	(14)	-
Subtotal					327,480	22,430	305,050	36,472	11,579	3,826	5,320	119,054
Total Parent Company					16,122,537	2,192,993	13,929,543	791,775	289,235	236,045	131,033	10,059,429
Associate:												
Stelo		30.00	109,100	-	314,811	178,978	135,833	102	(3,015)	(18,425)	(12,098)	117,833
Total Consolidated					16,437,348	2,371,971	14,065,376	36,574	8,564	(14,599)	(6,778)	236,887
Indirect subsidiaries:												
M4Produtos		91.44	-	-	144,744	110,919	33,825	30,939	14,420	2,082	2,279	30,930
Me-S		100.00	-	-	1,476,935	848,643	628,292	379,017	88,391	5,082	16,523	628,292
Indirect joint ventures:												
Prevsaúde		40.95	-	-	16,455	1,102	15,353	2,852	1,501	1,366	1,182	6,287
Guilher		40.95	-	-	13,044	11,636	1,408	1,811	66	(104)	152	577

- (i) The investment held by Cielo includes adjustment to the equity of subsidiary Multidisplay due to the special goodwill reserve generated in the corporate restructuring process in which Servrede was merged into its then subsidiary Multidisplay in the amount of R\$16,484.
- (ii) The amount of R\$5,880 is not reflected in the investment because it refers to the unrealized gain on capital contribution with goodwill initially reflected in CBGS Ltda, and transferred to indirect subsidiary CBGS as a result of the merger. In November 2009, CBGS was merged into its then subsidiary Orizon.R
- (iii) At 03/31/2018, Cielo USA and Paggo had negative equity (capital deficit), for this reason the investment amount was reclassified to Other payables - sundry

Changes in investments for the three-month periods ended March 31, 2019 and 2018 are as follows:

	Parent Company	Consolidated
Balance at December 31, 2017	8,811,562	110,358
Provision for obligations with investees (*)	4,028	(18,977)
Dividends received:		
Multidisplay	(6,687)	-
Orizon	(3,387)	(3,387)
Cateno	(113,461)	-
Capital contribution – Aliança	55,000	-
Capital contribution – Stelo	-	55,106
Share of profit (loss) of investees	118,989	7,546
Amortization of goodwill	(6,496)	-
Balance at March 31, 2018	8,859,548	150,646
Balance at March 31, 2018	8,959,143	119,055
Recognition of provision for obligations with investees	32,771	7
Dividends received:		
Braspag	(13,509)	-
Servinet	(7,000)	-
Cateno	(115,315)	-
Dividends provisioned:		
Multidisplay	(6,514)	-
Orizon	(2,060)	(2,060)
Share of profit (loss) of investees	54,007	1,987
Amortization of goodwill	(6,496)	-
Balance at March 31, 2019	8,895,027	118,989

(*) Refer to investments with negative equity, recognized in line item Other Payables – Sundry.

10 Property and equipment

		Parent Company			
		03/31/2019			12/31/2018
	Annual depreciation rate - %	Cost	Accumulated depreciation	Net	Net
POS equipment	20*	1,677,222	(1,138,901)	538,321	433,466
Data processing equipment	20	179,945	(139,626)	40,319	45,674
Machinery and equipment	10 - 20	29,895	(25,394)	4,501	4,849
Facilities	10	48,331	(16,984)	31,347	32,555
Furniture and fixtures	10	12,861	(5,837)	7,024	7,309
Vehicles	20	378	(378)	-	-
Total		1,948,632	(1,327,120)	621,512	523,853

		Consolidated			
		03/31/2019			12/31/2018
	Annual depreciation rate - %	Cost	Accumulated depreciation	Net	Net
POS equipment	20*	1,677,815	(1,139,168)	538,647	433,833
Data processing equipment	20	228,411	(177,207)	51,204	56,394
Machinery and equipment	10 - 20	54,595	(37,667)	16,928	17,132
Facilities	10	105,709	(35,038)	70,671	60,994
Furniture and fixtures	10	21,606	(9,667)	11,939	12,441
Vehicles	20	378	(378)	-	-
Total		2,088,514	(1,399,125)	689,389	580,794

(*) **Change in the annual depreciation rate of transaction capture equipment (from 33% to 20% p.a.)**

Refers to the change in the annual depreciation rate for transaction capture equipment from 3 to 5 years. After a study carried out by Management, and based on knowledge that has been attained, the Company noted that the equipment items that make up its fixed assets remain in use for further 3 years

(5 years on average).

Changes in property and equipment for the three-month periods ended March 31, 2019 and 2018 are as follows:

	Parent Company					
	12/31/2018	Additions	(Disposals/Losses)	Depreciation	03/31/2019	
POS equipment	433,466	146,044	(8,520)	(32,669)	538,321	
Data processing equipment	45,674	33	-	(5,388)	40,319	
Machinery and equipment	4,849	173	-	(521)	4,501	
Facilities	32,555	-	-	(1,208)	31,347	
Furniture and fixtures	7,309	20	-	(305)	7,024	
Total	523,853	146,270	(8,520)	(40,091)	621,512	
	12/31/2017	Additions	(Disposals/Losses)	Depreciation	03/31/2018	
Total	463,595	30,089	(23,519)	(52,918)	417,247	
Consolidated						
	12/31/2018	Additions	(Disposals/Losses)	Depreciation	Exchange differences	03/31/2019
POS equipment	433,833	146,094	(8,551)	(32,716)	(13)	538,647
Data processing equipment	56,394	1,935	(8)	(7,137)	20	51,204
Machinery and equipment	17,132	1,296	(221)	(1,321)	42	16,928
Facilities	60,994	20,174	(8,015)	(2,481)	(1)	70,671
Furniture and fixtures	12,441	1,068	(1,048)	(523)	1	11,939
Total	580,794	170,567	(17,843)	(44,178)	49	689,389
	12/31/2017	Additions	(Disposals/Losses)	Depreciation	Exchange differences	03/31/2018
Total	512,596	31,436	(23,545)	(56,397)	60	464,150

As at March 31, 2019 and December 31, 2018, estimated losses on POS equipment amount to R\$17,843 and R\$24,418, respectively.

11 Intangible assets

The breakdown of intangible assets is as follows:

	Parent Company		Consolidated	
	03/31/2019	12/31/2018	03/31/2019	12/31/2018
Goodwill on acquisition of investments	-	-	20,717	28,583
Other intangible assets	407,213	420,389	11,105,439	11,218,695
Total	407,213	420,389	11,126,156	11,247,278

a. Goodwill on acquisition of investments

As at March 31, 2019 and December 31, 2018, the goodwill on acquisition of investments in subsidiaries is recognized in line item "Intangible assets" in the consolidated statement of financial position, broken down as follows:

	Consolidated	
	03/31/2019	12/31/2018
Multidisplay	18,096	25,796
Braspag	2,621	2,783
Total	20,717	28,579

Acquisition of control - Multidisplay

In August 2010, the Company acquired through its direct subsidiary Servrede, 50.1% of the shares representing the capital of Multidisplay and its wholly-owned subsidiary M4Produtos, which collectively are referred to as M4U, for R\$50,650, generating initial goodwill of R\$31,348.

In the corporate restructuring process carried out in 2012, Servrede was merged into its then subsidiary Multidisplay, the tax benefit on goodwill of R\$10,658 was merged into Multidisplay and the remaining goodwill of R\$20,690 was re-established in the Company, as provided for in CVM Instructions No. 319/99 and No. 349/01. The tax benefit is amortized according to its realization and the goodwill was amortized over the period of the study of projections of future results that justified it.

In July 2016, the Company concluded an additional acquisition of a 41.34% interest in subsidiary Multidisplay, increasing its interest to 91.44%, as follows:

Net assets acquired	17,849
Amounts paid on the closing date	(92,309)
Amount payable Earn-out	(7,824)
Goodwill	<u>(82,284)</u>

(*) Remaining balance recorded as “Other payables” in noncurrent liabilities to be paid in 43 months from the closing date, inflation adjusted based on 100% of the DI rate, contingent upon the attainment of certain “performance” goals established in the Share Purchase and Sale Agreement.

Goodwill is subject to straight-line amortization over the period of study of projections of future results that justified it. As at March 31, 2019, the goodwill balance is R\$ 10,827 and the remaining balance of R\$ 7,269 refers to the tax benefit for the period, totaling R\$ 18,095 (R\$ 25,796 at December 31, 2018).

Acquisition of control - Braspag

In May 2011, the Company acquired, through its then direct subsidiary CieloPar, 100% of the shares of Braspag, for R\$40,000. The amount of the investment recorded until then by CieloPar included goodwill on acquisition of shares of R\$39,343.

In the restructuring process carried out in 2012, CieloPar was merged into its then subsidiary Braspag. The tax benefit on goodwill of R\$13,377 was merged into Braspag and the remaining goodwill of R\$25,966 was re-established in the Company as provided for in CVM Instructions No. 319/99 and No. 349/01. The tax benefit is amortized according to its realization and the goodwill was amortized over the period of study of projections of future results that justified it.

As at March 31, 2019, the goodwill balance is R\$ 2,621 (R\$ 2,783 as at December 31, 2018).

Changes in goodwill in the three-month periods ended March 31, 2019 and 2018 are as follows:

	Consolidated
Balance at December 31, 2017	57,667
Tax benefit on goodwill	(948)
Amortization of goodwill for the period	(6,496)
Balance at March 31, 2018	50,223
Balance at December 31, 2018	28.579
Tax benefit on goodwill	(1,366)
Amortization of goodwill for the period	(6,496)
Balance at March 31, 2019	20,717

b. Other intangible assets

The breakdown of other intangible assets is as shown below:

Parent Company					
		03/31/2019		12/31/2018	
	Annual amortization rate - %	Cost	Accumulated amortization	Net	Net
Software (b)	20	674,638	(381,254)	293,384	306,548
Project development (c)	20	138,759	(25,044)	113,715	113,715
Relationship with customers (f)	10	952	(838)	114	-
Non-compete agreement (e)	7.5	10,284	(10,284)	-	-
Service agreements (d)	20	11,994	(11,994)	-	126
Total		836,627	(429,414)	407,213	420,389

Consolidated					
		03/31/2019		12/31/2018	
	Annual amortization rate - %	Cost	Accumulated amortization	Net	Net
Right to use Ourocard Payment-Arrangement (a)	3,33	11,571,998	(1,575,078)	9,996,920	10,093,356
Software (b)	6,66-20	1,302,954	(751,130)	551,824	561,794
Project development (c)	4-20	613,834	(370,416)	243,418	257,251
Relationship with customers (f)	20	481,553	(198,311)	283,242	271,692
Non-compete agreement (e)	7,5-5	167,623	(145,988)	21,635	25,480
Service agreements (d)	8-20	32,307	(23,986)	8,321	9,048
Trademarks (g)	10	3,985	(3,906)	79	74
Total		14,174,254	(3,068,815)	11,105,439	11,218,695

- (a) **Right to Use Ourcard Payment Arrangement** - Under the scope of the association agreement between the Company and BB Elo Cartões, a wholly-owned subsidiary of Banco do Brasil, in February 2015 Cateno was granted rights over post-paid payment accounts management activities under the Ourocard Payment Arrangement, rights over the management of the purchase functionalities through debit under the Ourocard Payment Arrangement, and participation in the Ourocard Payment Arrangement as a Payment Institution. By means of an Economic and Financial Appraisal Report issued by an independent auditing firm and prepared based on a Future Profitability method using a discounted cash flow, the rights under the above-described Ourocard Payment Arrangement were valued at R\$11,572,000 with a 30-year finite useful life. The intangible assets are amortized under the straight-line method at a rate of 3.33% per year. The useful life and amortization method are reviewed annually.
- (b) **Software** - refers to software licenses acquired from third parties and used to provide services relating to information processing and business transactions with customers. Additionally, in 2012, when 100% of Me-S's capital stock was acquired, the fair value adjustment of the software platform was recognized in Cielo USA in the amount of R\$223,300 (equivalent to US\$110,000). The independent appraisal firm engaged to issue the appraisal report measured the software platform's fair value using the average of the values obtained from applying the Relief-from-Royalty (at a 16% royalty fee) and Cost Approach - Third-party Cost Estimates methodologies. The useful life defined for this software platform is 12 years.
- (c) **Project development** - refers to expenses on development of new products or services designed to increase the Company's and its subsidiaries' invoicing and revenues.

Expenses on depreciation of property and equipment and amortization of intangible assets were recognized in “General and administrative expenses” and “Cost of services provided” in the statement of profit or loss.

12 Borrowings

	Interest rate per year	Parent Company		Consolidated	
		03/31/2019	12/31/2018	03/31/2019	12/31/2018
Private debentures (a)	100% to 111% of DI	3,355,345	3,414,717	3,355,345	3,414,717
Long-term financing – “ten-year bonds” (c)	3.75%	1,852,268	1,824,423	3,440,725	3,388,832
Operation 4,131 (d)	1.96% to 2.07%	936,169	925,379	936,168	925,379
R&D Financing	4.0%	128,400	134,049	128,400	134,049
Bank credit bills (d)	104.4%	920,334	-	920,334	-
Total		7,192,515	6,298,568	8,780,972	7,862,977
Current		1,921,889	1,032,941	1,937,348	1,033,618
Noncurrent		5,270,626	5,265,627	6,843,624	6,829,359
Total		7,192,515	6,298,568	8,780,972	7,862,977

(a) Private debentures

On February 27, 2015, the Parent Company conducted the first, second and third single series, simple, unsecured, nonconvertible debenture private placement issues. The three issuances totaled R\$3,459,449 with maturity date on December 30, 2023. The private debentures’ yield includes interest based on the cumulative percentage change between 100.00% and 111.00% of the average daily interest rate of the DI, as applicable, as shown in the table below:

	Principal	Remuneration
1st issuance	2,359,449	111% of DI
2nd issuance	700,000	100% of DI until 3/31/2015 and 111% of DI after 3/31/2015
3rd issuance	400,000	100% of DI from the payment date to the day of removal from office of the “Transition Committee”, or until the end of the nine-year period counted from the base date to be defined in the amendment to the Deed. In case of any of the events, interest will be based on 111% of DI.

Interest will be paid on a semiannual basis as at the issuance date, except for the last accrual period that will be shorter as it will start on August 27, 2023, and will end with payment on the maturity date together with the principal amount. Exceptionally on March 27, 2015, the principal amount of R\$122,324 related to the 1st issuance of private debentures was partially paid. There are no covenants imposing financial restrictions related to the financial transaction of issuance of Private Debentures.

(b) Long-term financing - Ten-year bonds

In November 2012, the Company and its subsidiary Cielo USA completed a financial transaction whereby bonds were issued in the total amount of US\$875 million, of which US\$470 million were issued by the Company and US\$405 million were issued by subsidiary Cielo USA. The amount raised by Cielo USA was used to pay the acquisition of control of Me-S. The proceeds raised by the Company were used to increase its working capital. The financing obtained is subject to an interest rate of 3.75% per year. Interest is paid on a semiannual basis and principal will be paid in November 2022. Costs directly associated with the issuance of these bonds (banks, auditors and attorney’s fees) were recognized in liabilities and are being allocated to profit or loss over the term of the agreement, based on the amortized cost method. There are no covenants imposing financial restrictions related to the financial transaction of issuance of bonds.

(c) Operation 4,131

On September 1, 2017, the Company obtained a new borrowing from Bank of Tokyo-Mitsubishi UFJ, Ltd - “BTMU” in the amount of US\$ 316,255 equivalent to R\$ 1,000,000, which comprises a fixed interest rate of 1.96% per year for the period from September 1, 2017 to March 1, 2018 and 2.07% per year for the period from March 1, 2018 to the agreement maturity on August 31, 2018. In addition, the Company entered into a swap agreement to hedge the borrowing against fluctuations in foreign exchange and interest rates, and the short position (bank’s remuneration), considered all transaction costs, equivalent to 100.2% of the daily average interest rate of the DI. Interest on borrowings and the financial instrument will be paid on February, 28, 2018, May 31, 2018 and August 31, 2018, the latter together with the principal balance of the borrowing.

The borrowings from Bank of Tokyo-Mitsubishi UFJ, Ltd have covenants that require the Company to comply with a Net Debt/Consolidated Adjusted EBITDA ratio equal to or lower than 3, measured on an annual basis.

(d) Public Debentures

On April 13, 2015, the Company conducted the fourth issuance of simple, unsecured debentures in a single series, not convertible into shares and for public distribution pursuant to the terms of CVM 400. The issuance totaled R\$4,600,000 with maturity date on April 13, 2018. The amount of R\$ 4,600,000 was fully used in early redemption of the Promissory Notes, issued on December 29, 2014.

The remuneration of the Public Debentures includes interest based on the cumulative percentage change of 105.8% of the average daily

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interest rate of the DI. The principal amount was amortized in three equal and annual installments, in April of each year, and the interest was paid on a semiannual basis, in April and October of each year. On April 30, 2018, principal of R\$ 1,533,336 and interest of R\$ 54,340 were settled, thus liquidating the operation.

(e) Bank Credit Bills

At the end of the first quarter of 2019, new operations (CCB) were contracted with Banco Itaú Unibanco SA, which totaled R\$ 920 million. This amount comprises 3 (three) operations, in the amounts of R\$ 200 million and R\$ 300 million, maturing on April 25, 2019 and R\$ 420 million, maturing on April 29, 2019. The contractual interest rate was 104.4% of CDI per year. Interest on the bills and the balance of principal will be settled on the maturity dates.

The Company was compliant with the financial ratio related to the covenants of its borrowings described above.

Changes in borrowings for the three-month periods ended March 31, 2019 and 2018 are as follows:

	<u>Parent Company</u>	<u>Consolidated</u>
Balance at December 31, 2017	7,911,224	9,245,353
Payment of principal	(167,003)	(167,003)
Exchange differences (principal and interest)	13,297	20,285
Mark-to-market (MTM) adjustment	(9,237)	(9,237)
Accrued interest and charges	117,944	130,283
Interest paid	(157,485)	(157,485)
Balance at March 31, 2018	7,708,740	9,062,196
Balance at December 31, 2018	6,298,568	7,863,358
New borrowings	920,000	920,000
Payment of principal	(5,639)	(5,639)
Exchange differences (principal and interest)	29,019	39,791
Mark-to-market (MTM) adjustment	5,075	5,075
Accrued interest and charges	77,611	90,506
Interest paid	(132,119)	(132,119)
Balance at March 31, 2019	7,192,515	8,780,972

Breakdown of borrowings recorded in noncurrent liabilities

Borrowings classified as noncurrent as at March 31, 2019 by maturity date are broken down as follows:

Year of maturity	Parent Company	Consolidated
2020	15,397	15,397
2021	22,556	22,556
2022	1,854,005	3,432,169
2023	3,359,681	3,359,681
2024	22,556	22,556
Total borrowings	5,274,196	6,852,359
Debt issue costs	(3,570)	(8,735)
Total	5,270,626	6,843,624

13 Other payables – Sundry - Payables to customers

	Parent Company		Consolidated	
	03/31/2019	12/31/2018	03/31/2019	12/31/2018
Payables to customers (a)	55,075,489	52,878,277	55,202,445	52,878,277
Payables to merchants (b)	-	-	305,368	607,416
Merchant deposits (c)	-	-	83,880	145,894
Total	55,075,489	52,878,277	55,591,693	53,631,587

- (a) **Payables to customers** - Correspond to the obligation to pay the amount of transactions of purchase of products and services made with cards to the commercial establishments accredited by the Company. The total balance of accounts payable to merchants (accounts payable to merchants and accounts payable to FIDCs arising from the advances made by them) is higher than the balance of accounts receivable from issuers, stated in assets, since, in general, the settlement period of the credit card issuers for the Company is 28 days and the average settlement period of the Company with the commercial establishments is 30 days (float of approximately two days).
- (b) **Payables to merchants** – Represent amounts due by subsidiary Me-S to merchants, referring to transactions captured and processed until the reporting dates. Such amounts are settled on the business day following capture of transactions.
- (c) **Merchant deposits – Subsidiary Me-S** requires guarantee deposits in order to mitigate potential risks of challenges by cardholders due to fraud in the transactions or of Merchants going bankrupt.

In addition to the services of payments of the amounts transacted in credit and debit cards to merchants, the Company also guarantees accredited merchants that they will receive the amounts from credit card transactions. Based on the immaterial amount of the Company's history of losses due to default from card-issuing banks and the current credit risks of these institutions, the Company estimates that the fair value of the guarantees provided to merchants is not material and, therefore, is not recognized as a liability.

14 Provisions, contingent assets and contingent liabilities

a. Provision for tax, civil and labor risks

The Company and its subsidiaries are parties to lawsuits and administrative proceedings before courts and government agencies, arising in the normal course of business and involving tax, labor, civil and other matters.

Management, based on information from its legal counsel, on the analysis of pending lawsuits and past experience on the amounts claimed in labor, civil and tax lawsuits, recognized a provision in an amount considered sufficient to cover probable future cash disbursements on pending lawsuits in the three-month periods ended March 31, 2019 and 2018, as follows:

	Parent Company					
	12/31/2018	Additions (a)	Disposals/ reversals (b)	Inflation adjustment	Payments (c)	
Tax	1,615,018	34,531	-	1,119	-	1,650,668
Labor	40,783	10,458	(6,628)	805	(976)	44,442
Civil	99,431	400	(333)	382	(1,213)	98,667
Total	1,755,232	45,389	(6,961)	2,306	(2,189)	1,793,777

	Parent Company					
	12/31/2017	Additions (a)	Disposals/ reversals (b)	Inflation adjustment	Payments (c)	
Total	1,684,738	51,134	(16,156)	1,948	(4,387)	1,717,277

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	Consolidated					
	12/31/2018	Additions (a)	Disposals/ reversals (b)	Inflation adjustment	Payments (c)	03/31/2019
Tax	1,623,296	35,226	(1,885)	1,119	-	1,657,756
Labor	41,946	11,162	(6,993)	805	(976)	45,944
Civil	116,335	831	(1,083)	382	(1,213)	115,252
Total	1,781,577	47,219	(9,961)	2,306	(2,189)	1,818,952

	12/31/2017	Additions (a)	Disposals/ reversals (b)	Inflation adjustment	Payments (c)	03/31/2018
Total	1,741,317	12,772	(17,079)	1,948	(4,434)	1,734,524

- (a) Refer mainly to the increase in the provision for tax risks for the three-month periods ended March 31, 2019 and 2018, relating to taxes with suspended payment, recorded as an offsetting entry to "Taxes on services" and "Other operating expenses, net", and other additions to the provision for civil and labor risks, represented by new lawsuits and changes in the assessment of the likelihood of loss made by the legal counsel, which were recorded as an offsetting entry to "Other operating expenses, net", in the statement of profit or loss.
- (b) Mainly represented by the reversal of the provision for civil and labor risks due to prescription of the allowed time to start legal proceedings, settlement of lawsuits or change in the risk of loss as assessed by the Company's and its subsidiaries' legal counsel.
- (c) As at March 31, 2019, the Company and its subsidiaries, whether due to court agreements or unfavorable decisions, settled 48 civil and labor lawsuits, totaling R\$ 2,189 in Parent Company and Consolidated.

Tax lawsuits

The balances below refer to the provision for tax risks, arising from diverging interpretation by tax authorities, and related escrow deposits:

	Provision for tax risk Parent Company		Provision for tax risks Consolidated	
	03/31/2019	12/31/2018	03/31/2019	12/31/2018
Main tax lawsuits (ii)				
Noncumulative Cofins (a)	1,517,142	1,517,142	1,517,142	1,517,142
Amazon Investment Fund -FINAM (b)	17,398	17,398	17,398	17,398
Social contribution on Net Income (CSLL) 2002 (c)	10,895	10,895	10,895	10,895
Negative balance of IRPJ of the calendar year 2008 (d)	7,045	7,045	7,045	7,045
Others	98,188	62,538	105,276	70,816
Total	1,650,668	1,615,018	1,657,756	1,623,296

	Escrow deposits Parent Company		Escrow deposits Consolidated	
	03/31/2019	12/31/2018	03/31/2019	12/31/2018
Main tax lawsuits				
Noncumulative Cofins (a)	1,517,142	1,517,142	1,517,142	1,517,142
Social Contribution on Net Income - CSLL 2002 (c)	10,895	10,895	10,895	10,895
Negative balance of IRPJ of the calendar year 2008 (d)	7,045	7,045	7,045	7,045
Others	19,923	19,923	24,931	23,356
Total	1,555,005	1,555,005	1,560,013	1,558,438

- (a) **Cofins - Non-cumulative Regime** - the Company filed a writ of mandamus in February 2004, seeking to eliminate the demand for Cofins under the Law at a rate of 7.6%, making a deposit in court for the amounts calculated on a monthly basis and recording the difference between the cumulative and non-cumulative regimes as provision for risks. In May 2017, after the judgment of Extraordinary Appeal No. 570,122 / RS - with general repercussion recognized in relation to the matter raised and outcome unfavorable to the Taxpayers -, the Company decided to stop making deposits in court, starting to collect taxes and to benefit from the deductibility referred to in Decree No. 3,000/99 and Normative Ruling No. 1,700/17. The writ of mandamus, however, remains awaiting a decision at a higher court for a final settlement of the dispute, as a result of the judgment not yet published in the records of the Extraordinary Appeal. As at March 31, 2019, the amount of the provision for risks recognized and the amount of the escrow deposit is R\$ 1,517,142, in parent company and consolidated.
- (b) **Amazonas Investment Fund - FINAM** - In 2007, the Company received a tax assessment notice related to the calendar year 2002, fiscal year 2003, The Federal Revenue of Brazil alleges the non-filing of the Request for Revision of Order of Issuance of Tax Incentives - PERC within the required deadlines and, therefore, does not recognize the portion of Corporate Income Tax (IRPJ) for FINAM. The administrative proceeding is pending judgment of the Company's voluntary appeal by the Administrative Board of Tax Appeals - CARF. As at March 31, 2019, the amount of the provision for risks recognized is R\$ 17,398 in parent company and consolidated.
- (c) **Social Contribution on Profit - CSLL 2002** - In 2007, a tax assessment notice was issued against the Company to require CSLL (adjustment share) for calendar year 2002, plus a fine of 75% and interest on late payment, as well as a fine of 50% on the amounts of "estimates" of CSLL that would not have been paid. After the maintenance of the tax assessment notice at the administrative sphere, in July 2011, the Company opted for a judicial discussion. The full amount of the tax credit is deposited in court and is being contested in a writ of annulment, distributed in August 2011. In the first judicial instance, a judgment was rendered dismissing the annulment action. Currently, the process awaits judgment of the company's appeal. As at March 31, 2019, the amount of the provision for risks recognized is R\$ 10,895 and the amount of the escrow deposit is R\$ 10,895, in parent company and consolidated.

- (d) **Negative IRPJ Balance of Calendar Year 2008** - In 2009, the parent company offset the negative IRPJ balance of calendar year 2008 for tax debts owed in 2009 upon filing of the Offset Return (PER / DCOMP). When analyzing the aforementioned offset return in 2012, the Brazilian Federal Revenue Office did not approve the tax credit and, consequently, issued Decision Order No. 02240539. In January 2013, the parent company filed an Ordinary Tax Debt Annulment Action, at the Civil Court of the Judicial Branch of Osasco / SP, with the purpose of demonstrating and proving the credit of negative balance of calendar year 2008. The full amount of the tax credit is deposited in court. As at March 31, 2019, the amount of the provision for risks recognized is R\$ 7,045 and the amount of the escrow deposit is R\$ 7,045, in parent company and consolidated.

In addition, in December 2018, a tax assessment notice was issued against the Company claiming payment of PIS and Cofins at the rate of 9.25% on revenues from the purchase of receivables ("ARV"), for calendar years 2014 and 2015, plus automatic fine and interest on arrears, in the total amount of R\$ 655,673. Based on the opinion of the Company's legal advisors, the risk of loss was assessed as remote.

The Company's Management, based on the opinion of its legal advisors, estimates that the actual disbursement of provisions for tax risks will occur in up to 10 years and understands that the development of the lawsuits will depend on external factors not under the Company's control.

Civil lawsuits

Refer basically to collection of transactions made through the Company's system that were passed on to merchants in view of noncompliance with clauses of the accreditation contract, and compensation for losses caused by transactions not passed on at that time. As at March 31, 2019, the provision for probable losses on civil lawsuits totals R\$ 44,441 in parent company and R\$ 45,944 in consolidated (R\$ 40,783 in parent company and R\$ 41,946 in consolidated as at December 31, 2018), and the escrow deposit balance is R\$ 12,687 in parent company and R\$ 12,701 in consolidated (R\$ 11,473 in parent company and R\$ 11,487 in consolidated as at December 31, 2018).

Based on the opinion of its legal counsel, the management of the Company and its subsidiaries estimates that the actual disbursement of the mentioned provision for civil risks will occur within 5 years and understands that the development of the lawsuits will depend on external factors not under the Company's control.

Additionally, as at March 31, 2019, the Company is a party to public civil lawsuits and civil inquiries, most of them filed by the Public Prosecutor's Office or associations, whose intention is to defend collective interests (such as consumers' rights and labor rights). Court decisions may grant rights to groups of people (even without their consent). In many situations, the group's decision on availing a favorable outcome will only be made after the final decision.

Labor lawsuits

Refer to labor lawsuits that, as at March 31, 2019, included 567 claims against the Company and 60 against the subsidiaries, totaling 627 claims (538 claims against the Company and 61 against the subsidiaries, totaling 599 claims as at December 31, 2018). Of these claims as at March 31, 2019, 218 were filed by former employees (204 claims as at December 31, 2018) and the remaining 409 (395 as at December 31, 2018) were filed by employees of subcontractors, some of whom claiming the recognition of an employment relationship.

The risk of loss on labor claims, when these are started, is assessed as possible. As a rule, only after the decisions of the higher or lower courts are issued, the lawsuits are reclassified to probable or remote loss, depending on the decision and based on the history of losses on similar lawsuits. In general, labor lawsuits are related to salary equalization, overtime and effects of annual bonus, rights guaranteed by agreements between the employer and the labor union, recognition of employment relationship, and pain and suffering.

As at March 31, 2019, the provision for probable losses on labor lawsuits is R\$ 98,668 in parent company and R\$ 115,252 in consolidated (R\$ 99,431 in parent company and R\$ 116,335 in consolidated as at December 31, 2018), and the balance of escrow deposits is R\$ 57,745 in parent company and R\$ 67,508 in consolidated (R\$ 57,745 in parent company and R\$ 67,452 in consolidated as at December 31, 2018).

Based on the opinion of its legal counsel, the Management of the Company and its subsidiaries estimates that the actual disbursement of 72.48% of the mentioned provision for labor risks will occur within 5 years, and 27.52% within 10 years, and understands that the development of the lawsuits will depend on external factors not under the Company's control.

Additionally, as at March 31, 2019, the Company and its subsidiaries are parties to tax, civil and labor lawsuits assessed by their legal counsel as possible likelihood of losses, for which no provision was recognized, as follows:

	Parent Company		Consolidated	
	03/31/2019	12/31/2018	03/31/2019	12/31/2018
Tax	173,585	139,617	177,296	149,268
Civil	218,739	206,592	219,799	207,633
Labor	64,065	91,575	74,296	107,839
Total	456,389	437,784	471,391	464,740

b. Escrow deposits

In the three-month periods ended March 31, 2019 and 2018, the Company and its subsidiaries have escrow deposits related to the provision for tax, labor and civil risks, broken down as follows:

	Parent Company			
	03/31/2018	Additions	Write-offs	03/31/2019
Tax	1,555,005	-	-	1,555,005
Labor	11,473	1,214	-	12,687
Civil	57,745	-	-	57,745
Total	1,624,223	1,214	-	1,625,437
	12/31/2017	Additions	Write-offs	03/31/2018
	1,610,072	4,115	(104)	1,614,083
Total				
	Consolidated			
	03/31/2018	Additions	Write-offs	03/31/2019
Tax	1,558,438	1,575	-	1,560,013
Labor	11,487	1,214	-	12,701
Civil	67,452	56	-	67,508
Total	1,637,377	2,845	-	1,640,222
	12/31/2017	Additions	Write-offs	03/31/2018
	1,621,861	4,265	(103)	1,626,023
Total				

15 Equity

a. Issued capital

Capital as at March 31, 2019 is R\$5,700,000 represented by 2,716,815,061 common shares (R\$ 5,700,000 represented by 2,716,815,061 common shares as at December 31, 2018), all of them subscribed and paid in.

As mentioned in note 16, the number of shares net of treasury shares as at March 31, 2019 is 2,713,358,159 (2,714,233,626 shares as at December 31, 2018).

The Company's capital can be increased by up to 2,400,000,000 additional common shares, regardless of any amendments to bylaws, at the discretion of the Board of Directors, which has the power to establish the share issue price, the terms and conditions for subscription and payment of shares up to the limit of the authorized capital.

b. Capital reserve

Represents share-based payment costs and goodwill on subscription of shares related to capital contributions by shareholders exceeding the amount allocated to capital formation.

The capital reserve balance as at March 31, 2019 is R\$ 74,333 (R\$ 71,255 as at December 31, 2018).

c. Treasury shares

On February 20, 2019, it was established that the Company may acquire in the Programs a total of up to 2,170,000 (two million, one hundred and seventy thousand) common shares, in the first Program up to 1,100,000 (one million and one hundred thousand) shares, valid from March 1, 2019 to March 10, 2019 and, in the second Program, up to 1,070,000 (one million and seventy thousand) shares will be acquired, valid from August 1, 2019 to August 10, 2019. Additionally, these acquisitions of shares issued by the Company are limited to the "Capital Reserve" available account balance in the financial year, pursuant to Articles 1 and 12 of CVM Instruction 10/80.

The Company's Management is responsible for defining the timing and the number of shares to be acquired, within authorized limits.

Changes in treasury shares are as follows:

	Parent Company and Consolidated		
	Shares	Amount	Average cost R\$ per share
Balance at December 31, 2018	(2,581,435)	(50,578)	19.59
Repurchase in February	(1,100,000)	(11,758)	10.69
Sale in March	224,533	3,802	16.93
Balance at March 31, 2019	(3,456,902)	(58,534)	16.93

d. Carrying value adjustments

Represent cumulative adjustments for translation into the foreign currency of the foreign investments. The balances below reflect cumulative adjustments at the end of the reporting period, as follows:

	Parent Company and Consolidated	
	03/31/2019	12/31/2018
Exchange differences on foreign investments	54,686	59,622
Post-employment benefits	(5,557)	-
Total	49,129	59,622

e. Earnings reserve - legal

Is represented by the amounts set up at the rate of 5% of the profit for the year, pursuant to article 193 of Law No. 6,404/76, up to the limit of 20% of the capital. The legal reserve balance as at March 31, 2019 is R\$ 1,077,172 (R\$ 1,049,745 as at December 31, 2018).

f. Earnings reserve - capital budget

In the Board of Directors' meeting held on February 1, 2019, the Financial Statements for the year ended December 31, 2018 and the proposed capital budget for the current financial year were analyzed by the Supervisory Board, which were also approved at the Annual General Meeting held on April 18, 2019. The capital budget was composed of 28.5% of profit for the first quarter of 2019, less the legal reserve. The proposed capital budget was justified by the need to strengthen the working capital and ensure greater strength and financial stability to the Company, facilitating the financing of its operations as well as investments in shares of the Cielo Investment Fund in Credit Rights to enable the purchase of receivables (ARV), in addition to providing funds for any repurchase of shares issued by the Company.

The balance of the capital budget reserve as at March 31, 2019, after the allocation of profit for the first quarter of 2019 is R\$ 1,981,057 (R\$ 1,824,726 as at December 31, 2018).

g. Dividends and interest on capital

Under the Company's bylaws, shareholders are entitled to a mandatory minimum dividend of 30% of the profits earned (after the recognition of the legal reserve) at the end of each financial year.

The allocation of the remaining balance of the profit for the year will be decided at the AGM. At year-end, the Company recognizes the provision for the minimum dividend that has not yet been distributed during the year up to the limit of the aforementioned mandatory minimum dividend. Under the bylaws, the Company may prepare semiannual or shorter period statements of financial position and, in accordance with the limits provided for in applicable law, the Board of Directors may approve the distribution of dividends from the profit account. The Board of Directors may also propose interim dividends from the existing profit account based on the latest statement of financial position approved by the shareholders.

Dividends for the first quarter of 2019 were proposed in the amount of R\$364,773, representing 70% of profits earned in the quarter (after setting up the legal reserve).

h. Regulatory capital

Central Bank Circular Letter No, 3,681/13 requires accredited payment institutions to maintain permanently equity adjusted by profit or loss accounts in an amount corresponding to at least 2% of the average monthly amount of the payment transactions processed by the institution in the last twelve months.

At March 31, 2019, the Company maintains the required minimum regulatory capital.

16 Earnings per share

a. Change in the number of common shares

Shares issued	Common
Shares at December 31, 2018	2,714,233,626
Exercise of stock options:	
March	224,533
Repurchase of shares – January	(1,100,000)
Total	2,713,358,159

b. Earnings per share

The following tables reconcile the profit and the weighted average number of outstanding shares with the amounts used to calculate the basic and diluted earnings per share.

Basic earnings per share

	Parent Company and Consolidated	
	1st Quarter/19	1st Quarter/18
Profit for the period available for common shares	548,531	995,652
Weighted average number of outstanding common shares (in thousands)	2,715,940	2,714,373
Earnings per share (in R\$) – basic	0.20197	0.36681

Diluted earnings per share

	Parent Company and Consolidated	
	1st Quarter/19	1st Quarter/18
Profit for the period available for common shares	548,531	995,652
Diluted denominator:		
Weighted average number of outstanding common shares (in thousands)	2,715,940	2,714,373
Potential increase in common shares as a result of the stock option plan	2,695	2,528
Total (in thousands)	2,718,635	2,716,901
Earnings per share (in R\$) – diluted	0.20177	0.36647

17 Net operating revenue

	Parent Company		Consolidated	
	1st Quarter/19	1st Quarter/18	1st Quarter/19	1st Quarter/18
Gross operating revenue	1,597,285	1,852,416	3,061,312	3,125,014
Taxes on services	(164,795)	(221,306)	(288,218)	(340,330)
Total	1,432,490	1,631,110	2,773,094	2,784,684

The gross operating revenue is derived from the capture, transmission, processing and financial settlement of the transactions made with credit and debit cards, management of payment accounts related to Ourocard Payment Arrangement, rental of POS equipment, and provision of services in data transmission to load fixed or mobile phone credits.

18 Expenses by nature

The Company elected to present the consolidated statement of profit or loss by function.

The breakdown of cost of services provided and net operating expenses by nature is as follows:

	Parent Company		Consolidated	
	1st Quarter/19	1st Quarter/18	1st Quarter/19	1st Quarter/18
Personnel expenses	(130,768)	(103,478)	(253,378)	(184,195)
Depreciation and amortization	(73,989)	(104,087)	(234,967)	(238,784)
Professional services	(130,699)	(67,472)	(123,435)	(79,982)
Acquiring costs (a)	(593,405)	(531,953)	(1,292,481)	(1,126,158)
Sales and marketing (b)	(28,788)	(28,055)	(33,912)	(31,548)
Costs of mobile phone credits in subsidiaries (c)	-	-	(198,346)	(115,721)
Others	(28,459)	(13,653)	(52,804)	(11,875)
Total	(986,108)	(848,698)	(2,189,323)	(1,788,263)
Classified as:				
Cost of services provided	(643,922)	(614,665)	(1,660,224)	(1,434,328)
Personnel expenses	(85,768)	(61,062)	(187,444)	(126,217)
General and administrative expenses	(128,777)	(93,029)	(184,435)	(133,591)
Sales and marketing	(28,788)	(28,055)	(33,912)	(31,548)
Other operating expenses, net	(98,853)	(51,887)	(123,308)	(62,579)
Total	(986,108)	(848,698)	(2,189,323)	(1,788,263)

- (a) Acquiring costs are mainly represented by expenses on logistics and maintenance of POS equipment, supplies to merchants, customer registration and service, telecommunication services, and capture and processing of transactions.
- (b) Sales and marketing expenses include campaigns for trademark development, advertising and publicity, internal marketing, sales incentives to partners and issuing banks, and commercial actions for new customers registration.
- (c) Refer to the cost of the product sold related to the credit minutes for cell phones sold by the direct subsidiary Multidisplay.

19 Other operating expenses, net

Represented by:

	Parent Company		Consolidated	
	1st Quarter/19	1st Quarter/18	1st Quarter/19	1st Quarter/18
Allowance for doubtful debts and fraud (a)	(74,983)	(49,446)	(92,801)	(66,447)
Provision for risks, net	(16,172)	945	(18,135)	9,387
Write-offs and provision for loss on property and equipment	(7,898)	(3,766)	(7,898)	(3,766)
Others	200	380	(4,474)	(1,753)
Total	(98,853)	(51,887)	(123,308)	(62,579)

- (a) Losses from fraud refer to operating losses resulting from amounts of sales that are challenged by cardholders and that have already been settled to merchants.

20 Commitments

The Company is primarily engaged in the capture, transmission, processing and financial settlement of transactions made using credit and debit cards. In order to conduct said activities, the Company entered into the following agreements:

a. Lease agreements

As at March 31, 2019, future annual payments under lease agreements in effect are as follows:

	<u>Consolidated</u>
Up to 1 year	11,265
1 year to 5 years	11,408
Over 5 years	3,539
Total	<u>26,212</u>

Most agreements specify a penalty for termination equivalent to three-month rent, and a partial return can be negotiated for each case.

b. Suppliers of telecommunications, technology (processing of transactions), logistics services, call center and back office

As at March 31, 2019, based on contracts in effect, the minimum commitments with suppliers of technology, telecommunications, logistics services, call center, back office and telesales are as follows:

	<u>Consolidated</u>
Up to 1 year	223,727
1 year to 5 years	395,107
Total	<u>618,834</u>

The transaction capture and processing contracts, as well as the telecom and back office contracts, do not provide for penalty for termination.

21 Employee benefits

Post-employment benefits

The Company has an actuarial liability arising from post-employment benefits, relating to estimated expenses on healthcare plan, the amount provisioned for these expenses at March 31, 2019 is R\$ 16,818 (R\$7,728 at December 31, 2018).

Pension Plan

The Company and its subsidiary Servinet contribute monthly to a defined contribution pension plan ("PGBL") for their employees, and contributions made during the year ended March 31, 2019 amounted to R\$ 3,531 (R\$ 1,797 in the three-month period ended March 31, 2018), recognized in line items "Cost of services provided" and "Personnel expenses".

Other benefits

Besides the benefit of pension plan, the Company and its subsidiaries offer their employees health insurance, dental care, life and personal accident insurance and professional training, of these expenses totaled R\$ 21,459 in the three-month period ended March 31, 2019 (R\$ 15,006 in the three-month period ended March 31, 2018).

The Company has a Corporate Education Program that aims to leverage learning, ensuring the mapping and the dissemination of key knowledge through practical and educational activities that encourage the creation, acquisition, dissemination, use and sharing of knowledge, focusing on business results. In addition, in the Company, actions are developed for all employees, for example, leadership development, e-learning, contract training, on-demand training, continued education and languages. The costs related to the actions described are recognized in profit or loss

when incurred.

22 Profit sharing

The Company and its subsidiaries pay profit sharing to their employees and officers, subject to the achievement of operational goals and specific objectives established and approved at the beginning of each fiscal year.

The shares of employees and officers in profit for the three-month periods ended March 31, 2019 and 2018 were as follows:

	Parent Company		Consolidated	
	03/31/2019	03/31/2018	03/31/2019	03/31/2018
Employees	15,585	11,020	23,425	16,034
Statutory directors	3,250	2,328	3,541	2,898
Total	18,835	13,348	26,966	18,932

23 Compensation of key management personnel

Key management personnel include the members of the Board of Directors and the statutory directors. Expenses recognized in Parent Company's profit for the periods are as follows:

	03/31/2019			03/31/2018		
	Fixed	Others (*)	Total	Fixed	Others (*)	Total
Statutory Directors	2,496	4,115	6,611	2,132	2,265	4,397
Board of Directors	614	-	614	580	-	550
Total	3,110	4,115	7,225	2,712	2,265	4,977

(*) Balance corresponds to variable remuneration and severance pay of statutory directors and not including the stock option plan (see note 24).

Management (Board of Executive Officers and Board of Directors) and the Supervisory Board overall compensation in 2019, set at the Annual General Meeting held on April 18, 2019, was R\$49,000, already considering the taxes and contributions levied thereon, as prescribed by the prevailing laws.

For the Supervisory Board, the annual compensation approved for the year ending December 31, 2019 and the year ended December 31, 2018 was R\$515.

24 Stock option plan and restricted stock option plan

At the Extraordinary General Meeting held on June 1, 2009, the shareholders approved the stock option plan relating to the Company's common shares, effective for ten years from the date of the first grant to beneficiaries.

Within the limit of the authorized capital, the Company may grant shares or stock options or subscription of shares to its officers, employees and natural persons that provide services to the Company, as well as to officers and employees of other companies that are directly or indirectly controlled by the Company. Stock options or restricted stock options may be granted, in a manner

that the dilution of the share capital does not exceed, at any time, during the effective period of the plan, 0.3% per year. The beneficiaries of the plan will be defined annually or in a periodicity considered convenient by the Board of Directors.

At the Extraordinary General Meeting held in April 2011, the shareholders approved changes to the Plan, introducing the possibility of eligible beneficiaries electing stock option plan, restricted stock option plan or a combination of both plans, and the exercise of the options and/or restricted shares can be made 50% after two years and 50% after three years. The beneficiaries of the stock options granted in 2010, under the Stock Option Plan and Contract, could exercise the first portion, equivalent to 1/3 of the total stock options granted to them, after one year from the grant date.

At meetings of the Board of Directors held on June 22, 2011, June 20, 2012, June 19, 2013, June 25, 2014, June 24, 2015, June 29, 2016, June 14, 2017 and June 20, 2018, the Directors approved the fourth, fifth, sixth, seventh, eighth, ninth, tenth and eleventh grants of stock options relating to common shares and/or restricted shares, respectively. and there is not option to settle the options in cash The tenth grant was made on July 6, 2018, totaling 901,888 restricted shares.

At a meeting of the Board of Directors held on February 29, 2012, the Directors approved the annual retention plan for the Company's executive officers and talents under the "Restricted Shares" plan, named "Sócio Cielo". The purpose of this program is to minimize the risk of loss of Company's officers and also increase their commitment to long-term results. The *Sócio Cielo* program from 2012 to 2016 lasted two years. In 2017, the program started to have phased grace period in three portions; namely, 33% after one year, 33% after two years and 33% after three years. Transfer of the shares is conditional upon permanence of the executives at the Company. At meetings of the Board of Directors held on February 26, 2014, February 25, 2015, January 27, 2016, January 26, 2017, February 23, 2018 and February 20, 2019 the Directors approved the plans Sócio Cielo 2014, 2015, 2016, 2017, 2018 and 2019 - "Restricted shares", granted in March of the same years.

As at March 31, 2019, the position of the stock option plan and restricted stock option plan was as follows:

Grant date	Number of shares								Strike price (R\$ per share)	Fair value of options	
	Granted	Canceled	Exercised	Bonus							
				2013	2014	2015	2016	2017			Balance
July 2012	986,475	(243,708)	(2,398,039)	188,945	1,047,455	254,514	107,483	59,828	2,953	10.73	4.42
July 2013	1,049,141	(291,092)	(2,429,564)	-	989,734	370,317	263,000	122,584	74,120	12.52	5.83
July 2014	1,561,552	(396,308)	(1,742,267)	-	-	303,607	311,729	214,442	252,755	18.87	8.70
July 2016	650,947	(196,115)	(379,010)	-	-	-	-	101,984	177,806	-	27.43
March 2017	121,470	(45,215)	(82,173)	-	-	-	-	24,294	18,376	-	22.51
July 2017	828,878	(260,861)	(55,425)	-	-	-	-	-	512,595	-	23.26
March 2018	437,187	(116,337)	(125,692)	-	-	-	-	-	195,158	-	25.32
July 2018	901,888	(141,916)	(26,489)	-	-	-	-	-	733,483	-	16.77
March 2019	995,372	(101,973)	-	-	-	-	-	-	893,399	-	10.89
Total	7,532,910	(1,793,525)	(7,238,659)	188,945	2,037,189	928,438	682,212	523,132	2,860,642		

The fair value of the options, between the years 2011 and 2014, was measured using the Black & Scholes pricing model. The assumptions adopted are described below:

	Grant date		
	July 2012	July 2013	July 2014
Dividend yield	5.36%	3.71%	3.31%
Share price volatility	31.65%	30.06%	23.15%
Vesting period	6 years	6 years	6 years

From 2015, the Company elected to use the binomial model for the pricing of its options.

The fair value of the options and shares is being recognized in the statement of profit or loss and the offsetting entry in the capital reserve on a straight-line basis over up to 24 months (for plans “Sócio Cielo”) and 36 months (for restricted stock option plan).

In the three-month period ended March 31, 2019, a provision of R\$ 6,880 was recognized, net of charges (R\$ 5,663 as at March 31, 2018), with a matching entry in line item “Personnel expenses”. Of this amount, the portion corresponding to Statutory Directors amounts to R\$ 2,049, net of charges (R\$ 1,546 as at March 31, 2018).

224,533 shares in the amount of R\$ 3,802 for the three-month period ended March 31, 2019 (634,542 shares in the amount of R\$ 12,952 for the three-month period ended March 31, 2018) were exercised, and the total balance of stock options granted recorded in line item “Capital Reserve” in equity as at March 31, 2019 was R\$ 3,078 (R\$ 49 as at March 31, 2018).

25 Finance income (costs)

	Parent Company		Consolidated	
	1 st Quarter/19	1 st Quarter/18	1 st Quarter/19	1 st Quarter/18
Finance income:				
Interest on short-term investments	5,103	61,141	44,146	103,236
Pis and Cofins (a)	(279)	(2,864)	(1,800)	(4,182)
Other finance income	862	140	2,830	961
Total	5,686	58,417	45,176	100,015
Finance costs:				
Late payment interest and fines	(139)	(42)	(245)	(50)
Fines and interest on provision for risks	(2,790)	(1,948)	(3,251)	(2,226)
Interest on borrowings	(90,212)	(105,809)	(90,212)	(105,809)
Third parties' interest – FIDC Plus	-	-	(30,999)	(32,570)
Other finance costs	(4,702)	(3,882)	(22,007)	(17,006)
Total	(97,843)	(111,681)	(146,714)	(157,661)
Purchase of receivables:				
Income from purchase of receivables and yield (b)	288,680	464,963	315,461	484,931
Pis and Cofins (a)	(13,424)	(21,621)	(13,424)	(21,621)
Total	275,256	443,342	302,037	463,310
Exchange differences, net:	47,611	(23,703)	47,615	(23,681)
Total	230,710	366,375	248,114	381,983

- (a) Expenses on Pis and Cofins on finance income earned by the Group companies, at the rates of 0.65% and 4%, respectively, as laid down in Decree No. 8,426/15, effective July 1, 2015. The expenses incurred in the period were recognized as “Finance Income” and “Purchase of Receivables”, in the proportion of their levy, for better presentation of the line items.
- (b) In parent company, the balance refers to the yield on the shares of FIDC and FIDC Plus and the finance income from the purchase of receivables made by the company. In consolidated, the balance refers to the purchase of receivables net of pro rata temporis adjustment for the years ended March 31, 2019 and 2018, comprising income from receivables relating to cash and installment sales transactions carried out by the parent company, by the FIDC and FIDC Plus, recognized according to the maturity date of the transactions.

26 Financial instruments

The estimated realizable values of the Group's financial assets and liabilities were determined using available market inputs and appropriate valuation methodologies. However, considerable judgment was required to interpret market inputs and then develop the most appropriate realizable value estimates. Accordingly, estimates presented herein are not necessarily indicative of the amounts that could be realized in the market. The use of different market methodologies may have a significant effect on the estimated realizable values.

These financial instruments are managed through operating strategies that aim at obtaining liquidity, profitability and safety. The control policy consists of ongoing monitoring of the contracted rates compared to market rates. The Group does not make investments for speculative purposes, either in derivatives or in other risk assets.

a. Capital risk management

The Group manages its capital to ensure that its companies can continue as going concerns, and at the same time maximize the return to all their stakeholders by optimizing the debt and equity balance.

The Group's capital structure consists of its equity and net debt (borrowings less cash, interbank investments, derivative financial instruments and marketable securities).

Cielo maintains minimum equity, in accordance with the BACEN regulations, corresponding to 2% of the monthly average of the payment transactions (see note 15). There is no requirement to maintain minimum equity for the other Group companies.

From the granting of the authorization to operate as a Payment Institution by the BACEN on April 27, 2017, the parent company Cielo is subject to compliance with the regulations, which include, but are not limited to, risk management, minimum equity and compliance with requirements similar to those applicable to a Financial Institution.

The indebtedness ratio at the end of the reporting period is as follows:

	Parent Company		Consolidated	
	03/31/2019	12/31/2018	03/31/2019	12/31/2018
Debt (i)	(7,192,515)	(6,298,568)	(8,780,972)	(7,862,977)
Derivative financial instruments (ii)	4,065	(75,692)	(132,603)	(75,692)
Cash	25,581	36,880	488,744	433,961
Interbank investments	-	-	211,532	236,173
Securities (except FIDCs)	637,882	90,784	2,973,132	2,232,912
Net debt	(6,524,987)	(6,246,596)	(5,238,168)	(7,117,151)
Equity (iii)	9,040,130	9,364,270	12,696,832	13,030,274
Net debt ratio	72.18%	66.71%,	41.26%	54.62%,

- (i) Debt is defined as short- and long-term borrowings, as mentioned in note 12.
- (ii) Derivative financial instruments comprise the swap contract position, mentioned in note 6.
- (iii) Equity includes the entire share capital and the Group's reserves, managed as capital.

b. Credit risk

In Cielo's operations of merchant acquiring, the primary risk refers to the possibility of default of card issuers, which are required to transfer to Cielo the amounts charged relating to transactions carried out by holders of the cards issued by them, so that Cielo can make the payment of such amounts to accredited merchants. There is also a residual risk for the Company relating to the possible default of the card holders with the issuer in a situation of default.

These primary and residual risks may or may not exist for Cielo, depending on the risk/guarantee model adopted by the card brand in its operation with the card issuers and accredited institutions.

Each brand has its own guarantee system, which is specified in its regulations. Considering the variation of the guarantee model and the risk level of the accrediting entities, the Company assesses and manages such risks according to the model of each brand, requiring or waiving the provision of guarantees. In accordance with BACEN Circular Letter No, 3,682, of November 2013, the brands (denominated "payment institutions" in the relevant regulation), submitted their respective regulations for the appreciation of the BACEN, which are currently under analysis. Therefore, the Company's credit risk may change, depending on the brands' regulations to be approved and disclosed.

There is also, for the Company, risk of losses on chargeback on operations of purchase of receivables (ARV) with accredited merchants, especially those that make deferred sales (with future delivery of products and/or services). To mitigate this risk, the Company adopts risk analysis and control procedures that prevent the merchant from advancing the full amount available in its financial schedule with the Company.

In its operations, the Company is also exposed to the risk with affiliated Sub-acquirers, as they may not pass on to their affiliated merchants the amounts received from Cielo relating to card transactions. Such risk is mitigated by the provisions in the document of adherence to the agreement of accreditation to the Cielo system, which provides that Sub-acquirers assume responsibility for passing on the amounts to their affiliates, exempting Cielo from any liability. The Company also adopts risk assessment and control procedures that prevent Sub-acquirers from accelerating receipt of all the amounts receivable from the Company. In addition, the Company may request guarantees, such as bank guarantee, as applicable in order to mitigate its risk.

The Company has rights subject to credit risk with financial institutions recorded in line items cash, interbank investments, securities, derivative financial instruments and receivables from card-issuing banks, totaling R\$71,628,530 in parent company and R\$67,308,424 in consolidated (R\$ 68,917,239 in parent company and R\$ 65,122,366 in consolidated at December 31, 2018).

c. Fraud risk

The Company uses an antifraud system to monitor transactions with credit and debit cards, which detects and identifies suspected fraud at the time of the authorization and sends an alert message to the card-issuing bank for it to contact the cardholder.

d. Transactions with derivative financial instruments

Policy on the use of derivatives

According to the internal policy, the Company's finance income (costs) must arise from the generation of cash from its activities rather than from gains in the financial market. Accordingly, it considers that derivatives should only be used to hedge against potential exposures arising from

the risks to which it is subject, without speculative purposes. The offsetting entry to a derivative transaction should be an unhedged asset or liability.

The criterion adopted for definition of the notional value of the derivatives is linked to the amount of the debt and/or assets exposed to risks.

e. Foreign exchange rate risk

The Group conducts a few transactions in foreign currency, mainly represented by transactions performed by foreigners holding credit card in merchants located in Brazil. In addition, on August 31, 2012, the Company acquired the control of Me-S through its holding Cielo USA, both located in the United States of America, whose transactions are conducted in the functional currency, the US dollar.

The exposures to foreign exchange rate risks are managed according to parameters established by policies approved by the Company.

As at March 31, 2019, the exposure to foreign exchange rate risk, net of hedging instruments, in thousands of US dollars, is as follows:

	Parent Company	Consolidated
Assets:		
Cash and cash equivalents	129	175,499
Operating receivables	401	43,536
Other assets	-	6,761
Investments in foreign currency	(311,981)	-
Property and equipment	-	4,677
Intangible assets, including goodwill	-	602,883
Total	(311,451)	833,356
Liabilities:		
Payables to merchants	-	(99,908)
Other liabilities	-	(18,999)
Repayment of foreign borrowings – Principal	(472,252)	(879,894)
Deferred income tax	-	(26,187)
Tax effect on Bonds	159,800	159,800
Total	(312,452)	(865,188)
Long (short) position - US dollar	(623,903)	(31,832)

At December 31, 2018, the exposure to foreign exchange risk, net of hedging instruments, in thousands of US dollars, is as follows:

	Parent Company	Consolidated
Assets:		
Cash and cash equivalents	2,918	164,094
Operating receivables	256	153,976
Other assets	-	4,522
Investments in foreign currency	311,981	-
Property and equipment	-	4,679
Intangible assets, including goodwill	-	562,135
Total	315,155	889,406
Liabilities:		
Payables to merchants	-	(179,026)
Other liabilities	-	(19,221)
Repayment of foreign borrowings – Principal, interest and charges	(472,252)	(879,672)
Deferred income tax	-	(33,626)
Tax effect on Bonds	159,800	159,800
Total	(312,452)	(951,745)
Long (short) position - US dollar	2,703	(62,339)

Foreign currency sensitivity analysis

The Group is mainly exposed to US dollar fluctuations.

The sensitivity analysis includes only monetary items outstanding and denominated in foreign currency and adjusts their translation at the end of each reporting period for a change of 10%, 25% and 50% in exchange rates. The sensitivity analysis includes borrowings from third parties when they are denominated in a currency different from that of the creditor or debtor.

As at March 31, 2019, estimating an increase or decrease by 10%, 25% and 50% in exchange rates, there would be an increase or decrease in profit or loss and equity, in thousands of Brazilian reais (R\$), as follows:

	Parent Company			Consolidated		
	Probable scenario 10%	Possible scenario 25%	Remote scenario 50%	Probable scenario 10%	Possible scenario 25%	Remote scenario 50%
Profit or loss (i)	(200)	(500)	(1000)	44,918	112,295	224,590
Equity (i)	(672)	(1,679)	(3,358)	(269,673)	(674,183)	(1,348,365)

(i) Refers mainly to the exposure of balances receivable and payable in US dollars at the end of each reporting period.

f. Interest rate risk on financial investments

The Company's results of operations are subject to significant fluctuations resulting from financial investments with floating interest rates.

Pursuant to its financial policies, the Company has invested its resources in first-tier banks. The Company operates with financial instruments within the limits of approval established by Management.

g. Liquidity risk

The Group manages the liquidity risk by maintaining appropriate reserves, bank and other credit facilities to raise new borrowings that it considers appropriate, based on an ongoing monitoring of budgeted and actual cash flows, and the combination of the maturity profiles of financial assets and liabilities.

h. Interest rate sensitivity analysis - Financial investments and borrowings

Income from financial assets and interest on the Company's borrowings are mainly affected by the variations in DI rate (source: Cetip). As at March 31, 2019, the balances exposed to variations in DI rate are R\$ 649,523 in parent company and R\$ 2,920,641 in consolidated for financial investments and R\$ 5,336,012 in parent company and R\$ 7,844,804 in consolidated for borrowings. Estimating an increase or a decrease of 10%, 25% or 50% in interest rates would increase or decrease revenues or expenses as follows:

	03/31/2019			03/31/2018		
	Probable scenario 10%	Possible scenario 25%	Remote scenario 50%	Probable scenario 10%	Possible scenario 25%	Remote scenario 50%
Financial investments	569	1,422	2,843	4,518	11,294	22,588
Borrowings	(9,784)	(24,461)	(48,922)	(14,671)	(36,679)	(73,357)

27 Related-party balances and transactions

In the normal course of their activities and under market conditions, the Company, its subsidiaries and associate conduct transactions with related parties, such as receivables from card-issuing banks (related to operations of purchase of receivables), which are part of financial groups in which the controlling shareholders, Banco Bradesco S.A, and Banco do Brasil, hold interests, as well as expenses and income from services provided by Servinet, Orizon, Multidisplay, M4Produtos, Cateno, Braspag, Aliança, Stelo.

In conducting their business and engaging services, the Company and its subsidiaries make market quotations and researches to find the best technical and pricing terms. Also, the type of business conducted by the Company requires it to enter into agreements with several card issuers, some of which are its direct and indirect shareholders. The Company and its subsidiaries believe that all the agreements entered into with related parties are carried out on an arm's-length basis.

The tables below include the balances as at March 31, 2019 and December 31, 2018, by type of agreement, shareholders and subsidiaries, of transactions with related parties conducted by the Company and its subsidiaries, as well as the movements, related to the three-month periods ended March 31, 2019 and 2018:

	Parent Company					
	03/31/2019					12/31/2018
	Controlling shareholders (i)	Direct subsidiaries (ii)	Indirect subsidiaries (iii)	Investment funds (v)	Total	Total
Assets (Liabilities):						
Cash and cash equivalents (a)	2,495	-	-	-	2,495	13,440
Operating receivables	20,620,960	-	-	-	20,620,960	20,306,124
Borrowings (g)	(3,355,194)	-	-	-	(3,355,194)	(3,414,565)
Receivables from related parties	-	18,911	(830)	-	18,081	19,457
Payables to related parties	-	(48,543)	(102,894)	(9,025,501)	(9,176,939)	(9,425,751)
Revenues:						
	03/31/2019					03/31/2018
Financial investments yield (a)	1,305	-	-	538,766	540,072	5,105
Revenue from other services rendered (b)	12,142	1,425	842	75	14,483	19,163
POS equipment rental income (c)	81,680	-	-	-	81,680	19,230
Expenses:						
Other operating expenses – Affiliation fee	(1,162)	-	-	-	(1,162)	(1,088)
Other operating expenses (d)	(12,735)	(215)	(1,130)	-	(14,080)	(32,660)
Service agreements with Servinet and Aliança (e)	-	(72,776)	-	-	(72,776)	(46,695)
Data processing services rendered (f)	-	(226)	-	-	(226)	(888)
Finance costs (g)	(56,080)	-	-	-	(56,080)	(59,021)

Cielo S.A.
*Individual and consolidated financial statements for the three-month period ended
March 31, 2019 and independent auditor's report
(COSIF)*

	Consolidated					
	03/31/2019					12/31/2018
	Controlling shareholders (i)	Direct subsidiaries (ii)	Indirect subsidiaries (iii)	Investment funds (v)	Total	Total
Assets (Liabilities):						
Cash and cash equivalents (a)	20,365	-	-	-	20,365	76,576
Operating receivables	20,620,960	-	-	-	20,620,960	20,306,124
Borrowings (g)	(3,355,194)	-	-	-	(3,355,194)	(3,414,565)
Revenues:						
	03/31/2019					12/31/2018
Financial investments yield Receitas de aplicações financeiras (a)	(29,870)	-	-	535,469	505,600	27,524
Revenue from other services rendered (b)	12,142	-	-	-	12,142	14,914
POS equipment rental income (c)	81,680	-	-	-	81,680	19,230
Expenses:						
Other operating expenses — Affiliation fees	(1,162)	-	-	-	(1,162)	(1,088)
Other operating expenses (d)	(12,735)	-	-	-	(12,735)	(9,778)
Finance costs (g)	(56,080)	-	-	-	(56,080)	(59,974)
Payment management services rendered (h)	6,796	-	-	-	6,796	(5,943)

Related parties comprise: (i) Banco Bradesco and Banco do Brasil; (ii) Servinet, Multidisplay, Braspag, Cateno and Aliança; (iii) M4Produtos and Stelo; (iv) FIC, FIDC and FIDC Plus.

- (a) Balances corresponding to the amounts held in current accounts and financial investments, under similar conditions, relating to terms, charges and interest rates, to those that would apply to unrelated parties.
- (b) Amounts receivable from issuing banks refer to the amounts to be settled by issuers to the Company as a result of transactions carried out with credit and debit cards, which will be subsequently paid by the Company to accredited merchants.
- (c) Correspond to fraud prevention and bank account lock services provided by the Company to the shareholder banks, commission on transaction processing for M4Produtos, Multidisplay and Orizon, provision of financial, administrative, procurement, legal and HR services for Braspag and purchase of receivables of Multidisplay and collection and settlement services for FIDC and FIC. These transactions with related parties are carried out at prices and under conditions similar to those practiced with other issuing banks and in the market in general.
- (d) Refer to POS equipment rent services to Orizon.
- (e) Services contracted from shareholder banks, referring to: (i) corporate group life insurance; (ii) hospital and dental care insurance; and (iii) the private pension agreement. Services of development of mobile capture solution for M4Produtos and services of pre-processing of transactions for Braspag. The Company understands that the financial conditions practiced by the shareholders, regarding prices, terms and other conditions, were similar to those practiced with unrelated parties.
- (f) Provision of services by subsidiaries Servinet and Aliança for accreditation prospection and maintenance of contacts with merchants and service providers for acceptance of credit and debit cards, as well as other means of payment. The remuneration provided for the services rendered is established based on the costs incurred by Servinet and Aliança in rendering said services, plus taxes and contributions levied thereon, as well as the remuneration margin.
- (g) Refer to data processing services provided by M4Produtos and Braspag.
- (h) Refer to balances related to Private Debentures issuance (see note 12).
- (i) Mainly refers to the balance of advance for future capital increase of Aliança, made in September 2018, in the amount of R\$18,114.

Main related-party transactions

Balances of card-issuing banks

Receivables from card-issuing banks refer to amounts payable by the issuers to the Company for transactions carried out with credit and debit cards, which will be subsequently paid by the Company to the accredited merchants.

Domicile bank incentives

The Company entered into agreements with domicile banks to stimulate the invoicing of commissions and purchase of receivables. Under these agreements, the Company remunerates the banks based on the performance and metrics established therein.

Prepayment of receivables from card-issuing banks

The Company has agreements for advance of amounts that will still fall due, related to transfers of amounts that the issuing bank must make to the Company for transactions carried out by the bank's customers holders of credit cards. These advance transactions are performed in order to generate short-term working capital and the amounts deposited in checking account are net of advance fees, on a pro rata basis, calculated at the market rates that do not significantly differ from those adopted by the card-issuing banks that are not the Company's shareholders.

These transactions with related parties are carried out at prices and under conditions similar to the transactions carried out with other issuers of credit or debit cards.

Use of Cielo authorized network (Value Added Network - VAN)

The Company entered into service agreements with Companhia Brasileira de Soluções e Serviços – CBSS. These services include the capture, authorization and processing of transactions with ALELO cards, as well as services provided to merchants, operational and financial back office services, fraud prevention, issuance of statements and financial control over the electronic transactions resulting from these transactions. The fees and rates charged for these related-party transactions are at prices and under conditions similar to the transactions carried out with other third party partners.

VAN services and connectivity rate - Amex

The Company entered into a nonexclusive service agreement for the capture of transactions of cards issued by Amex Brand (VAN), with Banco Bradesco Cartões S.A. (which merged Bankpar S.A.) ("Banco Bradesco Cartões"), a Bradesco Group's company which holds the rights over the American Express ("Amex") brand in Brazil. The agreement established, until 2015, the remuneration of Banco Bradesco Cartões by the Company, through the payment of a connectivity rate, relating to the Company's access to the merchants affiliated to the Amex brand acquisition systems. The partnership with the Amex brand has high potential for generating value to the Company since it complements its brand portfolio. The signing of such agreements was approved by the Board of Directors, with abstention from those legally impeded by conflict of interest. The prices charged for the provision of the service are similar to those practiced with other third party partners.

Participation of Accredited Merchants in Elo Payment Arrangements

The Company participates in Elo Payment Arrangements, established by Elo Serviços S.A. The Company participates in Elo Arrangements as Accrediting Institution, which includes the provision of services relating to accreditation and maintenance of merchants, the participation in the processing and settlement of transactions made with payment instruments of Elo

Arrangements and license for the use of Elo brands, in conformity with the technical specifications contained in its manuals. The Company pays Elo for its participation as accrediting institution in Elo Arrangements, and the conditions and prices of such participation are similar to those practiced with the other accrediting institutions.

Bank account lock

Refers to bank account lock service agreements entered into with various banks, whose service consists of ensuring to the banks the locking of the bank accounts of the accredited merchants that carry out financial transactions with them. These related-party transactions are carried out at prices and under conditions similar to the transactions carried out with other domicile banks.

Share bookkeeping services

A share bookkeeping service agreement entered into between Cielo and Banco Bradesco S.A., whereby the latter provides share bookkeeping and share certificate issuance services to the Company.

Operating services - Stock option program

Service agreement consisting of rendering operating services for the stock option program and the related grants entered into with Bradesco S.A. Corretora de Títulos e Valores Mobiliários.

Payment management services

Banco do Brasil entered into an agreement with Cateno in order to operate as Payment Institution in managing post-paid accounts and purchase functions through debit under the Ourocard Payment Arrangement while Cateno's Granted Rights are not exercised by it. The agreement has a clause for compensation of 0.01% on the total financial volume of transactions under the Contracting party's management.

Securities bookkeeping services

Agreement entered into with Banco Bradesco S.A. for the provision of debenture bookkeeping and custodian agent services.

Securities management services

Agreement entered into with Banco Bradesco BBI S.A. for the provision of services of coordination and distribution of promissory notes and debentures, the latter pursuant to the terms of CVM Instruction No. 400.

Public and private securities operating management services

The agreement entered into with Banco do Brasil S.A. is aimed at regulating the provision of services relating to movement, custody and financial settlement of transactions carried out with public securities registered with SELIC and with private securities registered with CETIP.

Representation services with CIP

Agreement entered into with Banco do Brasil S.A. for the bank's representation with CIP (Interbank Payment Clearing House) aiming at the provision of services relating to settlement of transactions carried out with credit and/or debit cards and provision of STR (Reserve Transfer System) issuance services.

Other widespread agreements

In addition to the balances recorded, the Company provides platform processing and license services to Elo Serviços S.A. and engages other services from the main shareholders, namely:

- Cash management services.
- Insurance.
- Health insurance and private pension services.
- Corporate credit card.
- Payment to suppliers.

28 Noncash transactions

	Parent Company		Consolidated	
	03/31/2019	03/31/2018	03/31/2019	03/31/2018
Exchange differences on net foreign investment	(4,936)	(699)	-	-
Exchange differences on borrowings	29,018	13,297	39,791	32,624
Post-employment benefits	(5,557)	-	-	-
Minimum dividends and interest on capital proposed	147,800	150,600	147,800	150,600
Dividends and interest on capital receivable from direct subsidiary	128,829	16,474	-	-

29 Insurance

As at March 31, 2019, the Company has the following insurance coverage:

Type	Insured amount
Civil liability of Directors and Officers	270,000
Named perils (fire, windstorm and smoke, electrical damages, electronic equipment, theft and flood)	231,332
Loss of profits	19,894
POS equipment warehousing	230,000
POS equipment transportation	2,500,000