

Unaudited Condensed Consolidated Interim Financial Statements

PagSeguro Digital Ltd.

As of June 30, 2020 and for the three and six-month periods ended
June 30, 2020 and 2019

PagSeguro Digital Ltd.

Unaudited condensed consolidated interim financial statements

As of June 30, 2020 and for the three and six-month periods ended June 30, 2020 and 2019

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PagSeguro Digital Ltd.

Unaudited condensed consolidated interim balance sheet
As of June 30, 2020 and December 31, 2019
(All amounts in thousands of reais)

	<u>Note</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Assets			
Current assets			
Cash and cash equivalents	5	2,665,317	1,403,955
Financial investments	6	658,050	1,349,666
Accounts receivable	7	10,890,968	10,477,179
Inventories		73,624	61,936
Taxes recoverable		254,099	171,561
Other receivables		62,692	84,099
Total current assets		<u>14,604,750</u>	<u>13,548,396</u>
Non-current assets			
Judicial deposits		5,980	5,651
Accounts receivable	7	17,897	29,943
Deferred income tax and social contribution	17	104,240	-
Prepaid expenses		10,095	7,215
Investment		1,500	1,500
Property and equipment	10	889,542	399,990
Intangible assets	11	709,755	589,553
Total non-current assets		<u>1,739,009</u>	<u>1,033,852</u>
Total assets		<u><u>16,343,759</u></u>	<u><u>14,582,248</u></u>

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

PagSeguro Digital Ltd.

Unaudited condensed consolidated interim balance sheet

As of June 30, 2020 and December 31, 2019

(All amounts in thousands of reais)

	Note	June 30, 2020	December 31, 2019
Liabilities and equity			
Current Liabilities			
Payables to third parties	12	5,649,366	5,326,290
Trade payables		227,234	256,281
Payables to related parties	8	145,397	22,187
Deposits	13	318,540	-
Salaries and social security charges	14	95,323	106,812
Taxes and contributions	15	26,857	124,004
Provision for contingencies	16	13,571	11,849
Other liabilities		144,292	45,640
Total current liabilities		<u>6,620,580</u>	<u>5,893,063</u>
Non-current liabilities			
Deferred income tax and social contribution	17	968,785	630,950
Other liabilities		85,908	43,287
Total non-current liabilities		<u>1,054,693</u>	<u>674,237</u>
Total liabilities		<u>7,675,273</u>	<u>6,567,300</u>
Equity			
Share capital	18	26	26
Capital reserve	18	5,826,477	5,781,503
Other comprehensive income	18	235	(190)
Equity valuation adjustments	18	(22,372)	(22,372)
Retained earnings	18	2,927,669	2,274,864
Treasury shares	18	(86,042)	(41,267)
		<u>8,645,993</u>	<u>7,992,564</u>
Non-controlling interests		<u>22,493</u>	<u>22,384</u>
Total equity		<u>8,668,486</u>	<u>8,014,948</u>
Total liabilities and equity		<u>16,343,759</u>	<u>14,582,248</u>

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

PagSeguro Digital Ltd.

Unaudited condensed consolidated interim statement of income
 For the three and six-month periods ended June 30, 2020 and 2019
 (All amounts in thousands of reais unless otherwise stated)

	Note	Three-month period		Six-month period	
		June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Revenue from transaction activities and other services	20	856,462	798,949	1,823,266	1,511,944
Revenue from sales	20	-	63,454	-	131,043
Financial income	20	459,247	497,167	1,021,515	927,671
Other financial income	20	41,735	30,176	99,958	70,424
Total revenue and income		1,357,444	1,389,746	2,944,739	2,641,082
Cost of sales and services	21	(793,290)	(684,394)	(1,561,926)	(1,302,173)
Selling expenses	21	(111,202)	(131,679)	(300,224)	(214,057)
Administrative expenses	21	(94,251)	(109,856)	(180,036)	(202,237)
Financial expenses	21	(17,873)	(2,204)	(63,435)	(8,043)
Other income (expenses), net	21	71,609	(490)	69,473	(4,072)
Profit before income taxes		412,437	461,123	908,591	910,500
Current income tax and social contribution	17	(17,967)	(1,349)	(21,768)	(51,489)
Deferred income tax and social contribution	17	(98,156)	(137,017)	(233,596)	(226,520)
Income tax and social contribution		(116,123)	(138,366)	(255,364)	(278,009)
Net income for the period		296,314	322,757	653,227	632,491
Attributable to:					
Equity holders of the parent		296,135	322,400	652,805	631,712
Non-controlling interests		179	357	422	779
Basic earnings per common share - R\$	19	0.9001	1.0071	1.9842	1.9734
Diluted earnings per common share - R\$	19	0.8976	0.9805	1.9786	1.9212

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

PagSeguro Digital Ltd.

Unaudited condensed consolidated interim statement of comprehensive income
 For the three and six-month periods ended June 30, 2020 and 2019
 (All amounts in thousands of reais unless otherwise stated)

	Three-month period		Six-month period	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Net income for the period	296,314	322,757	653,227	632,491
Other comprehensive income that may be reclassified to the statement of income in subsequent periods				
Currency translation adjustment	96	21	550	(606)
Loss on investments designated at fair value through OCI	(187)	19	(125)	(69)
Other comprehensive income for the period	296,223	322,797	653,652	631,816
Attributable to				
Equity holders of the parent	296,044	322,440	653,230	631,037
Non-controlling interests	179	357	422	779
Net income for the period	296,223	322,797	653,652	631,816

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

PagSeguro Digital Ltd.

Unaudited condensed consolidated interim statement of changes in equity
For the six-month periods ended June 30, 2020 and 2019
(All amounts in thousands of reais)

		Capital reserve			Profit reserve						
	Note	Share capital	Treasury shares	Capital reserve	Share-based long-term incentive plan (LTIP)	Retained earnings	Equity valuation adjustments	Other comprehensive income	Total	Non-controlling interests	Total equity
On December 31, 2018		<u>26</u>	<u>(39,532)</u>	<u>5,647,263</u>	<u>40,871</u>	<u>909,267</u>	<u>(7,588)</u>	<u>263</u>	<u>6,550,570</u>	<u>23,806</u>	<u>6,574,376</u>
Net income for the period	18	-	-	-	-	631,712	-	-	631,712	779	632,491
Currency translation adjustment	18	-	-	-	-	-	-	(606)	(606)	-	(606)
Loss on financial assets through other comprehensive income	18	-	-	-	-	-	-	(69)	(69)	-	(69)
Non-controlling acquisition	18	-	-	-	-	-	(14,784)	-	(14,785)	(1,649)	(16,434)
Shares issued	18	-	-	11,201	(11,201)	-	-	-	-	-	-
Share based long term incentive plan (LTIP)	18	-	-	-	27,754	-	-	-	27,754	-	27,754
									-		
On June 30, 2019		<u>26</u>	<u>(39,532)</u>	<u>5,658,464</u>	<u>57,424</u>	<u>1,540,979</u>	<u>(22,372)</u>	<u>(412)</u>	<u>7,194,576</u>	<u>22,936</u>	<u>7,217,512</u>
Net income for the period	18	-	-	-	-	733,885	-	-	733,885	649	734,534
Currency translation adjustment	18	-	-	-	-	-	-	181	181	-	181
Gain on financial assets through other comprehensive income	18	-	-	-	-	-	-	41	41	-	41
Non-controlling acquisition	18	-	-	-	-	-	-	-	-	(1,201)	(1,201)
Shares issued	18	-	-	27,791	(27,791)	-	-	-	-	-	-
Share based long term incentive plan (LTIP)	18	-	-	-	65,615	-	-	-	65,615	-	65,615
Acquisition of treasury shares	18	-	(1,735)	-	-	-	-	-	(1,735)	-	(1,735)
									-		
On December 31, 2019		<u>26</u>	<u>(41,267)</u>	<u>5,686,255</u>	<u>95,248</u>	<u>2,274,864</u>	<u>(22,372)</u>	<u>(190)</u>	<u>7,992,563</u>	<u>22,384</u>	<u>8,014,948</u>
Net income for the period	18	-	-	-	-	652,805	-	-	652,805	422	653,227
Currency translation adjustment	18	-	-	-	-	-	-	550	550	-	550
Loss on financial assets through other comprehensive income	18	-	-	-	-	-	-	(125)	(125)	-	(125)
Non-controlling acquisition	18	-	-	-	-	-	-	-	-	(313)	(313)
Shares issued	18	-	-	3,834	(3,834)	-	-	-	-	-	-
Share based long term incentive plan (LTIP)	18	-	-	-	44,974	-	-	-	44,974	-	44,974
Acquisition of treasury shares	18	-	(44,775)	-	-	-	-	-	(44,775)	-	(44,775)
									-		
On June 30, 2020		<u>26</u>	<u>(86,042)</u>	<u>5,690,089</u>	<u>136,388</u>	<u>2,927,669</u>	<u>(22,372)</u>	<u>235</u>	<u>8,645,993</u>	<u>22,493</u>	<u>8,668,486</u>

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

PagSeguro Digital Ltd.

Unaudited condensed consolidated interim statement of cash flows
For the six-month periods ended June 30, 2020 and 2019
(All amounts in thousands of reais)

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income taxes	908,591	910,500
Expenses (revenues) not affecting cash:		
Depreciation and amortization	140,985	48,135
Chargebacks	130,496	74,483
Accrual of provision for contingencies	5,140	848
Share based long term incentive plan (LTIP)	30,333	27,754
Inventory provisions	-	6,918
Other financial cost, net	4,475	30,783
Changes in operating assets and liabilities		
Accounts receivable	(646,289)	(1,979,920)
Financial investments (mandatory guarantee)	(128,442)	-
Inventories	(11,688)	3,139
Taxes recoverable	(75,404)	(13,999)
Other receivables	21,060	(22,945)
Other liabilities	77,113	3,791
Payables to third parties	303,594	257,277
Trade payables	(28,222)	73,668
Receivables from (payables to) related parties	119,024	4,061
Deposits	317,786	-
Salaries and social charges	3,152	35,048
Taxes and contributions	(112,474)	6,073
Provision for contingencies	(3,879)	-
	1,055,351	(534,385)
Income tax and social contribution paid	(8,883)	(52,122)
Interest income received	114,050	138,658
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,160,518	(447,849)
CASH FLOWS FROM INVESTING ACTIVITIES		
Amount paid on acquisitions, net of cash acquired	-	(15,753)
Purchases of property and equipment	(476,247)	(90,348)
Purchases and development of intangible assets	(217,294)	(148,528)
Redemption (Acquisition) of financial investments	839,070	(1,790,118)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	145,529	(2,044,747)
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of treasury shares	(44,775)	-
Transaction with non-controlling interest	-	(15,992)
Capital increase by non-controlling shareholders	90	305
	(44,685)	(15,687)
NET CASH PROVIDED BY FINANCING ACTIVITIES	(44,685)	(15,687)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,261,362	(2,508,283)
Cash and cash equivalents at the beginning of the period	1,403,955	2,763,050
Cash and cash equivalents at the end of the period	2,665,317	254,767

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

PagSeguro Digital Ltd.

Notes to the unaudited condensed consolidated interim financial statements (Continued)
As of June 30, 2020 and for the three and six-month periods ended June 30, 2020
(All amounts in thousands of reais unless otherwise stated)

1. General information

PagSeguro Digital Ltd. ("PagSeguro Digital" or the "Company") is a holding company, subsidiary of Universo Online S.A. ("UOL"), referred to together with its subsidiaries as the "PagSeguro Group", was incorporated on July 19, 2017. 99.99% of the shares of PagSeguro Internet S.A. ("PagSeguro Brazil") were contributed to PagSeguro Digital on January 4, 2018 and PagSeguro Digital maintains control of PagSeguro Brazil.

PagSeguro Brazil is a privately held corporation established on January 20, 2006, headquartered in the city of São Paulo, Brazil, and engaged in providing financial technology solutions and services and corresponding related activities, focused principally on micro-merchants and small and medium-sized businesses ("SMEs").

PagSeguro Brazil subsidiaries are Net+Phone Telecomunicações Ltda. ("Net+Phone"), Boa Compra Ltda. ("Boa Compra"), BCPS Online Services LDA. ("BCPS"), R2TECH Informática S.A. ("R2TECH"), BIVACO Holding S.A. ("BIVA"), Fundo de Investimento em Direitos Creditórios - PagSeguro ("FIDC"), Tilix Digital S.A. ("TILIX"), YAMÍ Software & Inovação Ltda. ("YAMÍ") and RegistraSeguro S.A. ("RegistraSeguro").

In addition to our operations carried out by PagSeguro Brazil, on January 4, 2019, PagSeguro Digital acquired 100% of BBN Banco Brasileiro de Negócios S.A. (renamed BancoSeguro S.A. "BancoSeguro" in February 2019), through BS Holding Financeira Ltd. ("BS Holding"), a holding company incorporated under PagSeguro Digital.

On March 15, 2019, PagSeguro Group acquired 10% of the share capital of Netpos Serviços de Informática S.A. ("NETPOS"). Total consideration paid amounted to R\$1,500 which was settled in cash. PagSeguro Group acquired 10% of shares and does not have control of NETPOS operation, based on IFRS 3. NETPOS is not consolidated in these financial statements.

These consolidated financial statements include BS Holding and its subsidiary BancoSeguro and PagSeguro Brazil and its subsidiaries Net+Phone, Boa Compra, BCPS, R2TECH, BIVA, FIDC, TILIX, YAMÍ and RegistraSeguro.

PagSeguro Digital Ltd.

Notes to the unaudited condensed consolidated interim financial statements (Continued)
As of June 30, 2020 and for the three and six-month periods ended June 30, 2020
(All amounts in thousands of reais unless otherwise stated)

1.1. Initial Public Offering (“IPO”) and Follow-on public offering

On January 26, 2018, PagSeguro Digital completed its Initial Public Offering (“IPO”). 50,925,642 new shares were offered by PagSeguro Digital and 70,267,746 shares were offered by the controlling shareholder UOL.

On June 26, 2018, PagSeguro Digital completed its follow-on public offering. 11,550,000 new shares were offered by PagSeguro Digital and 26,400,000 shares were offered by the controlling shareholder UOL.

On October 21, 2019, PagSeguro Digital completed its secondary public offering. A number of 16,750,000 shares were offered by the controlling shareholder UOL, the offering price was US\$39.00 per common share. The Company did not receive any proceeds from the offering.

1.2. Long-Term Incentive Plan (“LTIP”) and LTP goals

Members of the Company’s management participate in a Long-Term Incentive Plan, or LTIP, which was established by UOL for its group companies on July 29, 2015 and has been adopted by PagSeguro Digital. Beneficiaries under the LTIP are selected by UOL’s LTIP Committee, which consists of the Chairman and two officers of UOL and are submitted to our Board of Directors for adoption. In this plan, employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is determined by the fair value at the date when the grant is made.

That cost is recognized in personnel expenses (Note 21), together with a corresponding increase in equity over the period in which the service is fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The expense in the statement of profit or loss represents the movement in cumulative expense recognized as at the beginning and end of the year. No expense is recognized for awards that do not ultimately vest because service conditions have not been met.

LTIP-Goals plan was established at PagSeguro Brazil on December 18, 2018, as approved by the Company’s board of directors. Beneficiaries under the LTIP-Goals plan were granted awards, which may be payable in cash, Class A common shares or a combination of the two, at the discretion of the LTIP-Goals Committee based on the goals established in the Company’s corporate results-sharing plan for any given year. If any portion of an award is payable in Class A common shares, the relevant number of Class A was determined on the last business day of January for awards related to 2019 and, beginning in 2021, on the last business day of March following the year for which such amount was awarded.

PagSeguro Digital Ltd.

Notes to the unaudited condensed consolidated interim financial statements (Continued)
As of June 30, 2020 and for the three and six-month periods ended June 30, 2020
(All amounts in thousands of reais unless otherwise stated)

1.3 COVID-19

We have observed that the main impact of the COVID-19 pandemic in Brazil thus far has occurred between April and May 2020, as most of the Brazilian cities were under social isolation and partial shutdowns due to government pronouncements and private sector guidelines. The partial shutdowns were affected virtually all in store and non-essential businesses, resulting in a severe negative impact on the Brazilian economy, but also driving small and medium business to pivot to a digital first mindset and adopt on line sales channels, resulting in an unprecedented digitalization process of payments and banking in Brazil.

Since early July 2020, most of the cities in Brazil, started a reopening process, with a gradual recovery of important commercial activities such as shopping malls, general retail, restaurants and bars, among other non-essential and in-store businesses. In response to COVID-19 we have already taken the following actions, among others:

- The outbreak of COVID-19 presented rapid changes in the Brazilian economy and in the payments industry, accelerating the secular shift from cash to electronic transactions. We entered this crisis leading the financial inclusion process and fostering electronic payment adoption, reaching 5.8 million active merchants and 4.9 million PagBank active users;
- Increased liquidity and cash position (Cash and Cash Equivalents and Financial Investments increased to R\$3,323.4 million, up 64.8% compared to 2Q19) and an in depth review of all of our expenses;
- Our employees are our number one priority. Almost 100% of our workforce is still working from home;
- Initiatives to support our merchants: (i) promotion of online and alternative payment methods: Link of Payments, Online Check out, NFC transactions, and QR Code, (ii) food delivery service PedeFácil, (iii) virtual shopping Zap Commerce, (iv) partnership with Brazilian Post Offices Envio Fácil; (v) virtual QR Code and card for using corona voucher payment (social subsidy paid by the Brazilian government that can be used through PagBank accounts) (vi) 10% QR Code cash back, (vii) cash back for COVID-19 related programs, including corona vouchers and Bolsa Merenda (Brazilian social security benefits for underprivileged students) in the State of Minas Gerais using free PagBank digital accounts, and (viii) unlimited wire transfers
- Community matters to us: (i) donating thousands of masks to public hospitals located in the most vulnerable regions of São Paulo, (ii) donating thousands of kits containing basic food, (iii) promoting online concerts with donations of cash, food and health items to UNICEF Brasil, (iv) providing assistance to the most vulnerable families in Brazil.

We have a significant variable cost structure and are less labor intensive than other acquiring companies in Brazil, mainly related to TPV, such as processing, interchange, card scheme fees, marketing and chargebacks.

Additionally, we believe we are well-prepared and in a solid stable position in terms of cash and liquidity. In the six month period ended June 30, 2020, we have not faced any impairment of our assets, and we do not believe we will not be able to continue as a going concern based on our current liquidity and current working capital levels.

PagSeguro Digital Ltd.

Notes to the unaudited condensed consolidated interim financial statements (Continued)
As of June 30, 2020 and for the three and six-month periods ended June 30, 2020
(All amounts in thousands of reais unless otherwise stated)

2. Presentation and preparation of the unaudited condensed consolidated interim financial statements and significant accounting policies

These unaudited condensed consolidated interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standard Board. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual financial statements.

These unaudited condensed consolidated interim financial statements for the three and six-month periods ended June 30, 2020 were authorized for issuance by the PagSeguro Digital’s Board of Directors on August 18, 2020.

2.1. Basis of preparation of condensed consolidated interim financial information

These unaudited condensed consolidated interim financial statements for the three and six-month periods ended June 30, 2020 have been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting” as issued by the International Accounting Standard Board.

These unaudited condensed consolidated interim financial statements do not include all the notes of the type normally included in an annual consolidated financial statement. Accordingly, this report is to be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2019 (the “Annual Financial Statements”).

The accounting policies and critical accounting estimates and judgments adopted are consistent with those of the previous financial year and corresponding interim reporting period.

2.2. New accounting pronouncements

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The Group does not expect the new standard to materially impact its results of operations.

PagSeguro Digital Ltd.

Notes to the unaudited condensed consolidated interim financial statements (Continued)
As of June 30, 2020 and for the three and six-month periods ended June 30, 2020
(All amounts in thousands of reais unless otherwise stated)

2.2. New accounting pronouncements (Continued)

IFRS 16 – Leases

This standard requires lessees to recognize the liability of the future payments and the right of use of the leased asset for virtually all lease contracts, including operating leases. Certain short-term and low-value contracts may be out of the scope of this new standard. The criteria for recognition and measurement of leases in the financial statements of the lessors are substantially maintained. IFRS 16 is effective for years beginning on or after January 1, 2019 and replaces IAS 17 - "Leases" and related interpretations. Management has performed an assessment and did not identify any material impacts in the implementation. In January 2020, PagSeguro entered into a lease agreement and recorded in their financial statements, the office (right-of-use) in the amount of R\$79,718, which was calculated considering the discount rate of 2.15% per year. As a consequence, in June 2020, PagSeguro have a liability in other liabilities (R\$12,109 as current other liabilities and R\$61,554 as non-current other liabilities) and an asset in property and equipment. Additionally, recognized R\$6,055 in administrative expenses (depreciation), R\$258 in financial expenses in the six-month period ended June 30, 2020 and also amortized R\$6,055 as the payment of the liability related to the leasing contract

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of our unaudited condensed consolidated interim financial statements are disclosed below. We intend to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1: Definition of Material

IASB has made amendments to IAS 1 – Presentation of Financial Statements which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify: That the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

The Group has adopted the amendments on its effective date, January 1, 2020 and they did not have a material impact on our consolidated financial statements and disclosures.

PagSeguro Digital Ltd.

Notes to the unaudited condensed consolidated interim financial statements (Continued)
As of June 30, 2020 and for the three and six-month periods ended June 30, 2020
(All amounts in thousands of reais unless otherwise stated)

2.2. New accounting pronouncements (Continued)

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. The amendments apply prospectively to transactions or other events that occur on or after the date of first application.

3. Consolidation of subsidiaries

Company	On June 30, 2020					
	Assets	Liabilities	Equity	Net income (loss) for the period	Ownership - %	Level
Pagseguro Brazil	16,281,503	8,547,485	7,734,018	626,329	99,99	Direct
BS Holding	456,547	47	456,500	22,819	100,00	Direct
Net+Phone	311,949	93,905	218,044	(92,379)	99,99	Indirect
Boa Compra	160,985	116,219	44,766	11,557	99,99	Indirect
BCPS	2,138	112	2,026	296	99,50	Indirect
R2TECH	18,571	2,892	15,679	3,671	100,00	Indirect
BIVA	20,613	6,562	14,050	(3,861)	100,00	Indirect
FIDC	3,218,132	382,353	2,835,778	882,507	100,00	Indirect
TILIX	13,681	3,257	10,424	(1,599)	100,00	Indirect
BancoSeguro	3,179,962	2,739,456	440,505	23,706	100,00	Indirect
Yamí	798	825	(27)	(45)	100,00	Indirect
Registra Seguro	5,000	12	4,988	(12)	100,00	Indirect

The operational context of the subsidiaries is to be read in conjunction with the annual financial statements for the year ended December 31, 2019.

4. Segment reporting

Operating segments are determined based on the information reported and reviewed by the Board of Directors, which is responsible for allocating resources and assessing the performance of the business and to make PagSeguro Group's strategic decisions.

Considering that all decisions are based on consolidated reports, and that all decisions related to strategic and financial planning, purchases, investments and the allocation of funds are made on a consolidated basis, the PagSeguro Group and its subsidiaries operate in a single segment, as financial service agents.

The PagSeguro Group is domiciled in Brazil and has revenue arising from local customers and customers located abroad. The main revenue is related to sales from the domestic market. The international market represents 2.1% and 1.1% for the six-month periods ended June 30, 2020 and twelve-month periods ended 2019, respectively.

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5. Cash and cash equivalents

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Short-term bank deposits	110,113	470,073
Short-term investment	2,555,204	933,882
	<u>2,665,317</u>	<u>1,403,955</u>

Cash and cash equivalents are held for the purpose of meeting short-term cash needs and include cash on hand, deposits with banks and other short-term highly liquid investments with original maturities of three-month or less, and with immaterial risk of change in value. Short-term investments consist mainly of investments in Brazilian Treasury Bonds (“LFTs”) with an average return of 100% of the Basic Interest Rate (SELIC, currently at 2.25% per year and 4,5% in December 2019).

6. Financial investments

Consists of investments in Brazilian Treasury Bonds (“LFTs”) with an average return of 100% of the Basic Interest Rate (SELIC, currently at 2.25% per year and 4,5% in December 2019), invested to comply with certain requirements for authorized payment institutions as set forth by Central Bank of Brazil regulation. This financial asset was classified at fair value through other comprehensive income. Unrealized accumulated loss on LFTs as of June 30, 2020 totaled R\$153 (R\$125 in six-month period ended June 30, 2020).

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7. Accounts receivable

	June 30, 2020					December 31, 2019				
	Visa	Master	Hipercard	Elo	Total	Visa	Master	Hipercard	Elo	Total
Legal obligors										
Itaú	620,672	2,417,559	495,407	-	3,533,638	727,224	2,217,111	593,858	-	3,538,193
Bradesco	875,383	172,722	-	247,595	1,295,700	987,984	163,725	-	242,862	1,394,571
Banco do Brasil	701,252	138,174	-	156,742	996,168	765,341	140,774	-	152,327	1,058,442
CEF	120,019	153,648	-	153,621	427,288	145,400	154,473	-	122,324	422,197
Santander	243,796	1,141,715	-	-	1,385,511	283,348	986,777	-	-	1,270,125
Other (iv)	596,887	1,921,960	-	68,022	2,586,869	623,224	1,538,987	-	73,677	2,235,888
Total card issuers (i)	3,158,009	5,945,779	495,407	625,980	10,225,174	3,532,521	5,201,847	593,858	591,190	9,919,416
Cielo – Elo	-	-	-	-	151,226	-	-	-	-	153,348
Vero	-	-	-	-	7,241	-	-	-	-	6,662
Total acquirers (ii)	-	-	-	-	158,467	-	-	-	-	160,017
Other current	-	-	-	-	507,327	-	-	-	-	397,746
Other non-current	-	-	-	-	17,897	-	-	-	-	29,943
Total other (iii)	-	-	-	-	525,224	-	-	-	-	427,689
Total accounts receivable	3,158,009	5,945,779	495,407	625,980	10,908,865	3,532,521	5,201,847	593,858	591,190	10,507,122

(i) Card issuers: receivables derived from transactions where PagSeguro Brazil acts as the financial intermediary in operations with the issuing banks, related to the intermediation agreements between PagSeguro Brazil and Visa, Mastercard, Hipercard or Elo. However, PagSeguro Brazil's contractual accounts receivable are with the financial institutions, which are the legal obligors on the accounts receivable payment. Additionally, amounts due within 27 days of the original transaction, including those that fall due with the first installment of installment receivables, are guaranteed by Visa, Mastercard, Elo or Hipercard, as applicable, in the event that the legal obligors do not make payment.

(ii) Acquirers: refers to card processing transactions to be received from the acquirers, which are a third parties acting as financial intermediaries between the issuing bank and PagSeguro Brazil.

(iii) Other accounts receivable: Mainly related to loans and credit card receivables with our customers, this amount is presented net of the expected credit losses.

(iv) Refers to other pulverized receivables from legal obligors, being the most relevant in June 30, 2020, NuBank (R\$706,457), Banco Carrefour (R\$349,911) and Porto Seguro (R\$208,740)

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7. Accounts receivable (Continued)

The maturity analysis of accounts receivable is as follows

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Due within 30 days	5,139,524	4,901,532
Due within 31 to 120 days	3,950,051	3,924,348
Due within 121 to 180 days	939,806	869,207
Due within 181 to 360 days	861,586	782,092
Due after 360 days	17,897	29,943
	<u>10,908,865</u>	<u>10,507,122</u>

8. Related-party balances and transactions

The PagSeguro Group is controlled by UOL (incorporated in Brazil).

i) Balances and transactions with related parties

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
	<u>Payables</u>	<u>Payables</u>
Immediate parent		
UOL - sales of services and products (a)	109,264	10,575
UOL - shared service costs (b)	7,984	4,229
Affiliated companies		
UOL Diveo - sales of services (c)	4,463	3,117
Transfolha Transportadora e Distribuição Ltda.	2,173	1,440
Others (d)	21,513	2,826
	<u>145,397</u>	<u>22,187</u>

(a) Sales of services and products refers to the purchase of (i) advertising services from UOL and (ii) Certificate of deposits (CD) acquired by UOL in 2020 from BancoSeguro. This CD amounted to R\$92,592, as of June 30, 2020.

(b) Shared services costs mainly related to payroll costs that are incurred by the parent company UOL and are charged to PagSeguro Group.

(c) Sale of services from the affiliated company UOL Diveo related to colocation services.

(d) Mainly related to Certificate of deposits (CD) acquired by other affiliated companies in 2020 from BancoSeguro. This CD amounted to R\$17,310, as of June 30, 2020.

All transactions with related parties are performed under market conditions, including the CD interest rates and payment terms.

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8. Related-party balances and transactions (continued)

ii) Balances and transactions with related parties

	Three-month Period				Six-month Period			
	June 30, 2020		June 30, 2019		June 30, 2020		June 30, 2019	
	Revenue	Expense	Revenue	Expense	Revenue	Expense	Revenue	Expense
Immediate parent								
UOL - shared service costs (a)	-	25.029	-	26.890	-	56.238	-	49.734
UOL - sales of services (b)	690	9.707	817	23.994	1.321	21.938	1.208	35.962
Affiliated companies								
UOL Diveo - shared service costs	-	16	-	-	-	21	-	7
UOL Diveo - sales of services (c)	-	13.726	-	10.828	-	26.200	-	16.836
Transfolha Transportadora e Distribuição Ltda.	-	5.825	-	1.908	-	10.046	-	6.884
Others	8	99	1	-	8	2.553	10	220
	698	54.403	818	63.620	1.329	116.996	1.218	109.643

(a) Shared services costs mainly related to payroll costs that are incurred by the parent company UOL and are charged to PagSeguro. Such costs are included in administrative expenses.

(b) Sale of services expenses is related to advertising services from UOL and revenue is related to intermediation fees.

(c) Sale of services from the affiliated company UOL Diveo related to colocation services.

iii) Key management compensation

Key management compensation includes short and long-term benefits of PagSeguro Brazil's executive officers. The short and long-term compensation related to the executive officers for the six-month period ended June 30, 2020 amounted to R\$3,767 (June 30, 2019 - R\$17,335).

9. Business combinations

On January 4, 2019, PagSeguro Group acquired 100% of the share capital and obtained control of BBN Banco de Negócios S.A (renamed BancoSeguro S.A. in February 2019). Total consideration paid in cash amounted to R\$59,765 and the total net assets acquired at fair value amounted to R\$44,549, which included a separately identified intangible asset with a fair value of R\$2,605, presenting the license to operate the banking business, resulting in the recognition of goodwill of R\$12,611. The purchase price allocation was completed in 2019.

On August 9, 2019, PagSeguro Group acquired 100% of the share capital and obtained control of YAMÍ. Purchase price amounted to R\$3,000 and the total net liabilities acquired at fair value amounted to R\$19. The initial consideration paid in cash amounted to R\$1,350 and the remaining will be paid in installments. The purchase price allocation was completed in June, 2020, which included the recognition of two separately identified intangible assets with a fair value of R\$1,510 and R\$127, related to software and non-compete agreement, respectively, and R\$68 related to contingencies, resulting in the recognition of goodwill of R\$1,450. These acquisitions are in accordance with PagSeguro Group's business strategies, ramping up investments on new technologies, products and services for our digital ecosystem.

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10. Property and equipment

a) Property and equipment are composed as follows

	June 30, 2020		
	Cost	Accumulated depreciation	Net
Data processing equipment	65,148	(26,283)	38,865
Machinery and equipment (a)	845,950	(80,811)	765,139
Furniture and fittings	3,250	(542)	2,708
Leasehold improvements	9,875	(1,468)	8,407
Buildings Leasing (b)	79,718	(6,055)	73,663
Other	1,387	(627)	760
Total	1,005,328	(115,786)	889,542

	December 31, 2019		
	Cost	Accumulated depreciation	Net
Data processing equipment	65,116	(18,578)	46,538
Machinery and equipment (a)	371,741	(28,512)	343,229
Furniture and fittings	2,660	(382)	2,278
Leasehold improvements	8,480	(1,410)	7,070
Other	1,366	(491)	875
Total	449,363	(49,373)	399,990

- (a) Net book value of machinery and equipment includes R\$730,391 of POS devices (R\$340,011, as of December 31, 2019), which are amortized over 5 years. The depreciation of POS in the six-month period ended June 30, 2020, amounted to R\$51,024 (R\$6,217 in the six-month period ended June 30, 2019).
- (b) As described in Note 2.2, the Company recognized in 2020 the right of use of a building in the amount of R\$ 79,718 and a corresponding liability in the same amount. The administrative (depreciation) and financial expenses recognized during the six-month period ended June 30, 2020 are R\$ 6,055 and R\$ 258, respectively.

b) The changes in cost and accumulated depreciation were as follows

	Data processing equipment	Machinery and equipment (a)	Furniture and fittings	Leasehold improvements	Building Leasing	Other	Total
On December 31, 2019							
Cost	65,116	371,741	2,660	8,480	-	1,366	449,363
Accumulated depreciation	(18,578)	(28,512)	(382)	(1,410)	-	(491)	(49,373)
Net book value	46,538	343,229	2,278	7,070	-	875	399,990
On June 30, 2020							
Cost							
Purchases	32	474,209	590	1,395	79,718	21	555,965
Depreciation							
Depreciation	(7,705)	(52,299)	(160)	(58)	(6,055)	(136)	(66,413)
Net book value	38,865	765,139	2,708	8,407	73,663	760	889,542
On June 30, 2020							
Cost	65,148	845,950	3,250	9,875	79,718	1,387	1,005,328
Accumulated depreciation	(26,283)	(80,811)	(542)	(1,468)	(6,055)	(627)	(115,786)
Net book value	38,865	765,139	2,708	8,407	73,663	760	889,542

- (a) Net book value of machinery and equipment includes R\$730,391 of POS devices (R\$340,011, as of December 31, 2019), which are amortized over 5 years. The depreciation of POS in the six-month period ended June 30, 2020, amounted to R\$51,024 (R\$6,217 in the six-month period ended June 30, 2019).

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11. Intangible assets

a) Intangible assets are composed as follows

	June 30, 2020		
	Cost	Accumulated amortization	Net
Expenditures related to software and technology (i)	988,612	(373,528)	615,084
Software licenses	75,628	(20,412)	55,216
Goodwill (ii)	35,396	-	35,396
Other	4,713	(654)	4,059
	1,104,349	(394,594)	709,755
	December 31, 2019		
	Cost	Accumulated amortization	Net
Expenditures related to software and technology (i)	787,970	(302,031)	485,939
Software licenses	58,247	(13,492)	44,755
Goodwill (ii)	54,858	-	54,858
Other	4,586	(585)	4,001
	905,661	(316,108)	589,553

- (i) The PagSeguro Group capitalizes expenses incurred with the development of platforms, which are amortized over their useful lives of approximately five years.
- (ii) The balances comprise the goodwill arising from the acquisition of the companies R2Tech, Biva, BancoSeguro and YAMÍ.

b) The changes in cost and accumulated amortization were as follows:

	Expenditures with software and technology	Software licenses	Goodwill	Other	Total
On December 31, 2019					
Cost	787,970	58,247	54,858	4,586	905,661
Accumulated amortization	(302,031)	(13,492)	-	(585)	(316,108)
Net book value	485,939	44,755	54,858	4,001	589,553
On June 30, 2020					
Cost					
Additions (i)	201,423	15,871	-	-	217,294
Disposals (ii)	(781)	-	(17,825)	-	(18,606)
Transfers	-	1,510	(1,637)	127	-
Amortization					
Amortization	(71,497)	(6,920)	-	(69)	(78,486)
Net book value	615,084	55,216	35,396	4,059	709,755
On June 30, 2020					
Cost	988,612	75,628	35,396	4,713	1,104,349
Accumulated amortization	(373,528)	(20,412)	-	(654)	(394,594)
Net book value	615,084	55,216	35,396	4,059	709,755

- (i) Refers to pulverized expenditures with software and technology, mainly related to customer experience, such as, digital payment, digital banking account, etc.
- (ii) Refers to goodwill recorded in prior years related to business combinations acquisitions.

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12. Payables to third parties

Payables to third parties correspond mainly to amounts to be paid to merchants with respect to transactions carried out by their card holders, net of the intermediation fees and discounts applied. PagSeguro Brazil's average settlement terms agreed upon with commercial establishments is up to 14 days.

13. Deposits

	<u>Interest rate (p.a.)</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Certificate of deposit	109% of CDI	17,786	-
Government securities	Selic + 0,6%	309,754	-
		<u>318,540</u>	<u>-</u>

The maturity analysis of deposits is as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Due within 121 to 180 days	8,707	-
Due within 181 to 360 days	309,833	-
	<u>318,540</u>	<u>-</u>

14. Salaries and social charges

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Profit sharing	3,445	50,473
Salaries payable (i)	-	8,045
Social charges	30,577	9,416
Payroll accruals	53,872	27,503
Payroll taxes (LTIP)	3,562	7,323
Other	3,867	4,052
	<u>95,323</u>	<u>106,812</u>

(i) PagSeguro changed in 2020 the salary payment policy to the last day of the month.

15. Taxes and contributions

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Taxes		
Services tax and other (i)	134,435	223,529
Value-added tax on sales and services (ii)	29,322	31,400
Social integration program (iii)	24,059	22,216
Social contribution on revenues (iii)	147,972	136,682
Income tax and social contribution (iv)	9,028	726
Other	5,921	4,489
	<u>350,737</u>	<u>419,042</u>

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15. Taxes and contributions (continued)

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Judicial deposits (v)		
Services tax (i)	(130,611)	(108,026)
Value-added tax on sales and services (ii)	(29,000)	(31,028)
Social integration program (iii)	(22,962)	(21,804)
Social contribution on revenues (iii)	(141,306)	(134,180)
	<u>(323,880)</u>	<u>(295,038)</u>
	<u>26,857</u>	<u>124,004</u>

- (i) Based on the opinion of our legal advisors, PagSeguro reversed R\$84,294 in the six-month period ended June 30, 2020. The reversal was based on the review of assessment related to the taxation of PIS/COFINS on financial income.
- (ii) Refers to the Value-added Tax on Sales and Services (ICMS) due by Net+Phone, related to tax substitution and tax rate differential, applied on sales of credit and debit card readers.
- (iii) Refers mainly to Social Integration Program (PIS) and Social Contribution on Revenues (COFINS) charged on financial income.
- (iv) Refers to the income tax and social contribution payable.
- (v) The PagSeguro Group obtained court decisions to deposit the amount related to the payments in escrow for matters discussed in items "i", "ii" and "iii" above.

16. Provision for contingencies

PagSeguro Group is party to labor and civil litigation in progress and are discussing such matters at the administrative and judicial levels, which in some cases the PagSeguro Group has made corresponding judicial deposits. The likelihood of a negative outcome is assessed periodically and adjusted by management, when appropriate. Such assessment includes the opinion of its external legal advisors.

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Civil	9,744	9,152
Labor	3,827	2,697
	<u>13,571</u>	<u>11,849</u>

The PagSeguro Group is party on tax and civil lawsuits involving risks classified by legal advisors as possible losses, for which no provision was recognized on June 30, 2020, totaling approximately R\$163,318 (December 31, 2019 - R\$67,401). The main discussion is related to the taxation of PIS/COFINS on financial income in the amount of R\$84,294. The PagSeguro Group is not a party to labor lawsuits involving risks classified by management as possible losses. Below we demonstrate the movements of the provision for contingencies in the six-month period ended June 30, 2020:

On December 31, 2019	11,849
Accrual	5,140
Settlement	(3,879)
Interest	461
On June 30, 2020	<u>13,571</u>

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17. Income tax and social contribution

a) Reconciliation of the deferred income tax and social contribution

	Tax losses	Tax credit	Technological innovation (i)	Other temporary differences asset	Other temporary differences liabilities (ii)	Total
Deferred tax						
On December 31, 2018	2,911	2,173	(83,179)	64,715	(118,745)	(132,125)
Included in the statement of income	(2,077)	2,005	(23,485)	41,333	(244,297)	(226,520)
Other	-	-	-	21	-	21
On June 30, 2019	834	4,178	(106,664)	106,069	(363,042)	(358,624)
Included in the statement of income	49,300	1,440	(54,547)	25,346	(316,081)	(294,542)
Other	-	-	-	22,218	-	22,218
On December 31, 2019	50,134	5,618	(161,211)	153,632	(679,123)	(630,950)
Included in the statement of income	53,941	(360)	(44,195)	11,924	(254,905)	(233,596)
On June 30, 2020	104,075	5,258	(205,406)	165,556	(934,028)	(864,545)
Deferred tax asset						104,240
Deferred tax liability						(968,785)

- (i) Refers to the benefit granted by the Technological Innovation Law (Lei do Bem), which reduces the tax charges on the capitalized amount of property and equipment.
(ii) The main other liability temporary difference refers to deferred income tax and social contribution related to our FIDC quotas.

Deferred tax assets are recognized for tax loss carry-forward to the extent that the realization of the related tax benefit through future taxable profits is probable. As of June 30, 2020, Company did not have any unrecognized tax assets. Tax losses do not have expiration date.

b) Reconciliation of the income tax and social contribution expense

PagSeguro Group computed income tax and social contribution under the taxable income method. The following is a reconciliation of the difference between the actual income tax and social contribution expense and the expense computed by applying the Brazilian federal statutory rate for the three and six-month periods ended June 30, 2020 and 2019:

	Three-month period		Six-month period	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Profit for the period before taxes	412,437	461,123	908,591	910,500
Statutory rate	34%	34%	34%	34%
Expected income tax and social contribution	(140,228)	(156,782)	(308,921)	(309,570)
Income tax and social contribution effect on:				
Permanent additions (exclusions)				
Gifts and donations	(1,773)	(174)	(1,870)	(208)
R&D and technological innovation benefit - Law 11.196/05 (i)	24,727	16,515	53,121	29,107
Taxation of income abroad	602	(556)	1,344	(179)
Other additions	549	2,631	962	2,841
Income tax and social contribution expense	(116,123)	(138,366)	(255,364)	(278,009)
Effective rate	28%	30%	28%	31%
Income tax and social contribution – current	(17,967)	(1,349)	(21,768)	(51,489)
Income tax and social contribution – deferred	(98,156)	(137,017)	(233,596)	(226,520)

- (i) Refers to the benefit granted by the Technological Innovation Law (Lei do Bem), which reduces the income tax charges, based on the amount invested by the PagSeguro Group on specific intangible assets, see Note 11.

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18. Equity

a) Share capital

On June 30, 2020, share capital is represented by 329,016,372 common shares, per value of US\$0.000025. Share capital is composed of the following shares for the six-month period ended June 30, 2020:

December 31, 2018 shares outstanding	327,788,874
Treasury shares	15,000
Long-Term Incentive Plan	1,066,538
Repurchase of common shares	(15,000)
December 31, 2019 shares outstanding	328,855,412
Treasury shares	547,543
Long-Term Incentive Plan	160,960
Repurchase of common shares	(547,543)
June 30, 2020 shares outstanding	329,016,372

b) Capital reserve

The capital reserve can only be used to increase capital, offset losses, redeem, reimburse or purchase shares or pay cumulative dividends on preferred shares. For the six-month period ended June 30, 2020, the Company recognized LTIP expense in the total amount of R\$3,834 (R\$11,201 in the six-month period ended June 30, 2019).

c) Share based long-term incentive plan (LTIP and LTIP goals)

On January 26, 2018, beneficiaries under the LTIP were granted rights in the form of notional cash amounts without cash consideration. These rights vest in five equal annual installments starting on the earlier of July 29, 2015 and the beneficiary's employment start date. Under the terms of the LTIP, upon completion of the IPO, the vested portion of each beneficiary's LTIP rights was converted into Class A common shares of PagSeguro Digital at the IPO price (US\$21.50) which is the assessed fair value at the grant date. As a result, the beneficiaries of the LTIP received a total of 1,823,727 new Class A common shares upon completion of the IPO.

The unvested portions of each beneficiary's LTIP rights will be settled on each future annual vesting date in shares.

This arrangement is classified as equity settled. For the six-month period ended June 30, 2020, the Company recognized compensation expenses related to the LTIP and LTIP goals in the total amount of R\$44,974 (R\$27,754 in the six-month period ended June 30, 2019).

The maximum number of common shares that can be delivered to beneficiaries under the LTIP may not exceed 3% of our issued share capital at any time. On June 30, 2020 total shares granted were 6,970,064, and the total shares issued were 4,252,123.

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18. Equity (Continued)

d) OCI and equity valuation adjustments

The Company recognizes in this account the accumulated effect of the foreign exchange variation resulting from the conversion of the financial statements of the foreign subsidiary BCPS, which amounted to R\$550 in the six months ended in June 30, 2020 (negative value in R\$425 as of December 31, 2019). This accumulated effect will be reverted to the result of the year as gain or loss only in case of disposal or write-off of the investment.

The Company also recognized in this account the difference between the book value and the amounts paid in the acquisitions of additional interests from the non-controlling shareholders of the subsidiary represented by the accumulated amount of R\$22,372 as of June 30, 2020 related to R2TECH, in the amount of R\$11,663 (R\$11,663 as of December 31, 2019) and BIVA, in the amount of 10,709 (R\$10,709 as of December 31, 2019).

e) Treasury shares

On October 30, 2018, PagSeguro Digital's board of directors authorized a share repurchase program, under which the PagSeguro Group may repurchase up to US\$250 million in outstanding Class A common shares traded on the New York Stock Exchange (NYSE). The Company's management is responsible for defining the timing and the number of shares to be acquired, within authorized limits.

During the year ended December 31, 2018 a number of 503,642 shares were repurchased for a total of US\$10,119 (average of US\$20.09 per share) which corresponds to R\$39,532.

During the year ended December 31, 2019 a number of 15,000 shares were repurchased for a total of US\$422 (average of US\$28.14 per share) which corresponds to R\$1,735.

During the six-month period ended June 30, 2020 a number of 547,543 shares were repurchased for a total of US\$8,829 (average of US\$16.13 per share) which corresponds to R\$44,775.

The number of treasury shares as of June 30, 2020 was 1,066,185 shares (518,642 shares in December 31, 2019)

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19. Earnings per share

a) Basic

Basic earnings per share is calculated by dividing net income the profit attributable to equity holders of PagSeguro Digital by the weighted average number of common shares issued and outstanding during the six-month periods ended June 30, 2020 and 2019:

	<u>Three-month period</u>		<u>Six-month period</u>	
	<u>June 30,2020</u>	<u>June 30,2019</u>	<u>June 30, 2020</u>	<u>June 30,2019</u>
Profit attributable to stockholders of the Company	296,135	322,400	652,805	631,712
Weighted average number of outstanding common shares (thousands)	329,001,257	320,114,060	329,001,257	320,114,060
Basic earnings per share - R\$	0.9001	1.0071	1.9842	1.9734

b) Diluted

Diluted earnings per share is calculated by dividing net income attributable to equity holders of PagSeguro Digital by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all dilutive potential common shares into common shares. The share in the LTIP are the only shares with potential dilutive effect. In this case, a calculation is done to determine the number of shares that could have been acquired at fair value.

	<u>Three-month period</u>		<u>Six-month period</u>	
	<u>June 30,2020</u>	<u>June 30,2019</u>	<u>June 30, 2020</u>	<u>June 30,2019</u>
Profit used to determine diluted earnings per share	296,135	322,400	652,805	631,712
Weighted average number of outstanding common shares (thousands)	329,001,257	320,114,060	329,001,257	320,114,060
Weighted average number of shares that would have been issued at average market price	931,948	8,688,991	931,948	8,688,991
Weighted average number of common shares for diluted earnings per share (thousands)	329,933,205	328,803,051	329,933,205	328,803,051
Diluted earnings per share - R\$	0.8976	0.9805	1.9786	1.9212

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20. Total revenue and income

	Three-month period		Six-month period	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Gross revenue from transaction activities and other services (i)	964,296	914,123	2,050,092	1,740,333
Gross revenue from sales (ii)	-	92,123	-	185,853
Gross financial income (iii)	462,819	500,973	1,030,053	937,433
Other financial income (iv)	41,735	30,176	99,958	70,424
Total gross revenue and income	1,468,850	1,537,395	3,180,103	2,934,043
Deductions from gross revenue from transactions activities and other services (v)	(107,834)	(115,174)	(226,826)	(228,389)
Deductions from gross revenue from sales (ii)	-	(28,669)	-	(54,810)
Deductions from gross financial income (vi)	(3,572)	(3,806)	(8,538)	(9,762)
Total deductions from gross revenue and income	(111,406)	(147,649)	(235,364)	(292,961)
Total revenue and income	1,357,444	1,389,746	2,944,739	2,641,082

- (i) In the six-month period ended June 30, 2020, R\$45,404 (R\$30,274 in the three-month period ended June 30, 2020) corresponds to membership fee.
- (ii) On September 1st, 2019, the Company changed its POS police to merchants from sale to membership fee.
- (iii) Includes (a) interest income from early payment of notes payable to third parties and (b) interest on accounts receivable due in installments.
- (iv) Includes (a) interest of financial investments and (b) gain on exchange variation.
- (v) Deductions consist of transactions taxes. Additionally, in the six-month period ended June 30, 2020, R\$4,351 (R\$2,868 in the three-month period ended June 30, 2020) corresponds to membership fee taxes.
- (vi) Deductions consist of taxes on financial income.

21. Expenses by nature

	Three-month period		Six-month period	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Transactions costs (i)	(589,420)	(432,731)	(1,145,855)	(813,672)
Cost of goods sold (ii)	-	(158,279)	-	(306,062)
Marketing and advertising	(98,011)	(116,131)	(254,220)	(196,123)
Personnel expenses (iii)	(98,398)	(93,461)	(203,426)	(171,251)
Financial expenses (iv)	(17,873)	(2,204)	(63,435)	(8,043)
Chargebacks (v)	(60,324)	(41,648)	(130,496)	(74,483)
Depreciation and amortization (vii)	(81,392)	(21,714)	(140,985)	(48,135)
Other (vi)	411	(62,455)	(97,731)	(112,813)
	(945,007)	(928,623)	(2,036,148)	(1,730,582)
Classified as:				
Cost of services	(793,290)	(491,798)	(1,561,926)	(941,872)
Cost of sales	-	(192,596)	-	(360,301)
Selling expenses	(111,202)	(131,679)	(300,224)	(214,057)
Administrative expenses	(94,251)	(109,856)	(180,036)	(202,237)
Financial expenses	(17,873)	(2,204)	(63,435)	(8,043)
Other income (expenses), net	71,609	(490)	69,473	(4,072)
	(945,007)	(928,623)	(2,036,148)	(1,730,582)

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21. Expenses by nature (Continued)

- (i) In the six-month period ended June 30, 2020, the increase is mainly represented by R\$125,319 (R\$68,927 in the three-month period ended June 30, 2020) related to taxes paid on intercompany sale of POS devices and the amount of R\$75,203 (R\$42,347 in the three-month period ended June 30, 2020) related to other costs (mainly related to freight, maintenance of POS and storage). Additionally, in the six-month and three-month periods ended June 30, 2020, costs in the amount of R\$668,988 and R\$327,672 (R\$635,470 and R\$328,736 in the six-month and three-month periods ended June 30, 2019), respectively are related to interchange with the card issuers costs and the costs in amount of R\$182,990 and R\$91,638 (R\$118,378 and R\$71,076 in the six-month and three-month periods ended June 30, 2019), respectively are related to card scheme fees.
- (ii) On September 1st, 2019, the Company changed its POS police to merchants from sale to membership fee.
- (iii) Includes R\$31,410 and R\$54,231 of compensation expenses related to the LTIP for the six-month period ended June 30, 2020 and 2019, respectively. The increase in personnel expenses is mainly related to higher headcount.
- (iv) Relates mainly to the early payment of receivables, which amounted to R\$32,822 in the six-month period ended June 30, 2020 (R\$0 in the three-month period ended June 30, 2020).
- (v) Chargebacks refer mainly to losses recognized during the period related to fraud on card processing operations, as detailed in Note 23.
- (vi) PagSeguro reversed R\$84,294 as detailed in Notes 15 and 16.
- (vii) Depreciation and amortization amounts incurred in the period are segregated between costs and expenses as presented below:

	Three-month period		Six-month period	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Depreciation				
Cost of sales and services (i)	(34,957)	(5,749)	(58,096)	(8,976)
Selling expenses	(7)	(7)	(13)	(14)
Administrative expenses	(6,755)	(1,058)	(8,304)	(1,723)
	<u>(41,719)</u>	<u>(6,814)</u>	<u>(66,413)</u>	<u>(10,713)</u>
Amortization				
Cost of sales and services	(40,518)	(16,443)	(76,778)	(41,799)
Administrative expenses	(1,072)	(332)	(1,708)	(673)
	<u>(41,590)</u>	<u>(16,775)</u>	<u>(78,486)</u>	<u>(42,472)</u>
PIS and COFINS credits (ii)	1,917	1,875	3,914	5,050
Depreciation and amortization expense, net	<u>(81,392)</u>	<u>(21,714)</u>	<u>(140,985)</u>	<u>(48,135)</u>

- (i) The depreciation of POS in the six-month period ended June 30, 2020, amounted to R\$51,024 (R\$31,190 in the three-month period ended June 30, 2020).
- (ii) PagSeguro Brazil has a tax benefit on PIS and COFINS that allows it to reduce the depreciation and amortization expenses when incurred. This tax benefit is recognized directly as a reduction of depreciation and amortization expense.

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22. Financial instruments by category

The PagSeguro Group estimates the fair value of its financial instruments using available market information and appropriate valuation methodologies for each situation.

The interpretation of market data, as regards the choice of methodologies, requires considerable judgment and the establishment of estimates to reach an amount considered appropriate for each situation. Therefore, the estimates presented may not necessarily indicate the amounts that could be obtained in the current market. The use of different hypotheses to calculate market value or fair value may have a material impact on the amounts obtained. The assets and liabilities presented in this Note were selected based on their relevance. The PagSeguro Group believes that the financial instruments recognized in these consolidated financial statements at their carrying amount are substantially similar to their fair value. However, since they do not have an active market (except for the LFT included in financial investments, which is actively traded in the market), variations could occur in the event the PagSeguro Group were to decide to settle or realize them in advance.

The PagSeguro Group classifies its financial instruments into the following categories:

	June 30, 2020	December 31, 2019
Financial assets		
Amortized cost:		
Cash and cash equivalents	2,665,317	1,403,955
Accounts receivables	10,908,865	10,507,122
Other receivables	62,692	84,099
Judicial deposits	5,980	5,651
Investment	1,500	1,500
Fair value through other comprehensive income		
Financial investments	658,050	1,349,666
	14,302,404	13,351,993
Financial liabilities		
Amortized cost:		
Payables to third parties	5,649,366	5,326,290
Trade payables	227,234	256,281
Trade payables to related parties	145,397	22,187
Other liabilities	230,200	73,129
Deposits	318,540	-
Fair value through profit or loss		
Contingent consideration (included in other liabilities)	-	15,800
	6,570,737	5,693,687

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23. Financial risk management

The PagSeguro Group's activities expose it to a variety of financial risks: market risk, fraud risk (chargebacks), credit risk and liquidity risk. The PagSeguro Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the PagSeguro Group's financial performance.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. In the Group, market risk comprises interest rate risk and foreign currency risk and other price risk, such as equity price risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As of June 30, 2020, and December 31, 2019, the PagSeguro Group is not materially exposed to the risk of changes in market interest rates mostly due to its capital structure that takes into consideration a reduced amount of debt.

Foreign exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. As of June 30, 2020, and December 31, 2019, the PagSeguro Group is not materially exposed to foreign exchange risk.

Equity price risk

The Group's non-listed equity investments are susceptible to market price risk arising from uncertainties about future values of the investment. As of June 30, 2020, and December 31, 2019, the exposure to equity price from such investments was not material.

Fraud risk (chargeback)

The PagSeguro Group's sales transactions are susceptible to potentially fraudulent or improper sales and it uses the following two processes to control the fraud risk:

The first process consists of monitoring, on a real time basis, the transactions carried out with credit and debit cards and payment slips, through an anti-fraud system. This process approves or rejects suspicious transactions at the time of the authorization, based on statistical models that are revised on a periodic basis.

The second process detects chargebacks and disputes not identified by the first process. This is a supplemental process and increases the PagSeguro Group's ability to avoid new frauds. PagSeguro's expenses with chargeback as disclosed in note 21, remain stable compared with the growth of our TPV.

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23. Financial risk management (Continued)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily accounts receivable) and from its financing activities, including deposits with banks and financial institutions, and other financial instruments such as loans and credit card receivables with our customers.

Credit risk is managed on a group basis and for its accounts receivable is limited to the possibility of default by: (a) the card issuers, which have the obligation of transferring to the credit and debit card labels the fees charged for the transactions carried out by their card holders, (b) the acquirers, which are used by the PagSeguro Group to approve transactions with the issuers and (c) analyses for our customers background to provide access to credit portfolio.

In order to mitigate this risk, PagSeguro Brazil has established a Credit and Liquidity Risk Committee, whose responsibility is to assess the level of risk of each of the card issuers served by PagSeguro Group, classifying them into three groups:

- (i) Card issuers with a low level of risk, with credit ratings assigned by FITCH, S&P and Moody's, which do not require additional monitoring;
- (ii) Card issuers with a medium level of risk, which are also monitored in accordance with the financial metrics and ratios; and
- (iii) Card issuers with a high level of risk, which are assessed by the committee at monthly meetings.

PagSeguro has a rating process for loans and credit, based on statistical application models (in the early stages of customer relationships) and behavior scoring (used for customers who already have a relationship history). A process for designing, calibrating and implementing policies and guidelines for granting credit and calibrating collection rules.

A process for monitoring the portfolio's risk profile, with a prospective view, which generates early warning feedbacks to the credit granting policies and risk classification models in a timely manner.

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23. Financial risk management (Continued)

Liquidity risk

The PagSeguro Group manages liquidity risk by maintaining reserves, bank and credit lines for the obtaining borrowings, when deemed appropriate. The PagSeguro Group continuously monitors actual and projected cash flows and matches the maturity profile of its financial assets and liabilities in order to ensure that the PagSeguro Group has enough funds to honor its obligations to third parties and meet its operational needs.

The PagSeguro Group invests surplus cash in interest bearings financial investments, choosing instruments with appropriate maturity or enough liquidity to provide adequate margin as determined by the forecasts. On June 30, 2020, PagSeguro Group held cash and cash equivalents of R\$2,665,317 (R\$1,403,955 on December 31, 2019).

The table below shows the PagSeguro Group's non-derivative financial liabilities divided into the relevant maturity group based on the remaining period from the balance sheet date and the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<u>Due within 30 days</u>	<u>Due within 31 to 120 days</u>	<u>Due within 121 to 180 days</u>	<u>Due within 181 to 360 days</u>	<u>Due to 361 days or more days</u>
On June 30, 2020					
Payables to third parties	4,795,539	575,787	152,155	125,885	-
Trade payables	224,449	2,752	33	-	-
Trade payables to related parties	-	35,495	-	109,902	-
Deposits			8,707	309,833	
On December 31, 2019					
Payables to third parties	4,308,095	686,808	173,884	157,503	-
Trade payables	235,838	19,472	-	600	371
Trade payables to related parties	-	22,187	-	-	-

24. Capital management

The PagSeguro Group monitors capital based on the gearing ratio which corresponds to net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated balance sheet plus net debt.

The PagSeguro Group had no loans on June 30, 2020, and December 31, 2019. Therefore, no gearing ratio is presented.

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25. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date. A three-level hierarchy is used to measure fair value, as shown below:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 - 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 3 - Inputs for the assets and liabilities that are not based on observable market data (that is, unobservable inputs).

The following table provides the fair value measurement hierarchy of PagSeguro Group's financial assets and financial liabilities as of June 30, 2020:

	June 30, 2020		
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets			
Cash and cash equivalents	1,005,648	1,659,669	-
Financial investments	658,050	-	-
Accounts receivable	-	10,908,865	-
Other receivables	-	62,692	-
Judicial deposits	-	5,980	-
Investments	-	-	1,500
Financial liabilities			
Payables to third parties	-	5,649,366	-
Trade payables	-	227,234	-
Trade payables to related parties	-	145,397	-
Deposits	318,540	-	-
Other liabilities	-	230,198	-

The PagSeguro Group believes that the financial instruments recognized in these consolidated financial statements at their carrying amount are substantially similar to their fair value. For the financial assets that is basically due to the nature of the receivables that are due from top tier financial institutions subject to low credit risk and are mostly receivable in a short-term period and are measured based on the consideration that the Group expects to receive as part of the transaction processing services.

Financial assets also include the financial investments represented by government bonds with quoted prices in an active market and recognized in the balance sheet based on its fair value.

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25. Fair value measurement (continued)

Financial liabilities are mostly represented by deposits and short-term payables to merchants which are paid in accordance with the contract set out with the merchant and other short-term payables to service providers in the normal course of business and, as such, also approximate from their fair values.

There were no transfers between Levels 1, 2 and 3 during the six-month period ended June 30, 2020.

26. Events after the reporting period

On July 23, 2020, PagSeguro Group acquired 100,00% of the issued shares of *Zygo Serviços de Tecnologia S.A.* for a purchase consideration of R\$8,000, which R\$5,053 was settled in cash on that date and the remaining portion of purchase price will be retained for eventual debt.

On August 19, 2020, PagSeguro Group signed a binding agreement (subject to approvals by the Brazilian Central Bank and antitrust authorities - CADE) to acquire 100% of Wirecard Brazil S.A. ("Wirecard Brazil"), a digital financial technology company, from the Wirecard Group, the purchase price is subject to specific conditions and factors, which will be known at the closing of the agreement. This purchase will enhance and complement PagSeguro ecosystem, providing best-in-class omnichannel solutions for both online/offline payments, software, banking and financial services to millions of merchants of all sizes.