
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE SECURITIES EXCHANGE ACT
OF 1934**

For the month of August, 2020

Commission File Number: 001-38714

STONECO LTD.

(Exact name of registrant as specified in its charter)

**4th Floor, Harbour Place
103 South Church Street, P.O. Box 10240
Grand Cayman, KY1-1002, Cayman Islands
+55 (11) 3004-9680
(Address of principal executive office)**

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

STONECO LTD.

INCORPORATION BY REFERENCE

This report on Form 6-K shall be deemed to be incorporated by reference into the registration statement on Form S-8 (Registration Number: 333-230629) of StoneCo Ltd. and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

**Unaudited Interim Condensed
Consolidated Financial Statements**

StoneCo Ltd.

June 30, 2020

StoneCo Ltd.

Unaudited interim condensed consolidated statement of financial position

As of June 30, 2020, and December 31, 2019

(In thousands of Brazilian Reais)

| | Notes | June 30, 2020 | December 31, 2019 |
|--|-------|-------------------|----------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 5 | 2,776,778 | 968,342 |
| Short-term investments | 6 | 788,676 | 2,937,029 |
| Accounts receivable from card issuers | 7 | 12,920,955 | 14,066,814 |
| Trade accounts receivable | 8 | 662,208 | 249,417 |
| Recoverable taxes | | 127,467 | 50,426 |
| Prepaid expenses | | 119,895 | 12,463 |
| Derivative financial instruments | | 2,357 | 14,062 |
| Other assets | | 301,008 | 106,345 |
| | | 17,699,344 | 18,404,898 |
| Non-current assets | | | |
| Receivables from related parties | 14 | 7,661 | 12,837 |
| Deferred tax assets | 9 | 155,935 | 192,781 |
| Other assets | | 81,277 | 44,685 |
| Investment in associates | | 20,103 | 28,242 |
| Property and equipment | 10 | 601,262 | 548,607 |
| Intangible assets | 11 | 694,636 | 373,699 |
| | | 1,560,874 | 1,200,851 |
| Total assets | | 19,260,218 | 19,605,749 |
| Liabilities and equity | | | |
| Current liabilities | | | |
| Accounts payable to clients | 12 | 6,940,230 | 6,500,071 |
| Trade accounts payable | | 124,962 | 97,825 |
| Loans and financing | 13 | 1,193,697 | 2,947,811 |
| Obligations to FIDC quota holders | 13 | 2,586,989 | 2,090,894 |
| Labor and social security liabilities | | 126,700 | 109,013 |
| Taxes payable | | 80,646 | 44,940 |
| Derivative financial instruments | | 16,545 | 1,354 |
| Other liabilities | | 216,597 | 80,619 |
| | | 11,286,366 | 11,872,527 |
| Non-current liabilities | | | |
| Loans and financing | 13 | 1,233,583 | 87,483 |
| Obligations to FIDC quota holders | 13 | - | 1,620,000 |
| Deferred tax liabilities | 9 | 20,401 | 10,687 |
| Provision for contingencies | 15 | 9,703 | 9,564 |
| Labor and social security liabilities | | 26,051 | 27,432 |
| Other liabilities | | 204,275 | 5,051 |
| | | 1,494,013 | 1,760,217 |
| Total liabilities | | 12,780,379 | 13,632,744 |
| Equity | | | |
| Issued capital | 16 | 62 | 62 |
| Capital reserve | | 5,623,655 | 5,443,786 |
| Treasury shares | | (76,360) | (90) |
| Other comprehensive income | | (47,122) | (72,335) |
| Retained earnings | | 886,356 | 600,956 |
| Equity attributable to owners of the parent | | 6,386,591 | 5,972,379 |
| Non-controlling interests | | 93,248 | 626 |
| Total equity | | 6,479,839 | 5,973,005 |
| Total liabilities and equity | | 19,260,218 | 19,605,749 |

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

StoneCo Ltd.

Unaudited interim consolidated statement of profit or loss
 For the six and three months ended June 30, 2020 and 2019
 (In thousands of Brazilian Reais, unless otherwise stated)

| | Notes | Six months ended June 30 | | Three months ended June 30 | |
|---|-------|--------------------------|------------------|----------------------------|------------------|
| | | 2020 | 2019 | 2020 | 2019 |
| Net revenue from transaction activities and other services | 18 | 454,767 | 346,014 | 227,465 | 177,251 |
| Net revenue from subscription services and equipment rental | 18 | 173,563 | 145,786 | 80,438 | 74,608 |
| Financial income | 18 | 685,885 | 548,633 | 326,570 | 297,239 |
| Other financial income | 18 | 69,893 | 81,532 | 32,879 | 37,094 |
| Total revenue and income | | 1,384,108 | 1,121,965 | 667,352 | 586,192 |
| Cost of services | | (348,654) | (186,164) | (198,712) | (100,784) |
| Administrative expenses | | (163,858) | (142,141) | (89,914) | (77,381) |
| Selling expenses | | (226,506) | (149,959) | (114,678) | (87,260) |
| Financial expenses, net | | (210,964) | (145,411) | (62,597) | (78,771) |
| Other operating expenses, net | 19 | (43,556) | (43,785) | (40,068) | (32,325) |
| | | (993,538) | (667,460) | (505,969) | (376,521) |
| Loss on investment in associates | | (2,818) | (529) | (1,539) | (529) |
| Profit before income taxes | | 387,752 | 453,976 | 159,844 | 209,142 |
| Current income tax and social contribution | 9 | (70,365) | (74,646) | 7,166 | (1,593) |
| Deferred income tax and social contribution | 9 | (35,167) | (30,441) | (43,409) | (35,696) |
| Net income for the period | | 282,220 | 348,889 | 123,601 | 171,853 |
| Net income (loss) attributable to: | | | | | |
| Owners of the parent | | 285,400 | 349,095 | 126,594 | 171,946 |
| Non-controlling interests | | (3,180) | (206) | (2,993) | (93) |
| | | 282,220 | 348,889 | 123,601 | 171,853 |
| Earnings per share | | | | | |
| Basic earnings per share for the period attributable to owners of the parent (in Brazilian Reais) | 17 | R\$ 1.03 | R\$ 1.26 | R\$ 0.46 | R\$ 0.62 |
| Diluted earnings per share for the period attributable to owners of the parent (in Brazilian Reais) | 17 | R\$ 1.01 | R\$ 1.24 | R\$ 0.45 | R\$ 0.61 |

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

StoneCo Ltd.

Unaudited interim consolidated statement of other comprehensive income

For the six and three months ended June 30, 2020 and 2019

(In thousands of Brazilian Reais)

| | Notes | Six months ended June 30 | | Three months ended June 30 | |
|--|-------|--------------------------|-----------------|----------------------------|-----------------|
| | | 2020 | 2019 | 2020 | 2019 |
| Net income for the period | | 282,220 | 348,889 | 123,601 | 171,853 |
| <i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods (net of tax):</i> | | | | | |
| Changes in the fair value of accounts receivable from card issuers at fair value through other comprehensive income | | 25,887 | (25,108) | 24,806 | (16,882) |
| Unrealized loss on cash flow hedge - highly probable future imports | | (4,086) | - | (4,086) | - |
| <i>Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods (net of tax):</i> | | | | | |
| Changes in the fair value of equity instruments designated at fair value through other comprehensive income | 6 | 3,412 | (327) | 3,412 | - |
| Other comprehensive income (loss) for the period, net of tax | | 25,213 | (25,435) | 24,132 | (16,882) |
| Total comprehensive income for the period, net of tax | | 307,433 | 323,454 | 147,733 | 154,971 |
| Total comprehensive income (loss) attributable to: | | | | | |
| Owners of the parent | | 310,613 | 323,660 | 150,726 | 155,064 |
| Non-controlling interests | | (3,180) | (206) | (2,993) | (93) |
| | | 307,433 | 323,454 | 147,733 | 154,971 |

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

StoneCo Ltd.

Unaudited interim consolidated statement of changes in equity

For the six months ended June 30, 2020 and 2019

(In thousands of Brazilian Reais)

| | | Attributable to owners of the parent | | | | | | | | | | |
|---|----------------|--------------------------------------|---------------------------------|-----------------|----------------|------------------|-----------------|----------------------------|--|------------------|--------------------------|------------------|
| | | Capital reserve | | | | | | | | | | |
| Notes | Issued capital | Additional paid-in capital | Transactions among shareholders | Special reserve | Other reserves | Total | Treasury shares | Other comprehensive income | Retained earnings (accumulated losses) | Total | Non-controlling interest | Total |
| | 62 | 5,440,047 | (223,676) | - | 135,502 | 5,351,873 | - | (56,334) | (202,276) | 5,093,325 | (334) | 5,092,991 |
| Share-based payments | 20 | - | - | - | 17,013 | 17,013 | - | - | - | 17,013 | - | 17,013 |
| Net income for the period | - | - | - | - | - | - | - | - | 349,095 | 349,095 | (206) | 348,889 |
| Other comprehensive income (loss) for the period | - | - | - | - | - | - | - | (25,435) | - | (25,435) | - | (25,435) |
| Balance as of June 30, 2019 (unaudited) | 62 | 5,440,047 | (223,676) | - | 152,515 | 5,368,886 | - | (81,769) | 146,819 | 5,433,998 | (540) | 5,433,458 |
| | 62 | 5,440,047 | (223,676) | 61,127 | 166,288 | 5,443,786 | (90) | (72,335) | 600,956 | 5,972,379 | 626 | 5,973,005 |
| Share-based payments | 20 | - | - | - | 7,567 | 7,567 | - | - | - | 7,567 | 123 | 7,690 |
| Issuance of shares for business acquisition | 16 (b) / 23 | 34,961 | - | - | - | 34,961 | - | - | - | 34,961 | - | 34,961 |
| Repurchase of shares | 16 (c) | - | - | - | - | - | (76,270) | - | - | (76,270) | - | (76,270) |
| Cash proceeds from non-controlling interest | 22 | - | - | 135,055 | - | 135,055 | - | - | - | 135,055 | 95,445 | 230,500 |
| Dilution of non-controlling interest | 22 | - | - | 2,286 | - | 2,286 | - | - | - | 2,286 | (2,286) | - |
| Non-controlling interests arising on a business combination | 22 | - | - | - | - | - | - | - | - | - | 2,356 | 2,356 |
| Others | - | - | - | - | - | - | - | - | - | - | 164 | 164 |
| Net income for the period | - | - | - | - | - | - | - | - | 285,400 | 285,400 | (3,180) | 282,220 |
| Other comprehensive income (loss) for the period | - | - | - | - | - | - | - | 25,213 | - | 25,213 | - | 25,213 |
| Balance as of June 30, 2020 (unaudited) | 62 | 5,475,008 | (86,335) | 61,127 | 173,855 | 5,623,655 | (76,360) | (47,122) | 886,356 | 6,386,591 | 93,248 | 6,479,839 |

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

StoneCo Ltd.

Unaudited interim consolidated statement of cash flows

For the six months ended June 30, 2020 and 2019

(In thousands of Brazilian Reais)

| | Notes | Six months ended June 30 | |
|---|--------|--------------------------|--------------------|
| | | 2020 | 2019 |
| Operating activities | | | |
| Net income for the period | | 282,220 | 348,889 |
| Adjustments to reconcile net income for the period to net cash flows: | | | |
| Depreciation and amortization | 10 (b) | 123,388 | 63,849 |
| Deferred income tax and social contribution | 9 | 35,167 | 30,441 |
| Loss on investment in associates | | 2,818 | 529 |
| Other financial costs and foreign exchange, net | | 56,701 | 27,281 |
| Provision for contingencies | | 1,747 | 1,666 |
| Share-based payments expense | | 7,690 | 17,013 |
| Allowance for expected credit losses | | 21,024 | 20,217 |
| Loss on disposal of property, equipment and intangible assets | | 14,339 | 2,880 |
| Fair value adjustment in financial instruments at FVPL | | (5,091) | - |
| Fair value adjustment in derivatives | | 20,704 | (7,615) |
| Remeasurement of previously held interest in subsidiary acquired | | (2,992) | - |
| Working capital adjustments: | | | |
| Accounts receivable from card issuers | | 1,263,466 | (3,302,774) |
| Receivables from related parties | | 7,678 | 2,963 |
| Recoverable taxes | | (75,137) | (59,377) |
| Prepaid expenses | | (107,432) | (7,557) |
| Trade accounts receivable and other assets | | (509,368) | (40,093) |
| Accounts payable to clients | | (301,050) | 241,412 |
| Taxes payable | | 173,637 | 127,655 |
| Labor and social security liabilities | | 14,195 | 8,337 |
| Provision for contingencies | | (1,608) | 87 |
| Other liabilities | | 13,358 | (22,610) |
| Interest paid | | (110,265) | (86,626) |
| Interest income received, net of costs | | 661,055 | 547,853 |
| Income tax paid | | (102,494) | (92,901) |
| Net cash provided by (used in) operating activities | | 1,483,750 | (2,178,481) |
| Investing activities | | | |
| Purchases of property and equipment | | (180,963) | (117,004) |
| Purchases and development of intangible assets | | (42,524) | (29,684) |
| Acquisition of subsidiary, net of cash acquired | | (57,373) | - |
| Proceeds from (acquisition of) short-term investments, net | | 2,220,543 | 138,445 |
| Proceeds from the disposal of non-current assets | | 4,849 | 871 |
| Acquisition of interest in associates | | (7,473) | (7,033) |
| Net cash provided by (used in) investing activities | | 1,937,059 | (14,405) |
| Financing activities | | | |
| Proceeds from borrowings | 13 | 3,456,820 | 450,000 |
| Payment of borrowings | | (4,087,130) | (1,386) |
| Amortization to FIDC quota holders | | (1,116,583) | - |
| Proceeds from FIDC quota holders | | - | 1,620,000 |
| Payment of leases | 13 | (14,533) | (11,365) |
| Repurchase of shares | 16 (c) | (76,270) | - |
| Acquisition of non-controlling interests | | (479) | (455) |
| Cash proceeds from non-controlling interest and gain on dilution | 22 | 230,500 | - |
| Net cash provided by (used in) financing activities | | (1,607,675) | 2,056,794 |
| Effect of foreign exchange on cash and cash equivalents | | (4,698) | (1,202) |
| Change in cash and cash equivalents | | 1,808,436 | (137,294) |
| Cash and cash equivalents at beginning of period | 5 | 968,342 | 297,929 |
| Cash and cash equivalents at end of period | 5 | 2,776,778 | 160,635 |
| Change in cash and cash equivalents | | 1,808,436 | (137,294) |

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

StoneCo Ltd.

Notes to unaudited interim condensed consolidated financial statements

June 30, 2020

(In thousands of Brazilian Reals, unless otherwise stated)

1. Operations

StoneCo Ltd. (the “Company”), formerly known as DLP Payments Holdings Ltd., is a Cayman Islands exempted company with limited liability, incorporated on March 11, 2014. The registered office of the Company is Harbour Place, 103 South Church Street in George Town, Grand Cayman. The Company’s principal business office is located in the city of São Paulo, Brazil.

The Company is controlled by HR Holdings, LLC, which owns 54.1% of Class B common shares, whose ultimate parent is an investment fund, VCK Investment Fund Limited SAC, owned by the co-founding individuals. Company’s shares are publicly traded on the Nasdaq Global Market under the symbol “STNE”.

The Company and its subsidiaries (collectively, the “Group”) are principally engaged in providing financial technology solutions to clients and integrated partners to conduct electronic commerce seamlessly across in-store, online, and mobile channels, which include integration to cloud-based technology platforms, offering services for acceptance of various forms of electronic payment, automation of business processes at the point-of-sale and working capital solutions.

The interim condensed consolidated financial statements of the Group for the six months ended June, 30 2020 and 2019 were approved at the Board of Directors’ meeting on August 9, 2020.

1.1. Seasonality of operations

The Group’s revenues are subject to seasonal fluctuations as a result of consumer spending patterns. Historically, revenues have been strongest during the last quarter of the year as a result of higher sales during the Brazilian holiday season. This is due to the increase in the number and amount of electronic payment transactions related to seasonal retail events. Adverse events that occur during these months could have a disproportionate effect on the results of operations for the entire fiscal year. As a result of seasonal fluctuations caused by these and other factors, results for an interim period may not be indicative of those expected for the full fiscal year.

2. Group information**2.1. Subsidiaries**

The interim condensed consolidated financial statements of the Group include the following subsidiaries and structured entities:

| Entity name | Country of incorporation | Principal activities | June 30, 2020 | December 31, 2019 |
|--|---------------------------------|-------------------------------|----------------------|--------------------------|
| DLP Capital LLC (“DLP Capital”) | USA | Holding company | 100.00 | 100.00 |
| DLP Par Participações S.A. (“DLP Par”) | Brazil | Employee trust | 100.00 | 100.00 |
| MPB Capital LLC (“MPB Capital”) | USA | Investment company | 100.00 | 100.00 |
| STNE Participações S.A. (“STNE Par”) | Brazil | Holding company | 100.00 | 100.00 |
| STNE Participações em Tecnologia S.A. (“STNE Par Tec”) | Brazil | Holding company | 100.00 | 100.00 |
| Stone Pagamentos S.A. (“Stone”) | Brazil | Merchant acquiring | 100.00 | 100.00 |
| MNLT Soluções de Pagamentos S.A. (“MNLT”) | Brazil | Merchant acquiring | 100.00 | 100.00 |
| Pagar.me Pagamentos S.A. (“Pagar.me”) | Brazil | Merchant acquiring | 100.00 | 100.00 |
| Buy4 Processamento de Pagamentos S.A. (“Buy4”) | Brazil | Processing card transactions | 100.00 | 100.00 |
| Buy4 Sub LLC (“Buy4 LLC”) | USA | Cloud store card transactions | 100.00 | 100.00 |
| Cappta S.A. (“Cappta”) | Brazil | Electronic fund transfer | 56.73 | 61.79 |
| Mundipagg Tecnologia em Pagamento S.A. (“Mundipagg”) | Brazil | Technology services | 99.70 | 99.70 |
| Equals S.A. (“Equals”) | Brazil | Reconciliation services | 100.00 | 100.00 |
| Stone Franchising Ltda. (“Stone Franchising”) | Brazil | Franchising management | 99.99 | 99.99 |
| TAG Tecnologia para o Sistema Financeiro S.A. (“TAG”) | Brazil | Financial assets register | 100.00 | 100.00 |
| Stone Sociedade de Crédito Direto S.A. (“Stone SCD”) | Brazil | Financial services | 100.00 | 100.00 |

| Entity name | Country of incorporation | Principal activities | June 30, 2020 | December 31, 2019 |
|--|---------------------------------|-----------------------------|----------------------|--------------------------|
| Stone Logística Ltda (“Stone Log”) | Brazil | Logistic services | 100.00 | 100.00 |
| PDCA S.A. (“PDCA”) (Note 22) | Brazil | Merchant acquiring | 67.00 | 100.00 |
| Linked Gourmet Soluções para Restaurantes S.A. (“Linked”) (Note 23) | Brazil | Technology services | 58.10 | - |
| MAV Participações S.A. (“MVarandas”) (Note 23) | Brazil | Technology services | 100.00 | - |
| Vitta Tecnologia em Saúde S.A. (“Vitta Group”) (Note 23) | Brazil | Health plan management | 100.00 | - |
| VittaPar LLC. (“Vitta Group”) (Note 23) | USA | Holding company | 100.00 | - |
| AXEI Saúde Corretora de Seguros LTDA. (“Vitta Group”) (Note 23) | Brazil | Insurance services | 100.00 | - |
| Vitta Serviços em Saúde LTDA. (“Vitta Group”) (Note 23) | Brazil | Health services | 100.00 | - |
| TAPSO FIDC (“FIDC TAPSO”) | Brazil | Receivables investment fund | 100.00 | 100.00 |
| FIDC Bancos Emissores de Cartão de Crédito - Stone (“FIDC AR I”) | Brazil | Receivables investment fund | - | 100.00 |
| FIDC Bancos Emissores de Cartão de Crédito - Stone II (“FIDC AR II”) | Brazil | Receivables investment fund | 100.00 | 100.00 |
| SOMA FIDC (“FIDC SOMA”) | Brazil | Receivables investment fund | 100.00 | 100.00 |

2.2. Associates

| Entity name | Country of incorporation | Principal activities | % Groups's equity interest | |
|---|---------------------------------|-----------------------------|-----------------------------------|--------------------------|
| | | | June 30, 2020 | December 31, 2019 |
| Linked Gourmet Soluções para Restaurantes S.A. (“Linked”) (Note 23) | Brazil | Technology services | - | 48.56 |
| Collact Serviços Digitais Ltda. (“Collact”) | Brazil | Technology services | 25.00 | 25.00 |
| VHSYS Sistema de Gestão S.A. (“VHSYS”) | Brazil | Technology services | 33.33 | 33.33 |
| Alpha-Logo Serviços de Informática S.A. (“Tablet Cloud”) | Brazil | Technology services | 25.00 | 25.00 |
| Trinks Serviços de Internet S.A. (“Trinks”) | Brazil | Technology services | 19.90 | 19.90 |

The Group holds options to acquire additional interest in all associates listed on the table. Each of the options has been evaluated in accordance with pre-determined formulas and no records were required.

3. Basis of preparation and changes to the Group’s accounting policies

3.1. Basis of preparation

The interim condensed consolidated financial statements for the six months ended June 30, 2020 have been prepared in accordance with IAS 34 – Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual consolidated financial statements as of December 31, 2019.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

The interim condensed consolidated financial statements are presented in Brazilian Reais (“R\$”), and all values are rounded to the nearest thousand (R\$ 000), except when otherwise indicated.

3.2. New and amended standards and interpretations

3.2.1. New and amended standards and interpretations adopted

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended December 31, 2019, except for the adoption of new standards effective as of January 1, 2020, as follow:

3.2.1.1. Amendments to IFRS 3: Definition of a Business

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term ‘outputs’ is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

The Group has adopted the amendments on its effective date, January 1, 2020 and had no impacts recognized in its financial statements.

3.2.1.2. Amendments to IAS 1 and IAS 8: Definition of Material

IASB has made amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors 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 had no impacts recognized in its financial statements.

3.2.1.3. Revised Conceptual Framework for Financial Reporting

IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

The Group has adopted the amendments on its effective date, January 1, 2020 and had no impacts recognized in its financial statements.

3.3. Estimates

The preparation of interim condensed financial statements of the Company and its subsidiaries requires management to make judgments and estimates and to adopt assumptions that affect the amounts presented referring to revenues, expenses, assets and liabilities at the financial statement date. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgements and estimates made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that are set the consolidated financial statements for the year ended December 31, 2019 and no retrospective adjustments were made.

3.3.1. COVID-19 impacts on Expected Credit Losses ("ECL's")

The Group is reviewing the ECLs in face of potential COVID-19 effects. The Group has adopted measures such as rental exemption of POS and renegotiation of trade account receivables. Furthermore, the robustness of banking market indicates that there is no significant change in default risk of receivables from card issuers. Therefore, there is no substantial impact on the amount of ECLs recognized as of June 30, 2020. New events and circumstances about COVID-19 that may affect expected losses on financial assets will be monitored by the Group and considered, if applicable, in ECLs measurement.

4. Segment information

In reviewing the operational performance of the Group and allocating resources, the chief operating decision maker of the Group ("CODM"), who is the Group's Chief Executive Officer ("CEO") and the Board of Directors ("BoD"), reviews selected items of the statement of profit or loss and other comprehensive income.

The CODM considers the whole Group as a single operating and reportable segment, monitoring operations, making decisions on fund allocation and evaluating performance based on a single operating segment. The CODM reviews relevant financial data on a combined basis for all subsidiaries and associates.

The Group's revenue, results and assets for this one reportable segment can be determined by reference to the interim condensed consolidated statement of profit or loss and other comprehensive income and interim condensed consolidated statement of financial position.

5. Cash and cash equivalents

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|--|----------------------|--------------------------|
| Short-term bank deposits - denominated in R\$ | 2,737,454 | 910,080 |
| Short-term bank deposits - denominated in US\$ | 39,324 | 58,262 |
| | <u>2,776,778</u> | <u>968,342</u> |

6. Short-term investments

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|-------------------------|----------------------|--------------------------|
| Listed securities (a) | | |
| Bonds | 771,740 | 2,927,002 |
| Unlisted securities (b) | | |
| Investment funds | 13,284 | 9,787 |
| Equity securities | 3,652 | 240 |
| | <u>788,676</u> | <u>2,937,029</u> |

- (a) Listed securities are comprised of public and private bonds with maturities greater than three months, indexed to fixed and floating rates. As of June 30, 2020, listed securities are mainly indexed to 100% CDI rate (2019 – 100% CDI rate). Liquidity risk is minimal.
- (b) Unlisted securities are comprised of foreign investment fund shares, and ordinary shares in entities that are not traded in an active market. The Group elected to recognize the changes in fair value of the existing equity instruments through OCI. As of June 30, 2020, it was recognized R\$ 3,412 (2019 - R\$ (327)) in other comprehensive income.

Short-term investments are denominated in Brazilian reais and U.S. dollars.

7. Accounts receivable from card issuers

Accounts receivable are amounts due from card issuers regarding the transactions of clients with card holders, performed in the ordinary course of business. Accounts receivable are generally due within 12 months, therefore are all classified as current.

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|--|--------------------------|--------------------------|
| Accounts receivable from card issuers (a) | 12,313,334 | 13,595,133 |
| Accounts receivable from other acquirers (b) | 616,626 | 478,917 |
| Allowance for expected credit losses | (9,005) | (7,236) |
| | <u>12,920,955</u> | <u>14,066,814</u> |

(a) Refers to accounts receivable from card issuers, net of interchange fees, as a result of processing transactions with clients.

(b) Refers to accounts receivable from other acquirers related to PSP (Payment Service Provider) transactions.

As of June 30, 2020, R\$ 2,566,692 of the total Accounts receivable from card issuers are held by FIDC AR II (December 31, 2019 — R\$ 3,714,422 held by FIDC AR I and FIDC AR II). Accounts receivable held by FIDCs guarantee the obligations to FIDC quota holders.

8. Trade accounts receivable

Trade accounts receivables are amounts due from clients mainly related to equipment rental and other services. Trade accounts receivable are generally due between 30 and 60 days, therefore are all classified as current.

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|--------------------------------------|-----------------------|--------------------------|
| Loans held for sale (b) | 506,924 | 124,661 |
| Accounts receivable from clients (a) | 149,238 | 108,490 |
| Other trade accounts receivable | 39,737 | 39,922 |
| Allowance for expected credit losses | (33,691) | (23,656) |
| | <u>662,208</u> | <u>249,417</u> |

(a) Comprised mainly of accounts receivable from equipment rental.

(b) The Company has started to directly offer credit to clients at the end of 2019. The amount of credit offered has increased R\$ 382,263 in the first semester of 2020, of which R\$ 377,172 has impacted our cash flow.

9. Income taxes

Income taxes are comprised of taxation over operations in Brazil, related to Corporate Income Tax (“IRPJ”) and Social Contribution on Net Profit (“CSLL”). According to Brazilian tax law, income taxes and social contribution are assessed and paid by legal entity and not on a consolidated basis.

(a) Reconciliation of income tax expense

The following is a reconciliation of income tax expense to profit for the period, calculated by applying the combined Brazilian statutory rates at 34% for the six months ended June 30, 2020 and 2019:

| | Six months ended June 30 | | Three months ended June 30 | |
|---|--------------------------|------------------|----------------------------|-----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Profit before income taxes | 387,752 | 453,976 | 159,844 | 209,142 |
| Brazilian statutory rate | 34% | 34% | 34% | 34% |
| Tax expense at the statutory rate | (131,836) | (154,352) | (54,347) | (71,108) |
| Additions (exclusions): | | | | |
| Gain from entities not subject to the payment of income taxes | 27,153 | 20,838 | 20,552 | 8,211 |
| Other permanent differences | (2,900) | 7,728 | (1,461) | 6,355 |
| Equity pickup on associates | (958) | (180) | (523) | (180) |
| Unrecorded deferred taxes | (8,671) | (477) | (5,634) | (191) |
| Use of tax losses previously unrecorded | 33 | 5,585 | (45) | 5,585 |
| Interest on capital | 5,682 | 6,994 | 5,682 | 6,994 |
| R&D Tax Benefits | 5,752 | 4,653 | 933 | 4,653 |
| Other tax incentives | 213 | 4,124 | (1,400) | 2,392 |
| Total income tax and social contribution expense | (105,532) | (105,087) | (36,243) | (37,289) |
| Effective tax rate | 27% | 23% | 23% | 18% |
| Current income tax and social contribution | (70,365) | (74,646) | 7,166 | (1,593) |
| Deferred income tax and social contribution | (35,167) | (30,441) | (43,409) | (35,696) |
| Total income tax and social contribution expense | (105,532) | (105,087) | (36,243) | (37,289) |

(b) Changes in deferred income taxes

Net changes in deferred income taxes relate to the following:

| | |
|---|----------------|
| At December 31, 2019 | 182,094 |
| Losses available for offsetting against future taxable income | (18,925) |
| Tax credit carryforward | (21,865) |
| Share-based compensation | (16,857) |
| Changes in FVOCI | (11,231) |
| Tax deductible goodwill on non-controlling interest | (6,113) |
| Temporary differences under FIDC | 31,335 |
| Deferred income taxes arising from business combinations | 2,335 |
| Technological innovation benefit | (720) |
| Others | (4,519) |
| At June 30, 2020 | 135,534 |

(c) Deferred income taxes by nature

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|---|-----------------------|--------------------------|
| Losses available for offsetting against future taxable income | 105,605 | 124,530 |
| Tax credit carryforward | 13,067 | 34,932 |
| Share-based compensation | 9,301 | 26,158 |
| Changes in FVOCI | 27,829 | 39,060 |
| Tax deductible goodwill on non-controlling interest | 55,014 | 61,127 |
| Temporary differences under FIDC | (36,764) | (68,099) |
| Deferred income taxes arising from business combinations | (28,626) | (30,961) |
| Technological innovation benefit | (10,184) | (9,464) |
| Others | 292 | 4,811 |
| Deferred tax, net | <u>135,534</u> | <u>182,094</u> |

Under Brazilian tax law, temporary differences and tax losses can be carried forward indefinitely. However, the loss carryforward can only be used to offset up to 30% of taxable profit for the period.

(d) Unrecognized deferred taxes

The Group has accumulated tax loss carryforwards and other temporary differences in some subsidiaries in the amount of R\$ 8,638 (December 31, 2019 – R\$ 2,714) for which a deferred tax asset was not recognized, and are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized with respect of these losses as they cannot be used to offset taxable profits between subsidiaries of the Group, and there is no other evidence of recoverability in the near future.

10. Property and equipment

(a) Changes in Property and equipment

| | <u>Balance at 12/31/2019</u> | <u>Additions</u> | <u>Disposals</u> | <u>Transfers (i)</u> | <u>Business Combination</u> | <u>Balance at 06/30/2020</u> |
|------------------------------------|----------------------------------|------------------------|------------------------|------------------------|---------------------------------|----------------------------------|
| Cost | | | | | | |
| Pin Pads & POS | 512,933 | 141,641 | (22,835) | (37,014) | - | 594,725 |
| IT equipment | 91,656 | 24,289 | (601) | (163) | 372 | 115,553 |
| Facilities | 22,742 | 2,539 | (2) | - | 257 | 25,536 |
| Machinery and equipment | 16,671 | 624 | (47) | - | 64 | 17,312 |
| Furniture and fixtures | 10,488 | 1,548 | (29) | - | 46 | 12,053 |
| Vehicles and airplane | 90 | 16,060 | - | - | 53 | 16,203 |
| Construction in progress | 1,020 | 5,412 | - | - | - | 6,432 |
| Right-of-use assets - Vehicles | 10,395 | 2,275 | (481) | - | - | 12,189 |
| Right-of-use assets - Offices | 104,891 | 15,716 | (15,893) | - | - | 104,714 |
| | <u>770,886</u> | <u>210,104</u> | <u>(39,888)</u> | <u>(37,177)</u> | <u>792</u> | <u>904,717</u> |
| Depreciation | | | | | | |
| Pin Pads & POS | (141,297) | (64,181) | 5,302 | - | - | (200,176) |
| IT equipment | (35,700) | (9,468) | 73 | - | (146) | (45,241) |
| Facilities | (11,769) | (2,220) | - | - | (70) | (14,059) |
| Machinery and equipment | (9,114) | (1,808) | 13 | - | (3) | (10,912) |
| Furniture and fixtures | (2,161) | (556) | 7 | - | (16) | (2,726) |
| Vehicles and airplane | (57) | (544) | - | - | (56) | (657) |
| Right-of-use assets - Vehicles | (3,882) | (3,627) | 356 | - | - | (7,153) |
| Right-of-use assets - Offices | (18,299) | (12,309) | 8,077 | - | - | (22,531) |
| | <u>(222,279)</u> | <u>(94,713)</u> | <u>13,828</u> | <u>-</u> | <u>(291)</u> | <u>(303,455)</u> |
| Property and equipment, net | <u>548,607</u> | <u>115,391</u> | <u>(26,060)</u> | <u>(37,177)</u> | <u>501</u> | <u>601,262</u> |

- (i) In the second quarter of 2020, the Company started recording tax credits of PIS and COFINS at the time of the POS acquisition, in accordance with Brazilian tax law. Previously, the credit was taken due to the depreciation of the asset. Accordingly, the residual tax credit on assets in operation on June 30, 2020 was reclassified to recoverable taxes in the statement of financial position, with no impact on the statement of profit or loss. New acquisitions will be added to property and equipment net of tax credits, which will be recorded in the statement of profit or loss in line with the depreciation of the asset.

(b) Depreciation and amortization charges

Depreciation and amortization expenses have been charged in the following line items of the consolidated statement of profit or loss:

| | <u>Six months ended June 30</u> | | <u>Three months ended June 30</u> | |
|--|---------------------------------|---------------|-----------------------------------|---------------|
| | <u>2020</u> | <u>2019</u> | <u>2020</u> | <u>2019</u> |
| Cost of services | 82,038 | 34,340 | 41,929 | 18,022 |
| General and administrative expenses | 27,156 | 29,509 | 13,805 | 16,104 |
| Selling expenses | 14,194 | - | 7,460 | - |
| Depreciation and Amortization charges | 123,388 | 63,849 | 63,194 | 34,126 |
| Depreciation charge | 94,713 | 50,288 | 48,476 | 27,549 |
| Amortization charge (Note 11) | 28,675 | 13,561 | 14,718 | 6,577 |
| Depreciation and Amortization charges | 123,388 | 63,849 | 63,194 | 34,126 |

11. Intangible assets

(a) Changes in intangible assets

| | <u>Balance at 12/31/2019</u> | <u>Additions</u> | <u>Disposals</u> | <u>Transfers</u> | <u>Business Combination</u> | <u>Balance at 06/30/2020</u> |
|---|----------------------------------|------------------|------------------|------------------|---------------------------------|----------------------------------|
| Cost | | | | | | |
| Goodwill - acquisition of subsidiaries | 143,194 | - | - | - | 298,157 | 441,351 |
| Customer relationship | 99,368 | - | (101) | - | - | 99,267 |
| Trademark use right | 12,491 | - | - | - | - | 12,491 |
| Trademarks and patents | 1,732 | 19 | - | - | 1 | 1,752 |
| Software | 134,612 | 22,309 | (9,256) | 79 | 1,052 | 148,796 |
| Licenses for use - payment arrangements | 11,518 | 5,843 | - | - | 3,924 | 21,285 |
| Software in progress | 20,032 | 14,682 | - | (79) | 1,342 | 35,977 |
| Right-of-use assets - Software | 37,513 | 34,350 | (37,513) | - | - | 34,350 |
| | 460,460 | 77,203 | (46,870) | - | 304,476 | 795,269 |
| Amortization | | | | | | |
| Customer relationship | (37,093) | (5,236) | 11 | - | - | (42,318) |
| Trademark use right | (12,491) | - | - | - | - | (12,491) |
| Trademarks and patents | (448) | (177) | - | - | - | (625) |
| Software | (26,515) | (14,538) | 9,214 | - | - | (31,839) |
| Licenses for use - payment arrangements | (6,046) | (1,693) | - | - | (2,758) | (10,497) |
| Right-of-use assets - Software | (4,168) | (7,031) | 8,336 | - | - | (2,863) |
| | (86,761) | (28,675) | 17,561 | - | (2,758) | (100,633) |
| Intangible assets, net | 373,699 | 48,528 | (29,309) | - | 301,718 | 694,636 |

(b) Impairment of intangible assets

The Group revised the impairment test of non-financial assets as of March 31, 2020, according IAS 36 - Impairment of Assets, due to COVID-19 scenario, that could impact the cash flows for Group's Cash Generating Unit ("CGU"), which is a single CGU and also a single operating and reportable segment. The assumptions used are related as follow:

- Value in use considers the expected cash flows by Management for CGU adjusted by COVID-19 expected impacts.
- Pre-tax discount rate applied to cash flow projections is based on the WACC of the Group, which as of March 31, 2020, is 11.3%.
- Growth rate applied to perpetuity cash-flow is 5.0% considering long-term local inflation and long-term real growth.

The test did not result in impairment losses as of March 31, 2020.

Furthermore, a test considering a sensitivity analysis was made with those assumptions:

- Decrease of 10.0% of the free cash flow to equity in the first year;
- Decrease of 10.0% in the growth rate for the second until fifth year;
- Decrease of 250 basis points in perpetuity rate after the fifth year;
- Increase of 500 basis points in pre-tax discount rate.

The sensitivity analysis did not result in impairment losses as of March 31, 2020.

New events and circumstances about COVID-19 that may reduce the projected cash flows will be monitored by the Group and a new impairment test of non-financial assets will be performed, if necessary.

12. Accounts payable to clients

Accounts payable to clients represent amounts due to accredited clients related to credit and debit card transactions, net of interchange fees retained by card issuers and assessment fees paid to payment scheme networks as well as the Group's net merchant discount rate fees which are collected by the Group as an agent.

13. Loans and financing

| | Balance at 12/31/2019 | Additions | Disposals | Payment | Interest | Balance at 06/30/2020 |
|--|----------------------------------|------------------|------------------|--------------------|-----------------|----------------------------------|
| Obligations to FIDC AR quota holders (i) | 3,690,542 | - | - | (1,185,874) | 62,076 | 2,566,744 |
| Obligations to FIDC TAPSO quota holders (ii) | 20,352 | - | - | (514) | 407 | 20,245 |
| Leases (iii) | 124,758 | 52,341 | (36,181) | (14,533) | 4,694 | 131,079 |
| Bank borrowings (iv) | 1,777,083 | 3,456,820 | - | (4,119,146) | 30,740 | 1,145,497 |
| Debentures | 394,997 | - | - | (7,803) | 10,669 | 397,863 |
| Loans with private entities | 738,456 | - | - | (641) | 15,026 | 752,841 |
| | 6,746,188 | 3,509,161 | (36,181) | (5,328,511) | 123,612 | 5,014,269 |
| Current | 5,038,705 | | | | | 3,780,686 |
| Non-current | 1,707,483 | | | | | 1,233,583 |

- (i) Payments mainly refer to the amortization of the principal and the payment of interest of FIDC AR I senior quotas, which were fully redeemed in June 2020, and FIDC AR II first series senior quotas, which will be fully redeemed by November 2020.
- (ii) In March 2020 the Group negotiated an amendment of the contract to postpone the payment date of the principal to March 2021, with a new discount rate equivalent to CDI + 1.15%.
- (iii) The balance comprises leases related to the adoption of IFRS 16 (R\$ 129,531) and other financial leases (R\$ 1,548).
- (iv) In March 2020 the Group entered into two US\$100 million bilateral loans each indexed to the Brazilian real, totaling US\$200 million, with maturity in 90 days from the execution dates. The debt facilities bear interest at the rates of 4.085% and CDI + 0.85%, respectively. The first loan was paid in June 2020 and the second had the maturity postponed to September 2020, with a new discount rate equivalent to CDI + 3.00%. Moreover, the Group has issued a total amount of R\$ 2,420,000 of new CCBs (Bank Credit Notes), maturing until September 2020. The proceeds of these loans will be used mainly for the prepayment of receivables.

The Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

14. Transactions with related parties

Related parties comprise the Group's parent companies, shareholders, key management personnel and any businesses which are controlled, directly or indirectly by the shareholders and directors over which they exercise significant management influence. Related party transactions are entered in the normal course of business at prices and terms approved by the Group's management.

(a) Transactions with related parties

The following transactions were carried out with related parties:

| | <u>Six months ended June 30</u> | | <u>Three months ended June 30</u> | |
|---|---------------------------------|----------------|-----------------------------------|----------------|
| | <u>2020</u> | <u>2019</u> | <u>2020</u> | <u>2019</u> |
| <i>Sales of services</i> | | | | |
| Associates (i) | 6 | - | 3 | - |
| | <u>6</u> | <u>-</u> | <u>3</u> | <u>-</u> |
| <i>Purchases of goods and services</i> | | | | |
| Entity controlled management personnel (ii) | (10,747) | (8,458) | (7,875) | (6,671) |
| Associates (iii) | (826) | - | (317) | - |
| | <u>(11,573)</u> | <u>(8,458)</u> | <u>(8,192)</u> | <u>(6,671)</u> |

- (i) Related to services provided to VHSYS.
- (ii) Related to consulting and management services with Genova Consultoria e Participações Ltda., and travel services provided by Zurich Consultoria e Participações Ltda.
- (iii) Related mainly to commission expenses paid to Collact due to new customer acquisition.

Services provided to related parties include legal and administrative services provided under normal trade terms and reimbursement of other expenses incurred in their respect.

In March 2020, the Group acquired, under arm's length principle, for R\$ 15,974 an airplane from Zurich Consultoria e Participações Ltda. With the acquisition, travel to the various locations of the Company and its subsidiaries will be facilitated.

As mentioned in Note 23, in May 2020, the Group acquired the control of Vitta Group and some of the selling shareholders are member of the Board of Directors and received the amount of R\$ 2,359.

(b) Balances at the end of the period

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|---|----------------------|--------------------------|
| Loans to management personnel | 6,109 | 6,084 |
| Convertible loans | 976 | 6,753 |
| Others | 576 | - |
| Receivables from related parties | <u>7,661</u> | <u>12,837</u> |

As of June 30, 2020, there is no allowance for expected credit losses on related parties' receivables. No guarantees were provided or received in relation to any accounts receivable or payable involving related parties.

The Group has outstanding loans with certain management personnel. The loans are payable in three to seven years from the date of issuance and accrue interest according to the National Consumer Price Index, the Brazilian Inter-Bank Rate or Libor plus an additional spread.

15. Provision for contingencies

The Group companies are party to labor and civil litigation in progress, which are being addressed at the administrative and judicial levels. For certain contingencies, the Group has made judicial deposits, which are legal reserves the Group is required to make by the Brazilian courts as security for any damages or settlements the Group may be required to pay as a result of litigation.

The amount of the judicial deposits as of June 30, 2020 is R\$ 16,635 (December 31, 2019 - R\$ 15,541), which are included in other assets in the non-current assets.

(a) Probable losses, provided for in the statement of financial position

The provisions for probable losses arising from these matters are estimated and periodically adjusted by management, supported by the opinion of its external legal advisors. The amount, nature and the movement of the liabilities is summarized as follows:

| | <u>Civil</u> | <u>Labor</u> | <u>Total</u> |
|-------------------------------------|---------------------|-------------------|---------------------|
| Balance at December 31, 2019 | 8,876 | 688 | 9,564 |
| Additions | 2,057 | 431 | 2,488 |
| Reversals | (448) | (293) | (741) |
| Payments | (1,441) | (167) | (1,608) |
| Balance at June 30, 2020 | <u>9,044</u> | <u>659</u> | <u>9,703</u> |

- MNLT, Stone, Pagar.me, Cappta, Mundipagg, Buy4 and Equals are parties to legal suits and administrative proceedings filed with several courts and governmental agencies, in the ordinary course of their operations, involving civil and labor claims.

(b) Possible losses, not provided for in the statement of financial position

The Group has the following civil and labor litigation involving risks of loss assessed by management as possible, based on the evaluation of the legal advisors, for which no provision for estimated possible losses was recognized:

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|--------------|----------------------|--------------------------|
| Civil | 23,849 | 59,206 |
| Labor | 7,290 | 4,145 |
| Total | <u>31,139</u> | <u>63,351</u> |

The nature of the litigations is summarized as follows:

- Stone is party to two injunctions filed by a financial institution against accredited clients in which Stone was called as a defendant, demanding Stone to refrain from prepayment of receivables related to any credits of the accredited clients resulting from credit and debit cards, in addition to requesting that the amounts arising out of the transactions be paid at the bank account maintained at the financial institution that filed such lawsuit. Due to a revaluation of the amount involved in the lawsuit during first quarter of 2020, as there are no claims directly against Stone, and the possible loss derives exclusively from attorney’s fees, the amount provided as possible loss decreased to R\$ 10,093 (December 31, 2019 - R\$ 49,674).
- Stone is a party to several lawsuits which were filed by merchants who were clients of a sub-acquirer client of Stone. The sub-acquirer had difficulties in transferring funds due to its merchants, related to credit and debit card transactions, in the total amount of R\$ 1,701 (December 31, 2019- R\$ 1,588). Stone was called as a defendant.
- Stone, MNLT, Cappta, Mundipagg and Pagar.me are parties to legal suits filed in several Brazilian courts, in the ordinary course of their operations. These claims are related to: (i) chargeback related claims, which sums R\$ 1,970 (December 31, 2019 - R\$ 3,915); and (ii) disputes related to merchants of credit card receivables, totaling R\$ 1,005 (December 31, 2019 - R\$ 1,499); (iii) disputes related to withhold of credit and fraud prevention, totaling R\$ 2.357 (December 32, 2019 – R\$ 658).

16. Equity

(a) Authorized capital

The Company has an authorized share capital of USD 50 thousand, corresponding to 630,000,000 authorized shares with a par value of USD 0.000079365 each. Therefore, the Company is authorized to increase capital up to this limit, subject to approval of the Board of Directors. The liability of each member is limited to the amount from time to time unpaid on such member’s shares.

(b) Subscribed and paid-in capital and capital reserve

The Articles of Association provide that at any time when there are Class A common shares being issued, Class B common shares may only be issued pursuant to: (a) a share split, subdivision or similar transaction or as contemplated in the Articles of Association; or (b) a business combination involving the issuance of Class B common shares as full or partial consideration. A business combination, as defined in the Articles of Association, would include, amongst other things, a statutory amalgamation, merger, consolidation, arrangement or other reorganization.

The additional paid-in capital refers to the difference between the purchase price that the shareholders pay for the shares and their par value. Under Cayman Law, the amount in this type of account may be applied by the Company to pay distributions or dividends to members, pay up unissued shares to be issued as fully paid, for redemptions and repurchases of own shares, for writing off preliminary expenses, recognized expenses, commissions or for other reasons. All distributions are subject to the Cayman Solvency Test which addresses the Company’s ability to pay debts as they fall due in the natural course of business.

Below are the issuances and reclassifications of shares during the six months ended June 30, 2020:

| | <u>Number of shares</u> | | <u>Total</u> |
|-----------------------------|---|---|--------------------|
| | <u>Class A (former Ordinary non-voting)</u> | <u>Class B (former Ordinary voting)</u> | |
| At December 31, 2019 | 178,688,584 | 98,678,252 | 277,366,836 |
| Issuance (i) | 203,378 | - | 203,378 |
| Vested awards (ii) | 205,045 | - | 205,045 |
| Conversions | 15,779,454 | (15,779,454) | - |
| At June 30, 2020 | 194,876,461 | 82,898,798 | 277,775,259 |

- (i) On May 29, 2020, the Company issued 203,378 shares as payment to acquire 100% interest in Vitta Group, the details of the transactions are described in Note 23.
- (ii) As described in Note 20, the Company has accelerated the delivery of 284,410 RSUs, of which 205,045 shares were delivered through the issuance of shares, 2,735 shares were delivered through the delivery of treasury shares and the remaining was paid as withholding income tax.

(c) Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in equity.

On May 13, 2019, the Company announced the adoption of its share repurchase program in an aggregate amount of up to US\$ 200 million (the "Repurchase Program"). The Repurchase Program went into effect in the second quarter of 2019 and does not have a fixed expiration date. The Repurchase Program may be executed in compliance with Rule 10b-18 under the Exchange Act.

No Class A common shares were purchased pursuant to the Repurchase Program in 2019, and in 2020, 528,335 Class A common shares were repurchased, for the amount of R\$ 76,270.

As described above, the Company has delivered 2,735 treasury shares to anticipate the delivery of awards.

In June 2020, the Company holds 532,470 (December 2019 - 6,870) Class A common shares in treasury.

(d) Special reserve

Due to the reverse merger of StoneCo Brasil Participações S.A. ("StoneCo Brasil") by Stone in 2019 (an intragroup restructuring of Brazilian subsidiaries), the excess paid to acquire the remaining 10.1% of the outstanding shares of Stone in 2017 (R\$ 179,323) is deductible for the purposes of income tax and social contribution on net income. Thus, Stone has recognized a special reserve in shareholders' equity in the amount of R\$ 61,127 and a corresponding deferred tax asset.

17. Earnings per share

Basic earnings per share is calculated by dividing net income for the period attributed to the owners of the parent by the weighted average number of ordinary shares outstanding during the period.

The numerator of the Earnings per Share ("EPS") calculation is adjusted to allocate undistributed earnings as if all earnings for the period had been distributed. In determining the numerator of basic EPS, earnings attributable to the Group is allocated as follows:

| | Six months ended June 30 | | Three months ended June 30 | |
|---|--------------------------|----------------|----------------------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Net income attributable to Owners of the Parent | 285,400 | 349,095 | 126,594 | 171,946 |
| Numerator of basic and diluted EPS | 285,400 | 349,095 | 126,594 | 171,946 |

As of June 30, 2020, the shares issued in connection with the acquisition of Vitta Group were adjusted to basic and diluted EPS calculation since the acquisition date.

The Group granted RSU and stock options (Note 20), which are included in diluted EPS calculation.

The following table contains the earnings per share of the Group for the six and three months ended June, 30 2020 and 2019 (in thousands except share and per share amounts):

| | Six months ended June 30 | | Three months ended June 30 | |
|--|--------------------------|--------------------|----------------------------|--------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Numerator of basic EPS | 285,400 | 349,095 | 126,594 | 171,946 |
| Weighted average number of outstanding shares | 277,405,259 | 277,264,857 | 277,443,682 | 277,366,250 |
| Denominator of basic EPS | 277,405,259 | 277,264,857 | 277,443,682 | 277,366,250 |
| Basic earnings (loss) per share - R\$ | 1.03 | 1.26 | 0.46 | 0.62 |
| Numerator of diluted EPS | 285,400 | 349,095 | 126,594 | 171,946 |
| Share-based payments | 4,487,753 | 5,105,581 | 4,561,723 | 5,015,766 |
| Weighted average number of outstanding shares | 277,405,259 | 277,264,857 | 277,443,682 | 277,366,250 |
| Denominator of diluted EPS | 281,893,012 | 282,370,438 | 282,005,405 | 282,382,016 |
| Diluted earnings (loss) per share - R\$ | 1.01 | 1.24 | 0.45 | 0.61 |

18. Total revenue and income

| | Six months ended June 30 | | Three months ended June 30 | |
|--|--------------------------|------------------|----------------------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Transaction activities and other services | 523,195 | 386,332 | 257,726 | 197,404 |
| (-) Taxes and contributions on revenue | (60,116) | (40,304) | (30,261) | (20,140) |
| (-) Other deductions | (8,312) | (14) | - | (13) |
| Net revenue from transaction activities and other services | 454,767 | 346,014 | 227,465 | 177,251 |
| Equipment rental and subscription services | 195,365 | 161,620 | 92,283 | 82,597 |
| (-) Taxes and contributions on revenue | (17,890) | (15,128) | (9,515) | (7,568) |
| (-) Other deductions | (3,912) | (706) | (2,330) | (421) |
| Net revenue from subscription services and equipment rental | 173,563 | 145,786 | 80,438 | 74,608 |
| Financial income | 711,473 | 577,761 | 338,184 | 314,083 |
| (-) Taxes and contributions on financial income | (25,588) | (29,128) | (11,614) | (16,844) |
| Financial income | 685,885 | 548,633 | 326,570 | 297,239 |
| Other financial income | 69,893 | 81,532 | 32,879 | 37,094 |
| Total revenue and income | 1,384,108 | 1,121,965 | 667,352 | 586,192 |
| Timing of revenue recognition | | | | |
| Recognized at a point in time | 454,767 | 346,014 | 227,465 | 177,251 |
| Recognized over time | 929,341 | 775,951 | 439,887 | 408,941 |
| Total revenue and income | 1,384,108 | 1,121,965 | 667,352 | 586,192 |

19. Expenses by nature

| | Six months ended June 30 | | Three months ended June 30 | |
|--|--------------------------|----------------|----------------------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Personnel expenses | 352,073 | 276,948 | 203,361 | 159,751 |
| Financial expenses (a) | 210,964 | 145,411 | 62,597 | 78,771 |
| Transaction and client services costs (b) | 171,220 | 85,946 | 105,043 | 46,656 |
| Depreciation and amortization (Note 10) | 123,388 | 63,849 | 63,194 | 34,126 |
| Third parties services | 39,575 | 33,564 | 23,703 | 19,745 |
| Marketing expenses and sales commissions (c) | 57,374 | 25,242 | 33,316 | 13,674 |
| Facilities expenses | 16,740 | 14,592 | 6,567 | 9,251 |
| Travel expenses | 5,539 | 14,986 | 101 | 9,591 |
| Other | 16,665 | 6,922 | 8,087 | 4,956 |
| Total expenses | 993,538 | 667,460 | 505,969 | 376,521 |

- (a) Financial expenses include discounts on the sale of receivables to banks, interest expense on borrowings, foreign currency exchange variances, net and the cost of derivatives covering interest and foreign exchange exposure.
- (b) Transaction and client services costs include card transaction capturing services, card transaction and settlement processing services, logistics costs, payment scheme fees and other costs.
- (c) Marketing expenses and sales commissions relate to marketing and advertising expenses, and commissions paid to sales related partnerships.

20. Share-based payments

The Group provides benefits to employees (including executive directors) of the Group through share-based incentives. The following items refer to the outstanding plans at June 30, 2020.

Incentive Shares

In 2017, certain key employees have been granted incentive shares, or the Co-Investment Shares, that entitle participants to receive a cash bonus which they, at their option, may use to purchase a specified number of preferred shares in StoneCo Brasil which were then exchanged for common shares in DLP Par and after were exchanged upon consummation of the IPO.

These incentive shares are subject to a 10 years lock-up period and a discounted buy-back feature retained by the Group if the employee leaves prior to lockup expiration.

Restricted share units and Stock Options

The Group has a Long term incentive plan (“LTIP”) to enable the Group to grant equity-based awards to employees and other service providers with respect to its Class A common shares, and it was granted RSUs and stock options to certain key employees under the LTIP to incentivize and reward such individuals. These awards are scheduled to vest over a four, five, seven and ten year period, subject to and conditioned upon the achievement of certain performance conditions. Assuming achievement of these performance conditions, awards will be settled in, or exercised for, its Class A common shares. If the applicable performance conditions are not achieved, the awards will be forfeited for no consideration.

In June 2020 the Company has accelerated the delivery of 284,410 RSUs. 57,597 RSUs and 1,134 stock options were cancelled and 241,005 RSUs were granted with a price of R\$ 141.77, which was determined based on the fair value of the equity instruments granted and the exchange rate, both at the grant date.

As of June 30, 2020, there were RSUs outstanding with respect to 4,333,894 Class A common shares and stock options outstanding with respect to 32,502 Class A common shares (with a weighted average exercise price of US\$ 24.92).

The fair value of RSU refers to the stock price at grant date, and the fair value of each stock option granted was estimated at the grant date based on the Black-Scholes-Merton pricing model.

The total expense, including taxes and social charges, recognized for the programs for the six and three months period ended June 30, 2020 was R\$ 37,523 (2019 – R\$ 38,475) and R\$ 38,580 (2019 – R\$ 28,366), respectively.

21. Financial instruments

(a) Risk management

The Group’s activities expose it to a variety of financial risks: credit risk, market risk (including foreign exchange risk, cash flow or fair value interest rate risk, and price risk), liquidity risk and fraud risk. The Group’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group’s financial performance. The Group uses derivative financial instruments to mitigate certain risk exposures. It is the Group’s policy that no trading in derivatives for speculative purposes may be undertaken.

Risk management is carried out by a central treasury department (“Group treasury”) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group’s operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, anti-fraud, use of derivative financial instruments and non-derivative financial instruments, and investment of surplus liquidity.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as of December 31, 2019. Except for risks raised by COVID-19, as described below, there have been no changes in the risk management department or in any risk management policies since the year end.

The global spread of the COVID-19 pandemic, has negatively impacted the global economy, disrupted supply chains and created significant volatility in global financial markets, it has resulted in the temporary or permanent closure of many clients' stores or facilities. Furthermore, if the clients' businesses continue to be adversely affected, default rates of the credit solutions will likely rise. Additionally, continued turbulence in capital markets may adversely affect the ability to access capital in order to meet liquidity needs, execute the existing strategy, pursue further business expansion and maintain revenue growth. The risks are being monitored closely, and the Group intends to follow health and safety guidelines as they evolve.

(b) Financial instruments by category

Assets as per statement of financial position

| | <u>Amortized cost</u> | <u>FVPL</u> | <u>FVOCI</u> | <u>Total</u> |
|---------------------------------------|-----------------------|------------------|-------------------|-------------------|
| At June 30, 2020 | | | | |
| Short-term investments | - | 785,024 | 3,652 | 788,676 |
| Accounts receivable from card issuers | - | - | 12,920,955 | 12,920,955 |
| Trade accounts receivable | 155,284 | 506,924 | - | 662,208 |
| Derivative financial instruments | - | 1,929 | 428 | 2,357 |
| Receivables from related parties | 7,661 | - | - | 7,661 |
| Other assets | 382,285 | - | - | 382,285 |
| | <u>545,230</u> | <u>1,293,877</u> | <u>12,925,035</u> | <u>14,764,142</u> |

At December 31, 2019

| | | | | |
|---------------------------------------|----------------|------------------|-------------------|-------------------|
| Short-term investments | - | 2,926,509 | 10,520 | 2,937,029 |
| Accounts receivable from card issuers | - | - | 14,066,814 | 14,066,814 |
| Trade accounts receivable | 124,756 | 124,661 | - | 249,417 |
| Derivative financial instruments | - | 14,062 | - | 14,062 |
| Receivables from related parties | 12,837 | - | - | 12,837 |
| Other assets | 151,030 | - | - | 151,030 |
| | <u>288,623</u> | <u>3,065,232</u> | <u>14,077,334</u> | <u>17,431,189</u> |

Liabilities as per statement of financial position

| | <u>Amortized cost</u> | <u>FVPL</u> | <u>FVOCI</u> | <u>Total</u> |
|-----------------------------------|-----------------------|----------------|--------------|-------------------|
| At June 30, 2020 | | | | |
| Accounts payable to clients | 6,940,230 | - | - | 6,940,230 |
| Trade accounts payable | 124,962 | - | - | 124,962 |
| Loans and financing | 2,427,280 | - | - | 2,427,280 |
| Obligations to FIDC quota holders | 2,586,989 | - | - | 2,586,989 |
| Derivative financial instruments | - | 9,925 | 6,620 | 16,545 |
| Other liabilities | 223,765 | 197,107 | - | 420,872 |
| | <u>12,303,226</u> | <u>207,032</u> | <u>6,620</u> | <u>12,516,878</u> |

| | <u>Amortized cost</u> | <u>FVPL</u> | <u>FVOCI</u> | <u>Total</u> |
|-----------------------------------|-----------------------|--------------|--------------|-------------------|
| At December 31, 2019 | | | | |
| Accounts payable to clients | 6,500,071 | - | - | 6,500,071 |
| Trade accounts payable | 97,825 | - | - | 97,825 |
| Loans and financing | 3,035,294 | - | - | 3,035,294 |
| Obligations to FIDC quota holders | 3,710,894 | - | - | 3,710,894 |
| Derivative financial instruments | - | 1,354 | - | 1,354 |
| Other liabilities | 85,670 | - | - | 85,670 |
| | <u>13,429,754</u> | <u>1,354</u> | <u>-</u> | <u>13,431,108</u> |

(c) **Fair value measurement**

The table below presents a comparison by class between book value and fair value of the financial instruments of the Group:

| | <u>June 30, 2020</u> | | | <u>December 31, 2019</u> | | |
|---|----------------------|-------------------|------------------------|--------------------------|-------------------|------------------------|
| | <u>Book value</u> | <u>Fair value</u> | <u>Hierarchy level</u> | <u>Book value</u> | <u>Fair value</u> | <u>Hierarchy level</u> |
| Financial assets | | | | | | |
| Short-term investments (1) | 788,676 | 788,676 | I /II | 2,937,029 | 2,937,029 | I /II |
| Accounts receivable from card issuers (2) | 12,920,955 | 12,920,955 | II | 14,066,814 | 14,066,814 | II |
| Trade accounts receivable (3) | 662,208 | 662,208 | II | 249,417 | 249,417 | II |
| Derivative financial instruments (4) | 2,357 | 2,357 | II | 14,062 | 14,062 | II |
| Receivables from related parties (3) | 7,661 | 7,661 | II | 12,837 | 12,837 | II |
| Other assets (3) | 382,285 | 382,285 | II | 151,030 | 151,030 | II |
| | <u>14,764,142</u> | <u>14,764,142</u> | | <u>17,431,189</u> | <u>17,431,189</u> | |
| Financial liabilities | | | | | | |
| Accounts payable to clients (5) | 6,940,230 | 6,814,508 | II | 6,500,071 | 6,380,302 | II |
| Trade accounts payable (3) | 124,962 | 124,962 | II | 97,825 | 97,825 | II |
| Loans and financing (5) | 2,427,280 | 2,426,604 | II | 3,035,294 | 3,041,500 | II |
| Obligations to FIDC quota holders (5) | 2,586,989 | 2,586,821 | II | 3,710,894 | 3,709,871 | II |
| Derivative financial instruments (4) | 16,545 | 16,545 | II | 1,354 | 1,354 | II |
| Other liabilities (3) (6) | 420,872 | 420,872 | II/III | 85,670 | 85,670 | II |
| | <u>12,516,878</u> | <u>12,390,312</u> | | <u>13,431,108</u> | <u>13,316,522</u> | |

- (1) Short-term investments are measured at fair value.
- (2) Accounts receivable from card issuers are measured at FVOCI as they are held to both, collect contractual cash flows and be sold. Fair value is estimated by discounting future cash flows using market rates for similar items.
- (3) The carrying values of trade accounts receivable, receivables from related parties, other assets, trade accounts payable and other liabilities are measured at amortized cost and are recorded at their original amount, less the provision for impairment and adjustment to present value, when applicable. The carrying values are assumed to approximate their fair values, taking into consideration the realization of these balances, and settlement terms do not exceed 60 days. This amount is classified as level II in the hierarchy level.
- (4) The Group enters into derivative financial instruments with financial institutions with investment grade credit ratings. Non-deliverable forward contracts are valued using valuation techniques, which employ the use of market observable inputs. Cash flow hedge instruments are classified as FVOCI (Note 21d).
- (5) Accounts payable to clients, loans and financing, and obligations to FIDC quota holders are measured at amortized cost. Fair values are estimated by discounting future contractual cash flows at the interest rates available in the market that are available to the Group for similar financial instruments.

(6) There are contingent considerations included in other liabilities arising on business combinations that are measured at FVPL. Fair values are estimated in accordance with pre-determined formulas explicit in the contracts with selling shareholders, the amount of R\$ 197,107 was recorded in the second quarter of 2020 and is classified as level III in the hierarchy level. More details in Note 23.

For disclosure purposes, the fair value of financial liabilities is estimated by discounting future contractual cash flows at the interest rates available in the market that are available to the Group for similar financial instruments. The effective interest rates at the balance sheet dates are usual market rates and their fair value does not significantly differ from the balances in the accounting records.

For the periods ended June 30, 2020 and December 31, 2019, there were no transfers between the fair value measurements of Level I and Level II and between the fair value measurements of Level II and Level III.

(d) Hedge Accounting

In the second quarter of 2020 the Company realized hedge operations for highly probable forecast transaction of buy of Pin Pads & POS subject to currency exposure. The transactions have been elected for hedge accounting and classified as cash flow hedge in accordance with IFRS 9. The details of the operations and position of asset, liability and equity at June 30, 2020 are summarized as follows:

| Counterparty | Notional USD | Notional R\$ | Trade date | Due date | Trade rate | Fair value at June 30, 2020 |
|---|---------------------|---------------------|-------------------|-----------------|-------------------|------------------------------------|
| BTG | 2,863 | 16,719 | 15-May-20 | 01-Jun-20 | 5.84 | - |
| BTG | 2,553 | 14,922 | 15-May-20 | 01-Jul-20 | 5.85 | (943) |
| BTG | 2,473 | 14,477 | 15-May-20 | 03-Aug-20 | 5.85 | (1,020) |
| BTG | 3,139 | 18,389 | 15-May-20 | 01-Sep-20 | 5.86 | (1,290) |
| Safra | 3,820 | 22,425 | 15-May-20 | 01-Oct-20 | 5.87 | (1,597) |
| Safra | 4,240 | 24,911 | 15-May-20 | 03-Nov-20 | 5.87 | (1,770) |
| BTG | 3,187 | 16,965 | 02-Jun-20 | 01-Dec-20 | 5.32 | 428 |
| Net | | | | | | (6,192) |
| Position in the asset | | | | | | 428 |
| Position in the liability | | | | | | (6,620) |
| Position in the other comprehensive income, net of tax | | | | | | 4,086 |

Furthermore, during the six and three months ended June 30, 2020 the Company reclassified R\$ 1,185 from other comprehensive income, R\$ 1,065 as increase in Pin Pads & POS cost that's included in "Property and equipment" rubric of the statement of financial position and R\$ 120 as financial expense with ineffective portion of the hedge that's included in "Financial expenses, net" rubric of the statement of profit and other comprehensive income.

(e) Offsetting of financial instruments

Financial asset and liability balances are offset (i.e. reported in the consolidated statement of financial position at their net amount) only if the Company and its subsidiaries currently have a legally enforceable right to set off the recognized amounts and intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

As of June 30, 2020, and December 31, 2019, the Group has no financial instruments that meet the conditions for recognition on a net basis.

22. Transactions with non-controlling interests

| | Changes in non-controlling interest | | Changes in equity attributable to owners of the parent | Consideration paid by non-controlling interests |
|--|--|--|--|---|
| | Capital contributions by non-controlling interests | Transfers to non-controlling interests | | |
| For the period ended June 30, 2020 | | | | |
| <i>Transactions between subsidiaries and shareholders:</i> | | | | |
| Capital contribution to subsidiary and increase of NCI in STNE Par (a) | 230,500 | 95,445 | 135,055 | 230,500 |
| Dilution of non-controlling interest | - | (2,286) | 2,286 | - |
| Non-controlling interests arising on Linked business combination | 2,356 | - | - | - |

- (a) In March 2020, the subsidiary PDCA issued 28,924,816 new shares, in the total amount of R\$ 230,500, fully contributed by Salonica Fundo de Investimento em Participações Multiestratégia Investimento no Exterior (“Salonica”), a company of the Grupo Globo. This resulted in dilution of the Group’s interest in PDCA from 100.0% to 67.0% and a corresponding increase in the non-controlling interest’s share. The dilution of the Group’s interest resulted in a gain from dilution which is recognized in capital reserves of the Group.

23. Business Combination

- a) Financial position of business acquired

The preliminary assets acquired, and liabilities assumed in the business combinations closed in the period are presented below:

| Fair Value | Linked (i) | Vitta Group (ii) | MVarandas (iii) | Total |
|---------------------------------------|--------------|------------------|-----------------|----------------|
| Cash and cash equivalents | 596 | 2,964 | 439 | 3,999 |
| Trade accounts receivable | 473 | 504 | 8 | 985 |
| Property, plant and equipment | 167 | 304 | 30 | 501 |
| Intangible asset | 2,266 | 1,295 | - | 3,561 |
| Other assets | 2,850 | 1,722 | 31 | 4,603 |
| Total assets | 6,352 | 6,789 | 508 | 13,649 |
| Trade accounts payable | - | 783 | 30 | 813 |
| Labor and social security liabilities | 202 | 1,597 | 312 | 2,111 |
| Other liabilities | 526 | 280 | 146 | 952 |
| Total liabilities | 728 | 2,660 | 488 | 3,876 |
| Net assets and liabilities | 5,624 | 4,129 | 20 | 9,773 |
| Consideration transferred | 14,340 | 262,919 | 30,671 | 307,930 |
| Goodwill | 8,716 | 258,790 | 30,651 | 298,157 |

- (i) On April 30, 2020, the Company acquired a 100% interest in MVarandas Tecnologia Serviços Ltda. (“MVarandas”). MVarandas is an unlisted company based in João Pessoa, Brazil, that develops software and services for the food service market. Through this acquisition, the Group expects to obtain synergies in servicing its clients.
- (ii) On May 29, 2020, the Company acquired a 100% interest in Vitta Tecnologia em Saúde S.A, VittaPar LLC, AXEI Saúde Corretora de Seguros LTDA and Vitta Serviços em Saúde LTDA. (all together described as Vitta Group) privates companies focused in health plan management, health services and insurance services.
- (iii) On April 15, 2020, the Company obtained the control of Linked through a step acquisition, which started on June 21, 2018, acquiring 27.06% interest for R\$ 2,367 fully paid by December 2018, then during 2019, acquiring additional 21.50% interest through capital increase of R\$ 5,181 fully paid by January 2020 and on April 15, 2020, through capital increase that afforded the acquisition of the Linked’s control with a 58.1% interest.

Fair value of assets acquired, and liabilities assumed are still being evaluated, not being possible to make the complete purchase price allocation, it is expected that the mainly assets to be evaluated and identified are software internally developed, customer relationship and trademarks. It is expected to have a more complete information in the fourth quarter.

b) Consideration transferred

The fair value of the consideration transferred on the business combination was as follows:

| | <u>Linked</u> | <u>Vitta Group</u> | <u>Mvarandas</u> | <u>Total</u> |
|--|----------------------|-----------------------|----------------------|-----------------------|
| Cash consideration paid to the selling shareholders in 2020 | 2,800 | 40,022 | 18,550 | 61,372 |
| Shares of the Company issued to selling shareholders | - | 34,961 | - | 34,961 |
| Cash consideration to be paid to the selling shareholders in 2020 | 1,000 | - | 550 | 1,550 |
| Cash consideration to be paid to the selling shareholders after 2020 | - | - | 2,400 | 2,400 |
| Non-controlling interest in the acquiree | 2,356 | - | - | 2,356 |
| Fair value of previously held equity interest in the acquiree (iv) | 8,184 | - | - | 8,184 |
| Contingent consideration (v) (vi) | - | 187,936 | 9,171 | 197,107 |
| Total | <u>14,340</u> | <u>262,919</u> | <u>30,671</u> | <u>307,930</u> |

- (iv) As a result of the step acquisition of Linked, the Group recognized a gain of approximately R\$ 2,992 for the difference between the previously held 48.56% interest in Linked, at fair value, in the amount of R\$ 8,184, and its carrying amount, in the amount of R\$ 5,192. The gain was included in other operating expenses in the statement of profit or loss for the period ended June 30, 2020.
- (v) Vitta's contingent consideration will be transferred to the minority selling shareholders after the closing of the 2023 fiscal year and are determined by the valuation of the Vitta that will be defined considering multiples of the revenue recorded in 2023 less the payment made in 2020 and additional investment and other payments made by the Company to afford the subsidiaries' operation.
- (vi) MVarandas' contingent consideration will be transferred to the selling shareholders after the closing of the 2022 fiscal year and are determined by the valuation of the MVarandas that will be defined considering multiples of the revenue recorded in 2022 less the payment made in 2020, there is a limit of R\$ 16.300.

In order to evaluate the contingent consideration, the Group has considered different probability of scenarios and discounted future contractual cash flows at the interest rates available in the market that are available to the Group for similar financial instruments. The amount of R\$ 197,107 is included in non-current other liabilities in the financial position.

c) Acquisition-related costs

As mentioned above the fair value amount and purchase price allocation are still being evaluated for that reason the total acquisition-related costs are also being determined, the amount is not relevant as of June 30, 2020.

d) Revenue and profit contribution

The individual net revenue and net income from the acquisition date through each period end for all business combinations are presented below:

| <u>Company</u> | <u>Total revenue and income</u> | <u>Net (Loss)</u> |
|----------------|---------------------------------|-------------------|
| Linked | 191 | (1,300) |
| Vitta | 1,297 | (1,056) |
| Mvarandas | 602 | (119) |

Net sales and net income for the Company is presented below on a pro-forma basis assuming the acquisitions occurred at the beginning of the year of each acquisition:

| | Six months ended June 30, 2020 |
|------------------------------------|---|
| Pro-forma total revenue and income | 1,391,007 |
| Pro-forma net (loss) | 273,618 |

This pro-forma financial information is presented for informational purposes only and does not purport to represent what the Company's results of operations would have been had it completed the acquisition on the date assumed, nor is it necessarily indicative of the results that may be expected in future periods.

24. Subsequent events

24.1 Acquisition of Delivery Much

On July 3, 2020, the Company's subsidiary STNE Par acquired 22.64% interest in Delivery Much Tecnologia S.A. ("Delivery Much"), for R\$ 35,998. Delivery Much is a private company based in the State of Rio Grande do Sul, Brazil, which is a food delivery marketplace company focused on small-and-midsize cities develops a social media integration platform.

24.2 Constitution of FIDC AR III

On July 21, 2020, the FIDC Bancos Emissores de Cartão de Crédito - Stone III ("FIDC AR III") was formed to be used as funding source to raise capital. FIDC AR III was formed similar to the FIDC AR I, which was fully redeemed in June 2020.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

StoneCo Ltd.

By: /s/ Thiago dos Santos Piau

Name: Thiago dos Santos Piau

Title: Chief Executive Officer

Date: August 11, 2020
