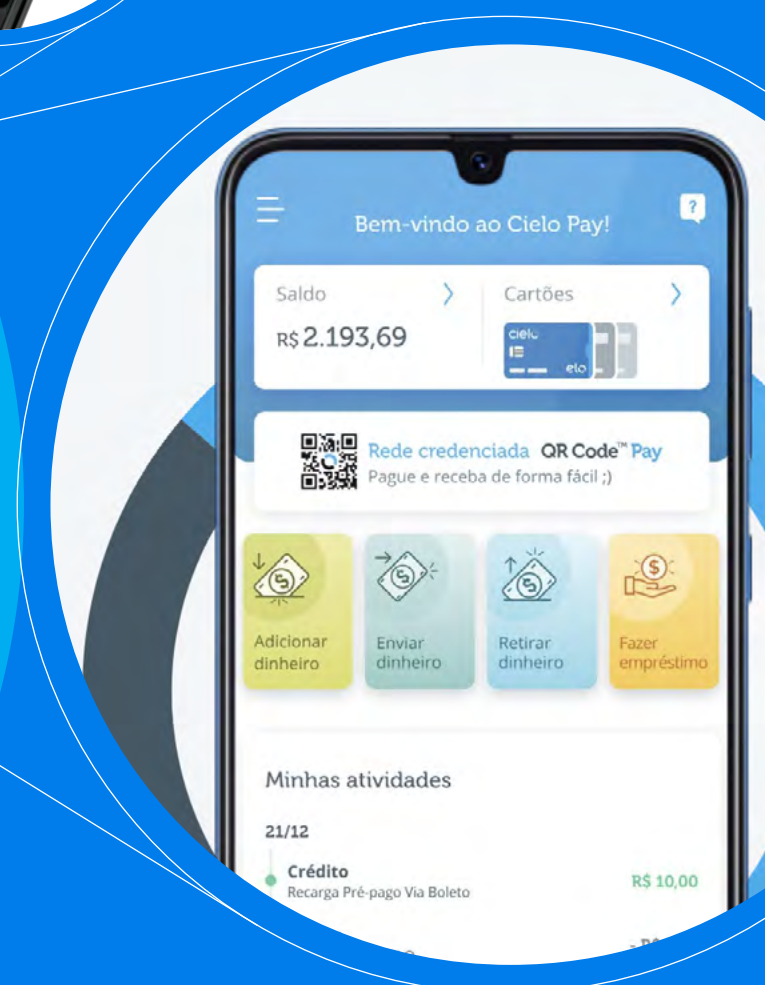


# SUSTAINABILITY REPORT

## 2019 INVESTOR INSERT



cielo

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# About Cielo

More than a payment terminal company, Cielo S.A. is a provider of retail technology and services and the Latin American leader in the electronic payments segment. Our operations span accreditation, transmission, processing, settlement and capture across the leading domestic and international credit and debit card brands.

Cielo is a multi-brand acquirer organized as a publicly traded corporation. We have a workforce of 3,407 employees and a presence in the US since our acquisition of subsidiary Merchant e-Solutions in 2012.



- » 1.6 million active customers, up 18% from 2018
- » Intensified commercial efforts: 1,000 hunters (dedicated to capturing new business) and 500 farmers (specializing in customer relationship activities) on the ground
- » Customers at the center of the business: an improved Net Promoter Score (NPS)
- » 60% reduction in troubleshooting calls
- » 87% improvement in complaint resolution times
- » A 16% decline in customer service complaints
- » 1,200 Black Friday transactions per second
- » Launched Cielo Elô, Cielo's virtual assistant
- » 100+ business projects delivered
- » 1.3+ million card terminals sold since the Stelo acquisition in 2018
- » R\$ 683.1 billion in transaction volume — up 9% from 2018
- » Cielo + Stelo integration: the most comprehensive portfolio on the market
- » Store network expansion with two newly opened stores in 2019
- » 17 new commercial partners
- » Blue Wave: R\$ 176 million in recovered volume and R\$ 44 million in new volume
- » Technological capabilities to support more than 6,000 sales per second
- » 100% of sales continuously monitored — 24 hours per day, seven days per week
- » 12,000 applicants for our trainee program, 50% more than in 2018
- » In-house Ombudsman
- » R\$ 17 billion in loans paid in two days
- » R\$ 11.34 billion in net revenue
- » R\$ 1.58 billion in net income

# About the report

The 2019 Cielo Sustainability Report reviews our performance across the economic, financial, social and environmental dimensions in the period from January 1 to December 31, 2019. The report covers 100% of our operations including Cielo, Servinet, Aliança and Stelo. In it we describe our goals, targets and challenges in the period, and our approach to managing sustainability and relations with our diverse stakeholder groups, including customers, commercial partners, suppliers, employees, representatives from global pacts and initiatives, communities, civil society and electronic payment processing users.

The financial statements cover all companies in which Cielo has an equity interest, in accordance with consolidated accounting rules. For Servinet, Cielo USA (indirect subsidiary Merchant e-Solutions), Braspag, Multidisplay (indirect subsidiary M4Produtos), Cateno, Aliança (indirect subsidiary Stelo), FIDC-NP, FIDC Plus (exclusive funds FIDC Plus OT Master and Fenix), FIC Pegasus and Coral, financial information has been fully consolidated, i.e. the controlling shareholder has recognized the entirety of its assets, liabilities, revenues and expenses, and therefore the interests of the three non-controlling shareholders must be recognized. For Paggo and Orizon, results are recognized under equity income.



## Engagement and material topics

In the year we held internal interviews with executives and external interviews with banks, suppliers and ABECS. We also carried out an online survey of stakeholders including employees, suppliers, payment users, investors/shareholders, commercial partners, customers, civil society and industry associations. In addition to the internal and external stakeholder survey, members of the Sustainability Committee—which advises the Board of Directors—were involved in prioritizing the most material topics. This process narrowed the list to 10 topics deemed most relevant in 2019:

- 1. A focus on customer service and customer satisfaction, delivering products and services that are responsive to their needs**
- 2. Customer data privacy**
- 3. Fraud prevention and control and cyber security**
- 4. Ethics, integrity and anti-corruption practices**
- 5. Attracting, developing and valuing employees, fairness and respect for diversity at all levels and in all relationships**
- 6. Customer base expansion**
- 7. Operational capacity and availability**
- 8. Connecting with the future of payments**
- 9. Technology trends and disruption**
- 10. Regulatory risks**



# Corporate governance

Among the guiding principles of our corporate governance model is ethics, transparency, equity, accountability and corporate responsibility.

In 2009 Cielo listed in the B3 *Novo Mercado* listing segment, and formally joined the Market Arbitration Chamber under our Bylaws. This listing segment requires companies to adopt a set of corporate rules providing enhanced shareholder rights, and to implement more transparent and comprehensive financial reporting.

In 2011 the Company issued Level 1 American Depositary Receipts (ADRs) on the International over-the-counter (OTCQX) market, a premium segment of the US stock market that distinguishes leading international companies from other US OTC issuers on the basis of the quality of their operations, reporting excellence, and listing on renowned overseas stock exchanges.

## OWNERSHIP STRUCTURE

	2019	
Shareholders	Common shares	Percentage
Controlling shareholders	1,594,957,131	58.71%
Banco Bradesco	816,637,079	30.06%
Columbus Holdings S.A.	778,319,884	28.65%
Tempo Serviços Ltda.	38,317,195	1.41%
Banco do Brasil	778,320,052	28.65%
Lazard Asset Management LLC	971,801,030	35.77%
First Eagle	145,961,326	5.37%
Treasury	4,095,574	0.15%
Free float	1,117,762,356	41.14%
<b>Total</b>	<b>2,716,815,061</b>	<b>100.00%</b>

For further information on our governance structure, see the description and organizational chart in “Corporate Governance Structure”, in the fourth section on the [Corporate Governance page on the Cielo IR website](#).

## Risk management

Our Corporate Risk Management and Internal Controls Policy establishes general guidelines on corporate risk management and internal controls, in accordance with applicable regulations, standards and industry best practices. A number of other policies on Risk Management are also in place and available for reference on the Company's Investor Relations website at <https://ri.cielo.com.br/en/about-cielo/corporate-governance/bylaws-and-policies/>.

## Business continuity

Our Business Continuity Management (BCM) standard and procedures establish guidelines on crisis management to ensure any outage risks are identified and improvement processes are implemented and maintained in order to:

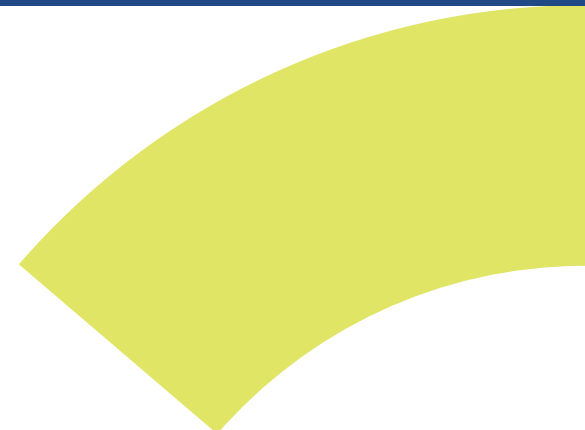
- » Ensure that our Business Continuity Plan is appropriately documented, up-to-date and readily available for use in the event of an incident so that critical activities are kept acceptably operational
- » Ensure an adequate level of stability during the post-outage recovery, to safeguard our reputation
- » Prepare our personnel—through tests and drills—to respond effectively to an incident or outage

The BCP comprises a set of documents describing how we will respond in the event of an outage to ensure that critical business processes return to acceptable operational levels within a satisfactory period of time, across all areas, processes and environments involved.

To this end, we have a Crisis Management Plan in place that establishes a crisis management team, decision-making

processes and procedures on sharing information. The BCP consists of the following component plans:

- » **Disaster Recovery Plan (DRP)** — Procedures for Data Center failover to redundant sites following an incident resulting in a partial or total outage
- » **Workstation Contingency Plan (PCLT)** — Procedures on workstation failover to a redundant site
- » **People Contingency Plan** — Procedures for protecting people and minimizing impacts from shortages of skilled personnel
- » **Process Contingency Plan** — Failover procedures to be used in the event of an outage involving any of the steps in the process
- » **External Threat Response Plan** — Contingency procedures for external events affecting Cielo and our employees



Concepts

**BUSINESS CONTINUITY MANAGEMENT**

- » Business Continuity Management Standard
- » Crisis Management Procedures

Normal

Decision-Making and Plan Activation

**CRISIS MANAGEMENT PLAN**

- » Crisis Management team composition
- » Decision-making processes to be activated in the event of a crisis
- » Procedures on cascading information in the event of a crisis

Crisis likely

Contingency procedures

**WORKSTATION CONTINGENCY PLAN**

- » Procedures on workstation failover to a redundant site
- » Information on communication trees

**PEOPLE CONTINGENCY PLAN**

- » Protecting people during and after a crisis
- » Minimizing impacts from shortages of skilled personnel

Crisis

**DISASTER RECOVERY PLAN**

- » Procedures for Data Center failover to redundant sites

**PROCESS CONTINGENCY PLAN**

- » Failover procedures to be used in the event of an outage involving any of the steps in the process

**EXTERNAL THREAT RESPONSE PLAN**

- » Contingency procedures for external events affecting Cielo

# Strategic planning

In an environment of fierce competition, Cielo – which had previously worked to preserve margins even at a loss of market share – took the decision to become more competitive by narrowing our margins to maintain leadership in the acquiring market.

In 2019 we adopted a new strategic positioning of increasing investment in Retail and Small Businesses, rather than only in Large Accounts. In addition, we further prioritized the customer experience and strengthened our brand positioning.

Within our new commercial model, with a dedicated focus on new retail customers, we expanded our specialist sales team with 1,000 newly hired hunters (employees dedicated to developing new accounts) in the first half of the year, to generate immediate impact on customer acquisition. In the second half of the year, we adjusted our hunter strategy to focus more on the size rather than on the number of customers acquired.

With the pricing adjustments and new commercial model, the Retail and Small

Business segments outgrew the Large Accounts segment. We invested in digital transformation and maintained our focus on pricing, product quality, availability, marketing, channels, people, efficiency and operational.



## Technology trends

Cielo believes that the future of payments is now. Digital platforms, available technology, access to algorithms, artificial intelligence and blockchain are some of the areas in which we are investing in the present with a view to a promising future, in which innovation will provide increasing benefits to organizations, customers and society.

Convergence, startups and co-creation are topics that are top of mind for companies at the forefront of the digital transformation.

In this context, we created Cielo Garage, an innovation hub that shares and leverages information and human potential to solve problems and develop solutions. The team catalyzes internal processes to design more effective solutions for the electronic payments market, working across three pillars: **customers**—placing their needs at the center of attention; **culture**—setting strategies to develop a creative and connected work environment; and **ecosystem**—bringing innovation from outside the Company.

## Cielo Big Data

Data intelligence is a core part of our business—our database spans 20 retail sectors in Brazil.

### ICVA: data creating opportunities

Developed by our Intelligence department, the Cielo Broad Retail Index (ICVA) tracks the sales volumes of 1.4 million businesses in 20 segments in Brazil—ranging from small stores to large retailers.



7 billion transactions per year



R\$ 650 billion in transaction volume



20 retail sectors tracked



40% share of the acquiring market

## Ecosystem: products and solutions

As a technology company with a leading position in the payments segment, Cielo has the most comprehensive portfolio in the market, offering competitive rates, access to credit, and business support through an ecosystem that creates customer value.

Our products and solutions include a variety of card terminal models—such as **Cielo ZIP**, a payment terminal with a long-life battery that does not require a smart

phone; and **Cielo FLASH**, which supports more than three sales per minute and offers additional payment options, such as via NFC or QR Code—as well as solutions designed to support more agile, digital and increased sales and help customers to manage their business.



## Cielo Pay: newly launched in the year

As part of our continuous efforts to support customers' needs, in 2019 we launched Cielo Pay, an application developed by a squad using agile methodology, which combines the features of a digital wallet and account. Designed in a collaboration with Cateno, a Cielo-group company, this application supports businesses throughout their journey and not only when processing sales using Cielo terminals.

### Key features:

- » A free digital account especially designed for small businesses with the advantage of receiving payments for sales immediately
- » Customers can process sales without requiring a card terminal, using QR Codes
- » Sales balances and statements are available from Cielo

- » Transfers can be made to other Cielo Pay users free of charge
- » Payments can be made via wire transfer, pay slip or QR Code
- » Partner repair services (plumbers, electricians and help desk)
- » App support directly via WhatsApp
- » Payslips for cash-in payments
- » Wire transfers to other contacts

Download  
Cielo Pay by clicking:



# Operating efficiency

Consolidated net revenue was R\$ 11,347.3 million in 2019, a decrease of R\$ 338.5 million or 2.9% from R\$ 11,685.8 million in 2018. The decrease in net revenue was primarily driven by pressure on average prices caused by competition in the

segment. The consolidated cost of services rendered was R\$ 7,252.2 million in 2019, an increase of R\$ 1,009.5 million or 16.2% on 2018. Further information is available at: <https://ri.cielo.com.br/en/financial-information/results-center/>

## STATEMENT OF ADDED VALUE (DVA) (IN R\$ MILLION)

	Brazil			Other countries			Consolidated		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
Shareholders (interest on equity)	4,265	3,610	2,332	0	0	0	4,265	3,610	2,332
Employees (compensation, benefits and employer charges)	587	623	760	86	101	116	673	725	876
Government (taxes, charges and payroll charges)	3,271	2,903	2,011	(37)	(103)	(45)	3,234	2,801	1,966
Interest expense (interest and rental)	906	408	118	54	63	66	960	542	184



## KEY BUSINESS, FINANCIAL AND FISCAL INFORMATION FOR THE REGIONS OR COUNTRIES WE OPERATE (IN R\$ MILLION)

Operation by country	2017			2018			2019		
	Brazil	Other countries*	Total	Brazil	Other countries	Total	Brazil	Other countries	Total
Net revenue	9,993,822	1,606,519	11,600,341	9,832,731	1,853,108	11,685,839	9,443,791	1,903,514	11,347,305
Gross profit (loss)	5,544,100	282,520	5,826,620	5,130,908	311,827	5,442,735	3,824,049	271,047	4,095,096
Operating income (loss) before financial income/loss	4,346,256	(201,510)	4,144,746	3,747,140	(67,730)	3,679,410	2,077,998	(139,875)	1,938,123
Income (loss) before income tax (IRPJ) and social contribution (CSLL)	6,127,258	(250,534)	5,876,724	4,778,300	(121,177)	4,657,123	2,717,222	(195,981)	2,521,241
Net income (loss) for the period	4,274,728	(211,370)	4,063,358	3,374,445	(16,819)	3,357,626	1,934,787	(148,905)	1,785,882
Tax paid	3,211,980	739	3,212,719	2,613,252	5,350	2,618,602	2,011	(45)	1,966
Services tax	-	-	-	1,220,398	1,238	1,221,636	(1,149,106)	(1,442)	(1,150,548)
Taxes on current earnings	-	-	-	1,392,855	4,111	1,396,966	(782,435)	47,076	(735,359)

Denotes operations carried out in the US by the companies Cielo USA Inc. and Merchant e-Solutions Inc. (Me-S). Cielo USA Inc.'s activities include holding interests in other companies as a partner, stakeholder or shareholder, and includes 100% of Me-S, a US-based provider of services related to electronic payments with credit and debit cards. Note that Cielo also has a stake in the company Cielo Cayman Island ("Cielo Cayman"), which has been inactive since its foundation (it has not engaged in any operational, non-operational, asset-related or financial activities).

## FINANCIAL PERFORMANCE AND EBITDA (IN R\$ MILLION)

Results	2017	2018	2019
Net income	4,056.1	3,341.9	1,580.2
Non-controlling interests	208.6	217.5	205.7
Finance income (costs)	(1,755.0)	(1,246.8)	(583.1)
Income tax and social contribution	1,821.2	1,390.1	735.4
Depreciation and amortization	947.6	932.1	1,071.7
EBITDA	5,277.9	4,634.8	3,009.8
EBITDA margin (%)	45.5	39.7	26.5

## Cyber security

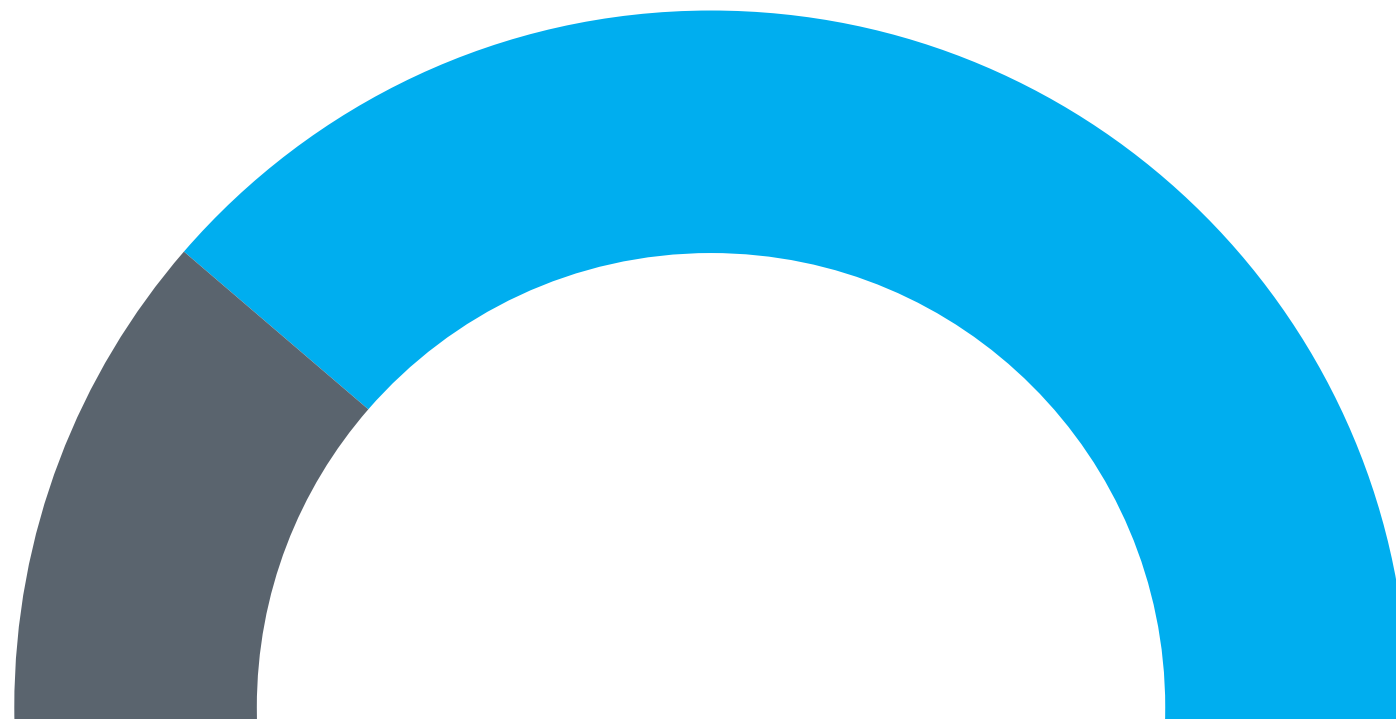
Cielo's Information Security Policy protects the confidentiality, privacy and security of client information. The Policy incorporates rules from our Information Classification Standard, Data Privacy Policy and Code of Ethics. We also have fraud prevention tools covering all of our market segments.

A set of security products provide support in processing face-to-face and online transactions, ensuring minimal losses due to fraud and disputes, enhancing compliance with international best security practices and detecting potential irregularities.

Beyond protecting our clients, prevention tools allow us to detect irregular transactions and accounts, shielding Cielo from possible fraud and illegal use of its equipment, while helping combat money-laundering and the financing of terrorism.

Supplemented by the technical expertise of our teams, these tools ensure that Cielo has the lowest incidence of fraud in Brazil's card market.

Cielo carried out a series of initiatives in 2019 to comply with the General Data Protection Act (LGPD), Federal Act 13709/2018, sanctioned in August 2018.



# Corporate sustainability

By means of our Sustainability Policy, we reaffirm our commitment to sustainable development with guidelines governing social, environmental and governance matters. Applicable to all executives and employees, the Policy addresses ethics in relations, anti-corruption, social responsibility, respect for human rights, value-chain responsibility, fair competition, social investments, voluntary work, efficient management of natural resources and sustainability governance.

Our environmental impacts and issues are assessed periodically by a matrix that incorporates incidence, probability, severity and scale. In line with ISO 14,001, measures are adopted based on the assessment to mitigate impacts and raise employee awareness.



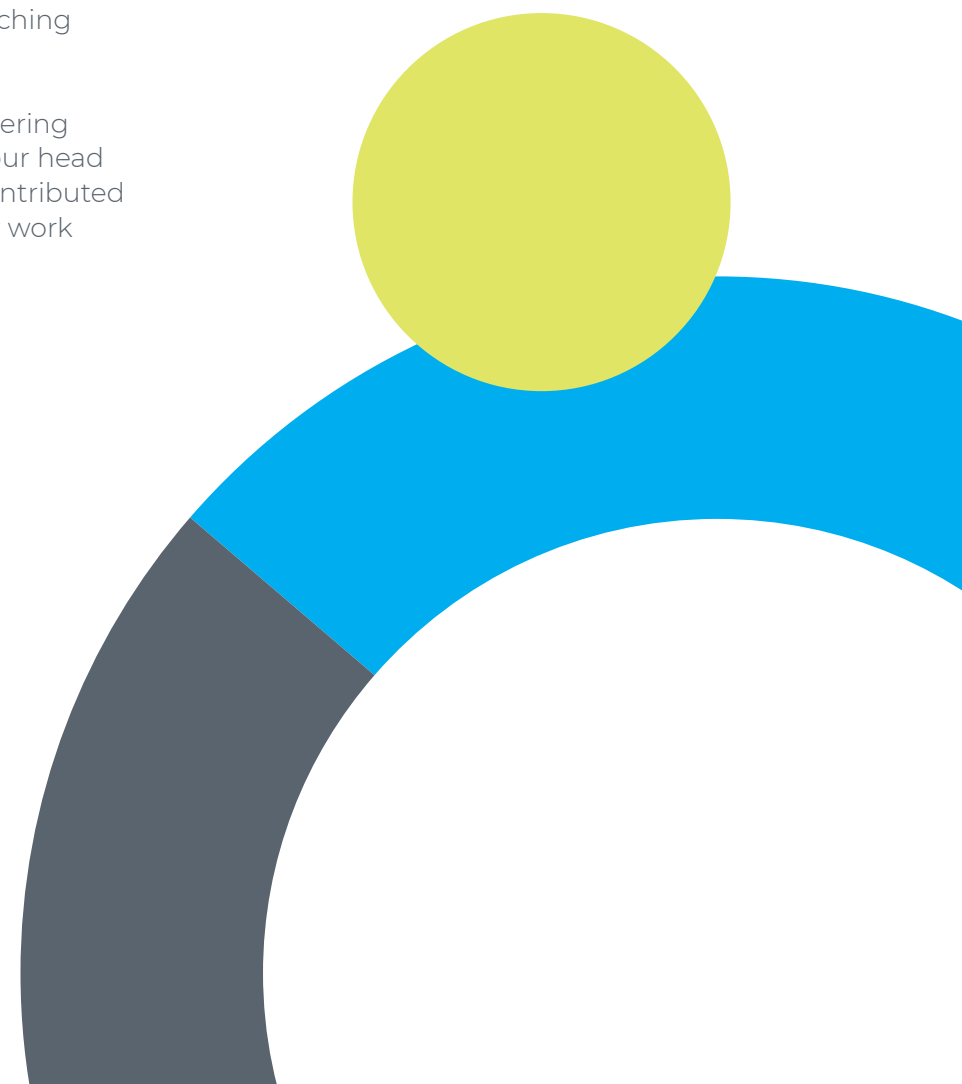
## Environmental management

- » ISO 14.001:2015 Certification
- » “B” rating in our CDP assessment
- » 700% higher investment in environmental impact mitigation compared to 2018
- » Water consumption in 2019 on a level with the previous year
- » Waste materials measured more accurately by weight in the year
- » Target set to purchase 100% of our electricity from renewable sources in 2020
- » Cielo avoided 295.84 metric tons of CO<sub>2</sub> equivalent in 2019 by providing 142,447 services via self-service

## Community relations

- » Cielo supports social programs based on the UN Sustainable Development Goals (SDGs)
- » Over R\$ 3 million invested in 15 social programs throughout Brazil, reaching more than 13,400 people
- » Our Movement for Good volunteering program engaged up to 14% of our head office employees in 2019, who contributed a total of 1,976 hours of volunteer work

For further information, visit our sustainability website at <https://cielosustentabilidade.com.br/en/>



## Credits

### **Corporate information**

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