

Individual and Consolidated Financial Statements

Locaweb Serviços de Internet S.A.

December 31, 2019
with Independent Auditor's Report

Locaweb Serviços de Internet S.A.

Individual and Consolidated Financial Statements

December 31, 2019 and 2018

Contents

Independent auditor's report on the individual and consolidated financial statements.....	1
Management's report	7
Financial statements	
Statements of financial position	12
Statements of operations	14
Statements of comprehensive income.....	15
Statements of changes in equity	16
Statements of cash flows	17
Statements of value added.....	18
Notes to the individual and consolidated financial statements	19

A free translation from Portuguese into English of Independent auditor's report on Individual and Consolidated financial statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS).

Independent Auditor's Report on Individual and Consolidated Financial Statements

To the Officers and shareholders of
Locaweb Serviços de Internet S.A.
São Paulo - SP

Opinion

We have audited the individual and consolidated financial statements of Locaweb Serviços de Internet S.A. (the "Company"), identified as Company and Consolidated, respectively, which comprise the statements of financial position as at December 31, 2019, and the statements of operations, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of Locaweb Serviços de Internet S.A. as at December 31, 2019, and its individual and consolidated financial performance and cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the individual and consolidated financial statements" section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazilian National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.

We have fulfilled the responsibilities described in the “Auditor’s responsibilities for the audit of the individual and consolidated financial statements” section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Revenue recognition of services

The Company provides services that are recognized as revenue in its statements of operations as the performance obligation is satisfied. As mentioned in Note 19, revenues from services are recognized over the time the service is provided, while revenues from product resale, software installation, facilitation of e-commerce or payments and intermediation with marketplaces are recognized at a specific point in time. This recognition takes into account factors that depend on a technology environment and internal structure to support the transaction volume, including capture the customer order, receive or invoice, process and settle invoices. Accordingly, there is a risk that revenue will be recognized outside its accrual period.

Considering the inherent risk, the significant volume of transactions and the magnitude of the amounts involved, we consider this matter significant to our audit.

How our audit conducted this matter

As part of our audit procedures, among others, we evaluated the adequacy of the accounting policies adopted by the Company in recognizing revenues, conducted sample tests to confirm the adequacy of the amounts recognized in relation to the total service and the duration of the service that was performed, as well as, the correct moment when the revenue was recognized. We also evaluated the appropriateness of the disclosures on this topic included by Management in Note 19.

Based on the result of the audit procedures performed on the revenue recognition, which is consistent with Management’s assessment, we consider that the criteria used by Management are acceptable in the context of the financial statements taken as a whole.

Business combination

As disclosed in Notes 3 and 9.2 to the individual and consolidated financial statements, the Company acquired LwK Hosting Participações Ltda. on May 3, 2019 and IT Capital Serviços de Tecnologia Ltda on September 9, 2019. The application of the acquisition method requires, among other procedures, that the Company determine the fair value of the consideration transferred, the fair value of the assets acquired and liabilities assumed, and the determination of goodwill on the expectation of future profitability or gain on advantageous purchase in the transaction. Such procedures involve a high degree of subjectivity and the need to develop fair value estimates based on calculations and assumptions related to the future performance of the acquired business and which are subject to a high degree of uncertainty.

This matter was considered as a key audit matter due to subjectivity and judgment in identifying and measuring the fair value of assets acquired and liabilities assumed and the amount of goodwill recognized in this acquisitions, and the impact that possible changes in assumptions could bring to the financial statements.

How our audit conducted this matter

As part of our audit procedures, among others, we have read the documents that formalized the transactions, such as contracts and minutes, involved our valuation experts to assist us to validate the assumptions and methodologies used to determine and measure the fair value of the identified assets acquired and liabilities assumed. We also evaluated the reasonableness of the assumptions used and calculations made, comparing, when available, with market information. Additionally, we assessed the disclosures included in the financial statements by Management in Notes 3 and 9.2.

Based on the result of the audit procedures performed, which is consistent with Management's assessment, we consider that the criteria and assumptions used by Management in the accounting for this business combination, which involve the process of identifying and measuring the fair value of the assets acquired and liabilities assumed, are acceptable in the context of the financial statements taken as a whole.

Other matters

Statements of value added

The individual and consolidated statements of value added for the year ended December 31, 2019, prepared under the responsibility of the Company's Management, and presented as supplementary information for IFRS purposes, were submitted to audit procedures conducted together with the audit of the Company's financial statements. To form our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined by NBC TG 09 – Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined in the above mentioned accounting pronouncement and are consistent in relation to the overall individual and consolidated financial statements.

Other information accompanying the individual and consolidated financial statements and the auditor's report

Management is responsible for such other information, which comprise the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on work we performed, we conclude that there is a material misstatement of the Management Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and those charged with governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and its subsidiaries' financial reporting process.

Auditor's responsibilities for the audit of the individual and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identified and assessed the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Concluded on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the scope and timing of the planned audit procedures and significant audit findings, including deficiencies in internal control that we may have identified during our audit.

We also provided those charged with governance with a statement that we have complied with relevant ethical requirements, including applicable independence requirements, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, March 23, 2020.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP034519/O-6

A handwritten signature in blue ink, appearing to read 'Johnsen', is placed over the printed name.

Klaas Johnsen
Accountant CRC-1SP267150/O-0

2019 Management Report

// Management's Comments

We are pleased to open the disclosure cycles of Locaweb's quarterly earnings in this 4Q19. After going public and having our shares admitted for trading on the Novo Mercado segment of B3, we take this opportunity to thank all those who participated in the offering, particularly, Locaweb team and the investors that supported the Company in building this new phase.

Before commenting on our quarterly and annual results, we believe that is important to reinforce our positioning to our current and potential new investors in our shares.

Founded in 1997, Locaweb is one of the pioneers of the internet in Brazil and started operations with the purpose of helping business to be born and thrive through the use of technology. Throughout the years, we have expanded our operations, made successful acquisitions, and started giving support to thousands of companies in several segments, mainly focusing on providing technology solutions to accelerate the growth of Small and Medium Enterprises ("SMEs").

What was once a website company, back in 1997, became a large ecosystem that provides several services. We operate in two business areas: (i) BeOnline/SaaS, through the Locaweb, Locaweb Corp, All In, KingHost, Cluster2Go and Delivery Direto brands; and (ii) Commerce, through the Tray, Tray Corp and Yapay brands.

The traditional BeOnline segment is an important tool for generating new customers for the Company's other segments, SaaS and Commerce, which are currently Locaweb's highest growth vectors. In 2019, SaaS and Commerce recorded double digit growth, contributing to improved operating margins. Given that these operations are not capex-intensive, they have strongly contributed to the great increase in our cash generation and net income, as can be seen in our earnings for 2019, where the 22.5% growth in net revenues was converted into an increase of 40.3% in EBITDA, and of 69.0% in cash generation.

In the Commerce segment, in addition to platforms, we provide payment solutions, and make available an entire network with more than 100 integrations to systems that help our customers increase sales and improve management of their business.

Our business model is based on digital subscriptions, with automatic renewal. With more than 350 thousand customers, 98% of revenues from the Be Online/SaaS segment and 94% of revenues from the Commerce segment are recurring revenues, providing predictability to our cash flows and high lifetime-value (LTV).

Additionally, as a result of our strong brand and efficient capture of new customers; our network of over 19 thousand developers and partners; and our ability to make cross-selling and up-selling transactions, we record low costs in capturing new customers (CAC).

With regard to the proceeds from the IPO, as provided for in the Offering documents, they will be basically used in new acquisitions. We are analyzing several companies in segments where we already operate, as well as in certain supplementary segments. We maintain the same principles that guided our previous acquisitions, that is, companies with recurring revenues, consolidated products, a high-quality team and high cross-selling potential for Locaweb's products.

// 2019 Business Highlights

The Company has been strengthening its ecosystem of solutions for SMEs, and highlights the following developments:

// Commerce

- We reinforced our strategy to offer the largest number of native and fully transparent sales channels to all customers. In 2019, Tray increased the number of integrated marketplaces, and started to make offers available in another 6 marketplaces: Dafiti, Kanui, Cissa Magazine, Olist, Carrefour and Webcontinental. The integration with Amazon has also advanced, making new categories available and providing one of the market's most complete integrations with this marketplace. Overall, Tray's hub of marketplaces now has 18 native and transparent integrations.

// BeOnline / SaaS

// Acquisition - KingHost

- **Acquisition rationale:** Consolidation of a leading position in the hosting market, and possibility of sale of SaaS services to the KingHost base. Additionally, the services provided by the company recorded quality indices that were compatible with Locaweb's.

// Acquisition - Delivery Direto

- **Acquisition rationale:** Entry to the market of mobile solutions, expansion of the solution to other SME segments, and cross-selling with Locaweb's customer base.

// Product Development

- We continue to make strong investments in the Website Creator product: we launched new functionalities, such as the new image bank (with more than 550 thousand images), integration to Facebook (in order to transfer content between the website and Facebook), and integration to Google Analytics. The Website Creator store now includes inventory management, image and price management catalog, modules for freight calculation, and also an image bank with more than 740 thousand images.

// Strengthening of the Cyber Security structure

- We have proactively strengthened our technological structure against DDoS cyber attacks (denial-of-service attacks) and vulnerability of our environments. We use artificial intelligence software for real-time analysis of the patterns of virtual threats with an exclusive cyber incidents monitoring and response team.

// Performance

locaweb	4Q19	4Q18	vs 4Q18	2019	2018	vs 2018
Net Revenue	105,2	83,6	25,8%	385,7	315,0	22,5%
Gross Profit	45,5	38,2	19,0%	161,3	140,5	14,8%
EBITDA	29,5	21,5	37,3%	106,9	73,1	46,1%
EBITDA Margin (%)	28,1%	25,7%	2,4 p.p.	27,7%	23,2%	4,5 p.p.
Adjusted EBITDA ¹	30,2	22,6	33,4%	110,9	79,0	40,3%
Adjusted EBITDA Margin (%)	28,7%	27,1%	1,6 p.p.	28,7%	25,1%	3,7 p.p.
Net Income	6,9	5,3	29,8%	18,1	10,9	66,0%
Adjusted Net Income ²	10,4	8,5	22,6%	28,2	19,0	48,4%
Adjusted Net Income Margin (%)	22,8%	22,2%	0,7 p.p.	17,5%	13,5%	4,0 p.p.
Cash Generation ³	24,4	10,0	144,1%	63,2	37,4	69,0%
Cash Conversion (%) ³	81%	44%	36,7 p.p.	57%	47%	9,7 p.p.
Leverage ⁴	1,3x	0,7x	0,7x	1,3x	0,7x	0,7x

¹ Adjusted EBITDA refers to net income (loss), after financial income, income taxes, and depreciation and amortization costs and expenses, stock options plan expenses; consolidation and acquisition expenses; bonus expenses considered as 'non-recurring' by Management; financial revenues regarding derivatives that are used to hedge against foreign exchange variation on operating liabilities, and write-off of the disposal of investment in the Eventials subsidiary.

² Adjusted Net Income is calculated as Net Income (Loss), less: (i) stock options plan expenses; (ii) expenses for amortization of intangible assets arising from business acquisitions; (iii) adjustments relating to CPC 06 (which refers to the sum of financial expenses from interest, due to the update of lease liabilities and expenses from depreciation of right-of-use assets, less lease liabilities payments made); and (iv) mark-to-market of derivative financial instruments.

³ Cash Generation corresponds to Adjusted EBITDA less Capex. Cash Conversion, in turn, corresponds to "Adjusted EBITDA – Capex" divided by "Adjusted EBITDA".

⁴ Indebtedness corresponds to Net Debt divided by "Adjusted EBITDA".

// Net Operating Revenues

locaweb	4Q19	4Q18	vs 4Q18	2019	2018	vs 2018
Commerce	22,3	15,3	45,4%	80,1	54,7	46,5%
BeOnline / SaaS	82,9	68,3	21,4%	305,6	260,3	17,4%
Net operating revenue - Consolidated	105,2	83,6	25,8%	385,7	315,0	22,5%

Net Revenues amounted to R\$105.2 million in 4Q19, an increase of 25.8% against 4Q18. In 2019, growth was 22.5%, totaling R\$385.7 million.

// Operating Costs and Expenses

locaweb	4Q19	4Q18	vs 4Q18	2019	2018	vs 2018
Cost of services	59,7	45,4	31,5%	224,4	174,5	28,6%
Selling expenses	16,6	16,7	-0,8%	70,2	62,3	12,7%
General and administrative expenses	15,0	9,7	53,9%	44,4	41,3	7,4%
Other operating expenses (revenues)	(0,4)	(0,2)	121,5%	(6,2)	0,5	-1318,2%
Total operating costs and expenses	90,8	71,7	26,7%	332,8	278,6	19,4%
% ROL	86,4%	85,7%	0,6 p.p.	86,3%	88,5%	-2,2 p.p.

The share of Locaweb's operating costs and expenses in net revenues decreased by 2.2 p.p., from 88.5% in 2018 to 86.3% in 2019.

// Cost of Services Provided

Cost of services provided in 4Q19 was R\$59.7 million, against R\$45.4 million in the same period of 2018, an increase of 31.5% between the two periods, corresponding to 56.8% and 54.3% of net revenues in 4Q19 and 4Q18, respectively. In 2019, cost of services provided increased by 28.6% to R\$224.4 million, or 58.2% of net revenues. The increase was mainly due to personnel costs resulting from the acquisition of KingHost, whose structure is proportionally larger than other BeOnline/SaaS operations; and the proactive strengthening of the Cyber Security structure.

// Selling expenses

In 4Q19, selling expenses, which include marketing and sales teams, as well as related outsourced services, amounted to R\$16.6 million, recording a slight drop against 4Q18. Regarding the percentage of net revenues, there was a decrease of 4.2 p.p. between 4Q19 and 4Q18. In 2019, selling expenses increased by 12.7% against 2018.

// General and Administrative Expenses

In 4Q19, general and administrative expenses, which include the administrative areas' teams, such as finance, HR, accounting and tax, as well as related expenses and outsourced services, amounted to R\$15.0 million, against R\$9.7 million in the same period of 2018, corresponding to a growth of 53.9%. General and administrative expenses corresponded to 14.2% and 11.6% of net operating revenues in 4Q19 and 4Q18, respectively. In 2019, growth was 7.4%, or 11.5% of net revenues.

// Gross Profit

locaweb	4Q19	4Q18	vs 4Q18	2019	2018	vs 2018
Commerce	14,3	11,3	26,4%	52,8	36,2	46,0%
Margin (%)	64,0%	73,6%	-9,6 p.p.	65,9%	66,1%	-0,2 p.p.
BeOnline / SaaS	31,2	26,9	15,9%	108,5	104,3	4,0%
Margin (%)	37,6%	39,4%	-1,8 p.p.	35,5%	40,1%	-4,6 p.p.
Gross income	45,5	38,2	19,0%	161,3	140,5	14,8%
Margin (%)	43,2%	45,7%	-2,5 p.p.	41,8%	44,6%	-2,8 p.p.

Gross Profit increased by 19.0% in 4Q19 and 14.8% in 2019 against 4Q18 and 2018, respectively.

The decrease of 2.5 p.p. in Gross Margin in 4Q19, and 2.8 p.p. in 2019, reflects the increase in personnel costs resulting from the acquisition of KingHost, whose personnel costs are proportionally higher than those of the other BeOnline/SaaS operations.

// EBITDA and Adjusted EBITDA

locaweb	4Q19	4Q18	vs 4Q18	2019	2018	vs 2018
Net income	6,9	5,3	29,8%	18,1	10,9	66,0%
(+) Financial result, net	7,4	5,1	43,9%	28,7	16,2	76,4%
(+) Income taxes	0,0	1,5	-99,0%	6,2	9,2	-32,7%
(+) Depreciation and amortization	15,2	9,6	58,7%	53,9	36,8	46,6%
EBITDA	29,5	21,5	37,3%	106,9	73,1	46,1%
(+) Stock option plan	0,4	0,0	n/a	2,1	1,5	43,1%
(+) Merger and acquisition expenses	0,1	0,5	-81%	1,0	0,8	30,8%
(+) Bonus for non-recurring expenses	0,1	0,2	-52%	0,8	1,1	-29,7%
(+) Operating hedge	0,0	0,4	-100%	0,1	1,2	-90,8%
(+) Divestment	0,0	0,0	n/a	0,0	1,3	-100,0%
Adjusted EBITDA	30,2	22,6	33,4%	110,9	79,0	40,3%
<i>Adjusted EBITDA Margin (%)</i>	<i>28,7%</i>	<i>27,1%</i>	<i>1,6 p.p.</i>	<i>28,7%</i>	<i>25,1%</i>	<i>3,7 p.p.</i>

As a result of the figures presented above, Locaweb's Adjusted EBITDA in 4Q19 was R\$30.2 million, up by 33.4% against 4Q18, while EBITDA Margin grew from 27.1% in 4Q18 to 28.7% in 4Q19. In 2019, growth was 40.3%, to R\$110.9 million, with an increase of 3.7 p.p. in Adjusted EBITDA Margin, which totaled 28.7% in 2019.

Considering KingHost's figures for the full year 2019 (acquisition in May 2019), Adjusted EBITDA amounted to R\$114.7 million in 2019.

// Net Income and Adjusted Net Income

locaweb	4Q19	4Q18	vs 4Q18	2019	2018	vs 2018
Net income	6,9	5,3	29,8%	18,1	10,9	66,0%
(+) Stock option plan	0,4	0,0	n/a	2,1	1,5	43,1%
(+) Amortization of PPA intangible	2,9	0,3	958,3%	3,7	1,2	196,7%
(+) Deferred income taxes	(0,5)	2,3	-122,0%	0,2	4,4	-95,9%
(+) Adjustment for CPC 06	0,6	-	n/a	2,4	-	n/a
(+) Mark-to-market of derivatives	0,0	0,5	-90,7%	1,7	1,0	75,8%
Adjusted net income	10,4	8,5	22,6%	28,2	19,0	48,4%
<i>Adjusted net income margin (%)</i>	<i>9,9%</i>	<i>10,1%</i>	<i>-0,3 p.p.</i>	<i>7,3%</i>	<i>6,0%</i>	<i>1,3 p.p.</i>

Based on the figures presented above, Locaweb's Adjusted Net Income in 4Q19 was R\$10.4 million, up by 22.6% against 4Q18, with a net margin of 9.9%.

In 2019, growth was 48.4%, to R\$28.2 million, with an expansion of 1.3 p.p. in net margin, which totaled 7.3% in 2019.

// Corporate Governance

We have a high-level corporate governance that has been improving since our incorporation. EY has carried our external audit since 2006. In 2019, we integrated our departments using the SAP system (Data Processing Systems, Applications and Products).

Locaweb Serviços de Internet S.A.

Statements of financial position

December 31, 2019 and 2018

(In thousands of Reais)

		Company		Consolidated	
Assets	Note	2019	2018	2019	2018
Current assets					
Cash and cash equivalents	5.1	16,076	12,381	25,275	17,782
Restricted cash	5.2	2,659	4,584	2,659	4,584
Accounts receivable	6.1	21,304	17,389	125,285	61,261
Taxes recoverable	7	2,991	3,525	8,080	6,368
Derivatives	24	4,932	5,513	4,932	5,513
Other assets		8,386	5,452	9,989	6,485
Total current assets		56,348	48,844	176,220	101,993
Non-current assets					
Restricted cash	5.2	7,354	3,125	7,354	3,125
Judicial deposits	15	709	1,067	765	1,125
Other assets		908	934	1,323	934
Related parties	8	1,507	593	-	-
Deferred income taxes	22	2,677	2,705	3,654	3,835
Investments	9	128,006	41,009	-	-
Property and equipment	10	64,894	73,415	74,570	77,318
Right-of-use assets	4.C	64,879	-	67,808	-
Intangible assets	11	54,352	56,010	182,319	88,006
Total non-current assets		325,286	178,858	337,793	174,343
Total assets		381,634	227,702	514,013	276,336

Locaweb Serviços de Internet S.A.

Statements of financial position
December 31, 2019 and 2018
(In thousands of Reais)

Current Liabilities	Note	Parent Company		Consolidated	
		2019	2018	2019	2018
Suppliers		7,025	10,780	12,833	12,265
Loans and financing	13	48,620	43,594	48,679	43,714
Lease liabilities	4.C	4,421	-	5,416	-
Salaries and related charges	14	19,780	20,221	28,766	24,285
Other taxes payable		2,614	2,885	4,021	4,025
Deferred revenue	6.2	31,298	30,339	37,116	30,415
Payables to clients	6.3	-	-	82,160	30,117
Interest on shareholders' equity and dividends payable		8	2,637	8	2,637
Taxes payables in installments	12	-	-	2,808	728
Accounts payable to former shareholders	9.1	14,697	-	14,697	5,529
Other liabilities		-	-	1,438	2,063
Total current liabilities		128,463	110,456	237,942	155,778
Loans and financing	13	67,732	38,787	67,834	38,787
Provision for legal proceedings	15	938	1,254	1,006	1,329
Accounts payable to former shareholders	9.1	30,138	13,724	30,138	13,724
Lease liabilities	4.C	62,720	-	64,802	-
Provision for loss on investments	9	2,133	540	-	-
Tax payables in installments	12	-	-	21,860	3,413
Other liabilities		1,177	1,854	2,098	2,218
Total non-current liabilities		164,838	56,159	187,738	59,471
Equity					
Capital stock	16	53,629	53,521	53,629	53,521
Capital reserves	16	18,270	3,303	18,270	3,303
Earnings reserves	16	16,434	4,263	16,434	4,263
Total equity		88,333	61,087	88,333	61,087
Total liabilities and equity		381,634	227,702	514,013	276,336

See accompanying notes.

Locaweb Serviços de Internet S.A.

Statements of operations

Years ended December 31, 2019 and 2018

(In thousands of Reais)

	Notes	Company		Consolidated	
		2019	2018	2019	2018
Net revenues	19	263,655	182,027	385,717	314,983
Cost of services	20	(166,989)	(114,304)	(224,396)	(174,489)
Gross profit		96,666	67,723	161,321	140,494
Operating income (expenses)					
Selling expenses	20	(47,738)	(34,751)	(70,234)	(62,322)
General and administrative expenses	20	(28,963)	(20,414)	(44,356)	(41,309)
Equity results	9	14,258	9,033	-	-
Other operating income (expenses)	20	4,607	(929)	6,212	(511)
		(57,836)	(47,061)	(108,378)	(104,142)
Income before financial result and income taxes		38,830	20,662	52,943	36,352
Financial income	21	6,384	8,309	6,758	8,885
Financial expenses	21	(27,115)	(18,670)	(35,424)	(25,133)
		(20,731)	(10,361)	(28,666)	(16,248)
Income before income taxes		18,099	10,301	24,277	20,104
Current income taxes	22	-	-	(6,025)	(4,804)
Deferred income taxes	22	(28)	585	(181)	(4,414)
		(28)	585	(6,206)	(9,218)
Net income		18,071	10,886	18,071	10,886
Earnings per share					
(in R\$ per share)					
Basic earnings per share	18			0.20	0.12
Diluted earnings per share	18			0.19	0.11

See accompanying notes.

Locaweb Serviços de Internet S.A.

Statements of comprehensive income (loss)
Years ended December 31, 2019 and 2018
(in thousands of Reais)

	Company		Consolidated	
	2019	2018	2019	2018
Net income for the year	18,071	10,886	18,071	10,886
Other comprehensive income	-	-	-	-
Comprehensive income for the year	18,071	10,886	18,071	10,886

See accompanying notes.

Locaweb Serviços de Internet S.A.

Statements of changes in equity
Years ended December 31, 2019 and 2018
(in thousands of Reais)

	Capital stock	Capital reserves					Earning reserves			
	Capital stock paid-in	Share issuance costs	Treasury shares	Goodwill on capital transaction	Stock options plan reserve	Goodwill on issue of shares	Legal reserve	Retained earnings reserve	Retained earnings/accumulated losses	Total shareholders' equity
Balances as at January 1, 2018	49,360	(3,645)	-	(22,344)	28,725	-	-	-	(1,174)	50,922
Net income for the year	-	-	-	-	-	-	-	-	10,886	10,886
Capital increase	4,161	-	-	-	-	-	-	-	-	4,161
Stock options plan	-	-	-	-	1,476	-	-	-	-	1,476
Treasury shares	-	-	(909)	-	-	-	-	-	-	(909)
Allocation of income:										
Legal reserve	-	-	-	-	-	-	486	-	(486)	-
Interest on shareholders' equity distributed	-	-	-	-	-	-	-	-	(5,449)	(5,449)
Retained earnings reserve	-	-	-	-	-	-	-	3,777	(3,777)	-
Balances as at December 31, 2018	53,521	(3,645)	(909)	(22,344)	30,201	-	486	3,777	-	61,087
Net income for the year	-	-	-	-	-	-	-	-	18,071	18,071
Capital increase	108	-	-	-	-	-	-	-	-	108
Stock options plan	-	-	-	-	2,112	-	-	-	-	2,112
Acquisition of subsidiaries	-	-	900	-	-	11,955	-	-	-	12,855
Allocation of income:										
Legal reserve	-	-	-	-	-	-	904	-	(904)	-
Interest on shareholders' equity distributed	-	-	-	-	-	-	-	-	(3,500)	(3,500)
Dividends distributed	-	-	-	-	-	-	-	-	(2,400)	(2,400)
Retained earnings reserve	-	-	-	-	-	-	-	11,267	(11,267)	-
Balances as at December 31, 2019	53,629	(3,645)	(9)	(22,344)	32,313	11,955	1,390	15,044	-	88,333

See accompanying notes.

Locaweb Serviços de Internet S.A.

Statements of cash flows
Years ended December 31, 2019 and 2018
(in thousands of Reais)

	Company		Consolidated	
	2019	2018	2019	2018
Operating activities				
Income before income taxes	18,099	10,301	24,277	20,104
Adjustment to reconcile income before income taxes to net cash flow from operating activities				
Depreciation and amortization	48,460	25,868	53,910	36,775
Equity results	(14,258)	(9,033)	-	-
Interest, derivatives and foreign exchange and monetary variations	16,468	7,507	17,648	9,245
Mark-to-market of derivatives	1,718	977	1,718	977
Stock options plan	2,112	1,476	2,112	1,476
Provisions and other adjustments	(593)	1,472	(1,258)	6,463
Changes in assets and liabilities:				
Accounts receivable	(3,288)	1,007	(62,810)	(19,964)
Taxes recoverable	623	3,757	(380)	3,148
Other assets	(923)	(3,918)	(298)	(5,372)
Judicial deposits	358	-	797	(550)
Related parties, net	(914)	609	-	-
Suppliers	(407)	2,561	1,687	2,190
Salaries and related charges	(441)	(3,042)	1,303	(1,656)
Other taxes payable	20	(840)	(1,191)	(58)
Deferred revenue	959	2,045	1,876	2,059
Payables to clients	-	-	52,043	9,457
Other liabilities	(823)	(966)	(1,532)	1,665
Income tax paid	(291)	(793)	(7,066)	(7,358)
Net cash flows from operating activities	66,879	38,988	82,836	58,601
Investing activities				
Purchase of property and equipment	(30,431)	(23,033)	(34,612)	(29,583)
Accounts payable for acquisition of equity interest	-	(23,910)	(4,114)	(23,910)
Capital increase in subsidiary	(4,148)	-	-	-
Cash from merged companies	-	5,905	-	-
Sale of equity interest	-	500	-	411
Acquisition of subsidiaries, net of cash acquired	(24,715)	-	(22,946)	(3,847)
Acquisition and development of intangible assets	(7,111)	(6,564)	(13,061)	(12,022)
Net cash flows used in investing activities	(66,405)	(47,102)	(74,733)	(68,951)
Financing activities				
Capital increase	108	4,161	108	4,161
Payment of lease liabilities	(9,210)	-	(10,142)	-
Proceeds from loans and financing	78,300	28,820	78,300	28,820
Restricted cash	(1,360)	(4,000)	(1,360)	(4,000)
Repayment of Loans and financing	(46,020)	(22,194)	(48,880)	(23,542)
Interest and foreign exchange variations paid	(12,231)	(4,490)	(12,269)	(4,658)
Derivatives paid and received	2,914	(1,161)	2,914	(1,161)
Bank guarantees paid	(751)	(1,258)	(751)	(1,265)
Dividends and interest on shareholders' equity paid	(8,529)	(7,909)	(8,529)	(7,909)
Net cash from (used in) financing activities	3,221	(8,031)	(610)	(9,554)
Net increase (decrease) in cash and cash equivalents	3,695	(16,145)	7,493	(19,904)
Cash and cash equivalents at beginning of the year	12,381	28,526	17,782	37,686
Cash and cash equivalents at end of the year	16,076	12,381	25,275	17,782
Net increase (decrease) in cash and cash equivalents	3,695	(16,145)	7,493	(19,904)

See accompanying notes.

Locaweb Serviços de Internet S.A.

Statement of value added
Years ended December 31, 2019 and 2018
(in thousands of Reais)

	Company		Consolidated	
	2019	2018	2019	2018
Revenues	300,851	206,288	438,907	356,373
Revenue from the provision of services	314,426	218,811	451,686	370,328
Discounts and rebates	(18,474)	(12,909)	(18,917)	(14,928)
Other operating revenue	4,900	386	6,137	973
Inputs acquired from third parties (includes ICMS, PIS and Cofins)	(91,486)	(80,956)	(137,657)	(116,046)
Costs of services	(57,758)	(47,063)	(82,699)	(63,190)
Materials, energy, third party services and others	(33,728)	(33,893)	(54,959)	(52,856)
Gross value added	209,365	125,332	301,250	240,327
Retentions	(48,460)	(25,868)	(53,910)	(36,775)
Depreciation and amortization	(48,460)	(25,868)	(53,910)	(36,775)
Net added value produced	160,905	99,464	247,340	203,552
Value added received on transfer	20,642	17,342	6,758	8,885
Equity results	14,258	9,033	-	-
Financial income	6,384	8,309	6,758	8,885
Total value added to be distributed	181,547	116,806	254,097	212,437
Distribution of value added	181,547	116,806	254,097	212,437
Personnel and charges	76,316	51,295	114,908	105,410
Direct compensation	59,525	40,992	89,679	85,075
Benefits	10,260	6,797	15,935	13,058
FGTS	6,532	3,507	9,294	7,277
Taxes, charges and contributions	45,661	30,641	70,889	61,473
Federal	35,787	24,402	57,306	50,395
State	-	-	238	261
Municipal	9,875	6,239	13,345	10,817
Interest and rents	41,499	23,984	50,229	34,668
Remuneration of equity	18,071	10,886	18,071	10,886
Interest on shareholders' equity distributed	3,500	5,449	3,500	5,449
Dividends distribution	2,400	-	2,400	-
Retained income	12,171	5,437	12,171	5,437

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

1. Operational context

Locaweb Serviços de Internet S.A. (the “Company” or “Locaweb”) has its head office at Rua Itapaiúna, 2.434 - São Paulo/SP, and began its operations in 1998, and is one of the pioneers in Business to Business (B2B) solutions for the digital transformation of business in Brazil. The Company’s wide portfolio offers integrated solutions for the purpose of helping its customers’ businesses to grow through the use of technology.

The Company has two operating segments: (i) Be Online and Software as a Service (SaaS) & Solutions (“Be Online/SaaS”), which offer services to its customers through Locaweb, Locaweb Corp, All in and Cluster2Go, and KingHost and Delivery Direto brands; and (ii) Commerce, which offer services to its customers through the Tray, Tray Corp and Yapay brands. These business segments are complementary of each other and generate operational synergies for the Company and its customers, and together, they create an environment that enables cross-selling and up-selling activities within the extensive and diverse customer base, which consists of approximately 350.5 thousand active customers from various industry sectors, with a particular focus on small and medium-size enterprises.

2. Basis of preparation and presentation of financial statements

The significant accounting practices adopted by the Company are described in the specific notes related to the items presented; those which are generally applicable to different aspects of the financial statements are presented in this section.

Accounting practices for transactions regarded as immaterial are not included in the financial statements.

It should also be stressed that the accounting practices were uniformly applied in the current year, are consistent with the previous years presented and are common to both the Company and its subsidiaries, and, whenever necessary, the financial statements of the subsidiaries are adjusted in order to satisfy this requirement.

Declaration of compliance and basis of preparation

The relevant information is presented in the financial statements and is the same as that used by its Management.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

Individual and Consolidated Financial Statements

The individual and consolidated financial statements of the Company were prepared in accordance with the accounting practices adopted in Brazil, which in the Brazilian Corporate Law no. 6.404/76, as amended; the rules and regulations issued by the Brazilian Securities Commission ("CVM"); and the accounting pronouncements, interpretations and guidelines issued by the Accounting Pronouncements Committee ("CPC"), approved by the Federal Accounting Council and by the CVM, and are in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

The individual and consolidated financial statements have been prepared based on historical cost, except for certain financial instruments which are measured at fair value.

The issuance of the individual and consolidated financial statements for the year ended December 31, 2019 were approved by the Board of Directors on March 23, 2020.

3. Basis of consolidation of the financial statements

The consolidated financial statements include the financial statements of the Company and its subsidiaries. The Company's Management, based on the bylaws and shareholders' agreements, controls the subsidiaries described below and, therefore, fully consolidates these subsidiaries.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated statements of operations from the effective date of acquisition to the effective date of disposal, as applicable.

The results of the subsidiaries acquired during the years ended December 31, 2019 and 2018 have been included in the statements of operations since the date of their acquisition.

The calendar years of the subsidiaries included in the consolidation coincide with those of the Company and the accounting practices and policies were uniformly applied to the consolidated companies. All intercompany balances and transactions were eliminated upon consolidation. Transactions between the Company and its subsidiaries are made under conditions and at prices established between the parties, subject to market conditions.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

The consolidated financial statements include the operations of the Company and its subsidiaries, as follows:

Subsidiaries	Stake	Interest %	
		2019	2018
Locaweb Telecom	Direct	100%	100%
Yapay	Direct	100%	100%
Tray Tecnologia	Direct	100%	100%
Superpay	Direct (a)	-	100%
Fbits	Indirect	100%	100%
Ananke Participações	Direct	100%	100%
Ananke Tecnologia	Indirect	100%	100%
Primehost	Indirect	100%	100%
Ion	Indirect	100%	100%
Novaion	Indirect	100%	100%
Kinghost	Direct (b)	100%	-
Delivery Direto	Direct (b)	100%	-

(a) Subsidiary merged during the year ended December 31, 2019.

(b) Companies acquired during the year ended December 31, 2019.

Locaweb IDC Ltda ("Locaweb IDC")

Locaweb IDC is a provider of mobile property leasing services to corporate clients, including computer equipment connected to the Internet. The subsidiary became a wholly owned subsidiary of the Company on September 28, 2007 and was merged into Locaweb S.A. on September 30, 2018.

Locaweb Telecom Telecomunicações Ltda ("Locaweb Telecom")

Locaweb Telecom is a provider of data transmission, voice, images and sound services via Internet protocol, duly authorized by Anatel to act as a SCM (Multimedia Communication Service) and STFC (Switched Fixed Telephony Service) operator. The subsidiary became a wholly owned subsidiary of the Company on September 28, 2007.

Tray S.A. ("Tray")

On November 26, 2012, the Company acquired 51% (2,710 shares) of Tray, located in the municipality of Marília, in the state of São Paulo, which has control of Tray Services (actually denominated Yapay), whose corporate purpose is intermediation and agency in relation to digital payments; of E-Commerce (now called Tray Tecnologia), whose corporate purpose is the preparation, planning and maintenance of a website provider; and of Superpay, whose corporate purpose is the rental and provision of external services in the systems and software development area.

At the Extraordinary Shareholders' Meeting that was held on September 20, 2017, the Company's shareholders approved the merger of Tray, which became the direct shareholder of Tray Services. Tray Services had its corporate name changed to Yapay Pagamentos Online Ltda. on November 10, 2017.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

Yapay Pagamentos OnLine Ltda. (“Yapay”)

Yapay is located in Marília and was acquired on November 26, 2012, when the Company acquired 51% of Tray’s capital stock. Through Yapay, we offer the following services: (i) Gateway electronic payments (independent e-commerce system that allows the contracting and integration of various payment methods in any type of online store); and (ii) Sub Acquirer which provides small and large businesses with solutions for receiving online payments, including solutions for e-commerce, startups, SaaS companies and other sectors.

Eventials Online Services (“Eventials”)

On November 5, 2012, Locaweb acquired a 35% interest in Eventials. On June 30, 2016, Locaweb exercised an option to buy a 16% interest in Eventials, becoming the holder of 51% of the common shares and, as a result, a controlling interest in Eventials.

On April 30, 2018, based on the strategy of prioritizing market segments and assets focusing on its business, Locaweb sold its 51% holding of common shares in Eventials for the amount of R\$500 and had a loss of R\$1,314.

FBits Desenvolvimento de Software S.A. (“FBits”)

On September 1, 2016, E-Commerce (currently Tray Tecnologia) acquired 100% percent of the shares issued by FBits Desenvolvimento de Software S.A. (“FBits”). Established in 1999, FBits is headquartered in the city of Curitiba, state of Paraná, and its principal business is to provide solutions based on the SaaS (Software as a Service) model for virtual stores. Among the main functionalities of the offered solution platform, customized layout, B2C, B2B, marketplace module, smart search, responsive layout, e-mail, gateway and reporting.

Ananke Participações S.A. (“Cluster2GO”)

On March 2, 2018, Locaweb acquired 100% of the shares of Ananke Participações S.A. (“Cluster2GO”) and of its subsidiaries Ananke Tecnologia Ltda. (“Ananke Tecnologia”), Primehost do Brasil Serviços de Internet Ltda. (“Primehost”), Ion Tecnologia da Informação Ltda. (“Ion”) and Novaion Tecnologia Ltda. (“Novaion”). Established in 2000, Cluster2GO is headquartered in the city of São Paulo, and its principal business is to provide data center solutions focused on high availability and managed services.

Among the main functionalities of the offered solution platform, we can highlight customized outsourcing for technical management in and out of the data center with proactive monitoring, backup, information security, management of network assets like firewall, routers and intensive level 1, 2 and 3 support. The acquisition strengthens Locaweb’s presence in the multi-cloud service management market.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

Lwk Hosting Participações Ltda. ("Kinghost")

On May 3, 2019, Locaweb acquired 100% of the shares of the company LwK Hosting Participações Ltda. and its subsidiaries ("Kinghost"). Established in 2002, Kinghost is headquartered in the city of Porto Alegre, and its key activities are: internet service provider and website hosting for the general public (retail profile).

Among the main services offered, we highlight: website hosting, corporate e-mail solutions and domain registration. The acquisition of Kinghost strengthens Locaweb's operations in the hosting provider market.

IT Capital Serviços de Tecnologia Ltda. ("Direct Delivery")

On September 9, 2019, Locaweb acquired 100% of the shares of the company IT Capital Serviços de Tecnologia Ltda. ("Delivery Direto"). Established in 2009, Delivery Direto is headquartered in the city of São Paulo, and its key activity is the offering of a technological platform and other services for bars and restaurants with delivery services.

Delivery Direto provides SaaS delivery and full management solution for restaurants that is already used by more than 1,200 customers. The platform operates as an economic alternative to marketplace apps, providing control of the relationship with customers. This acquisition marks Locaweb's entry into the market for deliveries for bars and restaurants, with possible expansion to other segments, such as drugstores, butcher shops and other establishments.

4. Significant accounting policies

Significant accounting policies adopted by the Company are described in the accompanying notes. These accounting policies have been consistently applied in all the years presented, unless otherwise stated. Accounting policies for immaterial transactions are not included in the financial statements.

4.1 Changes in accounting standards

In the year ended December 31, 2018, the following new accounting standards came into effect: IFRS 15/CPC 47 - Revenue from Contracts with Customers and IFRS 9/CPC 48 - Financial Instruments.

As from January 1, 2019, the Company started to apply IFRS 16 - Leases, correlated with CPC 06(R2) - Leases, and IFRIC 23/ICPC 22 - Uncertainty over Income Tax Treatments.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

a) IFRS 15/CPC 47 - Revenue from Contracts with Customers

IFRS 15/CPC 47 established a five-step model for accounting for revenues from contracts with customers - replacing all the requirements that existed in the previous standards. The Company has analyzed its revenue recognition accounting policies in light of this standard. To this end, all types of revenue from contracts with customers were examined using the five-step model, identifying the following points: (i) the contract with customer, (ii) the performance obligation, (iii) the transaction price, (iv) the allocation of the price to the performance obligations; (v) time of revenue recognition. Based on this analysis, no material effects were identified as a result of the adoption of the pronouncement, apart from the additional disclosures presented in Note 20.

b) IFRS 9/CPC 48 - Financial Instruments

IFRS 9/CPC 48 introduced new requirements in relation to classification and measurement, impairment loss and hedge accounting.

The Company adopted the new standard in terms of hedge accounting from 2018 onwards and did not restate comparative information, as is permitted under the standard. The Company has not identified any material effect as a result of the adoption of this standard, since our accounting practices are in accordance with the new standard.

Regarding the classification and measurement of financial instruments, the book values of financial assets and liabilities as at January 1, 2018 did not change with the adoption of CPC 48. Financial assets which were previously classified as "loans and receivables" were henceforth classified as "amortized cost". Other financial asset instruments continued to be measured at fair value through profit or loss.

With regard to impairment of financial assets, the application of the expected loss criteria had no effect on the Company's financial statements.

c) IFRS 16/CPC 06(R2) – Leases

As from January 1, 2019, the Group adopted CPF 06/IFRS 16, which introduces a single model of accounting for leases in the balance sheet for lessees. As a result, the Group recognized right-to-use assets, which represent its underlying lease rights, and lease liabilities, representing its obligation to make disbursements related to such allocation.

CPC06 (R2) / IFRS 16 introduced a single model of accounting for leases in the accounting information of lessees. As a result, the Company, as lessee, recognized the right-to-use assets, which represent its rights to use the underlying lease rights, and lease liabilities, representing its obligation to make lease payments.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

The Company previously classified operating or financial leases based on its assessment of whether the lease substantially transferred or not all the risks and benefits from using the asset. In accordance with CPC 06 (R2) / IFRS 16, the Company recognizes in the statement of financial position right-to-use assets and lease liabilities for most its lease agreements.

Current lease accounting policy in force as of 2019

The Company recognizes a right-of-use asset and a lease liability on the initial date of the lease. The right-to-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment, being adjusted for certain re-measurements of the lease liability. Depreciation is calculated using the straight-line method over the remaining term of the agreements. The Company used as a cost component the amounts of fixed or essentially fixed lease payments, which would be the minimum payments agreed in agreements with variable payments, based on the achievement of revenues, net of PIS and COFINS effects. The right-to-use amounts also include advance lease payments and provisions for store restoration, less incentives received from lessors. The specifically variable payment amounts are recognized on a monthly basis as operating expenses.

Lease liabilities are initially measured at the present value of lease payments that were not paid on the initial date of the agreement and discounted at the incremental interest rate on the lease, which is defined as the effective interest rate that the lessee would get upon borrowing a loan with a similar term and similar guarantee.

The Company used its judgment to determine the lease term of some agreements, taking into account the provisions of Law No. 8.245 (Tenancy Law), which grants lessee the right to agreement renewals in case certain conditions are met, as well as past practices regarding successful renewal of its agreements. Assessment of whether the Company is reasonably certain of exercising such options impacts the lease term, which materially affects the value of recognized lease liabilities and right-of-use assets.

Transition effects

The Company applied CPC 06 (R2)/IFRS 16, using the modified retrospective approach, which does not require the restatement of the corresponding amounts, has no effect on shareholders' equity, and allows the adoption of practical measures. Therefore, the comparative information shown for 2018 has not been restated, that is, it is shown as previously reported, in accordance with CPC 06 (R1) / IAS 17 and related interpretations.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

In the transition, for leases classified as operating leases according to CPC 06 (R2) / IFRS 16, lease liabilities were measured at the present value of the remaining payments, discounted at the Company's incremental loan rate on January 1, 2019. The right-to-use assets were measured at an amount equivalent to the lease liabilities on the date of initial adoption, plus advance payments less incentives received from lessors.

The Company has elected to use the practical transition measure, and not to recognize the right-of-use assets and lease liabilities for some leases of low value assets, as well as with lease terms of less than 12 months.

The Company recognizes payments associated with such leases as an expense, using the straight-line method over the lease term. In addition, the Company did not take into account initial direct costs of measuring the right-of-use asset on the initial date of use.

By measuring lease liabilities for those leases previously classified as operating leases, the Company deducted lease payments using an incremental loan rate on January 1, 2019, which reflects the Company's borrowing rate at market conditions. The weighted average rate applied was 8%.

The use of the criteria mentioned above resulted in the recognition, in January 2019, of right-to-use assets and lease liabilities in the amount of R\$71,158 in the Company, and R\$74,945 in the Consolidated, represented by properties leased to the Company and its subsidiaries. The breakdown of the balances of assets and liabilities balances, the accounting of the opening, as well as their variation as of December 31, 2019 are shown below:

a) Right-to-use assets

	Company	Consolidated
Right-to use assets as of 01/01/2019	-	-
Addition for initial adoption of CPC 06 (R2) / IFRS 16	71,158	73,366
Addition	-	1,579
Depreciation	(6,279)	(7,137)
Right-to-use assets as of 12/31/2019	64,879	67,808

b) Lease liabilities

	Company	Consolidated
Lease liabilities as of 01/01/2019	-	-
Addition for initial adoption of CPC 06 (R2) / IFRS 16	71,158	73,366
Addition	-	1,579
Accrued interest	5,193	5,415
Payment of principal	(9,210)	(10,142)
Lease liabilities as of 12/31/2019	67,141	70,218
Current	4,421	5,416
Non-current	62,720	64,802

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

d) IFRIC 23/ICPC 22 - Uncertainty over income tax treatment

IFRIC 23 (ICPC 22) describes how to determine the tax and accounting position in case of uncertainty about income tax treatment. The interpretation requires the Company:

To determine whether uncertain tax positions are assessed separately or as a group; and

To assess whether the tax authority is likely to accept the use of uncertain tax treatment, or a proposal for such use, by an entity in its income tax returns:

- If so, the entity must determine its tax and accounting position in line with the tax treatment used or to be used in its income tax returns.
- If not, the entity must reflect the effect of uncertainty in determining its fiscal and accounting position. Entities may apply the interpretation based on the complete retrospective method or modified retrospective method, without restating comparative information, retrospectively or prospectively.

The Company's Management started to consider the aspects of IFRIC 23 (ICPC 22), and reviewed the judgments made in calculating income taxes, understanding that no uncertain treatments are used in its financial statements, since all the procedures adopted for payment of taxes on profit are supported by applicable legislation and case law.

4.2 Significant judgments, estimates and assumptions

Accounting estimates and judgments are continuously assessed and are based on historical experience and other factors, including expectations about future events deemed reasonable under the circumstances. Based on assumptions, the Company and its subsidiaries make estimates about the future. By definition, the resulting accounting estimates are rarely equal to the actual corresponding results. Estimates and assumptions with a significant risk, with the likelihood of causing a material adjustment of the carrying amounts of assets and liabilities for the following fiscal year, are detailed below:

a) Impairment test

Management annually reviews the net carrying amount of assets with a view to assessing any events or changes in economic, operating or technological circumstances that may indicate impairment. Upon any such evidence being identified and the net carrying amount exceeding the recoverable amount, an impairment loss is estimated, and the net carrying amount is adjusted to the recoverable amount.

The recoverable amount of an asset or a certain cash generating unit (CGU) is defined as the value in use or the fair value less costs of disposal, whichever is the higher. Management considers each of our segments as a cash generating unit (CGU).

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

In estimating the value in use of an asset, estimated future cash flows are discounted to present value using a discount rate before taxes that reflects the weighted average cost of capital to the industry of the cash generating unit.

The fair value less costs of disposal is determined, whenever possible, based on sale contracts concluded on an arm's length basis between well-informed and interested parties, adjusted by expenses attributable to selling the asset or, where no confirmed sales contract exists, based on the market price in an active market or the price of the latest transaction involving similar assets.

i) Impairment testing of property and equipment and intangible assets with a definite useful life

Property and equipment and intangible assets with a definite useful life are tested whenever impairment indications are identified.

ii) Impairment testing of goodwill based on expected future profitability

The impairment test of goodwill is performed annually (on December 31) or whenever impairment indications are identified.

iii) Impairment test of intangible assets with indefinite useful life

Intangible assets with an indefinite useful life are tested for impairment annually (on December 31) or whenever impairment indications are identified. The test is performed either individually or at the cash generating unit level, as appropriate.

b) Provision for legal proceedings

The Company and its subsidiaries are parties to several legal and administrative proceedings related to tax, labor and civil matters, and provisions for legal proceedings are recorded for all cases in which a loss is probable. Such probability analysis is conducted by the Company with the assistance of outside legal counsel and duly corroborated by its Legal department. The impairment likelihood assessment includes a review of the available evidence, the hierarchy of laws, the existing case law, the latest court rulings and their legal significance, past experience and the amounts involved.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

c) Share-based payment transactions

The Company measures the cost of transactions with employees settled with shares based on the fair value of such instruments on the grant date. Estimating the fair value of share-based payments requires determining the best-suited assessment model for the shares granted, which depends on the award terms and conditions. This also requires determining certain variables, such as the expected life of the option, the volatility of such shares and dividends yield, among others.

d) Fair value of financial instruments

Where the fair value of financial assets and liabilities reflected in the balance sheets cannot be obtained from active markets, it is determined using valuation techniques. The data required for such techniques is based on market practice, where possible. Such judgment includes considerations about the data being used, such as liquidity risk, credit risk and volatility. Changes in assumptions concerning such factors could affect the fair value of the financial instruments.

e) Fair value measurement of contingent consideration

A contingent consideration from a business combination is measured at fair value on the date of acquisition as part of the business combination. Contingent consideration recognized as an asset or liability consisting of a financial instrument in the context of CPC 38 - Financial Instruments:

- Recognition and Measurement is measured at fair value, with changes in fair value recognized in accordance with CPC 38. If the contingent consideration is classified as a derivative and, therefore, a financial liability, then it must be subsequently re-measured at fair value on the balance sheet date. Fair value is based on discounted cash flow. Key assumptions consider the likelihood of each assumption being achieved and the discount factor.

f) Taxes

Deferred tax assets are recognized for all tax losses carryforward not utilized to the extent that taxable profit is available to allow such losses to be utilized. Significant judgment is required by Management to determine the amount of deferred tax assets that can be recognized based on the probable timing and level of future taxable profits, together with future tax planning strategies.

The Company has tax credits from tax losses carryforward to offset in the amount of R\$4.362 as at December 2019 (R\$5,658 in 2018 in the Company, and R\$5.456 on December 31, 2019 (R\$6,909 in 2018) in the Consolidated. These losses do not expire, but the offset of accumulated tax losses is restricted to a limit of 30% of the taxable profit generated in any fiscal year.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

5. Cash and cash equivalents and restricted cash

5.1 Cash and cash equivalents

Accounting policy

The amounts held to meet short-term cash commitments, rather than for investment or any other purposes, are classified as cash and cash equivalents, which include cash, positive balances in bank accounts, and financial investments redeemable within a period of 90 days of the transaction dates and with an insignificant risk of change in value. The financial investments included in cash equivalents are mainly classified as "financial assets at fair value through profit or loss." Cash equivalents are highly liquid and promptly convertible in cash.

	Company		Consolidated	
	2019	2018	2019	2018
Cash and banks	756	354	2.273	1.809
CDB (a)	14,226	12,027	21.907	15.973
Government Treasury Bills (LF)	1.094	-	1.095	-
	16,076	12,381	25,275	17,782

- (a) As at December 31, 2019, financial investments in Bank Certificates of Deposit (CDB) were remunerated at a rate of 93.4% of the CDI (93.5% of the CDI in 2018), with daily liquidity and redeemable with the issuer itself, with no significant loss of value.

5.2 Restricted cash

Accounting policy

Restricted cash refer to the guarantee for certain loans of the Company, which balance is released upon repayment of the respective loans and financing.

	Company		Consolidated	
	2019	2018	2019	2018
CDB	7,825	4,584	7,825	4,584
Government Treasury Bills (LF) (b)	2,188	3,125	2,188	3,125
	10,013	7,709	10,013	7,709
Current	2,659	4,584	2,659	4,584
Non-current	7,354	3,125	7,354	3,125

- (b) As at December 31, 2019, investments in Government Treasury Bills were remunerated at a rate of 99% of the CDI. (99% of the CDI in 2018)

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

6. Accounts receivable, deferred revenue and payables to clients

6.1. Accounts receivable

Accounting policy

Accounts receivable include receivables from credit card operators and end customers.

The Company estimates expected losses on doubtful accounts based on the simplified model, as permitted by CPC 48/IFRS 9, considering the aging of its accounts receivable and its expectation of future losses. The Company does not have a significant history of losses on accounts receivable and, as a result, has no provision for such losses.

The balance of accounts receivable is comprised by:

	Company		Consolidated	
	2019	2018	2019	2018
Credit card operators	3,974	3,583	100,660	41,588
Other accounts receivable	17,330	13,806	24,625	19,673
Accounts receivable, net	21,304	17,389	125,285	61,261

The aging of accounts receivable is as follows:

	Company		Consolidated	
	2019	2018	2019	2018
Amounts undue	17,467	14,739	119,833	57,358
Amounts overdue:				
Up to 30 days	1,712	1,129	2,383	1,488
31-180 days	1,490	1,232	2,184	1,655
Over 180 days	635	289	885	760
Accounts receivable, net	21,304	17,389	125,285	61,261

Management believes the risk related to accounts receivable is minimized by the fact that the balance of the Company's end customers is highly pulverized. The Company has more than 300,000 active-end customers in its portfolio, and no customer accounts for more than 5% of its revenues as at December 31, 2019.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

6.2. Deferred revenue

Accounting policy

Deferred revenue is recorded in current liabilities because the respective services are provided within 12 months and is similar to an advance from customers. Therefore, it refers to amounts received in advance, on the signing of the agreements with customers for services to be provided by the Company.

The amounts recorded in this account are recognized in the statements of operations as services are provided and performance obligations under the agreements are met, according to the Company's accounting policy for revenues.

6.3. Payables to clients

Accounting policy

Payables to clients are classified in current liabilities because the obligation is to be settled within the next 12 months, and record amounts received which will be passed to the Company's customers.

The amounts entered in this account are not recognized in the statement of operations because the Company acts as an agent in this type of transaction.

7. Taxes recoverable

Accounting policy

Taxes recoverable include tax credits to offset with taxes payable in future year. The Company tests of these amounts annually for impairment. For the year ended December 31, 2019, there was no need to derecognize any tax assets due to impairment.

	Company		Consolidated	
	2019	2018	2019	2018
Income tax recoverable	2,089	2,653	5,899	4,864
Social contribution recoverable	786	758	1,534	1,258
PIS recoverable	-	-	1	8
COFINS recoverable	-	-	7	36
INSS recoverable	113	111	113	112
IRRF recoverable	3	3	526	90
	2,991	3,525	8,080	6,368

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

8. Related-party transactions

Related-party transactions basically refer to transactions with subsidiaries and with MG4, a company whose shareholders are the members of the Company's controlling shareholders, and the Company has a lease for its headquarter.

A) Transactions and balances

Main related-party transactions and balances are as follows:

	Company			
	Non-current assets		Non-current assets	
	2019	2018	2019	2018
Cyberweb	913	-	-	-
Fbits	1	-	-	-
Locaweb Telecom	591	590	-	-
Ion Tecnologia	1	2	-	-
Tray Tecnologia	1	1	-	-
	1,507	593	-	-

	Company					
	Revenue		Costs		Expenses	
	2019	2018	2019	2018	2019	2018
Superpay	79	184	-	-	-	-
Tray Tecnologia	315	275	-	-	-	-
Yapay	-	-	-	-	(485)	(335)
Locaweb Telecom	-	-	(176)	(200)	(74)	(64)
MG4	-	-	(6,907)	(4,115)	(2,303)	(1,168)
Ananke Tecnologia	929	927	-	-	-	-
	1,323	1,386	(7,083)	(4,315)	(2,861)	(1,567)

	Consolidated					
	Revenue		Costs		Expenses	
	2019	2018	2019	2018	2019	2018
MG4 (*)	-	-	(6,907)	(6,414)	(2,303)	(2,254)
WW Marques (*)	-	-	-	-	(475)	(441)
Tech and Soul	-	-	-	-	(1,006)	(1,155)
	-	-	(6,907)	(6,414)	(3,784)	(3,850)

(*) MG4 and WW Marques are owners of properties leased by the Company and its subsidiaries. Tech and Soul provides communication and advertising services. The shareholders of these companies are related parties of Locaweb.

The Company and its subsidiaries are operated in an integrated manner and, accordingly, they have common expenses that are shared based on technical criteria that are reviewed annually by Management. Transactions are carried out on terms agreed upon by the parties, subject to market conditions.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

On January 2, 2017, the Company entered into a private agreement to share expenses, refunds, transfers and amounts withheld and prorated within the same business group. The purpose of this agreement is to objectively set forth the terms and characteristics of the expense-sharing arrangements.

The Company has a lease of its headquarter with MG4, a company whose shareholders are the Company's controlling shareholders, for a monthly amount of approximately R\$783. The total rent paid in 2019 was R\$9,210 (R\$8,668 as at December 31, 2018), in line with market conditions. The lease agreement is for a term of 120 months, and the rent is adjusted by the IGP-M every 12 months. By virtue of the expense-sharing agreement, the expenses are prorated among the Company and its subsidiaries that use the same property as headquarters.

The subsidiaries Tray Tecnologia and Yapay have a lease of their headquarters with WW Marques, a company that has a Company manager among its shareholders, for a monthly amount of approximately R\$40. The total rent paid in 2019 was R\$475 (R\$441 in 2018), in line with market conditions. The lease agreement is for a term of 60 months, and the rent is adjusted by the IGP-M every 12 months.

The agency Tech and Soul, which has a Company shareholder among its shareholders, is a provider of institutional communication and advertising services under an agreement signed on September 6, 2017. The total amount paid in 2019 was R\$1,006 (R\$1,155 in 2018).

Management believes there are no present or future effects on the equity or financial conditions of such companies due to the discontinuation of business with the related party given the preemptive rights agreed upon on both the property and MG4.

During the years ended December 31, 2019 and 2018, there was no need to make provisions for losses involving related-party transactions.

B) Management compensation

Management compensation expenses for the years ended December 31, 2019 and 2018 are shown below:

	2019	2018
Compensation	5,799	5,197
Charges and benefits	1,928	2,186
Share based compensation expenses	801	1,377
Total	8,528	8,760

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

9. Investments

Accounting policy

The Company's investments in its subsidiaries are recorded by the equity accounting method, in accordance with CPC 18/IAS 28, for the purposes of the individual financial statements.

On each balance sheet closing date, the Company determines whether there is any objective evidence that investments in subsidiaries have been impaired. If so, the Company calculates the impairment loss as the difference between the subsidiary's recoverable amount and carrying amount and recognizes the loss in the statement of operations.

A) Balances and changes

Investments as at December 31, 2019 and 2018 are comprised as follows:

	Company	
	2019	2018
Investments in subsidiaries	128,006	41,009
Provision for loss on investments	(2,133)	(540)
Total investments, net	125,873	40,469

Reconciliation of investment

Investments in subsidiaries and affiliates	38,848	19,412
Goodwill on <u>investment</u> acquisitions	87,025	21,057
Total investments, net	125,873	40,469

Variation of goodwill on investments made by the company are shown below:

	Company		
Investee	Balance on 12/31/2018	Acquisition of equity interest	Balance on 12/31/2019
Cluster2Go	21,057	378	21,435
Kinghost	-	38,905	38,905
Delivery Direto	-	26,685	26,685
Total goodwill on <u>investment</u> acquisitions	21,057	65,968	87,025

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

We provide below the subsidiaries' key financial information:

Name	Balance in 2018					
	% Interest	Assets	Liabilities	Shareholders' equity	Net revenue	Year income (loss)
Direct interests						
Locaweb Telecom	100%	299	839	(540)	743	(358)
Tray Services / Yapay	100%	42,873	33,092	9,781	22,863	4,841
Superpay	100%	1,426	179	1,247	1,242	303
E-Commerce	100%	21,371	10,318	11,053	31,885	5,060
Cluster2Go	100%	5,363	7,492	(2,129)	11,636	(259)
Indirect interests						
Fbits	100%	6,642	1,738	4,904	7,899	1,568

Name	Balance in 2019					
	% Interest	Assets	Liabilities	Shareholders' equity	Net revenue	Year income (loss)
Direct interests						
Locaweb Telecom	100%	322	739	(417)	669	(402)
Yapay	100%	104,999	87,388	17,611	36,370	6,583
E-Commerce	100%	27,512	7,948	19,564	22,427	8,512
Cluster2Go	100%	8	1,724	(1,716)	10,061	(3,010)
Kinghost	100%	26,135	22,436	3,699	25,130	2,659
Delivery Direto	100%	736	629	107	2,101	(84)
Indirect interests						
Fbits	100%	9,938	2,348	7,590	10,905	2,471

Changes in investments in subsidiaries are shown below:

Investee	Company					
	Balance in 2018	Acquisition of equity interest	Merger	AFAC	Equity results	Balance in 2019
Locaweb Telecom	(540)	-	-	525	(402)	(417)
Yapay	9,781	-	1,389	-	6,441	17,611
Superpay	1,247	-	(1,389)	-	142	-
E-Commerce	11,053	-	-	-	8,511	19,564
Cluster2Go	(2,129)	-	-	3,423	(3,010)	(1,716)
Kinghost	-	1,040	-	-	2,659	3,699
Delivery Direto	-	(10)	-	200	(83)	107
	19,412	1,030	-	4,148	14,258	38,848

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

9.1 Accounts payable to former shareholders

Accounting policy

Accounts payable to former shareholders are related to the balance payable for the acquisition of investees or subsidiaries.

The Company has calculated the present value adjustment for the accounts payable to former shareholders taking into consideration contractual cash flows and the explicit, and, in certain cases, implicit, interest rate of the relevant liabilities. Subsequently, such interest is recorded in financial expenses in statement of operations using the effective interest rate method relative to contractual cash flows.

The balance of accounts payable to former shareholders is comprised as follows:

	Company		Consolidated	
	2019	2018	2019	2018
Cluster2Go	14,697	13,724	14,697	13,724
Fbits	-	-	-	5,529
Kingshost	18,128	-	18,128	-
Delivery Direto	12,010	-	12,010	-
Total investment obligations	44,835	13,724	44,835	19,253
Current	14,697	-	14,697	5,529
Non-current	30,138	13,24	30,138	13,724

9.2. Business combinations

Accounting policy

Business combinations are recognized using the acquisition method based on CPC 15(R1)/IFRS 3. The acquisition cost considers the purchase price and includes the fair value of assets acquired and liabilities assumed, including any cost incurred in connection with any contingent or deferred additional payment. Transaction costs are recognized in the statement of operations, as incurred.

The purchase price is allocated to the assets acquired and liabilities assumed and contingent liabilities based on their respective fair values, including any assets and liabilities not previously recognized in the acquired entity's balance sheets. Goodwill is generated when the acquisition cost is higher than the amount of identifiable net assets measured at fair value.

a) Acquisition of Kingshost

On May 3, 2019, Locaweb acquired 100% of the shares issued by LwK Hosting Participações Ltda. and its subsidiaries ("Kingshost"). Established in 2002, Kingshost is headquartered in the city of Porto Alegre, and its key activities are: Internet service provider and website hosting for the general public (retail profile).

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

Among the main services offered, we highlight: website hosting, corporate e-mail solutions and domain registration. The acquisition of Kinghost strengthens Locaweb's operations in the hosting provider market

We provide below the balances ascertained:

	Fair value recognized on acquisition
Assets	
Cash and cash equivalents	1,619
Accounts receivable	1,481
Taxes recoverable	753
Other assets	1,259
Property and equipment	3,312
Intangible asset – others	380
Intangible asset – Customer portfolio	6,987
Intangible asset – Technology	8,629
Intangible asset - Trademark	7,553
	31,973
Liabilities	
Suppliers	(1,085)
Salaries and related charges	(2,723)
Taxes payable	(223)
Loans and financing	(2,470)
Deferred revenue	(4,825)
Tax payable in installments	(21,929)
Other accounts payable	(644)
	(33,899)
Total identifiable net liabilities	(1,926)
Goodwill arising on acquisition	41,871
Total consideration	39,945
Cash flows on acquisition	
Cash paid, net of cash acquired	12,366
Acquisition cost	562
Cash paid on acquisition	12,928

Total consideration is shown below:

Paid in cash on the closing date	13,985
Paid with treasury shares (a)	8,600
Obligations with investment acquisition (b)	10,092
Obligations with investment acquisition (c)	7,268
Total consideration	39,945

(a) Delivery of 1,228,571 treasury shares of the Company, in the amount of R\$602. The fair value of these shares was calculated based on an internal valuation prepared by the Company.

(b) Installment maturing on May 31, 2022, which may be deducted from the amount of losses subject to indemnity indemnifiable losses incurred until then, as provided for in the sale and purchase agreement. The amount of R\$10,092 is net of adjustment to present value of R\$1,722 (R\$11,814 gross).

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

- (c) Contingent consideration in connection with an additional payment based on certain performance indicators (earn-out), in the amount of R\$9,009, the present value of which on the acquisition date was R\$7,268, and which was recorded in accounts payable to former shareholders.

The gross carrying amount of accounts receivable at the acquisition date, considered by its fair value, is R\$1,481 in short term and with no expectation of loss.

The measurement of intangible assets resulted in the allocation of fair value to determine the fair value of the customer portfolio, technology and trademark. The “MEEM, Replacement Cost and Relief from Royalty” methods were used, respectively.

The goodwill at the acquisition date was R\$41,871 and includes the amount of future economic benefits from synergies from the acquisition. The goodwill has been allocated to the Be Online & SaaS segment. The Company understands that goodwill will be deductible for tax purposes.

Acquisition cost of R\$562 was recognized in the statement of income in general administrative expenses, and in operating activities in the statements of cash flows.

In 2019, from the date of its acquisition, Kinghost contributed with total net revenue of R\$25,130 and net income of R\$2,659, for the period ended December 31, 2019. If the acquisition had taken place at the beginning of 2019, Kinghost would have contributed with net revenue of R\$37,482 and net income of R\$4,213 to the Company.

b) Acquisition of Delivery Direto

On September 9, 2019, Locaweb acquired 100% of the shares of the company IT Capital Serviços de Tecnologia Ltda. (“Delivery Direto”). Established in 2009, Delivery Direto is headquartered in the city of São Paulo, and its key activity is the offering of a technological platform and other services for bars and restaurants with delivery services.

Delivery Direct provides SaaS delivery and full management solution for restaurants that is already used by more than 1,200 customers. The platform operates as an economic alternative to marketplace apps, providing total control of customer relationships.

Such acquisition marks Locaweb’s entry into the market for delivery to bars and restaurants, with possible expansion to other segments, such as drugstores, butcher shops and other establishments.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

The balances calculated are shown below:

	Fair value recognized on acquisition
Assets	
Cash and cash equivalents	1,150
Accounts receivable	76
Taxes recoverable	41
Other assets	80
Property and equipment	142
Intangible asset – Other	10
Intangible asset – Technology	5,525
Intangible asset - Trademark	1,311
	8,335
Liabilities	
Suppliers	(12)
Salaries and related charges	(1,427)
Taxes payable	(70)
	(1.509)
Total identifiable net liabilities	6,826
Goodwill arising on acquisition	19,849
Total consideration	26,675
Cash flows on acquisition	
Cash paid, net of cash acquired	9,580
Acquisition cost of acquisition	13
Cash paid on acquisition	9,593

Total consideration is shown below:

Paid in cash on the closing date	10,730
Paid with treasury shares (a)	4,256
Obligations with investment acquisition (b)	11,689
Total consideration	26,675

(a) Delivery of 607,993 treasury shares of the Company, in the amount of R\$298, were delivered. The fair value of these shares was calculated based on an internal valuation prepared by the Company, which resulted in R\$4,256.

(b) Contingent consideration related to an additional payment based on certain performance indicators (earn-out), in the amount of R\$14,813, the present value of which on the acquisition date was R\$11,689, and which was recorded as an obligation with investment acquisition.

The goodwill at the acquisition date was R\$19,849 and includes the amount of future economic benefits from synergies from the acquisition. Goodwill was allocated to the Be Online & SaaS segment. The Company understands that goodwill will be deductible for tax purposes.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

Expenses related to the acquisition in the amount of R\$13 were recognized in the statement of income under administrative expenses, and in the statements of cash flows under operating activities.

In 2019, from the date of its acquisition, Delivery Direto contributed with total net revenue of R\$2,101 and net loss of R\$84 for the period ended December 31, 2019. If the acquisition had taken place at the beginning of 2019, Delivery Direto would have contributed with net revenue of R\$5,459 and loss of R\$1,117 to the Company.

9.3 Merger of subsidiaries

Merger of Superpay

At the Special Shareholders' Meeting held on May 31, 2019, the Company's shareholders approved the merger of Superpay. The merger was carried out because the companies are part of the same business group and the transfer of activities will result in a financial, operating and administrative efficiency, while enabling shareholders to have a better control over the companies' different lines of business.

The amounts merged are described below:

Assets	05/31/2019
Cash and cash equivalents	1,364
Accounts receivable	47
Taxes recoverable	97
Other assets	1
Deferred taxes	19
Property and equipment	11
	1,539
Liabilities	(20)
Suppliers	(106)
Salaries and related charges	(23)
Taxes payable	(1)
Other accounts payable	(150)
Net assets merged	1,389

10. Property and equipment

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

Accounting policy

Property and equipment are recorded at the purchase, formation or construction cost, in accordance with CPC 27/IAS 16. Property and equipment is derecognized when sold or when no future economic benefit is expected from the use or sale thereof. Any gain or loss resulting from derecognition of an asset (calculated as the difference between the net selling value and the carrying amount of the asset) is included in the statement of operations for the year in which the asset is derecognized.

Expenses incurred in connection with maintenance and repair of property and equipment are only capitalized if economic benefits associated with such items are probable and the amounts are reliably measured, while other expenses are directly recorded in the statement of operations as incurred.

Property and equipment is recognized net of PIS/COFINS and ICMS credits, and the contra-entry is recognized as taxes recoverable. Capitalized borrowing costs are depreciated considering the same criteria and useful life as assigned to the relevant property and equipment item into which they were allocated.

For components purchased to assemble servers that remain in property and equipment for more than three years without movement, an impairment is recorded for unusable items, which is reversed if the component is used.

The residual value and useful lives of the assets and the depreciation methods are reviewed at the end of each fiscal year and adjusted prospectively, where appropriate. The depreciation of assets is calculated by the straight-line method and takes into consideration the estimated economic useful life of the assets, as follows:

	<u>Estimated useful life</u>
Computers and peripherals	2.5-5 years
Improvements	20 years
Furniture and fixtures	10 years
Machinery and equipment	2.5-10 years
Components for assembly	5 years
Other property and equipment	5 years

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

Changes in property and equipment are as follows:

	Company						Total property and equipment
	Computers and peripherals	Improvements	Furniture and fixtures	Machinery and equipment	Components for assembly	Other	
Cost							
Balances on January 1, 2018	2,804	28,986	2,233	163,904	633	1,035	199,595
Additions from mergers	3,589	-	293	82,195	106	5	86,188
Additions for the year	307	1,320	77	16,832	9,844	177	28,557
Disposals	(335)	-	(411)	(9,808)	(220)	(6)	(10,780)
Transfer	276	-	-	7,649	(7,925)	-	-
Balances on December 31, 2018	6,641	30,306	2,192	260,772	2,438	1,211	303,560
Additions for the year	241	643	128	15,136	8,659	291	25,098
Disposals	(1,834)	-	(37)	(26,153)	(7)	(546)	(28,577)
Transfer	23	-	(2)	10,947	(10,968)	-	-
Balances on December 31, 2019	5,071	30,949	2,281	260,702	122	956	300,081
Depreciation							
Balances on January 1, 2018	(2,317)	(9,561)	(1,452)	(125,882)	-	(558)	(139,770)
Depreciation from mergers	(2,731)	-	(271)	(73,301)	-	(5)	(76,308)
Depreciation for the year	(264)	(1,626)	(208)	(19,921)	-	(185)	(22,204)
Disposals	336	-	411	7,384	-	6	8,137
Transfer	(20)	-	-	20	-	-	-
Balances on December 31, 2018	(4,996)	(11,187)	(1,520)	(211,700)	-	(742)	(230,145)
Depreciation for the year	(543)	(1,737)	(210)	(30,735)	-	(184)	(33,409)
Disposals	1,820	-	37	26,094	-	416	28,367
Transfer	-	-	-	-	-	-	-
Balances on December 31, 2019	(3,719)	(12,924)	(1,693)	(216,341)	-	(510)	(235,187)
Net book value							
Balances on December 31, 2018	1,645	19,119	672	49,072	2,438	469	73,415
Balances on December 31, 2019	1,352	18,025	588	44,361	122	446	64,894

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

	Consolidated						
	Computers and peripherals	Improvements	Furniture and fixtures	Machinery and equipment	Components for assembly	Other	Total property and equipment
Cost							
Balances on January 1, 2018	8,259	29,591	2,923	248,581	1,813	1,127	292,294
Additions from business acquisitions	392	-	45	8	1	5	451
Additions for the year	577	1,458	801	18,332	13,047	241	34,456
Disposals	(752)	-	(411)	(13,502)	(336)	(20)	(15,021)
Transfer	903	-	-	11,177	(12,080)	-	-
Balances on December 31, 2018	9,379	31,049	3,358	264,596	2,445	1,353	312,180
Additions from business acquisitions	2,996	-	239	575	-	76	3,886
Additions for the year	2,971	742	212	15,297	9,867	381	29,470
Disposals	(1,834)	(13)	(41)	(26,174)	(9)	(546)	(28,617)
Transfer	513	-	(2)	11,428	(11,939)	-	-
Balances on December 31, 2019	14,025	31,778	3,766	265,722	364	1,264	316,919
Depreciation							
Balances on January 1, 2018	(6,423)	(10,166)	(1,904)	(196,694)	-	(561)	(215,748)
Depreciation for the year	(713)	(1,642)	(254)	(29,176)	-	(117)	(31,902)
Disposals	505	-	411	11,866	-	6	12,788
Transfer	(19)	-	-	116	-	(97)	-
Balances on December 31, 2018	(6,650)	(11,808)	(1,747)	(213,888)	-	(769)	(234,862)
Depreciation for the year	(1,848)	(1,772)	(300)	(31,652)	-	(222)	(35,794)
Disposals	1,820	31	41	25,999	-	416	28,307
Transfer	2	-	-	(2)	-	-	-
Balances on December 31, 2019	(6,676)	(13,549)	(2,006)	(219,543)	-	(575)	(242,349)
Net book value							
Balances on December 31, 2018	2,729	19,241	1,611	50,708	2,445	584	77,318
Balances on December 31, 2019	7,349	18,229	1,760	46,179	364	689	74,570

There are no impairment indicators for the years ended December 31, 2019 and 2018 in the Company's and Consolidated statements.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

11. Intangible assets

Accounting policy

Intangible assets purchased separately are measured at their value at the time of initial recognition, in accordance with CPC 04/IAS 38. Following the initial recognition, intangible assets are stated at cost minus accumulated amortization (for assets with definite useful life) and impairment losses, where appropriate.

Intangible assets with definite useful lives are amortized over their economic useful lives and tested for impairment whenever there is an indication of impairment. The amortization of intangible assets with definite useful lives is recognized in the statement of operation as an expense, consistent with the use of such intangible assets. The amortization of intangible assets is as follows:

	Software	Trademarks and Patents	Internal development	Goodwill	Technology	Customer portfolio
Useful life	Definite	Definite	Definite	Indefinite	Definite	Definite
Year for weighted-average amortization	5 years	5 years or as defined in the valuation report	5 years	-	5 years or as defined in the valuation report	5 years or as defined in the valuation report
Amortization method used	Straight-line amortization	Straight-line amortization	Straight-line amortization	Not amortized	Straight-line amortization	Straight-line amortization
Internally generated or acquired	Internally generated and acquired	Internally generated and acquired (Business combinations)	Internally generated	Acquired (Business combinations)	Acquired (Business combinations)	Acquired (Business combinations)

The Company estimates the useful lives of intangible assets based on the period of future economic benefits generated by such assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite useful life is reviewed annually to determine whether it continues to be justifiable. If not, the change in useful life from undefined to defined is made prospectively.

Gains and losses resulting from disposal of an intangible asset are measured as the difference between the net proceeds of the sale and the carrying amount of the asset and recognized in the statement of operations at the time of disposal of the asset.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

Changes in intangible assets are presented below:

	Company								
	Software	Trademarks and patents	Internal development (a)	Other	Goodwill	Trademark	Technology	Customer portfolio	Total intangible assets
Cost									
Balances on January 1, 2018	1,738	548	17,038	872	33,087	1,578	3,860	2,586	61,307
Additions from merger	719	5	1,294	-	-	-	-	-	2,018
Additions for the year	119	-	6,445	-	-	-	-	-	6,564
Disposals	(763)	-	-	-	-	-	(194)	-	(957)
Balances on December 31, 2018	1,813	553	24,777	872	33,087	1,578	3,666	2,586	68,932
Additions from business acquisitions	-	-	-	-	-	-	-	-	-
Additions for the year	150	-	6,961	-	-	-	-	-	7,111
Disposal	(1,300)	-	-	-	-	-	-	-	(1,300)
Balances on December 31, 2019	662	553	31,738	872	33,087	1,578	3,666	2,586	74,743
Amortization									
Balances on January 1, 2018	(1,341)	-	(2,658)	(196)	-	(165)	(3,460)	(1,551)	(9,371)
Amortization from merger	(567)	-	(82)	-	-	-	-	-	(649)
Amortization for the year	(37)	-	(2,577)	(87)	-	(37)	(206)	(720)	(3,664)
Disposal	762	-	-	-	-	-	-	-	762
Balances on December 31, 2018	(1,183)	-	(5,317)	(283)	-	(202)	(3,666)	(2,271)	(12,922)
Amortization for the year	(2,015)	-	(4,978)	(87)	-	(1,376)	-	(315)	(8,771)
Disposal	1,302	-	-	-	-	-	-	-	1,302
Balances on December 31, 2019	(1,895)	-	(10,295)	(370)	-	(1,578)	(3,666)	(2,586)	(20,391)
Net book value									
Balances on December 31, 2018	630	553	19,460	589	33,087	1,376	-	315	56,010
Balances on December 31, 2019	(1,233)	553	21,443	502	33,087	-	-	-	54,352

(a) Refers to costs incurred in connection with the internal development of technological innovations for existing products, which were recorded as intangible assets in accordance with CPC 04 (R1)/IAS 38.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

	Consolidated							
	Software	Trademarks and patents	Internal development (a)	Other assets	Goodwill	Technology	Customer portfolio	Total intangible assets
Cost								
Balances on January 1, 2018	2,294	2,412	23,863	872	37,990	10,717	3,283	81,431
Additions from business acquisitions	1,102	4	-	-	19,867	-	1,190	22,163
Additions for the year	1,555	3	10,464	-	-	-	-	12,022
Disposals	(2,204)	-	-	-	(1,984)	(194)	(87)	(4,469)
Balances on December 31, 2018	2,747	2,419	34,327	872	55,873	10,523	4,386	111,147
Additions from business acquisitions	391	7,553	-	-	61,720	14,179	8,177	92,020
Additions for the year	279	31	12,397	-	354	-	-	13,061
Disposal	(1,700)	-	(2,324)	-	-	-	-	(4,024)
Balances on December 31, 2019	1,718	10,003	44,399	872	117,947	24,702	12,563	212,203
Amortization								
Balances on January 1, 2018	(2,107)	(165)	(5,630)	(196)	-	(9,017)	(2,102)	(19,217)
Amortization for the year	(255)	(37)	(3,247)	(87)	-	(527)	(720)	(4,873)
Disposal	949	-	-	-	-	-	-	949
Balances on December 31, 2018	(1,413)	(202)	(8,877)	(283)	-	(9,544)	(2,822)	(23,141)
Amortization for the year	(2,185)	(463)	(5,008)	(87)	-	(1,850)	(1,386)	(10,979)
Disposal	2,707	119	1,410	-	-	-	-	4,236
Balances on December 31, 2019	(891)	(546)	(12,475)	(370)	-	(11,394)	(4,208)	(29,884)
	(891)	(546)	(12,475)	(370)	-	(11,394)	(4,208)	(29,884)
Net book value								
Balances on December 31, 2018	1,334	2,217	25,450	589	55,873	979	1,564	88,006
Balances on December 31, 2019	826	9,457	31,924	502	117,947	13,308	8,355	182,319

(a) Refers to costs incurred in connection with the internal development of technological innovations for existing products, which were recorded as intangible assets in accordance with CPC 04 (R1)/IAS 38.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

a) Research and development cost

Research expenses are recorded in the statement of operations, as incurred. The development costs of a specific project, more specifically software, are recognized as intangible assets whenever future economic benefits are likely to be generated and the Company demonstrates that the requirements in CPC 04/IAS 38 were met: (i) the technical feasibility of completing an intangible asset that it will be available for use or sale; (ii) the intent to complete the asset and the ability to use or sell the asset; (iii) how the asset will generate future economic benefits; (iv) the availability of funds to complete the asset; (v) the ability to reliably assess the expenses incurred over the course of the development stage.

Following the initial recognition, the asset is stated at cost minus accumulated amortization and impairment losses. Amortization starts upon completion of the development and the asset becoming available for use and extends for the year of future economic benefits. During the development year, the asset is tested for impairment annually. Upon completion of the project, the asset is tested whenever there is an indication of impairment.

b) Goodwill based on expected future profitability

The goodwill from a business combination is recorded in accordance with CPC 15/IFRS 3, consisting of the result of the difference between the purchase consideration and the fair value of the net identifiable assets of the acquired entity. Goodwill is not amortized, but it is tested for impairment at least annually.

For the purposes of the Company's financial statements, goodwill is recorded in investments, while for the purposes of the Consolidated statements, goodwill is presented in intangible assets.

c) Impairment test

There were no impairment losses for the years ended December 31, 2019 in either the Company's or the Consolidated statements.

The goodwill acquired through business combinations is allocated to each of the cash generating units (CGUs) for impairment test, as shown below:

<u>CGU</u>	<u>Be online/SaaS</u>		<u>Commerce</u>		<u>Consolidated</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Goodwill carrying amount	101,395	39,321	16,552	16,552	117,947	55,873

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

The Company performed impairment tests as at December 31, 2019, 2018 having considered, among other factors, the economic moment in Brazil and its CGUs' historical results. The Company has performed a calculation to determine the recoverable amount of intangible assets with indefinite useful lives. The projected cash flows for each CGU considered a discount rate after income taxes applied to cash flow projections of 8.55% in 2019 (11.13% p.a. for 2018). Cash flows exceeding the 5-year period were extrapolated using a growth rate of 3.5% p.a. for 2018 and 2019. As a result of that analysis, there was no impairment.

Assumptions with material impact used in calculation of value in use

The value in use calculation for both the Be Online/SaaS and the Commerce CGUs is more sensitive to the following assumptions:

- Discount rate
- Perpetuity growth

Discount rate

The discount rate represents the risk assessment in the current market. The calculation of the discount rate is based on circumstances specific to the Company and derives from the weighted average capital costs.

Perpetuity growth

The estimate was primarily based on: (i) historical results achieved by the Company; (ii) expected organic growth; and (iii) expected inflation and economic (GDP) growth based on projections published by the Central Bank (Focus Report).

Sensitivity to changes in assumptions

The implications of key assumptions to the recoverable amount are discussed below:

- Discount rate – The Company's discount rate has minimal sensitivity to changes in projected interest rates because more than half of the make-up of its capital contributed by third parties is subject to a fixed rate, and nearly all the rest is indexed to the TJLP (Long-Term Interest Rate), an index with little structural susceptibility to fluctuations.
- Perpetuity growth – Upon application of a perpetuity growth reduction factor of 30%, perpetuity growth declines from the 5.5% originally considered to 3.85%. Nevertheless, there still is no impairment loss using this growth rate.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

12. Taxes payable in installments

Refer to payment of taxes in installments upon adhesion to the special tax payment program (PERT):

	Consolidated	
	2019	2018
PIS / COFINS	2,637	440
CPRB	1,275	240
IRPJ / CSLL	17,897	915
INSS	1,197	1,384
Others	1,662	1,162
Total tax installments	24,668	4,141
Current	2,808	728
Non-current	21,860	3,413

13. Loans and financing

Accounting policy

The Company raises funds in both *Reais* and U.S. dollars. To mitigate the foreign currency risk, the Company contracts derivative financial instruments (swaps). Further details concerning the Company's risk management policy and the use of derivatives for hedging purposes are provided in Note 18 - Financial Instruments.

A) Breakdown of loans and financing

Type	Interest	Maturity	Company		Consolidated	
			2019	2018	2019	2018
Prosoft Empresa	TJLP + 1.5% p.a.	June 2019	-	5,343	-	5,343
FINAME	IPCA + 4.93% p.a.	September 2020	429	855	429	855
Banking loan (US\$7,694)	US\$ + 4.31% p.a.	February 2021	18,887	30,240	18,887	30,240
Banking loan (US\$3,170)	US\$ + 5.22% p.a.	August 2019	-	12,504	-	12,504
Refundable Financing	TJLP + 0.5% p.a.	August 2021	18,979	30,279	18,979	30,279
Banking loan (US\$8,091)	US\$ + 5.44% p.a.	February 2022	26,859	-	26,859	-
Banking loan (US\$2,697)	US\$ + 4.77% p.a.	February 2022	8,947	-	8,947	-
Banking loan (US\$10,000)	US\$ + (3M Libor + 1.56%)*1.71 p.a.	July 2022	40,735	-	40,735	-
Other			1,516	3,160	1,677	3,280
			116,352	82,381	116,513	82,501
Current liabilities			48,620	43,594	48,679	43,714
Non-current liabilities			67,732	38,787	67,834	38,787

The amounts recorded in non-current liabilities as at December 31, 2019 had the following maturity schedule:

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

	Company		Consolidated	
	2019	2018	2019	2018
Current liabilities	48,620	43,594	48,679	43,714
2021	43,437	25,541	43,539	25,541
2022	24,295	13,246	24,295	13,246
Non-current liabilities	67,732	38,787	67,834	38,787
Total	116,352	82,381	116,513	82,501

The lines of credit from BNDES (Prosoft Empresa) and Finep have bank guarantees representing 100% of the outstanding amount of such debts and are renewable annually following the best market quotations.

On May 28, 2013, the Company obtained from the Brazilian National Bank for Economic and Social Development (BNDES) a line of credit in the amount of R\$41,140 for investments in infrastructure, domestically-made equipment, research and development, training and quality under the BNDES' Development Program for the Domestic Software and Information Technology Service Industry (PROSOFT Empresa). The principal amount of the debt arising from this line of credit must be paid to the BNDES in 48 successive monthly installments, the first of which maturing in June 2015 and the last in July 2019.

On August 8, 2014, the Company had a line of credit approved in the amount of R\$44,895 by the FINEP for investment in technology projects. The interest rate applicable to this line of credit is equivalent to the TJLP +0.5 p.a., and maturity dates from August 15, 2017 (first installment) to August 15, 2021 (last installment). The first tranche in the amount of R\$17,958 was released to the Company on September 3, 2014, the second tranche in the amount of R\$13,469 was released on November 27, 2015, and the third tranche in the amount of R\$13,469 was released on December 23, 2016.

14. Salaries and related charges

Accounting policy

Salaries and benefits paid to the Company's employees and managers include, in addition to their fixed compensation (salaries and contributions to social security (INSS), vacation pay, 13th salary), variable compensation such as profit-sharing and share-based compensation. These benefits are recorded in the statement of operations for the year, as incurred.

	Company		Consolidated	
	2019	2018	2019	2018
Salaries and related expenses	6,734	6,653	9,608	7,758
Provision for vacation pay and charges	8,304	8,473	12,475	10,590
Profit-sharing plan (PPR)	4,742	5,095	6,683	5,937
	19,780	20,221	28,766	24,285

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

15. Provision for legal proceedings

Accounting policy

Provisions are recognized in accordance with CPC 25/IAS 37 when the Company has a present liability as a result of a past event, economic benefits are likely to be required to settle the liability and the amount of such liability can be reliably estimated. The loss probability evaluation includes an assessment of the evidence available, the hierarchy of laws, existing case law, the latest court decisions and how relevant they are to the legal system, as well as an assessment by an outside legal counsel.

Changes in the provision for legal proceedings are shown below:

	Company		
	Civil proceedings	Labor proceedings	Total
Balances on January 1, 2018	571	-	571
Additions (reversals)	(139)	822	683
Balances on December 31, 2018	432	822	1,254
Additions (reversals)	42	(358)	(316)
Balances on December 31, 2019	474	464	938

	Consolidated		
	Civil proceedings	Labor proceedings	Total
Balances on January 1, 2018	618	735	1,353
Additions (reversals)	(111)	87	(24)
Balances on December 31, 2018	507	822	1,329
Additions (reversals)	35	(358)	(323)
Balances on December 31, 2019	542	464	1,006

The main legal proceedings are summarized below:

Possible losses

The Company and its subsidiaries have ongoing civil and tax proceedings involving risks of loss assessed by Management as possible, based on the assessment of its legal counsel, for which no provisions have been recorded, as follows:

	Company		Consolidated	
	2019	2018	2019	2018
Civil	814	1,170	1,085	1,285
Labor	-	-	18	-
Tax	12,400	9,847	12,400	9,847
	13,214	11,017	13,503	11,132

The civil proceedings are mostly represented by claims for damages due to possible problems caused by the services rendered.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

The tax proceedings primarily refer to litigation over information on ancillary obligations and the tax basis for payroll charges for specific activities.

Tax proceedings: On December 31, 2015, a Tax Assessment Notice was issued by the São Paulo State Treasury Department against Locaweb seeking to demand payment of an alleged debt for unpaid ICMS on its software and website hosting operations and to charge Locaweb with failing to register as ICMS taxpayer in its capacity as communication service provider. The updated amount assigned to this case is R\$9,771, with likelihood of loss considered "Possible." Final judgment of the case is currently awaited in the São Paulo Tax Court.

For the provision for legal proceedings recorded, there is a balance of judicial deposits as at December 31, 2019 in the amount of R\$709 in the Company (R\$1,067 on December 31, 2018), and R\$765 in the Consolidated (R\$1,125 on December 31, 2018).

The tax returns filed by the Company and its subsidiaries at the federal, state and municipal levels are subject to review and final acceptance by the tax authorities, with a statute of limitations of five years.

16. Equity

A) Capital stock

As at December 31, 2019, Locaweb's capital stock subscribed and paid-in was represented by 91,596,653 (91,574,1153 on December 31, 2018), all of which are registered and book-entry shares with no par value, 91,596,653 of which are common shares (74,185,425 on December 31, 2018). Treasury shares totaled 19,118 shares.

The share distribution as at December 31, 2019 is shown below:

	Common	Total	%
Silver Lake Fundo de Investimento em Participações	17,388,727	17,388,727	18.98%
Claudio Gora	15,571,953	15,571,953	17.00%
Gilberto Mautner	15,571,953	15,571,953	17.00%
Michel Gora	15,571,953	15,571,953	17.00%
Ricardo Gora	15,571,953	15,571,953	17.00%
Andrea Gora	6,896,797	6,896,797	7.53%
Other shareholders	5,023,317	5,023,317	5.49%
	91,596,653	91,596,653	100.00%

On December 4, 2019, the shareholders approved an increase in the limit of the authorized capital of the Company to R\$2,000,000, amending the respective provision of the bylaws.

The Company may, by resolution of the Board of Directors, purchase its own shares to hold them as treasury shares and to subsequently cancel or sell them, up to the amount of the balance of earnings reserves, excluding the legal reserve, without reducing its capital stock, subject to the applicable statutory and regulatory provisions.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

The Company may, by resolution of the Board of Directors and according to a plan approved by the Shareholders' Meeting, grant stock options or warrants without preemptive rights to shareholders in favor of its managers, employees or individuals providing services to the Company, which option may be extended to managers and employees of the Company's subsidiaries, whether direct or indirect (Note 16).

Share issuance costs are recognized in a specific equity account, net of any tax effects.

B) Legal reserve

The Company allocates 5% of its annual net income to the legal reserve before the appropriation of dividends. The legal reserve is limited to 20% of the capital stock.

C) Interest on shareholders' equity and dividends

According to Law No. 9.249/95 and based on resolutions of the Board of Directors, the Company calculates interest on shareholders' equity based on its shareholders' equity and limits it to the pro rata variation in the Long-Term Interest Rate (TJLP), which is subject to withholding tax at the rate of 15%, excluding from such withholding those corporate shareholders which are demonstrably immune or exempt therefrom. Interest on shareholders' equity is part of the dividend basis, and tax deductible for the purposes of the Brazilian tax laws.

The Company's dividends and interest on shareholders' equity are calculated as determined by Management.

	2019	2018
Company's net income for the year	18,071	10,886
Offset of accumulated losses	-	(1,174)
Base income for allocation to legal reserve - 5%	18,071	9,712
Legal reserve - 5%	(904)	(486)
Net income after offset of accumulated loss and legal reserve allocation	17,167	9,226
Minimum compulsory dividend under the by-laws - 25% in 2019 (40% in 2018)	4,292	3,691
Additional dividends	1,608	1,758
Interest on shareholders' equity paid (gross)	3,500	5,449
Dividend distributed	2,400	-
Number of shares as at December 31 (thousand shares)	91,597	91,574
Dividend and interest on shareholders' equity per share - in Reais	0.06	0.06

D) Capital reserves

Capital reserves are formed by the amounts of share issuance costs, goodwill on capital transitions, and the amounts from the stock option plans reserve that are recorded in equity.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

E) Earnings reserve

The reserves refers to the retention of the accumulated income balance in order to fund the business growth project set forth in the Company's investment plan, according to the capital budget approved and proposed by Management for resolution at the Shareholders' Meeting, subject to article 196 of the Brazilian Corporate Law.

17. Share-based payment

Accounting policy

Since 2009, the Company has granted stock options in order to allow its managers and employees or those of other companies directly or indirectly controlled by the Company to buy the Company's shares, with to the purpose to: (a) strengthen the Company's ability to attract and retain talents; (b) align the interests of managers and employees of the Company or any other companies directly or indirectly controlled by the Company with the interests of the Company's shareholders; (c) share risks and gains with the Company's managers; and (d) balance short and long-term compensation methods.

The cost of transactions with employees settled with shares and awards granted is measured based on the fair value on the grant date, in accordance with CPC 10/IFRS 2. The fair value of stock options is determined using the Black and Scholes method.

The expense entry is recognized, together with the corresponding increase in equity, over the year in which the performance target and/or service condition is met, ending on the date when the full award is vested to the employee (vesting date).

The expense in the statement of operations for the year is recorded in "personnel expenses" and represents the changes in accumulated expenses recognized at the beginning and at the end of such year. No expense is recognized for stock options not completing their vesting year, except for options for which vesting is predicated on a market condition (a condition in connection with the price of Company shares), which are treated as vested irrespective of whether such market conditions are met, to the extent that all other vesting conditions are.

A) Stock Option Plan

The Board of Directors approved in 2019 the Twelfth Stock Option Plan. Option granted under this Plan can be exercised on January 1st and July 1st of each year ("Exercise Dates"), in full or in part.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

Starting from the reference date specified in each Stock Option Agreement (“Reference Date”), the following years are stipulated for exercising options granted under the Ninth Plan: (i) up to 25% of all shares vested can be acquired on the Exercise Dates upon lapse of 1 year of the Reference Date; (ii) up to 25% of the shares vested by exercising an option, plus any surplus from options not exercised on the previous Exercise Dates, can be acquired on the Exercise Dates upon lapse of 2 years of the Reference Date; (iii) up to 25% of the shares vested by exercising an option, plus any surplus from options not exercised on the previous Exercise Dates, upon lapse of 3 years of the Reference Date; and (iv) up to 25% of the shares vested by exercising an option, plus any surplus from options not exercised on the previous Exercise Dates, may be exercised on the Exercise Dates upon lapse of 4 years of the Reference Date (“Vesting Years”).

In any event, the amount of shares available to be acquired after each Vesting Year will remain in force until the Exercise Deadline (i.e. until July 1, 2024), and the portion of options not exercised by such date and according to the stipulated conditions will be deemed automatically expired, without any right to compensation.

The information on the Company’s stock option plans is summarized below:

Series	Date of grant	December 31, 2019				Strike price	Fair value	Number of shares			Total outstanding
		Reference date	First exercise date	Expiry date				Granted	Exercised	Expired	
Series A	07/15/2009	01/01/2008	01/01/2010	01/01/2017	4.31	7.29	2,420,291	(1,835,865)	(584,426)	-	-
Series B	07/15/2009	07/01/2009	07/01/2010	07/01/2018	4.31	7.29	166,932	(166,932)	-	-	-
Series C	09/03/2010	01/01/2010	01/01/2011	01/01/2019	4.31	8.13	995,000	(83,140)	(874,360)	-	37,500
Series D	07/01/2011	07/01/2011	01/01/2012	07/01/2019	5.25	6.56	430,000	(175,000)	(255,000)	-	-
Series E	01/01/2012	01/01/2012	01/01/2013	01/01/2020	5.25	8.29	930,000	(212,500)	(432,500)	-	285,000
Series F	07/01/2012	07/01/2012	01/01/2013	07/01/2020	10.96	16.25	128,000	-	(128,000)	-	-
Series G	01/01/2013	01/01/2013	01/01/2014	01/01/2021	9.28	17.77	1,392,000	-	(557,696)	-	834,304
Series H	04/01/2013	04/01/2013	01/01/2014	04/01/2021	10.96	18.45	330,000	-	(303,750)	-	26,250
Series I	01/01/2014	01/01/2014	01/01/2015	01/01/2022	10.96	16.96	685,000	-	(591,250)	-	93,750
Series J	07/01/2015	07/01/2015	07/01/2016	07/01/2022	9.05	16.27	385,000	-	(215,000)	-	170,000
Series K	03/01/2016	03/01/2016	03/01/2017	03/01/2022	10.00	14.05	700,000	-	-	-	700,000
Series L	04/01/2016	04/01/2016	04/01/2017	04/01/2022	10.00	14.05	780,000	-	(225,000)	-	555,000
Series M	04/01/2017	04/01/2017	04/01/2018	04/01/2023	10.00	12.74	470,000	-	(75,000)	-	395,000
Series N	07/01/2018	07/01/2018	07/01/2019	07/01/2024		9.04	1,090,000	-	(80,000)	-	1,010,000
Series O	05/14/2019	05/14/2019	05/13/2019	05/14/2019	7.00	15.55	450,000	-	-	-	450,000
Series P	05/14/2019	05/14/2019	05/13/2019	05/14/2019	7.00	15.55	280,000	-	-	-	280,000
							11,632,223	(2,473,437)	(4,321,982)		4,836,804

The table below shows the changes in the Company’s stock options:

	Number of stock options	Average strike price
Balance outstanding on December 31, 2018	4,889,054	8.46
Granted during the year	730,000	7.00
Expired during the year	(597,250)	7.64
Exercised during the year	(185,000)	5.19
Balance outstanding on December 31, 2019	4,836,804	8.46

As at December 31, 2019 and 2018, the number of exercisable stock options was 2,838,054 and 2,505,304, respectively.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

The following table presents the assumptions used for determining the fair value of the stock option on the grant date for the options granted in the years ended December 31, 2019:

	Plan 8 Series K	Plan 9 Series L	Plan 10 Series M	Plan 10 Series N	Plan 11 Series O	Plan 12 Series P
Dividend yield	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Expected volatility	34.08%	34.08%	27.00%	31.00%	27.00%	31.00%
Risk-free return rate (per annum)	13.00%	13.00%	7.00%	6.75%	7.00%	6.75%
Expected stock option life	4 years	4 years	4 years	4 years	4 years	4 years
Weighted-average price of shares (R\$)	10.00	10.00	10.00	7.00	10.00	7.00
Model used	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes

Technical pronouncement CPC 10/IFRS 2 - Share-based Payment requires the effects of share-based payment transactions to be reflected in the Company's income. The expense recorded in the Company's and the Consolidated statement of income for 2019 was R\$2,112 (R\$1,475 in 2018).

18. Earnings per share

A) Basic earnings per share

Basic earnings per share is calculated by dividing the net income attributable to the Company's shareholders by the weighted-average number of common shares outstanding during the year:

	2019	2018
Net income attributable to the Company's shareholders	18,071	10,886
Weighted-average number of common shares – in thousands	91,583	91,202
Basic earnings per share - R\$	0.20	0.12

B) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted-average number of common shares outstanding, assuming the conversion of all potential diluted common shares relative to stock options, and the dilution potential of such options is represented by 4,837 shares in 2019 (4,889 shares in 2018).

	2019	2018
Net income attributable to the Company's shareholders	18,071	10,886
Weighted-average number of shares, including potential dilution – in thousands	96,420	96,091
Diluted earnings per share - R\$	0.19	0.11

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

19. Net revenue

Accounting policy

(i) Revenue recognition

The Company and its subsidiaries have revenues from hosting, data center, telecommunication, software licensing, intermediation and billing services, among others. Revenues are recognized upon completion of performance obligations, in accordance with CPC 47/IFRS 15.

Revenues from services provided are recognized over the period during each service is provided, whereas revenues from products sold, software installation, e-commerce facilitation or payments and intermediation with marketplaces are recognized at a specific point in time.

(ii) Taxes on revenue

Revenues from services provided are subject to the following taxes and rates:

Tax	Rate
Social Integration Program ("PIS") - non-cumulative system	1.65%
Social Integration Program ("PIS") - cumulative system	0.65%
Social Security Contribution ("COFINS") - non-cumulative system	7.6%
Social Security Contribution ("COFINS") - cumulative system	3%
Tax on Services ("ISS")	2%-5%
Fund for Universal Telecommunication Services ("FUST")	1%
Technological Development Fund for Telecommunications ("FUNTTEL")	0.5%
Value Added Tax ("ICMS")	25%
Social Security ("INSS")	4.5%

These taxes are stated as deductions from sales. The credits resulting from the non-cumulative system of the PIS/COFINS taxes are stated as a deduction from the cost of services in the statement of operations. The reconciliation of gross revenue and net revenue is shown below.

A) Reconciliation of gross revenue and net revenue

	Company		Consolidated	
	2019	2018	2019	2018
Gross operating revenue	314,426	218,811	451,686	370,328
BeOnline & SaaS	314,426	218,811	360,895	308,551
Commerce	-	-	90,791	61,777
Discounts and rebates	(18,474)	(12,909)	(18,917)	(14,928)
BeOnline & SaaS	(18,474)	(12,909)	(18,499)	(14,693)
Commerce	-	-	(418)	(235)
Taxes on revenues	(32,297)	(23,875)	(47,052)	(40,417)
BeOnline & SaaS	(32,297)	(23,875)	(36,803)	(33,580)
Commerce	-	-	(10,249)	(6,837)
Net operating revenue	263,655	182,027	385,717	314,983
BeOnline & SaaS	263,655	182,027	305,593	260,278
Commerce	-	-	80,124	54,705

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

20. Operating costs and expenses

Accounting policy

Operating costs and expenses are recorded in the statement of operations as incurred. Costs related to revenues from services provided include salaries and payroll charges for development and service personnel, costs incurred in connection with inputs, especially Internet links, domain name registration and software license, and operating costs incurred in connection with installations and maintenance, as well as asset depreciation and amortization, especially servers and data center equipment.

	Company		Consolidated	
	2019	2018	2019	2018
Personnel expenses	(101,067)	(62,247)	(150,272)	(120,663)
Advisory and consulting services expenses	(15,520)	(9,502)	(18,700)	(12,192)
Depreciation and amortization expenses	(48,460)	(25,868)	(53,910)	(36,775)
Facilities expenses	(8,947)	(10,521)	(10,376)	(18,787)
Operating cost	(44,136)	(38,737)	(67,114)	(54,039)
Marketing expenses	(19,659)	(18,020)	(31,321)	(29,324)
Stock option plan expenses	(2,112)	(1,476)	(2,112)	(1,475)
Other general and administrative expenses	(3,790)	(3,098)	(5,181)	(4,865)
Total	(243,691)	(169,469)	(338,986)	(278,120)
Cost of services	(166,989)	(114,304)	(224,396)	(174,489)
Selling expenses	(47,738)	(34,751)	(70,234)	(62,322)
General and administrative expenses	(28,963)	(20,414)	(44,356)	(41,309)
Total	(243,690)	(169,469)	(338,986)	(278,120)

The balances relating other operating revenue (expenses) incurred in the year are shown below:

	Company		Consolidated	
	2019	2018	2019	2018
Other operating revenues				
Bonus received	49	185	49	357
Disposal of property and equipment	663	172	663	308
Gain on investment acquisition	-	-	1,680	82
Other revenues	3,895	21	3,820	49
Total other operating revenues	4,607	378	6,212	796
Other operating expenses				
Investment losses	-	(1,307)	-	(1,314)
Other expenses	-	-	-	7
Total other operating expenses	-	(1,307)	-	(1,307)
Total other operating revenues (expenses)	4,607	(929)	6,212	(511)

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

21. Financial results

	Company		Consolidated	
	2019	2018	2019	2018
Financial income				
Interest on financial investments	1,698	1,364	1,853	1,568
Change in foreign exchange rate	11	1,181	19	907
Interest	559	391	723	575
Derivative gains	4,002	5,039	4,002	5,039
Other financial income	114	334	161	796
	6,384	8,309	6,758	8,885
Financial expenses				
Interest	(14,029)	(12,526)	(15,249)	(13,432)
Mark-to-market of derivatives	(1,718)	(977)	(1,718)	(977)
Banking service fees (*)	(2,846)	(2,753)	(4,670)	(3,900)
Interest on leases	(5,193)	-	(5,415)	-
IOF (Tax on Financial Transactions)	(859)	(656)	(1,050)	(823)
Expense from prepayment or receivables	-	-	(4,564)	(3,539)
Net present value adjustment	(1,683)	(468)	(1,949)	(1,106)
Other financial expenses	(787)	(1,290)	(809)	(1,356)
	(27,115)	(18,670)	(35,424)	(25,133)
Financial results, net	(20,731)	(10,361)	(28,666)	(16,248)

(*) Banking service fees include charges, services and issue of payment documents.

22. Income taxes

Accounting policy

i) Current taxes

Income taxes comprise the income tax and the social contribution, and the companies Locaweb, Locaweb Telecom, Yapay, Superpay, E-commerce and Ananke Tecnologia are taxed by the *Lucro Real* method, in which the income tax is calculated based on the taxable profit at the rate of 15%, plus an additional 10% for profits exceeding R\$240 in the 12-month year, while the social contribution is calculated at the rate of 9% of the taxable profit, all recognized on an accrual basis. The companies Ananke Participações, Primehost, Ion and Novaion are taxed by the presumed profit method.

Any advances or offset amounts, such as withholding income tax and social contribution, are stated in current or non-current assets, according to the expected realization thereof.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

ii) Deferred taxes

Deferred income taxes are generated by temporary differences, as at the balance sheet dates, between the tax basis of assets and liabilities and the respective carrying amounts.

Deferred tax assets are recognized to the extent the future taxable profit is available for use to offset temporary differences based on projects of future results prepared and based on internal assumptions and on future economic scenarios that may change.

The carrying amount of deferred income tax assets is reviewed on the date of each balance sheet and reduced, where applicable, to the extent that it ceases to be likely that there will be sufficient taxable profits to enable the realization thereof. Derecognized deferred tax assets are reviewed on each balance sheet date and recognized to the extent that future taxable profits become likely to enable deferred tax assets to be recovered.

The deferred tax breakdown is shown below:

	Company		Consolidated	
	2019	2018	2019	2018
Provision for profit sharing	1,612	1,732	2,269	2,010
Depreciation of leased property (leasing)	(101)	(4)	(101)	(4)
Provision for legal proceedings	319	426	342	452
Other provisions	3,027	626	1,935	44
Intangible assets identified in business combinations	1,072	83	1,369	240
Derivatives and foreign exchange fluctuation	1,253	575	1,253	575
Goodwill	(8,868)	(6,391)	(8,868)	(6,391)
Tax losses	4,363	5,658	5,455	6,909
Total deferred income taxes	2,677	2,705	3,654	3,835

The Company has tax losses carryforward which do not expire but are limited to 30% offset of the taxable profit for the year.

Management prepared an analysis of the Company's future realization of the deferred income tax assets as at December 31, 2019, considering the likely ability to generate taxable profits, as shown below.

	Company	Consolidated
2020	10,574	10,526
2021	536	1,049
2022	536	1,048
Total	11,646	12,623

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

Changes in deferred taxes are shown below:

Company Nature	Balance 2018	Merger Additions	Result Gain /(loss)	Balance 2019
Tax losses carryforward	5,657		(1,295)	4,362
Tax benefit from goodwill	(6,390)		(2,477)	(8,867)
Merger	996		-	996
Temporary differences	2,442		3,744	6,186
Total	2,705		(28)	2,677

Consolidated Nature	Balance 2019	Additions	Gain /(loss)	2019 2019
Tax losses carryforward	6,910		(1,454)	5,456
Tax benefit from goodwill	(6,390)		(2,477)	(8,867)
Merger	996	3		999
Temporary differences	2,319		3,747	6,066
Total	3,835	3	(184)	3,654

a) Reconciliation of income tax expenses

The reconciliation of the income tax expenses calculated by applying combined nominal tax rates and the income taxes expenses recorded in the statement of operations is shown below:

	Company		Consolidated	
	2019	2018	2019	2018
Income before income taxes	18,099	10,301	24,277	20,104
Income taxes at a combined rate of 34%	(6,154)	(3,502)	(8,254)	(6,835)
Adjustments to statement of the effective rate:				
Interest on shareholders' equity	1,190	1,853	1,190	1,853
Effect of presumed profit method	-	-	(443)	(1,039)
Effect of equity results	4,848	3,071	-	-
Effect of accounting for stock option plan	(718)	(502)	(718)	(502)
Options exercised	36	177	36	177
Effect of officer vehicle depreciation and other expenses	(82)	(72)	(414)	(239)
Derecognition for prior periods	-	-	-	758
Derecognition of deferred tax from merger	-	-	-	(3,098)
Allowance for doubtful accounts	-	-	-	-
Amortization of intangible assets	(130)	(254)	(130)	(254)
Tax losses carryforward assets not recognized (tax loss)	-	-	(992)	(915)
Tax benefit from <i>Lei do Bem</i>	1,407	-	2,604	979
Other	(425)	(186)	915	(103)
Income taxes in the statement of operations	(28)	585	(6,206)	(9,218)
	0.15%	5.68%	25.56%	45.85%

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

23. Segments

Accounting policy

The Company has two operating segments: Be Online & SaaS and Commerce.

The Be Online & SaaS segment comprises hosting and cloud services, as well as services known as “SaaS” (email, marketing intelligence software and site builder). The companies of the Locaweb group included in this segment are: (i) Locaweb, (ii) Locaweb Telecom Telecomunicações Ltda. (“Locaweb Telecom”), (iii) Ananke Participações Ltda. (“Cluster2Go”); (iv) Ananke Tecnologia Ltda. (direct subsidiary of Ananke Participações); (v) Primehost do Brasil Serviços de Internet Ltda. (direct subsidiary of Ananke Participações); (vi) Ion Tecnologia da Informação Ltda. (direct subsidiary of Ananke Participações); and (vii) Novaion Tecnologia Ltda. (direct subsidiary of Ananke Participações).

The Commerce segment comprises e-commerce solutions services, platform, integration to the marketplace, and the sub-acquirer business. The companies of the group included in this segment are: (i) E-Commerce Services Tecnologia Ltda. (“E-Commerce”); (ii) Yapay Pagamentos Online Ltda. (“Yapay”, formerly denominated “Tray Services”); (iii) Superpay Tecnologia em Pagamentos Ltda. (“Superpay”) and (iv) FBITS Desenvolvimento de Software S.A. (“FBits”).

a) Statement of operations by Segment

	2018			2019		
	BeOnline & SaaS	Commerce	Consolidated	BeOnline & SaaS	Commerce	Consolidated
Gross operating revenue, net of discounts	342,396	90,373	432,769	293,858	61,542	355,400
Taxes and contributions on revenue	(36,803)	(10,249)	(47,052)	(33,580)	(6,837)	(40,417)
Net operating revenue	305,593	80,124	385,717	260,278	54,705	314,983
Cost of services	(197,085)	(27,311)	(224,396)	(155,965)	(18,524)	(174,489)
Gross profit	108,508	52,813	161,321	104,313	36,181	140,494
Selling expenses	(53,290)	(16,944)	(70,234)	(50,463)	(11,859)	(62,322)
General and administrative expenses	(33,443)	(10,913)	(44,356)	(36,063)	(5,246)	(41,309)
Other operating income (expenses)	4,688	1,524	6,212	(507)	(4)	(511)
Income before financial results	26,463	26,480	52,943	17,280	19,072	36,352
Operating expenses included in Costs and Expenses:						
Depreciation and amortization expenses	50,417	3,493	53,910	34,153	2,622	36,775
Stock option plan expenses	2,112	-	2,112	1,476	-	1,476

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

b) Principal assets and liabilities by Segment

	2019		
	BeOnline & SaaS	Commerce	Consolidated
Net accounts receivable	26,383	98,902	125,285
Property and equipment	70,162	4,408	74,570
Intangible assets	155,024	27,295	182,319
Total principal assets	251,569	130,605	382,174
Loans and financing	116,513	-	116,513
Deferred revenue	37,116	-	37,116
Payables to clients	-	82,160	82,160
Total principal liabilities	153,629	82,160	235,789

	2018		
	BeOnline & SaaS	Commerce	Consolidated
Net accounts receivable	20,305	40,956	61,261
Property and equipment	73,695	3,623	77,318
Intangible assets	64,520	23,486	88,006
Total principal assets	158,520	68,065	226,585
Loans and financing	82,470	31	82,501
Deferred revenue	30,415	-	30,415
Payables to clients	-	30,117	30,117
Total principal liabilities	112,885	30,148	143,033

24. Financial instruments

Accounting policy

A) Financial assets

The financial assets of the Company and its subsidiaries include cash and cash equivalents, restricted cash, accounts receivable, and accounts receivable from related parties.

The initial classification of financial assets, in accordance with CPC 48/IFRS 9, depends on their characteristics and the business model used by the Company to manage them. Cash and financial investments are measured at fair value through profit or loss. Accounts receivable, as well as accounts receivable from to related parties, are measured at amortized cost.

Financial assets measured at fair value through profit or loss are initially recorded at fair value, while gains and losses resulting from subsequent measurements at fair value are classified in financial income.

Assets measured at amortized cost are accounted for at cost, and revenues from interest - which are calculated based on the effective interest rate for the time elapsed - on the principal amount, is recorded in Financial income in the statement of operations.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

The Company estimates the losses due to non-receipt of financial assets on a monthly basis. Loss estimates are recorded when there is objective evidence that the Company will not be able to receive all due or past-due amounts. Subsequent recoveries, when incurred, are recorded in the statement of operations for the year.

B) Financial liabilities

Financial liabilities of the Company and its subsidiaries include suppliers, loans and financing, accounts payable to former shareholders, and accounts payable to related parties.

All financial liabilities are initially measured at fair value and, subsequently, at amortized cost, as per the effective interest rate. The Company has not designated any financial liabilities at fair value through profit or loss.

C) Derivatives

The Company uses derivative financial instruments, such as cross-currency interest rate swaps, to hedge against foreign currency and interest rate risks. Derivative financial instruments are initially recorded at fair value on the date when the derivative contract is signed, and are measured at fair value subsequently. Derivatives are recorded as financial assets when the fair value is positive, and as financial liabilities when the fair value is negative.

The fair value of derivative financial instruments is recorded based on the fair value of each transaction contracted on the respective monthly closing dates. Any gain or loss from changes in the fair value of derivatives during the year, is recorded directly in the statement of operations.

The tables below present a breakdown of financial assets and liabilities on December 31, 2019:

	Company			
	Balance on 12/31/2019			
	Measured at fair value through profit or loss	Amortized cost	Book value	Fair value
Financial assets				
Cash and cash equivalents	16,076	-	16,076	16,076
Net accounts receivable	-	21,304	21,304	21,304
Derivatives	4,932	-	4,932	4,932
Accounts receivable - related parties	-	1,507	1,507	1,507
Restricted cash	10,013	-	10,013	10,013
Total	31,021	22,811	53,832	53,832
Financial liabilities				
Loans and financing	-	116,352	116,352	116,352
Suppliers	-	7,025	7,025	7,025
Lease liabilities	-	67,141	67,141	67,141
Obligations with Investment acquisitions	-	44,835	44,835	44,835
Total	-	235,353	235,353	235,353
Balance on 12/31/2019				

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

	Measured at fair value through profit or loss	Amortized cost	Book value	Fair value
Financial assets				
Cash and cash equivalents	25,275	-	25,275	25,275
Net accounts receivable	-	125,285	125,285	125,285
Derivatives	4,932	-	4,932	4,932
Restricted cash	10,013	-	10,013	10,013
Total	40,220	125,285	165,505	165,505
Financial liabilities				
Loans and financing	-	116,513	116,513	116,513
Suppliers	-	12,833	12,833	12,833
Lease liabilities	-	70,218	70,218	70,218
Obligations with Investment acquisitions	-	44,835	44,835	44,835
Payables to clients	-	82,160	82,160	82,160
Total	-	326,559	326,559	326,559

Company				
Balances on 12/31/2018				
	Measured at fair value through profit or loss	Amortized cost	Book value	Fair value
Financial assets				
Cash and cash equivalents	12,381	-	12,381	12,381
Net accounts receivable	-	17,389	17,389	17,389
Derivatives	5,513	-	5,513	5,513
Accounts receivable - related parties	-	593	593	593
Restricted cash	7,709	-	7,709	7,709
Total	25,603	17,982	43,585	43,585
Financial liabilities				
Loans and financing	-	82,381	82,381	82,381
Suppliers	-	10,780	10,780	10,780
Obligations with investment acquisitions	-	13,724	13,724	13,724
Total	-	106,885	106,885	106,885

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

	Consolidated			
	Balances on 12/31/2018			
	Measured at fair value through profit or loss	Amortized cost	Book value	Fair value
Financial assets				
Cash and cash equivalents	17,782	-	17,782	17,782
Net accounts receivable	-	61,261	61,261	61,261
Derivatives	5,513	-	5,513	5,513
Restricted cash	7,709	-	7,709	7,709
Total	31,004	61,261	92,265	92,265
Loans and financing	-	82,501	82,501	82,501
Suppliers	-	12,265	12,265	12,265
Obligations with investment acquisition	-	19,253	19,253	19,253
Payables to clients	-	30,117	30,117	30,117
Total	-	144,136	144,136	144,136

Considering the terms and characteristics of these instruments, which are systematically renegotiated, their book values are similar to their fair value.

A) Purpose of use of derivative financial instruments

Derivative financial instruments contracted by the Company are intended to hedge against foreign currency risk relating to loans and financing denominated in foreign currency. The Company has no derivative financial instruments for speculative purposes.

On March 6, 2018, the Company entered into a cross-currency interest rate swap agreement with notional value of R\$25,000, equivalent to US\$7,694 on the inception date, when the exchange rate was R\$3.2494 per U.S. dollar.

This transaction, which resulted from an external financing backed in foreign currency, under circular letter 3844/2017 of the Central Bank of Brazil (BACEN), enabled the Company to replace its exposure to U.S. dollar fluctuations, plus 4.31% p.a., for a fixed rate on the notional value.

On February 18, 2019, the Company entered into two cross-currency interest rate swap agreements with total notional value of R\$40,000, equivalent to US\$10,787 on that the inception date, when the exchange rate was R\$3.7080 per U.S. dollar.

This transaction, which resulted from a financing backed in foreign currency under circular letter 3844/2017 of the Brazilian Central Bank (BACEN), enabled the Company to replace its exposure to U.S. dollar fluctuations, plus 4.77% p.a., for a fixed rate for an amount equivalent to three quarters of the transaction (R\$30,000), and for one quarter of the amount, a floating rate indexed to the CDI, plus a fixed spread.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

On July 2, 2019, the Company entered into a cross-currency interest rate swap agreement with a notional value of R\$38,300, equivalent to US\$10,000 at that the inception date, when the exchange rate was R\$3.8300 per U.S. dollar.

This transaction, which resulted from a financing denominated in foreign currency and based in federal law No. 4131/62, enabled the Company to replace its exposure to U.S. dollar fluctuations, plus a fixed rate of 4.57% p.a., for a fixed rate.

The Company has internal controls over its derivative financial instruments which, according to Management, are appropriate to control the risks associated to each market action strategy. The results achieved by the Company from derivative financial instruments indicate that risks are being appropriately controlled by the Management.

D) Risk management policy

The Company's operations expose it to a number of financial risks: market risk (including interest rate, foreign currency, and price risks), credit risk and liquidity risk.

The Company's Treasury area manages risks according to the policies approved by the Board of Directors. The Treasury area identifies, assesses and protects the Company against certain financial risks in cooperation with the Company's operating units.

The Board of Directors establishes the principles for risk management, as well as the principles applicable to specific areas for interest rate risk, foreign currency risk, credit risk, use of derivative and non-derivative financial instruments, and investment of cash surplus.

i) Interest rate risk

This risk arises from the possibility of losses incurred by the Company as a result of fluctuations in interest rates that may increase the financial expenses on loans and financing raised on the market.

ii) Credit risk

Credit risk refers to the risk of failure by a counterparty to meet their obligations on a financial instrument or agreement with a customer, which would result in loss. The Company is particularly exposed to credit risk regarding cash and cash equivalents, and accounts receivable. The Company reduces its credit risk by using the following policies:

- Cash and cash equivalents: The Company adopts methods that limit the amounts that may be allocated to a single financial institution, and take into account the monetary limits and credit ratings of the financial institutions with which it operates, which are updated on a regular basis.
- Accounts receivable: Credit risk is reduced to the extent that the assets represented by receivables and services are intermediated by credit card administration companies. In this case, the risk will be fully transferred to these companies, and the only risk assumed by the Company is the non-recognition of purchases by customers, for which an impairment is calculated and recorded.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

The amounts receivable from individual customers through bank slips are limited, and represented approximately 20% of total accounts receivable on December 31, 2019, and 30% in 2018. The maximum exposure to credit risk on December 31, 2019 is the amount shown in the balance sheet.

iii) *Liquidity risk*

Liquidity risk derives from the possibility that the Company or its subsidiaries may not have sufficient funds to meet their commitments upon the realization and liquidation of its rights and obligations.

The Company and its subsidiaries organize the maturities of non-derivative financial contracts as described in Note 12, to manage its liquidity.

The liquidity and cash flows of the Company and its subsidiaries are managed on a daily basis by the management areas, so as to ensure that operating cash generation and the advance raising of funds, when required, are sufficient to maintain their schedule of payments and avoid liquidity risk.

The table below shows the maturities of the Company's consolidated financial liabilities:

	Less than 3 months	3 to 12 months	More than 1 year	Total
December 31, 2019				
Other liabilities	1,438	-	2,098	3,536
Suppliers	12,833	-	-	12,833
Loans and financing	12,052	36,627	67,834	116,513
Lease liabilities	1,354	4,062	64,802	70,218
Payables to clients	82,160	-	-	82,160
Obligations with investment acquisitions	-	14,697	30,138	44,835
	109,837	55,386	164,872	330,095

	Less than 3 months	3 to 12 months	More than 1 year	Total
December 31, 2018				
Other liabilities	2,063	-	-	2,063
Suppliers	12,265	-	-	12,265
Loans and financing	6,224	37,490	38,787	82,501
Payables to clients	30,117	-	-	30,117
Obligations with investment acquisitions	-	5,529	13,724	19,253
	50,669	43,019	52,511	146,199

iv) *Foreign currency risk*

Foreign currency risk refers to the risk of variation in future cash flows of loans denominated in foreign currency and financial instruments, due to variation in foreign exchange rates. The foreign currency risk could significantly impact the Company's financial results. In order to manage this risk, the Company uses derivative financial instruments (swaps) that are contracted with first-class financial institutions. Accordingly, the Company is hedged against fluctuations in foreign exchange rates on its loans and financing.

The Company's policy is to use derivative financial instruments only to reduce the risks from foreign

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

currency exposure, which is represented by loans and financing in foreign currency, and not for speculative purposes.

E) Sensitivity analysis

As at December 31, 2019, the Company was exposed to fluctuation in U.S. dollar rates on loans and financing in foreign currency; loans and financing that are linked to the Benchmark Rate (TR) and the Long Term Interest Rate (TJLP) - which are indices used in loans denominated in domestic currency, as well as to variation in the interest from Interbank Deposit Certificates (CDI), which is the index use to determine earnings from financial investments(CDB). The sensitivity analysis of these indices considers three different scenarios.

According to Management's analysis, an increase of 5% was assumed for the probable scenario. Another two scenarios (A and B) are also shown. The Company assumed increases of 25% (scenario A) and 50% (scenario B – extreme situation) in its forecasts. The table below sets forth the sensitivity analysis for each type of risk considered material by Management.

Transaction	Risk	Balance on 12/31/2019	(loss) – Consolidated		
			Probable	Scenario A	Scenario B
Loans in foreign currency (U.S. dollar)*	Increase in US dollar rate	(95,428)	(4,768)	(23,841)	(47,682)
Loans in <i>Reais</i> adjusted by the IPCA index	Increase in IPCA index	(429)	(1)	(5)	(9)
Loans in <i>Reais</i> adjusted by the TJLP rate	Increase in TJLP rate	(18,979)	(53)	(264)	(529)
Financial investments adjusted by the CDI	Reduction in CDI	35,288	(78)	(388)	(776)
U.S. dollar rate		4.03	4.23	5.04	6.05
TJLP		5.57%	5.85%	6.96%	8.36%
CDI (downward scenario)		4.40%	4.18%	3.30%	2.20%
IPCA (upward scenario)		4.31%	4.53%	5.39%	6.47%

(*) Financing contracts adjusted by the foreign currency are hedged by foreign exchange swap instruments against foreign exchange fluctuations.

Sources: U.S. dollar: PTAX rate of the Brazilian Central Bank
TJLP: Ministry of Economy
CDI: B3 Brasil, Bolsa, Balcão
IPCA: IBGE (Brazilian Institute of Geography and Statistics)

F) Capital management

The Company's objective in managing its capital is to safeguard its ability to continue offering a return to shareholders, and benefits to other stakeholders, as well as to maintain an ideal capital structure to reduce these costs, or costs relating to the generation of these results and benefits.

In order to maintain or adjust its capital structure, the Company may review its receivables advance policy, and the payment of non-mandatory dividends; return capital to shareholders; or issue new shares, for example to reduce its indebtedness level. Capital management is controlled at the consolidated level, as follows:

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

	2019	2018
Loans and financing	116,513	82,501
(+) Lease liabilities	70,218	-
(+) Balances of derivatives	(4,932)	(5,513)
(-) Cash and cash equivalents	(25,275)	(17,782)
(-) Restricted cash	(10,013)	(7,709)
(=) Net debt	146,511	51,497
(+) Total equity	88,333	61,087
(=) Total equity and net debt	234,844	112,584

G) Fair value of financial instruments

The valuation method used for calculating the market value of financial liabilities (if applicable) and derivative financial instruments (swaps) was the discounted cash flow, taking into account the expectations of liquidation or realization of liabilities and assets at the market rates in force as at the balance sheet date.

Fair values are calculated by estimating future operating cash flows, using the curves of BM&FBovespa, and discounting them to present value using the market exchange rates for swaps, as published by BM&FBovespa.

Market values of derivatives shown below were obtained using the market rates in effect as at the balance sheet date, and the rates estimated by the market. In order to calculate the coupon of positions indexed to foreign currency, the Company adopted a linear convention of 360 calendar days. The table below shows the variation in fair values of derivative instruments and their respective amounts receivable (payable) at the end of the year.

Description	December 31, 2019		
	Company and Consolidated		
	Reference value (notional)	Fair value	Amount receivable/(payable)
Funding 3844/2018			
Asset position	18,887	19,045	19,045
Liability position	(15,544)	(16,128)	(16,128)
	3,343	2,917	2,917
Funding- 3844/2019-1			
Asset position	26,859	27,651	27,651
Liability position	(24,854)	(26,343)	(26,343)
	2,005	1,308	1,308
Funding - 3844/2019-2			
Asset position	8,946	9,144	9,144
Liability position	(8,251)	(8,459)	(8,459)
	695	685	685
Funding - 4131			
Asset position	40,735	41,458	41,458
Liability position	(39,151)	(41,436)	(41,436)
	1,584	22	22
Total derivative financial instruments	7,627	4,932	4,932
Mark-to-market - MTM (Balance on 12/31/19)		(2,695)	(2,695)
Mark-to-market - MTM (Balance on 12/31/18)			(977)
Mark-to-market - MTM for the period			(1,718)

December 31, 2018
Company and Consolidated

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

Description	Reference value (notional)	Fair value	Asset (liability)
Funding 3844			
Asset position	30,240	30,462	30,462
Liability position	(25,863)	(26,859)	(26,859)
	4,377	3,603	3,603
Funding 4131			
Asset position	12,504	12,629	12,629
Liability position	(10,391)	(10,719)	(10,719)
	2,113	1,910	1,910
Total derivative financial instruments	6,490	5,513	5,513
Mark-to-market – MTM			(977)

H) Fair value hierarchy

The fair values of financial investments and swaps are classified in Level 2 of the fair value hierarchy. The Company has no financial instruments classified in Levels 1 or 3.

I) Change in liabilities arising from financing activities

	Company					
	12/31/2019			12/31/2018		
	Changes with cash effects	Changes without cash effects	Total	Changes with cash effects	Changes without cash effects	Total
Loans and financing – beginning of the year			82,381			67,949
Derivatives – beginning of the year			(5,513)			(290)
(=) Loans and financing, net of derivatives			76,868			67,659
(+) New loans and financing	78,300	-	78,300	28,820	441	29,261
(+) Accrued interest, foreign exchange rate variation and derivatives	-	9,869	9,869	-	6,816	6,816
(-) Principal repayment in the year	(46,020)	-	(46,020)	(22,194)	-	(22,194)
(-) Interest, foreign exchange rate variation and derivatives paid	(9,315)	-	(9,315)	(5,651)	-	(5,651)
(+-) Mark-to-market of derivatives	-	1,718	1,718	-	977	977
(=) Loans and financing, net of derivatives	22,965	11,587	111,420	975	8,234	76,868
Loans and financing – end of the year			116,352			82,381
Derivatives – end of the year			(4,932)			(5,513)

Consolidated	
12/31/2019	12/31/2018

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

	Changes with cash effects	Changes without cash effects	Total	Changes with cash effects	Changes without cash effects	Total
Loans and financing – beginning of the year	-	-	82,501	-	-	68,088
Derivatives – beginning of the year	-	-	(5,513)	-	-	(290)
(=) Loans and financing, net of derivatives	-	-	76,988	-	-	67,798
(+) New loans and financing	78,300	-	78,300	28,820	441	29,261
(+) Loans and financing from acquired companies	-	2,857	2,857	-	1,330	1,330
(+) Interest, foreign exchange rate variation and derivatives	-	10,336	10,336	-	6,983	6,983
(-) Principal repayment in the year	(48,737)	-	(48,737)	(23,542)	-	(23,542)
(-) Interest, foreign exchange rate variation and derivatives paid	(9,881)	-	(9,881)	(5,819)	-	(5,819)
(+/-) Mark-to-market of derivatives	-	1,718	1,718	-	977	977
(=) Loans and financing, net of derivatives	19,682	14,911	111,581	(541)	9,731	76,988
Loans and financing – end of the year			116,513			82,501
Derivatives – end of the year			(4,932)			(5,513)

25. Transactions not affecting cash

In the years ended December 31, 2019 and 2018, the following transactions did not affect cash:

	Company		Consolidated	
	2019	2018	2019	2018
Finance leases	-	442	-	442
Purchase of machinery and equipment	5,333	5,082	5,142	4,431
	5,333	5,524	5,142	4,873

26. Insurance coverage

The Company and its subsidiaries contract insurance coverage to protect against possible damage to property and assets, including real estate and vehicles. The insurance coverage was as follows:

	Consolidated	
	2019	2018
Vehicles	5,500	4,500
Business (real estate and assets)	359,860	326,207
Electricity	201	288
Civil liability of managers	10,000	10,000
Civil liability	1,100	1,100
	376,661	342,095

Property insurance policies covering the Company's business units include coverage against fire, lightning, explosion, robbery and aggravated theft of property, and electrical damage.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

The Company has no insurance coverage for damage resulting from the interruption of its activities, or to cover any indemnities that it may be forced to pay to customers and/or third parties, due to errors or failures in its operations, or non-fulfillment of the obligations that are under its responsibility.

Management believes that its insurance policies, which are contracted with first-class insurance companies, reflect usual market conditions for the types of coverage contracted. The scope and amounts of the policies are deemed appropriate by Management and insurance advisors.

27. SUBSEQUENT EVENTS

27.1 Public offering of shares

On February 5, 2020, the Company held a public offering for primary and secondary distribution of seventy-six million, eight hundred and nineteen thousand, nine hundred and ninety-nine (76,819,999) registered, book-entry common shares, with no par value, all free and clear of any liens or encumbrances ("Shares"), of which:

- (i) (thirty-three million, three hundred and thirty-three thousand, three hundred and thirty-three (33,333,333) are new Shares issued by the Company ("Primary Offering").
- (ii) forty-three million, four hundred and eighty-six thousand, six hundred and sixty-six (43,486,666) are Shares issued by the Company and owned by the Selling Shareholders; taking into account the placement of additional shares and the full placement of the Supplementary Shares ("Secondary Offering" and, together with the Primary Offering, the "Offering"), at the amount of R\$17.25 per Share ("Price per Share"), totaling R\$1,325,145.

As of December 31, 2019, the Company incurred expenses in the amount R\$2,050 with the Offering, which are recorded in Other assets, under current assets, and will be reimbursed by the Selling Shareholders and written off against equity on the transaction settlement date.

27.2. COVID-19 - Effect of Coronavirus on the Financial Statements

The Company assessed the possible effects of Coronavirus (COVID-19) on its financial statements for the year ended December 31, 2019, and points out that, to date, there has been no relevant or substantial impact on its business that would justify changes in the figures disclosed, following the determination of CVM Circular Letter No. 02/2020, published on March 10, 2020. Locaweb's Management has analyzed and taken effective measures to preserve the integrity of its people and assets. Among the main actions taken, we highlight the topics below:

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2019 and 2018
(In thousand of Reais, unless otherwise stated)

COVID-19 – Actions related to our employees and customers

In order to preserve our employees, we created a crisis committee, formed by the CEO and officers, which assesses the Covid-19 scenario on a daily basis. Our focus is on the safety of our employees and the continuity of our business. The main decisions made and already implemented are as follows:

- Intensive **guidance and information** plan for employees, following determinations issued by the WHO and other reliable sources
- We implemented a **Home Office plan for more than 95% of the entire Company**. As we are already structured for remote work, this did not affect our productivity and generated no additional cost.
- **We reassured** our customers about our normal operations through communications on the website and individualized reports.
- We reinforced all hygiene measures. The cleaning team is doing an intense job in the areas of greatest risk and making alcohol gel available in dozens of points of greater circulation of people and posing higher risk (for example: biometrics).
- **We anticipated the flu vaccination campaign to March 20, 2020.**

COVID-19: Characteristics of our operation

Our Business is resilient due to its characteristics. We highlight below some extremely important details;

- We have **97% of recurring revenue** and with **automatic renewal**;
- Low concentration of revenues: Our largest customer accounts for **less than 1% of the company's revenue**;
- We are a **capitalized and cash-generating** company; and
- Over **80% of our sales are made through digital channels**.

COVID-19: Potential impacts on our operation

- Products for small customers (which are the focus of Locaweb) are experiencing low impact (low ticket, essential service);
- New sales of products for medium and large customers will be reduced until the restriction on circulation ends: Tray Corp e All In;
- Default has affected mainly the largest customers;
- Some products showed an increase in sales: Tray // PABX // Delivery Direto;
- Appreciation of the Dollar may be an opportunity for products from competitors priced in US\$;
- The economy slowdown may reduce GMV growth, however, the offline business search for online solutions may be an opportunity.
