

Individual and Consolidated Financial Statements

Locaweb Serviços de Internet S.A.

December 31, 2018, 2017 and 2016
with Independent Auditor's Report

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, 2018, and the statements of operations, comprehensive income (loss), 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, 2018, 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.

Emphasis of matter – Restatement of financial statements

As mentioned in Note 4.3 to the individual and consolidated financial statements that have been changed and are being restated by the Company to present the statements of value added, segment information and earnings (loss) per share; to improve certain disclosures in the notes to the financial statements; and to restate accounting balances due to the accounting policy review that Management understands best to reflect the Company's operations and due to the correction of errors described in that note. On March 21, 2019, April 6, 2018 and March 28, 2017, we issued our audit reports without qualification on the Company's individual and consolidated financial statements for the years ended December 31, 2018, 2017 and 2016, respectively, which are now being restated. Our opinion remains unqualified as the financial statements and their amounts for the corresponding periods were adjusted retrospectively.

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 18, 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 18.

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 Ananke Participações S.A. on March 2, 2018. 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 acquisition, 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 transaction, 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, 2018, 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.

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, December 4, 2019

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



Klaas Johnsen
Accountant CRC-1SP267150/O-0

Locaweb Serviços de Internet S.A.
 Statements of financial position
 December 31, 2018, 2017, 2016 and January 1, 2016
 (in thousands of Reais)

Assets	Note	Company				Consolidated			
		12/31/2018	12/31/2017	12/31/2016	01/01/2016	12/31/2018	12/31/2017	12/31/2016	01/01/2016
		As restated	As restated	As restated	As restated	As restated	As restated	As restated	As restated
Current assets									
Cash and cash equivalents	5.1	12,381	28,526	17,942	7,410	17,782	37,686	31,006	11,477
Restricted cash	5.2	4,584	-	-	-	4,584	-	-	-
Accounts receivable	6	17,389	6,373	5,446	2,934	61,261	40,666	29,146	22,814
Taxes recoverable	7	3,525	6,101	5,320	5,083	6,368	7,562	8,228	11,226
Derivatives	23	5,513	290	-	492	5,513	290	-	492
Other assets		5,452	3,250	1,369	5,286	6,485	4,343	2,602	7,205
Total current assets		48,844	44,540	30,077	21,205	101,993	90,547	70,982	53,214
Non-current assets									
Restricted cash	5.2	3,125	3,363	-	-	3,125	3,363	-	-
Judicial deposits	14	1,067	157	11,168	11,242	1,125	575	11,519	11,563
Other assets		934	-	-	-	934	-	-	-
Related parties	8	593	11,711	27,193	15,441	-	-	-	-
Deferred income taxes	21	2,705	1,124	2,371	2,146	3,835	8,249	9,571	9,931
Investments	9	41,009	23,365	29,942	27,824	-	-	-	1,260
Property and equipment	10	73,415	59,825	63,834	68,184	77,318	76,546	81,684	83,988
Intangible assets	11	56,010	51,936	36,469	34,943	88,006	62,214	62,905	53,967
Total non-current assets		178,858	151,481	170,977	159,780	174,343	150,947	165,679	160,709
Total assets		227,702	196,021	201,054	180,985	276,336	241,494	236,661	213,923

Liabilities and equity	Note	Company				Consolidated			
		12/31/2018	12/31/2017	12/31/2016	01/01/2016	12/31/2018	12/31/2017	12/31/2016	01/01/2016
		As restated	As restated	As restated	As restated	As restated	As restated	As restated	As restated
Current liabilities									
Suppliers		10,780	4,656	8,129	4,007	12,265	7,184	11,822	7,045
Loans and financing	12	43,594	22,670	29,200	10,574	43,714	22,809	29,254	10,604
Salaries and related charges	13	20,221	14,607	10,667	6,366	24,285	25,538	20,801	21,503
Other taxes payable		2,885	2,835	2,469	2,543	4,753	4,740	4,911	4,401
Deferred revenue	6.2	30,339	24,933	21,600	16,768	30,415	28,372	25,560	22,355
Payables to clients	6.3	-	-	-	-	30,117	20,688	13,153	9,473
Interest on shareholders' equity and dividends payable	15.c	2,637	5,097	2,223	2,223	2,637	5,097	2,223	2,223
Accounts payable to former shareholders	9	-	22,764	-	-	5,529	22,764	-	1,282
Related parties	8	-	40	2,827	3,817	-	-	-	-
Derivatives	23	-	-	2,017	-	-	-	2,017	-
Other liabilities		-	-	-	765	2,063	276	39	837
Total current liabilities		110,456	97,602	79,132	47,063	155,778	137,468	109,780	79,723
Non-current liabilities									
Loans and financing	12	38,787	45,279	56,500	73,099	38,787	45,279	56,638	73,099
Provision for legal proceedings	14	1,254	571	973	962	1,329	1,353	1,838	1,248
Accounts payable to former shareholders	9	13,724	-	20,607	17,647	13,724	4,890	24,860	17,647
Provision for losses on investments	9	540	585	842	684	-	-	330	665
Other liabilities		1,854	1,062	1,374	637	5,631	1,914	1,894	637
Total non-current liabilities		56,159	47,497	80,296	93,029	59,471	53,436	85,560	93,296
Equity									
Capital stock	15.a	53,521	49,360	47,216	44,920	53,521	49,360	47,216	44,920
Capital reserves	15.a	3,303	2,736	(150)	(3,558)	3,303	2,736	(150)	(3,558)
Earning reserves	15.b	4,263	-	-	-	4,263	-	-	-
Accumulated losses	15.b	-	(1,174)	(5,440)	(469)	-	(1,174)	(5,440)	(469)
Equity attributable to equity holders of the parent		61,087	50,922	41,626	40,893	61,087	50,922	41,626	40,893
Non-controlling interests		-	-	-	-	-	(332)	(305)	11
Total equity		61,087	50,922	41,626	40,893	61,087	50,590	41,321	40,904
Total liabilities and equity		227,702	196,021	201,054	180,985	276,336	241,494	236,661	213,923

See accompanying notes.

Locaweb Serviços de Internet S.A.

Statements of operations
Years ended December 31, 2018, 2017 and 2016
(in thousands of Reais)

	Notes	Company			Consolidated		
		2018	2017	2016	2018	2017	2016
		As restated	As restated	As restated	As restated	As restated	As restated
Net revenue	18	182,027	158,490	155,844	314,983	293,168	275,779
Cost of services	19	(114,304)	(93,611)	(93,773)	(174,489)	(164,454)	(160,949)
Gross profit		67,723	64,879	62,071	140,494	128,714	114,830
Operating income (expenses)							
Selling expenses	19	(34,751)	(26,969)	(30,860)	(62,322)	(59,632)	(59,145)
General and administrative expenses	19	(20,414)	(24,921)	(22,094)	(41,309)	(40,540)	(40,764)
Other operating income (expenses), net		(929)	861	920	(511)	1,812	1,240
Equity results	9	9,033	7,702	606	-	-	-
		(47,061)	(43,327)	(51,428)	(104,142)	(98,360)	(98,669)
Income before financial results and income taxes		20,662	21,552	10,643	36,352	30,354	16,161
Financial income	20	8,309	6,573	2,716	8,885	8,427	3,925
Financial expenses	20	(18,670)	(16,812)	(18,555)	(25,133)	(22,072)	(22,295)
		(10,361)	(10,239)	(15,839)	(16,248)	(13,645)	(18,370)
Income (loss) before income taxes		10,301	11,313	(5,196)	20,104	16,709	(2,209)
Current income taxes	21	-	-	-	(4,804)	(5,348)	(2,386)
Deferred income taxes	21	585	(1,247)	225	(4,414)	(1,322)	(360)
		585	(1,247)	225	(9,218)	(6,670)	(2,746)
Net income (loss)		10,886	10,066	(4,971)	10,886	10,039	(4,955)
Attributable to:							
Equity holders of the parent		10,886	10,066	(4,971)	10,886	10,066	(4,971)
Non-controlling interests		-	-	-	-	(27)	16
Earnings (loss) per share							
Basic earnings (loss) per share (in Reais)	17				0.12	0.11	(0.06)
Diluted earnings (loss) per share (in Reais)	17				0.11	0.11	(0.06)

See accompanying notes.

Locaweb Serviços de Internet S.A.

Statements of comprehensive income (loss)
 Years ended December 31, 2018, 2017 and 2016
 (in thousands of Reais)

	Company			Consolidated		
	2018	2017	2016	2018	2017	2016
	As restated	As restated	As restated	As restated	As restated	As restated
Net income (loss) for the year	10,886	10,066	(4,971)	10,886	10,039	(4,955)
Other comprehensive income	-	-	-	-	-	-
Comprehensive income for the year	10,886	10,066	(4,971)	10,886	10,039	(4,955)
Attributable to:						
Controlling shareholders	10,886	10,066	(4,971)	10,886	10,066	(4,971)
Non-controlling interests				-	(27)	16
				10,886	10,039	(4,955)

See accompanying notes.

Locaweb Serviços de Internet S.A.

Statements of changes in equity Years ended December 31, 2018, 2017 and 2016 (in thousands of Reais)

	Capital stock		Capital reserves				Earning reserves			Total shareholders' equity	Non-controlling interests	Total equity
	Capital stock paid-in	Unpaid capital	Share issuance costs	Treasury shares	Goodwill on capital transaction	Share based payments reserve	Legal reserve	Retained earnings reserve	Accumulated losses			
Balances as at January 1, 2016 (As restated)	45,283	(363)	(3,645)	-	(22,344)	22,431	-	-	(469)	40,893	11	40,904
Net loss for the year	-	-	-	-	-	-	-	-	(4,971)	(4,971)	16	(4,955)
Capital increase	1,933	363	-	-	-	-	-	-	-	2,296	-	2,296
Share based payments	-	-	-	-	-	3,408	-	-	-	3,408	-	3,408
Non-controlling interest from business combination	-	-	-	-	-	-	-	-	-	-	(332)	(332)
Balances as at December 31, 2016 (As restated)	47,216	-	(3,645)	-	(22,344)	25,839	-	-	(5,440)	41,626	(305)	41,321
Net income for the year	-	-	-	-	-	-	-	-	10,066	10,066	(27)	10,039
Capital increase	2,144	-	-	-	-	-	-	-	-	2,144	-	2,144
Share based payments	-	-	-	-	-	2,886	-	-	-	2,886	-	2,886
Allocation of income:												
Legal reserve	-	-	-	-	-	-	290	-	(290)	-	-	-
Offset of accumulated losses	-	-	-	-	-	-	(290)	-	290	-	-	-
Interest on shareholders' equity distributed	-	-	-	-	-	-	-	-	(5,800)	(5,800)	-	(5,800)
Balances as at December 31, 2017 (As restated)	49,360	-	(3,645)	-	(22,344)	28,725	-	-	(1,174)	50,922	(332)	50,590
Net income for the year	-	-	-	-	-	-	-	-	10,886	10,886	-	10,886
Capital increase	4,161	-	-	-	-	-	-	-	-	4,161	-	4,161
Share based payments	-	-	-	-	-	1,476	-	-	-	1,476	-	1,476
Treasury shares	-	-	-	(909)	-	-	-	-	-	(909)	-	(909)
Non-controlling interest from business combination	-	-	-	-	-	-	-	-	-	-	332	332
Allocation of income:												
Legal reserve	-	-	-	-	-	-	486	-	(486)	-	-	-
Interest on shareholders' equity distributed	-	-	-	-	-	-	-	-	(5,449)	(5,449)	-	(5,449)
Retained earnings reserve	-	-	-	-	-	-	-	3,777	(3,777)	-	-	-
Balances as at December 31, 2018 (As restated)	53,521	-	(3,645)	(909)	(22,344)	30,201	486	3,777	-	61,087	-	61,087

See accompanying notes.

Locaweb Serviços de Internet S.A.

Statements of cash flows Years ended December 31, 2018, 2017 and 2016 (in thousands of Reais)

	Company			Consolidated		
	2018 As restated	2017 As restated	2016 As restated	2018 As restated	2017 As restated	2016 As restated
Operating activities						
Income (loss) before income taxes	10,301	11,313	(5,196)	20,104	16,709	(2,209)
Adjustments to reconcile income (loss) before income taxes to net cash flows from operating activities:						
Depreciation and amortization	25,868	24,042	25,409	36,775	38,793	38,053
Equity results	(9,033)	(7,702)	(606)	-	-	-
Interest, derivatives and foreign exchange rate and monetary variations	7,507	8,065	11,168	9,245	8,277	11,317
Mark-to-market of derivatives	977	(65)	66	977	(65)	66
Share based payments	1,476	2,886	3,408	1,476	2,886	3,408
Provisions and other adjustments	1,472	(882)	(303)	6,463	196	1,189
Changes in assets and liabilities						
Accounts receivable	1,007	(927)	(2,512)	(19,964)	(11,520)	(5,662)
Taxes recoverable	3,757	2,251	578	3,148	4,198	5,654
Other assets	(3,918)	(22)	3,008	(5,372)	(1,741)	3,268
Judicial deposits	-	11,010	(135)	(550)	10,944	(164)
Related parties	609	9,869	(12,743)	-	-	-
Suppliers	2,561	(3,904)	4,171	2,190	(3,404)	4,750
Salaries and related charges	(3,042)	3,940	4,301	(1,656)	4,737	(1,997)
Other taxes payable	(840)	1,192	1,101	(58)	191	593
Deferred revenue	2,045	3,333	4,832	2,059	2,812	3,205
Payables to clients	-	-	-	9,457	7,535	3,680
Other liabilities	(966)	2,783	413	1,665	236	(1,476)
Income taxes paid	(793)	(826)	(1,489)	(7,358)	(5,710)	(4,012)
Net cash flows from operating activities	38,988	66,356	35,471	58,601	75,074	59,663
Investing activities						
Purchase of property and equipment	(23,033)	(16,315)	(14,460)	(29,583)	(27,285)	(26,567)
Accounts payable for acquisition of equity interest	(23,910)	-	-	(23,910)	-	-
Cash from merged companies	5,905	-	-	-	-	-
Sale of equity interest	500	-	-	411	-	-
Acquisition of subsidiaries, net of cash acquired	-	-	(566)	(3,847)	-	(1,857)
Acquisition and development of intangible assets	(6,564)	(6,380)	(6,661)	(12,022)	(7,903)	(8,073)
Net cash flows used in investing activities	(47,102)	(22,695)	(21,687)	(68,951)	(35,188)	(36,498)
Financing activities						
Capital increase	4,161	2,144	2,296	4,161	2,144	2,296
Process from loans and financing	28,820	10,000	13,469	28,820	10,000	13,469
Restricted cash	(4,000)	(3,300)	-	(4,000)	(3,300)	-
Repayment of loans and financing	(22,194)	(30,249)	(10,402)	(23,542)	(30,352)	(10,684)
Interest and foreign exchange rate variations paid	(4,490)	(3,129)	(4,810)	(4,658)	(3,153)	(4,910)
Derivatives paid	(1,161)	(3,783)	(2,066)	(1,161)	(3,783)	(2,064)
Dividends and interest on shareholders' equity paid	(7,909)	(2,926)	-	(7,909)	(2,926)	-
Bank guarantees paid	(1,258)	(1,834)	(1,739)	(1,265)	(1,836)	(1,743)
Net cash flows used in financing activities	(8,031)	(33,077)	(3,252)	(9,554)	(33,206)	(3,636)
Net increase (decrease) in cash and cash equivalents	(16,145)	10,584	10,532	(19,904)	6,680	19,529
Cash and cash equivalents at beginning of the year	28,526	17,942	7,410	37,686	31,006	11,477
Cash and cash equivalents at end of the year	12,381	28,526	17,942	17,782	37,686	31,006
Net increase (decrease) in cash and cash equivalents	(16,145)	10,584	10,532	(19,904)	6,680	19,529

See accompanying notes.

Locaweb Serviços de Internet S.A.

Statements of value added
Years ended December 31, 2018, 2017 and 2016
(in thousands of Reais)

	Company			Consolidated		
	2018	2017	2016	2018	2017	2016
Revenues	206,288	176,338	172,833	356,373	327,915	308,350
Revenue from the provision of services	218,811	186,328	184,528	370,328	340,023	321,771
Discounts and rebates	(12,909)	(11,180)	(12,423)	(14,928)	(13,174)	(13,724)
Other operating revenue	386	1,190	728	973	1,066	303
Inputs acquired from third parties (includes ICMS, PIS and Cofins)	(80,956)	(70,843)	(76,995)	(116,046)	(103,137)	(107,872)
Costs of services	(47,063)	(41,221)	(40,158)	(63,190)	(54,261)	(51,992)
Materials, energy, third party services and others	(33,893)	(29,622)	(36,837)	(52,856)	(48,876)	(55,880)
Gross value added	125,332	105,495	95,838	240,327	224,778	200,478
Retentions	(25,868)	(24,042)	(25,409)	(36,775)	(38,793)	(38,053)
Depreciation and amortization	(25,868)	(24,042)	(25,409)	(36,775)	(38,793)	(38,053)
Net added value produced	99,464	81,453	70,429	203,552	185,985	162,425
Value added received on transfer	17,342	14,275	3,322	8,885	8,427	3,925
Equity results	9,033	7,702	606	-	-	-
Financial income	8,309	6,573	2,716	8,885	8,427	3,925
Total value added to be distributed	116,806	95,728	73,751	212,437	194,412	166,350
Distribution of value added	116,806	95,728	73,751	212,437	194,412	166,350
Salaries and charges	51,295	42,647	38,704	105,410	104,902	98,089
Direct compensation	40,992	34,933	32,475	85,075	86,007	80,238
Benefits	6,797	5,310	4,111	13,058	12,211	11,720
FGTS	3,507	2,405	2,119	7,277	6,684	6,131
Taxes and contributions	30,641	22,113	18,340	61,473	48,151	42,323
Federal	24,402	21,344	17,685	50,395	42,455	36,952
State	-	-	-	261	348	356
Municipal	6,239	769	655	10,817	5,348	5,015
Interest and rents	23,984	20,902	21,678	34,668	31,320	30,893
Remuneration of equity	10,886	10,066	(4,971)	10,886	10,039	(4,955)
Interest on shareholders' equity and dividends distributed	5,449	5,800	-	5,449	5,800	-
Non-controlling interests	-	-	-	-	(27)	16
Retained income (losses)	5,437	4,266	(4,971)	5,437	4,266	(4,971)

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(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, KingHost, Cluster2Go and Delivery Direto brands; and (ii) Commerce, which offer services to its customers through the Tray, Tray Corp and Yapay brands. These two 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.

The Company’s controlling shareholders are the Gora and Mautner families. On September 16, 2010, the Company received a contribution from Silver Lake Fundo de Investimento em Participações (“Silver Lake”), which now holds approximately 20% minority interest in the Company’s capital with preferred shares.

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, 2018, 2017 and 2016
(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, 2018 were approved by the Board of Directors on December 4, 2019.

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, 2018, 2017 and 2016 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, 2018, 2017 and 2016

(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 - %		
		12/31/2018	12/31/2017	12/31/2016
Locaweb IDC	Direct (a)	-	100%	100%
Locaweb Telecom	Direct	100%	100%	100%
Tray S.A.	Direct (d)	-	-	100%
Yapay	Direct	100%	100%	-
Tray Tecnologia	Direct	100%	100%	-
Superpay	Direct	100%	100%	-
Eventials	Direct (c)	-	51%	51%
FBits	Indirect	100%	100%	100%
Ananke Participações	Direct (b)	100%	-	-
Ananke Tecnologia	Indirect (b)	100%	-	-
Primehost	Indirect (b)	100%	-	-
Ion	Indirect (b)	100%	-	-
Novaion	Indirect (b)	100%	-	-

(a) Subsidiary merged during the year ended December 31, 2018.

(b) Companies acquired during the year ended December 31, 2018.

(c) Equity interest disposed of during the year ended December 31, 2018.

(d) Company merged during the year ended December 31, 2017.

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, 2018, 2017 and 2016
(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, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

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 will apply IFRS 16 - Leases, correlated with CPC 06(R2) - Leases, and IFRIC 23/ICPC 22 - Uncertainty over Income Tax Treatments.

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.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

c) IFRS 16/CPC 06(R2) - Leases

IFRS 16/CPC 06(R2) introduces a single model of accounting for leases in the balance sheet for lessees. A lessee recognizes a right-of-use asset that represents its right to use the leased asset and a lease liability that represents its obligation to make lease payments. Exemptions are available for leases of low value items. In its initial application, the Company did not consider exemption for real estate lease agreements with a term of up to 12 months. The accounting from the lessor's position remains similar to that in the current standard, i.e. lessors continue to classify leases as either financial or operating. IFRS 16/CPC 06 replaces the existing lease standards, including CPC 06/IAS 17 Leases and ICPC 03/IFRIC 4, SIC 15 and SIC 27 Supplementary Aspects of Leases.

(i) Leases in which the Company is a lessee

The Company will recognize new assets and liabilities for its operating leases of the administrative building and some administrative equipment. The nature of the expenses related to those leases will change because the Company will recognize a depreciation expense of right-of-use assets and an interest expense on lease liabilities. The Company recognized a straight line expense for an operating lease over the lease term, and recognized assets and liabilities to the extent that there was a time difference between actual lease payments and the expenses recognized. The Company disclosed material information that was known or that could reasonably be estimated, to assess the possible impact that the adoption of CPC 06 (R2)/IFRS 16 will have on its financial statements in the initial adoption period, which was available when the financial statements were prepared. The Company will include in its lease obligations the payments that are due under the lease terms.

The adoption of CPC 06 (R2)/IFRS 16 does not affect the Company's ability to comply with covenants since the agreements do not contain any restrictive clauses.

(ii) Leases in which the Company is a lessor

The Company does not have any leases in which it is the lessor, so this item is not applicable and no significant impact is expected for other leases in which the Company is a lessor.

(iii) Transition

The Company intends to apply CPC 06 (R2)/IFRS 16 on January 1, 2019, using the modified retrospective approach. Therefore, the cumulative effect of the adoption of CPC 06(R2)/IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings as at January 1, 2019, without the restatement of the comparative information. The Company plans to apply the practical transition expedient regarding the lease definition on transition. This means that it will apply CPC 06(R2)/IFRS 16 to all contracts signed before January 1, 2019 that were identified as leases under CPC 06(R1)/IAS 17 and ICPC 03/IFRIC 4.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

Starting in 2009, the Company will adopt the standard for contracts that were previously identified as leases using CPC 06(R1) and ICPC 03 - Supplementary Aspects of Leases. Therefore, the Company did not apply the standard to contracts that were not previously identified as contracts containing a lease under the terms of CPC 06(R1) and ICPC 03. The exemptions contained in the standard regarding low value and short term agreements were also adopted.

The adoption will result in right-of-use assets related to the leased properties of R\$71,158 in the Company and R\$73,366 in the Consolidated and of lease liabilities of R\$71,158 in the Company and R\$73,366 in the Consolidated, as at January 1, 2019.

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

IFRIC 23/ICPC 22 addresses the recognition of taxes on profit—in Brazil, Income tax on net income (IRPJ) and social contribution on net income (CSLL)—in cases where tax treatments involve uncertainty affecting the application of IAS 12 (CPC 32). The standard provides that a company should consider the impact of uncertain tax treatments in its calculations of taxes on profit (IRPJ/CSLL). According to the assessment conducted by the Company, no material impacts are expected to arise from the adoption of this Interpretation in 2019.

e) Annual Improvements in accounting standards - 2015-2017 cycle

The IASB has made a few changes to accounting standards for the 2015-2017 Annual Improvements cycle. As a result, the following CPC Technical Pronouncements have been reviewed: CPC 15(R1) – Business combinations; CPC 19(R2) - Joint ventures; CPC 32 - Taxes; and CPC 20(R1) - Borrowing costs. These improvements introduced in the standards are applicable for 2019. The Company has assessed the changes to the accounting standards and does not expect any material effects to arise from the initial adoption thereof. Additionally, there are no standards having already been approved by the IASB that would have a material impact on the Company's financial statements.

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.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

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).

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.

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.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

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 the statement of operations. If the contingent consideration is classified as a derivative and, therefore, a financial liability, then it must be subsequently remeasured 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\$5,658 as at December 31, 2018 (R\$2,219 in 2017, R\$1,951 in 2016) in the Company and R\$6,909 as at December 31, 2018 (R\$7,808 in 2017, R\$8,966 in 2016) 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.

4.3 Restatement of financial statements

The individual and consolidated financial statements have been restated in connection with the Company's application of registration as a publicly-held company with the Brazilian Securities Commission (CVM) in order to present the statement of value added, earnings (loss) per share and segment information and to improve certain disclosures in the accompanying notes, especially concerning the sensitivity analysis of financial assets and liabilities in the note on financial instruments and market risks.

Additionally, after the financial statements for the year ended December 31, 2018 were issued, Management identified adjustments and reclassifications that affect the balance sheets as at December 31, 2018, 2017 and 2016 and as at January 1, 2016 (opening balance), as well as the statements of operations for the years ended on December 31, 2018, 2017 and 2016. As a result, the Company has restated the financial statements for these years.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December 31, 2018, 2017 and 2016

(In thousand of reais, unless otherwise stated)

The statements of comprehensive income (loss) and changes in shareholders' equity have been restated due to adjustments to the net income (loss) for the years ended on December 31, 2018, 2017 and 2016.

The adjustments to operating, investing and financing activities in the statements of cash flows resulted from the adjustments described below, as well as, reclassifications for a better presentation of the statements of cash flows.

a) Financial statements for the year ended December 31, 2018

Statements of financial position as at December 31, 2018

Assets	Reference	Company			Consolidated			
		As originally stated	Adjustments	As restated	As originally stated	MG4	Adjustments	As restated
Current assets								
Cash and cash equivalents	A	12,329	52	12,381	17,911	(180)	51	17,782
Restricted cash	A	4,636	(52)	4,584	4,636	-	(52)	4,584
Accounts receivable	B	21,889	(4,500)	17,389	66,481	-	(5,220)	61,261
Taxes recoverable	C	3,465	60	3,525	5,328	230	810	6,368
Derivatives		5,513	-	5,513	5,513	-	-	5,513
Other assets		5,452	-	5,452	6,485	-	-	6,485
Total current assets		53,284	(4,440)	48,844	106,354	50	(4,411)	101,993
Non-current assets								
Restricted cash	A	3,125	-	3,125	3,125	-	-	3,125
Judicial deposits		1,067	-	1,067	1,125	-	-	1,125
Other assets		934	-	934	934	-	-	934
Related parties		593	-	593	-	-	-	-
Deferred income taxes	D	4,176	(1,471)	2,705	5,708	-	(1,873)	3,835
Investments	E	43,349	(2,340)	41,009	-	-	-	-
Property and equipment		73,415	-	73,415	92,459	(15,141)	-	77,318
Intangible assets	F	62,862	(6,852)	56,010	96,964	-	(8,958)	88,006
Total non-current assets		189,521	(10,663)	178,858	200,315	(15,141)	(10,831)	174,343
Total assets		242,805	(15,103)	227,702	306,669	(15,091)	(15,242)	276,336
December 31, 2018								
Liabilities and equity								
Current liabilities								
Suppliers		10,780	-	10,780	12,265	-	-	12,265
Loans and financing		43,594	-	43,594	45,416	(1,702)	-	43,714
Salaries and related charges	H	19,910	311	20,221	24,041	(5)	249	24,285
Other taxes payable		2,885	-	2,885	4,779	(26)	-	4,753
Deferred revenue	B	31,839	(1,500)	30,339	31,915	-	(1,500)	30,415
Payables to clients		-	-	-	30,117	-	-	30,117
Interest on shareholders' equity and dividends payable		2,637	-	2,637	2,637	-	-	2,637
Accounts payable to former shareholders	I	-	-	-	5,529	-	-	5,529
Other liabilities		-	-	-	2,091	(27)	(1)	2,063
Total current liabilities		111,645	(1,189)	110,456	158,790	(1,760)	(1,252)	155,778
Non-current liabilities								
Loans and financing		38,787	-	38,787	39,355	(568)	-	38,787
Provision for legal proceedings		1,254	-	1,254	1,329	-	-	1,329
Accounts payable to former shareholders	I	13,724	-	13,724	13,724	-	-	13,724
Provision for losses on investments	E	464	76	540	-	-	-	-
Other liabilities		1,855	(1)	1,854	5,632	-	(1)	5,631
Total non-current liabilities		56,084	75	56,159	60,040	(568)	(1)	59,471
Capital stock		53,521	-	53,521	53,521	-	-	53,521
Capital reserves		3,303	-	3,303	3,303	-	-	3,303
Earning reserves		18,252	(13,989)	4,263	18,252	-	(13,989)	4,263
		75,076	(13,989)	61,087	75,076	-	(13,989)	61,087
Non-controlling interests		-	-	-	12,763	(12,763)	-	-
Total equity		75,076	(13,989)	61,087	87,839	(12,763)	(13,989)	61,087
Total liabilities and equity		242,805	(15,103)	227,702	306,669	(15,091)	(15,242)	276,336

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

Statements of operations - year ended December 31, 2018

	Company			Consolidated			
	As originally stated	Adjustments	As restated	As originally stated	MG4	Adjustments	As restated
Net revenue	182,027	-	182,027	314,666	316	-	314,983
Cost of services	(115,148)	844	(114,304)	(168,534)	(6,338)	383	(174,489)
Gross profit	66,879	844	67,723	146,132	(6,022)	384	140,494
Operating income (expenses)							
Selling expenses	(36,879)	2,128	(34,751)	(64,303)	-	1,981	(62,322)
General and administrative expenses	(22,537)	2,123	(20,414)	(39,666)	(1,913)	270	(41,309)
Other operating income (expenses), net	(929)	-	(929)	(512)	3	(2)	(511)
Equity results	9,573	(540)	9,033	-	-	-	-
Income before financial results and income taxes	(50,772)	3,711	(47,061)	(104,481)	(1,910)	2,249	(104,142)
Financial income	16,107	4,555	20,662	41,651	(7,932)	2,633	36,352
Financial expenses	(33,890)	15,220	(18,670)	(41,087)	298	15,656	(25,133)
	(11,233)	872	(10,361)	(17,565)	298	1,019	(16,248)
Income before income taxes	4,874	5,427	10,301	24,086	(7,634)	3,652	20,104
Current income taxes	-	-	-	(6,147)	919	424	(4,804)
Deferred income taxes	(2,653)	3,238	585	(9,001)	-	4,587	(4,414)
	(2,653)	3,238	585	(15,148)	919	5,011	(9,218)
Net income for the year	2,221	8,665	10,886	8,938	(6,715)	8,663	10,886
Equity holders of the parent	2,221	8,665	10,886	2,221	2	8,663	10,886
Non-controlling interests	-	-	-	6,717	(6,717)	-	-

Statements of cash flows - year ended December 31, 2018

	Company			Consolidated			
	As originally stated	Adjustments	As restated	As originally stated	MG4	Adjustments	As restated
Net cash flows from operating activities	28,465	10,524	38,989	53,046	(7,341)	12,896	58,601
Net cash flows used in investing activities	(41,014)	(6,089)	(47,103)	(61,011)	-	(7,940)	(68,951)
Net cash flows used in financing activities	(7,011)	(1,020)	(8,031)	(15,344)	7,333	(1,543)	(9,554)
Net increase (decrease) in cash and cash equivalents	(19,560)	3,415	(16,145)	(23,309)	(8)	3,413	(19,904)
Cash and cash equivalents at beginning of the year	31,889	(3,363)	28,526	41,220	(172)	(3,362)	37,686
Cash and cash equivalents at end of the year	12,329	52	12,381	17,911	(180)	51	17,782
Net increase (decrease) in cash and cash equivalents	(19,560)	3,415	(16,145)	(23,309)	(8)	3,413	(19,904)

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December, 31, 2018, 2017 and 2016

(In thousand of reais, unless otherwise stated)

b) Financial statements for the year ended December 31, 2017

Statements of financial position as at December 31, 2017

	Company			Consolidated				
	As originally stated	Adjustments	As restated	As originally stated	MG4	Adjustments	As restated	
Assets								
Current assets								
Cash and cash equivalents	A	31,889	(3,363)	28,526	41,220	(172)	(3,362)	37,686
Accounts receivable	B	9,373	(3,000)	6,373	47,386	-	(6,720)	40,666
Taxes recoverable	C	5,738	363	6,101	6,837	229	496	7,562
Derivatives		290	-	290	290	-	-	290
Other assets		3,227	23	3,250	4,345	(2)	-	4,343
		-	-	-	-	-	-	-
Total current assets		50,517	(5,977)	44,540	100,078	55	(9,586)	90,547
Non-current assets								
Restricted cash	A	-	3,363	3,363	-	-	3,363	3,363
Judicial deposits		158	(1)	157	575	-	-	575
Related parties		11,733	(22)	11,711	-	-	-	-
Deferred income taxes	D	5,832	(4,708)	1,124	14,788	-	(6,539)	8,249
Investments	E	28,672	(5,307)	23,365	-	-	-	-
Property and equipment		59,825	-	59,825	92,017	(15,470)	(1)	76,546
Intangible assets	F	59,437	(7,501)	51,936	71,555	1	(9,342)	62,214
		-	-	-	-	-	-	-
Total non-current assets		165,657	(14,176)	151,481	178,935	(15,469)	(12,519)	150,947
Total assets		216,174	(20,153)	196,021	279,013	(15,414)	(22,105)	241,494
Liabilities								
Current liabilities								
Suppliers		4,656	-	4,656	7,184	-	-	7,184
Loans and financing		22,670	-	22,670	24,510	(1,701)	-	22,809
Salaries and related charges	H	12,173	2,434	14,607	24,991	(2)	549	25,538
Other taxes payable		2,835	-	2,835	4,766	(26)	-	4,740
Deferred revenue		24,933	-	24,933	28,372	-	-	28,372
Payables to clients		-	-	-	20,688	-	-	20,688
Interest on shareholders' equity and dividends payable		5,097	-	5,097	5,097	-	-	5,097
Accounts payable to former shareholders	I	5,117	17,647	22,764	10,008	-	12,756	22,764
Related parties		40	-	40	-	-	-	-
Other liabilities		-	-	-	304	(29)	1	276
Total current liabilities		77,521	20,081	97,602	125,920	(1,758)	13,306	137,468
Non-current liabilities								
Loans and financing		45,279	-	45,279	47,548	(2,269)	-	45,279
Provision for legal proceedings		571	-	571	1,353	-	-	1,353
Accounts payable to former shareholders	I, J	-	-	-	-	-	4,890	4,890
Provision for losses on investments	E	518	67	585	-	-	-	-
Other liabilities		1,062	-	1,062	1,915	(1)	-	1,914
Total non-current liabilities		47,430	67	47,497	50,816	(2,270)	4,890	53,436
Equity								
Capital stock	J	49,360	-	49,360	49,360	-	-	49,360
Capital reserves		20,386	(17,650)	2,736	20,386	-	(17,650)	2,736
Earning reserves		21,477	(21,477)	-	21,477	-	(21,477)	-
Accumulated losses		-	(1,174)	(1,174)	-	-	(1,174)	(1,174)
		91,223	(40,301)	50,922	91,223	-	(40,301)	50,922
Non-controlling interests		-	-	-	11,054	(11,386)	-	(332)
Total equity		91,223	(40,301)	50,922	102,277	(11,386)	(40,301)	50,590
Total liabilities and equity		216,174	(20,153)	196,021	279,013	(15,414)	(22,105)	241,494

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

Statements of operations - year ended December 31, 2017

	Company			Consolidated			
	As originally stated	Adjustments	As restated	As originally stated	MG4	Adjustments	As restated
Net revenue	158,489	1	158,490	293,166	-	2	293,168
Cost of services	(93,305)	(306)	(93,611)	(157,416)	(6,122)	(916)	(164,454)
Gross profit	65,184	(305)	64,879	135,750	(6,122)	(914)	128,714
Operating income (expenses)							
Selling expenses	(26,218)	(751)	(26,969)	(55,410)	-	(4,222)	(59,632)
General and administrative expenses	(23,287)	(1,634)	(24,921)	(38,691)	(2,074)	225	(40,540)
Other operating income (expenses), net	861	-	861	1,503	312	(3)	1,812
Equity results	9,596	(1,894)	7,702	-	-	-	-
	(39,048)	(4,279)	(43,327)	(92,598)	(1,762)	(4,000)	(98,360)
Income before financial results and income taxes	26,136	(4,584)	21,552	43,152	(7,884)	(4,914)	30,354
Financial income	7,291	(718)	6,573	9,161	(6)	(728)	8,427
Financial expenses	(18,281)	1,469	(16,812)	(24,540)	737	1,731	(22,072)
	(10,990)	751	(10,239)	(15,379)	731	1,003	(13,645)
Income before income taxes	15,146	(3,833)	11,313	27,773	(7,153)	(3,911)	16,709
Current income taxes	(148)	148	-	(6,418)	909	161	(5,348)
Deferred income taxes	(5,206)	3,959	(1,247)	(5,349)	-	4,027	(1,322)
	(5,354)	4,107	(1,247)	(11,767)	909	4,188	(6,670)
Net income for the year	9,792	274	10,066	16,006	(6,244)	274	10,039
Equity holders of the parent	9,792	274	10,066	9,792	-	271	10,066
Non-controlling interests	-	-	-	6,214	(6,244)	3	(27)

Statements of cash flows - year ended December 31, 2017

	Company			Consolidated			
	As originally stated	Adjustments	As restated	As originally stated	MG4	Adjustments	As restated
Net cash flows from operating activities	56,209	10,147	66,356	71,958	(7,351)	10,466	75,074
Net cash flows used in investing activities	(21,272)	(1,423)	(22,695)	(33,930)	-	(1,258)	(35,188)
Net cash flows used in financing activities	(20,990)	(12,087)	(33,077)	(27,985)	7,350	(12,571)	(33,206)
Net increase in cash and cash equivalents	13,947	(3,363)	10,584	10,043	(1)	(3,363)	6,680
Cash and cash equivalents at beginning of the year	17,942	-	17,942	31,177	(170)	-	31,006
Cash and cash equivalents at end of the year	31,889	(3,363)	28,526	41,220	(172)	(3,363)	37,686
Net increase in cash and cash equivalents	13,947	(3,363)	10,584	10,043	(1)	(3,363)	6,680

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December, 31, 2018, 2017 and 2016

(In thousand of reais, unless otherwise stated)

c) Financial statements for the year ended December 31, 2016

Statements of financial position as at December 31, 2016

	Company			Consolidated			
	As originally stated	Adjustments	As restated	As originally stated	MG4	Adjustments	As restated
Assets							
Current assets							
Cash and cash equivalents	17,942	-	17,942	31,176	(170)	-	31,006
Accounts receivable	B 8,446	(3,000)	5,446	32,646	-	(3,500)	29,146
Taxes recoverable	C 5,320	-	5,320	7,831	183	214	8,228
Other assets	1,359	10	1,369	2,601	-	1	2,602
Total current assets	33,067	(2,990)	30,077	74,254	13	(3,285)	70,982
Non-current assets							
Judicial deposits	11,168	-	11,168	11,520	-	(1)	11,519
Related parties	27,193	-	27,193	-	-	-	-
Deferred income	D 10,873	(8,502)	2,371	19,677	-	(10,106)	9,571
Investments	E 32,965	(3,023)	29,942	-	-	-	-
Property and equipment	63,834	-	63,834	97,484	(15,800)	-	81,684
Intangible assets	F 44,973	(8,504)	36,469	72,442	-	(9,537)	62,905
Total non-current assets	191,006	(20,029)	170,977	201,123	(15,800)	(19,644)	165,679
Total assets	224,073	(23,019)	201,054	275,377	(15,787)	(22,929)	236,661
Liabilities and equity							
Current liabilities							
Suppliers	8,129	-	8,129	11,822	-	-	11,822
Loans and financing	G 31,151	(1,951)	29,200	32,824	(1,619)	(1,951)	29,254
Salaries and related charges	H 10,667	-	10,667	20,802	(1)	-	20,801
Other taxes payable	2,468	1	2,469	4,936	(25)	-	4,911
Deferred revenue	21,600	-	21,600	25,560	-	-	25,560
Payables to clients	-	-	-	13,153	-	-	13,153
Interest on shareholders' equity and dividends payable	2,223	-	2,223	2,223	-	-	2,223
Related parties	2,827	-	2,827	-	-	-	-
Derivatives	G -	2,017	2,017	-	-	2,017	2,017
Other liabilities	330	(330)	-	397	(28)	(330)	39
Total current liabilities	79,395	(263)	79,132	111,717	(1,673)	(264)	109,780
Non-current liabilities							
Loans and financing	56,500	-	56,500	60,406	(3,768)	-	56,638
Provision for legal proceedings	973	-	973	1,838	-	-	1,838
Accounts payable to former shareholders	J 2,961	17,646	20,607	7,214	-	17,646	24,860
Provision for losses on investments	E 606	236	842	-	-	330	330
Derivative financial instruments	G 66	(66)	-	66	-	(66)	-
Other liabilities	1,374	-	1,374	1,893	1	-	1,894
Total non-current liabilities	62,480	17,816	80,296	71,417	(3,767)	17,910	85,560
Equity							
Capital stock	47,216	-	47,216	47,216	-	-	47,216
Capital reserves	J 17,497	(17,647)	(150)	17,497	-	(17,647)	(150)
Earning reserves	17,485	(17,485)	-	17,485	-	(17,485)	-
Accumulated losses	-	(5,440)	(5,440)	-	-	(5,440)	(5,440)
	82,198	(40,572)	41,626	82,198	-	(40,572)	41,626
Non-controlling interests	-	-	-	10,045	(10,347)	(3)	(305)
Total equity	82,198	(40,572)	41,626	92,243	(10,347)	(40,575)	41,321
Total liabilities and equity	224,073	(23,019)	201,054	275,377	(15,787)	(22,929)	236,661

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December, 31, 2018, 2017 and 2016

(In thousand of reais, unless otherwise stated)

Statements of operations - year ended December 31, 2016

	Company			Consolidated			
	As originally stated	Adjustments	As restated	As originally stated	MG4	Adjustments	As restated
Net revenue	155,843	1	155,844	275,779	-	-	275,779
Cost of services	(93,451)	(322)	(93,773)	(154,896)	(5,770)	(283)	(160,949)
Gross profit	62,392	(321)	62,071	120,883	(5,770)	(283)	114,830
Operating income (expenses)							
Selling expenses	(34,341)	3,481	(30,860)	(67,591)	-	8,446	(59,145)
General and administrative expenses	(16,539)	(5,555)	(22,094)	(34,113)	(1,908)	(4,743)	(40,764)
Other operating income (expenses), net	325	595	920	(930)	293	1,877	1,240
Equity results	(6,463)	7,069	606	-	-	-	-
	(57,018)	5,590	(51,428)	(102,634)	(1,615)	5,580	(98,669)
Income before financial results and income taxes	5,374	5,269	10,643	18,249	(7,384)	5,296	16,161
Financial income	1,357	1,359	2,716	2,723	-	1,202	3,925
Financial expenses	(19,493)	938	(18,555)	(24,207)	605	1,307	(22,295)
	(18,136)	2,297	(15,839)	(21,484)	605	2,509	(18,370)
Income before income taxes	(12,762)	7,566	(5,196)	(3,235)	(6,780)	7,806	(2,209)
Current income taxes	(193)	193	-	(4,188)	851	951	(2,386)
Deferred income taxes	851	(626)	225	1,268	-	(1,628)	(360)
	658	(433)	225	(2,920)	851	(677)	(2,746)
Net loss for the year	(12,104)	7,133	(4,971)	(6,155)	(5,929)	7,129	(4,955)
Equity holders of the parent	(12,104)	7,133	(4,971)	(12,104)	4	7,129	(4,971)
Non-controlling interests	-	-	-	5,949	(5,933)	-	16

Statements of cash flows - year ended on December 31, 2016

	Company			Consolidated			
	As originally stated	Adjustments	As restated	As originally stated	MG4	Adjustments	As restated
Net cash flows from operating activities	35,908	(437)	35,471	67,699	(6,859)	(1,177)	59,663
Net cash flows used in investing activities	(23,867)	2,180	(21,687)	(39,118)	-	2,620	(36,498)
Net cash flows used in financing activities	(1,509)	(1,743)	(3,252)	(9,413)	7,220	(1,443)	(3,636)
Net increase in cash and cash equivalents	10,532	-	10,532	19,168	361	-	19,529
Cash and cash equivalents at beginning of the year	7,410	-	7,410	12,009	(532)	-	11,477
Cash and cash equivalents at end of the year	17,942	-	17,942	31,177	(171)	-	31,006
Net increase in cash and cash equivalents	10,532	-	10,532	19,168	361	-	19,529

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December, 31, 2018, 2017 and 2016

(In thousand of reais, unless otherwise stated)

d) Statements of financial position as at January 1, 2016

	Company			Consolidated			
	As originally stated	Adjustments	As restated	As originally stated	MG4	Adjustments	As restated
Assets							
Current assets							
Cash and cash equivalents	7,410	-	7,410	12,009	(532)	-	11,477
Accounts receivable	5,941	(3,007)	2,934	31,387	-	(8,573)	22,814
Taxes recoverable	6,943	(1,860)	5,083	16,185	181	(5,140)	11,226
Derivatives	492	-	492	492	-	-	492
Other assets	5,286	-	5,286	7,209	(4)	-	7,205
Total current assets	26,072	(4,867)	21,205	67,282	(355)	(13,713)	53,214
Non-current assets							
Judicial deposits	11,242	-	11,242	11,563	-	-	11,563
Related parties	15,441	-	15,441	-	-	-	-
Deferred income taxes	9,887	(7,741)	2,146	17,042	-	(7,111)	9,931
Investments	37,811	(9,987)	27,824	1,267	-	(7)	1,260
Property and equipment	68,184	-	68,184	100,117	(16,129)	-	83,988
Intangible assets	42,010	(7,067)	34,943	61,607	-	(7,640)	53,967
Total non-current assets	184,575	(24,795)	159,780	191,596	(16,129)	(14,758)	160,709
Total assets	210,647	(29,662)	180,985	258,878	(16,484)	(28,471)	213,923
Liabilities							
Current liabilities							
Suppliers	4,007	-	4,007	7,045	-	-	7,045
Loans and financing	10,574	-	10,574	12,223	(1,619)	-	10,604
Salaries and related charges	6,366	-	6,366	21,505	(2)	-	21,503
Other taxes payable	2,542	1	2,543	4,506	(23)	(82)	4,401
Deferred revenue	12,982	3,786	16,768	18,569	-	3,786	22,355
Payables to clients	-	-	-	9,473	-	-	9,473
Interest on shareholders' equity and dividends payable	2,223	-	2,223	2,223	-	-	2,223
Accounts payable to former shareholders	-	-	-	-	-	1,282	1,282
Related parties	3,817	-	3,817	-	-	-	-
Other liabilities	765	-	765	865	(28)	-	837
Total current liabilities	43,276	3,787	47,063	76,409	(1,672)	4,986	79,723
Non-current liabilities							
Loans and financing	71,756	1,343	73,099	77,200	(5,444)	1,343	73,099
Provision for legal proceedings	962	-	962	1,248	-	-	1,248
Accounts payable to former shareholders	-	17,647	17,647	-	-	17,647	17,647
Provision for losses on investments	665	19	684	665	-	-	665
Other liabilities	637	-	637	637	-	-	637
Total non-current liabilities	74,020	19,009	93,029	79,750	(5,444)	18,990	93,296
Equity							
Capital stock	44,920	-	44,920	44,920	-	-	44,920
Capital reserves	18,842	(22,400)	(3,558)	18,842	-	(22,400)	(3,558)
Earning reserves	29,589	(29,589)	-	29,589	-	(29,589)	-
Accumulated losses	-	(469)	(469)	-	-	(469)	(469)
	93,351	(52,458)	40,893	93,351	-	(52,458)	40,893
Non-controlling interests	-	-	-	9,368	(9,368)	11	11
Total equity	93,351	(52,458)	40,893	102,719	(9,368)	(52,447)	40,904
Total liabilities and equity	210,647	(29,662)	180,985	258,878	(16,484)	(28,471)	213,923

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

Adjustments:

MG4: The Company's related party, a company that owns the property serving as the Company's headquarters, was previously consolidated in the financial statements and assessed as a specialpurpose entity. The Company has reassessed the MG4 consolidation and concluded that it has no dependency on the Company and that the Company does not control MG4. The balances for the years ended December 31, 2018, 2017 and 2016 are restated due to this change in accounting policy.

- A) Refers to balances previously classified as cash equivalents and reclassified to restricted cash.
- B) Refers to adjustments to accounts receivable and deferred revenue as a result of the reconciliation process and adjusted in their respective accrual periods.
- C) Refers to adjustments to taxes recoverable as a result of reconciliations of the taxes recoverable balances with the respective taxes supports and adjustments in the respective accrual periods.
- D) Refers to adjustments to deferred income taxes as a result of the review of temporary differences between accounting balances and the tax basis and the adjustments resulting from the restatement of the Company's financial statements.
- E) Equity results adjustments as a result of the restatement adjustments of the Company's financial statements.
- F) Refers mainly to adjustments to intangible assets relating to software acquired and/or internally development intangible assets as a result of a review of the useful life of the respective intangible assets and adjustments in the accrual periods.
- G) Refers to: (i) an adjustment to loans and financing as at January 1, 2016; (ii) reclassification of derivative financial instruments that were previously recorded in loans and financing as at December 31, 2016 and January 1, 2016; and (iii) reclassifications between financial income and expenses from foreign exchange rate fluctuation and derivative financial instrument losses.
- H) Refers to an adjustment to the provision for profit sharing and bonuses.
- I) Refers to the Tray investment acquisition liability amounting to R\$17,647 as at December 31, 2017 and 2016 and January 1, 2016, which was previously recognized in shareholders' equity.
- J) Refers to the reclassification of R\$4,891 as at December 31, 2017 in accounts payable to former shareholders from the consolidated current liabilities to consolidated non-current liabilities.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

5. Cash and cash equivalents and restricted cash (restated)

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		
	2018	2017	2016	2018	2017	2016
Cash and banks	354	243	134	1,809	1,178	953
CDB (a)	12,027	28,283	17,808	15,973	36,508	30,053
	<u>12,381</u>	<u>28,526</u>	<u>17,942</u>	<u>17,782</u>	<u>37,686</u>	<u>31,006</u>

- (a) As at December 31, 2018, financial investments in Bank Certificates of Deposit (CDB) were remunerated at a rate of 93.5% of the CDI (95% of the CDI in 2017, 95% of the CDI in 2016), 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 and financing, which is released upon repayment of the respective loans and financing.

	Company			Consolidated		
	2018	2017	2016	2018	2017	2016
CDB	4,584	3,363	-	4,584	3,363	-
Government Treasury Bills (LF) (b)	3,125	-	-	3,125	-	-
	<u>7,709</u>	<u>3,363</u>	<u>-</u>	<u>7,709</u>	<u>3,363</u>	<u>-</u>
Current	4,584	-	-	4,584	-	-
Non-current	3,125	3,363	-	3,125	3,363	-

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

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

6. Accounts receivable, deferred revenue and payables to clients (restated)

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		
	2018	2017	2016	2018	2017	2016
Credit card operators	3,583	2,521	2,381	41,588	27,628	18,256
Other accounts receivable	13,806	3,852	3,065	19,673	13,038	10,890
Accounts receivable	17,389	6,373	5,446	61,261	40,666	29,146

The aging of accounts receivable is as follows:

	Company			Consolidated		
	2018	2017	2016	2018	2017	2016
Amounts undue	14,739	5,283	4,958	57,358	39,576	28,657
Amounts overdue:						
Up to 30 days	1,129	528	153	1,488	528	154
31-180 days	1,232	562	335	1,655	562	335
Over 180 days	289	-	-	760	-	-
	17,389	6,373	5,446	61,261	40,666	29,146

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, 2018, 2017 or 2016.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(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 (restated)

Accounting policy

Taxes recoverable include tax credits to offset with taxes payable in future periods. The Company tests of these amounts annually for impairment. For the years ended December 31, 2018, 2017 and 2016, there was no need to derecognize any tax assets due to impairment.

	Company			Consolidated		
	2018	2017	2016	2018	2017	2016
Income tax recoverable	2,653	4,711	3,520	4,864	5,160	4,195
Social contribution recoverable	758	1,011	1,356	1,258	1,223	2,386
PIS recoverable	-	4	12	8	204	243
COFINS recoverable	-	174	120	36	750	923
INSS recoverable	-	-	262	-	-	321
IRRF recoverable	111	187	-	112	209	-
Other taxes recoverable	3	14	50	90	16	160
	3,525	6,101	5,320	6,368	7,562	8,228

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

8. Related-party transactions (restated)

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			Current liabilities		
	2018	2017	2016	2018	2017	2016
Locaweb IDC	-	10,800	26,428	-	14	-
Eventials	-	894	749	-	-	-
Superpay	-	4	3	-	-	-
Tray Services	-	-	-	-	26	-
Locaweb Telecom	590	8	-	-	-	2,827
Ion Tecnologia	2	-	-	-	-	-
E-Commerce	1	5	13	-	-	-
	593	11,711	27,193	-	40	2,827

	Company								
	Revenues			Costs			Expenses		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Locaweb IDC	-	-	-	-	(1,764)	-	-	-	-
Superpay	184	-	-	-	-	-	-	-	-
E-Commerce	275	-	-	-	-	-	-	-	-
Yapay	-	-	-	-	-	-	(335)	-	-
Locaweb Telecom	-	-	-	(200)	(226)	(305)	(64)	(66)	-
MG4	-	-	-	(4,115)	(3,401)	(2,523)	(1,168)	(689)	(603)
Cluster2Go	927	-	-	-	-	-	-	-	-
	1,386	-	-	(4,315)	(5,391)	(2,828)	(1,567)	(755)	(603)

	Consolidated								
	Revenues			Costs			Expenses		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
MG4	-	-	-	(6,414)	(6,290)	(5,905)	(2,254)	(2,264)	(2,135)
Tech and Soul	-	-	-	-	-	-	(1,155)	(188)	-
WW Marques	-	-	-	-	-	-	(441)	(322)	(301)
	-	-	-	(6,414)	(6,290)	(5,905)	(3,850)	(2,774)	(2,436)

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, 2018, 2017 and 2016
(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\$723. The total rent paid in 2018 was R\$8,668 (R\$8,554 in 2017 and R\$8,040 in 2016), 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\$36. The total rent paid in 2018 was R\$441 (R\$322 in 2017 and R\$301 in 2016), 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 2018 was R\$1,155 (R\$188 in 2017).

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, 2018, 2017 and 2016, 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, 2018, 2017 and 2016 are shown below:

	2018	2017	2016
Compensation	5,197	4,686	7,578
Benefits and related expenses	2,186	2,165	2,567
Share based compensation expenses	1,377	1,849	2,391
Total	8,760	8,700	12,536

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

9. Investments (restated)

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, 2018, 2017 and 2016 as comprised as follows:

	Company		
	2018	2017	2016
Investments	41,009	23,365	29,942
Provision for losses on investments	(540)	(585)	(842)
Net investments	40,469	22,780	29,100
Investments in subsidiaries and associated companies	19,412	20,821	13,509
Goodwill on investment acquisitions	21,057	1,959	15,591

The subsidiaries' key financial information is presented below:

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December, 31, 2018, 2017 and 2016

(In thousand of reais, unless otherwise stated)

12/31/2016						
Name	% Interest	Assets	Liabilities	Shareholders' equity	Net revenue	Net income (loss)
Direct						
Locaweb IDC	100%	51,106	45,971	5,135	89,088	(129)
Locaweb Telecom	100%	4,314	4,512	(198)	1,000	(316)
Tray S/A	100%	30,946	23,062	7,884	28,874	1,035
Eventials	51%	268	574	(306)	789	16
Indirect						
Tray Services / Yapay	100%	16,210	14,127	2,083	11,055	859
E-Commerce	100%	11,370	6,409	4,961	14,503	587
Superpay	100%	577	186	391	1,617	294
FBits	100%	4,440	2,479	1,961	1,965	124
12/31/2017						
Name	% Interest	Assets	Liabilities	Shareholders' equity	Net revenue	Net income (loss)
Direct						
Locaweb IDC	100%	34,946	25,368	9,578	91,009	4,442
Locaweb Telecom	100%	569	827	(258)	977	(240)
Tray Services / Yapay	100%	28,117	23,176	4,941	15,589	1,089
Superpay	100%	1,074	180	894	1,750	129
E-Commerce	100%	16,816	10,822	5,993	24,240	586
Eventials	51%	278	605	(327)	853	(21)
Indirect						
FBits	100%	4,818	2,222	2,596	5,608	(64)
12/31/2018						
Name	% Interest	Assets	Liabilities	Shareholders' equity	Net revenue	Net income (loss)
Direct						
Locaweb Telecom	100%	299	839	(540)	743	(358)
Tray Services / Yapay	100%	42,873	33,091	9,781	22,863	4,841
Superpay	100%	1,426	179	1,248	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						
FBits	100%	6,642	1,738	4,904	7,899	1,568

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December, 31, 2018, 2017 and 2016

(In thousand of reais, unless otherwise stated)

Changes in investments in subsidiaries are shown below:

Investee	Company				
	Balance as at 12/31/2015	Acquisition	Merger	Equity results	Balance as at 12/31/2016
Locaweb IDC	5,264	-	-	(129)	5,135
Locaweb Telecom	18	-	100	(316)	(198)
Tray S/A	7,596	-	575	1,035	9,206
Eventials	(972)	330	(8)	16	(634)
	11,906	330	667	606	13,509

Investee	Company					Balance as at 12/31/2017
	Balance as at 12/31/2016	Acquisition	Merger	Other	Equity results	
Locaweb IDC	5,135	-	-	1	4,442	9,578
Locaweb Telecom	(198)	-	-	180	(240)	(258)
Tray S/A	9,206	-	(10,923)	-	1,717	-
Eventials	(634)	-	-	328	(21)	(327)
Tray Services / Yapay	-	3,844	-	8	1,089	4,941
Superpay	-	765	-	-	129	894
E-Commerce	-	5,407	-	-	586	5,993
	13,509	10,016	(10,923)	517	7,702	20,821

Investee	Company					Balance as at 12/31/2018
	Balance as at 12/31/2017	Acquisition	Merger	Other	Equity results	
Locaweb IDC	9,578	-	(9,024)	-	(554)	-
Locaweb Telecom	(258)	-	-	76	(358)	(540)
Eventials	(327)	-	-	327	-	-
Tray Services / Yapay	4,941	-	-	(1)	4,841	9,781
Superpay	894	-	-	50	303	1,247
E-Commerce	5,993	-	-	-	5,060	11,053
Cluster2Go	-	(1,870)	-	-	(259)	(2,129)
	20,821	(1,870)	(9,024)	452	9,033	19,412

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.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

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

Investee acquired	Company			Consolidated		
	2018	2017	2016	2018	2017	2016
Tray	-	22,764	20,607	-	22,764	20,607
FBits	-	-	-	5,529	4,890	4,253
Cluster2Go	13,724	-	-	13,724	-	-
Total	13,724	22,764	20,607	19,253	27,654	24,860
Current	-	22,764	-	5,529	22,764	-
Non-current	13,724	-	20,607	13,724	4,890	24,860

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 Cluster2GO

On March 2, 2018, Locaweb acquired 100% of the shares issued by Ananke Participações S.A. ("Cluster2GO") and its subsidiaries. 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, Cluster2GO provides 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.

Cluster2GO's balances of identifiable assets acquired and liabilities assumed as at the acquisition date are shown below:

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

	Fair value recognized on acquisition
Assets	
Cash and cash equivalents	173
Accounts receivable	998
Taxes recoverable	238
Other assets	53
Property and equipment	451
Other intangible assets	1,106
Intangible asset – Customer portfolio	1,190
	4,209
Liabilities	
Suppliers	(852)
Salaries and related charges	(554)
Taxes payable	(3,238)
Loans and financing	(1,330)
Other liabilities	(1,054)
	(7,028)
Total identifiable net liabilities at fair value	(2,819)
Goodwill arising on acquisition	19,867
Purchase consideration	17,048
Cash flows on acquisition	
Cash paid, net of cash acquired (investing activities)	(3,619)
Acquisition cost (operating activities)	(228)
Cash paid on acquisition	(3,847)

The fair value of the purchase consideration was R\$16,778, which R\$3,792 was paid on the closing date, R\$5,513 is payable on April 1, 2021, and a contingent consideration of R\$7,743 in connection with an additional payment based on certain performance indicators (earn-out), which was recorded in accounts payable to former shareholders. This part may be deducted from the amount of indemnifiable losses incurred until the payment date, as stipulated in the purchase and sale agreement.

The carrying amount of accounts receivable at the acquisition date and its fair value is R\$998 in short term and with no expectation of loss.

The Company hired a valuation firm to assist it with the purchase price allocation. The fair value of customer portfolio intangible assets was calculated considering the “Income Approach - Multi-Period Excess Earnings” method and indicated that the fair value as at the acquisition date of R\$1,190.

The goodwill at the acquisition date 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.

The contingent consideration for an additional payment based on certain performance indicators (earn-out) in the amount of R\$9,474 was recognized at the acquisition date, whose present value on the acquisition date was R\$7,743 and is recorded in Accounts payable to former shareholders.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

Acquisition cost of R\$228 was recognized in the statement of operations in general and administrative expenses and in the operating activities in the statements of cash flows.

In 2018, from the date of its acquisition, Cluster2GO and its subsidiaries contributed with net revenue of R\$11,636 and net loss of R\$2,592. If the acquisition had taken place at the beginning of 2018, Cluster2Go and its subsidiaries would have contributed with net revenue of R\$12,902 and net loss of R\$6,600 to the Company.

b) Acquisition of FBits

On September 1, 2016, E-Commerce (currently Tray Tecnologia) acquired 100% 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, FBits provides customized layout, B2C, B2B, marketplace module, smart search, responsive layout, e-mail, gateway and reporting.

The balances of identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

	<u>Fair value recognized on acquisition</u>
Assets	
Cash and cash equivalents	1
Accounts receivable	394
Taxes recoverable	201
Other assets	37
Deferred taxes	1,178
Property and equipment	98
Other intangible assets	1,927
Intangible asset – Customer portfolio	387
Intangible asset – Technology	1,657
	<u>5,880</u>
Liabilities	
Suppliers	(49)
Salaries and related charges	(1,145)
Taxes payable	(872)
Loans and financing	(573)
Provision for legal proceedings	(291)
Other liabilities	(308)
	<u>(3,238)</u>
Total identifiable net assets at fair value	2,642
Goodwill arising on acquisition	2,895
Purchase consideration	<u>5,537</u>
Cash flows on acquisition	
Cash paid, net of cash acquired (investing activities)	(1,496)
Acquisition cost (operating activities)	(96)
Cash paid on acquisition	<u>(1,592)</u>

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

The total purchase price was R\$5,537, net of a fair value adjustment of R\$1,754 (R\$7,291 before present value adjustment), R\$1,497 of which was paid on the closing date, and R\$4,040 is payable in 2019.

The Company has hired a valuation firm to assist it with the purchase price allocation. The fair value of customer portfolio and technology intangible assets was calculated considering the "Income Approach - Multi-Period Excess Earnings" method and indicated that the fair value on the acquisition date of R\$387 and R\$1,657, respectively.

The carrying amount of accounts receivable at the acquisition date and its fair value is R\$394 in short term and with no expectation of loss.

The goodwill at the acquisition date includes the amount of future economic benefits from synergies from the acquisition. The goodwill has been allocated to the Commerce segment. The Company understands that goodwill will be deductible for tax purposes.

Acquisition cost of R\$96 was recognized in the statement of operations in general and administrative expenses and in operating activities in the statements of cash flows.

In 2016, from the date of its acquisition, FBits contributed with net revenue of R\$1,965 and net income of R\$124. If the acquisition had taken place at the beginning of 2016, FBits would have contributed with net revenue of R\$5,557 and net loss of R\$427 to the Company.

c) Acquisition and sale of Eventials

On November 5, 2012, Locaweb acquired a 35% interest, and 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, the controlling shareholders of Eventials. The payment of R\$556 was made on August 1, 2016. This acquisition strengthens the Company's presence in the digital market.

The balances of identifiable assets acquired and liabilities assumed as at the Eventials acquisition date are shown below:

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

	<u>Fair value recognized on acquisition</u>
Assets	
Cash and cash equivalents	301
Accounts receivable	276
Taxes recoverable	22
Other assets	60
Deferred taxes	41
Property and equipment	15
Intangible asset – Technology	380
	<u>1,095</u>
Liabilities	
Suppliers	(104)
Salaries and related charges	(150)
Taxes payable	(22)
Deferred revenue	(343)
Related parties	(749)
	<u>(1,368)</u>
Total identifiable net liabilities at fair value	<u>(273)</u>
Non-controlling interests	134
Goodwill arising on acquisition	1,958
Purchase consideration	<u>1,819</u>
Cash flows on acquisition	
Cash paid, net of cash acquired (investing activities)	(265)
Cash paid on acquisition	<u>(265)</u>

The carrying amount of accounts receivable at the acquisition date and its fair value is R\$276 in short term and with no expectation of loss.

Non-controlling interests were measured considering the proportion of net identifiable liabilities.

The Company has hired a valuation firm to assist it with the purchase price allocation. The “Income Approach - Relief from Royalty Method” was used to determine the fair value of the technology intangible asset.

The goodwill at the acquisition date 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.

There were no acquisition cost incurred in connection with the acquisition of Eventials.

In 2016, from the date of its acquisition, Eventials contributed with net revenue of R\$789 and net income of R\$18. If the acquisition had taken place at the beginning of 2016, Eventials would have contributed with net revenue of R\$1,518 and net loss of R\$22 to the Company.

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

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

9.3 Merger of subsidiaries

a) Merger of IDC

At the Special Shareholders' Meeting held on September 19, 2018, the Company's shareholders approved the merger of Locaweb IDC Ltda. 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:

	<u>September 2018</u>
Cash and cash equivalents	5,905
Accounts receivable	12,024
Taxes recoverable	167
Other assets	1,186
Deferred taxes	996
Investments	11,097
Judicial deposits	909
Property and equipment	9,880
Intangible assets	1,369
Total assets	<u>43,533</u>
Suppliers	(450)
Salaries and related charges	(8,656)
Other taxes payable	(2,582)
Deferred revenue	(3,361)
Accounts payable to former shareholders	(5,687)
Related parties	(10,470)
Total liabilities	<u>(31,206)</u>
Net assets merged	<u>12,327</u>

b) Merger of Tray

At the Special Shareholders' Meeting held on September 20, 2017, the Company's shareholders approved the merger of Tray. The amounts merged are described below:

	<u>September 2017</u>
Cash and cash equivalents	1
Taxes recoverable	27
Deferred taxes	165
Investments	10,762
Total assets	<u>10,955</u>
Suppliers	(5)
Related parties	(27)
Total liabilities	<u>(32)</u>
Net assets merged	<u>10,923</u>

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

10. Property and equipment (restated)

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	5 years

Changes in property and equipment are as follows:

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

	Company						Total property and equipment
	Computers and peripherals	Improvements	Furniture and fixtures	Machinery and equipment	Components for assembly	Other	
Cost							
Balances on January 1, 2016	6,235	27,786	2,271	137,602	4,766	836	179,496
Additions from business combinations	8	-	4	3	-	-	15
Additions	56	450	79	2,175	12,899	185	15,844
Disposals	(3,014)	-	(46)	(572)	-	(275)	(3,907)
Transfer	-	-	(1)	12,819	(12,990)	172	-
Balances on December 31, 2016	3,285	28,236	2,307	152,027	4,675	918	191,448
Additions	35	750	65	6,349	7,437	251	14,887
Disposals	(540)	-	(127)	(5,796)	(143)	(134)	(6,740)
Transfer	24	-	(12)	11,324	(11,336)	-	-
Balances on December 31, 2017	2,804	28,986	2,233	163,904	633	1,035	199,595
Additions from merger	3,589	-	293	82,195	106	5	86,188
Additions	307	1,320	77	16,832	9,844	177	28,557
Disposals	(335)	-	(411)	(9,808)	(220)	(6)	(10,780)
Transfers	276	-	-	7,649	(7,925)	-	-
Balances on December 31, 2018	6,641	30,306	2,192	260,772	2,438	1,211	303,560
Depreciation							
Balances on January 1, 2016	(5,117)	(6,487)	(1,185)	(95,136)	(2,871)	(516)	(111,312)
Depreciation	(267)	(1,525)	(226)	(18,057)	-	(204)	(20,279)
Disposals	2,725	-	43	955	-	254	3,977
Transfer	-	-	-	(2,871)	2,871	-	-
Balances on December 31, 2016	(2,659)	(8,012)	(1,368)	(115,109)	-	(466)	(127,614)
Depreciation	(190)	(1,549)	(207)	(16,489)	-	(193)	(18,628)
Disposals	532	-	123	5,716	-	101	6,472
Balances on December 31, 2017	(2,317)	(9,561)	(1,452)	(125,882)	-	(558)	(139,770)
Depreciation from merger	(2,731)	-	(271)	(73,301)	-	(5)	(76,308)
Depreciation	(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)
Net book value							
Balances on December 31, 2016	626	20,224	939	36,918	4,675	452	63,834
Balances on December 31, 2017	487	19,425	781	38,022	633	477	59,825
Balances on December 31, 2018	1,645	19,119	672	49,072	2,438	469	73,415

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(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, 2016	7,978	27,805	2,997	207,152	8,557	1,051	255,540
Additions from business combinations	41	-	25	10	-	37	113
Additions	245	1,032	168	2,822	23,516	250	28,033
Disposals	(172)	-	(57)	(826)	(4,299)	(317)	(5,671)
Transfer	-	3	-	21,911	(21,914)	-	-
Balances on December 31, 2016	8,092	28,840	3,133	231,069	5,860	1,021	278,015
Additions	146	771	120	6,949	17,725	341	26,052
Disposals	(760)	(20)	(318)	(10,190)	(250)	(235)	(11,773)
Transfer	781	-	(12)	20,753	(21,522)	-	-
Balances on December 31, 2017	8,259	29,591	2,923	248,581	1,813	1,127	292,294
Additions from business combinations	392	-	45	8	1	5	451
Additions	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
Depreciation							
Balances on January 1, 2016	(9,384)	(6,505)	(1,708)	(148,907)	(4,297)	(751)	(171,552)
Depreciation	(1,012)	(1,683)	(316)	(27,126)	-	(179)	(30,316)
Disposals	3,878	-	57	1,307	-	295	5,537
Transfer	-	-	-	(4,297)	4,297	-	-
Balances on December 31, 2016	(6,518)	(8,188)	(1,967)	(179,023)	-	(635)	(196,331)
Depreciation	(641)	(1,998)	(252)	(28,082)	-	(98)	(31,071)
Disposals	736	20	315	10,411	-	172	11,654
Balances on December 31, 2017	(6,423)	(10,166)	(1,904)	(196,694)	-	(561)	(215,748)
Depreciation	(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)
Net book value							
Balances on December 31, 2016	1,574	20,652	1,166	52,046	5,860	386	81,684
Balances on December 31, 2017	1,836	19,425	1,019	51,887	1,813	566	76,546
Balances on December 31, 2018	2,729	19,241	1,611	50,708	2,445	584	77,318

There are no impairment indicators for the years ended December 31, 2018, 2017 and 2016 in the Company's and Consolidated statements.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

11. Intangible assets (restated)

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
Weighted-average amortization period	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 indefinite 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, 2018, 2017 and 2016
(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, 2016	8,747	550	8,111	872	19,430	733	3,666	2,586	44,695
Additions	3,896	-	2,766	-	-	-	-	-	6,662
Disposals	(7,884)	(1)	-	-	-	-	-	-	(7,885)
Balances on December 31, 2016	4,759	549	10,877	872	19,430	733	3,666	2,586	43,472
Additions from merger	-	-	-	-	13,657	845	-	-	14,502
Additions	25	-	6,161	-	-	-	194	-	6,380
Disposals	(3,046)	(1)	-	-	-	-	-	-	(3,047)
Balances on December 31, 2017	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	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
Amortization									
Balances on January 1, 2016	(6,942)	-	-	(21)	-	(92)	(1,833)	(862)	(9,750)
Amortization	(3,009)	-	(919)	(87)	-	-	(1,115)	-	(5,130)
Disposal	7,877	-	-	-	-	-	-	-	7,877
Balances on December 31, 2016	(2,074)	-	(919)	(108)	-	(92)	(2,948)	(862)	(7,003)
Amortization	(1,198)	-	(1,739)	(88)	-	(73)	(1,627)	(689)	(5,414)
Disposal	1,931	-	-	-	-	-	1,115	-	3,046
Balances on December 31, 2017	(1,341)	-	(2,658)	(196)	-	(165)	(3,460)	(1,551)	(9,371)
Amortization from merger	(567)	-	(82)	-	-	-	-	-	(649)
Amortization	(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)
Net book value									
Balances on December 31, 2016	2,685	549	9,958	764	19,430	641	718	1,724	36,469
Balances on December 31, 2017	397	548	14,380	676	33,087	1,413	400	1,035	51,936
Balances on December 31, 2018	630	553	19,460	589	33,087	1,376	-	315	56,010

(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, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

	Consolidated							
	Software	Trademarks and patents	Internal development (a)	Other	Goodwill	Technology	Customer portfolio	Total intangible assets
Cost								
Balances on January 1, 2016	11,266	2,411	10,412	872	33,087	8,486	2,896	69,430
Additions from business combinations	-	-	1,927	-	4,853	2,037	387	9,204
Additions	4,175	3	3,895	-	-	-	-	8,073
Disposals	(9,042)	-	-	-	-	-	-	(9,042)
Balances on December 31, 2016	6,399	2,414	16,234	872	37,940	10,523	3,283	77,665
Additions	30	-	7,629	-	50	194	-	7,903
Disposals	(4,135)	(2)	-	-	-	-	-	(4,137)
Balances on December 31, 2017	2,294	2,412	23,863	872	37,990	10,717	3,283	81,431
Additions from business combinations	1,102	4	-	-	19,867	-	1,190	22,163
Additions	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
Amortization								
Balances on January 1, 2016	(8,785)	(92)	(572)	(21)	-	(4,758)	(1,234)	(15,462)
Amortization	(3,147)	-	(2,284)	(87)	-	(2,173)	(46)	(7,737)
Disposals	8,439	-	-	-	-	-	-	8,439
Balances on December 31, 2016	(3,493)	(92)	(2,856)	(108)	-	(6,931)	(1,280)	(14,760)
Amortization	(1,879)	(73)	(2,774)	(88)	-	(2,086)	(822)	(7,722)
Disposals	3,265	-	-	-	-	-	-	3,265
Balances on December 31, 2017	(2,107)	(165)	(5,630)	(196)	-	(9,017)	(2,102)	(19,217)
Amortization	(255)	(37)	(3,247)	(87)	-	(527)	(720)	(4,873)
Disposals	949	-	-	-	-	-	-	949
Balances on December 31, 2018	(1,413)	(202)	(8,877)	(283)	-	(9,544)	(2,822)	(23,141)
Net book value								
Balances on December 31, 2016	2,906	2,322	13,378	764	37,940	3,592	2,003	62,905
Balances on December 31, 2017	187	2,247	18,233	676	37,990	1,700	1,181	62,214
Balances on December 31, 2018	1,334	2,217	25,450	589	55,873	979	1,564	88,006

(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, 2018, 2017 and 2016

(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 period of future economic benefits. During the development period, 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 was no impairment losses for the years ended December 31, 2018, 2017 or 2016 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>Total</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Goodwill carrying amount	39,297	21,414	21,364	16,552	16,552	16,552	55,849	37,966	37,916

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December, 31, 2018, 2017 and 2016

(In thousand of reais, unless otherwise stated)

The Company performed impairment tests as at December 31, 2018, 2017 and 2016 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 11.13% p.a. for 2018, 13,92% p.a. for 2017 and 13,66% p.a. for 2016. Cash flows exceeding the 5-year period were extrapolated using a growth rate of 3.5% p.a. for 2018, 6.3% p.a. for 2017 and 7.2% p.a. for 2016. As a result of that analysis, there was no impairment. Based on the impairment tests, the Company has a R\$940,784 surplus for the Be Online/SaaS CGU and R\$609,111 for the Commerce CGU and has therefore has not identified any impairment for these CGUs.

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:

- 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.
- 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, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

12. Loans and financing (restated)

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

Type	Interest	Maturity	Company			Consolidated		
			2018	2017	2016	2018	2017	2016
Prosoft Empresa	TJLP + 1.5% p.a.	June 2019	5,343	15,926	24,509	5,343	15,926	24,509
FINAME	IPCA + 4.93% p.a.	September 2020	855	-	-	855	-	-
Issuance 3844	US\$ + 4.31% p.a.	February 2021	30,240	-	-	30,240	-	-
Issuance 4131	US\$ + 2.83% p.a.	August 2017	-	-	13,898	-	-	13,898
Issuance 4131	US\$ + 5.22% p.a.	August 2019	12,504	10,675	-	12,504	10,675	-
Finep	TJLP + 0.5% p.a.	August 2021	30,279	41,348	47,293	30,279	41,348	47,293
Other			3,160	-	-	3,280	139	192
			82,381	67,949	85,700	82,501	68,088	85,892
		Current liabilities	43,594	22,670	29,200	43,714	22,809	29,254
		Non-current liabilities	38,787	45,279	56,500	38,787	45,279	56,638

The amounts recorded in non-current liabilities as at December 31, 2018 had the following maturity schedule:

	Company	Consolidated
2020	25,541	25,541
2021	13,246	13,246
	38,787	38,787

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.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

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.

13. Salaries and related charges (restated)

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		
	2018	2017	2016	2018	2017	2016
Salaries and related expenses	6,653	5,180	2,712	7,758	8,834	6,221
Provision for vacation pay and charges	8,473	3,569	3,368	10,590	9,024	8,738
Profit-sharing plan (PPR)	5,095	5,858	4,587	5,937	7,680	5,842
	20,221	14,607	10,667	24,285	25,538	20,801

14. 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.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

Changes in the provision for legal proceedings are shown below:

	Company		
	Civil proceedings	Labor proceedings	Total
Balances on January 1, 2016	441	521	962
Additions (reversals)	232	(221)	11
Balances on December 31, 2016	673	300	973
Additions (reversals)	(102)	(300)	(402)
Balances on December 31, 2017	571	-	571
Additions (reversals)	(139)	822	683
Balances on December 31, 2018	432	822	1,254

	Consolidated		
	Civil proceedings	Labor proceedings	Total
Balances on January 1, 2016	547	701	1,248
Additions (reversals)	334	256	590
Balances on December 31, 2016	881	957	1,838
Additions (reversals)	(263)	(222)	(485)
Balances on December 31, 2017	618	735	1,353
Additions (reversals)	(111)	87	(24)
Balances on December 31, 2018	507	822	1,329

The main legal proceedings are summarized below:

Tax contingencies

In April 2003, the Company filed an action for declaratory judgment seeking to have its website hosting revenues decreed not compulsorily subject to taxation by the ICMS (Value Added Tax) and ISS (Service Tax).

The case for not taxing the hosting service is based on the fact that it is not a communication service, which would be a taxable event for the ICMS, neither is such service contemplated on the list of services attached to Supplementary Law No. 116/03, which expressly specified what services are subject to the ISS.

In the action against the State Public Treasury Department concerning the ICMS, Locaweb obtained favorable rulings in the lower court and the appellate court, which became a final, non-appealable judgment on June 1, 2011, according to a Certificate of Final Judgment and Referral issued by the Superior Court of Justice on that date.

The action against the Municipality of São Paulo concerning the ISS seeks to have it decreed that there is no such legal relationship as could authorize the Municipality to require the Company to pay ISS for website storage services provided on the Internet.

The case was dismissed by the lower court, and the Company filed an appeal, which was decided in favor of Locaweb. The Municipality of São Paulo Administration has filed an appeal.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

Should the action not succeed, then the municipality tax authority could demand that the Company pay unpaid taxes for the past five years, back to 2010, when the Company, on its own initiative, began to make such payments in court. The balance of the relevant judicial deposits was R\$11,168 (updated) as at December 31, 2016.

On March 6, 2017, the Company obtained a favorable ruling from the Superior Court of Justice (STJ) in its lawsuit against the Municipality of São Paulo Administration seeking exemption for the Service Tax (ISS) on its website hosting services. Accordingly, on March 21, 2017, Locaweb redeemed (converted into cash) the net amount of R\$11,513 that had been deposited in court.

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		
	2018	2017	2016	2018	2017	2016
Civil	1,170	1,985	1,819	1,285	2,207	1,859
Tax	9,847	8,946	8,934	9,847	9,297	9,313
	11,017	10,931	10,753	11,132	11,504	11,172

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

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\$8,773, 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, 2018 in the amount of R\$1,067 in the Company's Financial Statements (R\$158 in 2017 and R\$11,168 in 2016) and R\$1,125 in the Consolidated Financial Statements (R\$575 in 2017 and R\$11,519 in 2016).

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.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

15. Equity (restated)

A) Capital stock

As at December 31, 2018, Locaweb's capital stock subscribed and paid-in was represented by 91,574,153 shares (90,910,918 on December 31, 2017 and 90,432,432 on December 31, 2016), all of which are nominative and book-entry shares with no par value, 74,185,425 of which are common shares (73,522,190 on December 31, 2017 and 73,043,704 on December 31, 2016) and 17,388,728 are preferred shares. Treasury shares totaled 1,855,682 shares.

The share distribution as at December 31, 2018 is shown below:

	Shares			%
	Preferred	Common	Total	
Silver Lake Fundo de Investimento em Participações	17,388,727	-	17,388,727	18.99%
Claudio Gora	-	15,587,563	15,587,563	17.02%
Gilberto Mautner	-	15,587,563	15,587,563	17.02%
Michel Gora	-	15,587,563	15,587,563	17.02%
Ricardo Gora	-	15,587,563	15,587,563	17.02%
Andrea Gora	-	6,903,734	6,903,734	7.54%
Other shareholders	1	4,931,439	4,931,440	5.39%
	17,388,728	74,185,425	91,574,153	100.00%

The Company is authorized to increase its capital stock up to a limit of 160,000,000 shares, including those already issued, irrespective of any amendment to its by-laws, by resolution of the Board of Directors.

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.

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.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

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 die 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' dividends and interest on shareholders' equity are calculated as determined by Management.

	<u>2018</u>	<u>2017</u>
Company's net income for the year	10,886	10,066
Offset of accumulated losses	<u>(1,174)</u>	<u>(4,266)</u>
Base for allocation to legal reserve - 5%	9,712	5,800
Legal reserve - 5%	<u>(486)</u>	<u>(290)</u>
Net income after offset of accumulated loss and legal reserve allocation	9,226	5,510
Minimum compulsory dividend under the by-laws - 40%	3,691	2,204
Additional dividends	<u>1,758</u>	<u>3,596</u>
Interest on shareholders' equity paid (gross)	5,449	5,800
Number of shares as at December 31 (thousand shares)	<u>91,574</u>	<u>90,911</u>
Dividend and interest on shareholders' equity per share - in Reais	0.06	0.06

The Company did not distribute dividends or interest on shareholders' equity in the year ended December 31, 2016 due to the net loss for the year.

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.

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.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

16. 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) strenght 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 vesting period 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 is recorded in "personnel expenses" and represents the changes in accumulated expenses recognized at the beginning and at the end of such period. No expense is recognized for stock options not completing their vesting period, 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 2018 the Eleventh 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.

Starting from the reference date specified in each Stock Option Agreement ("Reference Date"), the following periods 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 Periods"). The plans granted in 2016 and 2017 display the same dynamic as described above.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December, 31, 2018, 2017 and 2016

(In thousand of reais, unless otherwise stated)

In any event, the amount of shares available to be acquired after each Vesting Period 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:

December 31, 2018								Number of shares		
Series	Date of grant	Reference date	First exercise date	Expiry date	Strike price	Fair value	Granted	Exercised	Expired	Total outstanding
Series A	07/15/2009	01/01/2008	01/01/2010	01/01/2017	4.31	7.79	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	(71,890)	(870,610)	52,500
Series D	07/01/2011	07/01/2011	01/01/2012	07/01/2019	5.25	6.56	430,000	(100,000)	(305,000)	25,000
Series E	01/01/2012	01/01/2012	01/01/2013	01/01/2020	5.25	8.29	930,000	(113,750)	(232,500)	583,750
Series F	07/01/2012	07/01/2012	01/01/2013	07/01/2020	10.96	16.25	128,000	-	(65,750)	62,250
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	-	(550,000)	135,000
Series J	07/01/2015	07/01/2015	07/01/2016	07/01/2022	9.05	16.27	385,000	-	(70,000)	315,000
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	-	(150,000)	630,000
Series M	04/01/2017	04/01/2017	04/01/2018	04/01/2023	10.00	12.74	470,000	-	(35,000)	435,000
Series N	07/01/2018	07/01/2018	07/01/2019	07/01/2024	7.00	9.04	1,090,000	-	-	1,090,000
							<u>10,902,223</u>	<u>(2,288,437)</u>	<u>(3,724,732)</u>	<u>4,889,054</u>

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

	Number of stock options	Average strike price
Balance outstanding on January 1, 2016	5,731,855	7.76
Granted	1,480,000	10.00
Expired	(1,897,297)	6.84
Exercised	(449,336)	4.31
Balance outstanding on December 31, 2016	<u>4,865,222</u>	<u>8.27</u>
Granted	470,000	10.00
Expired	(542,699)	6.00
Exercised	(478,486)	4.48
Balance outstanding on December 31, 2017	<u>4,314,037</u>	<u>8.83</u>
Granted	1,090,000	7.00
Expired	(338,250)	10.19
Exercised	(176,733)	4.97
Balance outstanding on December 31, 2018	<u>4,889,054</u>	<u>8.46</u>

As at December 31, 2018, 2017 and 2016, the number of exercisable stock options was 2,505,304, 2,012,304 and 1,563,554, respectively.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December, 31, 2018, 2017 and 2016

(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, 2018, 2017 and 2016:

	Plan 8 Series K	Plan 9 Series L	Plan 10 Series M	Plan 11 Series N
Dividend yield	2.00%	2.00%	2.00%	2.00%
Expected volatility	34.08%	34.08%	27.00%	31.00%
Risk-free return rate (per annum)	13.00%	13.00%	7.00%	6.75%
Expected stock option life	4 years	4 years	4 years	4 years
Weighted-average price of shares (R\$)	10.00	10.00	10.00	7.00
Model used	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 2018 was R\$1,476 (R\$2,886 in 2017 and R\$3,408 in 2016).

17. Earnings (loss) per share

As described in Note 26, on December 4, 2019, the shareholders approved a conversion of preferred shares into common shares at the ratio of one preferred share to one common share. The calculation of basic and diluted earnings per share considers such conversion for the years ended December 31, 2018, 2017 and 2016.

A) Basic earnings (loss) per share

Basic earnings (loss) 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:

	2018	2017	2016
Net income (loss) attributable to the Company's shareholders	10,886	10,066	(4,971)
Weighted-average number of common shares – in thousands	91,213	90,628	90,203
Basic earnings (loss) per share - R\$	0.12	0.11	(0.06)

B) Diluted earnings (loss) per share

Diluted earnings (loss) 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 5,001 shares in 2018 (4,314 shares in 2017 and 5,002 in 2016).

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December, 31, 2018, 2017 and 2016

(In thousand of reais, unless otherwise stated)

	2018	2017	2016
Net income (loss) attributable to the Company's shareholders	10,886	10,066	(4,971)
Weighted-average number of shares, including potential dilution – in thousands	96,214	94,942	95,068
Diluted earnings (loss) per share - R\$	0.11	0.11	(0.06)

18. 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.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December, 31, 2018, 2017 and 2016

(In thousand of reais, unless otherwise stated)

A) Reconciliation of gross revenue and net revenue

	Company			Consolidated		
	2018	2017	2016	2018	2017	2016
Gross revenue	218,811	186,328	184,528	370,328	340,023	321,771
BeOnline & SaaS	218,811	186,328	184,528	308,551	293,540	289,297
Commerce	-	-	-	61,777	46,483	32,474
Discounts and rebates	(12,909)	(11,180)	(12,423)	(14,928)	(13,174)	(13,724)
BeOnline & SaaS	(12,909)	(11,180)	(12,423)	(14,693)	(13,174)	(13,724)
Commerce	-	-	-	(235)	-	-
Taxes on revenues	(23,875)	(16,658)	(16,261)	(40,417)	(33,681)	(32,268)
BeOnline & SaaS	(23,875)	(16,658)	(16,261)	(33,580)	(28,560)	(28,668)
Commerce	-	-	-	(6,837)	(5,121)	(3,600)
Net revenue	182,027	158,490	155,844	314,983	293,168	275,779
BeOnline & SaaS	182,027	158,490	155,844	260,278	251,806	246,905
Commerce	-	-	-	54,705	41,362	28,874

19. Operating costs and expenses (restated)

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		
	2018	2017	2016	2018	2017	2016
Personnel expenses	(62,247)	(48,850)	(42,518)	(120,663)	(114,877)	(105,651)
Advisory and consulting services	(9,502)	(10,132)	(9,614)	(12,192)	(11,930)	(11,525)
Depreciation and amortization expenses	(25,868)	(24,042)	(25,409)	(36,775)	(38,793)	(38,053)
Installation expenses	(10,521)	(8,110)	(7,583)	(18,787)	(18,072)	(18,942)
Operating cost	(38,737)	(32,555)	(34,839)	(54,039)	(44,551)	(45,663)
Selling and marketing expenses	(18,020)	(15,670)	(19,140)	(29,324)	(29,026)	(30,487)
Stock option plan expenses	(1,476)	(2,886)	(3,408)	(1,476)	(2,886)	(3,408)
Other expenses	(3,098)	(3,256)	(4,216)	(4,864)	(4,491)	(7,129)
Total	(169,469)	(145,501)	(146,727)	(278,120)	(264,626)	(260,858)
Cost of services	(114,304)	(93,611)	(93,773)	(174,489)	(164,454)	(160,949)
Selling expenses	(34,751)	(26,969)	(30,860)	(62,322)	(59,632)	(59,145)
General and administrative expenses	(20,414)	(24,921)	(22,094)	(41,309)	(40,540)	(40,764)
Total	(169,469)	(145,501)	(146,727)	(278,120)	(264,626)	(260,858)

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

20. Financial results (restated)

	Company			Consolidated		
	2018	2017	2016	2018	2017	2016
Financial income						
Interest on financial investments	1,364	2,375	774	1,568	3,520	1,466
Foreign exchange rate gain	1,181	-	-	907	-	-
Interest	391	572	525	575	779	671
Derivative gains	5,039	291	851	5,039	291	851
Mark-to-market of derivatives	-	65	-	-	65	-
Other financial income	334	3,270	566	796	3,772	937
	8,309	6,573	2,716	8,885	8,427	3,925
Financial expenses						
Interest	(12,526)	(11,333)	(12,168)	(13,432)	(11,900)	(12,529)
Mark-to-market of derivatives	(977)	-	(66)	(977)	-	(66)
Banking service fees (*)	(2,753)	(3,078)	(2,930)	(3,900)	(3,984)	(3,430)
Foreign exchange rate losses	-	(57)	(283)	-	(74)	(145)
IOF (Tax on Financial Transactions)	(656)	(176)	(158)	(823)	(303)	(293)
Expense for anticipation of receivables	-	-	-	(3,539)	(2,983)	(2,659)
Net present value adjustment	(468)	-	-	(1,106)	(638)	(213)
Other financial expenses	(1,290)	(2,168)	(2,950)	(1,356)	(2,190)	(2,960)
	(18,670)	(16,812)	(18,555)	(25,133)	(22,072)	(22,295)
Financial results	(10,361)	(10,239)	(15,839)	(16,248)	(13,645)	(18,370)

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

21. Income taxes (restated)

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 period, 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.

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.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December, 31, 2018, 2017 and 2016

(In thousand of reais, unless otherwise stated)

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		
	2018	2017	2016	2018	2017	2016
Provision for profit sharing	1,732	1,992	1,560	2,010	2,607	1,986
Depreciation of leased property (leasing)	(4)	-	-	(4)	-	-
Provision for legal proceedings	426	194	331	452	460	527
Other provisions	626	564	534	44	952	725
Intangible assets identified in business combinations	83	-	-	240	266	(629)
Derivatives and foreign exchange fluctuation	575	69	-	575	69	-
Business combinations	(6,391)	(3,914)	(2,005)	(6,391)	(3,914)	(2,005)
Tax losses carryforward	5,658	2,219	1,951	6,909	7,808	8,966
Total deferred income taxes - asset	2,705	1,124	2,371	3,835	8,249	9,571

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, 2018, considering the likely ability to generate taxable profits, as shown below.

Fiscal Year	Company	Consolidated
2019	4,490	4,600
2020	1,317	1,608
2021	2,794	3,412
2022	499	609
Total	9,100	10,230

Changes in deferred taxes are shown below:

Company Nature	Balance	Result	Balance	Result	Balance	Merger	Result	Balance
	01/01/2016	Gain/(loss)	12/31/2016	Gain/(loss)	12/31/2017	Additions	Gain (loss)	12/31/2018
Tax losses carryforward	-	1,951	1,951	267	2,218	-	3,439	5,657
Tax benefit from goodwill	(286)	(1,719)	(2,005)	(1,908)	(3,913)	-	(2,477)	(6,390)
Merger	-	-	-	-	-	996	-	996
Temporary differences	2,432	(7)	2,425	394	2,819	-	(377)	2,442
Total	2,146	225	2,371	(1,247)	1,124	996	585	2,705
Consolidated Nature	Balance	Result	Balance	Result	Balance	Merger	Result	Balance
	01/01/2016	Gain/(loss)	12/31/2016	Gain/(loss)	12/31/2017	Additions	Gain (loss)	12/31/2018
Tax losses carryforward	4,874	4,092	8,966	(1,157)	7,809	-	(899)	6,910
Tax benefit from goodwill	(286)	(1,719)	(2,005)	(1,908)	(3,913)	-	(2,477)	(6,390)
Merger	-	-	-	-	-	996	-	996
Temporary differences	5,343	(2,733)	2,610	1,743	4,353	-	(2,034)	2,319
Total	9,931	(360)	9,571	(1,322)	8,249	996	(5,410)	3,835

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December, 31, 2018, 2017 and 2016

(In thousand of reais, unless otherwise stated)

A) Reconciliation of income taxes 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		
	2018	2017	2016	2018	2017	2016
Income (loss) before income taxes	10,301	11,313	(5,196)	20,104	16,709	(2,209)
Income taxes at a combined statutory rate of 34%	(3,502)	(3,846)	1,767	(6,835)	(5,681)	751
Adjustments to the effective rate:						
Interest on shareholders' equity	1,853	1,972	-	1,853	1,972	-
Effect of presumed profit method	-	-	-	(1,039)	-	-
Effect of equity results	3,071	2,619	206	-	-	-
Effect of stock option plan expenses	(502)	(982)	(1,610)	(502)	(982)	(1,610)
Options exercised	177	-	658	177	-	658
Effect of officer vehicle depreciation and other expenses	(72)	(75)	(292)	(239)	(75)	(293)
Derecognition for prior periods	-	-	-	758	-	-
Derecognition of deferred tax from merger	-	-	-	(3,098)	-	-
Allowance for doubtful accounts	-	-	-	-	(1,020)	(1,692)
Amortization of intangible assets	(254)	(813)	(409)	(254)	(813)	(409)
Tax losses carryforward assets not recognized (tax loss)	-	-	-	(915)	(78)	-
Tax benefit from <i>Lei do Bem</i>	-	-	-	979	148	-
Other	(186)	(122)	(95)	(103)	(141)	(151)
Income taxes in the statements of operations	585	(1,247)	225	(9,218)	(6,670)	(2,746)
Effective rate	-5.68%	11.02%	4.33%	45.85%	39.92%	-124.31%

22. 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, (iii) 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; (ii) Yapay (formerly denominated "Tray Services"); (iii) Superpay; and (iv) FBits.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

a) Statement of operations

	2018		
	BeOnline & SaaS	Commerce	Consolidated
Gross revenue, net of discounts	293,858	61,542	355,400
Taxes and contributions on revenue	(33,580)	(6,837)	(40,417)
Net revenue	260,278	54,705	314,983
Cost of services	(155,965)	(18,524)	(174,489)
Gross profit	104,313	36,181	140,494
Selling expenses	(50,463)	(11,859)	(62,322)
General and administrative expenses	(36,063)	(5,246)	(41,309)
Other operating income (expenses)	(507)	(4)	(511)
Income before financial results	17,280	19,072	36,352
Operating expenses included in Costs and Expenses:			
Depreciation and amortization expenses	34,153	2,622	36,775
Stock option plan expenses	1,476	-	1,476
	2017		
	BeOnline & SaaS	Commerce	Consolidated
Gross revenue, net of discounts	280,366	46,483	326,849
Taxes and contributions on revenue	(28,560)	(5,121)	(33,681)
Net revenue	251,806	41,362	293,168
Cost of services	(147,198)	(17,256)	(164,454)
Gross profit	104,608	24,106	128,714
Selling expenses	(52,160)	(7,472)	(59,632)
General and administrative expenses	(34,109)	(6,431)	(40,540)
Other operating income (expenses)	1,816	(4)	1,812
Income before financial results	20,155	10,199	30,354
Operating expenses included in Costs and Expenses:			
Depreciation and amortization expenses	36,126	2,667	38,793
Stock option plan expenses	2,886	-	2,886
	2016		
	BeOnline & SaaS	Commerce	Consolidated
Gross revenue, net of discounts	275,572	32,475	308,047
Taxes and contributions on revenue	(28,668)	(3,600)	(32,268)
Net revenue	246,904	28,875	275,779
Cost of services	(147,150)	(13,799)	(160,949)
Gross profit	99,754	15,076	114,830
Selling expenses	(54,263)	(4,882)	(59,145)
General and administrative expenses	(36,218)	(4,546)	(40,764)
Other operating income (expenses)	1,287	(47)	1,240
Income before financial results	10,560	5,601	16,161
Operating expenses included in Costs and Expenses:			
Depreciation and amortization expenses	36,267	1,786	38,053
Stock option plan expenses	3,408	-	3,408

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December, 31, 2018, 2017 and 2016

(In thousand of reais, unless otherwise stated)

b) Principal assets and liabilities

	2018		
	BeOnline & SaaS	Commerce	Consolidated
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	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	112,885	30,148	143,033
	2017		
	BeOnline & SaaS	Commerce	Consolidated
Accounts receivable	14,159	26,507	40,666
Property and equipment	74,855	1,691	76,546
Intangible assets	41,216	20,998	62,214
Total	130,230	49,196	179,426
Loans and financing	67,950	138	68,088
Deferred revenue	28,372	-	28,372
Payables to clients	-	20,688	20,688
Total	96,322	20,826	117,148
	2016		
	BeOnline & SaaS	Commerce	Consolidated
Accounts receivable	12,819	16,327	29,146
Property and equipment	79,767	1,917	81,684
Intangible assets	45,942	16,963	62,905
Total	138,528	35,207	173,735
Loans and financing	85,700	192	85,892
Deferred revenue	25,560	-	25,560
Payables to clients	-	13,153	13,153
Total	111,260	13,345	124,605

23. Financial instruments (restated)

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.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

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.

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.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December, 31, 2018, 2017 and 2016

(In thousand of reais, unless otherwise stated)

The tables below present a breakdown of financial assets and liabilities on December 31, 2018, 2017 and 2016:

	Company			
	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
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
Accounts payable to former shareholders	-	13,724	13,724	13,724
Total	-	106,885	106,885	106,885
	Consolidated			
	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
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
Financial liabilities				
Loans and financing	-	82,501	82,501	82,501
Suppliers	-	12,265	12,265	12,265
Accounts payable to former shareholders	-	19,253	19,253	19,253
Payables to clients	-	30,117	30,117	30,117
Total	-	144,136	144,136	144,136

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

	Company			
	2017			
	Measured at fair value through profit or loss	Amortized cost	Book value	Fair value
Financial assets				
Cash and cash equivalents	28,526	-	28,526	28,526
Accounts receivable	-	6,373	6,373	6,373
Derivatives	290	-	290	290
Accounts receivable - related parties	-	11,711	11,711	11,711
Restricted cash	3,363	-	3,363	3,363
Total	32,179	18,084	50,263	50,263
Financial liabilities				
Loans and financing	-	67,949	67,949	67,949
Suppliers	-	4,656	4,656	4,656
Accounts payable to former shareholders	-	22,764	22,764	22,764
Total	-	95,369	95,369	95,369
	Consolidated			
	2017			
	Measured at fair value through profit or loss	Amortized cost	Book value	Fair value
Financial assets				
Cash and cash equivalents	37,686	-	37,686	37,686
Accounts receivable	-	40,666	40,666	40,666
Derivatives	290	-	290	290
Restricted cash	3,363	-	3,363	3,363
Total	41,339	40,666	82,005	82,005
Financial liabilities				
Loans and financing	-	68,088	68,088	68,088
Suppliers	-	7,184	7,184	7,184
Accounts payable to former shareholders	-	27,654	27,654	27,654
Payables to clients	-	20,688	20,688	20,688
Total	-	123,614	123,614	123,614

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December, 31, 2018, 2017 and 2016

(In thousand of reais, unless otherwise stated)

	Company			
	2016			
	Measured at fair value through profit or loss	Amortized cost	Book value	Fair value
Financial assets				
Cash and cash equivalents	17,942	-	17,942	17,942
Accounts receivable	-	5,446	5,446	5,446
Accounts receivable - related parties	-	27,193	27,193	27,193
Total	17,942	32,639	50,581	50,581
Financial liabilities				
Loans and financing	-	85,700	85,700	85,700
Suppliers	-	8,129	8,129	8,129
Derivatives	2,017	-	2,017	2,017
Accounts payable to former shareholders	-	20,607	20,607	20,607
Total	2,017	114,436	116,453	116,453
	Consolidated			
	2016			
	Measured at fair value through profit or loss	Amortized cost	Book value	Fair value
Financial assets				
Cash and cash equivalents	31,006	-	31,006	31,006
Accounts receivable	-	29,146	29,146	29,146
Total	31,006	29,146	60,152	60,152
Financial liabilities				
Loans and financing	-	85,892	85,892	85,892
Suppliers	-	11,822	11,822	11,822
Derivatives	2,017	-	2,017	2,017
Accounts payable to former shareholders	-	24,860	24,860	24,860
Payables to clients	-	13,153	13,153	13,153
Total	2,017	135,727	137,744	137,744

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 August 28, 2017, the Company entered into a cross-currency interest rate swap agreement with notional value of R\$10,000, equivalent to US\$3,170 on the inception date, when the exchange rate was R\$3.1550 per U.S. dollar. This transaction, which resulted from an external financing under Law 4131, enabled the Company to replace its exposure to U.S. dollar fluctuations, plus 5.22% p.a., for a fixed rate on the notional value.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

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.

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.

The amounts receivable from individual customers through bank slips are limited, and represented approximately 30% of total accounts receivable on December 31, 2018 and 2017, and 37% on December 31, 2016. The maximum exposure to credit risk on December 31, 2018 is the amount shown in the balance sheet.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December, 31, 2018, 2017 and 2016

(In thousand of reais, unless otherwise stated)

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:

	Consolidated			Total
	Less than 3 months	3 to 12 months	More than 1 year	
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
Accounts payable to former shareholders	-	5,529	13,724	19,253
	50,669	43,019	52,511	146,199
	Less than 3 months	3 to 12 months	More than 1 year	Total
December 31, 2017				
Other liabilities	276	-	-	276
Suppliers	7,184	-	-	7,184
Loans and financing	6,016	16,793	45,279	68,088
Payables to clients	20,688	-	-	20,688
Accounts payable to former shareholders	-	22,764	4,890	27,654
	34,164	39,557	50,169	123,890
	Less than 3 months	3 to 12 months	More than 1 year	Total
December 31, 2016				
Other liabilities	39	-	-	39
Suppliers	11,822	-	-	11,822
Loans and financing	2,817	26,437	56,638	85,892
Payables to clients	13,153	-	-	13,153
Accounts payable to former shareholders	-	-	24,860	24,860
	27,831	26,437	81,498	135,766

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.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December, 31, 2018, 2017 and 2016

(In thousand of reais, unless otherwise stated)

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

E) Sensitivity analysis

As at December 31, 2018, 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 demoninated in domestic currency, as well as to variation in the interest from Interbank Deposit Certificates (CDI). 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 in 2018	Gain (loss) – Consolidated		
			Probable	Scenario A	Scenario B
Loans in foreign currency (U.S. dollar)*	Increase in US dollar rate	(42,744)	(2,105)	(10,523)	(21,047)
Loans in Reais adjusted by the IPCA index	Increase in IPCA index	(855)	(2)	(8)	(28)
Loans in Reais adjusted by the TJLP rate	Increase in TJLP rate	(35,622)	(124)	(622)	(2,176)
Financial investments adjusted by the CDI	Reduction in CDI	23,682	(76)	(379)	(947)
	U.S. dollar rate	3.87	4.07	4.84	5.81
	TJLP	6.98%	7.33%	8.73%	13.09%
	CDI (upward scenario)	13.63%	14.31%	15.03%	15.78%
	IPCA (upward scenario)	3.75%	3.94%	4.69%	7.03%
	CDI (downward scenario)	6.40%	6.08%	4.80%	2.40%

(*) 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)

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

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:

	2018	2017	2016
Loans and financing	82,501	68,088	85,892
(+/-) Derivatives	(5,513)	(290)	2,017
(-) Cash and cash equivalents	(17,782)	(37,686)	(31,006)
(-) Restricted cash	(7,709)	(3,363)	-
(=) Net debt	51,497	26,749	56,903
(+) Total equity	61,087	50,590	41,321
(=) Total equity and net debt	112,584	77,339	98,224

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 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.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements

December, 31, 2018, 2017 and 2016

(In thousand of reais, unless otherwise stated)

December 31, 2018			
Company and Consolidated			
Description	Reference value (notional)	Fair value	Asset (liability)
Bradesco – 3844			
Asset position	30,240	30,462	30,462
Liability position	(25,863)	(26,859)	(26,859)
	4,377	3,603	3,603
Itaú – 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)
December 31, 2017			
Company and Consolidated			
Description	Reference value (notional)	Fair value	Asset (liability)
Itaú – 4131			
Asset position	10,675	11,071	11,071
Liability position	(10,451)	(10,782)	(10,782)
	224	290	290
Total derivative financial instruments	224	290	290
Mark-to-market – MTM			65
December 31, 2016			
Company and Consolidated			
Description	Reference value (notional)	Fair value	Asset (liability)
Itaú – 4131			
Asset position	13,879	13,893	13,893
Liability position	(15,830)	(15,910)	(15,910)
	(1,951)	(2,017)	(2,017)
Total derivative financial instruments	(1,951)	(2,017)	(2,017)
Mark-to-market – MTM			(66)

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.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

I) Change in liabilities arising from financing activities

	Company								
	2018			2017			2016		
	Changes with cash effects	Changes without cash effects	Total	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			67,949			85,700			83,673
Derivatives – beginning of the year			(290)			2,017			(492)
(=) Loans and financing, net of derivatives – beginning of the year			67,659			87,717			83,181
(+) New loans and financing	28,820	441	29,261	10,000	-	10,000	13,469	-	13,469
(+) Loans and financing from acquired companies	-	-	-	-	-	-	-	-	-
(+) Interest, foreign exchange rate variation and derivatives	-	6,816	6,816	-	7,168	7,168	-	8,279	8,279
(-) Principal repayment in the year	(22,194)	-	(22,194)	(30,249)	-	(30,249)	(10,402)	-	(10,402)
(-) Interest, foreign exchange rate variation and derivatives paid	(5,651)	-	(5,651)	(6,912)	-	(6,912)	(6,876)	-	(6,876)
(+) Mark-to-market of derivatives	-	977	977	-	(65)	(65)	-	66	66
(=) Loans and financing, net of derivatives – end of the year	975	8,234	76,868	(27,161)	7,103	67,659	(3,809)	8,345	87,717
Loans and financing – year-end			82,381			67,949			85,700
Derivatives – year-end			(5,513)			(290)			2,017

	Consolidated								
	2018			2017			2016		
	Changes with cash effects	Changes without cash effects	Total	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			68,088			85,892			83,703
Derivatives – beginning of the year			(290)			2,017			(492)
(=) Loans and financing, net of derivatives – beginning of the year			67,798			87,909			83,211
(+) New loans and financing	28,820	441	29,261	10,000	-	10,000	13,469	-	13,469
(+) Loans and financing from acquired companies	-	1,330	1,330	-	-	-	-	573	573
(+) Interest, foreign exchange rate variation and derivatives	-	6,983	6,983	-	7,242	7,242	-	8,248	8,248
(-) Principal repayment in the year	(23,542)	-	(23,542)	(30,352)	-	(30,352)	(10,684)	-	(10,684)
(-) Interest, foreign exchange rate variation and derivatives paid	(5,819)	-	(5,819)	(6,936)	-	(6,936)	(6,974)	-	(6,974)
(+) Mark-to-market of derivatives	-	977	977	-	(65)	(65)	-	66	66
(=) Loans and financing, net of derivatives – end of the year	(541)	9,731	76,988	(27,288)	7,177	67,798	(4,189)	8,887	87,909
Loans and financing – year-end			82,501			68,088			85,892
Derivatives – year-end			(5,513)			(290)			2,017

24. Transactions not affecting cash

In the year ended December 31, 2018, the Company merged the assets and liabilities of IDC, as described in Note 9. The merger of IDC did not impact the consolidated financial statements.

Additionally, in the years ended December 31, 2018, 2017 and 2016, the following transactions did not affect cash:

	Company			Consolidated		
	2018	2017	2016	2018	2017	2016
Finance leases	442	-	-	442	-	-
Purchase of machinery and equipment	5,082	(1,428)	1,383	4,431	(1,233)	1,466
	5,524	(1,428)	1,383	4,873	(1,233)	1,466

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

25. 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		
	2018	2017	2016
Vehicles	4,500	4,000	5,000
Business (real estate and assets)	326,207	299,560	154,120
Electricity	288	288	241
Civil liability of managers	10,000	10,000	10,000
Civil liability	1,100	1,000	3,350
	342,095	314,848	172,711

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

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.

26. Subsequent events

a) Acquisition of KingHost

On May 3, 2019, Locaweb acquired 100% capital of LwK Hosting Participações Ltda. and its subsidiaries ("KingHost"). Founded in 2002, and with its headquarter in the city of Porto Alegre, with main activities to provide internet services and host of websites for the public in general (retail profile).

The main services provided include: website hosting, corporate email solutions, domain registration, and others. The acquisition of KingHost strengthens the presence of Locaweb in the market for website hosting providers.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

See below the preliminary balances on the acquisition date:

	Fair value recognized on acquisition
Assets	
Cash and cash equivalents	1,619
Accounts receivable	1,048
Taxes recoverable	1,423
Other assets	1,261
Property and equipment	3,744
Intangible assets - others	380
Intangible asset – Customer portfolio	10,767
Intangible asset – Technology	4,521
Intangible assets - Trademark	3,714
	28,477
Liabilities	
Suppliers	(1,085)
Salaries and related charges	(2,644)
Taxes payable	(971)
Loans and financing	(2,470)
Deferred revenue	(4,598)
Taxes payable in installments	(21,929)
Other liabilities	(872)
	(34,569)
Total identifiable net liabilities at fair value	(6,092)
Goodwill arising on acquisition (provisional)	42,998
Purchase consideration	36,906
Cash flows on acquisition	
Cash paid, net of cash acquired	12,366
Acquisition cost	562
Cash paid on acquisition	12,928

Total consideration is presented as follows:

Cash on the closing date	13,985
Payment with treasury shares (a)	8,600
Accounts payable to former shareholders (b)	11,297
Accounts payable to former shareholders (c)	3,024
Total purchase consideration	36,906

- (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 3, 2022, from which may be deducted the value of losses subject to indemnity and incurred until then, as provided for in the sale and purchase agreement. The amount of R\$11,297 is net of the adjustment to present value of R\$516 (R\$11,814 gross).
- (c) Contingent consideration relating to an additional payment, based on certain performance ratios (earn-out), in the amount of R\$3,162, whose present value on the acquisition date was R\$3,024 and recorded in accounts payable to former shareholders.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

The carrying amount of accounts receivable at the acquisition date and its fair value is R\$276 in short term and with no expectation of loss.

The preliminary measurement of intangible assets was completed in September 2019, and it resulted in the determination of the fair value of the customer portfolio, technology and trademark, using the “Black-Scholes-Merton” method.

The goodwill at the acquisition date was R\$42,998 and includes the amount of future economic benefits arising from the synergies arising from the acquisition. Goodwill was allocated to the Be Online/SaaS segment. The Company understands that goodwill will be deductible for tax purposes.

The Company will complete the definitive valuation of the fair values allocated within 12 months from the acquisition date, as provided for in CPC 15 – Business Combinations.

Acquisition cost of R\$562 has been expensed in the statement of operations in general and administrative expenses and in operating activities in the statements of cash flows.

b) Acquisition of Delivery Direto

On September 9, 2019, Locaweb acquired 100% capital of ITCapital Serviços de Tecnologia Ltda (“Delivery Direto”). Founded in 2009, and with headquarter in the city of São Paulo, the main activity of Delivery Direto is to offer a technological platform and other services intended for bars and restaurants with a home delivery service.

Delivery Direto provides an 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 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, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

See below the preliminary balances on the acquisition date:

	Fair value recognized on acquisition
Assets	
Cash and cash equivalents	1,150
Accounts receivable	76
Taxes recoverable	41
Other assets	79
Property and equipment	142
Intangible assets	11
Intangible asset – Customer portfolio	966
Intangible asset – Technology	4,018
	6,483
Liabilities	
Suppliers	(12)
Salaries and related charges	(1,427)
Taxes payable	(70)
	(1,509)
Total identifiable net assets at fair value	4,974
Goodwill arising on acquisition	11,842
Purchase consideration	16,816
Cash flows on acquisition	
Cash paid, net of cash acquired	9,580
Acquisition cost	13
Cash paid on acquisition	9,593

The purchase consideration is comprise as follows:

Cash paid on the closing date	10,730
Payment with treasury shares (a)	4,256
IAccounts payable to former shareholders (b)	1,830
Total purchase consideration	16,816

- (a) Delivery of 607.993 treasury shares of the Company, in the amount of R\$298. The fair value of these shares was calculated based on an internal valuation prepared by the Company.
- (b) Contingent consideration regarding the additional payment, based on certain performance ratios (earn-out), in the amount of R\$1,943, whose present value on the acquisition date was R\$1,830, recorded in accounts payable to former shareholders.

Locaweb Serviços de Internet S.A.

Notes to the individual and consolidated financial statements
December, 31, 2018, 2017 and 2016
(In thousand of reais, unless otherwise stated)

The goodwill at the acquisition date was R\$11,842 and includes the amount of future economic benefits arising from the synergies arising from the acquisition. Goodwill was allocated to the “Be Online & SaaS” segment. The Company understands that goodwill will be deductible for tax purposes.

The Company will complete the definitive valuation of the fair values allocated within 12 months from the acquisition date, as provided for in CPC 15 – Business Combinations.

Acquisition cost of R\$13 has been expensed in the statement of operations in general and administrative expenses and in operating activities in the statements of cash flows.

c) Merger of Superpay

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

The amounts merged are summarized below:

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

d) Loans

On February 18, 2019, the Company entered into two cross-currency interest rate swap agreements with a total notional value of R\$40,000, equivalent to US\$10,787 on that date, when the exchange rate was R\$3.7080 per U.S. dollar. This transaction, which resulted from a financing denominated in foreign currency under circular letter 3844/2017 of the Brazilian Central Bank (BACEN), which 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, 2018, 2017 and 2016
(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 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.

e) Conversion of preferred shares into common shares

On December 4, 2019, the shareholders approved the conversion of preferred shares into common shares, in the proportion of one preferred share to one common share.

f) Increase of the authorized capital limit of the company

On December 4, 2019, the shareholders approved an increase in the limit of the Company's authorized capital to R\$2.0 billion, with an amendment to its by-laws.
