

**Unaudited Interim Condensed
Financial Statements**

Locaweb Serviços de Internet S.A.

September 30, 2019



São Paulo Corporate Towers
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Report on review of interim condensed individual and consolidated financial statements

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

Introduction

We have reviewed the accompanying individual and consolidated interim statements of financial position of Locaweb Serviços de Internet S.A. (“Company”) as of September 30, 2019 and the related interim statements of operations and comprehensive income for the three- and nine-month periods then ended, and changes in equity and cash flows for the nine-month period then ended and explanatory notes.

Management is responsible for the preparation and presentation of these interim condensed individual and consolidated financial statements in accordance with Accounting Pronouncement NBC TG 21 – Interim Financial Reporting and International Financial Reporting Standard IAS 34 – Interim Financial Reporting (“IAS 34”). Our responsibility is to express a conclusion on these interim condensed individual and consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standard on Review Engagements (NBC TR 2410 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Brazilian and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed individual and consolidated financial statements are not prepared, in all material respects, in accordance with NBC TG 21 and IAS 34.

Other matters

Statements of value added

The interim condensed individual and consolidated financial statements include interim individual and consolidated statements of value added for the nine-month period ended September 30, 2019, prepared under the Company's Management responsibility and presented as supplementary information under IAS 34. These statements have been subject to review procedures performed together with the review of the interim condensed individual and consolidated financial statements with the objective to conclude whether they are reconciled to the interim condensed financial statements and the accounting records, as applicable, and if its format and content are in accordance with the criteria set forth by NBC TG 09 – Statement of Value Added. Based on our review, nothing has come to our attention that causes us to believe that they were not prepared, in all material respects, consistently with the overall interim condensed individual and consolidated financial statements.

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.

Unaudited interim statements of financial position
As at September 30, 2019 (unaudited) and December 31, 2018
(in thousands of *Reais*)

Assets	Note	Company		Consolidated	
		09/30/2019	12/31/2018	09/30/2019	12/31/2018
Current assets		unaudited		unaudited	
Cash and cash equivalents	3.1	16,387	12,381	24,828	17,782
Restricted cash	3.2	3,715	4,584	3,715	4,584
Accounts receivable	4.1	20,583	17,389	120,219	61,261
Taxes recoverable	5	4,629	3,525	7,728	6,368
Derivatives	21	8,644	5,513	8,644	5,513
Other assets		9,146	5,452	10,763	6,485
Total current assets		63,104	48,844	175,897	101,993
Non-current assets					
Restricted cash	3.2	7,280	3,125	7,280	3,125
Judicial deposits	13	709	1,067	760	1,125
Related parties	6	1,487	593	-	-
Deferred income taxes	19	1,847	2,705	3,142	3,835
Other assets		895	934	1,332	934
Investments	7	105,609	41,009	-	-
Property and equipment	8	70,993	73,415	80,399	77,318
Right-of-use assets	2.2	66,449	-	69,636	-
Intangible assets	9	57,066	56,010	170,938	88,006
Total non-current assets		312,335	178,858	333,487	174,343
Total assets		375,439	227,702	509,384	276,336

	Note	Company		Consolidated	
		09/30/2019	12/31/2018	09/30/2019	12/31/2018
Liabilities and equity					
Current liabilities		unaudited		unaudited	
Suppliers		5,179	10,780	10,701	12,265
Loans and financing	10	52,089	43,594	52,153	43,714
Lease liabilities	2.2	9,067	-	9,992	-
Salaries and related charges	11	23,572	20,221	33,350	24,285
Other taxes payable		2,539	2,885	3,921	4,025
Deferred revenue	4.2	32,503	30,339	38,262	30,415
Payables to clients	4.3	-	-	80,886	30,117
Interest on shareholders' equity and dividends payable		6	2,637	6	2,637
Taxes payable in installments	12	-	-	9,327	728
Accounts payable to former shareholders	7.1	9,553	-	9,553	5,529
Other liabilities		-	-	1,465	2,063
Total current liabilities		134,508	110,456	249,616	155,778
Non-current liabilities					
Loans and financing	10	74,624	38,787	74,737	38,787
Provision for legal proceedings	13	686	1,254	722	1,329
Accounts payable to former shareholders	7.1	21,151	13,724	21,151	13,724
Lease liabilities	2.2	59,127	-	61,468	-
Provision for losses on investments	7	491	540	-	-
Taxes payable in installments	12	-	-	15,830	3,413
Other liabilities		1,486	1,854	2,494	2,218
Total non-current liabilities		157,565	56,159	176,402	59,471
Equity					
Capital stock		53,629	53,521	53,629	53,521
Capital reserves		17,842	3,303	17,842	3,303
Earning reserves		4,263	4,263	4,263	4,263
Retained earnings		7,632	-	7,632	-
Total equity		83,366	61,087	83,366	61,087
Total liabilities and equity		375,439	227,702	509,384	276,336

See accompanying notes.

Locaweb Serviços de Internet S.A.

Unaudited interim statements of operations

Three- and nine-month periods ended September 30, 2019 and 2018

(in thousands of *Reais*, except earnings per share)

Notes	Company				Consolidated				
	01/01/2019 to 09/30/2019	01/01/2018 to 09/30/2018	07/01/2019 to 09/30/2019	07/01/2018 to 09/30/2018	01/01/2019 to 09/30/2019	01/01/2018 to 09/30/2018	07/01/2019 to 09/30/2019	07/01/2018 to 09/30/2018	
	unaudited	unaudited	unaudited	unaudited	unaudited	unaudited	unaudited	unaudited	
Net revenue	16	196,682	117,034	66,655	40,300	280,542	231,362	101,929	79,066
Cost of services	17	(125,676)	(74,794)	(42,688)	(27,955)	(164,688)	(129,067)	(59,092)	(46,033)
Gross profit		71,006	42,240	23,967	12,345	115,854	102,295	42,837	33,033
Operating income (expenses)									
Selling expenses	17	(37,284)	(22,651)	(12,479)	(7,965)	(53,636)	(45,583)	(18,423)	(14,986)
General and administrative expenses	17	(18,975)	(12,281)	(7,125)	(4,333)	(29,395)	(31,588)	(11,188)	(9,388)
Equity results	7	8,371	5,567	4,175	1,878	-	-	-	-
Other operating income (expenses)		4,230	(1,119)	3,758	85	5,791	(701)	3,779	212
		(43,658)	(30,484)	(11,671)	(10,335)	(77,240)	(77,872)	(25,832)	(24,162)
Income before financial results and income taxes		27,348	11,756	12,296	2,010	38,614	24,423	17,005	8,871
Financial income	18	9,811	9,310	8,713	2,236	10,045	10,062	8,813	2,370
Financial expenses	18	(25,169)	(16,705)	(15,035)	(3,528)	(31,335)	(21,184)	(17,449)	(5,094)
		(15,358)	(7,395)	(6,322)	(1,292)	(21,290)	(11,122)	(8,636)	(2,724)
Income before income taxes		11,990	4,361	5,974	718	17,324	13,301	8,369	6,147
Current income taxes	19	-	-	-	-	(5,499)	(5,669)	(1,883)	(2,720)
Deferred income taxes	19	(858)	1,180	7	1,663	(693)	(2,091)	(505)	(1,046)
		(858)	1,180	7	1,663	(6,192)	(7,760)	(2,388)	(3,766)
Net income for the period		11,132	5,541	5,981	2,381	11,132	5,541	5,981	2,381
Earnings per share									
Basic earnings per share (in Reais)	15					0.12	0.06	0.07	0.03
Diluted earnings per share (in Reais)	15					0.11	0.06	0.06	0.02

See accompanying notes.

Locaweb Serviços de Internet S.A.

Statements of comprehensive income (unaudited)
Three- and nine-month periods ended September 30, 2019 and 2018
(in thousands of *Reais*)

	Company				Consolidated			
	01/01/2019 to 09/30/2019	01/01/2018 to 09/30/2018	07/01/2019 to 09/30/2019	07/01/2018 to 09/30/2018	01/01/2019 to 09/30/2019	01/01/2018 to 09/30/2018	07/01/2019 to 09/30/2019	07/01/2018 to 09/30/2018
	unaudited	unaudited	unaudited	unaudited	unaudited	unaudited	unaudited	unaudited
Net income for the period	11,132	5,541	5,981	2,381	11,132	5,541	5,981	2,381
Other comprehensive income	-	-	-	-	-	-	-	-
Comprehensive income for the period	11,132	5,541	5,981	2,381	11,132	5,541	5,981	2,381

See accompanying notes.

Locaweb Serviços de Internet S.A.

Statements of changes in shareholders' equity
 Nine-month periods ended September 30, 2019 and 2018
 (in thousands of *Reais*)

	Capital reserves				Earning reserves				Total equity	
	Capital stock	Share issuance costs	Treasury shares	Goodwill on capital transaction	Share based payments reserve	Goodwill on share issuance	Legal reserve	Retained earnings reserve		Retained earnings
Balances as at December 31, 2018	53,521	(3,645)	(909)	(22,344)	30,201	-	486	3,777	-	61,087
Net income for the period	-	-	-	-	-	-	-	-	11,132	11,132
Capital increase	108	-	-	-	-	-	-	-	-	108
Share based payments	-	-	-	-	1,684	-	-	-	-	1,684
Acquisition of subsidiaries	-	-	900	-	-	11,955	-	-	-	12,855
Interest on shareholders' equity distributed	-	-	-	-	-	-	-	-	(3,500)	(3,500)
Balances as at September 30, 2019 (unaudited)	53,629	(3,645)	(9)	(22,344)	31,885	11,955	486	3,777	7,632	83,366

	Capital reserves				Retained earnings (accumulated losses)	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity	
	Capital stock	Share issuance costs	Treasury shares	Goodwill on capital transaction					Share based payments reserve
Balances as at December 31, 2017	49,360	(3,645)	-	(22,344)	28,725	(1,174)	50,922	(332)	50,590
Net income for the period	-	-	-	-	-	5,541	5,541	-	5,541
Capital increase	2,718	-	-	-	-	-	2,718	-	2,718
Share based payments	-	-	-	-	1,475	-	1,475	-	1,475
Treasury shares	-	-	(909)	-	-	-	(909)	-	(909)
Non-controlling interest from business combination	-	-	-	-	-	-	-	332	332
Interest on shareholders' equity distributed	-	-	-	-	-	(2,449)	(2,449)	-	(2,449)
Balances on September 30, 2018 (unaudited)	52,078	(3,645)	(909)	(22,344)	30,200	1,918	57,298	-	57,298

See accompanying notes.

Locaweb Serviços de Internet S.A.

Unaudited interim statements of cash flows
 Nine-month periods ended September 30, 2019 and 2018
 (in thousands of *Reais*)

	Company		Consolidated	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018
Operating activities				
Income before income taxes	11,990	4,361	17,324	13,301
Adjustments to reconcile income before income taxes to net cash flow from operating activities:				
Depreciation and amortization	34,711	17,156	38,695	27,188
Equity results	(8,371)	(5,567)	-	-
Interest, derivatives, and foreign exchange and monetary variations	11,422	5,744	12,292	5,940
Mark-to-market of derivatives	1,669	445	1,669	445
Share based payments	1,684	1,475	1,684	1,475
Provisions and other adjustments	(699)	1,698	(2,632)	2,411
Changes in assets and liabilities:				
Accounts receivable	(3,422)	(1,168)	(58,369)	(21,517)
Taxes recoverable	(1,094)	2,745	140	4,986
Other assets	(2,134)	(934)	(1,075)	(41)
Judicial deposits	358	-	802	(558)
Related parties	(894)	611	-	-
Suppliers	(1,896)	1,718	218	(336)
Salaries and related charges	3,351	(1,874)	4,915	(118)
Other taxes payable	(55)	(247)	(1,023)	(1,129)
Deferred revenue	2,164	3,552	3,022	3,565
Payables to clients	-	-	50,769	11,366
Other liabilities	-	-	(965)	(132)
Income taxes paid	(291)	(793)	(4,799)	(5,534)
Net cash flows from operating activities	48,493	28,922	62,667	41,312
Investing activities				
Purchase of property and equipment	(28,221)	(17,675)	(31,963)	(21,601)
Acquisition of equity interest	-	(23,910)	(4,114)	(23,910)
Capital increase in subsidiary	(2,178)	-	-	-
Sale of equity interest	-	500	-	411
Acquisition of subsidiary, net of cash acquired	(24,715)	-	(21,946)	(3,847)
Acquisition and development of intangible assets	(5,651)	(4,566)	(9,929)	(7,370)
Net cash flows used in investing activities	(60,765)	(45,651)	(67,952)	(56,317)
Financing activities				
Capital increase	108	2,718	108	2,718
Payment of lease liabilities	(6,863)	-	(7,547)	-
Proceeds from loans and financing	78,300	25,853	78,300	25,853
Restricted cash	(2,360)	(5,000)	(2,360)	(5,000)
Repayment of loans and financing	(38,978)	(16,408)	(41,778)	(17,649)
Interest and foreign exchange variations paid	(10,416)	(3,796)	(10,880)	(3,962)
Derivatives received (paid)	3,251	(1,162)	3,252	(1,162)
Bank guarantees paid	(633)	(965)	(633)	(973)
Dividends and interest on shareholders' equity paid	(6,131)	(6,254)	(6,131)	(6,254)
Net cash flows from (used in) financing activities	16,278	(5,014)	12,331	(6,429)
Net increase (decrease) in cash and cash equivalents	4,006	(21,743)	7,046	(21,434)
Cash and cash equivalents at beginning of the period	12,381	28,526	17,782	37,686
Cash and cash equivalents at end of the period	16,387	6,783	24,828	16,252
Net increase (decrease) in cash and cash equivalents	4,006	(21,743)	7,046	(21,434)

See accompanying notes.

Locaweb Serviços de Internet S.A.

Unaudited interim statements of value added
 Nine-month periods ended September 30, 2019 and 2018
 (in thousands of *Reais*)

	Company		Consolidated	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018
	unaudited	unaudited	unaudited	unaudited
Revenues	224,890	133,207	320,437	261,699
Revenue from the provision of services	234,405	142,116	328,778	272,587
Discounts and rebates	(13,598)	(9,172)	(13,843)	(11,090)
Other operating revenue	4,083	263	5,502	202
Inputs acquired from third parties (includes ICMS, PIS and Cofins)	(68,983)	(57,571)	(100,908)	(86,149)
Costs of services	(42,744)	(33,544)	(59,555)	(46,590)
Materials, energy, third party services and others	(26,239)	(24,027)	(41,353)	(39,559)
Gross value added	155,907	75,636	219,529	175,550
Retentions	(34,711)	(17,156)	(38,695)	(27,188)
Depreciation and amortization	(34,711)	(17,156)	(38,695)	(27,188)
Net value added produced	121,196	58,480	180,834	148,362
Value added received on transfer	18,182	14,877	10,045	10,062
Equity results	8,371	5,567	-	-
Financial income	9,811	9,310	10,045	10,062
Total value added to be distributed	139,378	73,357	190,879	158,424
Distribution of value added	139,378	73,357	190,879	158,424
Salaries and related charges	68,485	30,048	94,945	79,706
Direct compensation	55,944	23,734	76,552	64,419
Benefits	7,675	4,293	11,573	9,917
FGTS	4,866	2,021	6,820	5,370
Taxes and contributions	34,526	17,942	53,242	44,844
Federal	27,141	14,141	43,252	36,855
State	-	-	187	193
Municipal	7,385	3,801	9,803	7,796
Interest and rents	25,235	19,826	31,560	28,333
Remuneration of equity	11,132	5,541	11,132	5,541
Interest on shareholders' equity and dividends distributed	3,500	2,449	3,500	2,449
Retained income	7,632	3,092	7,632	3,092

See accompanying notes.

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands 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. Summary of main accounting practices

The interim consolidated financial information includes the operations of the Company and its subsidiaries, as follows:

Subsidiaries	Stake	Interest %	
		09/30/2019	12/31/2018
Locaweb Telecom	Direct	100%	100%
Yapay	Direct	100%	100%
Tray Tecnologia	Direct	100%	100%
Superpay	Direct (a)	-	100%
FBits	Indirect	100%	100%
Ananke Participações	Direct	100%	100%
Ananke Tecnologia	Indirect	100%	100%
Primehost	Indirect	100%	100%
Ion	Indirect	100%	100%
Novaion	Indirect	100%	100%
KingHost	Direct (b)	100%	-
Delivery Direto	Direct (b)	100%	-

(a) Subsidiary merged during the nine-month period ended September 30, 2019.

(b) Companies acquired during the nine-month period ended September 30, 2019.

The issuance of the unaudited interim condensed individual and consolidated financial statements was authorized by the Board of Directors on December 4, 2019.

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

The interim financial statements were prepared in accordance with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*, or “CVM”) Deliberation No. 673/11, which establishes the minimum content of the interim financial statements, as well the recognition and measurement principles used in complete or condensed interim financial statements.

The interim financial information, in this case, is intended to provide the quarterly information based on the latest complete annual financial statements.

Accordingly, they focus on new activities, events and circumstances, not duplicating the information that was disclosed previously, except where Management considers important to maintain a specific information.

The interim financial information presented herein was prepared based on the accounting policies and assumptions and estimates adopted in preparing the annual financial statements for the year ended December 31, 2018, except for the adoption of new accounting pronouncements as from January 1, 2019, as described in Note 2.2.

There were no changes in relation to accounting policies and assumptions and estimates used. As provided for in the CVM Deliberation No. 673/11, Management decided not to repeat the detailed disclosure the accounting policies adopted by the Company. Accordingly, this interim individual and consolidated financial statements must be read together with the individual and consolidated financial statements for the year ended December 31, 2018.

2.1 Declaration of compliance and basis of preparation

The interim individual and consolidated financial statements were prepared and is presented in accordance with technical pronouncement CPC 21 – Interim Financial Reporting and the International Financial Reporting Standard IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board – IASB, and in compliance with the standards issued by CVM that are applicable to interim financial information.

2.2 New pronouncements, interpretations and amendments adopted

Except for the effects listed below, the accounting policies used in preparing these interim financial statements are similar to those used in the annual financial statements for the year ended December 31, 2018. The amendments to the accounting policies included in this note are expected to be reflected in the annual financial statements for the year ending December 31, 2019.

Beginning January 1, 2019, the Company adopted CPC 06 (R2)/IFRS 16, which introduces a single model of accounting for leases in the statement of financial position for lessees. As a result, the Company recognized right-of-use assets that represent its underlying lease rights, and lease liabilities that represent its obligation to make disbursements regarding these leases.

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

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

The Company used to classify operating or financial leases based on its evaluation of whether the lease would, or would not transfer, in a substantial manner, all risks and benefits arising from the use of the asset. According to CPC 06(R2)/IFRS 16, the Company recognizes right-of-use assets and lease liabilities in the statement of financial position for its lease agreements.

Lease accounting policy in effect from 2019

The Company recognizes a right-of-use asset and a lease liability on the start date of the lease. The right-of-use asset is initially measured at cost, and, subsequently, measured at cost, less depreciation and impairment, being adjusted by certain remeasurements of the lease liability. Depreciation is calculated by the straight-line method, for the remaining term of the agreements. The Company used, as a component of cost, the value of payments of fixed leases, or leases that are fixed in essence. These payments correspond to the minimum payments agreed in contracts with variable payments according to the revenues achieved, net of PIS and Cofins effects. The amounts of right-of-use assets are also added by advance lease payments and provisions for renewal of properties and deducted from incentives received from lessors. The value of specifically variable payments is recognized in operating expenses on a monthly basis.

Lease liabilities are initially measured at the present value of lease payments that are not settled on the start date of the contract and discounted using the incremental interest rate of the lease, which corresponds to the real interest rate equivalent to the amount that the lessee would be subject to upon taking a loan with similar terms and guarantees.

The Company determined the lease terms of some contracts based on Law No. 8.245 (Tenancy Law), according to which the lessee has the right to renew a contract upon fulfilment of certain conditions, as well as on past practices regarding the Company's success in renewing agreements. Assessing whether the Company is reasonably correct in exercising these options will impact on lease terms, significantly affecting the value of the lease liabilities and right-of-use assets recorded.

Transition effects

The Company applied CPC 06 (R2)/IFRS 16 using the modified retrospective approach, which does not require restating the corresponding amounts; does not impact the shareholders' equity; and permits the adoption of practical expedients. Therefore, the comparative information presented for 2018 has not been restated, that is, it is recorded as previously reported under CPC 06 (R1)/IAS 17 and related interpretations.

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

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

The Company decided to use the transition practical expedient and did not to recognize right-of-use assets and lease liabilities regarding the lease of some assets with low value and lease terms below 12 months. The Company recognizes payments relating to these leases in expenses, using the straight-line method throughout the term of the lease agreement. Additionally, the Company did not consider the initial direct costs of measurement of right-of-use assets on the date of initial adoption.

When measuring the lease liabilities for leases previously classified in operating leases, the Company discounted the lease payments using the incremental borrowing rate of January 1, 2019, which reflects the Company’s funding rates under market conditions. The weighted average rate applied was 8%.

The use of the criteria above resulted in the recognition, on January 1, 2019, of right-of-use assets and lease liabilities in the amount of R\$71,158 for the Company, and R\$73,366 - Consolidated, represented by properties leased by the Company and its subsidiaries. The breakdown of assets and liabilities balances, the recording of initial balances, and their changes to September 30, 2019 are described below:

a) Right-of-use assets

	2019	
	Company	Consolidated
Initial adoption	71,158	73,366
Additions	-	1,579
Depreciation	(4,709)	(5,309)
Closing balance	66,449	69,636

b) Lease liabilities

	2019	
	Company	Consolidated
Initial adoption	71,158	73,366
Additions	-	1,579
Interest expense	3,899	4,062
Payments	(6,863)	(7,547)
Closing balance	68,194	71,460
Current	9,067	9,992
Non-current	59,127	61,468

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

3. Cash and cash equivalents and restricted cash

3.1 Cash and cash equivalents

	Company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Cash and banks	618	354	2,561	1,809
CDB (a)	15,769	12,027	22,267	15,973
	16,387	12,381	24,828	17,782

(a) As at September 30, 2019, financial investments in Bank Certificates of Deposit (CDB) were remunerated at a rate of 90.7% of the CDI (93.5% of the CDI in 2018), with daily liquidity and redeemable with the issuer, with no significant loss of value.

3.2 Restricted cash

	Company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
CDB	7,746	4,584	7,746	4,584
Government Treasury Bills (LF) (b)	3,249	3,125	3,249	3,125
	10,995	7,709	10,995	7,709
Current	3,715	4,584	3,715	4,584
Non-current	7,280	3,125	7,280	3,125

(b) As at September 30, 2019, investments in Government Treasury Bills were remunerated at a rate of 98% of the CDI (99% of the CDI in 2018).

4. Accounts receivable, deferred revenue and payables to clients

4.1. Accounts receivable

The balance of accounts receivable is comprised by:

	Company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Credit card operators	4,521	3,583	97,375	41,588
Other accounts receivable	16,062	13,806	22,844	19,673
Accounts receivable	20,583	17,389	120,219	61,261

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

The aging of accounts receivable is shown below:

	Company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Amounts to become due	17,029	14,739	115,364	57,358
Amounts overdue:				
Up to 30 days	1,459	1,129	1,820	1,488
31-180 days	1,609	1,232	2,093	1,655
Over 180 days	486	289	942	760
Accounts receivable	20,583	17,389	120,219	61,261

Management believes the risk related to accounts receivable is minimized by the fact that the breakdown 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 5% or more of its revenues.

4.2. Deferred revenue

Deferred revenue is recorded in current liabilities because the 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 statement of operations as services are provided and performance obligations under the agreements are met, according to the Company's accounting policy for revenues.

4.3. Payables to clients

Payables to clients are classified in current liabilities because the obligation is to be settled within the next 12 months, and records 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.

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

5. Taxes recoverable

	Company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Income tax recoverable	3,751	2,653	5,848	4,864
Social contribution recoverable	776	758	1,228	1,258
PIS recoverable	1	-	5	8
COFINS recoverable	3	-	23	36
ISS recoverable	-	-	521	-
IRRF recoverable	89	111	89	112
Other taxes recoverable	9	3	14	90
	4,629	3,525	7,728	6,368

6. Related-party transactions

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

A) Transactions and balances

Main related-party transactions and balances are as follows:

	Company			
	Non-current assets		Current liabilities	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Cyberweb	903	-	-	-
FBits	1	-	-	-
Yapay	1	-	-	-
Locaweb Telecom	577	590	-	-
Ananke Tecnologia	2	-	-	-
Ion Tecnologia	1	2	-	-
Tray Tecnologia	2	1	-	-
	1,487	593	-	-

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

	Company					
	Revenue		Costs		Expenses	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018	09/30/2019	09/30/2018
Superpay	78	138	-	-	-	-
Tray Tecnologia	231	206	-	-	-	-
Yapay	-	-	-	-	(369)	(240)
Locaweb Telecom	-	-	(131)	(156)	(59)	(44)
MG4	-	-	(5,344)	(2,556)	(1,507)	(564)
Ananke Tecnologia	787	695	-	-	-	-
	1,096	1,039	(5,475)	(2,712)	(1,935)	(848)

	Consolidated					
	Revenue		Costs		Expenses	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018	09/30/2019	09/30/2018
MG4	-	-	(5,356)	(4,849)	(1,507)	(1,651)
WW Marques	-	-	-	-	(356)	(331)
Tech and Soul	-	-	-	-	(796)	(990)
	-	-	(5,356)	(4,849)	(2,659)	(2,972)

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.

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\$782, in line with market conditions. The lease agreement is for a term of 120 months, and the rent is adjusted by the IGP-M (General Market Price Index) 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.

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, 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.

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

Tech and Soul that has a Company shareholder among its shareholders, is a provider of institutional communication and advertising services under an agreement signed on September 6, 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 nine-month period ended September 30, 2019, there was no need to make provisions for losses involving related-party transactions.

B) Management compensation

Management compensation expenses for the nine-month periods ended September 30, 2019 and 2018 are shown below:

	<u>09/30/2019</u>	<u>09/30/2018</u>
Compensation	3,782	3,708
Benefits and related expenses	1,241	1,681
Share based compensation expenses	725	1,033
Total	<u>5,748</u>	<u>6,422</u>

7. Investments

A) Balances and changes

Investments as at September 30, 2019 and December 31, 2018 are comprised as follows:

	<u>Company</u>	
	<u>09/30/2019</u>	<u>12/31/2018</u>
Investments	105,609	41,009
Provision for losses on investments	(491)	(540)
Net investments	105,118	40,469
Investments in subsidiaries and associated companies	30,991	19,412
Goodwill on investment acquisitions	74,127	21,057

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

The subsidiaries' key financial information is presented below:

Name	12/31/2018					
	% 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

Name	09/30/2019					
	% Interest	Assets	Liabilities	Shareholders' equity	Net revenue	Net income (loss)
Direct						
Locaweb Telecom	100%	391	882	(491)	525	(316)
Yapay	100%	99,997	84,649	15,348	25,674	4,319
E-Commerce	100%	26,323	9,212	17,111	23,319	6,059
Cluster2Go	100%	3,705	7,086	(3,382)	10,607	(3,066)
KingHost	100%	27,355	24,940	2,415	15,733	1,375
Delivery Direto	100%	840	850	(10)	475	-
Indirect						
FBits	100%	9,422	2,367	7,055	9,182	1,783

Changes in investments in subsidiaries are shown below:

Investee	Company					Balance as at 09/30/2019
	Balance as at 12/31/2018	Acquisition	Merger / Other	Equity results	Other	
Locaweb Telecom	(540)	-	365	(316)	-	(491)
Yapay	9,781	-	1,389	4,178	-	15,348
Superpay	1,247	-	(1,389)	141	1	-
E-Commerce	11,053	-	-	6,059	(1)	17,111
Cluster2Go	(2,129)	-	1,813	(3,066)	-	(3,382)
KingHost	-	1,040	-	1,375	-	2,415
Delivery Direto	-	(10)	-	-	-	(10)
	19,412	1,030	2,178	8,371	-	30,991

Investee	Company			Balance as at 09/30/2018
	Balance as at 12/31/2017	Other	Equity results	
Locaweb IDC	9,578	-	(554)	9,024
Locaweb Telecom	(258)	60	(177)	(375)
Eventials	(327)	327	-	-
Tray Services	4,941	-	3,391	8,332
Superpay	894	-	225	1,119
E-Commerce	5,993	-	2,682	8,675
	20,821	387	5,567	26,775

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

7.1. Accounts payable to former shareholders

Accounts payable to former shareholders are comprised as follows:

	Company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Cluster2Go	14,553	13,724	14,553	13,724
FBits	-	-	-	5,529
KingHost	14,321	-	14,321	-
Delivery Direto	1,830	-	1,830	-
	30,704	13,724	30,704	19,253
Current	9,553	-	9,553	5,529
Non-current	21,151	13,724	21,151	13,724

7.2. Business combinations

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 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.

See below the preliminary balances on the acquisition date:

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

	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 asset - others	380
Intangible asset - Customer portfolio	10,767
Intangible asset - Technology	4,521
Intangible asset - Trademark	3,714
	<u>28,477</u>
Liabilities	
Suppliers	(1,085)
Salaries and related charges	(2,644)
Taxes payable	(971)
Loans and financing	(2,470)
Deferred revenue	(4,598)
Taxes payable installments	(21,929)
Other liabilities	(872)
	<u>(34,569)</u>
Total identifiable net assets at fair value	(6,092)
Goodwill arising on acquisition (provisional)	42,998
Purchase consideration	<u>36,906</u>
Cash flows on acquisition	
Cash paid, net of cash acquired	12,366
Acquisition cost	562
Cash paid on acquisition	<u>12,928</u>

Total consideration can be presented as follows

Cash paid 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	<u>36,906</u>

- (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 unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

The carrying amount of accounts receivable at the acquisition date and its fair value is R\$1,048 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 from synergies arising from the acquisition. The goodwill has been allocated to the Be Online/SaaS segment. The Company understands that goodwill will be deductible for tax purposes.

The Company will complete a definitive valuation of the fair values allocated within 12 months as from the acquisition date, as provided for in CPC 15 – Business Combinations. Acquisition cost of R\$562 has been expensed in general and administrative expenses in the statement of operations and are part of operating cash flows in the statement of cash flows.

From the date of acquisition, KingHost has contributed R\$15,733 of net revenue and net income of R\$1,375. If the acquisition had taken place at the beginning of the year, KingHost would have contributed to net revenue of R\$28,977 and net income of R\$2,928 to the Company.

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 a 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 a 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 unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands 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 (provisional)	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 comprised as follows:

Paid in cash on the closing date	10,730
Payment with treasury shares (a)	4,256
Accounts 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 R\$4,256 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.

The goodwill at the acquisition date was R\$11,842 and includes the amount of future economic benefits from synergies arising from the acquisition. The goodwill has been allocated to the BeOnline/SaaS segment. The Company understands that goodwill will be deductible for tax purposes.

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

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

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

From the date of acquisition, Delivery Direto has contributed R\$475 of net revenue, and it did not record results in the nine-month period ended September 30, 2019. If the acquisition had taken place at the beginning of the year, Delivery Direto would have contributed net revenue of R\$3,833 and net loss of R\$1,033 to the Company.

7.3 Merger of Superpay

At a Special Shareholders' Meeting held on May 31, 2019, the Company's shareholders approved the merger of Superpay. The merger was carried out because the companies are part of the same business group and the transfer of activities will 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>

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

8. Property and equipment

	Company						Total property and equipment
	Computers and peripherals	Improvements	Furniture and fixtures	Machinery and equipment	Components for assembly	Other	
Cost							
Balances as at December 31, 2018	6,641	30,306	2,192	260,772	2,438	1,211	303,560
Additions	97	447	26	13,726	8,552	147	22,995
Disposals	(944)	-	-	(12,837)	(1)	(116)	(13,898)
Transfer	20	-	-	10,746	(10,766)	-	-
Balances as at September 30, 2019	5,814	30,753	2,218	272,407	223	1,242	312,657
Depreciation							
Balances as at December 31, 2018	(4,996)	(11,187)	(1,520)	(211,700)	-	(742)	(230,145)
Depreciation	(406)	(1,294)	(157)	(23,408)	-	(142)	(25,407)
Disposals	942	-	-	12,837	-	109	13,888
Transfer	4	-	-	(4)	-	-	-
Balances as at September 30, 2019	(4,456)	(12,481)	(1,677)	(222,275)	-	(775)	(241,664)
Net book value							
Balances as at December 31, 2018	1,645	19,119	672	49,072	2,438	469	73,415
Balances as at September 30, 2019	1,358	18,272	541	50,132	223	467	70,993

	Company						Total property and equipment
	Computers and peripherals	Improvements	Furniture and fixtures	Machinery and equipment	Components for assembly	Other	
Cost							
Balances as at December 31, 2017	2,804	28,986	2,233	163,904	633	1,035	199,595
Additions	258	768	76	9,086	7,555	183	17,926
Disposals	(30)	-	(18)	(3,275)	(220)	-	(3,543)
Transfer	168	-	-	6,394	(6,562)	-	-
Balances as at September 30, 2018	3,200	29,754	2,291	176,109	1,406	1,218	213,978
Depreciation							
Balances as at December 31, 2017	(2,317)	(9,561)	(1,452)	(125,882)	-	(558)	(139,770)
Depreciation	(123)	(1,204)	(154)	(12,975)	-	(143)	(14,599)
Disposals	29	-	18	3,152	-	-	3,199
Transfe	(20)	-	-	20	-	-	-
Balances as at September 30, 2018	(2,431)	(10,765)	(1,588)	(135,685)	-	(701)	(151,170)
Net book value							
Balances as at December 31, 2017	487	19,425	781	38,022	633	477	59,825
Balances as at September 30, 2018	769	18,989	703	40,424	1,406	517	62,808

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands 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 as at December 31, 2018	9,379	31,049	3,358	264,596	2,445	1,353	312,180
Business combinations	2,996	-	239	575	-	76	3,886
Additions	311	1,007	40	15,887	9,429	147	26,821
Disposals	(943)	-	(621)	(13,335)	(2)	(54)	(14,955)
Transfer	364	-	-	11,228	(11,592)	-	-
Balances on September 30, 2019	12,107	32,056	3,016	278,951	280	1,522	327,932
Depreciation							
Balances as at December 31, 2018	(6,650)	(11,808)	(1,747)	(213,888)	-	(769)	(234,862)
Depreciation	(957)	(1,307)	(200)	(24,545)	-	(162)	(27,171)
Disposals	1,124	-	-	13,335	-	41	14,500
Transfer	4	-	-	(4)	-	-	-
Balances as at September 30, 2019	(6,479)	(13,115)	(1,947)	(225,102)	-	(890)	(247,533)
Net book value							
Balances as at December 31, 2018	2,729	19,241	1,611	50,708	2,445	584	77,318
Balances as at December 31, 2019	5,628	18,941	1,069	53,849	280	632	80,399

	Consolidated						
	Computers and peripherals	Improvements	Furniture and fixtures	Machinery and equipment	Components for assembly	Other	Total property and equipment
Cost							
Balances as at December 31, 2017	8,259	29,591	2,923	248,581	1,813	1,127	292,294
Business combinations	384	6	50	11	-	-	451
Additions	432	877	660	10,204	10,358	229	22,760
Disposals	(69)	-	(18)	(6,736)	(13)	-	(6,836)
Transfer	720	1	-	9,896	(10,628)	11	-
Balances as at September 30, 2018	9,726	30,475	3,615	261,956	1,530	1,367	308,669
Depreciation							
Balances as at December 31, 2017	(6,423)	(10,166)	(1,904)	(196,694)	-	(561)	(215,748)
Depreciation	(552)	(1,213)	(187)	(21,064)	-	(716)	(23,732)
Disposals	64	-	18	7,326	-	-	7,408
Transfer	(7)	10	(5)	(556)	-	558	-
Balances as at September 30, 2018	(6,918)	(11,369)	(2,078)	(210,988)	-	(719)	(232,072)
Net book value							
Balances as at December 31, 2017	1,836	19,425	1,019	51,887	1,813	566	76,546
Balances as at December 31, 2018	2,808	19,106	1,537	50,968	1,530	648	76,597

There were no impairment indicators for the nine-month periods ended September 30, 2019 and 2018.

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

		Consolidated							
		Software	Trademarks and patents	Internal development (a)	Other	Goodwill	Technology	Customer portfolio	Total intangible assets
Cost									
Balances as at December 31, 2018		2,747	2,419	34,327	872	55,873	10,523	4,386	111,147
Business combinations		391	3,714	-	-	54,840	8,539	11,733	79,217
Additions		134	-	9,417	-	378	-	-	9,929
Balances as at September 30, 2019		3,272	6,133	43,744	872	111,091	19,062	16,119	200,293
Amortization									
Balances as at December 31, 2018		(1,413)	(202)	(8,877)	(283)	-	(9,544)	(2,822)	(23,141)
Amortization		(620)	(27)	(4,699)	(65)	-	(249)	(555)	(6,215)
Balances as at September 30, 2019		(2,033)	(229)	(13,576)	(348)	-	(9,793)	(3,377)	(29,356)
Net book value									
Balances as at December 31, 2018		1,334	2,217	25,450	589	55,873	979	1,564	88,006
Balances as at September 30, 2019		1,239	5,904	30,168	524	111,091	9,269	12,742	170,937

		Consolidated							
		Software	Trademarks and patents	Internal development (a)	Other	Goodwill	Technology	Customer portfolio	Total intangible assets
Cost									
Balances as at December 31, 2017		2,294	2,412	23,863	872	37,990	10,717	3,283	81,431
Business combinations		1,102	4	-	-	19,867	-	-	20,973
Additions		1,202	-	6,168	-	-	-	-	7,370
Disposals		-	-	-	-	(1,984)	(171)	-	(2,155)
Balances as at September 30, 2018		4,598	2,416	30,031	872	55,873	10,546	3,283	107,619
Amortization									
Balances as at December 31, 2017		(2,107)	(165)	(5,630)	(196)	-	(9,017)	(2,102)	(19,217)
Amortization		(189)	(30)	(2,199)	(65)	-	(615)	(358)	(3,456)
Balances as at September 30, 2018		(2,913)	(195)	(7,829)	(261)	-	(9,632)	(2,460)	(23,290)
Net book value									
Balances as at December 31, 2017		187	2,247	18,233	676	37,990	1,700	1,181	62,214
Balances as at September 30, 2018		1,685	2,221	22,202	611	55,873	914	823	84,329

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

There was no indication of impairment for the nine-month periods ended September 30, 2019 and 2018

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

10. Loans and financing

Type	Charges	Maturity	Company		Consolidated	
			09/30/2019	12/31/2018	09/30/2019	12/31/2018
<i>Prosoft Empresa</i>	TJLP + 1.5% p.a.	June 2019	-	5,343	-	5,343
<i>FINAME</i>	IPCA + 4.93% p.a.	September 2020	570	855	570	855
<i>Bank Loan (US\$7,694)</i>	US\$ + 4.31% p.a.	February 2021	19,276	30,240	19,276	30,240
<i>Bank Loan (US\$3,170)</i>	US\$ + 5.22% p.a.	August 2019	-	12,504	-	12,504
<i>Reimbursable Financing</i>	TJLP + 0.5% p.a.	August 2021	21,825	30,279	21,825	30,279
<i>Bank Loan (US\$8,091)</i>	US\$ + 5.44% p.a.	February 2022	30,786	-	30,786	-
<i>Bank Loan (US\$2,697)</i>	US\$ + 4.77% p.a.	February 2022	10,254	-	10,254	-
<i>Bank Loan (US\$10,000)</i>	US\$ + (3M Libor + 1.56%)*1.71647	July 2022	42,058	-	42,058	-
Other			1,944	3,160	2,121	3,280
			126,713	82,381	126,890	82,501
		Current liabilities	52,089	43,594	52,153	43,714
		Non-current liabilities	74,624	38,787	74,737	38,787

The amounts recorded in non-current liabilities as at September 30, 2019 had the following maturity schedule:

	Company	Consolidated
2021	49,590	49,703
2022	25,034	25,034
	74,624	74,737

The lines of credit from BNDES (*Prosoft Empresa*) and FINEP have bank guarantees that represent 100% of the outstanding amount of such debts and are annually updated at the best market rates.

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.

The Company has lines of credit with covenants that will be calculated as from the year ended December 31, 2019.

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

11. Salaries and related charges

	Company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Salaries and charges	6,077	6,592	8,962	7,694
Provision for vacation pay and charges	8,450	8,473	12,323	10,590
Provision for 13 th salary	4,443	61	6,466	64
Profit-Sharing Plan (PPR)	4,602	5,095	5,599	5,937
	23,572	20,221	33,350	24,285

12. Taxes payable in installments

Refer to taxes payable in installments in connection with the special tax regularization program (PERT):

	Consolidated	
	09/30/2019	12/31/2018
PIS / COFINS	2,686	440
CPRB	1,294	240
IRPJ / CSLL	18,262	915
INSS	1,214	1,384
Other	1,701	1,162
	25,157	4,141
Current	9,327	728
Non-current	15,830	3,413

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

13. Provision for legal proceedings

	Company			
	Civil proceedings	Labor proceedings	Tax proceedings	Total
Balances as at December 31, 2018	432	822	-	1,254
Additions (reversals)	(210)	(358)	-	(568)
Balances as at September 30, 2019	222	464	-	686

	Consolidated			
	Civil proceedings	Labor proceedings	Tax proceedings	Total
Balances as at December 31, 2018	507	822	-	1,329
Additions (reversals)	(249)	(358)	-	(607)
Balances as at September 30, 2019	258	464	-	722

	Company			
	Civil proceedings	Labor proceedings	Tax proceedings	Total
Balances as at December 31, 2017	571	-	-	571
Additions (reversals)	(179)	-	-	(179)
Balances as at September 30, 2018	392	-	-	392

	Consolidated			
	Civil proceedings	Labor proceedings	Tax proceedings	Total
Balances as at December 31, 2017	618	735	-	1,353
Additions (reversals)	(62)	410	306	654
Balances as at September 30, 2018	556	1,145	306	2,007

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 described in the 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.

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

The case was dismissed by the lower court, and the Company filed an appeal, which was decided in favor of Locaweb. The São Paulo Municipal Administration has filed an Appeal to the Superior Court of Justice.

Should the action not succeed, then the municipal 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 respective 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 seeking exemption from 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, labor and tax proceedings involving risks of loss classified by Management as possible, based on the assessment of its legal counsel, for which no provisions have been recorded, as follows:

	Company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Civil	1,045	1,170	1,252	1,285
Labor	-	-	18	-
Tax	11,279	9,847	11,279	9,847
	12,324	11,017	12,549	11,132

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

The tax proceedings refer mainly 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 classified as possible. Final judgment of the case is currently awaited with the São Paulo Tax Court.

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

For the proceedings with a provision, there is a balance of judicial deposits as at September 30, 2019 in the amount of R\$709 for the Company (R\$1,067 as at December 31, 2018) and R\$760 for the Consolidated (R\$1,125 as at December 31, 2018).

The tax statements 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.

14. Share based payment

The Board of Directors approved in 2019 the 12th Stock Option Plan. Option granted under this plan can be exercised on January 1 and July 1 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 9th Plan: (i) up to 25% of all shares available by exercising the option can be acquired on the Exercise Dates upon lapse of one year of the Reference Date; (ii) up to 25% of the shares available by exercising the option, plus any surplus from options not exercised on the previous Exercise Dates, can be acquired on the Exercise Dates upon lapse of two years of the Reference Date; (iii) up to 25% of the shares available by exercising an option, plus any surplus from options not exercised on the previous Exercise Dates, upon lapse of three years of the Reference Date; and (iv) up to 25% of the shares available 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 four years of the Reference Date (“Vesting Periods”).

In any event, the number of shares available to be acquired after each Vesting Period will remain in force until the Exercise Deadline (i.e. until July 1, 2025), and the portion of options not exercised by such date and according to the stipulated conditions will be deemed automatically terminated, without any right to compensation.

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

Series	September 30, 2019						Number of shares			
	Date of grant	Reference date	First exercise date	Expiry date	Strike price	Fair value	Granted	Exercised	Expired	Total outstanding
Series A	15/07/2009	01/01/2008	01/01/2010	01/01/2017	4.31	7.70	2,420,291	(1,835,865)	(584,426)	-
Series B	07/15/2009	07/01/2009	07/01/2010	07/01/2018	4.31	7.29	166,932	(166,932)	-	-
Series C	09/03/2010	01/01/2010	01/01/2011	01/01/2019	4.31	8.13	995,000	(83,140)	(870,610)	41,250
Series D	07/01/2011	07/01/2011	01/01/2012	07/01/2019	5.25	6.56	430,000	(175,000)	(230,000)	25,000
Series E	01/01/2012	01/01/2012	01/01/2013	01/01/2020	5.25	8.29	930,000	(212,500)	(307,500)	410,000
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)	634,304
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	665,000	-	(591,250)	93,750
Series J	07/01/2015	07/01/2015	07/01/2016	07/01/2022	9.05	16.27	385,000	-	(135,000)	250,000
Series K	03/01/2016	03/01/2016	03/01/2017	04/01/2022	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	-	(215,000)	565,000
Series M	04/01/2017	04/01/2017	04/01/2018	07/01/2023	10.00	12.74	470,000	-	(75,000)	395,000
Series N	07/01/2013	07/01/2018	07/01/2019	07/01/2024	9.04	1,090,000	1,090,000	-	(30,000)	1,060,000
Series O	05/14/2019	05/14/2019	05/13/2020	05/14/2025	7.00	15.55	450,000	-	-	450,000
Series P	05/14/2019	05/14/2019	05/13/2020	05/14/2025	7.00	15.55	280,000	-	-	280,000
							11,632,223	(2,473,437)	(3,965,932)	5,192,804

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

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

	<u>Number of options</u>	<u>Average strike price</u>
Balance outstanding on December 31, 2018	4,889,054	8.46
Granted	730,000	7.00
Expired	(241,250)	7.89
Exercised	(185,000)	5.19
Balance outstanding as at September 30, 2019	<u>5,192,804</u>	<u>8.40</u>

As at September 30, 2019 and December 31, 2018, the number of exercisable stock options was 3,029,054 and 2,505,304, respectively.

The following table presents the assumptions used for determining the fair value of a stock option on the grant date for options granted in the nine-month period ended September 30, 2019:

	<u>Plan 12 Series O and Series P</u>
Dividend yield	1.00%
Expected volatility	43.2%
Risk-free return rate (per annum)	6.50%
Expected stock option lifetime	4 years
Weighted-average price of shares (R\$)	12.00
Model used	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 statement of operations. The expense recorded in the Company's and the Consolidated statement of operations for the nine-month period ended September 30, 2019 was R\$1,684 (R\$1,475 in the same period of 2018).

15. Earnings per share

As described in Note 24, 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 nine-month periods ended on September 30, 2019 and 2018.

a) Basic earnings per share

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

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

	01/01/2019 to 09/30/2019	01/01/2018 to 09/30/2018	07/01/2019 to 09/30/2019	07/01/2018 to 09/30/2018
Net income attributable to the Company's shareholders	11,132	5,541	5,981	2,381
Weighted-average number of common shares outstanding – in thousands	91,623	91,202	91,721	91,298
Basic earnings per share - R\$	0.12	0.06	0.07	0.03

b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted-average number of common shares outstanding, assuming the conversion of all potential diluted common shares relative to stock options, and the dilution potential of such options is represented by 5,192,804 shares in the nine-month period ended September 30, 2019 and 4,889,054 shares in the nine-month period ended September 30, 2018.

	01/01/2019 to 09/30/2019	01/01/2018 to 09/30/2018	07/01/2019 to 09/30/2019	07/01/2018 to 09/30/2018
Net income attributable to the Company's shareholders	11,132	5,541	5,981	2,381
Weighted-average number of common shares outstanding – thousands	96,818	96,091	96,914	96,187
Diluted earnings per share - R\$	0.11	0.06	0.06	0.02

16. Net revenue

	Company		Consolidated	
	01/01/2019 to 09/30/2019	01/01/2018 to 09/30/2018	01/01/2019 to 09/30/2019	01/01/2018 to 09/30/2018
Gross revenue	234,405	142,116	328,778	272,587
BeOnline & SaaS	234,405	142,116	263,323	228,181
Commerce	-	-	65,455	44,406
Discounts and rebates	(13,598)	(9,172)	(13,843)	(11,090)
BeOnline & SaaS	(13,598)	(9,172)	(13,598)	(10,956)
Commerce	-	-	(245)	(134)
Taxes on revenues	(24,125)	(15,910)	(34,393)	(30,135)
BeOnline & SaaS	(24,125)	(15,910)	(26,985)	(25,221)
Commerce	-	-	(7,408)	(4,914)
Net revenue	196,682	117,034	280,542	231,362
BeOnline & SaaS	196,682	117,034	222,740	192,004
Commerce	-	-	57,802	39,358

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

17. Operating costs and expenses

	Company		Consolidated	
	01/01/2019 to 09/30/2019	01/01/2018 to 09/30/2018	01/01/2019 to 09/30/2019	01/01/2018 to 09/30/2018
Personnel expenses	(76,515)	(35,578)	(110,149)	(88,761)
Advisory and consulting services	(10,976)	(6,988)	(12,962)	(9,380)
Depreciation and amortization expenses	(34,711)	(17,156)	(38,695)	(27,188)
Installation expenses	(6,622)	(6,152)	(7,578)	(14,068)
Operating cost	(33,203)	(27,323)	(48,821)	(39,653)
Marketing expenses	(15,830)	(12,935)	(24,670)	(21,711)
Stock option plan expenses	(1,684)	(1,475)	(1,684)	(1,475)
Other	(2,394)	(2,119)	(3,160)	(4,002)
Total	(181,935)	(109,726)	(247,719)	(206,238)
Cost of services	(125,676)	(74,794)	(164,688)	(129,067)
Selling expenses	(37,284)	(22,651)	(53,636)	(45,583)
General and administrative expenses	(18,975)	(12,281)	(29,395)	(31,588)
Total	(181,935)	(109,726)	(247,719)	(206,238)

18. Net financial result

	Company		Consolidated	
	01/01/2019 to 09/30/2019	01/01/2018 to 09/30/2018	01/01/2019 to 09/30/2019	01/01/2018 to 09/30/2018
Financial income				
Income from financial investments	1,370	1,024	1,505	1,209
Foreign exchange rate fluctuation	28	809	7	756
Interest	377	285	470	451
Derivative gains	8,012	6,912	8,012	6,912
Other financial income	24	280	51	734
	9,811	9,310	10,045	10,062
Financial expenses				
Interest	(15,520)	(12,595)	(16,508)	(13,108)
Mark-to-market of derivatives	(1,669)	(445)	(1,669)	(445)
Banking service fees (*)	(2,147)	(2,075)	(3,450)	(2,923)
Interest on lease liabilities	(3,899)	-	(4,062)	-
IOF (Tax on Financial Transactions)	(824)	(602)	(956)	(733)
Accounts receivable advance expense	(1)	-	(3,290)	(2,448)
Present value adjustment	(450)	-	(715)	(478)
Other financial expenses	(659)	(988)	(685)	(1,049)
	(25,169)	(16,705)	(31,335)	(21,184)
Net financial result	(15,358)	(7,395)	(21,290)	(11,122)

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

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

19. Income taxes

The deferred tax breakdown is shown below:

	Company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Provision for profit sharing	1,670	1,732	1,971	2,010
Depreciation of leased property (leases)	521	(4)	540	(4)
Provision for legal proceedings	233	426	245	452
Other provisions	(499)	626	(727)	44
Intangible assets identified in business combinations	157	83	426	240
Derivatives and foreign exchange rate fluctuation	1,134	575	1,134	575
Business combinations	(8,249)	(6,391)	(8,249)	(6,391)
Taxes losses carryforward	6,879	5,658	7,802	6,909
Total deferred income taxes – asset	1,847	2,705	3,142	3,835

Changes in deferred taxes are shown below:

Company Nature	Balance	Result	Balance
	12/31/2018	Gain /(loss)	09/30/2019
Tax benefit from tax losses carryforward	5,657	1,221	6,878
Tax benefit from goodwill	(6,390)	(1,858)	(8,248)
Merger	996	(996)	-
Temporary differences	2,442	775	3,217
Total	2,705	(858)	1,847
Consolidated Nature	Balance	Result	Balance
	12/31/2018	Gain /(loss)	09/30/2019
Tax benefit from tax losses carryforward	6,910	893	7,803
Tax benefit from goodwill	(6,390)	(1,858)	(8,248)
Merger	996	(996)	-
Temporary differences	2,319	1,268	3,587
Total	3,835	(693)	3,142

a) Reconciliation of income taxes expense

	Company		Consolidated	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018
Income before income taxes	11,990	4,361	17,324	13,301
Income taxes at a combined statutory rate of 34%	(4,077)	(1,483)	(5,890)	(4,522)
Adjustments to the actual rate:				
Interest on shareholders' equity	1,190	833	1,190	833
Effect of presumed profit method	-	-	(306)	(79)
Effect of equity results	2,846	1,893	-	-
Effect of stock option plan	(573)	(502)	(573)	(502)
Effect of officer vehicle depreciation and other expenses	(62)	(51)	(72)	(60)
Derecognition of deferred tax from merger	-	-	-	(3,098)
Amortization of intangible assets	(97)	(222)	(97)	(223)
Deferred taxes not recognized (tax loss)	-	859	(1,040)	(194)
Other	(85)	(147)	596	85
Income taxes recorded in the statements of operations	(858)	1,180	(6,192)	(7,760)
Effective rate	7.16%	-27.06%	35.74%	58.34%

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

20. Segments

	01/01/2019 to 09/30/2019			01/01/2018 to 09/30/2018		
	BeOnline & SaaS	Commerce	Consolidated	BeOnline & SaaS	Commerce	Consolidated
Gross revenue, net of discounts	249,725	65,210	314,935	217,225	44,272	261,497
Taxes and contributions on revenues	(26,985)	(7,408)	(34,393)	(25,221)	(4,914)	(30,135)
Net revenue	222,740	57,802	280,542	192,004	39,358	231,362
Cost of services	(145,418)	(19,270)	(164,688)	(114,595)	(14,472)	(129,067)
Gross profit	77,322	38,532	115,854	77,409	24,886	102,295
Selling expenses	(40,925)	(12,711)	(53,636)	(37,783)	(7,800)	(45,583)
General and administrative expenses	(21,685)	(7,710)	(29,395)	(27,587)	(4,001)	(31,588)
Other operating income (expenses)	4,272	1,519	5,791	(698)	(3)	(701)
Income before financial results	18,984	19,630	38,614	11,341	13,082	24,423
Operating expenses included in costs and expenses:						
Depreciation and amortization expenses	36,009	2,686	38,695	25,296	1,892	27,188
Stock option plans expenses	1,684	-	1,684	1,475	-	1,475

	07/01/2019 to 09/30/2019			07/01/2018 to 09/30/2018		
	BeOnline & SaaS	Commerce	Consolidated	BeOnline & SaaS	Commerce	Consolidated
Gross revenue, net of discounts	90,454	23,856	114,310	73,423	16,240	89,663
Taxes and contributions on revenues	(9,694)	(2,687)	(12,381)	(8,786)	(1,811)	(10,597)
Net revenue	80,760	21,169	101,929	64,637	14,429	79,066
Cost of services	(52,198)	(6,894)	(59,092)	(40,623)	(5,410)	(46,033)
Gross profit	28,562	14,275	42,837	24,014	9,019	33,033
Selling expenses	(14,064)	(4,359)	(18,423)	(12,103)	(2,883)	(14,986)
General and administrative expenses	(8,536)	(2,652)	(11,188)	(7,882)	(1,506)	(9,388)
Other operating income (expenses)	3,779	-	3,779	214	(2)	212
Income before financial results	9,741	7,264	17,005	4,243	4,628	8,871
Operating expenses included in costs and expenses:						
Depreciation and amortization expenses	11,870	683	12,553	8,529	665	9,194
Stock option plans expenses	562	-	562	(695)	-	(695)

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

Main segments' assets and liabilities

	09/30/2019		
	BeOnline & SaaS	Commerce	Consolidated
Accounts receivable	24,740	95,479	120,219
Property and equipment	76,382	4,017	80,399
Intangible assets	144,926	26,012	170,938
Total	246,048	125,508	371,556
Loans and financing	126,890	-	126,890
Deferred revenue	38,262	-	38,262
Payables to clients	-	80,886	80,886
Total	165,152	80,886	246,038
	12/31/2018		
	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
Payable to clients	-	30,117	30,117
Total	112,885	30,148	143,033

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

21. Financial instruments

The tables below present a breakdown of financial assets and liabilities as at September 30, 2019:

	Company			
	Measured at fair value through profit and loss	Amortized cost	Book value	Fair value
Financial assets				
Cash and cash equivalents	16,387	-	16,387	16,387
Accounts receivable	-	20,583	20,583	20,583
Derivatives	8,644	-	8,644	8,644
Accounts receivable - related parties	-	1,487	1,487	1,487
Restricted cash	10,995	-	10,995	10,995
Total	36,026	22,070	58,096	58,096
Financial liabilities				
Loans and financing	-	126,713	126,713	126,713
Suppliers	-	5,179	5,179	5,179
Lease liabilities	-	68,194	68,194	68,194
Accounts payable to former shareholders	-	30,704	30,704	30,704
Total	-	230,790	230,790	230,790
Consolidated				
	Measured at fair value through profit and loss	Amortized cost	Book value	Fair value
Financial assets				
Cash and cash equivalents	24,828	-	24,828	24,828
Accounts receivable	-	120,219	120,219	120,219
Derivatives	8,644	-	8,644	8,644
Restricted cash	10,995	-	10,995	10,995
Total	44,467	120,219	164,686	164,686
Financial liabilities				
Loans and financing	-	126,890	126,890	126,890
Suppliers	-	10,701	10,701	10,701
Lease liabilities	-	71,460	71,460	71,460
Accounts payable to former shareholders	-	30,704	30,704	30,704
Payables to clients	-	80,886	80,886	80,886
Total	-	320,641	320,641	320,641

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

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

A) Purpose of derivative financial instruments

Derivative financial instruments contracted by the Company are intended to hedge against foreign currency risk related to loans 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.

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 Brazilian Central Bank (BACEN), enabled the Company to replace its exposure to U.S. dollar fluctuations, plus 4.31% p.a., for a fixed rate on the notional value.

On February 18, 2019, the Company entered into two cross-currency interest rate swap agreements with a total notional value of R\$40,000, equivalent to US\$10,787 on the inception date, when the exchange rate was R\$3.7080 per U.S. dollar. These transactions, which resulted from a financing backed in foreign currency and supported by circular letter 3844/2017 of the Brazilian Central Bank (BACEN), enabled the Company to replace its exposure to U.S. dollar fluctuations, plus 4.77% p.a., for a fixed rate for an amount equivalent to three quarters of the funding value (R\$30,000), and, for one quarter of the amount, a floating rate indexed to the CDI, plus a fixed spread.

On July 2, 2019, the Company entered into a cross-currency interest rate swap agreement with notional value of R\$38,300, equivalent to US\$10,000 on the inception date, when the exchange rate was R\$3.8300 per U.S. dollar. This transaction, which resulted from a financing backed in foreign currency and based in federal law No. 4131/62, enabled the Company to replace its exposure to U.S. dollar fluctuations, plus 4.57% p.a., for a fixed rate.

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

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

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 surpluses.

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 provision is calculated and recorded.
- The amounts receivable from individual customers through bank slips are limited and represented approximately 30% of total accounts receivable as at September 30, 2019. The maximum exposure to credit risk as at September 30, 2019 is the amount shown in the statement of financial position.

iii) Liquidity risk

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

The Company and its subsidiaries manage the maturities of non-derivative financial contracts as described in Note 10, so as to avoid impact on 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 consolidated financial liabilities of the Company.

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

September 30, 2019	Less than 3 months	From 3 to 12 months	More than 1 year	Total
Other liabilities	1,465	-	-	1,465
Suppliers	10,701	-	-	10,701
Loans and financing	8,392	43,761	74,737	126,890
Lease liabilities	2,498	7,494	61,468	71,460
Payables to clients	80,886	-	-	80,886
Accounts payable to former shareholders	-	9,553	21,151	30,704
	103,942	60,808	157,356	322,106

December 31, 2018	Less than 3 months	From 3 to 12 months	More than 1 year	Total
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

iv) Foreign currency risk

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

The Company's policy is to use derivative financial instruments only to reduce the risks arising from foreign currency exposure, which is represented by loans denominated in foreign currency, and not for speculative purposes.

E) Sensitivity analysis

As at September 30, 2018, the Company was exposed to fluctuation in U.S. dollar rates due to loans denominated in foreign currency, loans linked to the Benchmark Rate (TR) and the Long-Term Interest Rate (TJLP), which are indices used in loans denominated in local currency, as well as to variation on Interbank Deposit Certificates (CDI). Three different scenarios were defined to analyze the sensitivity of these indices.

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 relevant by Management:

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

Transaction	Risk	Balance in 2018	Loss - Consolidated		
			Probable	Scenario A	Scenario B
Loans in foreign currency (U.S. dollar)*	Increase in US dollar rate	(102,374)	(1,424)	(7,121)	(14,241)
Loans in Reais adjusted by the IPCA index	Increase in IPCA index	(570)	(1)	(4)	(14)
Loans in Reais adjusted by the TJLP rate	Increase in TJLP rate	(21,825)	(65)	(325)	(649)
Financial investments adjusted by the CDI	Reduction in CDI	33,262	(90)	(449)	(898)
	<i>Dollar rate</i>	4.16	4.37	5.21	6.25
	<i>TJLP</i>	5.95%	6.25%	7.44%	8.93%
	<i>CDI (downward scenario)</i>	5.40%	5.13%	4.05%	2.70%
	<i>IPCA (upward scenario)</i>	2.89%	3.04%	3.62%	5.43%

(*) Financing contracts adjusted by the foreign currency are hedged by cross-currency interest rate swap agreements against foreign exchange fluctuations.

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

F) Capital management

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

In order to maintain or adjust its capital structure, the Company may review its receivables advance policy, and the payment of non-mandatory dividends, return capital to shareholders, or issue new shares to reduce its indebtedness level.

Capital management is at the consolidated level, as described below:

	09/30/2019	12/31/2018
Loans and financing	126,890	82,501
(+) Lease liabilities	71,460	-
(+) Derivatives	(8,644)	(5,513)
(-) Cash and cash equivalents	(24,828)	(17,782)
(-) Restricted cash	(10,995)	(7,709)
(=) Net debt	153,883	51,497
(+) Total equity	83,366	61,087
(=) Total equity and net debt	237,249	112,584

G) Fair value of financial instruments

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

Locaweb Serviços de Internet S.A.

Notes to the unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

Fair values are calculated by estimating future operating flows; using the curves of BM&FBovespa; and discounting them to present value using the market exchange rates for swaps, as published by BM&FBovespa. Market values of derivatives shown below were obtained using the market rates in effect as at the balance sheet date, and the rates estimated by the market.

In order to calculate the coupon of positions indexed to foreign currency, the Company adopted a linear convention of 360 calendar days. The table below shows the variation in fair values of derivative instruments and their respective amounts receivable (payable) at the close of the period.

Description	September 30, 2019		
	Company and Consolidated		
	Notional value	Fair value	Amount receivable (payable)
<u>Bradesco – 3844/2018 raising</u>			
Asset position	19,276	19,544	19,544
Liability position	(15,145)	(15,893)	(15,893)
	4,131	3,651	3,651
<u>Bradesco – 3844/2019-1 raising</u>			
Asset position	30,786	31,854	31,854
Liability position	(27,607)	(29,338)	(29,338)
	3,179	2,516	2,516
<u>Bradesco – 3844/2019-1 raising</u>			
Asset position	10,254	10,526	10,526
Liability position	(9,179)	(9,434)	(9,434)
	1,074	1,092	1,092
<u>Citi – 4131 raising</u>			
Asset position	42,057	42,998	42,998
Liability position	(39,151)	(41,613)	(41,613)
	2,906	1,385	1,385
Total financial instruments	11,290	8,644	8,644
Mark-to-market – MTM		(2,646)	(2,646)

H) Fair value hierarchy

The fair values of financial investments and swaps are classified in Level2 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 unaudited interim condensed financial statements
September 30, 2019
(amounts in thousands of *Reais*, unless otherwise stated)

23. Insurance coverage

	Consolidated	
	09/30/2019	12/31/2018
Vehicles	5,500	4,500
Business (real estate and assets)	359,860	326,207
Electricity	201	288
Civil liability of managers	10,000	10,000
Civil liability	1,100	1,100
	376,661	342,095

24. Subsequent events

a) Distribution of dividends

During the special shareholders' meeting held on October 2, 2019, the Company's shareholders approved the distribution of interim dividends for 2019, in the total gross amount of R\$2,400, to be paid in three monthly installments of R\$800 each, in October, November and December 2019.

b) 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.

c) Increase of the Company's authorized capital

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.
