Interim Financial Information

Linx S.A.

June 30, 2019
with Independent Auditors' Report

Linx S.A.

Interim financial information

June 30, 2019

Contents

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A free translation from Portuguese into English of Independent Auditor's Report on review of interim financial information prepared in Brazilian currency in accordance with accounting practices adopted in Brazil

Independent auditor's report on review of interim financial information

The
Shareholders, Board of Directors and Officers
Linx S.A.
São Paulo - SP

Introduction

We have reviewed the accompanying individual and consolidated interim financial information of Linx S.A. ("Company"), contained in the Quarterly Information Form (ITR) for the quarter ended June 30, 2019, which comprises the statement of financial position as at June 30, 2019 and the related statement of profit or loss, of comprehensive income (loss) for the three-month and six-month periods then ended, and statement of changes in equity and cash flow statement for the six-month period then ended, including other explanatory information.

Management is responsible for the preparation of the individual and consolidated interim financial information in accordance with Accounting Pronouncement CPC 21 (R1) and IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the presentation of this financial information in accordance with the rules issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the preparation of Quarterly Information (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with Brazilian and international standards 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 auditing standards 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 on the individual and consolidated interim financial information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying individual and consolidated interim financial information included in the quarterly information referred to above is not prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34, applicable to the preparation of quarterly financial information (ITR), consistently with the rules issued by the Brazilian Securities and Exchange Commission.

Other matters

Statement of Value Added

We have also reviewed the individual and consolidated Statements of Value Added (SVA) for the six-month period ended June 30, 2019, prepared under the responsibility of Company management, the presentation of which in the interim financial information is required by the rules issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the preparation of Quarterly Information (ITR), and as supplementary information under the IFRS, whereby no SVA presentation is required. These statements have been subject to the same review procedures previously described and, based on our review, nothing has come to our attention that causes us to believe that they are not prepared, in all material respects, consistently with the accompanying overall individual and consolidated interim financial information.

São Paulo, August 14, 2019.

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

Lazaro Angelim Serruya
Accountant CRC-1DF015801/O-7

Linx S.A.

Balance sheets
June 30, 2019 and December 31, 2018
(In thousands of reais)

		Parent company		Consolidated	
	Note	**30/06/2019**	**31/12/2018**	**30/06/2019**	**31/12/2018**
Assets					
Current assets					
Cash and cash equivalents	6	**799,304**	50	**833,654**	49,850
Financial assets	7	**29,172**	60,108	**291,758**	413,374
Trade accounts receivable	8	**-**	-	**208,796**	167,102
Recoverable taxes	9	**8,552**	8,848	**30,680**	35,094
Other receivables	11	**6**	49	**38,639**	43,407
Total current assets		**837,034**	69,055	**1,403,527**	708,827
Non-current assets					
Trade accounts receivable	8	**-**	-	**3,064**	3,280
Deferred taxes	19	**8,020**	4,100	**8,090**	4,449
Other receivables	11	**-**	-	**9,888**	7,213
Investments	12	**1,031,734**	987,300	**-**	-
Property, plant and equipment	13	**-**	-	**78,246**	74,273
Intangible assets	14	**-**	-	**1,122,557**	849,634
Total non-current assets		**1,039,754**	991,400	**1,221,845**	938,849
Total assets		**1,876,788**	1,060,455	**2,625,372**	1,647,676

	Note	Parent company		Consolidated	
		30/06/2019	31/12/2018	30/06/2019	31/12/2018
Liabilities and shareholders' equity					
Current liabilities					
Suppliers		**173**	47	**14,660**	13,623
Loans and financing	15	**-**	-	**53,640**	40,720
Labor liabilities	16	**1**	16	**64,876**	43,801
Taxes payable		**18**	385	**9,755**	13,455
Income tax and social contribution		**-**	-	**1,719**	1,206
Accounts payable from acquisition of subsidiaries	17	**-**	-	**50,793**	57,099
Deferred revenue	18	**-**	-	**37,270**	40,053
Advance of dividends		**-**	2,764	**-**	2,764
Debts with related parties	10	**1,178**	-	**-**	-
Other liabilities		**94**	34	**24,884**	7,979
Total current liabilities		**1,464**	3,246	**257,597**	220,700
Non-current liabilities					
Loans and financing	15	**-**	-	**279,492**	209,261
Labor liabilities	16	**-**	-	**2,206**	-
Accounts payable from acquisition of subsidiaries	17	**-**	-	**91,209**	55,388
Deferred taxes	19	**-**	-	**81,516**	72,635
Deferred revenue	18	**-**	-	**11,579**	19,195
Provision for contingencies	21	**-**	-	**23,042**	10,960
Other liabilities		**-**	-	**3,407**	2,328
Total non-current liabilities		**-**	-	**492,451**	369,767
Shareholders' equity	20				
Capital		**645,447**	488,467	**645,447**	488,467
Capital reserves		**1,023,558**	369,879	**1,023,558**	369,879
Profit reserve		**180,428**	179,457	**180,428**	179,457
Net income for the semester		**29,648**	-	**29,648**	-
Additional dividend proposed		**-**	22,236	**-**	22,236
Other comprehensive income		**(3,757)**	(2,830)	**(3,757)**	(2,830)
		1,875,324	1,057,209	**1,875,324**	1,057,209
Total liabilities and shareholders' equity		**1,876,788**	1,060,455	**2,625,372**	1,647,676

See the accompanying notes to financial statements.

Linx S.A.

Statements of income
Three and six-month periods ended June 30, 2019 and 2018
(In thousands of reais)

	Note	Parent company		Parent company		Consolidated		Consolidated	
		Quarter	Quarter	Accumulated	Accumulated	Quarter	Quarter	Accumulated	Accumulated
		04/01/2019-06/30/2019	04/01/2018-06/30/2018	01/01/2019-06/30/2019	01/01/2018-06/30/2018	04/01/2019-06/30/2019	04/01/2018-06/30/2018	01/01/2019-06/30/2019	01/01/2018-06/30/2018
Net operating revenue	22	.	-	-	-	192,651	170,745	369,456	329,155
Cost of services rendered	23	-	-	-	-	(63,417)	(61,891)	(123,416)	(118,547)
Gross income		-	-	-	-	129,234	108,854	246,040	210,608
Operating revenue (expenses)									
General and administrative	23	(619)	(309)	(1,867)	(683)	(55,049)	(39,930)	(99,011)	(82,459)
Research and development	23/14	-	-	-	-	(20,113)	(18,049)	(38,485)	(34,256)
Selling	23	-	-	-	-	(36,081)	(28,591)	(71,406)	(50,650)
Equity in net income of subsidiaries	12	15,034	7,966	32,591	34,662	-	-	-	-
Other operating revenue	23	-	-	-	-	8,825	164	16,949	8,168
Other operating expenses	23	-	-	-	-	(2,405)	(1,268)	(4,339)	(1,069)
		14,415	7,657	30,724	33,979	(104,823)	(87,674)	(196,292)	(160,266)
Income before financial income and taxes		14,415	7,657	30,724	33,979	24,411	21,180	49,748	50,342
Net financial income									
Financial revenues	24	847	12,002	1,770	12,165	6,785	15,921	17,069	27,966
Financial expenses	24	(6,760)	(60)	(6,826)	(117)	(15,509)	(13,268)	(27,557)	(21,616)
Net financial revenues (expenses)		(5,913)	11,942	(5,056)	12,048	(8,724)	2,653	(10,488)	6,350
Income before income tax and social contribution		8,502	19,599	25,668	46,027	15,687	23,833	39,260	56,692
Current income tax and social contribution	19	-	-	-	-	(2,610)	(1,596)	(4,635)	(3,260)
Deferred income tax and social contribution	19	3,966	(1,251)	3,980	(1,227)	(609)	(3,889)	(4,977)	(8,632)
Net income for the semester		12,468	18,348	29,648	44,800	12,468	18,348	29,648	44,800
Earnings per share	27								
Basic earnings per share - in Reais		0.0778	0.1111	0.1849	0.2713				
Number of shares		160,323,577	165,101,643	160,323,577	165,101,643				

See the accompanying notes to financial statements.

Linx S.A.

Statements of comprehensive income
Three and six-month periods ended June 30, 2019 and 2018
(In thousands of reais)

	Parent company		Parent company		Consolidated		Consolidated	
	Quarter	Quarter	Accumulated	Accumulated	Quarter	Quarter	Accumulated	Accumulated
	04/01/2019-06/30/2019	04/01/2018-06/30/2018	01/01/2019-06/30/2019	01/01/2018-06/30/2018	04/01/2019-06/30/2019	04/01/2018-06/30/2018	01/01/2019-06/30/2019	01/01/2018-06/30/2018
Stock option plan	**12,468**	18,348	**29,648**	44,800	**12,468**	18,348	**29,648**	44,800
Other comprehensive income to be reclassified to income (loss) for the year in subsequent periods								
Accumulated translation adjustments from operations in foreign currency	**(53)**	(670)	**(927)**	(790)	**(53)**	(670)	**(927)**	(790)
Other comprehensive income of the associated company under the equity method	**-**	-	**-**	(1,027)	**-**	-	**-**	(1,027)
Total comprehensive income	**12,415**	17,678	**28,721**	42,983	**12,415**	17,678	**28,721**	42,983

See the accompanying notes to financial statements.

Linx S.A.

Statements of changes in shareholders' equity
Six-month periods ended June 30, 2019 and 2018
(In thousands of reais)

			Capital reserves					Profit reserves						
	Note	Capital	Goodwill in capital subscription	Stock option plan	Treasury shares	Expenditures with issuance of shares	Total	Legal reserve	Profit retention	Total	Retained earnings	Other comprehensive income	Additional dividends proposed	Total
Balances at December 31, 2017		486,032	539,571	11,548	(33,887)	(37,423)	479,809	7,037	179,100	186,137	-	(247)	18,789	1,170,520
Prior-year adjustments														
Effects from the first-time adoption of IFRS 9		-	-	-	-	-	-	-	(1,015)	(1,015)	-	-	-	(1,015)
Effects from the first-time adoption of IFRS 15		-	-	-	-	-	-	-	(39,433)	(39,433)	-	-	-	(39,433)
Opening balances at 01/01/2018		486,032	539,571	11,548	(33,887)	(37,423)	479,809	7,037	138,652	145,689	-	(247)	18,789	1,130,072
Capital increase		1,442	-	-	-	-	-	-	-	-	-	-	-	1,442
Repurchase of shares		-	-	-	185	-	185	-	-	-	-	-	-	185
Dividend payment		-	-	-	-	-	-	-	-	-	-	-	(18,789)	(18,789)
Prepaid dividends		-	-	743	-	-	743	-	-	-	-	-	-	743
Other comprehensive income		-	-	-	-	-	-	-	-	-	-	(1,817)	-	(1,817)
Stock option plan		-	-	-	-	-	-	-	-	-	44,800	-	-	44,800
Balances at June 30, 2018		487,474	539,571	12,291	(33,702)	(37,423)	480,737	7,037	138,652	145,689	44,800	(2,064)	-	1,156,636
Balances at December 31, 2018		488,467	539,571	16,104	(148,373)	(37,423)	369,879	7,037	172,420	179,457	-	(2,830)	22,236	1,057,209
Capital increase	20	**156,980**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**156,980**
Goodwill in capital subscription	20	**-**	**674,982**	**-**	**-**	**-**	**674,982**	**-**	**-**	**-**	**-**	**-**	**-**	**674,982**
Share issue costs		**-**	**-**	**-**	**-**	**(31,293)**	**(31,293)**	**-**	**-**	**-**	**-**	**-**	**-**	**(31,293)**
Dividend payment		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(22,236)**	**(22,236)**
Effect from adoption of hyperinflation		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**971**	**971**	**-**	**-**	**-**	**971**
Accumulated translation adjustments from operations in foreign currency		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(927)**	**-**	**(927)**
Prepaid dividends	28	**-**	**-**	**9,990**	**-**	**-**	**9,990**	**-**	**-**	**-**	**-**	**-**	**-**	**9,990**
Net income for the semester		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**29,648**	**-**	**-**	**29,648**
Balances at June 30, 2019		**645,447**	**1,214,553**	**26,094**	**(148,373)**	**(68,716)**	**1,023,558**	**7,037**	**173,391**	**180,428**	**29,648**	**(3,757)**	**-**	**1,875,324**

See the accompanying notes to financial statements.

Linx S.A.

Statements of cash flows
Six-month periods ended June 30, 2019 and 2018
(In thousands of reais)

		Parent company		Consolidated	
	Note	30/06/2019	30/06/2018	30/06/2019	30/06/2018
Cash flows from operating activities					
Net income for the semester		**29,648**	44,800	**29,648**	44,800
Adjustments to reconcile income to cash and cash equivalents generated by (used in) operational activities:					
Depreciation and amortization	14/13	**-**	-	**55,938**	37,404
Equity in net income of subsidiaries	12	**(32,591)**	(34,662)	**-**	-
Allowance for doubtful accounts	8	**-**	-	**(92)**	757
Losses (gains) on write-off/disposal of goods		**-**	-	**1,296**	8,338
Addition (reversal) of adjustment to present value		**-**	-	**3,400**	(8,849)
Stock option plan		**691**	185	**9,990**	928
Financial charges		**-**	36	**17,136**	12,282
Deferred taxes	19	**(3,980)**	1,225	**4,977**	8,632
Current taxes	19	**-**	-	**4,635**	3,260
Provisions for contingency	21	**-**	-	**1,785**	818
Other operating revenue		**-**	-	**(18,173)**	(8,997)
Revenue from interest earning bank deposits		**(1,610)**	(205)	**(12,422)**	(15,405)
Effect from adoption of hyperinflation		**-**	-	**325**	-
Other		**-**	-	**-**	(1,027)
		(37,490)	(33,421)	**68,795**	38,141
Change in operating assets and liabilities:					
Trade accounts receivable		**-**	-	**(40,439)**	(27,138)
Recoverable taxes		**356**	(3,693)	**4,677**	(11,059)
Other credits and judicial deposits		**43**	(8,230)	**1,297**	(7,345)
Suppliers		**126**	9	**(677)**	5,551
Labor liabilities		**(15)**	(276)	**20,552**	8,823
Taxes and contributions payable		**(367)**	3,097	**(6,029)**	(1,519)
Deferred revenue		**-**	-	**(10,399)**	(3,131)
Other accounts payable		**1,238**	26	**16,314**	(2,244)
Income tax and social contribution paid	19	**-**	-	**(2,318)**	-
Cash flow generated (invested) by operating activities		**(6,461)**	2,312	**81,421**	44,879
Cash flows from investment activities					
Acquisition of fixed assets		**-**	-	**(9,682)**	(9,953)
Acquisition of intangible assets		**-**	-	**(60,801)**	(25,541)
Acquisition of entity, net of cash and cash equivalents acquired		**-**	-	**(73,885)**	(75,218)
Capital increase in subsidiaries		**(2,500)**	-	**-**	-
Advance of dividends received		**-**	20,000	**-**	-
Investment in short-term investments		**(1,596)**	(1,430)	**(235,137)**	(234,039)
Redemption of interest and interest earning bank deposits		**34,142**	3,583	**369,175**	343,806
Cash flow generated (invested) by investing activities		**30,046**	22,153	**(10,330)**	(945)
Cash flows from financing activities					
Additions of loans and financing		**-**	-	**-**	44,468
Payments of loans and financing	15	**-**	(2,799)	**(27,953)**	(19,995)
Financial charges paid	15	**-**	(89)	**(9,983)**	(4,504)
Payment for the acquisition of subsidiaries	17	**-**	-	**(24,093)**	(38,870)
Share issue costs		**(31,293)**	-	**(31,293)**	-
Capital contributions from shareholders	20	**156,980**	1,442	**156,980**	1,442
Premium on the subscription of shares	20	**674,982**	-	**674,982**	-
Dividends paid		**(25,000)**	(23,000)	**(25,000)**	(23,000)
Cash flow generated (invested) by financing activities		**775,669**	(24,446)	**713,640**	(40,459)
Exchange rate change on cash and cash equivalents		**-**	-	**(927)**	(790)
Increase (decrease) in cash and cash equivalents		**799,254**	19	**783,804**	2,685
Statement of increase (decrease) in cash and cash equivalents					
At the beginning of the period		**50**	33	**49,850**	42,918
At the end of the semester		**799,304**	52	**833,654**	45,603

See the accompanying notes to financial statements.

Linx S.A.

Statements of value added
Six-month periods ended June 30, 2019 and 2018
(In thousands of reais)

	Parent company		Consolidated	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018
Revenues				
Gross sales of services and goods	-	-	411,086	366,136
Other revenues	-	-	16,949	8,168
Allowance for doubtful accounts	-	-	(107)	(756)
	-	-	427,928	373,548
Inputs acquired from third parties				
Cost of services and goods sold	-	-	(28,717)	(36,879)
Materials, energy, outsourced services and other operating items	(384)	(184)	(68,337)	(53,581)
Loss and recovery of asset values	-	-	(4,022)	(3,018)
	(384)	(184)	(101,076)	(93,478)
Gross added value	(384)	(184)	326,852	280,070
Depreciation and amortization	-	-	(55,938)	(37,404)
Net value added produced by the Company	(384)	(184)	270,914	242,666
Added value received as transfer				
Equity in net income of subsidiaries	32,589	34,662	-	-
Financial revenues	1,770	12,165	17,069	27,966
	34,359	46,827	17,069	27,966
Total added value payable	33,975	46,643	287,983	270,632
Payment of value added				
Personnel	1,481	499	178,077	146,109
Direct remuneration	1,481	499	145,176	117,101
Benefits	-	-	21,222	17,811
FGTS	-	-	11,679	11,197
Taxes, duties and contributions	(3,980)	1,227	51,689	49,746
Federal	(3,980)	1,227	38,889	38,581
State	-	-	2,432	2,030
Municipal	-	-	10,368	9,135
Third-party capital remuneration	6,826	117	28,569	29,977
Interest	6,826	117	27,557	21,616
Rents	-	-	1,012	8,361
Own capital remuneration	29,648	44,800	29,648	44,800
Retained earnings	29,648	44,800	29,648	44,800

See the accompanying notes to financial statements.

1. Operations

Founded in 1985 and headquartered at Avenida Doutora Ruth Cardoso, 7221, 7º Andar, city and state of São Paulo, Linx S.A. (“Company” or “Linx”), corporation, provides ERP (Enterprise Resource Planning) and POS (Point of Sale or Point of Service) management software solutions, and connectivity solutions, TEF (Electronic Funds Transfer), e-commerce and CRM (Customer Relationship Management), OMS (Order Management System) and payment methods to the retail industry in Brazil. The Company offers innovative and scalable technology, with focus upon and long-term specialization in the retail industry, its vertical model of operation, which combines its own teams in the commercial, implementation, consulting and support areas and through our differentiated business model.

The Company became a publicly listed corporation in Brazil when its shares were listed on the New Market segment of São Paulo Stock Exchange B3 on February 8, 2013, trading under the ticker symbol “LINX3” and common shares through American Depositary Shares ("ADS") on the New York Stock Exchange ("NYSE") under the code "LINX" traded on June 26, 2019.

2. Preparation basis

2.1. Statement of conformity

The individual and consolidated interim financial statements were prepared in accordance with Technical Pronouncement CPC 21 (R1) - Interim Statement, issued by the Accounting Pronouncement Committee and with international standard IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board - IASB applicable to the preparation of Quarterly Information - ITR and presented in a manner consistent with the standards issued by the Securities Commission, applicable to the preparation of Quarterly Information - ITR.

Presentation of the Statement of Value Added is required by the Brazilian corporate law and by accounting practices adopted in Brazil applicable to listed companies. The IFRS do not require the presentation of this statement. Accordingly, in conformity with IFRS, this statement is presented as supplementary information, without prejudice to interim financial statements as a whole.

All relevant pieces of information characteristic of interim financial statements, and only them, are being evidenced and correspond to those used by Management.

Some captions of the statement of income for the quarter ended June 30, 2018 were reclassified to allow comparisons with the information of June 30, 2019.

The issue of individual and consolidated interim financial statements was approved by the Board of Directors on August 14, 2019.

2. Preparation basis (Continued)

2.2. Basis of measurement

The individual and consolidated interim financial statements have been prepared based on historical cost (except when different criteria is required) and adjusted to reflect the valuation of assets and liabilities measured at fair value or considering the mark-to-market, when such valuations are required by accounting standard.

2.3. Functional and presentation currency

Individual and consolidated interim financial statements are presented in Real (R$), parent company's functional currency. Each subsidiary determines its own functional currency, and in those in which functional currency is different from real, the financial statements are translated into real as of closing date.

The Company's individual and consolidated interim financial information for the quarters ended June 30, 2019 and 2018 is presented in thousands of reais (unless otherwise stated).

2.4. Use of estimates and judgments

The individual and consolidated interim financial statements were prepared in accordance with several measurement bases used in accounting estimates. The accounting estimates were based on objective and subjective factors, with a basis on Management's judgment for determination of the adequate amount to be recorded in the financial statements. Significant items subject to these estimates and assumptions include the selection of fixed assets and its recoverability in operations, evaluation of financial assets at fair value, credit risk analysis to determine the allowance for doubtful accounts, and the analysis of the remaining risks to determine other provisions, including for contingencies.

The settlement of transactions involving these estimates may result in significantly different amounts described in the financial statements due to the probabilistic treatment inherent to the estimation process. Estimates and assumptions are reviewed by the Company at least annually.

3. Significant accounting policies

The accounting policies have been consistently applied to all the periods presented in these individual and consolidated interim financial statements. The accounting policies have also been consistently applied by the Company's subsidiaries.

(In thousands of reais)

3. Significant accounting policies (Continued)

3.1. Presentation of segment information

The operating segment information is shown consistently with the internal report supplied to the main operating decision maker. The main operating decision maker, in charge of allocating funds and evaluating performance of operating segments is the Executive Board, also in charge of the Company's strategic decision making. The Executive Board makes its operational and strategic decisions observing consolidated income (loss), that is, has only one operating segment.

3.2. Consolidation basis

The individual and consolidated interim financial statements comprise the financial statements of the Company and its subsidiaries as of June 30, 2019. The parent company's individual financial statements, financial statements of subsidiaries are recognized under the equity method.

The individual and consolidated interim financial statements include information of Linx S.A. and its subsidiaries, as follows:

	Ownership percentage	
	06/30/2019	**12/31/2018**
Subsidiaries		
Linx Sistemas e Consultoria Ltda.	**99.99%**	99.99%
Linx Telecomunicações Ltda.	**99.99%**	99.99%
Indirect subsidiaries		
Napse S.R.L.	**100.00%**	100.00%
Sback Tecnologia da Informação Ltda.	**100.00%**	100.00%
DCG Soluções para Venda Digital S.A. (*)	**-**	100.00%
Linx Pay Meios de Pagamentos Ltda.	**100.00%**	100.00%
Hiper Software S.A. (**)	**100.00%**	-
Millennium Network Ltda. (**)	**100.00%**	-

(*) Companies merged into Linx Sistemas in 2019

(**) Companies acquired by Linx Sistemas in 2019

The Company and its subsidiaries (jointly, “Group”) is the direct parent company of the following companies:

<u>Linx Sistemas e Consultoria Ltda. (“Linx Sistemas”):</u> is engaged in developing management software for the retail segment, providing technical support, advisory and training.

3. Significant accounting policies (Continued)

3.2. Consolidation basis (Continued)

Linx Telecomunicações Ltda. ("Linx Telecomunicações"): engaged in the provision of telecommunication services in general, such as transmission of voice, data, images and sound by any means, including services of networks and circuits, telephony, by any systems, including via Internet.

It is the indirect parent company of the following companies:

Napse S.R.L. ("Napse"): operates in the development and sales of point-of-sale (POS) automation software, electronic payment solutions (TEF) and promotion engine for large retail chains in the main Latin American markets.

Sback Tecnologia da Informação Ltda. ("Sback"): operates in the cloud platform leader in technologies of retention, reengagement and recapture through Big Data and Intelligence for engagement.

Linx Pay Meios de Pagamentos Ltda. ("Linx Pay"): operates with the purpose of aggregating all of the Company's initiatives related to fintech such as TEF (payment gateway), DUO (Smart POS) and the newly launched Linx Pay Easy (sub-acquiring), besides the new products aligned with Linx's strategic positioning in such area.

Hiper Software S.A. ("Hiper"): operates with the purpose solutions in the Software as a Service (SaaS) model that micro and small retailers.

Millennium Network Ltda. ("Millennium"): operating in the development of e-commerce platform, focused on the development of technology solution in the Software as a Service (SaaS) model allowing the retailer, along with other technologies, to offer the consumer an Omnichannel experience.

3.3. New or reviewed pronouncements with first-time adoption in 2019

These individual and consolidated interim financial statements have been prepared using accounting policies consistent with those adopted for the preparation of the financial statements for the year ended December 31, 2018 (Note 3 - "Significant Accounting Policies") and must be reviewed together with these financial statements, as well as considering the new pronouncements, interpretations and amendments that came into effect from January 1, 2019, described below:

(In thousands of reais)

3. Significant accounting policies (Continued)

3.3. New or reviewed pronouncements with first-time adoption in 2019 (Continued)

Standards and amended standards	
IFRS 16	Financial lease operations
IFRIC 23	Uncertainty related to income tax treatments
Amendments to IFRS 9	Characteristics of prepayment with negative remuneration
Amendments to IAS 28	Long-term Investment in Associated Companies and Joint Ventures
IFRS Standards Annual Improvements	Cycle 2015-2017
Amendments to IAS 19	Alteration of plan, Restriction or Settlement

Unless as stated below, the adoption of these standards, amendments and interpretations had no material impacts on the Company upon their first-time adoption:

IFRS 16/CPC 06 (R2) - Lease Operations

CPC 06 (R2) - Lease transactions, issued by the Accounting Pronouncement Committee, is equivalent to international standard IFRS 16 - Leases, issued in January 2016 to replace prior version of said standard (CPC 06 (R1), equivalent to international standard IAS 17). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, and requires lessees to account for most leases in a single equity model. Accounting for lessors under IFRS 16 is substantially unchanged in comparison to IAS 17. Lessors will continue to classify leases as either operating leases or financial leases, applying principles similar to those of IAS 17. Therefore, IFRS 16 has had no impact on leases in which the Company is the lessor.

The Company adopted IFRS 16 using the modified retrospective method with the first-time adoption date of January 1, 2019. The Company chose to use the practical expedient of transition, allowing the standard to be applied only to contracts that were previously identified as the leases in accordance with IAS 17 and IFRIC 4 on the date of first-time adoption. The Company also chose to apply the recognition exemptions for leases that, on the start date, have a lease term of 12 months or less and do not contain a purchase option.

(In thousands of reais)

3. Significant accounting policies (Continued)

3.3. New or reviewed pronouncements with first-time adoption in 2019 (Continued)

IFRS 16/CPC 06 (R2) - Lease Operations (Continued)

Reconciliation of new consolidated balance sheet balances for year ended December 31, 2018 and opening balance on January 1, 2019, affected by the new rule:

	Financial statements disclosed on 12/31/2018	Impact concerning the adoption of IFRS 16/CPC 06 (R2)	Financial statements - 01/01/2019
Assets			
Advance	10,394	(10,394)	**-**
Other non-current assets	698,433	-	**698,433**
Current assets	708,827	(10,394)	**698,433**
Intangible assets (right of use)	849,634	102,190	**951,824**
Other non-current assets	89,215	-	**89,215**
Non-current assets	938,849	102,190	**1,041,039**
Total assets	1,647,676	91,796	**1,739,472**
Liabilities			
Leasing payable	-	6,531	**6,531**
Other current liabilities	220,700	-	**220,700**
Current liabilities	220,700	6,531	**227,231**
Leasing payable	-	85,265	**85,265**
Other non-current liabilities	369,767	-	**369,767**
Non-current liabilities	369,767	85,265	**455,032**
Shareholders' equity	1,057,209	-	**1,057,209**
Total liabilities and shareholders' equity	1,647,676	91,796	**1,739,472**

(In thousands of reais)

3. Significant accounting policies (Continued)

3.3. New or reviewed pronouncements with first-time adoption in 2019 (Continued)

IFRS 16/CPC 06 (R2) - Lease Operations (Continued)

Below we present the result for the six-month period ended June 30, 2019, compared to the result that would be without the effects of these standards:

	Financial statements disclosed on 06/30/2019	Impact concerning the adoption of IFRS 16/CPC 06 (R2)	Financial statements as of 06/30/2019 without effect of said standards
Income (loss)			
Net revenue	369,456	-	369,456
Costs of services rendered	(123,416)	-	(123,416)
Gross income	246,040	-	246,040
Operating expenses	(196,292)	13,777	(182,515)
Income (loss) before financial income and expenses	49,748	13,777	63,525
Financial results	(10,488)	4,606	(5,882)
Income (loss) before taxes	39,260	18,383	57,643
Current and deferred income tax and social contribution	(9,612)	-	(9,612)
Net income	29,648	18,383	48,031

a) *Nature of the effect of the adoption of IFRS 16*

The Company has lease contracts for various items of facilities, equipment and others. Prior to the adoption of IFRS 16, the Company classified each of its leases (as the lessee) on the start date as either a financial lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the leased asset to the Company; otherwise, it was classified as an operating lease. Prior to the adoption of IFRS 16, the Company did not have any financial lease contracts. In an operating lease, the leased property was not capitalized and the lease payments were recognized as a rental expense in the income statement on a straight-line basis over the lease term. Any prepaid and accrued rent were recognized in prepaid expenses, suppliers, and other accounts payable, respectively.

After the adoption of IFRS 16, the Company applied a single recognition and measurement approach to all leases in which it is the lessee, except for short-term leases and leases of low-value assets. The Company recognized lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

3. Significant accounting policies (Continued)

3.3. New or reviewed pronouncements with first-time adoption in 2019 (Continued)

IFRS 16/CPC 06 (R2) - Lease Operations (Continued)

a) *Nature of the effect of the adoption of IFRS 16* (Continued)

According to the modified retrospective method of adoption, the Company applied IFRS 16 retrospectively with the cumulative effect of initially applying the standard as an adjustment on the date of first-time adoption.

Leases previously accounted for as operating leases

The Company recognized right-of-use assets and lease obligations for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. Right-of-use assets for most leases were recognized based on the book value as if the standard had been applied, and the incremental loan rate was used on the date of first-time adoption. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liability, adjusted by any related advance payments and accrued lease payments recognized previously. Lease liabilities were recognized based on the present value of the remaining lease payments, minus the incremental loan rate on the date of first-time adoption.

The Company also applied the available practical expedients, in which:

- It used a single discount rate for a portfolio of leases with reasonably similar characteristics;
- It relied on its assessment of whether the leases are onerous immediately before the date of first-time adoption;
- It applied short-term lease exemptions to leases with a term ending within 12 months on the date of first-time adoption;
- Retrospective outlook used in determining the lease term, when the contract contains options to extend or terminate the lease.

Based on the exposed as of January 1, 2019:

- Right-of-use assets in the amount of R$102,190 were recognized and presented separately in the balance sheet.

3. Significant accounting policies (Continued)

3.3. New or reviewed pronouncements with first-time adoption in 2019 (Continued)

IFRS 16/CPC 06 (R2) - Lease Operations (Continued)

a) *Nature of the effect of the adoption of IFRS 16* (Continued)

Based on the exposed as of January 1, 2019: (Continued)

- Other lease liabilities in the amount of R$91,796 were recognized and included in loans and financing, subject to interest and a discount rate of 9.15%.
- Advance disbursements of R$10,394 relating to previous operating leases were unrecognized.

b) *Summary of the new accounting policies*

Right-of-use assets

The Company recognizes right-of-use assets on the start date of the lease (i.e., the date on which the underlying asset is available for use). Right-of-use assets are measured at cost, minus any accumulated depreciation and impairment losses, and adjusted by any further re-measuring of the lease liabilities. The cost of right-of-use assets includes recognized lease liabilities, initial direct costs incurred, and lease payments made before or on the start date, minus lease incentives received. Unless it is reasonably certain that the Company will take ownership of the leased asset at the end of the lease term, recognized right-of-use assets are depreciated on a straight-line basis during the shortest period of their estimated useful life and of the lease term.

Lease liabilities

On the start date of the lease, the Company recognizes lease liabilities measured at the present value of the lease payments to be made during the lease term. Lease payments include fixed payments (including inflation-linked payments), minus any lease incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be payable under residual value guarantees. Lease payments also include the exercise price of a purchase option that the Company is reasonably certain to exercise, and payments of fines levied on the termination of a lease, if the lease term reflects the Company that exercises the termination option. Variable lease payments that do not depend on an index or rate are recognized as expenses in the period in which the event or condition that determines the payment occurs.

3. Significant accounting policies (Continued)

3.3. New or reviewed pronouncements with first-time adoption in 2019 (Continued)

IFRS 16/CPC 06 (R2) - Lease Operations (Continued)

b) *Summary of the new accounting policies* (Continued)

Lease liabilities (Continued)

In calculating the present value of lease payments, the Company uses the incremental loan rate on the start date of the lease if the implicit interest in the lease is not easily determinable. After the start date, the value of the lease liability is increased to reflect the addition of interest and reduced for lease payments made. Moreover, the book value of the lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the fixed inflation-linked payments, or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., leases maturing over 12 months or less from the start date and no purchase option). It also applies the low-value asset recognition exemption to leases of office equipment that is considered low-value (i.e., corresponding amounts in Reais on acquisition date at US$5 thousand or less). Payments of short-term leases and leases of low-value assets are recognized as expenses on a straight-line basis throughout the lease term.

Significant judgment in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain that it will be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain that this option will not be exercised.

The Company has the option, under some of its leases, to lease the assets for additional periods of three to five years. The Company applies judgment in determining whether it is reasonably certain to exercise the renewal option. In other words, it considers all the relevant factors that create an economic incentive to exercise the renewal option. After the start date, the Company reviews the lease term if there is a significant event or change in the circumstances under its control that affects its ability to exercise (or not exercise) the renewal option (for example, a change in the business strategy).

(In thousands of reais)

3. Significant accounting policies (Continued)

3.3. New or reviewed pronouncements with first-time adoption in 2019 (Continued)

IFRS 16/CPC 06 (R2) - Lease operations (Continued)

c) *Amounts recognized in the statement of financial position and in results*

Presented below are the book values of the Company's right-of-use assets and lease liabilities and the financial activity during the period:

	Right-of-use assets				
	Lease of property	**Other equipment**	**Cloud (*)**	**Total**	**Lease liabilities**
January 1, 2019	**90,924**	**872**	**10,394**	**102,190**	**91,796**
Addition	**2,359**	**-**	**19,332**	**21,691**	**14,246**
Write-off	**-**	**-**	**(509)**	**(509)**	**-**
Depreciation	**(4,924)**	**(44)**	**(8,809)**	**(13,777)**	**-**
Interest expense	**-**	**-**	**-**	**-**	**4,391**
Payment	**-**	**-**	**-**	**-**	**(8,002)**
As of June 30, 2019	**88,359**	**828**	**20,408**	**109,595**	**102,431**

(*) Lease of cloud storage space

4. Corporate restructuring

4.1. Merger of DCG

On April 01, 2019, merger from DCG Soluções to Venda Digital S.A. was effectively merged into the Company, and its net assets were included in the consolidation by subsidiary Linx Sistema e Consultoria Ltda.

The table below shows the book value on February 28, 2019, of the merged net assets of DCG Soluções para Venda Digital S.A.:

(In thousands of reais)

4. Corporate restructuring (Continued)

4.1. Merger of DCG (Continued)

Current assets		**Current liabilities**	
Cash and cash equivalents	**118**	Suppliers	**485**
Financial assets	**405**	Loans and financing	**233**
Trade accounts receivable	**1,848**	Labor obligation	**1,667**
Recoverable taxes	**38**	Taxes and social contribution	**321**
Other receivables	**20**	Other liabilities	**432**
Total current assets	**2,429**	**Total current liabilities**	**3,138**
Non-current assets		**Non-current liabilities**	
Property, plant and equipment, net	**502**	Loans and financing	**488**
Intangible assets, net	**2,169**	Other liabilities	**54**
Total non-current assets	**2,671**	**Total non-current liabilities**	**542**
		Shareholders' equity	
		Capital	**12**
		Capital reserves	**2,945**
		Profit reserve	**(1,537)**
			1,420
Total assets	**5,100**	**Total liabilities and shareholders' equity**	**5,100**

5. Business combination

5.1. Acquisition of Hiper

On April 2, 2019, Linx Sistema e Consultoria Ltda., the group`s wholly-owned subsidiary of the Group, acquired 100% of the equity of Hiper Software SA (“Hiper” or acquired group), which operates and develops SaaS solutions for micro and small retailers with more than 15,000 active customers in 2,000 municipalities and more than 600 distribution channels. The main reason for the acquisition is to increase the penetration of TEF and Linx Pay, which represents an important growth opportunity for the Company.

The price was R$50,000 to be paid as follows:

(i) R$16,700 (sixteen million, seven hundred thousand Reais) paid upon closing;

(ii) R$1,000 (one million Reais), which will be paid after the sellers have confirmed theacquisition of the common shares issued by the Company;

(iii) Additional contingent consideration (“Payable for Acquisition of Business”) up to R$32,300 (fair value as of June 30, 2019 is R$28,105), divided into:

(In thousands of reais)

5. Business combination (Continued)

5.1. Acquisition of Hiper (Continued)

- Upon the achieving of certain operating and financial goals in each year and payable in the subsequent year

  - 2019 - R$2,000 (two million Reais);

  - 2020 - R$1,000 (one million Reais);

  - 2021 - R$27,000 (twenty-seven million Reais); and

- R$1,000 (one million Reais) payable through the resolution of certain contingencies, update in the IPC-A (IBGE) through its effective payment, maturing in 2021;
- R$1,000 (one million Reais) payable through the resolution of certain contingencies, update in the IPC-A (IBGE) through its effective payment, maturing in 2024;
- R$300 (three hundred thousand Reais) to guarantee the working capital for a period of six months, update in theIPC-A (IBGE) through its effective payment, maturing in 2019.

The purchase consideration was calculated as follow:

Purchase consideration	
Amount paid in cash	16,700
Amount to be paid in the acquisition of shares	1,000
Fair value of contingent consideration (Earn-out)	28,105
Total consideration	**45,805**
Analysis of cash flow from the acquisition	
Amount paid in cash	16,700
Net cash acquired	(937)
Cash flow from investing activities	**15,763**

5.2. Acquisition of Millennium

On June 27, 2019, Linx Sistema e Consultoria Ltda., the group`s wholly-owned subsidiary, acquired 100% of the equity of Millennium Network Ltda. (“Millennium” or acquired group), which operates and develops SaaS solutions that enable the retailer, along with other technologies, to offer to consumer an omnichannel experience. The primary reason for the acquisition was to strengthen its omnichannel strategy, which is an important trend for rentail and represents a great growth opportunity for the Company.

(In thousands of reais)

5. Business combination (Continued)

5.2. Acquisition of Millennium (Continued)

The price was R$107,436 to be paid as follows:

(i) R$58,247 (fifty-eight million, two hundred and forty-seven thousand Reais) paid upon closing;

(ii) R$4,000 (four million Reais), which will be paid after the sellers have confirmed the acquisition of the common shares issued by the Company;

(iii) R$557 (five hundred and fifty-seven thousand reais), paid on June 28, 2019;

(iv) Additional contingent consideration ("Payable for Acquisition of Business") up to R$44,632, divided into:

- Upon the achieving of certain operating and financial goals in each year and payable in the subsequent year

  - 2019 - R$2,740 (two million, seven hundred and forty thousand Reais);

  - 2020 - R$10,283 (ten million, two hundred and eighty-three thousand Reais);

  - 2020 - R$8,223 (eight million, two hundred and twenty-three thousand Reais);

  - 2022 - R$9,163 (nine million, one hundred and sixty-three thousand Reais);

  - 2023 - R$8,223 (eight million, two hundred and twenty-three thousand Reais);

- R$3,000 (three million Reais) payable through the resolution of certain contingencies, update in the IPC-A (IBGE) through its effective payment, maturing in 2021;

- R$3,000 (three million Reais) payable through the resolution of certain contingencies, update in the IPC-A (IBGE) through its effective payment, maturing in 2024;

The purchase consideration was calculated as follow:

Purchase consideration	
Amount paid at sight	58,247
Amount to be paid upon acquisition of shares	4,000
Advocative hours	557
Amount of contingent consideration (Earn-out)	44,632
Total consideration (*)	**107,436**
Analysis of cash flow from the acquisition	
Amount paid in cash	58,247
Net cash acquired	(125)
Cash flow from investment activities	**58,122**

(*) The purchase price was deducted from the amount of R$2,200 relating to the debts assumed by Millennium in the acquisition

(In thousands of reais)

5. Business combination (Continued)

5.3. Identifiable assets acquired and goodwill

Pursuant to IFRS 3 (R)/CPC 15 (R1) - Business Combination, acquisitions are accounted for under the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated by total fair values of transferred assets, liabilities assumed on acquisition date from the former controlling shareholders of the acquiree issued in exchange for control of the acquiree.

The fair value of identifiable assets acquired in business combinations was measured and recognized at the date of conclusion of the transaction:

Fair values recognized on acquisition	Hiper	Millennium	Total
Cash and cash equivalents	937	125	1,062
Accounts receivable	342	579	921
Other receivable	149	14	163
Current assets	**1,428**	**718**	**2,146**
Software (*)	5,025	18,947	23,972
Accounts receivable (*)	666	2,409	3,075
Property, plant and equipment	805	462	1,267
Intangible assets	568	120	688
Non-current assets	**7,064**	**21,938**	**29,002**
Suppliers	126	545	671
Loans and financing	-	411	411
Labor obligations	1,160	1,474	2,634
Tax liabilities	78	447	525
Other liabilities payable	3	115	118
Current liabilities	**1,367**	**2,992**	**4,359**
Other liabilities payable	-	1,679	1,679
Non-current liabilities	**-**	**1,679**	**1,679**
Fair value of assets acquired	8,491	22,655	31,146
Fair value of liabilities assumed	1,367	4,671	6,038
Total identifiable net assets	**7,124**	**17,984**	**25,108**
Acquisition price (**)	**45,805**	**107,436**	**153,241**
Goodwill (**)	**38,681**	**89,452**	**128,133**

(*) Value of added value of identifiable assets

(**) Net value of the AVP, of which R$4,195 refers to Hiper

(In thousands of reais)

5. Business combination (Continued)

5.4. Assets acquired and liabilities assumed

The fair value of trade accounts receivable of the acquirees is R$921. The gross amount of trade accounts receivable is R$3,640.

Goodwill totaling to R$128,133 comprises future economic benefits stemming from synergies resulting from the acquisitions. Goodwill is expected to generate future tax benefits.

Since the date of acquisition date, the acquired companies contributed to the Company with net revenue of R$2,113 and pre-tax loss of R$(661).

At the conclusion date of the preparation of this individual and consolidated financial statements, the Company is in the process of reviewing and adjusting the determination of fair value of the identifiable assets acquired and liabilities assumed from the acquirees. This analysis is expected to be completed shortly, as soon as Management has all relevant information of the facts, not exceeding a maximum period of 12 months from the acquisition date.

6. Cash and cash equivalents

	Parent company		Consolidated	
	06/30/2019	**12/31/2018**	**06/30/2019**	**12/31/2018**
Cash and banks - denominated in the R$	**33**	34	**13,640**	17,499
Cash and banks - denominated in the US$	**799,255**	-	**816,474**	27,923
Short-term interest earning bank deposits	**16**	16	**3,540**	4,428
	799,304	50	**833,654**	49,850

Highly liquid short-term interest earning bank deposits are promptly convertible into a known amount of cash and subject to a minimal risk of change of value.

Short-term interest earning bank deposits refer to Fixed Income Fund accruing interest as remunerated at rate of 99.29% of the Interbank Deposit Certificate (CDI).

The exposure of the Company and its subsidiaries to risk and the sensitivity analysis are disclosed in Note 25.8.

(In thousands of reais)

7. Financial assets

					Parent Company		Consolidated	
Type	**Name**	**Date of investment**	**Maturity**	**Average yield in relation to CDI (%)**	**06/30/2019**	**12/31/2018**	**06/30/2019**	**12/31/2018**
Fund	Retail Renda Fixa Crédito Privado	11/16/2017	Indefinite	103.48%	**29,172**	60,108	**291,758**	413,374
					29,172	60,108	**291,758**	413,374

Investment fund breakdown is as follows:

Type	Code	Date of investment	Issue	Maturity	Index	Amount of the investment	12/31/2018 - Net value
Fixed income	LF (Financial Bills)	10/21/2016-03/19/2018	10/21/2016-03/19/2018	04/22/2019-06/09/2020	CDI D 101.75-104.5%	21,700	25,033
Fixed income	LFS	02/15/2013	01/16/2013	01/15/2019	CDI D 111%	8,453	16,166
Fixed income	Eligible LFS	08/01/2018	08/01/2018	08/01/2025	CDI D 108.75%	5,100	5,273
Fixed income	LFT	10/03/2016-12/21/2018	07/01/2000-01/05/2018	09/01/2021-03/01/2024	LFT / SELIC	65,133	69,779
Fixed income	LTN	12/31/2018	12/31/2018	07/01/2020	PRE 6.40% p.a.	45,303	45,303
Investment fund	Other funds	-	-	-	-	235,767	235,767
Fixed income	LAMDI	11/27/2018-12/03/2018	11/27/2018-12/03/2018	11/29/2019-12/03/2019	CDI 103.0-103.75%	16,000	16,088
							413,409
					Fund expenses		(36)
					Treasury balance		1
							413,374

Type	Code	Date of investment	Issue	Maturity	Index	Amount of the investment	06/30/2019 - Net value
Fixed income	LF (Financial Bills)	11/16/2017-04/11/2019	07/14/2017-04/11/2019	03/19/2020-03/18/2022	CDI D 101.95-105.5%	**61,192**	**62,817**
Fixed income	Eligible LFS	08/01/2018	08/01/2018	08/01/2025	CDI D 108.75%	**5,100**	**5,464**
Fixed income	LFT	02/22/2018-03/08/2019	01/13/2017-03/08/2019	03/01/2023-09/01/2025	SELIC	**29,982**	**31,161**
Fixed income	LFT Over	06/28/2019	06/28/2019	07/01/2019	PRE 6.40 p.a.	**9,551**	**9,551**
Investment fund	Other funds	-	-	-	-	**158,069**	**158,069**
Fixed income	LAMDI	11/27/2018-02/26/2019	11/27/2018-02/26/2019	11/29/2019-02/28/2020	CDI 103-103.75%	**21,000**	**21,706**
Fixed income	LFDI	05/22/2019	05/22/2019	05/24/2021	CDI 105%	**2,000**	**2,013**
Fixed income	CDBDI	05/23/2019	05/23/2019	05/25/2020	CDI 103.75%	**1,000**	**1,006**
							291,787
					Fund expenses		**(33)**
					Treasury balance		**4**
							291,758

(In thousands of reais)

7. Financial assets (Continued)

Management's policy is to use these funds only and solely for punctual payments, such as acquisition of companies and payment of interest on own capital, not using funds invested in this account to cover operating cash flow needs.

The exposure of the Company and its subsidiaries to risk and the sensitivity analysis are disclosed in Note 25.8.

8. Trade accounts receivable

	Consolidated	
	06/30/2019	**12/31/2018**
Trade notes receivable:		
Falling due	**182,557**	148,502
Overdue (a)	**33,862**	26,557
	216,419	175,059
(-) Allowance for doubtful accounts	**(4,123)**	(4,215)
(-) Adjustment to present value	**(436)**	(462)
	211,860	170,382
Current	**208,796**	167,102
Non-current	**3,064**	3,280

(a) Securities overdue have the following breakdown:

	Consolidated	
	06/30/2019	**12/31/2018**
Days:		
1-30	**15,281**	9,591
31-60	**2,822**	3,468
61-90	**2,178**	3,063
91-180	**6,583**	4,483
>181	**6,998**	5,952
	33,862	26,557

The Company and its subsidiaries form an allowance for doubtful accounts considering the history of losses per due date, which the Company considers sufficient to cover any losses. The Company also recognizes a provision for the expected losses in trade accounts receivable that comprise outstanding accounts receivable base. Management believes that risk related to general trade accounts receivable is minimized by the fact that the breakdown of the Company's clients to be diluted.

(In thousands of reais)

8. Trade accounts receivable (Continued)

The changes in this provision in the consolidated is shown as follows:

Changes in PECLD	Consolidated 06/30/2019	Consolidated 12/31/2018
Opening balance	**(4,215)**	(1,183)
First-time adoption of IFRS 9 as of 01/01/2018	**-**	(1,539)
Addition of provision	**(2,256)**	(5,734)
Use/reversal	**2,348**	4,241
Closing balance	**(4,123)**	(4,215)

9. Recoverable taxes

	Parent company 06/30/2019	Parent company 12/31/2018	Consolidated 06/30/2019	Consolidated 12/31/2018
ICMS	**-**	-	**4,802**	4,286
Withholding taxes and contributions	**8,552**	8,848	**21,689**	29,272
PIS and COFINS	**-**	-	**1,419**	456
Other	**-**	-	**2,770**	1,080
	8,552	8,848	**30,680**	35,094

10. Related parties

10.1. Asset balances

10.1.1. Debts with related parties

	Parent company			
	06/30/2019		12/31/2018	
	Current	Non-current	Current	Non-current
Linx Sistemas e Consultoria Ltda.	**1,178**	**-**	-	-
	1,178	**-**	-	-

The balance with related parties refers substantially to the transfer of expenses related to the beginning of trading of common shares through American Depositary Shares (“ADS”) in the New York Stock Exchange (“NYSE”).

(In thousands of reais)

10. Related parties (Continued)

10.2. Remuneration of key management personnel

Total key management personnel remuneration (08 and 06 administrators in 2019 and 2018, respectively) for the quarters ended June 30, 2019 and 2018 are summarized as follows:

	06/30/2019	06/30/2018
Short-term employee benefits		
Payment of Directors' fees	**6,457**	5,318
Share-based payments	**4,286**	2,363
	10,743	7,681

10.3. Profit (loss)

In the six-month period ended June 30, 2019, there were shared expenses amount to R$7,558 (R$4,877 as of June 30, 2018). Other related party transactions did not occur.

11. Other receivables

	Parent company		Consolidated	
	06/30/2019	12/31/2018	06/30/2019	12/31/2018
Prepaid expenses - Services	**-**	-	**10,102**	21,696
Retentions for contingencies - Acquired (*)	**-**	-	**13,682**	13,560
Advance to suppliers	**6**	-	**8,070**	7,102
Advance to employees, vacation and 13th salary	**-**	-	**10,843**	2,619
Other (**)	**-**	49	**5,830**	5,643
	6	49	**48,527**	50,620
Current assets	**6**	49	**38,639**	43,407
Non-current assets	**-**	-	**9,888**	7,213

(*) Refers to contingent portions of companies Direção, Spress, Rezende, Liderança, Quadrant, CSI, LZT, BR Coelho, Big Automação, Percycle, Único, Itec Informática, DCG and Napse, according to acquisition contracts.

(**) Refers to advances to suppliers, expenses and judicial deposits

(In thousands of reais)

12. Investments

12.1. Investments in direct subsidiaries

	Parent company	
	06/30/2019	12/31/2018
Linx Sistemas e Consultoria Ltda.	**1,020,594**	979,389
Linx Telecomunicações Ltda.	**11,140**	7,911
	1,031,734	987,300

12.2. Information on direct subsidiaries

	Linx Sistemas	Linx Telecomunicações	Total
December 31, 2018			
Interest	99.99%	99.99%	
Current assets	635,731	9,289	645,020
Non-current assets	934,638	337	934,975
Total assets	1,570,369	9,626	1,579,995
Current liabilities	221,210	1,715	222,925
Non-current liabilities	369,770	-	369,770
Total liabilities	590,980	1,715	592,695
Shareholders' equity	979,389	7,911	987,300
Revenues	823,205	16,157	839,362
Expenses	(768,861)	(15,245)	(784,106)
Net income	54,344	912	55,256

	Linx Sistemas	Linx Telecomunicações	Total
June 30, 2019			
Interest	**99.99%**	**99.99%**	
Current assets	**561,821**	**12,484**	**574,305**
Non-current assets	**1,220,787**	**200**	**1,220,987**
Total assets	**1,782,608**	**12,684**	**1,795,292**
Current liabilities	**267,403**	**1,544**	**268,947**
Non-current liabilities	**494,611**	**-**	**494,611**
Total liabilities	**762,014**	**1,544**	**763,558**
Shareholders' equity	**1,020,594**	**11,140**	**1,031,734**
Revenues	**444,425**	**9,310**	**453,735**
Expenses	**(412,563)**	**(8,581)**	**(421,144)**
Net income	**31,862**	**729**	**32,591**

(In thousands of reais)

12. Investments (Continued)

12.3. Changes in investments

	Linx Sistemas	Linx Telecomunicações	Total
Investment balances at December 31, 2017	1,175,322	6,999	1,182,321
Equity in net income of subsidiaries	54,344	912	55,256
Accumulated translation adjustment	(2,437)	-	(2,437)
Post-employment benefit	(146)	-	(146)
Effect of IAS 29 update (hyperinflation)	1,822	-	1,822
Stock option plans	5,043	-	5,043
Payment of dividends (*)	(215,002)	-	(215,002)
First-time adoption of IFRS 9 and 15	(39,557)	-	(39,557)
Investment balances at December 31, 2018	979,389	7,911	987,300

(*) R$(25,002) referring to dividends paid in prior years plus R$(190,000) referring to dividends received in 2018 for the purpose of repurchasing shares.

	Linx Sistemas	Linx Telecomunicações	Total
Investment balances at December 31, 2018	979,389	7,911	987,300
Equity in net income of subsidiaries	**31,862**	**729**	**32,591**
Capital increase	**-**	**2,500**	**2,500**
Accumulated translation adjustment	**(927)**	**-**	**(927)**
Effect of IAS 29 update (hyperinflation)	**971**	**-**	**971**
Stock option plans	**9,299**	**-**	**9,299**
Balances of investments on June 30, 2019	**1,020,594**	**11,140**	**1,031,734**

13. Property, plant and equipment

a) <u>Breakdown - 2018</u>

	06/30/2018		
	Cost	Accumulated depreciation	Net value
Computers and electronics	38,302	(28,687)	9,615
Vehicles	14,351	(8,153)	6,198
Furniture and fixtures	12,691	(4,774)	7,917
Facilities, machinery and equipment	31,950	(12,417)	19,533
Constructions in progress	5,810	-	5,810
Leasehold improvements	30,713	(13,980)	16,733
Real Estate	3,349	(603)	2,746
Other components	1,005	-	1,005
Total	138,171	(68,614)	69,557

(In thousands of reais)

13. Property, plant and equipment (Continued)

a) Breakdown - 2018 (Continued)

The financial activity of property, plant and equipment balances is described below:

	Cost				
	Balance at 12/31/2017	Addition (*)	Addition - acquisition (**)	Decreases	Balance at 06/30/2018
Computers and electronics	36,323	1,901	81	(3)	38,302
Vehicles	10,525	3,785	192	(151)	14,351
Furniture and fixtures	12,492	161	47	(9)	12,691
Facilities, machinery and equipment	31,054	860	36	-	31,950
Constructions in progress	-	5,737	-	-	5,737
Leasehold improvements	30,432	354	-	-	30,786
Real Estate	3,349	-	-	-	3,349
Other components	1,005	-	-	-	1,005
Total	125,180	12,798	356	(163)	138,171

(*) In the statement of cash flow, only additions with cash disbursement are being considered as investment activities.

(**) Amounts related to the acquisitions of Itec as of March 21, 2018 and Único as of April 3, 2018.

	Accumulated depreciation		
	Balance at 12/31/2017	Addition	Balance at 06/30/2018
Computers and electronics	(26,969)	(1,718)	(28,687)
Vehicles	(7,232)	(921)	(8,153)
Furniture and fixtures	(4,253)	(521)	(4,774)
Facilities, machinery and equipment	(11,031)	(1,386)	(12,417)
Leasehold improvements	(12,827)	(1,153)	(13,980)
Real Estate	(536)	(67)	(603)
Total	(62,848)	(5,766)	(68,614)

b) Breakdown - 2019

	06/30/2019		
	Cost	Accumulated depreciation	Net value
Computers and electronics	**50,882**	**(33,231)**	**17,651**
Vehicles	**15,604**	**(9,868)**	**5,736**
Furniture and fixtures	**15,228**	**(6,181)**	**9,047**
Facilities, machinery and equipment	**37,243**	**(15,865)**	**21,378**
Leasehold improvements	**37,826**	**(17,009)**	**20,817**
Real Estate	**3,349**	**(737)**	**2,612**
Other components	**1,005**	**-**	**1,005**
Total	**161,137**	**(82,891)**	**78,246**

(In thousands of reais)

13. Property, plant and equipment (Continued)

b) Breakdown - 2019 (Continued)

The financial activity of property, plant and equipment balances is described below:

	Cost					
	Balance at 12/31/2018	**Addition (*)**	**Addition - acquisition**	**IAS 29 (**)**	**Decreases**	**Balance at 06/30/2019**
Computers and electronics	43,709	**6,607**	**489**	**211**	**(134)**	**50,882**
Vehicles	14,046	**1,745**	**-**	**12**	**(199)**	**15,604**
Furniture and fixtures	14,616	**394**	**239**	**16**	**(37)**	**15,228**
Facilities, machinery and equipment	36,271	**1,181**	**6**	**202**	**(417)**	**37,243**
Leasehold improvements	37,042	**598**	**533**	**-**	**(347)**	**37,826**
Real Estate	3,349	**-**	**-**	**-**	**-**	**3,349**
Other components	1,005	**-**	**-**	**-**	**-**	**1,005**
Total	150,038	**10,525**	**1,267**	**441**	**(1,134)**	**161,137**

(*) In the statement of cash flow, only additions with cash disbursement are being considered as investment activities.

(**) Amounts referring to update of IAS 29 (hyperinflation) in Napse Argentina.

	Accumulated depreciation		
	Balance at 12/31/2018	**Addition**	**Balance at 06/30/2019**
Computers and electronics	(30,764)	**(2,467)**	**(33,231)**
Vehicles	(8,952)	**(916)**	**(9,868)**
Furniture and fixtures	(5,583)	**(598)**	**(6,181)**
Facilities, machinery and equipment	(14,237)	**(1,628)**	**(15,865)**
Leasehold improvements	(15,559)	**(1,450)**	**(17,009)**
Real Estate	(670)	**(67)**	**(737)**
Total	(75,765)	**(7,126)**	**(82,891)**

Annual depreciation rates are stated as follows:

Computers and electronics	20%
Vehicles	20%
Furniture and fixtures	10%
Facilities, machinery and equipment	10%
Leasehold improvements	10%
Real Estate	4%

Additions to accumulated depreciation, stated in changes for the period, were recorded under "Operating, general and administrative expenses".

(In thousands of reais)

14. Intangible

a) Breakdown - 2018

	06/30/2018		
	Cost	Accumulated amortization	Net value
Software (i)	46,772	(26,487)	20,285
Software development (ii)	7,401	-	7,401
Software developed (iii)	149,619	(107,705)	41,914
Software development - capitalized interest	7,527	(3,690)	3,837
Brands acquired	46,196	(3,595)	42,601
Technology - acquisitions	139,602	(83,664)	55,938
Client portfolio - acquisitions	148,379	(56,051)	92,328
Goodwill	590,099	-	590,099
Other	3	-	3
Total	1,135,598	(281,192)	854,406

The financial activity of intangible asset balances is described below:

	Cost						
	Balance at 12/31/2017	Addition (*)	Addition - acquisition (**)	Business combination	Decreases	Transfers (***)	Balance at 06/30/2018
Software (i)	41,338	5,513	-	-	(79)	-	46,772
Software development (ii)	2,756	4,645	-	-	-	-	7,401
Software developed (iii)	134,845	13,110	1,664	-	-	-	149,619
Software development - capitalized interest	6,126	2,052	-	-	(651)	-	7,527
Brands acquired	46,187	-	9	-	-	-	46,196
Technology - acquisitions	116,614	-	-	25,258	-	(2,270)	139,602
Client portfolio - acquisitions	131,350	-	-	15,745	-	1,284	148,379
Goodwill	522,244	259	-	74,234	(7,624)	986	590,099
Other	3	-	-	-	-	-	3
Total	1,001,463	25,579	1,673	115,237	(8,354)	-	1,135,598

(*) In the statement of cash flow, only additions with cash disbursement are being considered as investment activities.

(**) Amount related to the acquisition of DCG as of June 22, 2018.

(***) Transfers arising from the update of reports on acquisitions.

	Accumulated amortization		
	Balance at 12/31/2017	Addition	Balance at 06/30/2018
Software (i)	(22,969)	(3,518)	(26,487)
Software developed (iii)	(94,637)	(13,068)	(107,705)
Software development - capitalized interest	(2,743)	(947)	(3,690)
Brands acquired	(3,115)	(480)	(3,595)
Technology - acquisitions	(77,471)	(6,193)	(83,664)
Client portfolio - acquisitions	(48,619)	(7,432)	(56,051)
Total	(249,554)	(31,638)	(281,192)

(In thousands of reais)

14. **Intangible** (Continued)

b) Breakdown - 2019

	06/30/2019		
	Cost	Accumulated amortization	Net value
Software (i)	**73,466**	**(36,438)**	**37,028**
Software development (ii)	**22,645**	**-**	**22,645**
Software developed (iii)	**173,204**	**(135,520)**	**37,684**
Software development - capitalized interest	**15,829**	**(5,955)**	**9,874**
Brands acquired	**46,187**	**(4,556)**	**41,631**
Technology - acquisitions	**154,651**	**(97,134)**	**57,517**
Client portfolio - acquisitions	**139,771**	**(70,798)**	**68,973**
Goodwill	**737,607**	**-**	**737,607**
Right-of-use - IFRS 16	**123,372**	**(13,777)**	**109,595**
Other	**3**	**-**	**3**
Total	**1,486,735**	**(364,178)**	**1,122,557**

The financial activity of intangible asset balances is described below:

	Cost						
	Balance at 12/31/2018	Addition (*)	Addition - acquisition	Business combination (**)	IAS 29 (***)	Decreases	Balance at 06/30/2019
Software (i)	61,907	**10,737**	**688**	**-**	**205**	**(71)**	**73,466**
Software development (ii)	15,634	**7,011**	**-**	**-**	**-**	**-**	**22,645**
Software developed (iii)	157,384	**15,820**	**-**	**-**	**-**	**-**	**173,204**
Software development - capitalized interest	8,786	**7,043**	**-**	**-**	**-**	**-**	**15,829**
Brands acquired	46,187	**-**	**-**	**-**	**-**	**-**	**46,187**
Technology - acquisitions	130,679	**-**	**-**	**23,972**	**-**	**-**	**154,651**
Client portfolio - acquisitions	136,787	**-**	**-**	**3,075**	**-**	**(91)**	**139,771**
Goodwill	607,633	**1,841**	**-**	**128,133**	**-**	**-**	**737,607**
Right-of-use - IFRS 16	-	**123,372**	**-**	**-**	**-**	**-**	**123,372**
Other	3	**-**	**-**	**-**	**-**	**-**	**3**
Total	1,165,000	**165,824**	**688**	**155,180**	**205**	**(162)**	**1,486,735**

(*) In the statement of cash flow, only additions with cash disbursement are being considered as investment activities.

(**) Amounts referring to goodwill, client portfolio and technology figures for acquisitions of Hiper and Millennium in the second quarter of 2019

(***) Amounts referring to update of IAS 29 (hyperinflation) in Napse Argentina.

	Accumulated amortization		
	Balance at 12/31/2018	Addition	Balance at 06/30/2019
Software (i)	(30,884)	**(5,554)**	**(36,438)**
Software developed (iii)	(121,708)	**(13,812)**	**(135,520)**
Software development - capitalized interest	(4,728)	**(1,227)**	**(5,955)**
Brands acquired	(4,076)	**(480)**	**(4,556)**
Technology - acquisitions	(90,273)	**(6,861)**	**(97,134)**
Client portfolio - acquisitions	(63,697)	**(7,101)**	**(70,798)**
Right-of-use - IFRS 16	-	**(13,777)**	**(13,777)**
Total	(315,366)	**(48,812)**	**(364,178)**

(In thousands of reais)

14. Intangible (Continued)

b) Breakdown - 2019 (Continued)

(i) Software acquired for use by the company employees and for its software development routines.

(ii) Software under development that is not yet being marketed.

(iii) Development of software under an innovation process that has already been marketed.

Annual average amortization rates:

Software development	33%
Software developed	33%
Software development - capitalized interest	33%
Client portfolio - acquisitions	20-50%
Right-of-use - IFRS 16	10-33%
Software	10-20%
Technology - acquisitions	10-20%
Other	10-20%

14.1. Software development

The activity of the subsidiary Linx Sistemas e Consultoria Ltda. assumes the continuous development of new systems and applications aimed at increasing the range of options to the current clients and potential new clients, in view of the increasing market demand for computerized solutions for the businesses in general. In this context, several projects intended for client systems and applications are being developed. The amounts recorded in intangibles correspond to portion of the cost of the project development department, determined based on the number of hours of the respective employees. Each project is amortized as from the moment the asset is available for use for an average period of three years, which according to management, reflects the expected period of financial return of the projects.

In the six-month period ended June 30, 2019, the amount of R$38,485 (R$34,256 on June 30, 2018) was recognized in income (loss) for the period in the consolidated and was related to research and maintenance of the software developed.

(In thousands of reais)

15. Loans and financing

Type	Charges	Effective rate	Maturity	Covenants	Consolidated 06/30/2019	Consolidated 12/31/2018
Loan - BNDES	TLP + Spread 1.37% p.a.	-	12/31/2027	15.2 (a)	**147,076**	146,602
Loan - BNDES	TJLP + 1.67% p.a.	9.446% p.a.	02/15/2021	15.2 (b)	**44,384**	57,526
Loan - BNDES	TJLP + 1.96% p.a.	9.751% p.a.	03/15/2022	15.2 (c)	**37,813**	44,560
Loan - BNDES	TJLP + 1.00% p.a.	8.768% p.a.	09/16/2019		**177**	528
Loan - Itaú	TJLP + 7.20% p.a.	8.447% p.a.	04/16/2021		**210**	761
Loan - Santander	1.31% a.	16.88% a.	09/02/2019		**400**	-
Leases - IFRS 16	9.15% p.a.	-	12/01/2028		**102,431**	-
Other					**641**	4
					333,132	249,981
Current liabilities					**53,640**	40,720
Non-current liabilities					**279,492**	209,261

Prevailing loan contracts do not have assets pledged in guarantee.

The amount classified in non-current liabilities in the parent company and consolidated should be paid as follows:

Period	Consolidated 06/30/2019	Consolidated 12/31/2018
2020	**30,112**	40,012
2021	**47,100**	39,387
2022	**32,915**	24,615
2023	**30,144**	21,043
2024	**30,165**	21,043
2025	**31,002**	21,043
2026	**31,916**	21,043
2027	**33,154**	21,075
2028	**12,984**	-
	279,492	209,261

Changes are shown below:

	Parent company 06/30/2019	Parent company 12/31/2018
Previous balance	**-**	2,852
Financial charges	**-**	36
Financial charges paid	**-**	(89)
Payments of loans and financing	**-**	(2,799)
	-	-

(In thousands of reais)

15. Loans and financing (Continued)

	Consolidated 06/30/2019	Consolidated 12/31/2018
Previous balance	**249,981**	97,288
Funds from acquisition of subsidiaries	**443**	1,097
Additions of loans and financing	**105,422**	191,837
Financial charges	**15,222**	9,658
Financial charges paid	**(9,983)**	(9,048)
Payments of loans and financing	**(27,953)**	(40,851)
	333,132	249,981

15.1. Changes in liabilities from financing activities

	12/31/2017	Payments	Receipts	FX	New acquisitions	Other (*)	06/30/2018
Loans and financing	97,288	(24,499)	44,468	-	1,250	5,324	123,831
Accounts payable from acquisition of subsidiaries	130,767	(38,870)	-	5,749	40,413	(16,731)	121,328
Total liabilities from financing activities	228,055	(63,369)	44,468	5,749	41,663	(11,407)	245,159

(*) Changes included in column "other" include effects from the recognition of interest not yet paid on loans and accounts payable due to acquisition and acquisitions' adjustment to present value.

	12/31/2018	Payments	FX	New acquisitions	Other (*)	06/30/2019
Loans and financing	249,981	**(37,936)**	**(217)**	**-**	**121,304**	**333,132**
Accounts payable from acquisition of subsidiaries	112,487	**(24,093)**	**(174)**	**78,295**	**(24,513)**	**142,002**
Total liabilities from financing activities	362,468	**(62,029)**	**(391)**	**78,295**	**96,791**	**475,134**

(*) Changes included in column "other" include effects from the adoption of IFRS 16, effect from recognition of interest not yet paid on loans and accounts payable due to acquisition and acquisitions' adjustment to present value.

15.2. Covenants

(a) BNDES loan raised on December 13, 2018 has covenant for early debt payment. The following indices should be determined on a half-annual basis in consolidated financial statements:

(i) General Indebtedness / total assets: equal or less than 60%;

(ii) Net debt / EBITDA: equal or less than 2.0;

15. Loans and financing (Continued)

15.2. Covenants (Continued)

In order to determine the indices, the following definitions and criteria should be adopted:

- General indebtedness: Total current and non-current liabilities
- Net debt: The total balance of consolidated onerous debts of the Intervening Party, including loans and financing; loans, issuance of fixed-income securities, promissory notes and debentures, convertible or not, in the local or international capital market, and the sale or assignment of future receivables if they are recorded as liabilities; and other financial operations and debts of the Company, recorded in current and non-current liabilities, net of Cash and cash equivalents (cash and interest earning bank deposits).
- EBITDA: Operating income (loss) before interest, income tax, depreciation and amortization;

In the hypothesis that levels established in the item VII of the Clause Nine (Obligations of the Intervening Parent Company) are not met, the Company must present, within 120 days counted as of notification date, in written, from BNDES, real guarantees accepted by BNDES at an amount corresponding to at least 130% of financing value or deriving debt, except if within that period, above mentioned levels were re-established.

The financial ratios mentioned above are verified based on the base dates determined in the contracts signed between the Company and the respective agent. From time to time, Management monitors the calculations of these rates to check for indications of non-compliance with contractual terms. As of June 30, 2019, there was no indication that the Company will not be able to fully comply with all the covenants in the reporting periods.

(b) BNDES loan raised on October 28, 2014 has covenant for early debt payment. During the contractual period, two of the following ratios, calculated semi-annually in the consolidated statements, should be maintained:

(i) General Indebtedness / total assets: equal or less than 60%;

(ii) Net debt / EBITDA: equal or less than 2.0;

(iii) EBITDA / Net operating revenue: equal or higher than 20%.

15. Loans and financing (Continued)

15.2. Covenants (Continued)

In order to determine the indices, the following definitions and criteria should be adopted:

- EBITDA: Income (loss) before interest, income tax, depreciation and amortization;
- Net debt: balances of the consolidated onerous debts, including loans and financing; loans, issuance of fixed-income securities, promissory notes and debentures, convertible or not, in the local or international capital market, and the sale or assignment of future receivables if they are recorded as liabilities; and other financial operations and debts of the Company, recorded in current and non-current liabilities, net of Cash and cash equivalents. In order to calculate this ratio, we will not consider the amounts classified as Accounts payable for the acquisition of subsidiaries in the balance sheet as Net Debt.

In the hypothesis that levels established in the contract are not met, the Company must present, within 180 days counted as of default date, real guarantees accepted by BNDES at an amount corresponding to at least 130% of financing value or deriving debt, or present a bank guarantee to be provided by the financial institution at BNDES criteria, and it is in financial economic situation assuring the degree of notorious solvency, the total amount of the debt, except if within that period, above mentioned levels were re-established.

The financial ratios mentioned above are verified based on the base dates determined in the contracts signed between the Company and the respective agent. From time to time, Management monitors the calculations of these rates to check for indications of non-compliance with contractual terms. As of June 30, 2019, there was no indication that the Company will not be able to fully comply with all the covenants in the reporting periods.

(c) BNDES loan raised on December 11, 2015 has covenant for early debt payment. During the contractual period, two of the following ratios, calculated semi-annually in the consolidated statements, should be maintained:

(i) General Indebtedness / total assets: equal or less than 60%;
(ii) Net debt / EBITDA: equal or less than 2.0;
(iii) EBITDA / Net operating revenue: equal or higher than 20%.

In order to determine the indices, the following definitions and criteria should be adopted:

- EBITDA: earnings before interest, income tax, depreciation and amortization;

(In thousands of reais)

15. Loans and financing (Continued)

15.2. Covenants (Continued)

- Net debt: Balances of the consolidated onerous debts, including loans and financing; loans, issuance of fixed-income securities, promissory notes and debentures, convertible or not, in the local or international capital market, and the sale or assignment of future receivables if they are recorded as liabilities; and other financial operations and debts of the Company, recorded in current and non-current liabilities, net of Cash and cash equivalents. In order to calculate this ratio, we will not consider the amounts classified as Accounts payable for the acquisition of subsidiaries in the balance sheet as Net Debt.

In the hypothesis that levels established in the contract are not met, the Company must present, within 180 days counted as of default date, real guarantees accepted by BNDES at an amount corresponding to at least 130% of financing value or deriving debt, or present a bank guarantee to be provided by the financial institution at BNDES criteria, and it is in financial economic situation assuring the degree of notorious solvency, the total amount of the debt, except if within that period, above mentioned levels were re-established.

The financial ratios mentioned above are verified based on the base dates determined in the contracts signed between the Company and the respective agent. From time to time, Management monitors the calculations of these rates to check for indications of non-compliance with contractual terms. As of June 30, 2019, there was no indication that the Company will not be able to fully comply with all the covenants in the reporting periods.

16. Labor obligations

	Parent company		Consolidated	
	06/30/2019	**12/31/2018**	**06/30/2019**	**12/31/2018**
Provision for vacation, 13th salary and payroll charges	**-**	-	**39,725**	26,542
INSS payable	**1**	16	**11,780**	6,673
Provision for profit sharing	**-**	-	**7,787**	3,876
FGTS payable	**-**	-	**1,963**	2,137
Salaries payable	**-**	-	**1,884**	1,344
Other	**-**	-	**3,943**	3,229
	1	16	**67,082**	43,801
Current liabilities	**1**	16	**64,876**	43,801
Non-current	**-**	-	**2,206**	-

(In thousands of reais)

17. Accounts payable from acquisition of subsidiaries

Accounts payable from the acquisitions of subsidiaries refer to amounts due to the previous owners for the acquisition of shares or quotas representing the capital of these companies. Debts are restated under contractual clauses and mature as follows:

	Consolidated	
	06/30/2019	12/31/2018
Installments not subject to restatement	**99,857**	46,542
Napse installments subject to restatement based on exchange-rate change and LIBOR.	**29,770**	41,951
Installments subject to restatement based on the change in the CDI rate of 6.40%	**3,192**	3,608
Installments subject to restatement based on the change of IPCA - 2.23%	**11,991**	22,774
Installments subject to restatement based on the change of IGPM - 4.39%	**8,037**	7,690
Adjustment to present value (**)	**(10,845)**	(10,078)
	142,002	112,487
Current liabilities	**50,793**	57,099
Non-current liabilities	**91,209**	55,388

(*) Amounts relating to fixed monthly contractual installments and earn-outs.

(**) Amounts relating to the APV on the fixed monthly contractual installments and earn-outs.

The amount classified in non-current liabilities will be amortized following the schedule below:

	Consolidated	
Period	06/30/2019	12/31/2018
2020	**46,887**	35,373
2021	**17,604**	14,225
2022	**17,547**	5,065
2023	**8,848**	725
2024	**323**	-
	91,209	55,388

Of total amount payable on June 30, 2019, R$137,677 is related to contingent consideration (R$111,545 as of December 31, 2018). The Company expects to fully settle amounts related to contingent considerations, and there were no significant changes in expectations in relation to prior year. The fair value of these obligations also considered a market interest rate (Selic). Fair value hierarchy of contingent consideration is classified as level 3 (Note 25.7).

(In thousands of reais)

17. Accounts payable from acquisition of subsidiaries (Continued)

The changes in the consolidated are shown as follow:

	Consolidated	
	06/30/2019	**12/31/2018**
Previous balance	**112,487**	130,767
Addition due to acquisition	**78,295**	38,881
Payment of principal/financial charges paid	**(24,093)**	(45,878)
Restatement of financial charges	**4,741**	3,057
Contingencies (*)	**(11,255)**	(5,343)
Earn-Out (**)	**(18,173)**	(8,997)
	142,002	112,487

(*) Contingencies arising from the acquired companies, offset by the amounts that the Company has to pay to former management.

(**) The amounts refer to reversal of unachieved earn-out of the acquirees Neemu, Napse, Percycle, Sback, Itec and Único.

18. Deferred revenue

	Consolidated	
	06/30/2019	**12/31/2018**
Revenue from services (*)	**11,497**	8,902
Revenue from royalties (**)	**37,352**	50,346
	48,849	59,248
Current	**37,270**	40,053
Non-current	**11,579**	19,195

(*) Refers to balances of bank of hours contracted by clients; recognition is carried out after provision of service and write-off of service card.

(**) Refers to balances of software contracts' (royalties) deferral deriving from first-time adoption of IFRS 15/CPC 47 and subsequent changes.

19. Income tax and social contribution

19.1. Income tax and social contribution expense

	Parent company		Consolidated	
	06/30/2019	**06/30/2018**	**06/30/2019**	**06/30/2018**
Current tax				
Current tax on income for the period	**-**	-	**(4,635)**	(3,260)
Deferred tax				
Deferred tax on income for the period	**3,980**	(1,227)	**(4,977)**	(8,632)
Income and social contribution tax expense for effective income	**3,980**	(1,227)	**(9,612)**	(11,892)

(In thousands of reais)

19. Income tax and social contribution (Continued)

19.1. Income tax and social contribution expense (Continued)

The reconciliation between the tax expense as calculated by the combined nominal rates and the income tax and social contribution expense charged to income is presented below:

	Parent company		Consolidated	
	06/30/2019	06/30/2018	06/30/2019	06/30/2018
Income (loss) before income tax and social contribution	**25,668**	46,027	**39,260**	56,692
Rate income tax and social contribution	**34%**	34%	**34%**	34%
Income tax and social contribution at the rate of 34%	**(8,727)**	(15,649)	**(13,348)**	(19,275)
Permanent differences				
Equity in net income of subsidiaries	**11,080**	11,785	**-**	-
Permanent additions (promotional gifts, fines and nondeductible expenses)	**1,851**	-	**379**	-
Law 11196/05 (Research and development subsidies)	**-**	-	**6,210**	4,829
Tax loss (offset and formation)	**-**	2,637	**-**	-
Difference in income tax and social contribution determined by the deemed income	**-**	-	**125**	1,625
Effects of tax rates of foreign subsidiaries	**-**	-	**(1,119)**	1,417
Other net differences	**(224)**	-	**(1,859)**	(488)
Income tax expense for effective rate	**3,980**	(1,227)	**(9,612)**	(11,892)
Effective rate	**-16%**	3%	**24%**	21%

19.2. Deferred taxes

Deferred income tax and social contribution are recorded so as to reflect future tax effects on temporary differences existing between assets and liabilities tax base and the corresponding carrying amount.

(In thousands of reais)

19. Income tax and social contribution (Continued)

19.2. Deferred taxes (Continued)

Temporary deferred income tax and social contribution are as follows:

	Consolidated	
	06/30/2019	**12/31/2018**
Deferred income tax and social contribution on accounting and tax goodwill	**(84,557)**	(72,425)
Deferred income tax/ social contribution assets identified in acquisitions	**(29,687)**	(31,161)
Deferred income tax/social contribution on first-time adoption of IFRS 9 and IFRS 15	**12,604**	17,004
Deferred income tax and social contribution on IFRS 16	**1,492**	
Inc. tax and soc. contr. on foreign companies	**(492)**	(283)
Deferred IR/CS on tax loss and negative basis	**3,730**	3,953
Allowance for doubtful accounts	**925**	620
Provision of benefits to employees	**411**	411
Provision for contingencies	**1,416**	809
Provision for adjustment to present value	**3,177**	2,019
Stock option plan	**5,823**	2,235
Provision for profit sharing and gainsharing, bonus, collective bargaining and overtime	**2,689**	1,993
Other provisions	**953**	2,190
Deferred taxes, net	**(81,516)**	(72,635)

20. Shareholders' equity

20.1. Capital

The Company is authorized to increase capital by up to R$1,000,000, regardless of its Bylaws' reform, following the Board of Directors' decision.

Capital is solely represented by common shares and each of them corresponds to a vote in Shareholders' Meeting decisions.

Board of Directors is the competent body to decide on issuances and will determine issuance conditions, subscription, payment form and deadline, price per share, placement form (public or private) and its distribution in Brazil and/or abroad.

(In thousands of reais)

20. Shareholders' equity (Continued)

20.1. Capital (Continued)

At the criteria of the Board of Directors, the share issue may be made, without right of preference or with a reduction of the time frame addressed by article 171, §4 of Law 6404, dated December 15, 1976, as amended ("Corporation Law") of shares and debentures that are convertible into shares or a subscription bonus, the flotation of which is made through a sale on the stock exchange or by public subscription, or even through an exchange for shares in a takeover bid, in the terms established in law, within the limits of the authorized capital.

On February 28, 2019, the Company's capital increase was approved, within limit of authorized capital, in the amount of R$362, from R$488,467 (total as of December 31, 2018) to R$488,829, through issue of 25,578 new common registered, book-entry shares, with no par value.

On June 25, 2019, the Company's capital increase was approved, from R$488,829 (four hundred and eighty eight million, eight hundred and twenty-nine thousand reais) to R$645,447 (six hundred and forty-five million, forty-seven thousand reais), through the issuance of 23,100 (twenty-three million and one hundred thousand) shares, within the limit of the authorized capital, as provided for in the Company's Bylaws, in the form of American Depositary Shares ("ADS") in the New York Stock Exchange ("NYSE").

Capital is represented by authorized, subscribed and fully paid-up shares with no par value and is divided as follows:

	Founding shareholders	Treasury shares	Free float (*)	Consolidated
December 31, 2018	28,037,764	7,502,115	130,743,503	166,283,382
June 30, 2019	**27,971,764**	**7,498,152**	**153,939,044**	**189,408,960**

(*) GIC Private Limited, Genesis Asset Managers, and BlackRock Inc. each have an ownership position of over 5%.

The changes in the number of subscribed and paid-up shares are as follows:

December 31, 2018	166,283,382
Capital increase	**23,125,578**
June 30, 2019	**189,408,960**

(In thousands of reais)

20. Shareholders' equity (Continued)

20.2. Capital reserves

The capital reserve is set up as follows:

	06/30/2019	12/31/2018
Goodwill in capital subscription (a)	**1,214,553**	539,571
Stock option plan (Note 28)	**26,094**	16,104
Treasury shares (b)	**(148,373)**	(148,373)
Expenditures with issuance of shares (c)	**(68,716)**	(37,423)
	1,023,558	369,879

(a) In compliance with 6,404/76, the issue price of the shares without par value may be allocated as part of the capital reserve. On June 26, 2019, based on the global offering of shares, there was a goodwill on capital subscription of R$674,982.

(b) On June 22, 2018, occurred the approval of the opening of Company's share buyback program and the purpose of the Buyback Program is to meet the exercise of deferred stock programs and possibly stock option programs. Shares may also be held in treasury, disposed or canceled, without reduction of the Company's capital, in compliance with the provisions of item 1 of article 30 of the Brazilian Corporation Law, and the standards set forth in ICVM 567/15.

(c) In conformity with Pronouncement CPC 08 - Transaction Costs and Premiums on Issuance of Securities, transaction costs incurred on funding through issuance of new shares were recorded separately as a reduction to shareholders' equity.

20.3. Legal reserve

It is formed of 5% of net income for the fiscal year, in conformity with article 193 of Law no. 6,404/76, up to the limit of 20% of the capital.

For the period ended June 30, 2019, pursuant to paragraph 1 of article 193 of Law 6404/76, the Company did not set up a legal reserve, as the capital reserve amount exceeded the percentage of 30% of capital.

20.4. Dividends

The Company's Bylaws establish a minimum dividend of 25% calculated on the annual net income, adjusted as provided by Article 202 of Law 6404/1976.

21. Provision for contingencies

The Company and its subsidiaries are parties (defendants) to judicial and administrative proceedings in various courts and governmental agencies, arising from the normal course of operations, involving tax, labor, civil and other issues.

(In thousands of reais)

21. Provision for contingencies (Continued)

At June 30, 2019, Management, based on information provided by its legal advisors, keep a provision amounting to R$23,042 and, at December 31, 2018, amounting to R$10,960.

There are other lawsuits evaluated by legal advisors as being a possible risk in the amount of R$9,990 as of June 30, 2019 (R$10,986 as of December 31, 2018), for which no provision has been formed in view of the fact that the accounting practices adopted in Brazil do not require to be accounted for.

The possible contingencies of the acquired companies will be guaranteed by the former owners according to contracts of purchase and sale.

The Company has sufficient amounts held to meet these commitments, classified under other receivables in the balance sheet, based on diligences carried out during the acquisition process.

Change	**Labor**	**Civil**	**Addition - acquisition (*)**	**Total**
Balance at December 31, 2018	1,358	1,022	8,580	10,960
Additions	**2,875**	**607**	**10,297**	**13,779**
Write-offs	**(1,712)**	**(116)**	**-**	**(1,828)**
Restatement	**67**	**64**	**-**	**131**
Balance at June 30, 2019	**2,588**	**1,577**	**18,877**	**23,042**

(*) Provision for contingent liabilities deriving from acquisitions of companies Itec, Único, DCG, Hiper and Millennium (amounts prior to acquisition date by Linx Sistemas).

22. Net operating revenue

Below, we show the reconciliation between gross and net revenue presented in the statement of income for the period:

	Consolidated			
	Six-month periods ended		**Three-month periods ended**	
	06/30/2019	**06/30/2018**	**06/30/2019**	**06/30/2018**
Gross operating revenue				
Subscription revenues	**368,716**	326,887	**188,201**	164,525
Consulting service revenues	**52,770**	48,925	**30,794**	29,365
	421,486	375,812	**218,995**	193,890
Sales deductions				
PIS	**(2,481)**	(2,235)	**(1,316)**	(1,169)
COFINS	**(11,447)**	(10,318)	**(6,069)**	(5,398)
ISS	**(9,351)**	(8,225)	**(4,703)**	(4,218)
INSS (Social security)	**(15,527)**	(14,052)	**(8,128)**	(7,233)
Other	**(2,823)**	(2,151)	**(1,664)**	(1,096)
Cancellations and rebates	**(10,401)**	(9,676)	**(4,464)**	(4,031)
	(52,030)	(46,657)	**(26,344)**	(23,145)
	369,456	329,155	**192,651**	170,745

(In thousands of reais)

22. Net operating revenue (Continued)

The Company does not have clients that individually represents more than 10% of revenue for the periods ended June 30, 2019 and 2018.

Table below presents geographical information as required by IFRS 8 - information per segment.

	Geographical information	
	06/30/2019	06/30/2018
Net revenue		
In Brazil	**351,272**	311,821
Abroad	**18,184**	17,334
	369,456	329,155
Non-current assets		
In Brazil	**2,594,531**	1,605,480
Abroad	**30,841**	22,805
	2,625,372	1,628,285

23. Costs, expenses and other expense/revenues

	Parent company		Consolidated		Parent company		Consolidated	
	Six-month periods ended				Three-month periods ended			
	06/30/2019	06/30/2018	06/30/2019	06/30/2018	06/30/2019	06/30/2018	06/30/2019	06/30/2018
Type								
Rents (*)	**-**	-	**(1,012)**	(8,361)	**-**	-	**(984)**	(4,101)
Commissions	**-**	-	**(18,971)**	(17,966)	**-**	-	**(9,661)**	(9,187)
Depreciation and amortization	**-**	-	**(55,938)**	(37,404)	**-**	-	**(31,590)**	(18,974)
Maintenance and preservation	**-**	-	**(3,047)**	(3,356)	**-**	-	**(1,579)**	1,289
Personnel	**(1,481)**	(499)	**(178,077)**	(146,109)	**(503)**	(232)	**(90,117)**	(74,638)
Advertising and publicity	**-**	-	**(6,533)**	(6,558)	**-**	-	**(3,453)**	(4,738)
Outsourced services	**(91)**	(36)	**(34,643)**	(30,177)	**(64)**	(28)	**(19,729)**	(19,829)
Travel and accommodation	**-**	-	**(6,603)**	(7,133)	**-**	-	**(3,536)**	(3,930)
Expenses with link	**-**	-	**(13,052)**	(16,846)	**-**	-	**(5,803)**	(9,411)
IT expenses	**-**	-	**(1,800)**	(1,547)	**-**	-	**(883)**	(916)
Other income	**-**	-	**16,949**	8,168	**-**	-	**8,825**	164
Other	**(295)**	(148)	**(16,981)**	(11,524)	**(52)**	(49)	**(9,730)**	(5,294)
	(1,867)	(683)	**(319,708)**	(278,813)	**(619)**	(309)	**(168,240)**	(149,565)
Function								
Cost of services rendered	**-**	-	**(123,416)**	(118,547)	**-**	-	**(63,417)**	(61,891)
Administrative and general expenses	**(1,867)**	(683)	**(99,011)**	(82,459)	**(619)**	(309)	**(55,049)**	(39,930)
Sales expenses	**-**	-	**(71,406)**	(50,650)	**-**	-	**(36,081)**	(28,591)
Research and development	**-**	-	**(38,485)**	(34,256)	**-**	-	**(20,113)**	(18,049)
Other operating revenue (expenses)	**-**	-	**12,610**	7,099	**-**	-	**6,420**	(1,104)
	(1,867)	(683)	**(319,708)**	(278,813)	**(619)**	(309)	**(168,240)**	(149,565)

(*) Vehicle rentals, training rooms and other items not covered by IFRS 16

(In thousands of reais)

24. Financial income

	Parent Company		Consolidated		Parent company		Consolidated	
	Six-month periods ended				Three-month periods ended			
	06/30/2019	06/30/2018	06/30/2019	06/30/2018	06/30/2019	06/30/2018	06/30/2019	06/30/2018
Financial revenues								
Interest receivable	**(74)**	11,911	**851**	1,817	**(35)**	11,911	**88**	849
Interest on interest earning bank deposits	**1,598**	205	**12,503**	13,198	**681**	65	**6,351**	5,513
Discounts obtained	**-**	8	**144**	196	**-**	8	**71**	180
Foreign exchange gain	**-**	-	**4,602**	10,093	**-**	-	**986**	8,187
Other revenues	**246**	41	**(1,031)**	2,662	**201**	18	**(711)**	1,192
	1,770	12,165	**17,069**	27,966	**847**	12,002	**6,785**	15,921
Financial expenses								
Liability interest	**-**	-	**(4,670)**	(158)	**-**	-	**(3,764)**	(85)
Interest on loans and financing	**-**	(36)	**(3,549)**	(4,159)	**-**	-	**(1,245)**	(2,308)
Discount granted	**-**	(8)	**(4,500)**	(5,586)	**-**	(8)	**(2,087)**	(2,757)
Foreign-exchange losses	**(6,674)**	-	**(11,279)**	(8,471)	**(6,674)**	-	**(8,023)**	(6,143)
Tax on financial operations	**-**	-	**(467)**	(341)	**-**	-	**(225)**	(138)
Effect from IAS 29 updating	**-**	-	**(140)**	-	**-**	-	**398**	-
Other expenses	**(152)**	(73)	**(2,952)**	(2,901)	**(86)**	(52)	**(563)**	(1,837)
	(6,826)	(117)	**(27,557)**	(21,616)	**(6,760)**	(60)	**(15,509)**	(13,268)
	(5,056)	12,048	**(10,488)**	6,350	**(5,913)**	11,942	**(8,724)**	2,653

25. Financial and financial instrument risk management

The Company and its subsidiaries are exposed to the following risks from the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operating risk

25.1. Credit risk

Credit risk is the possibility of financial loss of the Company and its subsidiaries if a client or a counterpart of a financial instrument fails to fulfill its contractual obligations arising mainly from trade accounts receivable and investments of its subsidiaries.

(In thousands of reais)

25. Financial and financial instrument risk management (Continued)

25.1. Credit risk (Continued)

The exposure of the Company and its subsidiaries to credit risk is influenced, mainly, by the individual characteristics of each client. The Company and its subsidiaries established a credit policy whereby every new client has its credit capacity individually analyzed prior to the standard payment terms and conditions.

The Company has a very diversified client portfolio with low concentration level, and major client represents only 2.3% of recurring revenue.

The subsidiaries establish an allowance for doubtful accounts that represents its estimate of losses incurred in relation to trade accounts receivable (See Note 8). The main component of this allowance is specific and related to significant individual risks.

On June 30, 2019, maximum exposure referring to cash and cash equivalents, interest earning bank deposits and accounts receivable.

i) Cash and cash equivalents and interest earning bank deposits

	Parent company		Consolidated	
	06/30/2019	**12/31/2018**	**06/30/2019**	**12/31/2018**
Cash and cash equivalents (note 6)	**799,304**	50	**833,654**	49,850
Interest earning bank deposits (Note 7)	**29,172**	60,108	**291,758**	413,374
	828,476	60,158	**1,125,412**	463,224

ii) Trade accounts receivable

	Consolidated	
	06/30/2019	**12/31/2018**
Trade accounts receivable (Note 8)	**211,860**	170,382
	211,860	170,382

25.2. Liquidity risk

Liquidity risk is the risk of the Company and its subsidiaries encountering difficulties in performing the obligations associated with its financial liabilities that are settled with cash payments or with another financial asset. The approach of the Company and its subsidiaries in liquidity management is to guarantee, as much as possible, that will always have sufficient liquidity to perform their obligations upon maturity, under normal and stress conditions, without causing unacceptable losses or with a risk of sullying the reputation of the Company and its subsidiaries.

(In thousands of reais)

25. Financial and financial instrument risk management (Continued)

25.2. Liquidity risk (Continued)

The table below shows the maturity of financial liabilities contracted in details:

	Parent company			
Operation	**Up to 1 year**	**Up to 2 years**	**3-5 years**	**Total**
Suppliers	**173**	**-**	**-**	**173**
Other liabilities	**94**	**-**	**-**	**94**
	267	**-**	**-**	**267**

	Consolidated				
Operation	**Up to 1 year**	**Up to 2 years**	**3-5 years**	**>5 years**	**Total**
Suppliers	**14,660**	**-**	**-**	**-**	**14,660**
Loans and financing (Note 15)	**53,640**	**77,212**	**156,142**	**46,138**	**333,132**
Accounts payable for the acquisition of subsidiaries - Earn Out (Note 17)	**28,474**	**68,537**	**17,386**	**-**	**114,397**
Accounts payable for the acquisition of subsidiaries - retained installments (Note 17)	**17,994**	**2,661**	**13,470**	**-**	**34,125**
Accounts payable for the acquisition of subsidiaries - Other (Note 17)	**4,325**	**-**	**-**	**-**	**4,325**
Other liabilities	**24,884**	**3,407**	**-**	**-**	**28,291**
	143,977	**151,817**	**186,998**	**46,138**	**528,930**

As amounts included in this table are non-discounted cash flows, they will not be reconciled to the amounts disclosed in the balance sheet for accounts payable for acquisition of subsidiaries.

Typically, the Company and its subsidiaries ensure that they have sufficient cash at sight to cover expected operating expenses, including the compliance with financial obligations; this excludes the potential impact of extreme situations that cannot be reasonably foreseen, such as natural disasters.

25.3. Market risk

Interest rate and inflation risk: Interest rate risk derives from debt portion indexed to TJLP, TLP, IPCA, IGPM, CDI and LIBOR and from interest earning bank deposits in CDI that may adversely affect financial revenues or expenses in case an unfavorable movement occurs in interest and inflation rates. This risk exposure as shown in the sensitivity analysis provided below.

(In thousands of reais)

25. Financial and financial instrument risk management (Continued)

25.4. Operating risk

Operating risk is the risk of direct or indirect losses arising from different causes related to the processes, personnel, technology and infrastructure of the Company and its subsidiaries, and external factors, except credit, market and liquidity risks, as those arising from legal and regulatory requirements and from generally accepted corporate behavior standards. The objective of the Company and its subsidiaries is to manage the operating risk and the service quality risk in order to avoid sustaining financial losses and harming the reputation of the Company and its subsidiaries.

25.5. Capital management

The policy of the Executive Board is to maintain a solid capital base to maintain the confidence of investors, creditors and market and the future development of the business. The Executive Board monitors returns on capital, which the Company defines as income (loss) from operating activities divided by total shareholders' equity. Executive Board also monitors the level of dividends to its shareholders.

25.6. Financial instruments' analysis

There is a comparison below, by class of book and fair value of the Company's financial instruments:

	Parent company				Consolidated			
	Book value 06/30/2019	Fair value 06/30/2019	Book value 12/31/2018	Fair value 12/31/2018	Book value 06/30/2019	Fair value 06/30/2019	Book value 12/31/2018	Fair value 12/31/2018
Financial assets								
Cash and cash equivalents (note 6)	**799,304**	**799,304**	50	50	**833,654**	**833,654**	49,850	49,850
Interest earning bank deposits (Note 7)	**29,172**	**29,172**	60,108	60,108	**291,758**	**291,758**	413,374	413,374
Trade accounts receivable (Note 8)	**-**	**-**	-	-	**211,860**	**211,860**	170,382	170,382
Other receivables (Note 11)	**6**	**6**	49	49	**48,527**	**48,527**	50,620	50,620
Total	**828,482**	**828,482**	60,207	60,207	**1,385,799**	**1,385,799**	684,226	684,226
Financial liabilities								
Suppliers	**173**	**173**	47	47	**14,660**	**14,660**	13,623	13,623
Loans and financing (Note 15)	**-**	**-**	-	-	**333,132**	**333,132**	249,981	249,981
Accounts payable for the acquisition of subsidiaries (Note 17)	**-**	**-**	-	-	**142,002**	**142,002**	112,487	112,487
Other liabilities	**94**	**94**	34	34	**28,291**	**28,291**	10,307	10,307
Total	**267**	**267**	81	81	**518,085**	**518,085**	386,398	386,398

(In thousands of reais)

25. Financial and financial instrument risk management (Continued)

25.6. Financial instruments' analysis (Continued)

Amounts of these instruments recognized in the balance sheet do not significantly differ from their fair values.

- Trade accounts receivable and suppliers approximate their respective book value mostly due to the short-term maturity of these instruments.
- Loans and financing and accounts payable due to acquisitions are contractually restated and represent the balance to be paid on the date of settlement of the contractual obligations.

Financial instruments per category

	Parent company			
	06/30/2019		12/31/2018	
	Fair value through profit or loss	Amortized cost	Fair value through profit or loss	Amortized cost
Financial assets				
Cash and cash equivalents (note 6)	**-**	**799,304**	-	50
Interest earning bank deposits (Note 7)	**29,172**	**-**	60,108	-
Other receivables (Note 11)	**-**	**6**	-	49
	29,172	**799,310**	60,108	99
Financial liabilities				
Suppliers	**-**	**173**	-	47
Loans and financing (Note 15)	**-**	**-**	-	-
Other liabilities	**-**	**94**	-	34
	-	**267**	-	81

	Consolidated			
	06/30/2019		12/31/2018	
	Fair value through profit or loss	Amortized cost	Fair value through profit or loss	Amortized cost
Financial assets				
Cash and cash equivalents (note 6)	**-**	**833,654**	-	49,850
Interest earning bank deposits (Note 7)	**291,758**	**-**	413,374	-
Trade accounts receivable (Note 8)	**-**	**211,860**	-	170,382
Other receivables (Note 11)	**-**	**48,527**	-	50,620
	291,758	**1,094,041**	413,374	270,852
Financial liabilities				
Suppliers	**-**	**14,660**	-	13,623
Loans and financing (Note 15)	**-**	**333,132**	-	249,981
Accounts payable for the acquisition of subsidiaries (Note 17)	**-**	**142,002**	-	112,487
Other liabilities	**-**	**28,291**	-	10,307
	-	**518,085**	-	386,398

(In thousands of reais)

25. Financial and financial instrument risk management (Continued)

25.7. Fair value hierarchy

Different levels were defined as follows:

- Level 1 - Prices quoted (not adjusted) in active markets for identical assets and liabilities
- Level 2 - Inputs, except for quoted prices, included in Level 1 which are observable for assets or liabilities, directly (prices) or indirectly (derived from prices)
- Level 3: Assumptions, for assets or liabilities, which are not based on observable market data (non-observable inputs).

The tables below show the hierarchy of fair value measurement of the Company's assets and liabilities.

Quantitative disclosures of fair value hierarchy as of December 31, 2018:

	Total	Prices quoted in active markets (Level 1)	Significant observable data (Level 2)	Significant non-observable data (Level 3)
Assets measured at fair value				
Financial assets at fair value				
Interest earning bank deposits (Note 7)	413,374	-	413,374	-
Liabilities measured at fair value				
Financial liabilities at fair value				
Loans and financing (Note 15)	249,981	-	249,981	-
Accounts payable for the acquisition of subsidiaries (Note 17)	112,487	-	942	111,545

Quantitative disclosures of fair value hierarchy as of June 30, 2019:

	Total	Prices quoted in active markets (Level 1)	Significant observable data (Level 2)	Significant non-observable data (Level 3)
Assets measured at fair value				
Financial assets at fair value				
Interest earning bank deposits (Note 7)	**291,758**	**-**	**291,758**	**-**
Liabilities measured at fair value				
Financial liabilities at fair value				
Loans and financing (Note 15)	**333,132**	**-**	**333,132**	**-**
Accounts payable for the acquisition of subsidiaries (Note 17)	**142,002**	**-**	**4,325**	**137,677**

(In thousands of reais)

25. Financial and financial instrument risk management (Continued)

25.7. Fair value hierarchy (Continued)

The Company uses proper valuation techniques with the help of sufficient data to measure the fair value, maximizing the use of relevant observable data and minimizing the use of unobservable data.

25.8. Sensitivity analysis for financial assets and liabilities

Main risks related to the Company's transactions are linked to TJLP, TLP, CDI, IPCA, IGPM, IPC, SELIC and LIBOR change for BNDES financing and accounts payable due to acquisition of companies, and to CDI for interest earning bank deposits.

The investments with CDI are recorded at market value, according to quotations announced by the respective financial institutions and the others mainly refer to bank deposit certificates. Therefore, the recorded value of these securities does not differ from the market value.

In order to check the sensitivity of the indexer of interest earning bank deposits to which the Company was exposed to at June 30, 2019, we defined three scenarios for the risk of decrease in CDI. The June 2019 index, which was 6.40% (6.40% as of December 31, 2018), was defined as probable scenario; based thereon, 25% and 50% scenarios were defined.

Parent company					
Operation	**Balance at 06/30/2019**	**Risk**	**Scenario I (probable)**	**Scenario II**	**Scenario III**
Interest earning bank deposits	**29,172**		**6.40%**	**4.80%**	**3.20%**
Financial revenue		CDI decr.	**1,867**	**1,400**	**934**

Consolidated					
Operation	**Balance at 06/30/2019**	**Risk**	**Scenario I (probable)**	**Scenario II**	**Scenario III**
Interest earning bank deposits	**291,758**		**6.40%**	**4.80%**	**3.20%**
Financial revenue		CDI decr.	**18,673**	**14,004**	**9,336**

In order to analyze sensitivity of debt indexes, to which the Company is exposed at June 30, 2019, three different scenarios were defined for the risk of increase in such indexes. This was based on TJLP, TLP, IPCA, IPC, IGPM, CDI and SELIC amounts in effect at June 30, 2019, available at CETIP, IBGE, Central Bank of Brazil, FGV, among others. Accordingly, a probable scenario was defined for 2019, based on which, 25% and 50% differences were calculated.

(In thousands of reais)

25. Financial and financial instrument risk management (Continued)

25.8. Sensitivity analysis for financial assets and liabilities (Continued)

For each scenario the Company calculated the gross financial expense, not taking into account the taxes levied and the flow of maturities for each contract scheduled for 2019. The base date used for financings was June 30, 2019, projecting indices for one year and verifying their sensitivity in each scenario.

		Consolidated			
Operation	**Balance at 06/30/2019**	**Risk**	**Scenario I (probable)**	**Scenario II**	**Scenario III**
Financings - BNDES	**333,132**		**20,854**	**26,084**	**31,281**
Rate subject to change		TJLP incr.	**6.26%**	**7.83%**	**9.39%**
Acquisition of companies	**8,037**		**353**	**441**	**530**
Rate subject to change		IGPM incr.	**4.39%**	**5.49%**	**6.59%**
Acquisition of companies	**3,192**		**204**	**255**	**306**
Rate subject to change		CDI incr.	**6.40%**	**8.00%**	**9.60%**
Acquisition of companies	**29,770**		**267**	**335**	**400**
Rate subject to change		IPCA incr.	**2.23%**	**2.79%**	**3.34%**
Acquisition of companies	**29,770**		**1,140**	**1,426**	**1,712**
Rate subject to change		R$decr.	**3.83%**	**4.79%**	**5.75%**

26. Insurance coverage

The Company and its subsidiaries adopt the policy of contracting insurance coverage for properties subject to risks in amounts considered sufficient to cover any casualties, considering the nature of their activity. Coverages (insurance coverages mentioned in these notes are not in the scope of audit review) in 2019 and 2018.

	Consolidated	
	06/30/2019	**06/30/2018**
Civil liability for professionals	**7,500**	7,500
Civil liability for managers	**70,000**	70,000
Operational risks	**165,800**	119,000
Vehicles	**600**	600
	243,900	197,100

(In thousands of reais)

27. Earnings per share

a) Basic earnings per share

Basic earnings per share is calculated by dividing profit attributable to company shareholders by the weighted average number of common shares, as follows:

	Parent company	
	06/30/2019	**06/30/2018**
Stock option plan	**29,648**	44,800
Weighted average of shares	**160,323,577**	165,101,643
Basic earnings per share - (in reais)	**0.1849**	0.2713

b) Diluted earnings per share

Diluted profit per share is calculated by adjusting the weighted average number of common shares, presuming the conversion of all the potential diluted common shares. The Company has a Stock Option Plan that provides for the granting of 4,060,627 stock options with the Plan's total dilutive potential being represented by 920,545 stock options, including initial granting.

	Parent company	
	06/30/2019	**06/30/2018**
Net income for the period	**29,648**	44,800
Weighted average number of shares (*)	**170,558,168**	167,302,172
Diluted earnings per share (in reais)	**0.1738**	0.2678

(*) Post-stock-split amounts at June 13, 2016.

28. Share-based payment

In the Special Shareholders' Meeting held on December 4, 2012, the Stock Option Plan of Linx S.A. was approved. Such plan establishes the general conditions for grant of shares issued by the Company, under the terms of article 168, paragraph 3, Law 6404/76.

28. Share-based payment (Continued)

The plan is intended to attract and retain management and staff members of the Company and its direct and indirect subsidiaries, by giving them the opportunity of becoming Company shareholders, subject to certain conditions, in order to: (i) reward them due to its positions and length of service with the Company; (ii) providing incentive for the achievement of the Company's social goals; (iii) aligning the Company's shareholders' interests to those of the Company's management; and (iv) encourage performance and favor retention of key persons in the Company, to the extent in which their interest in the institution's capital will permit them to benefit from results for which they have contributed and that are reflected in share price appreciation.

The plan is managed by the Board of Directors, which establishes granting programs and is in charge of determining: (i) the creation and application of general rules relating to the grant of options under the Plan and the solution of questions of interpretation of the Plan; (ii) performance targets for the Company's top executives in order to establish objective criteria for election of beneficiaries; (iii) election of Plan Beneficiaries and authorization to grant stock options in their favor, establishing all conditions for options to be granted, as well as change of such conditions when it is necessary to adequate options to the terms of the law, standard or subsequent regulation; and (iv) issuance of new Company's shares within authorized capital limit, or disposal of treasury shares to comply with exercise of stock options granted pursuant to the terms of the Plan.

In order to meet the exercise of stock options granted on the terms of the Plan, the Company may, at Board of Directors' discretion: (a) issue new shares within the authorized capital limit; or (b) sell treasury shares.

On February 28, 2013, the Board of Directors approved the first concession of stock options and respective election of plan members - as well as definition of the number of shares that each of them may acquire when exercising the option - totaling 1,842,951 stock option at exercise price of R$6.24, subject to adjustments deriving from stock split, grouping and bonus, adjusted for inflation at General Market Price Index (IGP-M) disclosed by Fundação Getúlio Vargas, and also adjusted for possible dividend and/or interest on own capital payment.

On February 28, 2014, the Board of Directors approved the concession of stock options and respective election of plan members - as well as definition of the number of shares that each of them may acquire when exercising the option - totaling 406,059 stock option at exercise price of R$11.28, subject to adjustments deriving from stock split, grouping and bonus, adjusted for inflation at General Market Price Index (IGP-M) disclosed by Fundação Getúlio Vargas, and also adjusted for possible dividend and/or interest on own capital payment.

28. Share-based payment (Continued)

On February 27, 2015, the Board of Directors approved the concession of stock options and respective election of plan members - as well as definition of the number of shares that each of them may acquire when exercising the option - totaling 432,855 stock option at exercise price of R$15.01, subject to adjustments deriving from stock split, grouping and bonus, adjusted for inflation at General Market Price Index (IGP-M) disclosed by Fundação Getúlio Vargas, and also adjusted for possible dividend and/or interest on own capital payment.

On February 29, 2016, the Board of Directors approved the concession of stock options and respective election of plan members - as well as definition of the number of shares that each of them may acquire when exercising the option - totaling 566,592 stock option at exercise price of R$15.50, subject to adjustments deriving from stock split, grouping and bonus, adjusted for inflation at General Market Price Index (IGP-M) disclosed by Fundação Getúlio Vargas, and also adjusted for possible dividend and/or interest on own capital payment.

On March 31, 2017, the Board of Directors approved the concession of stock options and respective election of plan members - as well as definition of the number of shares that each of them may acquire when exercising the option - totaling 391,618 stock option at exercise price of R$16.57, subject to adjustments deriving from stock split, grouping and bonus, adjusted for inflation at General Market Price Index (IGP-M) disclosed by Fundação Getúlio Vargas, and also adjusted for possible dividend and/or interest on own capital payment.

On March 31, 2018, the Board of Directors approved the concession of stock options and respective election of plan members - as well as definition of the number of shares that each of them may acquire when exercising the option - totaling 420,552 stock option at exercise price of R$19.16, subject to adjustments deriving from stock split, grouping and bonus, adjusted for inflation at General Market Price Index (IGP-M) disclosed by Fundação Getúlio Vargas, and also adjusted for possible dividend and/or interest on own capital payment.

On March 23, 2017, the Board of Directors approved the opening of the Company's share buyback program at its sole discretion and under the terms of the Buyback Program to acquire up to 2,000,000 (two million) registered, book-entry, common shares, with no par value, issued by the Company, corresponding to up to 1.206% of the total shares issued by the Company and up to 1,206% of the Outstanding shares. The purpose of the Buyback Program is to meet the exercise of deferred stock programs and possibly stock option programs. Shares may also be held in treasury, sold or canceled, without reduction of the Company's capital, in compliance with the provisions of item 1 of article 30 of the Brazilian Corporation Law, and the standards set forth in CVM Ruling 567/15. Maximum term described under the terms of the 18-month (eighteen-month) Share Buyback Program, beginning March 23, 2017 and ending September 23, 2018.

(In thousands of reais)

28. Share-based payment (Continued)

The fair value of each option granted is estimated at the grant date, based on the Black-Scholes stock pricing model, which considered the following variables and results:

Stock Option								
Grant					Fair value assumptions			
					Expected			
Number	Date	Quantity of options	Strike price - reais	Option pricing	Dividends - %	Volatility - %	Risk-free interest rate, %	Maturity term
1st	02/28/2013	1,842,951	6.24	4.24	3.30%	25.24%	10.27%	4 years
2nd	02/28/2014	406,059	11.28	3.94	0.80%	25.11%	10.12%	4 years
3rd	02/27/2015	432,855	38.72	11.86	1.28%	24.00%	12.96%	4 years
4th	02/29/2016	566,592	38.17	14	0.85%	25.01%	7.25%	4 years
5th	03/31/2017	391,618	16.57	3.83	1.34%	24.25%	9.71%	4 years
6ª	03/31/2018	420,552	19.16	2.99	1.39%	23.69%	7.43%	4 years

Changes in stock option plan are as follows:

	Stock option plan	
	Number of outstanding shares	Strike price (in Reais)
December 31, 2018	946,123	16.41
Exercised	**(25,578)**	**14.15**
June 30, 2019	**920,545**	**16.41**

On March 31, 2017, the Board of Directors approved the concession of deferred shares totaling 945,048 stock option at exercise price of R$15.70, subject to adjustments deriving from stock split, grouping and bonus, adjusted for inflation at General Market Price Index (IGP-M) disclosed by Fundação Getúlio Vargas, and also adjusted for possible dividend and/or interest on own capital payment.

On March 31, 2018, the Board of Directors approved the concession of restricted shares totaling 398,489 stock option at exercise price of R$19.16, subject to adjustments deriving from stock split, grouping and bonus, adjusted for inflation at General Market Price Index (IGP-M) disclosed by Fundação Getúlio Vargas, and also adjusted for possible dividend and/or interest on own capital payment.

At January 22, 2019, the Board of Directors approved the concession of restricted shares, totaling 1,011,846, of which 183,286 were set aside for members of the statutory board, 303,560 for the employees, and 525,000 allocated to the "Linx Pay Hub Extraordinary Program of Deferred Shares".

(In thousands of reais)

28. Share-based payment (Continued)

On April 2, 2019, the Board of Directors approved the grant of restricted shares, totaling 28,425, for Hiper's employees.

On May 13, 2019, the Board of Directors approved the granting of deferred shares, totaling 1,970,490, of which 1,125,000 for members of the statutory board Linx Pay Hub, 37,500 for Linx Pay Hub employees, 798,000 for "Extraordinary Program of Linx Pay Hub Core Deferred Shares" and 9,990 Deferred Shares to the Company's Independent Directors.

The fair value of each deferred share is estimated on the date of concession based on the average value of the shares, which considered the following variables and results:

Deferred shares								
Grant					Fair value assumptions			
					Expected			
Number	Date	Quantity of options	Strike price - reais	Option pricing	Dividends - %	Volatility - %	Risk-free interest rate, %	Maturity term
1st	03/31/2017	945,048	29.43	27.84	1.34%	24.25%	9.71%	4 years
2nd	03/31/2018	398,489	19.16	18.12	1.39%	23.69%	7.43%	4 years
3rd	01/22/2019	1,011,846	29.27	27.75	1.33%	27.14%	6.42%	5/4 years
4th	04/02/2019	28,425	36.17	34.86	1.25%	28.04%	8.14%	5 years
5th	05/13/2019	1,970,490	29.69	27.81	1.31%	26.83%	7.97%	5 years

The financial activity of the restricted shares is presented below:

	Deferred shares	
	Number of outstanding shares	Strike price (in Reais)
December 31, 2018	1,033,868	-
Granted	1,011,846	28.31
Canceled	(20,887)	-
March 31, 2019	2,024,827	-
Granted	**1,998,915**	**29.69**
Canceled	**(29,772)**	**-**
June 30, 2019	**3,993,970**	**29.69**

The accumulated effect in the period ended June 30, 2019 is R$11,341 (R$723 as of June 30, 2018) recorded in the statement of income as payroll expenses. This effect did not impact the Company's cash.

The accumulated balance in shareholders' equity presented in the capital reserve under "stock option plan" in the period ended June 30, 2019 is R$26,094 (R$16,104 as of December 31, 2018).

29. Subsequent event

29.1. Acquisition of equity interest - BlackRock

Linx SA ("Linx" or "Company"), announced the receipt of the notice from BlackRock, Inc. ("BlackRock"), informing the acquisition of the stake corresponding to 5.25% of the Company's capital stock, of which 8,038,746 (eight million, thirty-eight thousand, seven hundred and forty-six) common shares and 1,911,570 (one million, nine hundred and eleven thousand, five hundred and seventy) American Depository Receipts ("ADRs") totaling 9,950,316 million, nine hundred and fifty thousand, three hundred and sixteen) as a consequence of the recent acquisition of common shares of the Company in stock exchange operations.

The acquisition of the shareholding made by BlackRock does not change the composition of the share control or the administrative structure of the Company, since the participation does not have the right to vote on the purchase and sale of securities issued by the Company.

29.2. Reduction of ownership interest - BNDESPAR

Linx S.A. ("Linx" or "Company"), informed of the receipt of the communication from BNDES Participações S.A. ("BNDESPAR"), informing that it reached a participation corresponding to 0.00% of the Company's capital stock, as a consequence of the recent sale of common shares of the Company in the scope of the Primary and Secondary Public Offering of Common Shares Issued by Linx S.A.

Alberto Menache
Chief Executive Officer

Pedro Holmes Monteiro Moreira
Financial Vice-President and IR

Eloisa Moraes Souza de Oliveira
Accountant CRC-1SP247057/O-9