



**International Conference Call
Itaúsa – Investimentos Itaú S/A
Second Semester 2018 Earnings Results
February 19th, 2019**

Operator: Good morning ladies and gentlemen, thank you for standing by and welcome to ITAÚSA's conference call to discuss 2018 results.

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions will be given at that time.

Should you require assistance during the call, please press the star followed by zero. As a reminder, this conference is being recorded. The file will be available at the Company's website at www.itausa.com.br/en, at the Investor Relations section. During the conference call you can send questions that will be answered after the presentation.

This conference call and a slide presentation are being transmitted via internet as well. You can access the webcast by logging on to the Company's website, www.itausa.com.br/en.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors.

I inform that during the presentation the questions can be sent by webcast and it will be answered in the question and answer session.

With us today we have:

- Mr. Alfredo Egydio Setubal - CEO and Investor Relations Officer at Itaúsa;
- Mr. Henri Penchas – Chairman of the Board of Director at Itaúsa;
- Mrs. Priscila Grecco Toledo – CFO at Itaúsa;
- Mr. Bruno Brasil - Investor Relations Manager at Itaúsa;
- Mr. Aleksandro Broedel – Executive Finance Director and Investor Relations Officer at Itaú Unibanco;
- Mr. Guilherme Setubal Souza e Silva – Investor Relations and New Business Manager at Duratex;
- Mr. Julian Garrido – CFO and Investor Relations Manager at Alpargatas.

It is now my pleasure to turn the call over to Mr. Alfredo. Sir, you may now begin.

Mr. Alfredo Setubal: Thank you, good morning. It's a pleasure to be here again to explain about our fourth quarter and annual results of Itaúsa.

Following the agenda of page 3, we have 4 divisions for this presentation: The macroeconomic scenario; highlights of the subsidiaries; Itaúsa's numbers itself; and Q&A part for the end of the presentation.

On slide number 4, macroeconomic scenario. We expect a growth of GDP for this year in Brazil around 2%, it is better than last year but below the expectations that we had at year-end of 2018, inflation of 3.6 and the SELIC rate stable during the year for 6.5%. In this environment – it is not as bad some years before, but it is better – we think it's good for the companies for the stability of our business, for credit granting and possibly with this new leader of government policies opportunities for privatizations.

We will follow-up very closely the jobs and income recovery, we expect this jobs recovery to be very slowly and gradual, and anyway, we will continue, we will follow the news about the tax changes that can be or not be proposed by the Government, especially in terms of tax and Social Security reforms, we think it's essential for Brazil to grow in a sustainable and more powerful way from next year and ahead, so in our view it is essential, especially the Social Security reform, they have to be very strong to really reduce the public debt and to make more room for growth in Brazil in the coming years.

On page 6 we see highlights from our subsidiaries. Starting from the bank, last year the bank had a very good year again, we started to see growth in the loan portfolio that increased 6%, mainly from individuals and very small, small and middle market companies. Default indicators continue the downward trend that we saw last years and probably this growth of the portfolio of these individuals and market companies will drive the growth again this year in terms of credit in the bank.

The payout of the bank reached 90% almost, including share buybacks that were done during the year, and the total dividends and interest on capital paid was R\$22.4 billion. In terms of digital transformation, it is the main strategy of the bank for the coming years, 76% of the payment transactions are carried through these digital channels.

We transform the fiscal counsel in a permanent basis, it was elected every year, now it is permanent, only the members can be changed according to the shareholders. We bought 11% minority interest in the Ticket Company for food and the Central Bank approved the XP business with some limitations in relation of the deal signed between the shareholders of XP and Itaú Unibanco, but anyway, it was approved by the Central Bank. ROE of 20.4%, little growth from 2017 and the loan portfolio for small companies showed growth of 14%, and the credit for individuals that grew 10%.

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On slide number 7 we see highlights for Duratex. Duratex made many changes, especially in the wood panel division, we announced a JV with Lenzing for investment in dissolving wood pulp using a forest that we were not intending to use for panel products, so we found a very good use for this forest, we sold land for Suzano, that land that we were not using for the market panel and the sale of the facilities of woods fiberboard in Botucatu to Eucatex.

In terms of Ceusa, we announced a plant for double the production, the capacity of Ceusa in the market, an investment of R\$94 million, and we in the 4Q did some impairments of intangible assets and other nonrecurrent tax in the total of R\$300 million to let our assets cleaner for the company.

ROE with all these positive and negative nonrecurrent revenues and expenses was 8.8, R\$433 million. Net debt reduced in operational recurring basis for 2 times Ebitda, and if we consider all the money that we received from Suzano the net debt is 1-time Ebitda at year-end. So, we did a very important to deleverage for Duratex during last year with the results and the sale of forests.

On page 8, Alpargatas. We hired some external consulting firms to help us in terms of strategic movements, especially outside Brazil and for operations plans here in Brazil to reduce costs that we believe we will be able to do in the coming quarters.

We redesigned the organizational structure of Havaianas, that is the main branded product of Alpargatas, this geographical division into dedicated units supported by global areas. So, we did that under the new CEO, that is Roberto Funari, that assumed the company in the beginning of this year.

Alpargatas also announced a JV in India to start business there, we sold part of our business in Argentina of Topper brand in terms of articles for sports, and also, we sold at the end of the year the line of professional boots that was a very traditional product of Alpargatas that was a very small line of product, so we decided to sell it.

In terms of net income, we had a reduction in the year from 362 million to 332 million and a recurring Ebitda increased from 504 to 555 million. This year in terms of Alpargatas we expected a better interest of sales, but we will continue to sell and to arrange more the strategy and the asset for the company preparing the company for more sustainable growth in the coming quarters.

In terms of NTS, it is our participation in the gas industry, the highlight for the company was a debt restructuring, the company redeemed the debenture that was issued from the privatization of the company from Petrobras, Itaúsa holds some investments in that debenture so we received R\$442 million for NTS and NTS reduced the cost of debt with a new debt for the company in a much better cost.

We continue to receive dividends and interest over capital from NTS, the total last year was R\$202 million including a capital decrease that NTS also did in the total amount of 694 million, the total for the company, and Itaúsa received R\$53 million from NTS in this capital decrease.

Total revenues of the company R\$4 billion and Ebitda of 3.6 billion. Net income, on the right side of the slide, increased 6.9% to 1.9 billion, the total received by Itaúsa in terms of dividends, interest on capital and capital decrease in a total of 202 million, an increase of 17.4%.

On page 11, main events for Itaúsa. We announced a dividend and interest on capital yesterday to complement, so the total that the company paid related to 2018 was R\$8.4 billion in total, almost R\$1 per share, 28% increase when we compare to 2017. That means a 94% payout and a 7.4 dividend yield, this is the quotation of the end of December 2018.

We don't see this year any capital increase related to Itaúsa. Another event was the divestment in Elekeiroz that was a company of the chemical sector that we sold, the total amount attributed, enterprise value of R\$160 million. We finished the investments through Itaútec in the OKI Company, we sold the remaining 10.3% of the investments that we had at OKI Brasil, so we finished our participation.

One important issue is the end of the usufruct the Itaú Unibanco shares, the shares that are located in the capital of IUPAR, that is the Holding of Itaúsa and Moreira Sales family that controls the bank, that term ended after 10 years, so from November Itaúsa is also paying the taxes over the interest on capital received from IUPAR. So that means that Itaúsa will have R\$120 million extra in PIS and COFINS this year in a cash effect, so the expenses of the company this year will increase R\$120 million.

In terms of capital markets, we achieved 130,000 individual shareholders, an increase of 83% over 2017, a market value of 101 billion and we bought back shares, 3.5 million preferred shares of the company.

On slide 12, profitability. The results for the year achieved 9.4 billion, recurring result 9.3, the NIMs in terms of net income an increase of 15.9%, ROE of 18.2, a dividend payout, as I said, 94% and a dividend yield of 7.4%.

On page 13 we continue the proxies of paying to shareholders the same amount received from the bank in accrual basis, we are paying exactly the same amount that we received from the bank, and all other dividends and interest on capital received from the nonfinancial companies are used to match the expenses that Itaúsa has itself that is an amount of around R\$550 to 600 million a year including taxes, operational expenses, interest expenses from the debentures and so on, so that's why we continue to be able to pay the same amount received from the bank.

On page 14, capital composition, that's the main liability of Itaúsa with the shareholders, the only debt that we have is the debenture that we issued when we bought the participation in NTS of R\$1.2 billion, that on the right side of the table you can see the conditions, and the amortization starts in 2022; R\$400 million in 2022, 400 in 23 and 400 in 24.

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On page 15, the portfolio of Itaúsa. In the market value of R\$443 billion the participation in all subsidiaries that we have and the market value of Itaúsa R\$411 billion, what means a discount of some of the parts compared to the market value of 22.3%.

On page 16 we talk about sustainability and corporate governance of Itaúsa. Sustainability we highlight the continuous participation in the Dow Jones Sustainability Index, the participation in the ISE, the Sustainability Index of B3 here in Brazil, and CDP where we were leaders of transparency with score of A-.

In terms of corporate governance of Itaúsa this year, the permanent fiscal counsel was approved by the shareholders in the shareholders meeting, we approved new policies related to transaction with related parties, relationship with private entities and public agents and policies for corruption prevention. We updated our code of conduct and created an independent reporting channel for our employees.

On page 17 we talk about sustainability and corporate governance for our subsidiaries, for the companies that we participate. First of the bank, also the continued participation in the Dow Jones Sustainability Index, also in CDP leader in transparency and the participation in the ISE index in the B3. In terms of corporate governance of the bank, the permanent fiscal counsel, also approved by the shareholders, and the creation of digital advisory board, LatAm strategic counsel and the social responsibility committee, all these 3 linked directly with the Board of Directors of Itaú Unibanco.

In the case of Duratex, also leader transparency in CDP, especially in the efficient water management, also participation in the ISE index of Bovespa. In terms of corporate governance, internal structure for operational efficiency, especially in the panel wood market division, and also the creation of IT and digital innovation committee directly linked to the Board of Directors.

In the case of Alparagatas, development of the first carbon emission inventory, so we started also more actions in terms of sustainability for Alparagatas. In terms of corporate governance, election of the new CEO and the election of independent members in the Board of Directors and all these independent boarders coordinating the committees of the company. And also, advisory and strategy management support from specialized consulting firms.

On page 18, that's our last slide, now is Itaúsa in the capital markets with good performance when we compare 10 years, 5 years and last year compared to Ibovespa, with the dollar and the [unintelligible].

So, that's the ended of the presentation and now we are open for questions from all the shareholders and investors. Thank you.

Question-and-Answer Session

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please, press star 1 way you that any time you would like to remove yourself from the questioning queue, press star 2.

Please, restrict your questions to 2 at a time.

Our first question comes from Jason Mollin, Deutsche Bank.

Mr. Mollin: Thank you very much for the opportunity to ask questions. I have 2 questions. My first is on the strategic initiatives for Itaúsa, the outlook going forward. We've seen you talking in the past about targeting a percentage of the portfolio in Itaú Unibanco shares. Can you give us an update and now, if you're looking at other potential investments that we should expect in the coming future?

And my second question is on potential tax changes in Brazil and if you are expecting the deductibility of AOC to be removed and how that might impact Itaúsa and how you might react to that change if it turns out to be the case. Thank you.

Mr. Setubal: Hello Jason, it's Setubal. Thank you for your question. I think 2 questions very important for Itaúsa. We expected this year to make some investments, we didn't do anything last year, the conditions of the economy, uncertainties and so on, we were not able to continue, but we continue to study other opportunities for this year. So probably we are going to have some investments this year probably at Itaúsa because we expect this better environment in terms of economics and politics for the approval of reforms and so on.

So, with all that, we expect that also the cost of capital of Itaúsa to be reduced. Today we are considering 14% in terms of cost of capital, we believe that this now, if everything goes well in Brasil in terms of approval of reforms and better and stronger economic growth, this number can be reduced to something around 13%.

So, this we will probably be able to analyze more investments for this portfolio of nonfinancial companies that we are building in the last years.

That said, I would say that the bank will continue to represent more than 90% in all the lines, all the comparables that you can make, even being in terms of assets or market capitalization or profit because the participation of Itaúsa in the bank is huge, you know about, it is more than 30% of the total shares of the bank, so we are building a portfolio of investments, we already have 3 investments, that is Duratex, the traditional one, Alpargatas and NTS, this probably in the coming years we will continue to build of this portfolio.

Always we said that this portfolio has to make sense and also has to be profitable and create value to the shareholders. So, we are not in a hurry to build this portfolio, we will find and look for opportunities, I think we found 2 good opportunities – that was Alpargatas and NTS – and we will continue to search.

All said, I would say that the bank probably will continue to represent more or around 90% of assets and more than 90% of profits, because of the ticket that we are searching is a ticket of investments around US\$500 to 700 million. So, this is important to make a portfolio of nonfinancial companies, but when we compare to the size of the participation that we have at the bank... the bank will continue to represent more than 90% of the results, of the investments and the market capitalization of the company.

In terms of your second question, about the possibility of [unintelligible] the tax over companies and over dividends, and I don't know if the interest on capital will continue, we don't know exactly because there is no official proposal from the Government about that subject, we expect that this will appear during this year, probably something will change and it will be approved by the Congress probably in the second semester, what have been said is reduction to around 20% in the corporate taxes and an increase to something around 15% the dividends.

Just to remember, I don't know if you are aware or not, dividends in Brazil were taxed until 1996. In 1996, because of the end of the inflation and the real plan and so on, it was created an interest on capital and then, at that time, the corporate tax was increased and this tax over dividends was zero, and interest over on capital was created with a tax of 15%.

So, we expected something going back to 1996, that reduction of the corporate tax, so increase in the tax over dividends and we don't know if that is what the Government will do with the interest of capital, so there are many uncertainties, but if everything that I said happens and if the interest on capital continues, the reduction on corporate taxes and the increase on tax on dividends will be good for Itaúsa, we will reduce our tax payments that we have today, that this year will be around R\$400 million, the profit from the companies with lower corporate taxes will increase.

So, for Itaúsa it is not bad at all, but the dividends probably will be charged for individuals, probably for investors it will be not taxed. So, for Itaúsa maybe it will reduce some of the inefficiency that we have as a Holding company to be taxed over our revenues, especially interest on capital.

Operator: Ladies and gentlemen, as a reminder, if you would like to pose a question, please, press star 1.

This concludes today's question-and-answer session. Mr. Alfredo, at this time you may proceed with your closing statements.

Mr. Setubal: Thank you for the participation. I forgot to start the presentation with a sorry about the delay in issuing the information; we had a problem with the system between Itaúsa, B3 and CVM, so we were just able to upload the financials of Itaúsa early this morning, sorry for that. It was not our fault, but it happens, and we are here, our investor relation team, to attend and if you have any questions or a more detailed reading of the financials, we are here open to answer your questions. Thank you for the participation.



Operator: That does conclude our Itaúsa's 2018 results conference call for today. Thank you very much for your participation, you may now disconnect.