ITAÚSA

Management Report

June 30, 2018

MANAGEMENT REPORT

We present the Management Report and the Financial Statements of Itaúsa – Investimentos Itaú S.A. (Itaúsa) for the period from January to June 2018 (1H18), prepared in accordance with the standards established by the Accounting Pronouncements Committee (CPC) and approved by the Brazilian Securities and Exchange Commission (CVM), as well as the International Financial Reporting Standards (IFRS).

Independent Auditor's Report

The Financial Statements were audited by PricewaterhouseCoopers Auditores Independentes (PwC), and have received an unqualified opinion from the external auditor. The Financial Statements were approved by the Fiscal Council.

The Financial Statements were made available to the CVM and to B3 S.A. – Brasil, Bolsa, Balcão (B3).

Adoption of CPC 47 and CPC 48

For better comparability, the information on the first half of 2017 was adjusted to the effects arising from Itaú Unibanco's adoption of CPC 47 and CPC 48.

1) ECONOMIC ENVIRONMENT

The global economy is expected to consolidate a sharper economic growth in 2018. The U.S. economy grew 2.6% in the twelve-month period ended June 2018 from the 2.2% recorded in 2017. In the euro-zone, GDP grew by 2.6% in the twelve-month period ended March 2018, compared to 2.4% in 2017. After a 6.9% growth in 2017, China witnessed a moderate downturn in the 2Q18 (6.7% for the year) and the economic activity is expected to record a moderate increase in the second half of 2018.

In the domestic scenario, GDP grew by 1.3% in the twelve-month period ended March 2018. This figure indicates a gradual improvement from the 1.0% posted in 2017 and from the economic shrinkage experienced in previous years.

Regarding the labor market, unemployment rate is 12.4% in the quarter ended June 2018, from 13.0% in the same period of the previous year, as measured by the Continuous Pnad (Continuous National Household Sample Survey).

Inflation measured by IPCA is 4.4% in the last 12 months ended in June, from 3.0% recorded in the same period of the previous year. Analysis of broken-down figures shows that regulated prices raised 11.8% in the period, whereas free prices raised 2.0%.

Current inflation below the set-up target and economic activity below expectations have allowed a more flexible monetary policy. The Central Bank of Brazil started a cycle of cuts in interest rates in October 2016 and since then the Selic rate has been reduced to current 6.5% per year from 14.25%.

2) ITAÚSA HIGHLIGHTS AND EVENTS

ITAÚSA

Strategic Development: Disposal of Ownership Interest of Elekeiroz S.A.

In line with its investment portfolio review strategy, in June 2018 Itaúsa completed the sale of its total ownership interest in Elekeiroz (14,261,761 common and 16,117,360 preferred shares). The value attributed to Elekeiroz was R$160 million (enterprise value), with Itaúsa receiving R$29 million at the transaction closing date. It will additionally receive R$27.6 million related to price adjustments, as contractually provided for accordingly. This amount may be complemented by earn-outs from (a) the performance or sale of certain assets of Elekeiroz, including non-operational real estate, (b) receiving certain surplus assets and the eventual successful outcome in certain lawsuits, and (c) the buyer ultimately reaching a certain minimum return.

Permanent Fiscal Council

The General Stockholders' Meeting held on April 12, 2018 approved the permanent operation of the Fiscal Council, which has been established continuously since 1995. This Meeting also elected members for the Fiscal Council nominated by preferred, minority and controlling stockholders. This development strengthens Itaúsa's commitment to the best corporate governance practices.

Public Offering Alpargatas Shares

On February 7, 2018, CVM granted the request for registration of the Public Offering aiming at the acquisition of Alpargatas' common shares from minority stockholders. On March 23, 2018, Itaúsa informed that an action was held and no shareholder of Alpargatas had expressed interest in joining the offering. Therefore, the equity interest held by Itaúsa in Alpargatas remains unchanged.

Corporate Events and Shareholder Return

Capital Increase Approved

On February 19, 2018, the Board of Directors resolved on the increase of Itaúsa's capital stock, to R$38,515 million from R$37,145 million, by issuing 175,641,026 new book-entry shares, with no par value, of which 66,355,919 are common and 109,285,107 are preferred shares, for private subscription within the limits of authorized capital. Upon completion of the issued share subscription process, the Board of Directors approved this capital increase on May 24, 2018.

Capitalization of Revenue Reserves and 10% Bonus in Preferred Shares

On May 24, 2018, the Board of Directors approved a 10% bonus in shares through the capitalization of revenue reserves in the amount of R$5 billion. This share bonus assigned stockholders one (1) new preferred share for each ten (10) common/ preferred shares they held on May 30, 2018.

Itaúsa's Share Buyback Program

On February 19, 2018, the Board of Directors changed the current share buyback program by reducing the acquisition limits up to 77 million book-entry shares of own issue (27 million common and 50 million preferred shares).

In the first half of 2018, Itaúsa acquired 2.5 million preferred shares of own issue in the amount of R$22.7 million. This share buyback program aims at investing the Company's available funds, given current share discount.

Quarterly Dividend Payment

On April 2, 2018, Itaúsa paid quarterly dividends for the fourth quarter of 2017, in the amount of R$0.015 per share based on the final stockholding position of February 28, 2018.

SUBSEQUENT EVENTS:

Return to Stockholders

At the meeting held on August 13, 2018, the Board of Directors resolved on the payment of proceeds in the amount of R$1,744 million, allocated to the mandatory dividend amount for 2018, distributed as follows:

- dividends for 2018 of R$0.1992 per share; and
- interest on capital of R$0.00960 per share (R$0.00816 per share net of withholding income tax).

These amounts will be payable to stockholders on August 30, 2018, based on the final stockholding position of August 17, 2018.

Dividend Reinvestment Program (DRP)

Itaúsa's Stockholders who are also account holders of Itaú in Brazil and hold book-entry shares may automatically invest dividends to purchase shares by joining the Dividend Reinvestment Program (DRP). To join the DRP please access Itaú Bankline (www.itau.com.br) or call us on +55 (11)3003-9285 if you are in capital cities or metropolitan regions or +55 0800-720-985 for other locations in Brazil.

3) ITAÚSA'S ECONOMIC PERFORMANCE

MAIN INDICATORS OF ITAÚSA'S INDIVIDUAL RESULTS

As a holding company, Itaúsa's results are basically derived from its share of income, determined based on the results of its subsidiaries. We present below Itaúsa's share of income and result, considering recurring evens only (nonrecurring events are detailed in the Reconciliation of Recurring Net Income table).

Recurring Share of Individual Income by Area						R$ million
	01/01 a 06/30/2018	%	01/01 a 06/30/2017	%	Change	Change (%)
Financial Sector	**4,540**	98.7%	**4,623**	99.9%	**(83)**	**-1.8%**
Non Financial Sector	**60**	1.3%	**3**	0.1%	**57**	**1900.0%**
Alpargatas	11	0.2%	-	0.0%	11	n.a.
Duratex	21	0.5%	1	0.0%	20	2000.0%
Elekeiroz	32	0.7%	8	0.2%	24	300.0%
Itautec	(1)	0.0%	(7)	-0.2%	6	85.7%
Others	(3)	-0.1%	1	0.0%	(4)	-400.0%
Recurring share of individual income	**4,600**	100.0%	**4,626**	100.0%	**(26)**	**-0.6%**
Results of Itaúsa - net of taxes	**(259)**		**(331)**		**72**	**21.8%**
Financial Income / Expenses	(26)		5		(31)	
Dividends / Interest on Capital	79		56		23	
General Administrative Expenses	(34)		(23)		(11)	
Tax Expenses	(291)		(258)		(33)	
Other Operating Revenues	4		5		(1)	
Income Tax / Social Contribution	9		(116)		125	
Recurring Net Income	**4,341**		**4,295**		**46**	**1.1%**
Non-Recurring results	**106**		**(175)**			
Arising from stockholding interest in Financial Sector	139		(176)			
Arising from stockholding interest in Non Financial Sector	52		1			
Alpargatas	1		-			
Duratex	51		1			
Net Income	**4,447**		**4,120**		**327**	**7.9%**

General and Administrative Expenses (G&A)

Taking into account the administrative structure dedicated to Itaúsa's activities, composed of 75 people, Itaúsa's G&A totaled R$40 million in the first half of 2018, which accounted for 0.91% of net income for the same period.

MAIN INDICATORS OF RESULTS OF ITAÚSA CONSOLIDATED

R$ million

	Parent company		Non-controlling interests		Consolidated	
	6/30/2018	6/30/2017	6/30/2018	6/30/2017	6/30/2018	6/30/2017
Net income	**4,447**	**4,120**	**126**	**11**	**4,573**	**4,131**
Recurring net income	**4,341**	**4,295**	**35**	**9**	**4,376**	**4,304**
Stockholders' equity	**51,081**	**48,710**	**3,165**	**2,958**	**54,246**	**51,668**
Annualized return on average equity (%)	**17.6%**	**17.4%**	**8.2%**	**0.7%**	**17.1%**	**16.4%**
Annualized recurring return on average equity (%)	**17.2%**	**18.1%**	**2.3%**	**0.6%**	**16.3%**	**17.1%**

MAIN FINANCIAL INDICATORS

Results per share - in R$	6/30/18	6/30/17	Change
Net income of parent company	0.54	0.50	6.4%
Recurring net income of parent company	0.52	0.53	-0.3%
Book value of parent company	6.07	5.93	2.5%
Dividends/ interest on capital, net	0.24	0.12	103.3%
Price of preferred share (PN) (1)	9.19	8.19	12.2%
Market capitalization (2) - R$ million	77,304	67,337	14.8%

(1) Calculated based on the average quotation of preferred shares on the last day of the period.

(2) Calculated based on the average quotation of preferred shares on the last day of the period (quotation of average PN multiplied by the number of outstanding shares at the end of the period).

Note: The number of outstanding shares and the share quotation were adjusted to reflect the 10% bonus approved in Board of Directors held on May 24, 2018.

MAIN INDICADOTORS OF ITAÚSA CONGLOMERATE COMPANIES

We present below the main indicators of Itaúsa Conglomerate companies, based on the Consolidated Financial Statements. Net income, stockholders' equity and ROE correspond to results attributable to controlling stockholders.

	January to June	Financial Sector	Non Financial Sector		R$ million
		Itaú	Alpargatas	Duratex	Itaúsa
Total assets	2018	1,469,095	3,679	9,488	62,760
	2017	1,363,414	3,709	9,085	60,156
Operating revenues (1)	2018	80,447	1,793	2,173	7,293
	2017	100,331	1,667	1,869	6,764
Net income	2018	12,129	137	197	4,447
	2017	12,394	242	17	4,120
Stockholders' equity	2018	126,336	2,130	4,996	51,081
	2017	123,425	2,158	4,596	48,710
Annualized return on average equity (%) (2)	2018	20.0%	12.7%	8.2%	17.6%
	2017	21.0%	23.2%	0.8%	17.4%
Internal fund generation (3)	2018	25,558	236	765	652
	2017	37,758	249	440	272
Interest of Itaúsa in companies (4) (5)	2018	37.58%	27.55%	36.67%	
	2017	37.29%	n.a.	35.52%	

(1) Operating revenue by area of operations was obtained as follows:

- Itaú Unibanco Holding: Interest and similar income, dividend income, adjustments to fair value of financial assets and liabilities, banking service fees, income from insurance, private pension and capitalization operations before claim and selling expenses and other income.
- Alpargatas and Duratex: Sales of products and services.

(2) Represents the ratio of net income for the period and the average equity ((jun + mar + dec'17) /3).

(3) Refers to funds arising from operations as reported by the statement of cash flows.

(4) Represents the direct/ indirect Itaúsa interest in the Capital of Companies

(5) The Interest presented consider the outstanding shares.

RECONCILIATION OF RECURRING NET INCOME

R$ million

	Parent company		Non-controlling interests		Consolidated	
	01/01 a 06/30/2018	01/01 a 06/30/2017	01/01 a 06/30/2018	01/01 a 06/30/2017	01/01 a 06/30/2018	01/01 a 06/30/2017
Net income	**4,447**	**4,120**	**126**	**11**	**4,573**	**4,131**
Inclusion/(Exclusion) of non-recurring effects D = (A + B + C)	**(106)**	**175**	**(91)**	**(2)**	**(197)**	**173**
Itaúsa (A)	**85**	**-**	**-**	**-**	**85**	**-**
Results of sale of all total shares issued by Elekeiroz	85	-	-	-	85	-
Arising from stockholding interest in Financial Sector (B)	**(139)**	**176**	**-**	**-**	**(139)**	**176**
Change in Treasury Shares	(142)	168	-	-	(142)	168
Provision for Contingencies	(34)	27	-	-	(34)	27
Impairment	38	3	-	-	38	3
Other	(1)	(22)	-	-	(1)	(22)
Arising from stockholding interest in Non Financial Sector (C)	**(52)**	**(1)**	**(91)**	**(2)**	**(143)**	**(3)**
Alpargatas	(1)	-	(3)	-	(4)	-
Duratex	(51)	(1)	(88)	(2)	(139)	(3)
Recurring net income	**4,341**	**4,295**	**35**	**9**	**4,376**	**4,304**

4) CAPITAL MARKETS

Itaúsa recorded a 9.7% dividend yield, as a result of the sum-up of dividends and interest on capital, net, paid to the Company's stockholders in the last 12 months based on the closing price of the share in the quarter.

Traded on B3, Itaúsa's preferred shares (ticker ITSA4) closed June 2018 at R$9.18, a 13.1% increase in the previous 12 months, whereas Ibovespa, B3's main index, increased 15.7% in the same period.

On June 30, 2018, Itaúsa had 96,271 individual stockholders, up 48.4% from the figure posted at the end of June 2017.

The daily average financial volume of preferred shares in the first half of 2018 was R$223.6 million, with an average of 25,573 daily trades.

Itaúsa Discount

Discount is an indicator of the difference between the market price ascertained for itaúsa and the theoretical value obtained through the sum of the market value of the parts that compose the Holding Company's investments. On June 29, 2018, Itaúsa's shares were traded at a 24.3% discount, compared to 27.5% in the same period of 2017.

Market capitalization at the end of June, based on the price of the most liquid shares (ITSA4), was R$77,304 million, whereas the total market value of the sum of interests in subsidiaries reached R$102,167 million.

The Investor Relations area discloses information about the discount, which may be received by email, on a monthly basis on its website. To receive it, please register on www.itausa.com.br.

Public Meeting - APIMEC

On September 12, 2018, Itaúsa will hold its 18th annual public meeting with investors, analysts and the market, in partnership with Apimec. This event will be held at Hotel Unique in the city of São Paulo – SP and broadcast live on the Internet.

5) COMMENTS ON THE PERFORMANCE OF INVESTEES

Itaú Unibanco

On January 1, 2018, the new standard IFRS 9 on financial instruments came into force. This standard introduces significant changes in classification and measurement, impairment and hedge accounting. One of the key points refers to the recognition of incurred losses, which will be recorded as expected rather than actual losses incurred, as before.

Corporate Governance

Fiscal Council

The Extraordinary General Stockholders' Meeting of July 27 approved the permanent operation of the Fiscal Council, which has been established annually and continuously since 2000.

Strategic Frontlines

Seeking excellence and the creation of unique value for stockholders and other stakeholders, Itaú Unibanco has defined six strategic priorities with medium and long-term prospects, which have guided management, as follows: client centricity, digital transformation, people management, risk management, sustainable profitability, and internationalization. Corporate governance and sustainability pervade all these frontlines.

A significant initiative in connection with the strategic agenda in this half-year stands out as follows:

Apple Pay and Samsung Pay

Itaú Unibanco has continuously invested in new groundbreaking products and services. As of the first quarter of 2018, the bank's clients were able to use Apple Pay (with a three-month exclusivity) and Samsung Pay as of June. Both tools are new ways for clients to make payments in the retail and e-commerce segments, enabling shopping with iPhone, Apple Watch, iPad or Macbook (Apple Pay) or Samsung Smartphones and Smartwatch Gear (Samsung Pay), in a simple, safe and private way, without the need to use a plastic card. Itaú Unibanco was the first Brazilian financial institution to offer Apple Pay to its clients, who only need to register their Itaucard or Credicard credit cards or their Itaú multiple cards, which have a 'credit' function enabled (in the "Wallet" app for Apple or "Samsung Play app for Samsung devices).

Return to Stockholders

Dividends and Interest on Capital

On July 30, 2018, the Board of Directors of Itaú Unibanco approved the payment of R$4.7 billion in dividends and interest on capital, net of income tax, to be credited on August 30, 2018, based on the stockholding position on August 17, 2018. Stockholders are entitled to receive R$0.73042 per share net of income tax.

Up to June 30, 2018, the bank paid, provided for or stated separately in the stockholders' equity the amount of R$5.3 billion in dividends and interest on capital, net of income tax.

Share Buyback

In the period from January to June 2018, Itaú Unibanco acquired 13.1 million preferred shares of own issue in the total amount of R$509.5 million at the average price of R$38.89 per share. It is worth mentioning that, including buybacks already carried out, the current program allows the acquisition of additional 14.2 million common shares and 36.9 million preferred shares of own issue up to June 19, 2019. On June 30, 2018, treasury stock totaled 60,584,295 preferred shares.

Sustainability

Vigeo Eiris Best Emerging Market Performers Ranking

Itaú Unibanco once again makes up the Vigeo Eiris Best Emerging Market Performers Ranking, composed of 101 companies from 20 countries with the best scores in indicators, such as human rights, decent work practices, environment protection, corporate governance, business ethics, and contribution for economic and social development, in the areas where they operate. Itaú Unibanco makes up this index for a sixth consecutive time.

SUBSEQUENT EVENT:

Regulatory approval for the investment in XP Investimentos

On August 9, 2018, Itaú Unibanco Holding S.A. obtained the approval from the Central Bank of Brazil to carry out the investment in XP Investimentos S.A. previously announced in May 2017. The First Acquisition of 49.9% of total capital stock (30.1% of common shares), by means of a capital increase of R$600 million and the acquisition of shares issued by XP Holding in the amount of R$ 5.7 billion will be completed on August 31, 2018.

This agreement provides for a one-off additional acquisition in 2022, subject to future approval from the Central Bank of Brazil, which if approved will enable Itaú Unibanco to hold up to 62.4% of total capital stock of XP Holding (equivalent to 40.0% of common shares), and it is understood that the control of the XP group will remain unchanged. In addition, Itaú Unibanco will be entitled to nominate two out of seven Board members. Itaú Unibanco undertook the commitment before the Central Bank of Brazil not to acquire the ownership control of XP Holding for eight years as from the execution of the agreement.

The completion of the First Acquisition is not expected to have material effects on the recurring earnings of the Company in this fiscal year.

Selected Financial Information

From January to June 2018, Itaú Unibanco's recurring net income was R$12.1 billion, down 2.2% from the same period of the previous year.

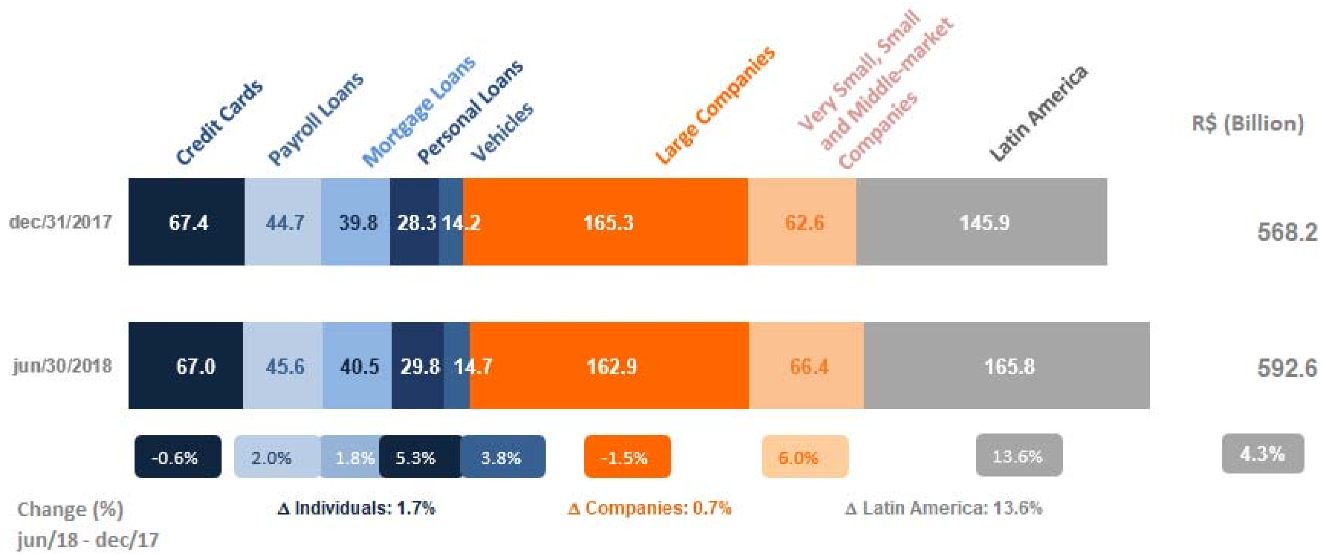
General and administrative expenses increased 5.7% between the first six months of 2017 and of 2018, mainly driven by increases in compensation and benefits, and the bank's risk adjusted efficiency ratio was 60.9%, down 300 bps from the same period of 2017.

Itaú Unibanco is present in 19 countries, with a team totaling 99.9 thousand employees on June 30, 2018. Employees' fixed compensation plus charges and benefits totaled R$8.2 billion in the first six months of 2018.

In the period, another highlight was the 7.6% increase in commissions and fees from the first half of 2017, mainly those related to current account, fund management and credit card services.

Loan portfolio totaled R$592.6 billion at the end of June 2018, up 4.3% from December 2017. In the first half of 2018, the bank recorded increase in the portfolios of loans to individuals and to very small, small and middle-market companies.

We highlight below Itaú Unibanco's loan portfolio with financial guarantees provided at the end of June 2018:



Capital Management and Distribution of Profits

Aimed at ensuring capital adequacy and availability to support the Itaú Unibanco's business growth, regulatory capital levels were kept above those required by the Central Bank of Brazil, as evidenced by the Common Equity Tier I, Tier I, and BIS ratios. Itaú Unibanco intends to maintain the minimum level, established by the Board of Directors, of 13.5% for Tier 1 Capital, which must be composed of at least 12% Common Equity Tier I. For further information, please see to "Risk and Capital Management Report – Pillar 3" report on website www.itau.com.br/investor-relations > Corporate Governance.

The minimum capital requirement, both regulatory level and that established by the Board of Directors, is directly associated with the percentage of dividends and interest on capital to be distributed to stockholders. This amount is determined based on the profitability in the year, the prospective use of capital based on the expected business growth, share buyback programs, mergers and acquisitions, regulatory changes that may modify capital requirements, and changes in tax legislation. Therefore, the percentage to be distributed may change every year based on the company's profitability and capital demands, and always takes into account the minimum distribution set forth in the Bylaws.

Itaú Unibanco remunerates its stockholders by means of monthly and complementary payments, and the latter have historically occurred twice a year and are equally distributed regardless of the type of share. The Stockholders Remuneration Policy is available on the bank's Investor Relations website www.itau.com.br/investorrelations > Corporate Governance > Rules and Policies.

At the end of June 2018, the BIS ratio reached 17.2%, of which: (i) 15.1% related to Tier I Capital, which comprises Common Equity and Additional Tier I Capital, and (ii) 2.0% related to Tier II Capital. These indicators provide evidence of the effective capacity of absorbing unexpected losses. The amount of subordinated debt, which is part of the Tier II regulatory capital, reached R$15.8 billion on June 30, 2018.

ALPARGATAS

In the first half of 2018, Alpargatas' consolidated investments to support operations (CAPEX) totaled R$ 31.1 million. The majority of this amount, R$ 21.3 million, was invested in the 2nd quarter, of which 55% in retail expansion in Brazil and foreign countries and the remaining portion in sustaining and modernizing machineries and equipments as well as in technological update.

The Annual General Stockholders' Meeting held on April 27, 2018 elected independent members Luiz Fernando Ziegler de Saint Edmond and Roberto Funari for the Board of Directors (composed of seven members). In addition, these members were also elected for the Strategy and People committees, as coordinators in the Board of Directors meeting held on the same day. Both Mr. Edmond and Mr. Funari have extensive experience in multinational companies.

Supporting Strategy and Operation

As of 2018, Alpargatas has set up a full structure to make way for its ambition to spearhead the growth of the Havaianas brand in Brazil and in the international market. Therefore, Havaianas structure is set up in five markets: Brazil, EMEA, North America, Asia Pacific and LATAM & Africa.

With the support of expert external consulting firms, Havaianas strategic plan is being revisited, which includes speeding up the internationalization process and capturing leverage for the growth in Brazil, and the go-to-market model for the Brazilian market.

Results

In the first half of 2018, Alpargatas' net revenue totaled R$1,792.7 million, up 7.5% from the same period of 2017. The truckers' strike that spread nationwide in May adversely impacted the supply of raw materials to factories and eventually sales. Even with transport companies resuming operations in June, part of revenues were postponed to the third quarter, even though customer orders were not cancelled.

In Brazil, higher revenues from Havaianas products made up for the fall in other business in the second quarter. Net revenue of the 'Sandálias Internacional' (international flip-flops) business in Brazilian reais, favored by the U.S. and Euro appreciation, was up 0.7% from 2H17, even with lower revenues in local currency in three of the four regions in 2Q18.

In the domestic market, the volume of Havaianas and Dupé business increased 27.6% in the half year, which made up for the postponement of revenues due to the truckers' strike. This result was driven by a quicker turnover of products in stores and the launch of a well-received new Havaianas collection.

The foreign Market was also adversely impacted by the truckers' strike in Brazil, which impaired shipments mainly to the Latin America and Asia Pacific regions.

Mizuno recorded a fall in the volume of sales in 2Q18, driven by the failure to make shipments during the shutdown, whereas in Argentina the volume of sales of sports footwear continued to rise driven by the imported Topper products, which has enabled the company to effectively meet a demand for higher added-value products.

Consolidated recurring EBITDA in 1H18 totaled R$220.8 million, up 27.2% from the first half of 2017, due to higher gross profit (gross margin reached 46.1%, up 160 bps from 1H17). Recurring EBITDA margin in 1H18 was 12.3%. EBITDA according to CVM Instruction No. 527/12, in turn, was impacted by the following non-recurring events: labor damages paid in Argentina, provision for contingent fees and expenses on consulting services.

Consolidated net income in 1H18 totaled R$131.2 million, down 44.0% compared to 1H17, with a 7.3% net margin, impacted by a reduction in EBITDA, higher financial expenses (due to negative foreign exchange variation) and deferred tax credits recorded in Argentina in 2Q17.

Operating cash generation totaled R$563.3 million in the 12 month period ended June 30, 2018. Net cash was R$39.9 million on the same date.

Duratex

Consolidated Capex to support operations totaled R$196.6 million in the first half of 2018. In the second quarter of 2018, this amount was R$115.3 million, of which R$68.0 million were allocated to industrial maintenance and projects, and R$47.3 million were invested in biological assets.

Latest business transactions

In these last months, Duratex has revised its assets for opportunities to improve profitability and cash generation. Accordingly, we highlight the following transactions:

In June 2018, Duratex and Austrian group Lenzing AG announced the set up of a joint venture to produce dissolving wood pulp ('DWP') at a forest area owned by the Company in the Triângulo Mineiro region, state of Minas

Gerais, in the total approximate amount of USD1 billion. Duratex holds a 49% stake in this JV and production is scheduled to start in 2022.

In July 2018, the Company completed the sale of forest assets in the state of São Paulo to Suzano Papel e Celulose, which exercised a call option.

Following the acquisition of Ceusa in 2017, which marked the Company's entry into the Ceramic Tiles segment market, in July 2018 Duratex announced a production capacity expansion plan aimed at supporting a market share increase and providing for higher margins and return on investment with this operation. Between 2018 and 2019, R$94 million will be invested to modernize existing lines and assemble a new one, thus increasing production capacity by 83% to 11 million sq. meters per year.

Added to these developments, we highlight the operation with Eucatex, carried out early in the year, to sell facilities, machinery and equipment aimed to produce thin wood fiberboards.

Results

In the first half of 2018, Duratex's net revenue totaled R$2,173.5 million, up 16.3% from the same period of the previous year. Local market witnessed a better performance in 2Q18, favored by a higher demand from the Wood Division (increased volume of sales of panels, driven by the perceived economic upturn of the furniture segment, and sales of standing timber) and from the Deca Division, which, in spite of the still slow recovery of the civil construction segment, recorded increasing volumes in the retail channel. Additionally, the incorporation of the Ceramic Tiles Division's results (due to the acquisition of Ceusa in August 2017 – incorporated in October 2017, after approval from CADE) also contributed to this growth in revenues in the period.

In the foreign market, we highlight the increase in the volume of exported wood panels, better performance of operations in Duratex Colombia, and the effects from foreign exchange variation, which led to revenues increasing in 1H18 to R$415,9 million, up 34.5% from 1H17.

Sales in the **Wood Division** in 1H18 were boosted by higher volume in both local and foreign markets, which recorded an improvement, in spite of the shutdown in the cargo transportation sector, driven by the ongoing economic recovery in these markets. Volumes and profitability of operations increased, following the gradual pace of recovery. The gross margin of this division was 26.1%, outstripping the 21.8% recorded in 1H17. Net revenue in 1H18 was R$1,375.6 million, up 17.3% on a year-on-year basis.

The results of **Deca Division** recovered slighted in 1H18, in spite of the still challenging scenario in the civil construction sector. In the period, shipped volume remained stable, and worth mentioning is the 9.1% increase in shipped volume in 2Q18, mainly driven by the retail channel, which more than made up for the still restrained demand in the civil construction sector (new developments). Deca Division's net revenue in 1H18 was R$707.9 million, with a 26.7% gross margin. The increase in net revenue in the second quarter, with a 12.2% growth from the first quarter of 2018, signals a recovery from the adverse scenario experienced in early 2018.

In 1H18, **Ceramic Tiles** operations, through the Ceusa brand, recorded net revenue of R$90.0 million, with gross margin of 40.1%. The volume of 2.5 million sq. meters in ceramic tiles was shipped in 1H18. In 2Q18, shipped volume fell 1.9% from the first quarter of 2018, impacted by the truckers' strike nationwide. As it operates with a high capacity utilization rate, this shutdown directly affected business performance.

Consolidated recurring net income in 1H18 was R$58.3 million, up 276.5% on a year-on-year basis. This result excludes the non-recurring effects of the earnings from the sale of land and forest to Suzano.

On June 30, 2018, Duratex recorded net debt of R$2,163.1 million, which represents a leverage ratio of 2.59 times (net debt to adjusted recurring EBITDA), a decrease in the debt level from the same period of the previous year, following the downward trend witnessed in last periods.

nts

Results

In the first half of 2018, net revenue totaled R$1,993 million, down 3.7% on a year-on-year basis. EBITDA totaled R$1,790 million, up 13.7% from the prior year, mainly driven by the recognition of extraordinary expenses in connection with the corporate restructuring in the first half of 2017. In the period, NTS recorded net income of R$935 million, up 11.1% from 1H17.

Dividends and Interest on Capital

From January to June 2018, Itaúsa received dividends and interest on income, gross, in the amount of R$79.2 million. From January to May 2018, interest income from debentures held by Itaúsa totaled R$19.1 million. On May 15, 2018, NTS redeemed these debentures.

Itautec

Itautec hold 10.31% of capital stock of Oki Brasil Indústria e Comércio de Produtos e Tecnologia de Automação S.A. (Oki Brasil). This remaining interest will be sold in January 2020 by exercising a put option against Oki.

By management decision, Itautec stopped acting on the segments in which it participated. In 2014, the Company closed a production of computers, having in the course of 2015 sold to a list of the products that it had in stock. The company manufacturing and commercialization of banking and commercial automation equipment and the provision of services is today developed by Oki Brasil. The Company's activity in the segment of Information Technology basically aims to fully comply with the previously signed contracts.

Results

Consolidated net revenue for the first half of 2018 was R$0.3 million. The result for the 2Q18 was positively impacted by revenues from the withdrawal of the escrow deposit made by Eletrobrás in connection with the refund of the compulsory loan paid in the 1970s and 1990s, inflation-adjusted, which totaled R$5.4 million. Additionally, the Company recorded the ultimate write-off of the remaining balance of Suframa judgment debt of the government, in the amount of R$2.2 million, due to the expected non-realization of this asset. Excluding these events, the net result for the 2Q18 would be negative by R$2.7 million.

6) PEOPLE MANAGEMENT

Itaúsa Conglomerate had the support of approximately 131,000 employees at the end of June 2018, including approximately 18,000 employees in foreign units and 75 people dedicated to Itaúsa’s specific activities.

7) INDEPENDENT AUDITORS – CVM INSTRUCTION No. 381

Procedures adopted by the Company

The policy adopted by Itaúsa, its subsidiaries and parent company, to engage non-audit related services from our independent auditors is based on the applicable regulations and internationally accepted principles that preserve the auditors independence. These principles include the following: (a) an auditor cannot audit his or her own work; (b) an auditor cannot hold managerial positions at their client’s; and (c) an auditor cannot promote the interests of its client.

In the period from January to June 2018, the independent auditors and related parties did not provide non-audit related services in excess of 5% of total external audit fees.

According to CVM Instruction No. 381, we list below the non-audit related services provided and related dates:

- January 11 – review of compliance with transfer pricing policies;
- February 1 and April 3 – review of tax-accounting bookkeeping; and
- February 15 and May 23 – acquisition of technical materials.

Independent Auditors’ Justification – PwC

The provision of the above-described non-audit related professional services do not affect the independence or the objectivity of the external auditor of Itaúsa and its subsidiaries. The policy adopted for providing non-audit related services to Itaúsa is based on principles that preserve the independence of the Independent Auditors, all of which were considered in the provision of the referred services.

8) ACKNOWLEDGMENTS

We thank our stockholders and clients for their trust, which we always try to pay back by obtaining results differentiated from those of the market, and making available quality products and services, and our employees for their talent and dedication, which have enabled the sustainable growth of business.