ITAÚSA

Management Report

1st Quarter of 2019 (1Q19)

## MANAGEMENT REPORT

We present the Management Report and the Financial Statements of Itaúsa – Investimentos Itaú S.A. (Itaúsa) for the first quarter of 2019 (1Q19), 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 market on the websites of Itaúsa, B3 S.A. – Brasil, Bolsa, Balcão (B3) and the CVM.

## 1. ECONOMIC ENVIRONMENT

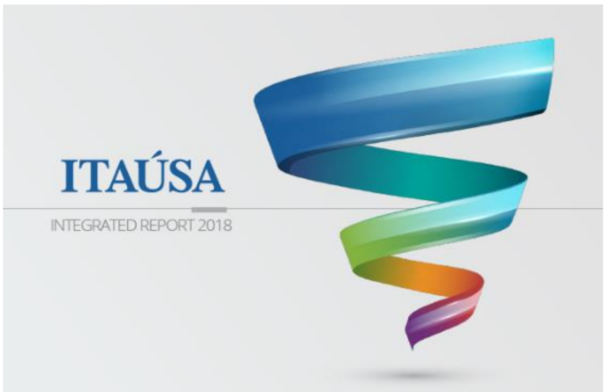
Economic recovery expectations built up since early 2019 have not been fulfilled, at least not in these first months of the year. Activity data point out to a slow pace early 2019 and it is conveyed to market expectations. The Focus Market Readout of the end of April informed that the expected GDP growth median for 2019 was 1.70% (from 2.53% as disclosed by the same document early January). Itaú Unibanco's expectations are even more conservative. Its last review in April for expected GDP growth in 2019 and 2020 is now at 1.3% and 2.5%, from 2.0% and 2.7%, respectively, beforehand. This fall has led to the bank's projected unemployment rate worsening to 11.9% (from 11.8%) for late 2019. The evolution of the economic scenario below expectations has been adversely impacting the performance of Itaúsa's non-financial investees.

On the other hand, inflation and interest indicators point out towards even lower levels for the next quarters. Pressure on fuel prices should be temporary only and not affect inflation significantly, which remains at around 4.0% per year according to most projections for 2019 and 2020. Accordingly, there are no strong indications to push for a rise in the basic interest rates that may even fall, according to Itaú Unibanco, from current 6.50%, to 5.75% late 2019 and 5.50% in 2020, if the social security reform at the Brazilian Congress is successfully approved.

With the international economy signaling a favorable scenario for emerging countries, driven by the prospective trade agreement between superpowers, incentives in China and Fed's halt in interest rate rises, it becomes paramount to monitor the Brazilian agenda, in particular the arrangements for the social security system reform, in the short and medium terms.

## 2. ITAÚSA HIGHLIGHTS

### Integrated Report 2018




In March 2019, Itaúsa published its first-ever Integrated Report, a document based on the guidelines of the International Integrated Reporting Council (IIRC), a global coalition of investors, companies, regulators, scholars and standard setters, the accounting profession and NGOs, which share the vision that communicating value creation is the main driver for corporate reporting preparation.

Itaúsa's Integrated Report is built up in such a way to address the Company's main Capitals (Financial, Human, Reputational and Intellectual Capital), prepared with the Senior Management's active involvement and aims at connecting Itaúsa's Business Model to value creation in a sustainable way. It unveils material topics identified in a structured process of interviews with stakeholders, such as strategy, leadership's vision, and governance, sustainability and performance aspects that allow readers to better understand the factors affecting the capacity to create value over time.

This groundbreaking publication among Latin American holding companies, and one of the first of its kind in Brazil, is available on the websites of Itaúsa, the CVM and B3 or can be accessed directly at http://www.itausa.com.br/en/financial-information /integrated-and-annual-report.

**Merger of shares of Itautec S.A. – Itautec Group**

In the Material Fact disclosed on February 25, 2019, Itaúsa - Investimentos Itaú S.A. and Itautec S.A. –Itautec Group announced the commencement of negotiations for the merger of the total shares issued by Itautec into Itaúsa, with the consequent preservation of the Itautec's legal personality and its conversion into a wholly-owned subsidiary of Itaúsa.

After negotiations were completed, the Companies disclosed another Material Fact on March 29, 2019 addressing the proposed merger of shares, with a ratio of exchange of one (1) common share issued by Itautec for one (1) preferred share issued by Itaúsa, which was approved by the Companies' stockholders at the General Stockholders' Meetings held on April 30, 2019. To determine the ratio of exchange of shares, the following aspects were taken into account, although not separately: (i) the liquidity and dispersion of the preferred shares issued by Itaúsa (listed in B3's index) that will be granted to Itautec's stockholders; and (ii) the reduction of costs and expenses that the merger of shares will provide to Itaúsa.

Holders of common shares of Itaúsa dissenting from this merger of shares will be entitled to exercise their right of dissent and appraisal up to May 31, 2019, and will be reimbursed at R$6.56 per common share held without interruption since March 29, 2019.

To find out more, please see to the Merger of Shares documents on Itaúsa's website:

Material Facts: http://www.itausa.com.br/en/announcements-and-minutes/material-facts

Minutes and Manual of the General Stockholders' Meetings: http://www.itausa.com.br/en/announcements-and-minutes/general-meetings

**Return to stockholders**

On March 7, 2019, Itaúsa paid out additional dividends in the amount of R$0.4532 per share and interest on capital for the year 2018, in the amount of R$0.3192 per share (R$0.27132 share, net of withholding income tax). Both proceeds were approved at the Board of Directors' Meeting held on February 18, 2019.

## 3. ITAÚSA'S ECONOMIC PERFORMANCE

As a holding company, Itaúsa's results are basically derived from its share of income, determined based on the results of its subsidiaries and revenues from investments in financial assets. We present below the Individual Income Statement of Itaúsa:

| Individual results, in R$ million | 1Q19 | | 1Q18 | | Δ | Δ% |
|---|---|---|---|---|---|---|
| **INVESTEES' RESULTS IN ITAÚSA** | **2,687** | 100.0% | **2,712** | 100.0% | **(25)** | *-0.9%* |
| **FINANCIAL SECTOR** | **2,615** | 97.3% | **2,610** | 96.2% | **5** | ***0.2%*** |
| **NON-FINANCIAL SECTOR** | **76** | 2.8% | **90** | 3.3% | **(14)** | ***-15.6%*** |
| ALPARGATAS | 9 | *0.3%* | 23 | *0.9%* | (14) | *-60.9%* |
| DURATEX | 9 | *0.3%* | 11 | *0.4%* | (2) | *-18.2%* |
| NTS (1) | 58 | *2.2%* | 56 | *2.1%* | 2 | *3.6%* |
| OTHER COMPANIES (2) | (4) | -0.1% | 12 | 0.4% | (16) | *-133.3%* |
| **RESULTS OF ITAÚSA** | **(289)** | | **(330)** | | **41** | *-12.4%* |
| FINANCIAL INCOME / EXPENSES | (15) | | (30) | | 15 | *-50.0%* |
| ADMINISTRATIVE EXPENSES (2) | (32) | | (18) | | (14) | *77.8%* |
| TAX EXPENSES | (244) | | (284) | | 40 | *-14.1%* |
| OTHER OPERATING REVENUES | 2 | | 2 | | - | *0.0%* |
| **INCOME BEFORE INCOME TAX/SOCIAL CONTRIBUTION** | **2,398** | | **2,382** | | **16** | *0.7%* |
| INCOME TAX / SOCIAL CONTRIBUTION | 88 | | 18 | | 70 | *388.9%* |
| **NET INCOME** | **2,486** | | **2,400** | | **86** | ***3.6%*** |

(1) Includes dividends and interest on capital, adjustment to fair value of shares, interest on debentures convertible into shares, and expenses on time installment of the amount invested in NTS.

(2) For better comparability, some administrative expenses of the 1Q18 on the administrative structure dedicated to the holding company's activities, recorded in Itaúsa Empreendimentos (a wholly-owned subsidiary of Itaúsa) in the amount of R$5 million, were reclassified to line "Administrative Expenses" of Itaúsa (Income Statement of the Parent Company).

## General and administrative (G&A) expenses

In the first quarter of 2019, administrative expenses, in the Individual Income Statement of Itaúsa, totaled R$32 million. This increase, as compared on a year-on-year basis, was mainly driven by (i) a rise in the variable compensation of members of management and the executive board, placing it in line with market practices; (ii) the expansion of the structure dedicated to the holding company's activities; and (iii) sureties and guarantees taken out to secure lawsuits.

## MAIN INDICATORS OF RESULTS OF ITAÚSA CONSOLIDATED AND MARKET

| | **R$ million** | | | **R$ per share** | | |
|---|---|---|---|---|---|---|
| | **1Q19** | 1Q18 | change | **3/31/2019** | 3/31/2018 | change |
| **PROFITABILITY** | | | | | | |
| Net income | **2,486** | 2,400 | 3.6% | **0.30** | 0.29 | 1.2% |
| Recurring Return on Equity (annualized) | **18.8%** | 19.1% | - 30 bps | | | |
| **BALANCE SHEET** | | | | | | |
| Total assets | **54,323** | 53,683 | 1.2% | **-** | - | - |
| Net indebtedness | **306** | 632 | -51.6% | **-** | - | - |
| Stockholders' equity | **50,402** | 48,500 | 3.9% | **5.99** | 5.90 | 1.6% |
| **CAPITAL MARKETS** | | | | | | |
| Market Value (1) | **100,760** | **103,061** | -2.2% | **-** | - | - |
| Average daily traded financial volume - Itaúsa PN | **379** | **222** | 70.9% | **-** | - | - |

(1) Calculated based on the closing price of preferred shares in the last day of the period.

## MAIN INDICATORS OF ITAÚSA CONGLOMERATE COMPANIES

We present below the main indicators of Itaúsa Conglomerate companies, based on the Consolidated Financial Statements under IFRS.

R$ million

| | January to March | Financial Sector | Non-Financial Sector | |
|---|---|---|---|---|
| | | Itaú | ALPARGATAS | Duratex |
| **Operating revenues** (1) | **2018** | **46,717** | **940** | **1,073** |
| | 2017 | 43,985 | 902 | 1,006 |
| **Net income** (6) | **2018** | **6,747** | **53** | **24** |
| | 2017 | 6,389 | 114 | 31 |
| **Total Assets** | **2018** | **1,545,971** | **4,209** | **9,589** |
| | 2017 | 1,441,407 | 3,784 | 9,196 |
| **Stockholders' equity** (6) | **2018** | **124,754** | **2,423** | **4,670** |
| | 2017 | 123,031 | 2,160 | 4,770 |
| **Annualized return on average equity (%)** (2) (6) | **2018** | **22.2%** | **8.8%** | **2.1%** |
| | 2017 | 21.3% | 21.0% | 2.6% |
| **Internal fund generation** (3) | **2018** | **14,720** | **131** | **250** |
| | 2017 | 18,185 | 160 | 197 |
| **Interest of Itaúsa in companies** (4) (5) | **2018** | **37.46%** | **27.55%** | **36.66%** |
| | 2017 | 37.51% | 27.55% | 36.68% |

(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 ((dec'18 + mar)/2).
(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.
(6) Net Income, Stockholders' Equity and ROE correspond to the amounts attributable to controlling stockholders.

## 3.1. Capital markets

Itaúsa's preferred shares (traded on B3 under ticker ITSA4) closed March 2019 at R$11.98, a 4.4% decrease in the previous 12 months, whereas Ibovespa, B3's main index, rose by 11.8% in the same period.

The daily average financial volume of preferred shares in the first quarter of 2019 was R$380 million, with an average of 34,000 daily trades.

On March 31, 2019, Itaúsa had 201,600 individual stockholders, compared to 77,400 year-on-year, a 160.5% increase.

### Itaúsa discount

Discount is an indicator of the difference between the market price ascertained for Itaúsa's shares and the theoretical value obtained through the sum of the market values of the parts that compose the holding company's investments. On March 31, 2019, Itaúsa's shares were traded at a 23.3% discount.

Market capitalization on March 31, 2019, based on the price of the most liquid shares (ITSA4), was R$100,760 million, whereas the total market value of the sum of interests in subsidiaries at market value reached R$131,375 million.

The Investor Relations department 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.

### 3.2. Assessment of opportunities

Through its executive board and internal governance bodies, Itaúsa periodically assesses capital allocation alternatives, such as investments in new business, share buybacks, and dividend distribution, among others.

As part of this process, the Company has constantly assessed investment opportunities. Among them, the Company had stated its interest in acquiring a stake in TAG - Transportadora Associada de Gás S.A., Brazil's largest natural gas transportation company, by way of a pool of investors, which, however, has not been consummated as our offer, which had a given minimum return required by the Company as assumption, was outdone by the one offered by another pool of companies taking part in the competitive bid process.

Itaúsa keeps alert for potential opportunities that meet criteria such as the efficient capital allocation in solid, cash-generating companies with market renowned brands, always caring for the discipline in assessing opportunities and the management driven to stockholder value creation.

Find out more on the Capital Allocation process at the Company's Integrated Report, from page 40 on, in Chapter 5 – Financial Capital.

## 4. COMMENTS ON THE PERFORMANCE OF INVESTEES

### Itaú Unibanco Holding S.A.

**Highlights**

#### Rede: zero cost on advances against single-installment credit card sales

Clients of Rede with annual revenue of up to R$30 million, in the economic group vision, that use the Rede equipment and receive their payments at Itaú Unibanco, will now receive the proceeds of their credit card sales in two days, free of charge for the advance as of May 2, 2019. This initiative applies to both current and new customers and aims to benefit small and middle-market companies, as well as the self-employed and micro entrepreneurs, and users of any model of the Rede device are eligible.

The merchant acquiring business comprises the process of capturing transactions through affiliation, management and relationship with merchants. In the first quarter of 2019, the volume of credit and debit card transactions increased 14.2% year-on-year.

#### Evolution in digital transformation

Itaú Unibanco has reached 11.5 million individual current account holders who use its digital channels via Internet or mobile apps in March 2019. It also reached 1.2 million corporate clients. Over 221,000 accounts were opened by the Abreconta app early this year in a fully digital way, up 144% year-on-year.

## Results under IFRS

Net income attributable to controlling stockholders totaled R$6.7 billion in the first quarter of 2019, up 5.6% year-on-year, and annualized recurring return (ROE) of 22.2%.

| R$ million (except where indicated) | 1Q19 | 1Q18 | Δ% |
|---|---|---|---|
| Operating Revenues | 28,296 | 27,409 | 3.2 |
| Net Income | 6,747 | 6,389 | 5.6 |
| ROE | 22.2% | 21.3% | 0.9 p.p. |
| Loan Portfolio | 650,579 | 605,796 | 7.4 |

**Commissions and fees** reached R$9.1 billion in the first quarter of 2019, up 2.7% year-on-year, mainly driven by credit and debit card services and investment funds. **Revenues from insurance and pension plan operations**, before claims and selling expenses, reached R$1.1 billion in the first quarter of 2019, up 4.3% year-on-year.

**Operating revenues** increased 3.2%, mainly driven by revenues from loans operations posting growth in the portfolio of loans to individuals and very small, small and middle-market companies.

General and administrative expenses rose 5.3% year-on-year, mainly driven by higher expenses on credit card selling, depreciation and amortization, and the impact of the collective bargaining labor agreement on personnel expenses.

At the end of March 2019, **loan portfolio,** including financial guarantees provided and corporate securities, reached R$650.6 billion, up 7.4% from the same period of 2018. Noteworthy were the portfolios for individuals, which increased 12.0%, and for very small, small and middle-market companies, up 17.0%.

## Capital management

In the first quarter of 2019, Full Tier I capital ratio, which included the impact of the deduction schedule being brought forward, but did not include the additional installment of dividends and interest on capital, totaled 14.8%. Noteworthy is the generation of capital from income and the issuance of R$3.05 billion in Perpetual Subordinated Financial Notes, negotiated with professional investors, and approved by the Central Bank of Brazil as part of the additional capital, commencing February 2019.

Duratex

## Highlights

### Strategic management and investments

Consolidated investments totaled approximately R$80 million in 1Q19, of which R$37 million were invested in fixed assets and technology, and R$43 million in biological assets. Total investments projected for 2019 amount to R$525 million, of which R$80 million refer to the expansion of the ceramic tiles business and the remaining amount for the support of manufacturing and forest operations. Two expansion projects are currently in progress: increase in the capacity of ceramic tiles and set-up of a joint venture to produce dissolving wood pulp ('DWP'), which is proceeding as scheduled, with some investments already been made.

## Results

In the quarter, net revenue totaled R$1,072.5 million, up 6.6% year-on-year, mainly driven by the rise in prices early in the year and a better mix of products. Net revenue arising from the foreign market was R$192.5 million in 1Q19, up 8.7% year-on-year, mainly driven by foreign exchange depreciation and increase in volume exported. Accordingly, revenues from foreign markets accounts for 18.0% of total.

| R$ million (except where indicated) | 1Q19 | 1Q18 | Δ% |
|---|---|---|---|
| Net Revenue | 1,072.5 | 1,006.0 | 6.6% |
| EBITDA | 228.8 | 224.9 | 1.7% |
| Net Income | 23.9 | 30.8 | -22.5% |
| ROE | 2.1% | 2.6% | - 0.5 p.p. |

**Wood Division**'s net revenue totaled R$678.1 million in the first quarter of 2019. The 8.0% increase (or 12.9% when excluding the effect of fiberboard sales) was driven by the stability of shipped volumes together with price rises and the improved mix of products. **Deca Division**, in turn, posted a 4.3% increase in net revenue to R$348.0 million, also impacted by price rises and the mix of products, but recorded an 8.3% drop in the volume of parts shipped. The Division's gross margin was also impacted by some gain of productivity. Operating under the Ceusa brand, the **Ceramic Tiles Division** posted net revenue of R$46.4 million in 1Q19, up 4.6% from that reported in the previous year, in spite of the 1.5% drop in the volume shipped, impacted by the integration of Ceusa operation into the

Company's ERP system that, in addition to extraordinary disbursements, generated delays in billing that should be made up for in the coming months.

EBITDA reached R$228.8 million, with a 21.3% margin, up 1.7% from that reported in 1Q18. Recurring adjusted EBITDA for the period was R$179.3 million, excluding R$25.5 million determined with the sale of land and forests, among other factors. Net income was R$23.9 million, down 22.5% year-on-year, whereas recurring net income totaled R$19.3 million, down 37.5% year-on-year, mainly driven by lower variation of the fair value of biological assets, higher freight expenses and the expenses on the new DWP business unit incurred this year, according to planning.

Net debt was R$2,010 million at the end of March 2019, corresponding to 2.38 times the recurring adjusted EBITDA for 12 months, slightly higher than the one recorded last quarter, mainly driven by lower cash arising from the payment of dividends and interest on capital, which totaled R$286.1 million.

ALPARGATAS

## Highlights

### Changes in Management

Proceeding with Alpargatas' corporate governance evolution process, the first quarter of 2019 was marked by changes in Management brought about by the Company's new CEO, Roberto Funari. Accordingly, the Executive Digital Channels Office was set up and new executives were hired for the positions of Human Resources Officer and Osklen's CEO.

## Results

Net revenue increased 4.2% on a year-on-year basis, mainly driven by the growth of all business in Brazil and by the 16.1% increase in Havaianas international operations, favored by gains from the appreciation of strong currencies against the Brazilian real, even with the negative impact of the exchange variation/ monetary adjustment in Argentina.

| R$ million (except where indicated) | 1Q19 | 1Q18 | Δ% |
|---|---|---|---|
| Net Revenue | 940.2 | 902.1 | 4.2% |
| EBITDA | 134.4 | 169.1 | -20.5% |
| Net Income | 43.5 | 112.9 | -61.5% |
| ROE | 8.8% | 21.0% | - 12.2 p.p. |

Net revenue in **Brazil**, represented by Havaianas, Dupé, Mizuno and Osklen brands, reached R$611.0 million, up 6.7%, driven by a higher level of sales of sandals and sports apparel. **Sandals International**'s net revenue totaled R$208.0 million, up 16.1% year-on-year, as a result of the higher volume of sales and boosted by the appreciation of the U.S. dollar and euro against the Brazilian real in the period. Net revenue in **Argentina** totaled R$121.2 million, down 19.2% year-on-year, impacted by the fall in the volume of footwear and textile sales.

Consolidated gross profit increased 4.3% in 1Q19, up 10 basis points in gross margin, driven by the management of costs, and the increased share of Sandals International in result, absorbing the higher cost of rubber on a year-on-year basis.

In 1Q19, EBITDA totaled R$ 134.4 million, down 20.6% year-on-year. However, in 1Q18 assets in Argentina were sold, bringing in a positive impact of R$45.6 million in that quarter. Recurring EBITDA for the period increased 5.8% to R$136.8 million, mainly driven by the positive effects arising from the revenues from sales of the Botas 7 Léguas business and the IFRS 16 adoption, and the negative effects arising from the inflation adjustment in Argentina and advisory services expenses.

Consolidated net income for the first quarter of 2019 totaled R$43.5 million, down 61.5%, with a 4.6% net margin, as a result of the aforementioned factors. Operating cash generation totaled R$237.2 million, and cash balance reached R$601.4 million on March 31, 2019.

Highlights

On April 18, 2019, NTS was authorized by the CVM to be registered as a securities issuer, category "B", as disclosed in the Material Fact published on April 24, 2019.

As of April 2019, Wong Loon has taken over as the Company's new CEO, also holding the position of Chief Operations Officer (COO) at the same time.

Results

| R$ million (except where indicated) | 1Q19 | 1Q18 | Δ% |
|---|---|---|---|
| Net Revenue | 1,083.8 | 990.4 | 9.4% |
| Net Income | 537.9 | 455.1 | 18.2% |

In the first quarter of 2019, net revenue totaled R$1,083.8 million, up 9.4% on a year-on-year basis, driven by the annual adjustment to gas ship-or-pay agreements. In 1Q19 net income totaled R$537.9 million, up 18.2% year-on-year, driven by lower debenture financial expenses due to the fall in interest rates and the debt restructuring with funds raised under more attractive conditions.

Dividends and Interest on Capital

In the period from January to March 2019, Itaúsa received dividends and interest on capital, gross, in the amount of R$39.7 million.

## 5. PEOPLE MANAGEMENT

Itaúsa Conglomerate had the support of approximately 129,000 employees on March 31, 2019, including 16,200 employees in foreign units. Its dedicated structure, intended to carry out the holding company's activities, had 73 people on that same date.

## 6. 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 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 March 2019, the independent auditors and related parties did not provide non-audit services in excess of 5% of total external audit fees.

### Independent Auditors' Justification - PwC

The provision of the above-described non-audit 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 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.

## 7. ACKNOWLEDGMENTS

We thank our stockholders for their trust, which we always try to repay by obtaining results differentiated from those of the market, and our employees, for their talent and dedication, which have enabled the sustainable growth of business.