ITAÚSA

Management Report
3rd Quarter of 2019 (3Q19)

MANAGEMENT REPORT

We present the Management Report and the Financial Statements of Itaúsa – Investimentos Itaú S.A. (Itaúsa) for the third quarter of 2019 (3Q19), prepared in accordance with the standards established by the Accounting Pronouncement 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 activity indicators have ended up outperforming expectations slightly, as measured by market consensus and outlined in the Focus Market Readout disclosed by the Central Bank of Brazil over the last months, thus leading market expectations towards a more positive tone when concerning the gradual recovery of the Brazilian economy in the medium term.

The combination of basic interest rates at its lowest rates ever (currently at 5.0% p.y.) and inflation rates consistently below its target (12-month IPCA up to September 2019 totaling 2.9%), together with the approval of a draft text for the social security reform in second round voting and the release of funds in connection with the workers severance fund (FGTS) and PIS-PASEP, thus increasing expectations on the advancement of the structural reforms agenda and economic recovery, has contributed to mitigate uncertainties on the economy gears and striven to boost consumption and private investments.

Regarding the labor market, unemployment rate is at 11.8% in the quarter ended in September 2019, slightly down from the previous quarter and the same period of the previous year, as measured by the Continuous Pnad (Continuous National Household Sample Survey).

On the other hand, in 2019 the global economy has continued its downward trend against a backdrop of high uncertainties. The US GDP is expected to slow down to a 2.2% growth rate in 2019 (from 2.9% in 2018), whereas the Euro zone growth is expected to continue to slow down, to 1.1% in 2019 (from 1.8% in 2018), as estimated by Itaú BBA. Inflation remains low, which should lead the European Central Bank towards new interest rate cuts. Also as estimated by Itaú BBA, China is expected to grow by 6.2% in 2019 (from 6.6% in 2018), mainly driven by the impacts of the war trade with the US. These factors together may increase the inflow of capital to emerging economies and favor those countries showing improved expectations in the macroeconomic scenario, which includes Brazil.

In such ongoing challenging environment, investees in the consumer goods and civil construction segments may experience better conditions for operational growth, boosted by improved economic conditions, the recovery of consumption, and seasonality. The financial sector has witnessed the ongoing improvement in capital markets that started in the first half, as evidenced by a greater number of IPOs, secondary offerings and debt bond issues. The cut in the Selic rate and the private sector's enhanced level of confidence should continue to favor the funds, investment banking and loan granting segments, which are also benefitted from increased consumption levels.

1. ITAÚSA HIGHLIGHTS

Return to stockholders

On August 23 and October 1, 2019, additional quarterly dividends were paid out in the amounts of R$0.3405 and R$0.02 per share, respectively, to stockholders with stockholding position at the end of August 15 and August 30, respectively.

In the first nine months of 2019, earnings paid totaled approximately R$9.3 billion. Gross earnings paid per share in the last 12 months totaled R$1.1929, which, divided by the current share price (R$13.76 on 11/08/2019), totals 8.7% of dividend yield.

The complete history of earnings paid and payable can be accessed at:
http://www.itausa.com.br/en/itausa-in-the-stock-market/dividends

Itautec registration as a publicly-held company cancelled

On August 15, 2019, Itautec's request for cancellation of its registration as a publicly-held company was granted by the CVM, thus completing the process of merger of its shares into Itaúsa, which had started with the announcement to the market through a Material Fact disclosed by both companies on February 25, 2019.

As a result of this merger, Itaúsa issued approximately 119,000 preferred shares (ITSA4), with a 0.001% dilution for its stockholders.

Wholly-owned subsidiary Itaúsa Empreendimentos merger

The Extraordinary General Stockholders' Meeting held on August 30, 2019 approved the merger of shares of wholly-owned Itaúsa Empreendimentos S.A., a company with an administrative structure of approximately 80 professionals fully dedicated to operational activities to support Itaúsa, with no capital dilution. This operation will provide for more operational synergy and efficiency, with the resulting optimization and rationalization of administrative costs and accessory obligations. In that same event, stockholders also approved timely improvements to Itaúsa's Bylaws.

Increased interest in Alpargatas' capital stock

Between August 13 and 26, 2019, Itaúsa acquired 2.5 million preferred shares of Alpargatas, at the average price of R$23.66 per share, thus increasing its ownership interest in the latter's total capital by 0.3% to 28.9%. This event, continuing the share purchase process started in May 2019, was driven by Itaúsa's taking advantage of a market opportunity and strengthens the Company's trust in the creation of long-term value of this investment.

Itaúsa and Itaú Unibanco once again make up the DJSI

Itaúsa, for the 16th year, and Itaú Unibanco, for the 20th consecutive year, were selected to make up the portfolio of the Dow Jones Sustainability World Index (DJSI), the world's main corporate sustainability index. In its 2019/2020 edition, this portfolio is made up of 318 companies from 27 countries, of which only seven are Brazilian.

Both companies achieved the highest scores in the sectors where they operate in the following categories: Anti-Crime Policies and Measures, Contributor to Public Policies, Financial Stability and Systemic Risk, Environmental Reporting and Financial Inclusion.

Furthermore, Itaúsa and Itaú Unibanco were selected for the portfolio of the Dow Jones Sustainability Emerging Markets Index.

SUBSEQUENT EVENTS

Acquisition of Liquigás completed

On November 7, 2019, Itaúsa announced to the market in general that the Acquiring Group of which it is part has submitted the best offer for acquiring the totality of Liquigás' shares.

The offer price by the Acquiring Group was R$ 3.7 billion and is subject to certain adjustments provided for in the purchase and sale agreement to be signed later this year. Itaúsa's stake in the Transaction will be through equity investment in Copagaz, thereby holding a minority and relevant stake of approximately 49% in Copagaz's total and voting capital, with the remaining capital being held by Copagaz's current stockholders.

This Transaction will be submitted to the approval of Petrobras' relevant bodies, and subsequently submitted to the Brazilian Antitrust Authority (CADE). The completion of this transaction and respective financial settlement are dependent upon the fulfillment of certain conditions precedent, among them the approval from CADE.

Constantly seeking for efficient capital allocation opportunities, Itaúsa has stepped up the evaluation process for investments and divestments over the last years, and the Transaction is aligned with Itaúsa's portfolio management strategy that privileges increase of profitability, risk reduction and long-term value creation. This transaction will have no impact in Itaúsa's results in this fiscal year.

Itaúsa will keep the market informed on the developments of this transaction accordingly.

For further information, please see the Announcement to the Market disclosed on November 7, 2019 at:

www.itausa.com.br/en/announcements-and-minutes/material-facts

3. ITAÚSA'S ECONOMIC PERFORMANCE

As a holding company, Itaúsa's results are basically derived from its share of income, determined based on the net income of its subsidiaries and revenues from investments in financial assets.

As a result of the merger of wholly-owned subsidiary Itaúsa Empreendimentos into Itaúsa, carried out on August 30, the Individual Statement of Income of Itaúsa, presented in the pro-forma table below, had some 2018 and 2019 figures adjusted in the lines for better comparability of the data submitted, without, however, resulting in any change in net income.

MAIN INDICATORS OF RESULTS OF ITAÚSA CONSOLIDATED AND CAPITAL MARKETS

	R$ million			**R$ per share**		
	9M19	9M18	change	**09/30/2019**	09/30/2018	change
PROFITABILITY						
Net income	**6,862**	6,929	-1.0%	**0.82**	0.84	-2.5%
Recurring net income	**7,168**	6,657	7.7%	**0.85**	0.80	6.1%
Return on Equity (annualized)	**17.4%**	18.1%	-70 bps			
Recurring Return on Equity (annualized)	**18.2%**	17.4%	80 bps			
BALANCE SHEET (1)						
Total assets	**55,509**	55,845	-0.6%			
Net indebtedness	**263**	24	995.8%			
Stockholders' equity	**52,130**	52,691	-1.1%	**6.20**	6.26	-1.1%
CAPITAL MARKETS						
Market Value (2)	**110,855**	**84,948**	30.5%			
Average Daily Traded Volume (ADTV) on B3 (3)	**297**	**201**	47.5%			

(1) For better comparability, all periods include the merger of Itaúsa Empreendimentos.

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

(3) Includes Itaúsa's preferred shares (ITSA4)

PRO-FORMA INDIVIDUAL RESULT OF ITAÚSA

in R$ million	3Q19	3Q18	Δ%	9M19	9M18	Δ%
INVESTEES' RESULTS IN ITAÚSA	**2,543**	**2,324**	*9%*	**7,590**	**7,019**	*8.1%*
FINANCIAL SECTOR	**2,470**	**2,299**	***7.4%***	**7,322**	**6,837**	***7.1%***
NON-FINANCIAL SECTOR	**78**	**27**	***187.0%***	**279**	**153**	***82.0%***
ALPARGATAS	(2)	(9)	*-77.8%*	33	(8)	*-512.5%*
DURATEX	11	23	*-52.2%*	43	44	*-2.3%*
NTS [1]	69	13	*426.9%*	203	117	*73.1%*
OTHER COMPANIES [2]	(5)	(2)	*150.0%*	(11)	29	*-137.9%*
RESULTS OF ITAÚSA	**(48)**	**(38)**	*26.3%*	**(378)**	**(412)**	*-8.3%*
FINANCIAL INCOME / EXPENSES	(15)	(12)	*25.0%*	(36)	(56)	*-35.7%*
ADMINISTRATIVE EXPENSES [2]	(31)	(26)	*19.2%*	(93)	(68)	*36.8%*
TAX EXPENSES	(3)	(4)	*-25.0%*	(252)	(297)	*-15.2%*
OTHER OPERATING REVENUES	1	4	*-75.0%*	3	9	*-66.7%*
INCOME BEFORE INCOME TAX/SOCIAL CONTRIBUTION	**2,495**	**2,286**	*9.1%*	**7,212**	**6,607**	*9.1%*
INCOME TAX / SOCIAL CONTRIBUTION	(21)	42	*-150.0%*	(44)	50	*-188.0%*
RECURRING INDIVIDUAL NET INCOME	**2,474**	**2,328**	***6.3%***	**7,168**	**6,657**	***7.7%***
NON-RECURRING RESULTS	**(533)**	**154**	***-446.1%***	**(306)**	**272**	***-212.5%***
NET INCOME	**1,941**	**2,482**	***-21.8%***	**6,862**	**6,929**	***-1.0%***

(1) For better comparability, all periods include the merger of Itaúsa Empreendimentos in the Statement of Income.

(2) Share of income in 3Q19 and 9M19 impacted by the effect of amortization of goodwill on assets (PPA) in the amount of R$ 22 million.

(3) Includes dividends/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.

Results of investees

Recurring share of income totaled R$2,543 million, up 9.4% on a year-on-year basis. This increase was mainly driven by a better performance of Itaú Unibanco, with a 5.0% growth in Interest Income compared to the 8.1% increase in loan portfolio, including financial guarantees provided and corporate securities, in addition to the 6.7% increase in Commissions and Fees. Furthermore, it is worth mentioning the double-digit growth in all Alpargatas business and the growth in NTS's operational result arising from contractual adjustments.

Faced with a challenging scenario, Itaúsa's investees have directed efforts to better take advantage of their operational structures. Duratex has focused on optimizing its assets base for higher business profitability and increased return on the capital invested, in addition to putting into practice some initiatives to improve operational efficiency. Alpargatas in turn has experienced operational efficiency gains, as a result of better expenses management mainly as a result of the VIP 100% (Value Improvement Program) and OBZ (Zero-Base Budgeting) projects.

In this quarter, share of income was characterized by significant non-recurring events in investees that led to a negative result of R$533 million, mainly driven by adjustments to the structure of Itaú Unibanco to conform to the market reality, by way of a Voluntary Severance Program announced in August impacting share of income by R$536 million. Duratex's results were mainly impacted by the revenue from the sale of land and forests in 3Q18, which contributed to a better result in that quarter, whereas Alpargatas reported a gain in connection with the successful outcome in a lawsuit challenging ICMS/COFINS levied, with a positive impact on the 3Q18 results.

Further information on the performance of investees is described in section "4. Comments on the Performance of Investees" below.

Itaúsa's Results

Administrative expenses totaled R$31 million in 3Q19. This 19.2% increase on a year-on-year basis was mainly driven by the expansion of the administrative structure, additional expenses on merger and acquisitions projects, IT improvements, sureties and guarantees taken out to secure lawsuits, and increase in share bookkeeping services driven by an expanded stockholder base.

Financial Result totaled R$15 million in expenses (R$12 million in 3Q18), mainly derived from the lower position of average cash and the lower level of interest rates.

Net Income for the quarter totaled R$1.941 million, down 21.8% on a year-on-year basis, mainly driven by the non-recurring effects mentioned above. If we excluded these effects, recurring net income would be R$2,474 million, up 6.3% on a year-on-year basis.

RECONCILIATION OF RECURRING NET INCOME

	3Q19	3Q18	**9M19**	9M18
Recurring Net income	**2,474**	**2,328**	**7,168**	**6,657**
Addition/(Exclusion) of Non-Recurring Effects D= (A + B + C)	**(533)**	**154**	**(306)**	**272**
Own (A)	**-**	**-**	**28**	**(85)**
Disposal of shares in Elekeiroz	-	-	-	(85)
Disposal of interest in Itaú Unibanco Centro Empresarial	-	-	28	-
Arising from Ownership Interest in the Financial Sector (B)	**(533)**	**3**	**(324)**	**144**
Changes in treasury shares	3	3	214	147
Voluntary Resignation Plan	(536)	-	(536)	-
Other	-	-	(2)	(3)
Arising from Ownership Interest in the Non-Financial Sector (C)	**-**	**151**	**(10)**	**213**
Alpargatas	**1**	**36**	**(11)**	**47**
Gain and deferred tax assets - PIS/COFINS - ICMS base	-	55	23	55
Impairment on goodwill - Argentina	-	-	(21)	-
Other	1	(19)	(13)	(8)
Duratex	**(1)**	**115**	**1**	**166**
Sale of land and forests	(0)	119	-	170
Other	(1)	(4)	1	(4)
Net Income	**1,941**	**2,482**	**6,862**	**6,929**

MAIN INDICATORS OF ITAÚSA CONGLOMERATE COMPANIES

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

	January to September	Itaú	ALPARGATAS	Duratex
Operating revenues [1]	**2019**	**143,404**	**2,956**	**3,526**
	2018	125,233	2,647	3,686
Net income [6]	**2019**	**18,439**	**156**	**121**
	2018	18,254	258	574
Stockholders' equity [6]	**2019**	**129,380**	**2,535**	**4,765**
	2018	129,879	2,249	5,389
Annualized return on average equity (%) [2][6]	**2019**	**19.9%**	**8.5%**	**3.4%**
	2018	19.8%	15.8%	15.4%
Annualized recurring return on average equity (%) [2][6]	**2019**	**21.4%**	**10.6%**	**3.4%**
	2018	19.8%	5.6%	3.2%
Internal fund generation [3]	**2019**	**42,662**	**441**	**752**
	2018	42,566	319	970
Interest of Itaúsa in companies [4][5]	**2019**	**37.5%**	**28.9%**	**36.7%**
	2018	37.6%	27.6%	36.7%

(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 ((Dec18 + Mar + Jun + Sep)/4).

(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

Share performance

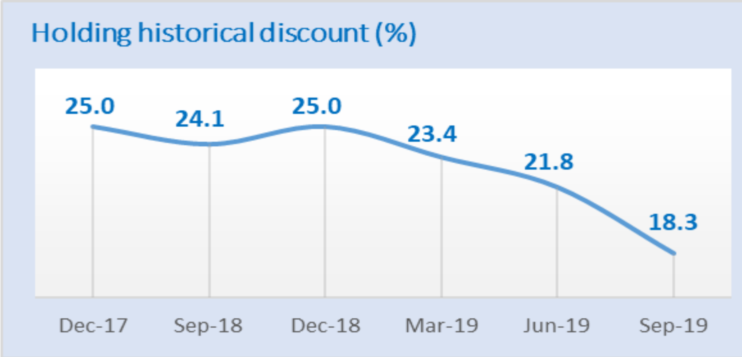
Itaúsa's preferred shares (traded on B3 under ticker ITSA4) closed September 2019 at R$13.18, a 30.5% appreciation over the previous 12 months (or 43.1% as adjusted by declared earnings), whereas Ibovespa, B3's main index, rose by 32.0% in the same period.

The daily average financial volume of preferred shares traded in the first nine months of 2019 was R$297 million, with an average of 29,000 daily trades.

On September 30, 2019, Itaúsa had 313,300 individual stockholders, up 178.0% from the number of 112,700 on a year-on-year basis.

Holding company discount

Discount is an indicator resulting from 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 September 30, 2019, Itaúsa's shares were traded at a 18.3% discount, down 580 bps on a year-on-year basis.



Part of this discount can be justified in view of the holding company's maintenance expenses, taxes levied on a fraction of the earnings received (tax inefficiency), and risk assessment, among other factors. Itaúsa's management believes that the discount reduction may be driven by the improvement in some of these factors and a better market perception of the fundamentals that justify it. Management also understands that the current level does not reflect the proper indicator level.

Market capitalization on September 30, 2019, based on the price of the most liquid shares (ITSA4), was R$110,855 million, whereas the sum of interests in investees at market value totaled R$135,403 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 http://www.itausa.com.br/en/e-mail-alert.

Public Meeting with stockholders, investors and capital markets, in partnership with Apimec/SP

On September 3, Itaúsa held, for the 19th consecutive year, its annual public meeting with stockholders, investors, and the general public interested in capital markets, in partnership with Apimec/SP. This event had the record attendance of over 950 people, either in person or following live on the Internet. It enabled the interaction between the audience and the management members of Itaúsa and investees (Itaú Unibanco, Alpargatas, and Duratex) to discuss the results, strategies, and long-term prospects of the companies.

The full video and material presented in the event are available on Itaúsa's website. Access at http://www.itausa.com.br/en/financial-information/meeting-with-analysts.

4. COMMENTS ON THE PERFORMANCE OF INVESTEES

Itaú Unibanco Holding S.A.

HIGHLIGHTS

Technology investment

Technology has become an important pillar for ensuring that Itaú Unibanco is up to date and ready to respond to the challenges from the market and its clients. In 2019 technology investment is estimated at least 20% higher than the amount in 2018 and 60% higher than in 2016, which shows the bank's commitment to the advancement of digital solutions and better client experiences.

Eight commitments of positive impact

In September 2019, aimed at strengthening its sustainability stance, Itaú Unibanco signed a document including the UN Principles for Responsible Banking. In order to ensure that these principles are met, it launched in that same month the eight commitments of positive impact, as follows: Financing in Positive Impact Sectors, Responsible Investment, Inclusion and Entrepreneurship, Financial Citizenship, Transparency in Reporting and Communication, Ethics in Relationships and Business, Inclusive Management, and Responsible Management.

Results

Net income[1] totaled R$5.2 billion in 3Q19, down 15.7% on a year-on-year basis, mainly driven by expenses on the voluntary severance program and the higher provision for loan losses as a result of the loan portfolio growth.

R$ million (except where indicated)	3Q19	3Q18	Δ%	9M19	9M18	Δ%
Operating Revenues[2]	29,913	28,313	5.7%	86,818	84,372	2.9%
Net Income	5,165	6,125	-15.7%	18,439	18,254	1.0%
ROE[1]	16.4%	19.5%	- 3.1 p.p.	19.9%	19.8%	0.1 p.p.
Recurring ROE	20.9%	19.5%	1.4 p.p.	21.4%	19.8%	1.6 p.p.
Loan Portfolio	692,181	640,280	8.1%	692,181	640,280	8.1%

In the quarter, Itaú Unibanco reported a 5.7% increase in **Operating Revenues**[2] on a year-on-year basis. Main factors leading to this result are as follows:

> A 5.0% increase in **Interest Income** [2] mainly driven by an 8.1% growth of the loan portfolio, including financial guarantees provided and corporate securities. Noteworthy was the 23.8% increase in the segments of very small, small and middle-market companies, and the 14.5% increase in individuals. The 30.8% increase in interest and other expenses, derived from the change in the bank's mix of funding, has absorbed part of the Interest Income;
>
> A 6.7% increase in **Commissions and Fees and Result of Insurance Operations** mainly driven by (i) a 30.5% increase in fund management fees; (ii) higher revenues from advisory and brokerage services; and (iii) higher credit and debit card commissions.

The **Expected Loss on Financial Assets and Claims** was up by R$3.1 billion, mainly driven by higher expected losses on loan operations, as a result of the growth of loan portfolios in the segments of very small, small and middle-market companies, as well as of individuals.

General and Administrative Expenses were up by 5.6%, mainly driven by the voluntary severance program, with an impact of R$2.4 billion in connection with labor provisions and dismissals and social benefits.

Capital Management and Liquidity

Capital management is vital, since it is a key element through which the bank seeks to optimize the application of funds and ensure the business soundness. These goals are reflected in its capital ratio and dividend distribution policies, which set up a minimum Tier I capital ratio of 13.5%. Therefore, profit distributions are conditioned on this threshold, as well as business growth outlooks, profitability for the year, mergers and acquisitions, changes in the market, and tax and regulatory changes that may modify capital requirements. At the end of September 2019, Tier I capital ratio was at 14.1%. Dividends paid, provided for or registered in stockholders' equity in the first nine months of 2019 totaled R$11.0 billion, up 45.9% on a year-on-year basis. Regarding liquidity, it is worth mentioning that the short-and long-term ratios are above the minimum required by the Central Bank of Brazil (100%). On September 30, 2019, the short-term ratio (liquidity coverage ratio, or LCR) reached 151.9%, whereas the long-term ratio (Net stable funding ratio, or NSFR) reached 117.5%.

[1] Attributable to controlling stockholders.
[2] Adjusted to tax effects on hedge instruments for foreign investments.

ALPARGATAS

HIGHLIGHTS

New headquarters, a new culture

As part of Nova Alpa transformation project, combining delivery of results, connectivity, and people appreciation focused on meritocracy, in August 2019 Alpargatas' headquarters were moved to a new address, also in the city of São Paulo, which features a collaborative layout and has brought about savings on rent expenses.

In September Alpargatas hosted the global leadership meeting, as a hallmark of its new culture based on 6 principles designed to support its next growth cycle, as follows: *Inspired by people, Face the impossible, Make it happen, Owner's heart, Grow together,* and *Take care of the future*.

New distribution center

Alpargatas opened a new Distribution Center (DC) intended for multichannel sales, with facilities in the City of Extrema, state of Minas Gerais (MG). This new DC is part of the company's plan to integrate the physical stores of its largest business Havaianas with ecommerce.

Results

R$ million (except where indicated)	3Q19	3Q18	Δ%	9M19	9M18	Δ%
Net Revenue	1,036.9	930.8	11.4%	2,956.0	2,646.9	11.7%
EBITDA	150.3	229.8	-34.6%	382.0	448.0	-14.7%
Net Income	58.5	119.8	-51.2%	133.9	251.2	-46.7%
Recurring Net Income	59.7	(5.8)	-1129.3%	172.8	84.6	104.3%
ROE	9.4%	21.9%	- 12.5 p.p.	7.3%	15.4%	- 8.1 p.p.
Recurring ROE	9.6%	-1.1%	10.7 p.p.	9.4%	5.2%	4.2 p.p.

Consolidated net revenue increased by 11.4% in 3Q19 on a year-on-year basis, mainly driven by the better performance of all business in Brazil (Havaianas Brasil, Mizuno, and Osklen), Havaianas international operations, and the operations in Argentina. Net revenue totaled R$2,956.0 million in the year-to-date, up 11.7% from the same period of 2018.

In the third quarter, the net revenue of the **Brazil** line, represented by brands Havaianas, Dupé, Mizuno, and Osklen, totaled R$741.6 million, up 10.9% on a year-on-year basis, mainly driven by the above-inflation price rise for the new collection, larger volume and a better mix of channels. **Sandals International** posted a net revenue of R$162.1 million in 3Q19, up 10.4% on a year-on-year basis, mainly driven by a larger volume of sales (+13.9%) particularly in the Latam (Latin America) and APAC (Asia Pacific) regions. In **Argentina**, net revenue totaled R$133.2 million, up 15.5% on a year-on-year basis, mainly driven by the rise in prices in local currency in the period, which made up for the 10.3% drop in the volume of footwear.

In own stores and franchises operated in Brazil, including e-commerce, sales volume increased by double digits on a year-on-year basis (Havaianas +10% and Osklen +13%), according to the same-store sales concept.

Gross profit increased by 18.8% in 3Q19 on a year-on-year basis, up 290 bps in gross margin, mainly driven by the performance in Argentina as a result of the price adjustment in all markets, and the efficiency gain from the restructurings carried out since the 3Q18.

Recurring EBITDA increased by 36.5% from 3Q18 and reached R$155.5 million, driven by the higher net revenue in all regions and the better expense management derived from the VIP 100% (Value Improvement Program) and ZBB (Zero-Based Budgeting) projects. Non-recurring effects adversely impacting the 3Q19 were mainly driven by the restructuring in Brazil, with advisory expenses, the contractual agreement for the former headquarters, and stores closing down. In 3Q18, adjustments carried out were driven by the positive effects from the final and unappealable decision of the lawsuit that challenged the inclusion of ICMS in the COFINS calculation base in Brazil, and the impact of advisory services and labor compensation expenses in Argentina. In the year-to-date, recurring EBITDA totaled R$419.9 million, up 25.4% on a year-on-year basis.

Recurring consolidated net income in 3Q19 totaled R$59.7 million, mainly driven by the aforementioned factors, from a loss of R$5.8 million in 3Q18. In the year-to-date, recurring consolidated net income reached R$172.8 million, up 104.3% from the same period of 2018. Operating cash generation was R$284.9 million, and cash balance was R$123.3 million at the end of September 2019.

Duratex

HIGHLIGHTS

Optimizing assets for higher profitability

To optimize its assets base to respond to the search for higher business profitability and better return of capital invested, Duratex has announced the sale of forest assets in the State of São Paulo and the decommissioning of the wood panel unit of Botucatu/SP, which operations had been suspended since November 2018. These transactions will in the aggregate lead to the recognition of approximately R$230.0 million in extraordinary net income and R$450.0 million net in cash, to be accounted for in 4Q19.

Acquisition of Cecrisa completed

In the third quarter, Duratex completed the acquisition of Cecrisa Revestimentos Cerâmicos S.A., a company that produces and sells Cecrisa and Portinari branded products, for R$253.1 million and the inclusion of Cecrisa's liabilities, in the amount of R$438.5 million, into its balance sheet. This acquisition had already been announced in 2Q19, and an additional amount of R$275 million will be payable over the next five years.

Results

Net revenue for 3Q19 totaled R$1,308.4 million, down 13.5% on a year-on-year basis, mainly impacted by the effect in 3Q18 of the company's receiving the second tranche of the sale of land and forests. Excluding this effect, net revenue would increase by 2.4%.

R$ million (except where indicated)	3Q19	3Q18	Δ%	9M19	9M18	Δ%
Net Revenue	1,308.4	1,512.5	-13.5%	3,525.5	3,686.0	-4.4%
EBITDA	246.7	902.8	-72.7%	762.4	1,629.2	-53.2%
Net Income	27.7	376.3	-92.6%	121.0	573.8	-78.9%
Recurring Net Income	30.5	61.6	-50.5%	119.2	119.9	-0.6%
ROE	2.3%	30.0%	- 27.6 p.p.	3.4%	15.4%	- 12 p.p.
Recurring ROE	2.6%	4.7%	- 2.2 p.p.	3.4%	3.2%	0.2 p.p.

The **Wood Division**'s net revenue totaled R$724.0 million in the period, down 31.0% on a year-on-year basis. Excluding the aforementioned effect and the sale of the fiberboard business in 3Q18, the Wood Division's pro forma net revenue would be 11.2% lower, driven by the 16.3% fall in volume shipped.

The **Deca Division**'s net revenue totaled R$406.4 million, stable on a year-on-year basis. Even though volume had dropped by 5.6%, the unit net revenue increased by 5.8%, as a result of the successful trade policy implementation, which positively impacted gross margin, which in turn increased by 230 bps on a year-on-year basis.

The **Ceramic Tiles Division** posted a net revenue of R$177.9 million, up 220.9% on a year-on-year basis, mainly driven by the consolidation of Cecrisa's results and the larger volume of the 2019 line sales.

Consolidated EBITDA in 3Q19 was R$246.7 million, down 72.7% on a year-on-year basis, mainly driven by non-recurring items. Recurring consolidated EBITDA increased by 13.5% in the same period. Net income totaled R$27.7 million, down 92.6%, mainly driven by the aforementioned impacts. In the year-to-date, EBITDA and recurring net income totaled R$630.5 million and R$119,2 million, respectively.

Net debt totaled R$2,161.2 million at the end of September 2019, representing 2.49 times the recurring adjusted EBITDA for 12 months, up 7.45% from the end of the previous quarter, with, however, a now restructured profile, given the issue of R$1.2 billion in debentures in the first quarter.

Results

In the third quarter of 2019, net revenue reached R$1,112 million, up 9.0% on a year-on-year basis, mainly driven by the annual inflation-adjustment of gas ship-or-pay agreements. Net income in 3Q19 totaled R$542 million, up 9.0% on a year-on-year basis. In the year-to-date, NTS recorded net revenue of R$3,293 million and net income of R$1,641 million, up 15% on a year-on-year basis, as consequence of a more favorable financial result, mainly driven by lower financial expenses due to debt restructuring.

R$ million (except where indicated)	3Q19	3Q18	Δ%	9M19	9M18	Δ%
Net Revenue	1,112	1,016	9%	3,293	3,009	9%
Net Income	542	497	9%	1,641	1,432	15%

Dividends and interest on capital

In the period from July to September 2019, Itaúsa received dividends and interest on capital, gross, in the amount of R$41.2 million. The amount received totaled R$125.4 million in the year-to-date.

5. PEOPLE MANAGEMENT

Itaúsa Conglomerate had the support of approximately 127,000 employees on September 30, 2019, including 15,600 employees in foreign units. Its dedicated structure, intended to carry out the holding company's activities, had 80 professionals 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) and auditor cannot audit his or her 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 July to September 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 non-audit services does 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.