ITAÚSA

Management Report
Fiscal Year 2018

MANAGEMENT REPORT

We present the Management Report and the Financial Statements of Itaúsa – Investimentos Itaú S.A. (Itaúsa) for the fourth quarter of 2018 (4Q18) and fiscal year 2018, 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 at CVM and B3 S.A. – Brasil, Bolsa, Balcão (B3).

Adoption of CPC 47 and CPC 48

For better comparability, the information on fiscal year 2017 were adjusted to the effects arising from the adoption of CPC 47 (revenue from contracts with clients) and CPC 48 (financial instruments). For further information, see Note 2.2 to the Financial Statements of Itaúsa.

1. ECONOMIC ENVIRONMENT

According to IMF's estimates disclosed in January 2019, global economy should grow by 3.7% in 2018, in spite of some significant economies, particularly in Europe and Asia, underperforming. Itaú BBA's estimates disclosed on February 6, 2019 support this scenario, pointing out to the US economy growing 2.7% in the period of four quarters up to September 2018, an improvement compared to 2.2% recorded in 2017. The euro zone grew 1.8% in 2018, following the 2.4% posted in 2017. China's growth slumped to 6.6% in 2018. The IMF also forecasts a slowdown in the global GDP in 2019, driven by a projected poorer growth of richer economies and lower expansion in emerging and developing economies, as a result of the economic contraction in Argentina and Turkey.

In the domestic scenario, GDP rose 1.0% in 2017 and is expected to increase by 1.3% in 2018, according to the latest data available in the Focus Market Readout published by the Central Bank of Brazil. These figures are construed as an improvement from the results posted between 2015 and 2016, years overshadowed by economic shrinkage. Regarding the labor market, unemployment rate is 11.6% in the quarter ended in December 2018, from 11.8% in the same period of 2017, as measured by the Continuous Pnad (Continuous National Household Sample Survey). Inflation measured by IPCA reached 3.75% in 2018, from 2.9% in 2017, below the set-up target for 2018. Currently well-controlled inflation and economic activity below expectations have allowed a more flexible monetary policy and should provide for interest rates to remain at low levels. 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 6.50% per year from 14.25%, and should not be higher than 8% up to 2022, according to forecasts disclosed in Focus Market Readout of February 8, 2019.

2. ITAÚSA HIGHLIGHTS

Sustainability

Itaúsa believes that one of the drivers of the long-term value creation is a sustainable management responsible for its business and the business of its investees. Accordingly, through its representatives in the Boards of Directors and/or Committees, Company influences and guides the development of good ESG (Environmental, Social and Governance) practices in its investment portfolios. This commitment can be illustrated by some recognitions granted to the Company and its investees, highlighted as follows:

Business Sustainability Index (ISE) – Itaúsa, for the 12th year, Itaú Unibanco, for the 14th consecutive year, and Duratex, for the 11th consecutive year, were selected once again to make up the Business Sustainability Index portfolio of B3 in 2019.

CDP (subsequent event) – In January 2019, Itaúsa and Itaú Unibanco were recognized by CDP Latin America as Leaders in Transparency, as they have reached the score A- in the annual edition on their climate change related practices. Duratex was also recognized by its efficient water management. This was the first time CDP has addressed topics related to recommendations issued in the Task Force on Climate-related Financial Disclosures (TCFD), a document published by the Financial Stability Board in 2017. CDP was set up in 2000 and gathers together one of the most thorough global environmental data disclosure systems.

Dow Jones Sustainability World Index (DJSI) – In 2018, Itaúsa, for the 15th year, and Itaú Unibanco, for the 19th consecutive year, were chosen to make up the Dow Jones Sustainability World Index (DJSI), the world's main corporate sustainability index, where both achieved the highest rate in six criteria. In its 2018/2019 edition, this portfolio is made up of 317 companies from 30 countries, of which only seven are Brazilian – among them, Itaúsa and Itaú Unibanco.

Corporate Governance

Itaúsa seeks to increasingly improve its own corporate governance and that of the companies it invests in. Through representatives in governance bodies of the Conglomerate's companies, Itaúsa influences and shares its values, caring for transparency and good international practices.

In 2018, Itaúsa's corporate governance was strengthened with the set-up of a **permanent Fiscal Council** (operating continuously since 1995) and of **new policies, such as the Transactions with Related Parties, Corporate Governance and Relationship with Private Entities and Public Agents and for Corruption Prevention**. The second half of 2018 witnessed the **relaunching of the Code of Conduct,** with the introduction of an independent reporting channel.

Investees also saw significant developments. Like Itaúsa, **Itaú Unibanco** has also adopted a permanent Fiscal Council. Additionally, it organized a Digital Advisory Board, the LatAm Strategic Council and the Social Responsibility Committee, the latter with the responsibility of defining strategies and monitoring the performance of social responsibility-related actions. **Duratex** has promoted an internal restructuring, including by redesigning processes, and **Alpargatas** has increased the number of independent members in its Board of Directors and Committees, and also implemented a structured succession plan of the Company's leadership. Roberto Funari, then a member of the Board of Directors, was announced as the new CEO to replace Márcio Luiz Simões Utsch.

We hereby thank Mr. Utsch for the results achieved over his successful journey of 21 years with Alpargatas, of which 15 years as its CEO.

Portfolio revision

Itaúsa carries out an active, effective capital management by prioritizing, upon capital allocation, discipline when assessing opportunities, the management intended to improve return metrics and monitor portfolio, and the regular follow-up of the investees' performance.

As part of this ongoing process, in 2018 Itaúsa made some changes in its investment portfolio. In June 2018, it completed the sale of equity interest held in Elekeiroz, and, in December 2018, Itautec sold the remaining 10.3% stake held in Oki Brasil. With these initiatives, Itaúsa no longer operates in the chemical and in the commercial, banking automation and technology service sectors (via Itautec). Both investments had been held by Itaúsa since the 1980's.

Return to stockholders

Net proceeds declared in on the 2018 results accounted for 94.0% of net income adjusted by legal reserve[1] for the year, up 24.8% from the previous year, as follows:

Return to stockholders	Stockholding position	Payment date	Net income per share	Total gross (R$ million)	Total net (R$ million)
First-quarter dividends	5/30/18	07/02/18	0.0150	126	126
Additional dividends	8/17/18	08/30/18	0.1992	1,676	1,676
Interest on capital	8/13/18	08/30/18	0.0082	81	69
Second-quarter dividends	8/31/18	10/01/18	0.0150	126	126
Third-quarter dividends	11/30/18	01/02/19	0.0200	168	168
Fourth-quarter dividends	2/28/19	04/01/19	0.0200	168	168
Interest on capital	12/17/18	03/07/19	0.0069	68	58
Interest on capital [3]	2/21/19	03/07/19	0.2644	2,617	2,224
Additional dividends [3]	2/21/19	03/07/19	0.4532	3,812	3,812
Total 2018			**1.0019**	**8,842**	**8,427**
Total 2017[2]			**0.8029**		
Net income - 2018					**8,964**
Payout - 2018					**94.0%**

1. Legal reserve: net income with a 5% adjustment

2. Adjusted by the bonus on May 24, 2018

3. Approved at the Board of Directors' meeting of February 18, 2019

Increase in quarterly dividend

As from the dividends paid on January 2, 2019 in connection with the third quarter of 2018, the Company's stockholders now receive R$0.02 per share as a quarterly dividend, up 33.3% compared to R$0.015 received before. This resolution was taken at the Board of Directors' meeting held on November 12, 2018.

Share buyback

Under the share buyback program in force in 2018, the Company acquired 3.5 million preferred shares of own issue for the average amount of R$32.3 million, held in treasury and fully cancelled in 2018. Itaúsa has currently no own shares held in treasury.

Termination of Usufruct to part of shares held by IUPAR

In November 2008, upon the Itaú and Unibanco merger, Itaúsa and the Moreira Salles Family granted IUPAR (the company incorporated to control Itaú Unibanco) shares of Itaú Unibanco's capital stock, under the establishment of usufruct rights to dividends and interest on capital for a 10-year period, which terminated in November 2018. Itaúsa's indirect interest in the capital of Itaú Unibanco under the usufruct established up to November 2018 represented a 15.3% stake. The estimated financial impact with the payment of additional PIS/Cofins taxes on this interest would be about R$120 million in 2019 (as cash effect).

3. ITAÚSA'S ECONOMIC PERFORMANCE[1]

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).

[1]. Refers to Complete Individual Financial Statements

R$ million

STATEMENT OF INCOME	4Q18	4Q17	change	2018	2017	change
FINANCIAL SECTOR	2,555	1,990	28.4%	9,394	8,868	5.9%
NON FINANCIAL SECTOR	194	166	16.6%	362	304	18.9%
ALPARGATAS	1	48	-97.9%	11	48	-77.1%
DURATEX	55	52	5.0%	99	66	49.1%
ITAUTEC	(4)	(6)	33.3%	(7)	(23)	69.6%
NTS (1) (2)	142	72	97.2%	259	213	21.6%
OTHER COMPANIES (3)	3	11	-72.7%	34	33	3.0%
RECURRING SHARE OF INDIVIDUAL INCOME + DIVIDEND/ INTEREST ON CAPITAL + INTEREST ON DEBENTURES	**2,752**	**2,167**	**27.0%**	**9,790**	**9,205**	**6.4%**
FINANCIAL INCOME / EXPENSES	(19)	(42)	54.8%	(88)	(68)	-29.4%
GENERAL ADMINISTRATIVE EXPENSES	(23)	(11)	-109.1%	(80)	(53)	-50.9%
TAX EXPENSES	(15)	(5)	-200.0%	(308)	(308)	0.0%
OTHER OPERATING REVENUES	1	4	-75.0%	6	11	-45.5%
RESULTS OF ITAÚSA	**(56)**	**(54)**	**-3.7%**	**(470)**	**(418)**	**-12.4%**
INCOME BEFORE INCOME TAX/SOCIAL CONTRIBUTION	**2,696**	**2,113**	**27.6%**	**9,320**	**8,787**	**6.1%**
INCOME TAX / SOCIAL CONTRIBUTION	(7)	151	-104.6%	46	74	-37.8%
RECURRING INDIVIDUAL NET INCOME	**2,689**	**2,264**	**18.8%**	**9,366**	**8,861**	**5.7%**
NON-RECURRING RESULTS	**(182)**	**(569)**	**68.0%**	**70**	**(717)**	**109.8%**
ITAÚSA'S RESULTS	(38)	(108)	64.8%	(123)	(108)	-13.9%
FINANCIAL SECTOR	(24)	(429)	94.4%	118	(589)	120.0%
NON FINANCIAL SECTOR	(120)	(32)	-275.0%	75	(20)	475.0%
INDIVIDUAL NET INCOME	**2,507**	**1,695**	**47.9%**	**9,436**	**8,144**	**15.9%**

(1) Investment in NTS is not accounted for under the equity method.

(2)) 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 (Include the effects of exchange variation on foreign currency-indexed debt).

(3) Share of Income of the companies: Elekeiroz, Itaúsa Empreendimentos e ITH Zux Cayman.

General and Administrative (G&A) Expenses

Taking into account the administrative structure dedicated to Itaúsa's activities, G&A expenses totaled R$21 million in the 4th quarter of 2018 and R$87 million in fiscal year 2018, which accounted for 0.84% and 0.92% of net income for the same period, respectively.

MAIN INDICATORS OF RESULTS OF ITAÚSA CONSOLIDATED

	R$ million			R$ per share		
	2018	2017	change	**12/31/2018**	12/31/2017	change
PROFITABILITY						
Net income	**9,436**	8,144	15.9%	**1.13**	0.99	13.7%
Recurring net income	**9,366**	8,861	5.7%	**1.12**	1.08	3.8%
BALANCE SHEET						
Total assets	**58,420**	56,494	3.4%	**-**	-	-
Stockholders' equity	**55,143**	51,926	6.2%	**6.56**	6.32	3.8%
ROE %						
Return on Equity (annualized)	**18.2%**	16.6%	160 bps			
Recurring Return on Equity (annualized)	**18.1%**	18.1%	-			

MAIN CAPITAL MARKET INDICATORS

	12/31/2018	12/31/2017	change	
Price of preferred share (PN) (1) - in R$	**12.08**	9.84	2.24	22.8%
Market capitalization (2) - in R$ million	**101,601**	80,865	20,737	25.6%
Dividend Yield	**7.4%**	4.4%	300 bps	

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

(2) Calculated based on the close quotation of preferred shares on the last day of the period (quotation of close 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 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 December		Financial Sector: Itaú	Non Financial Sector: Alpargatas	Non Financial Sector: Duratex
Operating revenues [1]	2018	**171,838**	**3,905**	**4,949**
	2017	190,103	3,722	3,991
Net income [6]	2018	**24,907**	**332**	**432**
	2017	23,193	362	185
Total Assets	2018	**1,552,797**	**3,980**	**9,622**
	2017	1,436,239	3,846	9,465
Stockholders' equity [6]	2018	**136,782**	**2,381**	**4,634**
	2017	131,378	2,186	4,715
Annualized return on average equity (%) [2] [6]	2018	**20.4%**	**14.9%**	**8.8%**
	2017	19.6%	17.0%	4.0%
Internal fund generation [3]	2018	**55,841**	**495**	**1,208**
	2017	60,431	553	1,014
Interest of Itaúsa in companies [4] [5]	2018	**37.55%**	**27.55%**	**36.67%**
	2017	37.64%	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 + sep + jun + mar + dec'17)/5).
(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.

RECONCILIATION OF RECURRING NET INCOME

R$ million

	4Q18	4Q17	change	**2018**	2017	change
Net income	**2,507**	**1,695**	47.9%	**9,436**	**8,144**	15.9%
Inclusion/(Exclusion) of non-recurring effects D= (A + B + C)	**182**	**569**	-68.0%	**(70)**	**717**	-109.8%
Itaúsa (A)	**38**	**108**	-64.8%	**123**	**108**	13.9%
Results of sale of all total shares issued by Elekeiroz	38	-	n.a.	123	-	n.a.
Provision for Tax Contingencies	-	108	n.a.	-	108	n.a.
Arising from stockholding interest in Financial Sector (B)	**24**	**429**	-94.4%	**(118)**	**589**	-120.0%
Change in Treasury Shares	(36)	271	-113.3%	(181)	403	-144.9%
Provision for Contingencies	-	69	n.a.	(34)	123	-127.6%
Provision for Citibank Integration Costs	-	103	n.a.	-	103	n.a.
Realization of Assets and Impairment	6	3	100.0%	44	57	-22.8%
Liability Adequacy Test	54	(17)	417.6%	54	(17)	417.6%
Sale of IRB Shares	-	-	n.a.	-	(58)	n.a.
Other	-	-	n.a.	(1)	(22)	95.5%
Arising from stockholding interest in Non Financial Sector (C)	**120**	**32**	275.0%	**(75)**	**20**	-475.0%
Alpargatas	**13**	**29**	-55.2%	**(16)**	**29**	-155.2%
Duratex	**107**	**10**	970.0%	**(59)**	**(2)**	-2850.0%
Other Areas	**-**	**(7)**	n.a.	**-**	**(7)**	n.a.
Recurring net income	**2,689**	**2,264**	18.8%	**9,366**	**8,861**	5.7%

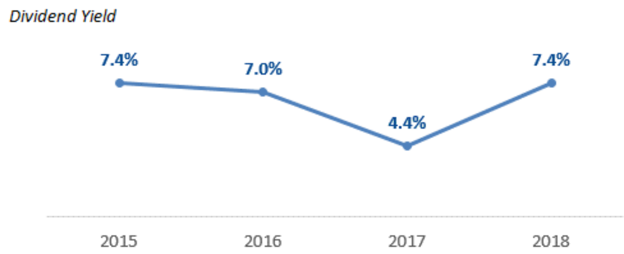
3.1. Capital Markets

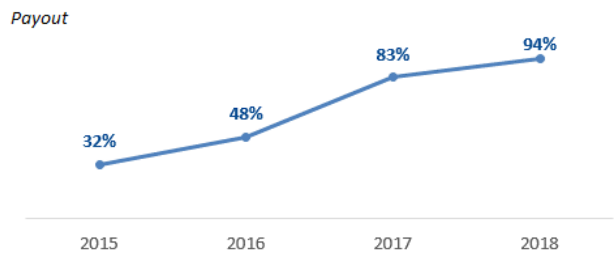
Itaúsa's preferred shares (traded on B3 under ticker ITSA4) closed December 2018 at R$12.08, a 33.7% increase in the previous 12 months, whereas Ibovespa, B3's main index, rose by 15.0% in the same period.

The daily average financial volume of preferred shares in 2018 was R$228 million, with an average of 27,000 daily trades.

On December 31, 2018, Itaúsa had 133,000 stockholders, of which 130,000 individual stockholders, up 83% from the figure reported at the end of December 2017.

Itaúsa recorded a 7.4% dividend yield, as a result of the sum-up of dividends and interest on capital paid to Company's stockholders in the last 12 months based on the closing price of the share in the year, whereas payout was 94%.





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 values of the parts that compose the holding company's investments. On December 31, 2018, Itaúsa's shares were traded at a 25.0% discount, the same level recorded at the end of 2017.

Market capitalization at the end of December, based on the price of the most liquid shares (ITSA4), was R$101,601 million, whereas the total market value of the sum of interests in subsidiaries reached R$135,544 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 http://www.itausa.com.br/en.

4. COMMENTS ON THE PERFORMANCE OF INVESTEES

Itaú Unibanco Holding S.A.

10th anniversary of the merger

2018 witnessed the celebrations of the 10th anniversary of the Itaú and Unibanco merger, which resulted in a company now ranking as the number one private bank in Latin America. Before joining their journeys, both institutions already counted on strong histories, going back to the first half of the 20th century.

The volatile scenario in which Itaú Unibanco finds itself, in particular concerning the Brazilian economy, has helped structure the risk management in the organization, assisting in the adjustment to changes. Itaú Unibanco has expanded its operations beyond the Brazilian borders. During this period, it has adopted a value creation business model. On December 31, 2018, market value was R$342.0 billion, three times higher than the total aggregate value of both institutions in 2008.

Highlights

Acquisition of minority interest in XP Investimentos concluded

In August 2018, was concluded the acquisition of a 49.9% minority interest in XP Investimentos through a R$600 million capital contribution and the acquisition of R$5.7 billion[1] in shares. The contract also provides for a one-off additional transaction in 2022, subject to future approval from the Central Bank, which, if approved, will enable Itaú Unibanco to hold up to 62.4% of the total equity of XP (equal to 40.0% of common shares) based on an income multiple (19 times) of XP, and it is certain that the control of the XP group will remain unchanged, continuing to be held by shareholders of XP Controle Participações S.A.

[1] Amounts on the contract execution date, as subsequently adjusted up to the financial settlement date.

Minority interest in Ticket

Itaú Unibanco acquired a 11% minority interest in Ticket, through a capital increase payable with a cash injection equivalent to the equity value of the interest in the company, and by Ticket granting rights to the exclusive distribution of Ticket Restaurante, Ticket Alimentação, Ticket Cultura and Ticket Transporte products to the Bank's corporate customer base.

Results under IFRS [2]

Net income increased, both in the quarter and in the year, mainly driven by (i) growth of commissions and fees, driven by the increase in individuals account holders base and by higher asset management fees, and (ii) lower cost of credit in connection with the reduced credit risk associated to clients of the Wholesale Banking in Brazil.

R$ million	4Q18	4Q17	Δ%	2018	2017	Δ%
Operating revenues	28,718	24,815	15.7	104,200	111,523	- 6.6
Net income	6,653	4,806	38.4	24,907	23,193	7.4
ROE	21.5%	16.1%	540 bps	20.4%	19.6%	80 bps
Loan portfolio				640,542	604,212	6.0

Loan portfolio, including financial guarantees provided and corporate securities, reached R$640,5 billion at the end of 2018, up 6.0% from the same period of 2017. In 2018, noteworthy were the portfolios for individuals, which increased 9.9%, and for very small, small and middle-market companies, up 14.0%. General and administrative expenses rose in the year driven by the inclusion of Citibank retail operations and higher expenses in Latin America (excluding Brazil), impacted by foreign exchange variation.

[2] 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.

Capital management, an essential component when seeking to optimize the allocation of stockholders' funds and ensuring the bank's soundness, as measured by the Full Tier I capital ratio, remained in 2018 at a level above the minimum threshold, and reached 15.9% at the end of the year. Noteworthy was capital generation, through income and issue of perpetual subordinated notes, which supported the growth of assets and the realization of investments in XP, in addition to providing profit distribution to stockholders at levels above those in 2017. In January 2019, Itaú Unibanco Holding issued R$3.05 billion in Perpetual Subordinated Financial Notes under private placements with professional investors, with an estimated impact of 40 basis points in the Tier I capitalization index to be included in the first quarter of 2019.

Return on Equity (ROE) recorded by Itaú Unibanco increased 80 basis points last year to reach 20.4% in December 2018 under IFRS.

Duratex

Highlights

Adjustment to the use of assets

In 2018, Duratex implemented some initiatives to adjust the use of assets by revaluating both idle and low-return assets. Accordingly, it sold the thin wood fiberboard business and significant forest assets surplus, which helped speed up financial deleveraging. Also as part of this asset revision process, the Company decommissioned the electric shower operation in the unit located in Tubarão/SC, the Deca/Hydra business, by transferring the production to the Aracajú/SE unit.

Investments revisited to focus on greater value creation to stockholders

Duratex has operated with greater discipline by allocating capital towards greater value creation to its stockholders. Accordingly, some initiatives were carried out in 2018, such as the association with Austrian group Lenzing AG, announcing 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 in the Minas Gerais state, with total approximate investment of USD 1 billion. Duratex holds a 49% equity interest in this JV and production is scheduled to start in 2022. Another highlight was the decision to contribute the amount of R$94 million to Ceusa up to the end of 2019, to modernize existing lines and implement a new one to raise the production capacity by 83% to 11 million sq. meters per year.

Results

R$ million	4Q18	4Q17	Δ%	2018	2017	Δ%
Net revenue	1,263.4	1,102.6	14.6%	4,949.4	3,990.9	24.0%
EBITDA	(83.3)	279.9	-	1,546.0	986.8	56.7%
Net income	(142.0)	84.6	-	431.8	185.0	133.4%
ROE	-11.3%	7.2%	n.m	8.8%	4.0%	480 bps

In 2018, net revenue totaled R$4,949.4 million, up 24.0% from the previous year, favored by the 14.6% growth in the last quarter of 2018 year-on-year. This growth in net revenue was impacted by the sale of biological assets to Suzano Papel e Celulose. If excluded these effects, annual growth would be 16.7%. The market share of the foreign market accounted for 19.2%, or R$948.1 million, in net revenue in 2018.

The Wood Division's results improved in the 4th quarter of 2018, with net revenue of R$847.0 million, up 22.4% year-on-year. Net revenue for the year totaled R$3,272.8 million, up 30.1% from the same period of 2017. This has evidenced the capture of initiatives to reduce costs and price adjustments to panels. The volume shipped increased by double digits in 2018, consistently growing over the year and proceeding with the commercial policy prioritizing the profitability of operations while keeping market share.

With net revenue of R$1,483.1 million in 2018, Deca Division's results were up 3.6% from 2017, evidencing the improvement achieved even in a challenging year. The volume shipped remained unchanged, mainly driven by the stable demand for construction materials in the period and the high inventory level of materials in the retail sector.

Operating under the Ceusa brand, the Ceramic Tiles Division's net revenue totaled R$48.0 million in 4Q18, up 8.6% from the same period of the previous year. In the year, this division reported good sales volumes (5.3 million sq. meters of tiles shipped) and net revenue totaled R$193.5 million. The division reported consistent performance of operations over the year and will receive investments in coming years to increase its production capacity.

EBITDA reached R$1,546.0 million in 2018, impacted by a number of non-recurring effects, such as disposal of assets, expenses on restructuring and impairment of assets. Recurring EBITDA, excluding these effects, reached R$848.5 million, up 11.6% from 2017 and was mainly driven by operational improvement, results from the Wood Division, and the consolidation of Ceusa's results, which started to be included in the results from October 2017.

Recurring net income for 2018, which also excludes the aforementioned events, totaled R$271.2 million, up 50.1% from 2017, and is driven by the operational improvement detailed above plus lower net financial expenses.

Net debt was R$1,700.4 million at the end of 2018, corresponding to 2.0 times the recurring EBITDA for the last 12 months.

ALPARGATAS

Highlights

CEO succession, revision of strategic plan and prioritized operations

In 2018, a structured succession plan of the Company's leadership was implemented. Roberto Funari, then a member of the Board of Directors, was announced as the CEO in the 2nd half of 2018, and he started his term of office in January 2019. Mr. Funari has a distinguished career in business management and global brands, corporate strategy and innovation, and has held leading positions in global companies.

The Company's strategic plan was revised over the year, highlighting the brands and operations to be given priority to the coming years, which led to the divestiture of the Topper brand, with the completion of the disposal of 21.8% (possible disposal of the remaining equity interest is subject to exercise of a put or call option) of the sporting goods business in Argentina and the world, and of assets related to the professional boots business (sold under brand Sete Léguas), with this latter being completed in the first days of 2019. Accordingly, Alpargatas no longer operates in the professional boots segment.

Joint venture set up in India

On December 11, 2018, negotiations with Indian company Periwinkle Fashions Private Limited were completed to set up a joint venture in India to develop the Havaianas business in that country, which will provide for greater share and exposure of the Havaianas brand in large footwear consumer markets and in geographical areas with accelerated growth in the sector.

Results

R$ million	4Q18	4Q17	Δ%	2018	2017	Δ%
Net revenue	1,199.8	1,103.6	8.7%	3,904.5	3,721.9	4.9%
EBITDA	123.6	56.7	117.9%	564.7	486.2	16.1%
Net income	92.4	45.1	105.0%	324.0	350.6	-7.6%
ROE	12.8%	9.0%	380 bps	14.9%	17.1%	-220 bps

Net revenue increased by 8.7% and 4.9% in the 4Q18 and in 2018, respectively, mainly driven by a better operational performance of Havaianas Brazil and a better result from Havaianas international operations, which was helped by foreign exchange variation.

Brazil's net revenue, represented by brands Havaianas, Dupé, Mizuno and Osklen, totaled R$2,669.9 million in 2018 (up 10.4% from 2017) and R$944.9 million in 4Q18, up 12.9% from the same period of 2017. This result was mainly driven by the increased volume of sales of sandals and the expansion of the Havaianas brand to other segments. This year, we also highlight the 9.6% increase in the sports footwear volume.

Sandals International recorded net revenue of R$710.3 million for 2018. Sales jumped in the last quarter of the year, up 29.3% from 4Q17, boosted by the 10.3% rise in volume, which was favored by the growth in the EMEA (Europe and Middle East) and APAC (Asia Pacific) regions. Also noteworthy is the positive impact of the foreign exchange variation on the results for the 4th quarter of 2018, as well as over the remaining of the year.

Net revenue in **Argentina** in 2018 totaled R$524.3 million, down 21.1% from 2017. Despite the fall in the volume of sporting goods, the price adjustment in September 2017 has given rise to more net revenue in 4Q18 in local currency; however, revenue in reais dropped due to exchange variation. Apparel goods performed well in 2018, which led to a 28.4% increase in volume sold in the 4th quarter, and the volume sold in the textile business fell by 33.1% in 2018.

In 2018, the Company's EBTIDA totaled R$564.7 million, up 16.1% from 2017, and the 14.5% margin was 140 basis points higher than the previous year. In Brazil, EBITDA of R$561.2 million rose 50.5% and the 21.0% margin rose 560 basis points. Accordingly, noteworthy was the amount of R$181 million from the successful outcome in a lawsuit to exclude ICMS (state VAT) from the COFINs calculation basis in Brazil in September 2018. Sandals International reported EBITDA in 2018 totaling R$77.6 million, down 22.1% from 2017, mainly driven by investments made towards the international growth over 2018, which should yield better return in the future.

Net income for 2018 totaled R$324.0 million, down 7.6% year-on-year. The operating cash generation for the year totaled R$287.8 million, and cash balance on December 31, 2018 reached R$540.9 million.

Results

In the fourth quarter of 2018, net revenue totaled R$1,032 million, in line with the figure recorded in the same period of the previous year, given the characteristic of this revenue, arising from five long-term ship-or-pay agreements. In 2018, NTS restructured its debt by raising funds with more attractive financing conditions, which led to the redemption in advance of debentures issued in April 2017. Net income for the year totaled R$501.7 million.

R$ million	4Q18	4Q17	Δ%	2018	2017	Δ%
Net revenue	1,032.1	1,020.9	1.1%	4,040.9	4,112.5	-1.7%
Net income	501.7	461.5	8.7%	1,933.5	1,809.3	6.9%

Dividends, interest on capital and capital decrease

From October to December 2018, Itaúsa received gross dividends and interest on capital in the amounts of R$35.2 million and R$151.5 million for the year. Also in 2018 the Company decreased capital in the total amount of R$693.7 million by refunding capital to stockholders. In December 2018, Itaúsa received R$53.1 million in connection with its equity interest in NTS.

5. PEOPLE MANAGEMENT

Itaúsa Conglomerate had the support of approximately 129,000 employees at the end of 2018, including approximately 17,000 employees in foreign units. Its dedicated structure, intended to carry out the holding company's activities, had 73 people at the end of 2018.

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 fiscal year 2018, 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 dedication and commitment, which have enabled the sustainable growth of business.