

Q4 2017 Earnings Call

Company Participants

- Alexsandro Broedel Lopes, Group Executive Finance Director and Investor Relations Officer
- Alfredo Egydio Setubal, Chief Executive Officer and Investor Relations Officer
- Fabio Leite de Souza, Chief Financial Officer and Investor Relations Officer
- Guilherme Setubal Souza e Silva, Executive Manager-Investor Relations
- Henri Penchas, Chairman
- Marcos Antonio de Marchi, Chief Executive Officer & Director-IR

Other Participants

- Jason Mollin, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Itaúsa's Conference Call to discuss 2017 Results. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. As a reminder, this conference is being recorded. The file will be available at the company's website at www.itausa.com.br/en, at the Investor Relations section.

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

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

With us today we have Mr. Alfredo Egydio Setubal, CEO and Investor Relations Officer at Itaúsa; Mr. Henri Penchas, Chairman of the Board of Director at Itaúsa; Mr. Alexsandro Broedel Lopes, Group Executive Finance Director and Investor Relations Officer at Itaú Unibanco Holding; Mr. Guilherme Setubal Souza e Silva, Investor Relations Executive Manager at Duratex; Mr. Marcos de Marchi, CEO and Investor Relations Officer at Elekeiroz; Mr. Fabio Leite de Souza, CFO and Investor Relations Officer at Alpargatas.

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

Alfredo Egydio Setubal {BIO 1528623 <GO>}

Hello, everybody. Thank you for your participation in our conference call. Sorry for the delay, but the conference call in Portuguese took more time than we were expecting. But here we are to talk about Itaúsa in this conference call. And for those who are calling through the Internet, we are on slide number 3 on the ownership structure.

I would highlight here against the 2016 conference call. The new participation in Alparagatas when we bought at the end of last year, 27.55% of the total capital, sharing the control of the company BW/ Cambuhy, very close from the Moreira Salles family. And also the participation that we brought in April, 7.65% of NTS, the gas distribution that was sold to Petrobras. I will also highlight because of the bank acquisition of shares by the treasury of the bank, we increased our participation in the bank in 0.23 basis points during the year. And also we increased the participation in Duratex by 0.27%.

On slide number 4, we have the governance of Itaúsa. I would like to highlight here that Itaúsa doesn't have Audit Committee; all the Audit Committees are under the boards of the subsidiaries. So we decided to transform our Fiscal Council to be permanent with annual election of its members, but it will be a permanent Fiscal Council, that we will also perform some (04:40) of Audit Committee.

On page 5, continuing on governance, we created many committees and commissions during the year to have a better governance at Itaúsa level, but I think the most important thing during the last year was the renewal of Itaúsa's Shareholders Agreement by the families that control the voting shares of Itaúsa. This Shareholders' Agreement was renewed by 10 years then it will probably be renewed in the future, but for the next 10 years the Shareholders' Agreement are still balanced with no changes.

On page 6, we have numbers that we just released last night about the results of Itaúsa. The net income of BRL 8.4 billion, with a little growth from the last year that was BRL 8.2 billion, recurring BRL 9.1 billion against BRL 8.6 billion. The main difference related to provisions that were made under the IFRS that is not accepted by IFRS in the bank related to provisions for bad debt. That's the main difference here in the net income against the recurring net income. The shareholders' equity finished at BRL 53.2 billion with annualized recurring return average equity of 18.2% and annualized return on average equity of 16.8% of the returned - net income.

On page 7 we have results per share, I would highlight here the dividends interest on capital that was paid and declared yesterday part of that, the total is BRL 0.88 per share related to the results of the 2017, that represents an increase of 75.1% when we compare to the dividends interest on capital paid last year.

On page 8, there is how the stockholders' equity increased in the pace of 12.6%, the recurring net income increased in the last five years by 10.1% and the net income by 10.2% in the same period.

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On page 9, we have the ROE that decreased a little in these last two years when we compare to the other years of 2014 and 2015. But it's too much higher than the cost of capital that we have here at Itaúsa, that is around 13.5%, 14%.

Total assets on page 10, we see the total assets BRL 57.8 billion, of that BRL 55.3 billion are related to investments that we have in the companies that we have participation.

On page 11, we see that from these BRL 55 billion, BRL 50 billion related to the stake that we have at Itaú Unibanco Holding that represents 90.3% of the investment on an accounting number. And the non-financial sector of BRL 5 billion, that is represented by BRL 1.7 billion Alparagatas, a new investment, BRL 1.7 billion also in Duratex, BRL 1.4 billion on NTS, the gas distribution, and BRL 0.1 billion on Elekeiroz.

On page 12, we see the big numbers of Itaúsa that we talked about in the last slide and the numbers from the subsidiaries that I will pass through, because the investor directors will talk about them in their own presentation.

Of page 14, we have here the equity and other liabilities. We see that 92% is equity and only 8% of other liabilities that we can see that the main liabilities are related to debentures of BRL 1.2 billion that we have. We issued last year to face the payment of the NTS due, loans and mutual between companies are money that we used to pay for part of the investment that we made at Alparagatas and we have the dividends and interest over capital that was announced last December before the announcement that we made yesterday after the board approval.

On page 15, we see debt debentures, the maturity will be in three years in 2022, 2023, 2024 and the cost of the debt debentures is 106.9% of the CDI here in Brazil.

On page 16, we have the dividends, interest on capital. Here to show that we will continue to process the distribution of the dividends. The total dividends that we receive from Itaú Unibanco Holding is distributed to the shareholders, so related to 2017 numbers, Itaúsa will distribute a total of BRL 6.6 billion, it is the same amount that we received from the bank related to 2017 results. That means our yield on the average quotation of our preferred share around 9%, which is very, very high.

On page 17, we can see how we distributed dividend and part of debt in some years we - and we will do that again this year. We will call the shareholders to increase the capital of Itaúsa of BRL 1.3 billion to reinforce the capital - the liquidity of the company to pay debt and to have at the end liquidity of BRL 500 million paying the debt and all the dividends that we have to pay in the coming months, quarters that we have a quarterly dividend.

On page 18, we can see the dividend that we received from the companies in the last years. Last year we received BRL 172 million of dividends (13:30) from NTS, BRL 35 million from Alparagatas that was a quarterly dividend that the company paid in last quarter, BRL 19 million from Duratex and BRL 7 million that we are going to receive from Elekeiroz. So we think that the companies, Duratex and Elekeiroz are going back to pay dividends that they paid very little especially last year.

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On page 19, we can see numbers of the capital markets. We have today 73,000 shareholders, direct shareholders not considering the shareholders of the mutual funds and pension funds that are indirect shareholders of Itaúsa and the number of shareholders especially of individuals are (14:25) growing very fast in the last years. We have a daily liquidity of BRL 155 million in the Bovespa. We've don't have ADRs in New York or any other stock exchange and we have 11 houses that follow Itaúsa and we have eight buys and three holds.

On page 20, we can see that the share trading above the stockholder's equity. At the end of the year, this stockholder's equity was BRL 53 billion and the market cap was BRL 80 billion, almost BRL 81 billion. And now these days because of the increase of the shares in the Bovespa Index during the year, the total market cap of Itaúsa is around BRL 100 billion.

On page 21, we see the discounts of some of the parts of Itaúsa, their investments on their companies. At the end of the year was 25%, at the end of 2016 was 28% and on the 16th of February, it was almost 23%. So it's reduced a little bit during the last year and this year.

On page 21, talking about more is the strategy of Itaúsa related to the investments and the use of capital. We have announced that we wanted to make some new investments especially now that we see the economy growing and more opportunities in the industrial and services sectors in Brazil. We made two investments last year. And what is the focus of Itaúsa when we talk about investment diversification is to find sectors that don't have - who have a low regulatory risk, we don't want sectors that - or the government being federal or state government can have their influence, especially related to price. We want companies with good cash flow, companies that are already established and if possible with a brand or a dominant participation in their markets.

In terms of governance, Itaúsa don't want to control alone any of the investments, we want to share the control with other families or other companies is the case of Alpargatas, for example, that we share the control with the Moreira Salles family that we share the control also in the bank, in the Duratex, we have the shared control with the Setubal family. So we don't want to have total control of the new investments like we have in the portfolio today. And we want to have good partners, be in a good family or good shareholders that we can share the same values and the same culture that the families that control Itaúsa have. And the size of the investments that we target is around BRL 1.5 billion.

On this strategy, in terms of movements related to our portfolio, we started in 2014 with the sale of the operations of Itaútec. During 2016 and 2017, we repurchased shares for the treasury of Itaúsa in a total of BRL 650 million. We announced the portfolio acquisition - new acquisition of NTS and Alpargatas last year. And in the companies that we have participation, we have a very active M&A in the bank and also in Duratex as Guilherme will show talking to future, the coming moments during his presentation about Duratex.

In terms of investments, at the end of 2016 Itaúsa had BRL 84 billion in market value in the shares that we have investments. At the end of last year BRL 110 billion was an increase of

31%. When we talk about market value, the total of the bank participation in the portfolio is 94%. When we talk about accounting numbers, which we saw before is 90%.

On the slide 25, we have the recent acquisition of NTS. As I said, it was a privatization of Petrobrás of the Southeast distribution of gas. We bought 7.65% in the consortium led by Brookfield and other institutional investors and we are very happy with that investment. We already received the BRL 172 million in dividends as I said before and BRL 31 million in debentures that we vested in the company.

The company has a strong cash flow, is doing very well, better than we expected when we decided to go on, on this investment. Also the investment in Alpargatas here was a good opportunity that appeared because of the GNF (21:34) problems. They have sold this company. We want the control with the family of Moreira. Moreira Salles family is the largest footwear and clothing company in Brazil, very good brands, especially Havaianas in the flip-flops, Osklen and Mizuno. We have a very important international presence and has good - now a very good potential to increase the Havaianas brand into all those sectors.

As I said, we bought back shares. Also, we consider in the last two years, the shares of Itaúsa had very high discounts and we take the advantage to buy back these shares as a payout for the shareholders. Also, it was an important investment for the company.

And to finalize here, the differentials that we see investing in Itaúsa, strong corporate governance and ethical and transparency principles. We have a very consistent history of profitability and high level of dividends and interest on capital we pay for shareholders. A very solid company with liquidity and very low debt, what permits the company to make new investments. The stock performance is very good above Ibovespa,, CDI, U.S. dollar here at B3 stock exchange.

We have been for the 14th year in the Dow Jones Sustainability Index. We are at the B3 Sustainability Index. Also, we are reviewing our portfolio focusing much more on creating value for shareholders, and we have what we consider investment in very solid companies with market leaders, holders of renowned brands like Deca and Duratex, and also Havaianas, Alpargatas, Itaú of course they are very, very strong name in the financial sector here in Brazil.

On page 29, the appreciation in reais of our shares that shows that we have been beating the market in the last few years.

I pass now the word for Alessandro Broedel to talk about the results of Itaú Unibanco Holding of last year.

Alexsandro Broedel Lopes {BIO 17663830 <GO>}

Okay. Thanks, Alfredo. I'll go through Itaú's financials of 2017. The first point I'd like to mention is that we are - I'm presenting now Itaú's results under IFRS, which is not the number that you normally see when you see the bank's results, normally you see the

bank's results according to Brazilian GAAP, which is mainly the Central Bank of Brazil accounting standard.

And the main difference between Brazilian GAAP and IFRS is that under IFRS, we still have incurred the loss provision. So in the Brazilian GAAP, we already have expected loss provision. IFRS does not affect those financial services you're working under IFRS, under the old IFRS 9 standard. Having said that, our net income under IFRS is BRL 23.9 billion in 2017, which is an increase of 2.8% over 2016.

Moving to slide 33, we see that the bank posted recurring net income of BRL 5.9 billion in the quarter, that our recurring net income is BRL 24.4 billion which is increase of 3.8% from 2016. The main difference between that number and BRL 23.9 billion that we saw on last slide is the addition of non-recurring items of the period. Well, despite the fact that we have achieved a special rate of return during 2017, 2017 was a very difficult year, very challenging year in terms of decline in interest rate, but was still rising and generally lower volumes over the coming year.

Nevertheless, we ended period in a group model (26:34), the employment rates are very down, inflation under control and nevertheless, in the economy recurring. We really see - take a detailed view of the results, you can see that the state of the economy reflected in lower net interest margin, you see mainly because of the results of the Selic rate and lack of growth in our portfolio. But at the same time, we saw a very important improvement in our provision for loan losses, which is a result of the bank's strategy of de-risking and adopting a very consistent and prudent view of the market (27:13).

We see our commissions and fees have a very good performance over the year, increasing 4.3% over 2016 and 4.2% over last quarter. So it's a very important results for us and in line with our business model, which focus strongly on services and insurance. We see also very significant discipline in terms of administrative expenses; they decreased 3.4% over the same period of last year, which is very important results and way below inflation.

(27:56) loan portfolio, the good news is that we have a very good fourth quarter of our portfolio, especially the individuals portfolio is started to recover and this is in line with the general improvement in the economy, GDP growth is starting to - especially in the last two quarters of 2017.

Moving to slide number 34, we see our recurring net income and ROE over the years, you can see here a very consistent performance to be able to produce very strong and significant results despite the fact that the last few years in Brazil have been one of the - few of the worst years in Brazilian economic history with a strong recession. And despite the fact, so our strategy has helped us to maintain a significant rate of return during this period.

Also credit portfolio on the slide 35, we see that our loan portfolio, especially for individuals, (29:09) 2017, especially the 6.8% increase in credit cards, that was driven by the high economic activity and increase in the client bases. For companies (29:21) very

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small and middle market companies, not on the large companies or corporate portfolio. The performance in Latin America is also (29:31), that is mainly driven by foreign exchange rate. So generally, what we see here is good fourth quarter, and now we see an important recovery in the Brazilian economy, that's affecting directly our individuals portfolio. We'll discuss that a little bit further when we talk about our guidance for 2018.

On our nonperforming loans ratios have been performing significantly well, we see our 15 to 90 days NPL ratio decreasing same basis points. Our NPL ratio - the 90 days NPL ratio for individuals decreased 60 basis points of the previous period, that's again - it's pretty much consistent with the strategy of the bank of de-risking and adopting a prudent approach to manage credit risk.

Our coverage ratio again in IFRS is at 187%, that number differs from the 247% that we present in Brazilian GAAP mainly because under IFRS we present numbers that are of incurred loss approach instead of the expected loss approach that we use under Brazilian GAAP.

On page 38, we talk a little bit about our payout practice here. And just to remember that in September 2017, we announced a change in our capital management practice. First, we excluded the cap of 45% of payout ratio, but maintained the minimum, the floor of 35% of net income. So we excluded 45% cap and maintained the 35% floor on payout policy. Second, at the beginning of each cycle, we considered three main variables. We considered the minimum Tier 1 capital ratio of 13.5%, higher profitability that's the main generator of capital and our growth in RWA, which consumes capital.

So we'll take into consideration those three variables which is the minimum level of capital that our risk appetite demand 13.5%. If you consider the profitability of the bank, it is the main generator of capital and the demand that comes from the increase in our risk-weighted assets. You achieved the results in a payout policy. So the bank is not committing to a specific fixed number in terms of payout policy. We are committing to that concept of considering growth and capital generating in this limit of 13.5% to result in our payout structure.

It is now very important to highlight that we do not intend to have capital surplus in excess of the levels established about our risk appetite and without the prospect of using it. So it's not accumulating capital for accumulation sake. And the possible surpluses will be (32:40).

Having said that, slide 39, you see that the Common Equity Tier 1 of 15.5% is already on a fully loaded Basel III basis. If we consider that with of our AT1 instrument that has been issued in December 2017 and the acquisition of minority interest in XP investments, that number will be 15.3%. So in order to achieve the 13.5% level that we intended basis on our risk appetite, we will pay on March the 7 the additional dispense of BRL 13.7 billion. So basically, we're applying the framework that we released on the third quarter, that will result if you move to next slide, slide 40, to our payout ratio, and not considering buyback of 70% and a payout ratio considering buyback of 83%. So, pretty much consistent with our payout policy. Our policy resulted in a dividend yield of 8% over 2017.

(33:56) a little about the forecast, the forecast Brazil and Brazilian GAAP numbers and we see that on 2017 our credit portfolio we ended below the forecast on slide 41. So the growth in the first quarter was sufficient to achieve the range of 0% to 4% of the year. And as a result in the financial margin with clients rather below the forecast range and also the reduction in the Celic base rate also contributed to that number which is below the minimum point of our guidance.

Cost of credit is within the guidance, nearly top of the guidance that reached BRL 17.9 billion, remember on the top of the guidance was BRL 18 billion. And our commission and fees and result from insurance operations grew 5.2% on over the top of our guidance result in very strong actions of (34:59) the bank the fees, commissions and insurance operations.

And finally, that's non-interest expenses or costs generally remained 0.3% which is way below our guidance. So, basically, 2017, our results generally pretty much reflect the state of the economy advantage to top-line and some of the actions of the bank in commission and fees from insurance and also a strong discipline in terms of controlling costs and making sure that the costs will run below inflation.

On the slide 42 talk about 2018 guidance and for 2018 guidance, we expect our portfolio to grow between 4% and 7%, which translates into a margin - financial margin with clients remain from minus 0.5% to 3%. Here you can see our expectation that the good - the better economic performance in 2018 will translate into superior credit portfolio and better margins than we have in 2017. The company also expects financial margins with the market to be between BRL 4.3 billion and BRL 5.3 billion. In reais, we expect a strong reduction in cost of credit, which will be between BRL 12 billion and BRL 16 billion, remembering that the number was BRL 17.9 billion for 2017. So we still expect an important decrease in cost of credit for 2018.

And commission and fees, we also expect a stronger year. We forecasted the growth between 5.5% and 8.5%, everything here on a consolidated basis. But this also reflects the better economic prospects that we expect for 2018. And on costs, we expect delivering our numbers to grow below inflation and within the range of between 0.5% and 3.5%. We also provided guidance this year related to our effective tax rate and we expect that to be below 33.5% and 35.5% in the year. So this is also an increase over the 2017 numbers.

Having said that, and I finished my presentation, and you have now Guilherme Setubal presenting Duratex results.

Guilherme Setubal Souza e Silva {BIO 20114864 <GO>}

Thank you very much, Alexsandro. Good morning, everyone, and thank you for joining Itaúsa's conference call. The idea here is to discuss the Duratex results for 2017.

Please move to page 45. So generally speaking, we finished the year in a better shape that we started. We have noticed more favorable environment in 2017, especially in the second semester of the year, which has benefited our results. We recognized a gain of

around BRL 40 million from the adjustment in the discount rate and using the calculation of the biological assets. Therefore, it has increased the fair value of our (38:19).

The Duratex Management system are meant to promoting (38:24) efficiency in cost cut has resulted in a gain of BRL 76 million, above our initial plans, reinforcing our commitment to the efficiency management. And finally, the subsequent events disclosed in the beginning of the year are going to allow us to reach a higher level of competitiveness. We'll discuss these two events further on.

Now please let's move to the next page, page 46. And the idea here is to discuss the consolidated results of the company. We have grown 2% in net revenues in 2017, closing the year in almost BRL 4 billion. The improvement of our margins was positive highlight of 2017 with the recurrent EBITDA at BRL 760 million, an increase of 12% against last year. Net profit has also shown a significant increase closing the year at BRL 185 million, largely due to the operational improvement and less pressure from the interest rates.

Now, let's move to next page, page 46 sic [47] (39:37), and the idea is to discuss the cash flow and the debt. The great highlight here is that when we exclude the investment in Ceusa, we have started generating cash in 2017 after two years. We started from the EBITDA of BRL 760 million. After that, we have a gain in the working capital of BRL 59 million mainly due to an increase in the debt payment and huge decrease in the inventory level in the second semester of peak.

We spent - BRL 366 million were invested in the sustaining CapEx, BRL 50 million below 2016, showing our commitment to the cash flow. BRL 46 million was paid in taxes and BRL 65 million in other expenses. Totally (40:34) the financial expenses were BRL 167 million, and our investments in Ceusa was around BRL 200 million. After all this considerations, we closed 2017 at a negative cash flow generation of BRL 111 million. If you exclude the investment in Ceusa, we finished the year with a positive cash flow of BRL 185 million versus a negative cash flow of BRL 26 million in 2016.

Regarding the debt, the net debt has remained stable in 2017 versus 2016. Our financial leverage however has improved, closing 2017 2.8 times net debt EBITDA. If you exclude Ceusa, we would have a financial leverage of 2.5 times.

Now, please move to page 48 and the idea here is to discuss the two divisions, the Wood division and Deca division. Let's start with the Wood division. The wood panel market in Brazil has started to grow once again after three years of clear (41:43) decrease. The idle capacity in the industry was lower than 2016. It was a good sign of a stronger demand. Moreover, we have noticed our market share stabilize in the second semester of the year after suffering a setback in the second quarter. A better supply and demand dynamic has allowed us to increase MDP pricing 80% in general along with a specific increase in MDF price.

Now, please move to next page, page 49, and here we discuss (42:17) the financial figures of the Wood division. We have registered a slight lower shipment of panels in 2017 mostly due to a setback in the market share in the end of the first semester. The net revenues has

decreased to a lower volume and a poor mix (42:36). Our commercial strategy was saving (42:39) prices has had a positive outcome and we have shown an increasing margin in 2017, which were also benefit by the cost savings and positive gains.

Finally, we still have a high level of idle capacity of 40%. We see this an opportunity to capture the recovery of the demand and with the linear operation, increase our returns.

Now, let's turn to Deca on page 50. Deca division has run - outperformed the market average. The Duratex Management System and the higher volumes were the main leverage behind Deca's performances last year. Furthermore, we had the incorporation of Ceusa on the last quarter results of 2017.

Please turn to page 51, and the idea here is to discuss the financial figures of that Deca Division. 2017 was a year of recovery for Deca and we have seen a improvement in the operations and process. Our top of brands and the high quality products were the key for this recovery. Deca registered a increase of 6% in volumes, which reflect in a net revenue of BRL 1.5 billion in 2017, representing a gross margins of 30.2%. This margin was above 2016. The EBITDA closed the year at BRL 250 million with a margin of 70%. I end here my comments on the results of our divisions.

Now please move to next page, page 52, and to discuss the develop of our strategy over the last years. We split in five different types. We can clearly see a history of evolution when you take a look at Duratex recent past. From 2007 to 2014, we had our expansion in our operations through the combination of organic growth and acquisitions. Basically, we doubled our capacity into two divisions. After that, the end of the growth cycle was marked by one of the largest economic crisis the country has ever seen. It was now time to revisit our strategy and a focus on our internal agenda, redefining our priorities and placing greater focus on discipline. It was during this time that we created the Duratex Management System, which is now an important tool within our management strategy.

At the same time, we start a huge culture transformation in 2016. In 2017, we start what we call the new Duratex. With a new management model and culture as the main foundation of Duratex when we then develop our new Value Proposition solutions for (45:43). We are now focused on asset-light growth and seeking business that has recurrent revenues and that bring greater returns on our invested cap. And finally, from now on we are working to exploring our strengths and to incorporate solutions with more attractive returns into our portfolio. These would be the direction of our asset allocation moving forward.

Now flip to page number 53 (46:13) the two subsequent events that we announced in the beginning of the year. We have received an asset - Itaútec's bidding (46:23) offer to sell our installation and equipment dedicated to the production of thin wood fiber board. What's the rationale of the deal? When we look at the evolution of the wood panel sector in Brazil, we notice that the hardboard has lost relevance within our portfolio of solutions. Beside this, we intend to resume operations in our plant in Itapetininga until - in April this year. Therefore, we are moving towards projects (46:53) that are more aligned with our strategy. This transaction use the (46:59) swap of installations equipment for land and forest in the value of BRL 60 million. We do not expect significant impact in our results in

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2018, as we are swapping one asset for the another one. It's important to mention here that we continue our production of MDF in the (47:19) plant.

Now, let's turn to next page, page 54 to discuss the deal with Suzano. A Important part of our strategy is rationalizing our asset base to prepare the company for the better results. We enter in the transaction with Suzano, operation wise (47:42), in two steps. The first one is the sales of land and forests totalizing BRL 380 (sic) [308] (47:50) million, we are recognize an [indiscernible] (47:53) in profit in this operation in the amount of around BRL 140 million. The second step was [ph] commission (48:01) an exclusive co-option for Suzano to purchase another lot of land and forest in the total amount of BRL 749 million. This option can be exercised until July 02, 2018. If Suzano choose to exercise this option, we recognize an extraordinary profit in the order of BRL 360 million. Although it was extraordinary and therefore has no impact on the recurrent results, this transaction will be important in our deleverage target, will reduce slightly less than half of our net debt. The amount received will be allocated basically for this purchase. I'd like to make it clear that these operations of Duratex [indiscernible] (48:49), so it does not compromise our capacity to supply panel [ph] mills (48:54), nor should it result in impact on the cost of goods. We still have some product surplus and we are work on the best way to monetize this asset and improve the returns of our operation.

Now I'd like to move to the last slide, the message from the management. In the recent years, we have shared several initiatives and made a commitment to improve our operation and profitability. (49:22) positive results of those initiatives. When we defined our strategic plan according to the new value proposition, we created the foundation with some of the main movements we have made in the recent years, consolidate of (49:37), acceleration in the process of culture transformation, improve our sustainability and seek innovation.

Our capital allocation in the coming years will be driven by the four row of avenues: first one, digital transformation; second one, environment solutions; third one, water solutions; and finally, spread solutions. Every time when we think about growth of Duratex, we have to connect to these avenues. These initiatives in line with an efficient cash management and deleverage growth that we are discussing during the presentation are designed to improve the organization's returns and position us as the best choice for our shareholders and other stakeholders.

I may - I finished my presentation now. And I'll be available in the end of the call for any questions you may have. Now, I pass the word for Marcos de Marchi from Elekeiroz. Thank you.

Marcos Antonio de Marchi {BIO 17570710 <GO>}

Thank you, Guilherme. Good morning and good afternoon to all of you. I invite you to move to page 59. 2017 was a year of recovery for the Brazilian industrial production and this has reflected also in a increase of 6% in the consumption of chemical products in Brazil. For Elekeiroz, we have the volumes shipments 25% higher than in 2016, mainly driven by smooth operating performance of Elekeiroz assets and favorable market conditions in three key segments for us; the alcohols, the (51:22), the plasticizers and the

sulfuric acids. In this way, we have had a 25% increase in the volumes that occurred, both in the inorganic and in the organic segments.

Moving to the page 60, we can see that the net revenue has also followed the volumes and we have had a significant increase of 27%. Especially in the fourth quarter, we highlight 70% increase in the inorganic products due to a favorable prices due to a shortage in the sulfuric acid in the Brazilian market.

On page 61. In 2016 the Company has implemented a project to optimize its production chain and has concentrated on plasticizers and phthalic anhydride production in the most competitive factories in Várzea Paulista. And therefore, we shut down two product lines in the Camaçari plant. You can see in the full-time employees, this has had an important reflection. As well as, we have also in addition a set of actions focused on reviewing business processes and increasing productivity in the staff adjustment is then a reflection of all this.

The reduction in the full-time employees' number as well as the increase in the production, we utilized 80% of the capacity in 2017 and 50% in the previous year. As a result of those two factors, we have an increase in productivity by 64%. And also, our action plans in administrative expenses and fixed costs has had a result of a minus 20% of expenses from 2015 to 2017.

Well, on page 62, we can see that those factors combined result in a turnaround on the EBITDA. I mean, the EBITDA was increasing quarter-by-quarter finalizing the year in the level of BRL 80 million. Combined with EBIT by BRL 8 million on non-recurring EBITDA, we achieved then BRL 88 million in EBITDA of 2017. Situation completely - our result completely depends on the previous year.

On page 63, we can see that also the turnaround was in the - in the loss to profit, we ending the year with a profit of BRL 48 million. Well, the page 64 is a reminder of the all non-recurring items that affected us especially in 2016. This - throughout 2017 was just one tax credit recognition in the level of BRL 8 million. But in the year before, we have had the impairment and restructuring and many other things that affected either net loss at that time or EBITDA according to the chart you have on the page 64.

On the page 65, our income statements points out the most important points, the net sales increasing by 27%, the gross profit increasing by more than 280%, and the turnaround from the loss to profit in the final results. We can see also that the first quarter 2017 was in the same good level or - as the previous quarter.

The page 66 shows that we have - in the balance sheet and cash flow, we have also worked in a reduction of working capital despite of the increase in the sales and production and this was due to a better management of the production chain. We have then reduced the inventories and we have together with an increase in EBITDA, we could then reduce the net debt by BRL 75 million in the year of 2017, going from BRL 184 million to BRL 108 million, the net debt, achieving finally a 1.2 ratio of net debt by EBITDA, the lowest leverage level in the past years - through all the last five years.

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In the page 67, then we can I think conclude that 2017 was a combination of higher volume, an outstanding operating performance with improvements in the yields and reduction in the costs and expenses. So we achieved a robust recovery in the results.

The priorities for 2018: to concentrate in the operational excellence with lower cost through yield and productivity improvements; a continuous increase in the capacity occupation; our Lean structure with teams that are very well trained and committed to change management and sustainability of operations; and so in business wise, strengthening this - strengthen our leadership in the plasticizers market, where we are a regional leader with the most complete portfolio of products; and explore the South American markets for oxo-alcohols. Thank you very much.

I move now to Fabio to talk about Alpargatas.

Fabio Leite de Souza {BIO 18001722 <GO>}

Thank you, Marcos. Good afternoon, good morning to everybody. I'll start my presentation on page 69 analyzing our net revenue performance in the year. So, as you can see our sales declined by 8.2%. It was driven mainly by the performance of (58:38) Brazil. There was an anticipation of volume from the first quarter of 2017 to the last quarter of 2016. This was an isolated event, so we shouldn't repeat anymore. It's also important to mention that in the last quarter however the performance was very different, growing our sales by 3.5% and it shows that our company is on a recovery path.

On the next page, page 70, we see a breakdown of revenues by business unit, so situation wise pretty much the same compared to 2016. Sandals business represent 64% of the portfolios followed by Sporting Goods division was 24% and then Textiles Argentina and finally Osklen was 6% participation, which is our fashion brand that we acquired some years ago.

On page 71, we have a different breakdown by region, and again situation stable with Brazil accounting for 65% of the portfolios followed by Argentina with 18% and then Sandals International representing 17%.

On page 72, we see our gross profit performance. Gross margin remained flat - almost flat compared to 2016. However, again it's important to mention what happened in the last quarter when we had significant improvement in margins, growing 1.1 percentage points versus the last quarter of 2016, driven mainly by the performance in Brazil, where we grew our gross margin by 2.5 percentage points.

On page 73, we see the performance on our recurring EBITDA, and again the performance of last quarter is pretty much different from what we had for the full year. From the last quarter, our recurring EBITDA grew by approximately 17% with EBITDA margin growing 2 percentage points in the last quarter.

On the next page, page 74, we have a bridge to explain our net income performance where we can see that although we have a reduction on EBITDA, this reduction was

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partially offset by an increase in income tax credits, and then we had also other positive valuations that led to a net income that is slightly below what we had in 2016. So, we were able to really cover for the losses in the EBITDA as we've been (1:01:17) before. And then, with that we reached an improvement in net margin reaching a 9.4% level.

Next page, page 75, we can see that the BRL 274 million of operating cash was enough to cover for the payment to shareholders amounting to approximately BRL 150 million and even then was sufficient to enable for an improvement in net financial position from BRL 91 million in December 2016 to BRL 27 million negative in December 2017.

On page 76, we have the big events of the year. We have the change in our ownership structure. Itaúsa now belongs to the controlling group of Alpargatas. This led to an important improvement in our governance level with the creation of four committees described here; strategy, people, finance and audit, and also an amendment of our company's bylaws. Those changes were well appreciated by investors and shareholder in general and this situation led to an appreciation of our stock price as you can see on page 77. So we see here that the preferred shares of Alpargatas appreciated by 79% last year compared to Ibovespa index that grew 26%. Although it's important to mention that Alpargatas has been outperforming the Ibovespa index in the last three years. On the right side we can see the payment to shareholders. So, last year we had a total distributable income of BRL 178 million, being part of it, a BRL 150 million already paid last year as interest on capital and the remaining part, BRL 27.8 million to be paid now in April. Moreover, we also going to pay dividends related to the previous years amounting to approximately BRL 70 million, which is also going to be paid in April.

Finally, we have a summarized on page 78, summary of strategic priorities for the company for each brand. I'll just highlight the key initiatives here. For Havaianas, the main initiative is really to expand its volume internationally. This is one of the pillars for not only Havaianas, but the company as a whole in the next years. Mizuno, we need to continue to improve our margins. Osklen, we need to accelerate sales, especially non-direct channels. And Topper Argentina, we need to restructure the business. We need to cut back on industrial base, so it can be more competitive and sustainable for the next years.

So having said that, I'll conclude my presentation and I pass to Alfredo Setubal for his final remarks.

Alfredo Egydio Setubal {BIO 1528623 <GO>}

Thank you. Now we are open for questions. We can go on.

Q&A

Operator

Ladies and gentleman, we will now begin the question-and-answer session. Our first question comes from Jason Mollin, Scotiabank.

Q - Jason Mollin {BIO 1888181 <GO>}

Thanks for the opportunity. I just got a question or two. My first question is about Itaúsa's strategy and we saw in the presentation that the non-financial investments that it now represents about 90% of assets and about 95% of net asset value as we calculate these new market values. In the past, Itaúsa has talked about Itaú Unibanco and the financial segment representing about 90% of investment. So we're really there at least in terms of assets, I'm not sure if we should be thinking about that 90% up as of assets or net asset value. And in this context, should we think of Itaúsa having reached the diversification - its diversification target with the current capital base. And if not, I guess at this level it seems like given the debt, if you were to make further investments, that it would require capital in the near-term if you were to do that? That's my first question.

A - Alfredo Egydio Setubal {BIO 1528623 <GO>}

Okay, Jason, Alfredo. I'll answer also the question for you if Fernandes (01:06:13) is around the same subject that you asked. The idea is to really - to keep around 90% of the investments of Itaúsa at the bank and the other 10% in other financial or other non-financial investments. As you said, we are there, we are 90%, but you have to remember that the bank grows very fast their results and their net worth and so on. So very fast, we open again this space for new investments if we find something that really will create value to our shareholders.

So for the moment, we are not studying many alternatives. We are happy with NTS and Alpargatas. But in the future, we can consider other investments because we open space just because of the results of the bank and they go for the (01:07:30) net worth for the bank. And by consequence, our investment account will also grow related to the bank. But for the moment, yes, we are studying other alternatives, because we are now being investment bankers in private equity come here to show opportunities.

But at the moment, we are very quiet in terms of investments. We have some alternatives that we are looking. But we have to follow the rules that we showed during the presentation of what kind of investments we want and how much we would like to invest. So probably, we're going to have new investments in the future. But at the moment, the 90% total investment in the bank and the portfolio of Itaúsa remains our target for the moment.

Q - Jason Mollin {BIO 1888181 <GO>}

So, just a follow-up. So, should we be thinking of it as that you said that the assets or should we be thinking of it as a metric of net asset value with market values? I mean, they're close, but it would mean 5% of your net asset value...

A - Alfredo Egydio Setubal {BIO 1528623 <GO>}

We are talking about investment account, 90% of the investment's...

A - Alessandro Broedel Lopes {BIO 17663830 <GO>}

Book value.

A - Alfredo Egydio Setubal {BIO 1528623 <GO>}

...book value.

Q - Jason Mollin {BIO 1888181 <GO>}

Okay. And maybe a second question relates to the investments made in 2016 and 2017, you bought back shares with such a good use of capital, especially given the discounts in net asset values during those years, now beginning of this year come down a little bit close to 22%. How do you think about that discount? I mean we know where it's traded in the past, we provide, you track that for us and help us track it ourselves. But if you can kind of go back over - we know that you pay - I just wanted to double check that that hasn't changed. The tax that you're paying the COFINS and PIS tax that you pay on the interest on capital you receive, is that expected to remain stable? On my last calculation, I thought that was 9.25%. And is that - I guess that continues to be the biggest leakage in value for the holding group structure, correct, because your costs are still very low, they were up year-on-year, but they're still a very small portion of the net asset value at 1% I think the last time I calculated it?

A - Henri Penchas {BIO 1525748 <GO>}

Hi, Jason, Henri speaking. Jason, exactly what you said, we haven't - we have our taxation of 9.25% on the net interest on capital that we received from the controlled companies.

Q - Jason Mollin {BIO 1888181 <GO>}

And the increase in expenses this year, there was a statement that it was related to some of the - I guess the acquisition, the transactions that were made, should that go down, if we're not going to see more transactions this year?

A - Henri Penchas {BIO 1525748 <GO>}

Yes. If we don't have any other transaction then the number will decrease. By the other side, as the bank increased very much the payment of interest on capital we will have 9.25% over a bigger value, bigger amount received mainly from the bank.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you, Henri. That's really helpful.

A - Henri Penchas {BIO 1525748 <GO>}

Okay.

Operator

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

A - Alfredo Egydio Setubal {BIO 1528623 <GO>}

Okay. Thank you all for the presentation. I think it was - we think we are very helpful to explain the policy of the Itaúsa in terms of diversification dividend paid policies and also to complement with the view from the companies both on business and how the companies are performing and what are their strategies for their own business. Thank you for all the participation and we'll be back next year for the conference call of the Itaúsa Annual Report. Thank you.

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Operator

That does conclude our Itaúsa's 2017 results conference call for today. Thank you very much for your participation. You may now disconnect.

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