

Q4 2012 Earnings Call

Company Participants

- Flavio Marassi Donatelli, Investor Relations Officer
- Guilherme Tadeu Pereira, Chief Financial Officer
- Henri Penchas, Investor Relations Officer
- Marcos Antonio De Marchi, Investor Relations Officer

Presentation

Operator

Ladies and gentlemen, thank you for standing by. This is Itausa's Conference Call to discuss the 2012 Earnings. At this time, all lines are in a listen-only mode. Later there will be a question-and-answer session and instructions to participate will be given at that time. (Operator Instructions) As a reminder, this conference is being recorded and broadcast live on Itausa's Investor Relations website, www.itausa.com.br. A slide presentation is also available on that site. 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 those anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks, and other factors.

With us today in Sao Paulo are Henri Penchas, Investor Relations Officer of Itausa; Guilherme Pereira, Chief Financial Officer of Itaotec; Marcos Antonio De Marchi, Investor Relations Officer of Elekeiroz; Flavio Marassi Donatelli, Investor Relations Officer of Duratex; and Alfredo Egydio Setubal, Investor Relations Officer of Itau Unibanco Holding.

After the presentation the management will be available to answer the questions made by phone or e-mail. It is now my pleasure to turn the call over to Mr. Penchas.

Henri Penchas {BIO 1525748 <GO>}

Good morning. It's a pleasure to be again with you to speak about the financial numbers of 2012 of Itausa. We intend to make this presentation speaking about the parent company, after that my colleagues will dictate the information's about Itaotec, Elekeiroz, Duratex, Itau Unibanc and intend to close the presentation speaking about Itausa in the stock market. After that, all of us we are here to hear few questions and answer if we have.

Slide number four. We can see the liquidity of Itausa and that from our liability to 92% of our assets and just 8% represents that. From the 8%, that's 2.5 billion reais, 1.6 billion represents dividends payable to our shareholders.

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Slide number five. The overall liquidity of Itausa, it's very, very reduced. Our net debt-to-index is 2.3% only. We are able, we are studying, we are always open to study investments that may sense to increase the value of the company to our shareholders.

Slide number six, just illustrating, but all the dividends that we received from Itau Unibanco, we (inaudible) shareholders of Itausa. Slide number seven showing what are the capital to increase after the distribution of the dividends. And as you see in 2011, we didn't have capital increase by cash.

In the page number eight, we can see that the increase of the dividends from 2010, 2011 from 1.1 billion to 1.6 billion. And now we intend to pay just net of the capital increase 727 million reais and to have a capital increase of 915 million reais as of June 2013. The rise we can see that, if we have an increase in the dividends up 10% each year. From 2010 to 2011 and 2012, the total dividend would have reached 2.3 billion. That's exactly what will happen when we have a capital increase of 915 this year considering the one-time 6 billion paid in 2011 and a 747 paid in 2012.

Page nine just showing the distribution of the total assets of Itausa between subsidiary control companies and the total assets from the 29.6 billion in subsidiaries. The distribution is the financial area with 27.3 billion at 92% industrial area with 2.2 billion that represents 7.6%. From the industrial area, Duratex represents 1.4 billion; Elekeiroz, 400 million; Itautec, 400 million of that.

Let's get to page -- to slide number 12, where we can see from equity income that 96.8% was booked from the financial area. Just 3.1% from the industrial area. And in 2011, 96.4 and 3.4 from the industrial area.

And on slide number 14, without changes released into the last year, just a composition of the shares of the main companies. In the page -- slide 15, the evolution of the net income, recurring net income for the quarter's equity. And we can see the small reduction in the net income as we saw that in the page 12 is due mainly to the small decrease in the net income of the bank.

Slide 17, we can see the main financial indicates in terms of Itausa per company and the evolution of the total numbers of Itausa. The total assets of operating revenues that encompasses of small reduction due to the bank and stockholders equity, return on equity and the still very high fund generation of 19 billion reais in the year.

In the slide 18, we've just like to show what will happen in the year of 2013. When we apply the new IFRS 11 where we don't have any for the consolidation, the proportion of consolidation of the bank. So in the first column wherever you have the numbers of 2012 consolidating the bank and in the last column you have the numbers of December, 2012 if we had already see that, the IFRS 11.

As you can see the total assets, total liabilities, we (inaudible), but bank will be considered as a normal investment with link from advertisers, by the equity management and no change in the stockholders equity. These are net income of the company.

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And now, I would like Guilherme to speak a little bit about the Itautec.

Guilherme Tadeu Pereira {BIO 20540480 <GO>}

Thank you, Henri. Good morning, everyone. It is our pleasure to be here today participating in this conference call. I'm going to start with the slide 20, where I'd try to give you a brief overview on the Itautec 2012 performance. 2012 was a very different year for us in terms of financial results. We faced a very significant impact coming from the macroeconomic change we have in Brazil.

I also like to highlight the main ones starting with the currency evolution. As the U.S dollar became stronger, we have the significant impact on our cost of goods sold for hardware products for automation and computing business.

The second one is the interest rate cut we had in Brazil. That actually affects our business, hence we have many of our customers as financial institutions. And the last one is, the economy has slow down; we have a lower growth pace than expected. And as a consequence, our net revenue for 2012 was at the same level we have in the last year.

Aiming to protect our profitability, it held back, implemented several actions in order to cope with this negative impact in the -- coming from the market itself. We try to implement the actions to increase our operational performance, decreasing our cost in many different stages, especially in the G&A expense. It's also important to highlight that in the fourth quarter, we've recognized an asset of 65 million reais in respect of a special judicial order for the Qatari Judicial.

Moving to the next slide 21. You can find more details on our financial results and also our breakdown of our net revenues by segments. As you can see the Automation segment have represented 26% of our net revenues; the computing business, 45%; and the service business, 29% of our net revenue in 2012.

Moving to slide 22. We will give you some more information on the performance of each business unit. Starting with our Automation Solutions. It was a good year where we increased our sales in 6.3% versus 2011. The increase was mainly -- main reason why the repay automation sales -- we had a good performance by selling software's and also digital printers in this segment.

In terms of units shipped, we had a small decrease in ATM. We shifted the 8,000 units in 2012 versus 8,400 in 2011.

In case of computing business, although we see an increase on the units sold, units shipped, especially in the mobile segment for as notebooks and netbooks were we increased our units shipped by 11%. It was not reflected in the net revenue, since we faced a very, very difficult scenario in terms of price with the competitors, especially in the retail market decreasing their price. So the net revenue for computing business was 2.9% lower than 2011.

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In case of third, interest remained at the stable, exactly at the same amounts we had in 2011. And in this case, we were able to compensate or to offset the impacts we had coming from financial institutions by increasing our sales of -- in the telecommunication and infrastructure areas.

Moving to the slide 23, you can see some more details on their working capital management. And I can say that this management here, provided us or leaded us to a very healthy situation that can be viewed in the slide 24 where we have our investments in a level of minus 45 million reais. It was the 96th consecutive quarter, that Itautech was able to maintain the net debt at a negative level.

Moving to the slide 25. As you can see, Itautech investing on its products and solutions portfolio maintaining our investments in R&D. And as a consequence, you can see that we again received the two important recognitions among orders. And they award Finance Technology Award and FinTech 100.

Finally, we are confident that the important actions and measures we took and then we have been taking since the second semester of 2012. We'll be fundamental and we've allow Itautech to become much more competitive along the 2013.

Now I would like to pass the word to Mr. Marcos Antonio De Marchi, who will talk about Elekeiroz.

Marcos Antonio De Marchi {BIO 17570710 <GO>}

Thank you, Guilherme. Good morning. It's pleasure to be here to talk about Elekeiroz, the chemical company of Itausa. Talking a little bit about the chemical industry, it's 5,100 billion sales worldwide. It's a one of the most important worldwide industries, Brazil's number six in this chemical work with sales of 167 billion in 2011 and it's growing above the average of the sector.

The industrial chemical segment in which Elekeiroz has engaged represents about a half of the Brazilian chemical industry. Despite being Brazil's -- the biggest chemical industry in Latin America, we still have a vacancies of \$28 billion regarding chemical projects. However, the participation of the import has decreased from 34% to 30%, we still have big amount in each one of the biggest deposit in the Brazilian economy.

Well, the chemical sector consistent with the Brazilian industry in 2012 was not that great. It was, let say, flat in consumption of chemicals against 2011. In the page 28 we can see the charts showing exactly what I told you, with the exports going to 15 but the imports going to 43 and for that the 28 billion of that's in the trade balance of chemical industry.

Elekeiroz in the page 29 represents the markets where Elekeiroz had a least performance in 2012. And however Elekeiroz was above the average almost for all fitness search [ph], intermediates are flat sizes grew 9%, (inaudible) 6.8%, a 45% growth in the other organic chemicals, which means the capacity increase of 2-EHA was very successful, 10% increase in the intermediates of thermosetting resins and 4.5 in intermediate for fertilizers.

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In the page 30, we can see the performance indicators. The volume has increased 6%, net revenues has increased 16% to 900 billion reais and 11% of gross margin. The EBITDA has grown against 2011, 41% to 38 million reais. and the net income was zero plus in 2012. In page 31, we showed that we have invested in the future in 2012 by creating an R&D department that is working not only alone but also in partnership with technical institutes in Brazil to increase our -- to enrich our portfolio. We will have investments of 1.2% of sales in R&D in 2013.

The management cockpit was implemented in (inaudible) which is to enable decision-making process much more quick and align with company itself. We have invested 38 million reais, about half of that in the expansion of UPR, the resins of polyester. And we have worked in HSE and we have as a result decrease in the accident rate. In the page 35 -- 32, we conclude that (inaudible) in corporate governance. As a strategic plan that is contemplating several options of growing that has a team that has the skills and qualities. We are also firm committed to environmental protection actions as well as developing projects done in strong renewable sources. And we feel still remain as the only integrated producer of (inaudible) in South America. And 70% of the power consumption of Azerbaijan is produced in-house. And we keep also the low indebtedness in 2012.

Thank you very much. And now toward the -- Flavio Donatelli talking about Duratex.

Flavio Marassi Donatelli {BIO 2066133 <GO>}

Thank you very much. Good morning. It's a pleasure to be here. Let's talk about Duratex on page -- on slide 34. You will see that 2012 was a very good year for Duratex. We've reached record shipments volume in 2012. Growth sector will grow 16% in volume when compared with 2011 and the sector grows to 1%.

We've reached a record net revenue to 3.5 billion reais, an increase of 14.3%. Our recurring EIBTDA amounted 1 billion reais, a growth of 30% of investment.

The recurring LOE of 11.4%. And in the fourth quarter, we've reached 15.2%. There we are now seeing a 10% stock dividend to be approved in the General Meeting in April. During 2012, we maintained our investment in organic growth, but this year we acquired an important business outside Brazil, a company in Colombia. And we entered the uncomplimentary segment as we will see during the presentation.

Earlier in 2012, Duratex had an important event, that was, there we were selected to be a component of Dow Jones Sustainability Award Index.

On slide35, you will see that in 2012 we were replacing our growth. The green was our rule between the last six years is being replaced by these new rules. We believe that this rule will bring contemporary and that the combination of the lines and grid lines can give the idea of a drop or at least a clear association with Duratex towards sustainability.

And the new feature, refers, or remember the letter D. The Duratex, which highlights addition of a solid company and (inaudible).

On slide 36, you can see at the top, a growth of Duratex has been consistent over the last two years. Say 2012, we reached 3.4 billion reais in revenues, net revenues, a growth of 14% over 2011. Our EBITDA reached 1 billion reais, 30% margin. Recurring to net income of 137 million reais, a growth of 25% over last year and other non-recurrence returns on equity reaches 11.5%.

As you can see in the bottom, you know that you have the details of a huge program of investments both organically and as acquisitions. That didn't have a growth return to the company as for now. If you do not consider the financial costs for the ongoing investments, the net of the CapEx, our average would reach 11.3%.

On page 37, you can see the shift in mix of the data which grows to 30% when compared with the 2009 volume. Net revenues reached 1.2 billion reais in 2012. And (inaudible) EBITDA of 272 billion, 33% margin. In the old division, we had an outstanding performance, our shipment grows 60%, our net revenue 2.2 billion reais and they reached EBITDA of 732 million reais, a margin of 33% marginal EBITDA.

On page 38, as you know that division of Duratex is to generate well in a sustainable manner. And in 2012, you had over two divisions of all the (inaudible) Duratex has done in terms of sustainability. We were selected to be a component of sustainability over the index. This index is one of the most prestigious sustainability and selected in the financial market.

Around 2,500 companies were invited, only 340 were selected, only 9 Brazilian companies. A total of 34 (inaudible) were evaluated and the Duratex was the best in rates in five of these reviews. And in terms of policy, international standards production greater than the risk management, most efficient is logistics, stakeholder engagement. For us to be part of this index is an indication that Duratex will continue to generate results in a sustainable manner.

Disclosing our investments during 2012, in the Wood segment (inaudible) division, we will inaugurate in the beginning of the second quarters of 2013. And you will immediately plant in the state of Sao Paulo with a capacity of 520,000 cubic meters higher. Again increasing our capacity to 670,050 cubic meters in our MVP plant in South of Brazil.

And as I mentioned, we acquired 35% stake in Tablemac, the biggest panel company in Colombia. The evolution of our capacity and in the bottom line that next to the middle of this year, we announced a new plant to be ready in 2015. Where is the new plant? We don't know yet, it is to be produced in MDS or MDP [ph] but to be announced in this -- through the first half of this year.

Back our units, which is a health division, we acquired a new division in Sao Paulo with a capacity of 780,000 meters a year. We increased our metal fittings capacity in the city of Jundiai, close to Sao Paulo. We are reaching 18.2 million pieces of capacity in this plant.

And in April, we start a new operation of the new plants in Rio de Janeiro, with the capacity of 2.4 billion in a year, an increase of 25% over our actual capacity.

And we announced in the beginning of this year, end of last year, the revision of all the shares of the thermo season company based in the South of Brazil, which reduces electronic shower. These acquisitions is aligned with our strategy that to enter a new projects within the segment of construction much.

And to the annual page 41, we're in a huge burden of investments. Our CapEx in 2012 -- 132 million reais. For 2013, we are forecasting an investment of 660 million reais where we felt very low investment. The net debt equity of the company is only 34% and are multiples of the net debt over EBITDA, which is 1.3 at the end of the -- this our low debt allows due to effects to continue its growth strategy, both organic and equity form.

Thank you and (inaudible) to talk about the total universal outsourcing. Thank you.

Guilherme Tadeu Pereira {BIO 20540480 <GO>}

Thank you Flavio. It's a pleasure to be with you. Today, we're going to see the numbers of 2012 for Itau Unibanco Holding. Always remembering that these numbers is a legal difference on the bank. The numbers that were showed by the bank because here we're showing numbers in IFRS accounting.

The current results in this IFRS, 15.4 billion and we consider good number, considering the environment of lower gross rate and the spread and more competition in this system. This means, a return on average of almost 18% total funds. All funds and management fund raise the deposits and everything. We achieved 1.4 trillion reais and we announced the investments in technology of 10.4 billion reais in an yield back of (inaudible) and in development of new system with new platforms to serve our clients, everything of these investments to be made in the next three years.

We announced also that year our partnership between Itau Unibanco and Banco BMG in a new venture and a new bank to create a business of (inaudible) and we expected this new venture to generate assets of around 12 billion reais in the coming years. We also finished the tender offer for the shares of credit card, so now Itau Unibanco have total controls of a 100% of the shares of credit card and from now we are going to integrate more credit card into the bank operations and product and everything, and we will probably be able to grow in a much faster pace than before.

Going to slide 44, we see the results of the bank, total managerial financial margin of 55 billion reais and recurrent net income of 13.3 billion reais. I think it is important to see the number is -- administrative expenses of 2.9% increase. So our increase below inflation, that was a good achievement. And we expect to continue this trend. We didn't achieve the efficiency ratio. This ratio was 45.4%. Last year our goal was to achieve a number close to 41, but due to the difficulties and lower (inaudible) and difficulty in growing revenues, we are not able to achieve this.

On Page 45, our credit portfolio. We have been reducing the risk of our credit portfolio in the last quarters. We have achieved considering corporate private securities that we held in our treasury operations and a total credits achieved for almost 515 billion reais. We

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continue to reduce our current financing business, we've reduced almost 20% in this portfolio last year. And also we continue to reduce the credit for very small and small companies in line with the strategy of the bank to increase lower portfolio that brings last risk through our portfolio.

So we continue to increase our mortgage allowance, it increased 34% last year. And also this strategy of key roles as I mentioned is a new venture of BMG.

And on page 46, we can already see the improvement in the NPL ratio, because of this new strategy reduced indulgence. We finished 2012 with our average ratio below the end of 2011, we finished with 4.8. But both individuals and companies showing big improvements and we expected these numbers to reduce more through this year.

For the slides I'm talking about is our holding, our expectations in Brazilian GAAP for 2015, because the portfolio should grow between 11 and 14, even considering yet a reduction in our portfolio of car financing in the first quarter.

Expenses as for provisions for lower losses is something between 19 and 22 billion, remembering that in 2012, this number was 23.5.

So important reduction in provisions this year. Banking fees and insurance fees, a growth of 11 to 14% and no interest expenses continue to grow below inflation something between 4 and 6% and adjusted efficiency ratio, improvements was 200 to 400% basis points in this year.

Now I give back to Mr. Penchas for his final consideration.

Henri Penchas {BIO 1525748 <GO>}

Thank you, Alfredo. Just to close the presentation its six slides of our stock in the market. Slide 49, driving force and achievements for the ninth time we were selected to compose the Dow Jones sustainability index and we had the highest score on the factoring throughout criteria.

Also on this page, we were selected for the sixth time to being in the corporate sustainability index of the (inaudible) Brazil. Slide 50 and 51, showing the performance of our preferred shares, growing the number of operations and also the value of the same operations reaching in January '13 in the slide 51, \$111 million reais a day with 6,709 transactions a day.

Page 52, the famous page of the discount in the price of the shares of Itau's and comparison. Of the sum of the parts. Now with the discounts of 20%, without taking into consideration the control agreement of the shares. Slide 53, just evolution of the discount, were in December 2007[ph] was 23%. We reached December 2011, 15.9 and now we are at the level of 20.2. End of the last slide page 54, showing appreciation in reais of the

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share of Itausa, in comparison with the Brazilian index Bovespa and the Central Bank rate in Brazil where we can see a very good performance.

Thank you for being with us today. Now I myself and my colleagues, we are open to the questions you may have. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions). This concludes today's question and answer session. Mr. Penchas at this time you may proceed with your closing statements.

A - Henri Penchas {BIO 1525748 <GO>}

Thank you for being with us once more time. I want to thank you again, and please if you have any doubt, any questions I and my colleagues we are here to help you by phone, by email or how we can help against those questions you may have. Thank you until the next conference.

Operator

That does conclude Itausa's 2012 earnings conference for today. Thank you very much for your participation.

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