

## Itaúsa Profile and Investment Strategy

One of the first publicly-traded, Brazilian-owned holding companies, Itaúsa (Investimentos Itaú S.A.) controls Brazil's second largest private company by revenues. Internationally, it's the 124th largest company among emerging economies, according to *Businessweek* magazine, and is ranked by *Fortune* as the world's 492nd largest firm. The group is active in a variety of sectors, including financial, insurance and industrial (where it operates in IT and consumer electronics, wood panels, bathroom fixtures, chemicals and property development). The Itaúsa group ended 2002 with R\$114.6 billion in assets and R\$11.8 billion in net equity.

Itaúsa – a holding company with no productive activity of its own – manages the companies it controls, choosing its executives and defining the investment policies and management of each. Its basic strategy is to diversify its investments throughout the various sectors of the economy, without being heavily weighted in just a few. This decision is based on the extraordinary historical volatility of the Brazilian economy. In the past several years, significant variations in the results of our operating areas have been brought about by a revolving door of currency changes, plus monetary, fiscal and exchange rate policies.

### Group Values

- Respect for people
- Strict observance of laws and regulations
- Skills development
- Advanced technology

Itaúsa's culture is allied to key business management principles such as strict evaluation of the many risks inherent in our operations, an emphasis on both technological capacity and intellectual capital, and sophisticated result-monitoring techniques. Together, these provide the Itaúsa group with continuous growth, even in times of macroeconomic uncertainties. All Itaúsa group companies base their activities on these core values.

# ITAÚSA

Annual Report 2002



# ITAÚSA

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Annual Report 2002

This Annual Report is also available on the Itaúsa website ([www.itausa.com.br](http://www.itausa.com.br)).

# ITAÚSA

## Letter to Shareholders

Brazilian companies faced tremendous challenges in 2002, due to sluggish growth in the international economy, heightened risk aversion by investors after September 11, 2002, and Brazil's federal and state elections.

Capital flows to emerging economies were cut back. Negative expectations of the market were particularly exacerbated by expectations that the presidential election would be won by the left-leaning opposition party. These had direct effects on the exchange rate and inflation, while increasing Brazil's country risk and reducing the value of Brazilian debt issues on international markets.

However, after the elections, early decisions made by the new government indicated it would follow a policy of austerity, so much so that economic and political indicators have shown positive development through the first months of 2003. As well, inflation began to drop, the exchange rate stabilized, and the *real* began to strengthen against the dollar, Brazil's country risk fell significantly and capital flows to Brazil began to be re-established. The international community once again started seeing Brazil as one of the best investment opportunities, particularly in the midst of the growing international turbulence we see at the time of writing.

It is the responsibility of Brazil's new political leaders to stay this course, strengthen the institutional reforms the country needs, and continue the achievements of the past decade. This will allow Brazil to play a greater role in the global economy, a basic requirement for the prosperity and well-being of the population.

Itaúsa sees a more positive outlook for 2003, and will try to bring this about, while maintaining its strategy of investments and long-term sustained growth.

Thanks to the creation of long-term strategies emphasizing sustainability over events-based opportunism, results in 2002 were extremely positive for companies in our financial and industrial areas, and we expect this performance to continue in the years ahead.



The overall strategy of Itaúsa and its subsidiaries is founded on:

- Superior returns on capital;
- Following the world's best corporate governance practices;
- Continuous growth, both organically and through high value-added acquisitions;
- Ongoing accumulation of intellectual capital by emphasizing investments in people and technology.

Itaúsa's net earnings totaled R\$1,537 million, with a return of 24.1% on consolidated shareholders' equity of R\$6,389 million. Net earnings per 1,000 shares were R\$488.21, with a book value of R\$2,029.16. Dividends paid out reached R\$415 million.

Although Itaúsa's preferred shares dropped 12.9% in value during the year, they still outperformed the Ibovespa index, that fell 17.0%. The market for Itaúsa preferred shares remained highly liquid in 2002: Almost 50,000 trades were made, totaling about R\$1.3 billion in value.

The Itaúsa Group posted net earnings of R\$2,900 million, with a return of 24.5% on shareholders' equity of R\$11,838 million. Recurring net earnings of R\$3,686 million grew 52.7% over 2001. Our companies in the financial area contributed 93.8% to these figures, while our industrial companies contributed 5.0%, up from 3.0% a year earlier.

Internally generated funds came to R\$7,856 million, confirming the competitiveness of our operations.

# ITAÚSA



## Selected Financial Area highlights:

- An important restructuring resulted in the creation of Banco Itaú Holding Financeira S.A. This holding company will operate exclusively in financial services, and will centralize the group's risk control, auditing and treasury areas. Subsidiaries such as Banco Itaú S.A. and Itaú-BBA S.A. will come under its control. Banco Itaú S.A. will encompass all retail, middle market, private bank, investment funds, financing and brokerage activities, while Banco Itaú-BBA S.A. will operate in the corporate and investment banking areas. The creation of Banco Itaú Holding will not alter Itaúsa's share holdings, or those of the other shareholders in Banco Itaú, who will continue to maintain exactly the same holdings in the same grouping of assets. These will only be reorganized with the creation of Banco Itaú Holding.
- The acquisition of 95.75% of the total equity of Banco BBA-Creditanstalt S.A. and its subsidiaries. The combined price for these companies totaled approximately R\$3.3 billion. This acquisition should create substantial value for shareholders as of 2003, given the complementary activities of both groups.
- A strategic alliance with Fiat Automóveis S.A. in Brazil, through the acquisition, for R\$897 million, of 99.99% of the total equity of Banco Fiat S.A., the leading bank among those financial firms and banks associated with auto manufacturers in Brazil.
- The granting, by the US Federal Reserve, of Financial Holding Company status to Banco Itaú, allowing it to operate in the United States on the same terms as local banks. Itaú is the only bank from an emerging economy to achieve this designation.

## Selected Industrial Area highlights:

- Duratex's launching of its MDF-based Durawall, designed for ceilings and walls, met with immediate success in the decoration market, while the "Link" line of DECA's metal bathroom fixtures won the "Museum of the Brazilian House Design" award.
- Itaotec Philco posted impressive results, delivering net earnings of R\$53.3 million and a return of 17.3% on shareholders' equity. This occurred alongside the restructuring of the company into Business Units, which should lead to greater competitive capacity in its various operating markets.



The company's results come from its strategies of long-term restructuring and maintaining its substantial R&D investments, which were R\$50 million in 2002.

- Elekeiroz's acquisition of Ciquine Companhia Petroquímica at a public auction conducted by Banco Econômico S.A., which is undergoing an out-of-court liquidation by the Central Bank of Brazil, greatly expanded the company's productive capacity by increasing scale and operating synergies, and by complementing the product line. Goodwill related to all acquisitions by Group companies has been wholly amortized in the 2002 financial statements.

All public companies controlled by Itaúsa include tag-along rights in their corporate by-laws, giving minority shareholders the same rights as those of controlling shareholders in the event of the sale of the company. This concession is unique in Brazil, helping to reinforce shareholder confidence and increase share value.

The benefits of the strategic actions taken this year will be realized over several years. This is the approach we have always taken and will continue to take in the future: the capacity of sustained value creation, founded on solid investments, management and governance principles, which have made Itaúsa's companies a benchmark in their respective industries. This is our objective, and we will pursue it ceaselessly.

We thank our shareholders for their continued trust and support, which are invaluable to our ongoing development. We are particularly grateful to the customers of Itaúsa's companies for their loyalty, which we try to repay with products and services that exceed their expectations. We also wish to express our deep gratitude to our employees and associates for their tireless efforts and dedication.

Cordially

São Paulo, March 2003



Cláudio Egydio Setubal  
Chairman and President

## Results and Performance Indicators

### Results

(in R\$ thousands)

	Parent company		Minority shareholders		Group	
	2002	2001	2002	2001	2002	2001
Total net income	1,537,264	1,182,829	1,362,973	1,301,028	2,900,237	2,483,857
Recurring net income	1,955,940	1,132,100	1,730,460	1,282,143	3,686,400	2,414,243
Extraordinary net income	(418,676)	50,729	(367,487)	18,885	(786,163)	69,614
Shareholders' equity	6,389,415	5,054,694	5,448,233	4,628,503	11,837,648	9,683,197
Return on Equity (ROE) (%)	24.06%	23.40%	25.02%	28.11%	24.50%	25.65%
Dividends/Interest on own capital	414,561	394,713	446,457	463,978	861,018	858,691

Consolidated net income per thousand shares of Itaúsa amounted to R\$488.21, while book value reached R\$2,029.16.

## Main Indicators of the Companies Controlled by Itaúsa

(in R\$ thousands)

	Year	Financial and insurance area			Industrial area		Consolidated/ Group <sup>2</sup>
		Banco Itaú S.A. (Consolidated)	Insurance, Pension plan, capitalization <sup>1</sup>	Duratex	Itautec Philco	Elekeiroz	
Total assets	2002	111,141,435	6,753,322	1,686,979	945,012	414,255	114,648,726
	2001	81,416,301	5,944,750	1,441,148	812,464	218,515	84,472,160
Operating income <sup>3</sup>	2002	32,862,828	4,621,948	866,884	1,334,044	355,307	35,835,931
	2001	20,976,056	3,498,121	785,340	1,171,589	131,042	23,413,861
Net income	2002	2,376,723	332,044	71,658	53,342	37,033	2,900,237
	2001	2,389,468	363,815	52,054	4,198	13,077	2,483,857
Shareholders' equity	2002	9,036,410	1,651,812	905,061	308,828	181,700	11,837,648
	2001	7,578,222	2,235,758	864,074	269,775	154,953	9,683,197
Return on Equity (ROE) (%)	2002	26.30%	20.10%	7.92%	17.27%	20.38%	24.50%
	2001	31.53%	16.27%	6.02%	1.56%	8.44%	25.65%
Permanent assets	2002	3,469,254	1,016,224	1,005,965	235,319	227,850	4,872,984
	2001	3,344,975	1,640,296	801,290	219,719	120,534	4,504,702
Investments in the period	2002	2,374,698	54,246	303,461	73,679	73,052	2,791,953
	2001	1,510,176	275,781	139,568	82,843	18,992	1,704,191
Internal fund raising <sup>4</sup>	2002	7,557,599	901,834	171,121	115,782	58,707	7,855,839
	2001	5,033,242	302,551	114,469	50,592	21,490	5,149,280
Dividends paid	2002	828,579	138,013	24,580	15,861	10,457	861,018
	2001	807,700	123,590	23,598	7,843	4,268	858,691
Personnel expenses	2002	3,161,470	140,376	189,143	199,897	33,261	3,595,527
	2001	2,493,640	118,203	172,492	182,610	15,600	2,884,245
Discretionary bonuses	2002	190,680	10,532	12,720	5,567	4,304	213,299
	2001	197,746	10,056	11,701	5,331	1,369	216,779
Number of employees	2002	43,215	1,738	5,765	4,936	732	54,648
	2001	45,409	1,811	5,992	4,813	384	56,629
Taxes paid and provisioned on income and revenues	2002	1,396,694	182,226	187,894	157,412	36,135	1,829,932
	2001	1,121,969	119,236	184,402	123,202	23,661	1,496,872

(1) Figures related to insurance, pension plan and capitalization companies, which are consolidated in Banco Itaú S.A., are also presented separately.

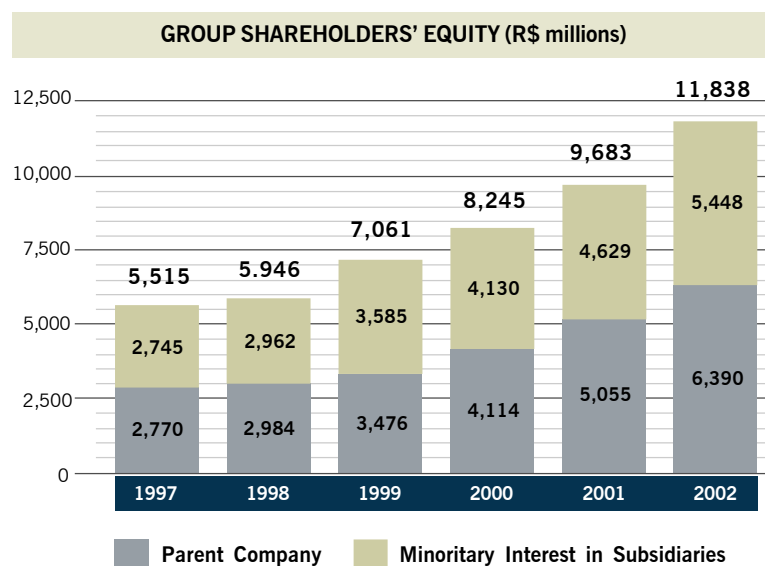
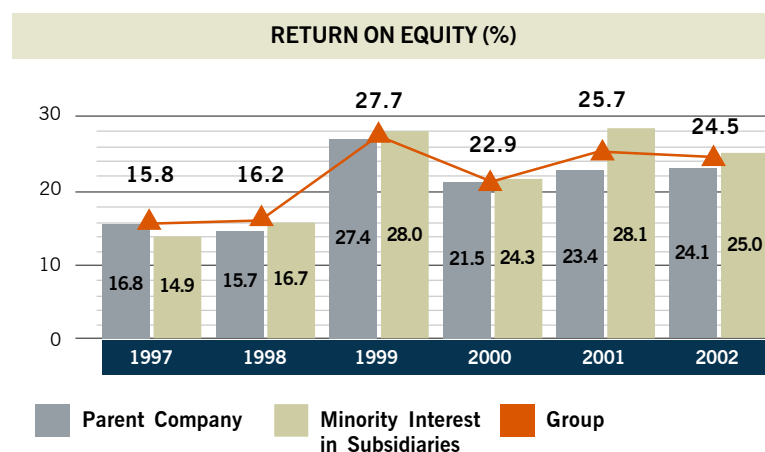
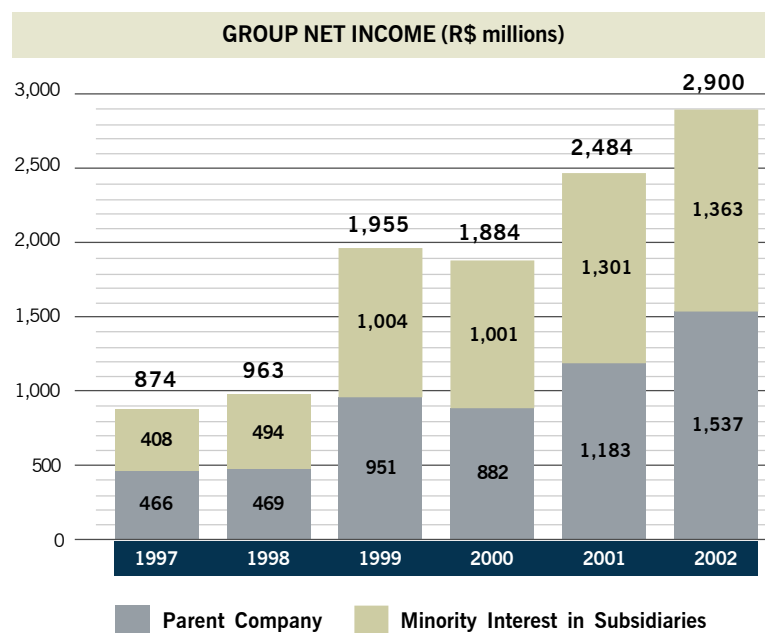
(2) Figures related to consolidated/group are net of adjustments of consolidation and unrealized income from inter-company operations.

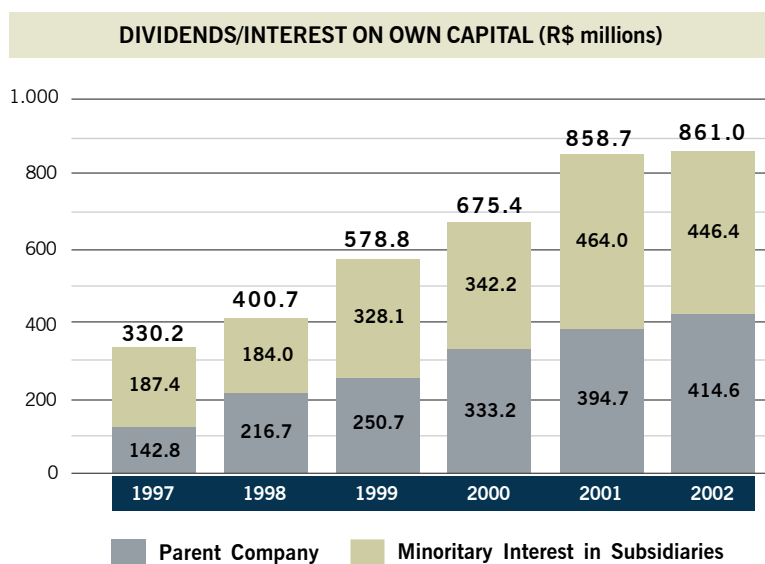
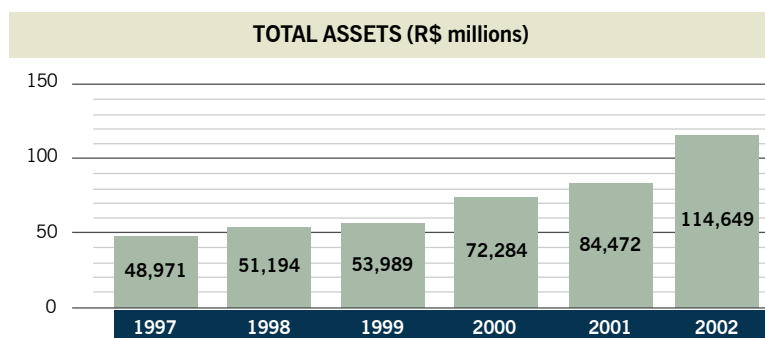
(3) Following international accounting standards, operating income by area of operation was obtained as follows:

- Banco Itaú S.A.: Total of income from financial intermediation, services rendered, insurance premiums, capitalization and pension plans plus other operating income.
- Insurance, pension plans and capitalization: includes income from insurance premiums, capitalization, pension plans, financial income and capital gains.
- Duratex, Itautec Philco and Elekeiroz: includes net income from sales of products and/or services.

(4) Covers funds arising from operations:

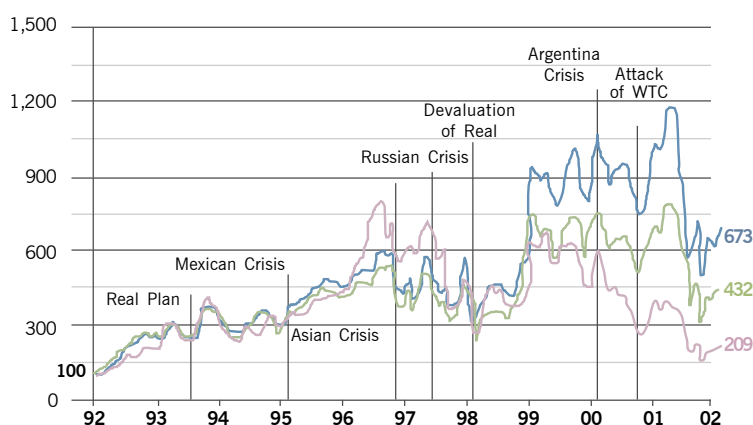
- Not including changes in mathematical provisions for capitalization and pension plans, but including changes in unsettled claims, credits and debits from insurance operations and deferred selling expenses from insurance, pension plans and capitalization.





**PREFERRED SHARES APPRECIATION (in US\$)**

Evolution of US\$ 100 Invested in December of 1992



**ANNUAL AVERAGE APPRECIATION**

	ITAÚSA	ITAÚSA	BOVESPA
10 yrs	20.99%	15.76%	7.66%
5 yrs	6.64%	0.01%	-18.97%
2002	-33.50%	-37.43%	-45.50%

- **ITAÚSA**  
With reinvestment of dividends
- **ITAÚSA**  
Without reinvestment of dividends
- **BOVESPA**

## Corporate Governance

Itaúsa seeks to continually improve the quality and transparency of the information it disseminates to its thousands of minority shareholders, making this a policy that consistently creates value for all its shareholders.

In 2002, Itaúsa undertook various measures to reinforce this policy:

- Concession of tag-along rights to all shareholders in the event of a change of control of the company. Under Brazilian Corporate Law, shareholders with voting rights have the right to receive 80% of the amount paid by the buyer to controlling shareholders in a public offer of shares. In April, 2002 Itaúsa extended this right to preferred shareholders;
- Second meeting with members of the Brazilian Association of Capital Market Analysts (Abamec) in São Paulo in August, 2002, attended by approximately 450 market analysts plus the President of Itaúsa, Olavo Egydio Setubal, and the Investor Relations directors of all listed companies under the control of Itaúsa;
- Expansion of mandatory Relevant Matter Disclosure Policy for all listed companies. Itaúsa expanded the terms of Brazilian Securities and Exchange Commission (CVM) Instruction 358 and published a comprehensive document benefiting its shareholders, offering greater transparency and safety for their investment. The CVM rule also makes it optional for listed companies to adopt a policy for trading of securities issued by the company. The policy was implemented at Itaúsa and agreed to by all its managers; and
- Improvement of the Investor Relations website, which now provides an e-mail alert tool, making the site a benchmark for shareholders, investors, journalists, academics and other users seeking to know more about the company.



ITAÚSA



# ITAÚSA

Itaúsa was also awarded for its transparency, respect for minority shareholders and good corporate governance practices. In February 2003, Itaúsa received the 2002 “Animec Seal for Listed Companies” from the 400 members of the National Association of Capital Market Investors (Animec), a non-governmental organization engaged in representing the interests of minority investors and defending their rights. Among the criteria used for the award are respect for minority shareholders, a suitable shareholders’ profit sharing policy, the amount of disclosure made by the company through meetings with analysts plus annual reports and/or an investor relations website, and the timelines and scope of the disclosure of relevant facts, among others.

## Independent Audit – CVM Instruction 381

CVM Instruction 381/03 requires the disclosure by audited companies of information on the rendering of other services not considered part of the external audit by the independent auditor. Under the terms of this CVM Instruction, we report that PricewaterhouseCoopers Auditores Independentes was not engaged in, nor did it render services in 2002 not related to the external audit, at levels above 5% of the total external audit costs to the Itaú Group.

The policy, adhered to by Itaúsa, its subsidiary companies and members of the same economic group, regarding the engagement of services not related to any external audit from our independent auditors, is based on the principles preserving the independence of the independent auditor. Following internationally accepted standards, these principles consist of: a) auditors not auditing their own work, b) auditors not performing managerial roles for their clients, and c) auditors not promoting the interests of their clients.





## Senior Management and Directors

### Board of Directors

#### Chairman

Olavo Egydio Setubal

#### Vice-Chair

Maria de Lourdes Egydio Villela

#### Members

Alfredo Egydio Arruda Villela Filho

José Carlos Moraes Abreu

Luiz de Moraes Barros

Paulo Setubal

### Executive Board

#### President and CEO

Olavo Egydio Setubal

#### General Director

José Carlos Moraes Abreu

#### Executive Vice-Presidents

Jairo Cupertino

Roberto Egydio Setubal

#### Executive Directors

Henri Penchas

Luiz de Campos Salles

### Audit Committee

#### Sitting Members

Eurípedes de Freitas

Geraldo de Camargo Vidigal

José Marcos Konder Comparato

#### Alternate Members

Antonio Geraldo Toledo Moraes

Paulo Ricardo Moraes Amaral

# ITAÚSA

## Human Resources Review

At the end of 2002, the Itaúsa Group had 53,484 employees (54,648 including Banco Itaú – BBA). Personnel compensation, including charges and benefits, totaled R\$2,985.6 million. Social benefits given to employees and their dependents totaled R\$453 million and encompass retirement pension bonuses, meals, health and dental care, social assistance services, scholarships, leisure, sports and cultural activities, loans at subsidized interest rates, insurance, transportation vouchers, donations and special grants, among others.

Group companies have been prioritizing the development of their employees. Last year, they invested R\$45.3 million in education, training and development programs.

Banco Itaú, which has more than 42,000 employees, runs the Career Opportunities Program, created to encourage internal mobility, professional development and talent retention. Moreover, the Performance Management process was augmented, with its main goals being a better setting of objectives and targets, using feedback and improving the profile of Itaú managers.

Itaú is increasing opportunities for the disabled through its Permanent Hiring Program, which permits their entry in the labor market and offers professional development.

Itautec Philco encourages its employees to help improve the quality of its products and services. This is one of the bases for the company's people management program. Also, the company seeks to help provide a better quality of life for its employees through campaigns and practices centralized by the Worker's Health area.

With an emphasis on personnel training, facilities safety and strict operating procedures, by the end of 2002 Elekeiroz had recorded 856 accident-free days, beating its previous record of 588 days by 46%.





# ITAÚSA



Social Responsibility



## Environmental Activities

Duratex's basic principle is to balance its operations development and environmental protection in all communities in which its facilities are located. It has continuously invested in improving these facilities to adapt them to environmental control standards and reduce waste. In the Deca division, an effluent treatment station was built at the Cerâmica Sanitária II plant in Jundiaí in São Paulo State (SP). In the wood division, the Itapetininga plant's effluent treatment station was reformed and gas-stripping equipment was purchased. In Jundiaí and Agudos (SP), the waste collection program for recycling was implemented and will be extended to other plants in 2003. Duratex also continued improving its relationship with the community by presenting the environmental protection-themed activity, "Picnic in the Forest", to approximately 6,000 children.

Itautec Philco's environmental management primarily comprises recycling, effluent treatment and an energy and water-rationing program, to stress the importance of sustainable development. In 2002, Itautec Philco took part in several government initiatives for improving the environment. It participated in the city of Jundiaí's "It's Good to Live Here" project, and was a member of the Centro das Indústrias of Manaus Local Committee for Environmental Management (CIGA), which was formed to promote discussions on waste treatment and recycling at the governmental and community levels. It also has a representative in the city of São Paulo's East Development Forum Environmental Management Group, created by São Paulo city hall to gather suggestions for the region's environmental development programs. Together with São Paulo State Forestry officials, it also exhibited studies at its Tatuapé plant to promote the environmental awareness of its employees.

As part of its own environmental awareness program, Elekeiroz replaced all fuels and LPG with natural gas. It also installed a catalytic gas incinerator and increased its own electric power generation, decreased thermal energy loss in its facilities and increased the re-use of industrial water. The São Paulo State Basic Sanitation, Technology and Environment Protection Agency (CETESB) publication – "Casos de Sucesso de 2002" (Success Stories in 2002) – gave two honorable mentions to the company for having taken these measures.

# ITAÚSA

## Social Activities

In 2000, Banco Itaú created the Itaú Social Foundation. With assets of R\$244 million, the Foundation generates the funds used in its social programs and ensures they are always directed to the Itaú Social Program, which was created in 1993. Since its inception Itaú has invested R\$86 million to implement and support around 500 social projects. In 2002, approximately R\$13 million was invested.

The Itaú Social Foundation's projects are always developed through partnerships with government agencies and non-governmental organizations. The main partners in the education area are the United Nations International Children's Fund (Unicef), the Education, Culture and Community Action Study and Research Center (Cenpec), and the National Union of Municipal Education Officers (Undime). In the health area we are partnered with the Health Development Institute (IDS), and the Public Health Department of the University of São Paulo (USP).

In 2002, the chief programs implemented to improve living standards for children and youngsters from low-income families were the Writing the Future Award, the Program for the Improvement of Education in the Municipality, Increased Working Hours, Learning Managers, and the Regional Meeting of Health & Citizenship Educators.

The Writing the Future Award is for fourth and fifth graders attending public elementary schools, and involved teachers and students in a project to enhance their writing skills. Over 4,500 schools were enrolled in the program, involving approximately 190,000 children. The purpose of the subject "The Place Where I Live" was to have the children thinking about their social environment and putting their thoughts in writing, thus strengthening their citizenship.

Duralex continued providing its carpentry course at the Tide Setubal School, which trains students aged 14 - 18 for a trades career.







Itaútec Philco held community events focused on professional capability and incentives for volunteer programs. Itaútec Philco was also recognized as a Citizen in the December 2002 special edition of *Exame* magazine, for the development of its Volunteer Program and Blood Donation Campaign, both of which are a result of its employees' dedication, and part of the Company's initiatives towards social endeavors which show the interest of our people to help decrease Brazil's social inequalities.

To provide access to information technology for its employees' children and help decrease digital exclusion, in 2002 Itaútec Philco implemented its Keeping an Eye on the Computer project. Divided into modules – Introduction to Information Technology, Windows, Word, Excel and the Internet – the courses are held on Saturdays by volunteer professionals.

## Cultural Activities

For its 15th anniversary, the Itaú Cultural Institute is undergoing a conceptual change. The first step has been to reinaugurate its headquarters on Paulista Avenue—the heart of the city of São Paulo—to offer people increased access to cultural assets. It expanded its public facilities and created the Digital Point, a cyber-lounge open to the general public, providing computers with Internet connection, CD players, individual TV sets, and plasma monitors showing varied programming. Entrance is still free.

Other highlights include Itaulab, the first lab focused on media art in Brazil, with virtual Artificial Intelligence and 3D projects, and the Lab of Senses, the result of a January 2002 partnership between Itaú Cultural and the Secondary and Technology Education Secretariat of the Ministry of Education – with the support of the Inter-American Development Bank and UNESCO, through which around one million students from 1,600 public elementary and high-schools will benefit before the first half of 2004.

In this new phase, Itaú Cultural will become more active in education programs. In addition to guided visits, we conduct gatherings with teachers, tutors and educational coordinators, who have been trained on how to work with art in the classroom, helping students to form an art inventory. The center also conducts special tutoring classes to disabled people.

Itaú Cultural took free visual arts, cinema and video, dance, literature, interactive media, music, and theater programming to 32 Brazilian cities and two countries, and received 310,000 visitors. In addition, it closed an agreement to generate three hours of weekly webcast programming in 100 libraries nationwide.

# ITAÚSA



At the end of 2002, the Itaú Numismática - Herculano Pires Museum became part of Itaú Cultural. The museum, built around the theme “Coins tell the story of Brazil”, features refined architecture and totally modern facilities. The permanent display offers a collection of exceptional quality, featuring some of the most important coins, medals and decorations in Brazilian history.

The display is divided into 32 modules. It tells the story of Brazil from its discovery until today, with a soundtrack and currency emblems of each period. Visitors can see how the coins are an expression of culture, human relations and the power of communication and the dissemination of images in Brazil.

The museum is geared to a wide variety of age groups, education levels and knowledge of coins.

The Museum opening hours have been extended, and are now the same as those of Itaú Cultural. A new level of service was created, with guides for scheduled tours as well as walk-in visitors. The museum also has free bus service for those public schools, hospitals and NGOs requiring transportation.

Itautec Philco, on the other hand, sponsored the Twenty Years of Photographs exhibit, held at the Modern Art Museum (MAM) from July 4 - August 18, and the book “SP Images of Our Land”. The publication is a photo essay of images of the state of São Paulo, including natural resources, architectural arts and cuisine, in addition to information on São Paulo’s history, people and culture.





## Itaúsa Group Value Added Statement

	(in R\$ thousands)			
	Amount		Share (%)	
	2002	2001	2002	2001
Product and service sales, net of material costs, third-party services and other (A)	5,445,519	5,158,564		
Financial intermediation income (B)	7,355,647	5,309,037		
Insurance operation income (C)	588,136	471,763		
Other income/Operating expenses (D)	(4,617,352)	(3,665,582)		
Value added (E = A + B + C + D)	8,771,950	7,273,782		
Payroll (F) (*)	3,345,056	2,663,790	38.1	36.6
Taxes (G)	2,293,702	1,934,106	26.1	26.6
Shareholders' dividends (H)	861,018	858,691	9.8	11.8
Parent company	414,561	394,713	4.7	5.4
Minority Interest in Subsidiaries	446,457	463,978	5.1	6.4
Industrial financing remuneration (I)	232,955	192,029	2.7	2.6
Reinvestment of profits (J)	2,039,219	1,625,166	23.3	22.4
Parent company	1,122,703	788,116	12.8	10.9
Minority Interest in Subsidiaries	916,516	837,050	10.5	11.5
Value added distribution (k = F + G + H + I + J)	8,771,950	7,273,782	100.0	100.0

(\*) Social security charges not included

## Taxes

Itaúsa and its subsidiary companies paid or provisioned for taxes and contributions a total of R\$2,995 million, including taxes on profits (R\$821 million), revenues (R\$1,009 million) and payroll (R\$865 million). In addition, R\$4,439 million related to financial operations was received from and paid by customers.

## Social Indicators

(in R\$ thousands)

1. Calculations base	2002	2001
Net Revenues (NR)	35,835,931	23,413,861
Operating Result (OR)	4,577,520	3,220,884
Gross Payroll (GP)	3,808,826	3,101,024

	2002			2001		
2. Internal Social Indicators	Value	% of GP	% of NR	Value	% of GP	% of NR
Meals	200,780	5.27	0.56	201,759	6.51	0.86
Mandatory Social Payments	742,218	19.49	2.07	713,766	23.02	3.05
Private Pension Plans	46,107	1.21	0.13	37,547	1.21	0.16
Health	94,560	2.48	0.26	83,625	2.70	0.36
Worker's Health	528	0.01	0.00	493	0.02	0.00
Education	20,409	0.54	0.06	14,448	0.47	0.06
Culture	9	0.00	0.00	0	0.00	0.00
Professional and skills development	25,060	0.66	0.07	44,155	1.42	0.19
Daycare and daycare assistance	13,192	0.35	0.04	12,802	0.41	0.05
Profit-or results sharing	201,338	5.29	0.56	229,345	7.40	0.98
Other benefits	52,085	1.37	0.15	42,316	1.36	0.18
<b>Total – Internal Social Indicators</b>	<b>1,396,286</b>	<b>36.66</b>	<b>3.90</b>	<b>1,380,256</b>	<b>44.51</b>	<b>5.90</b>

3. External Social Indicators	Value	% of OR	% of NR	Value	% of OR	% of NR
Education	11,140	0.24	0.03	9,567	0.30	0.04
Culture	26,381	0.58	0.07	24,489	0.76	0.10
Health and sanitation	1,657	0.04	0.00	2,441	0.08	0.01
Sports	1	0.00	0.00	9	0.00	0.00
Recreation	137	0.00	0.00	384	0.01	0.00
Daycare	0	0.00	0.00	6	0.00	0.00
Meals	14	0.00	0.00	7	0.00	0.00
Others	26,602	0.58	0.07	14,267	0.44	0.06
<b>Total Contributions to Society</b>	<b>65,932</b>	<b>1.44</b>	<b>0.18</b>	<b>51,170</b>	<b>1.59</b>	<b>0.22</b>
Taxes (not including social charges)	1,829,932	39.98	5.11	1,496,872	46.47	6.39
<b>Total – External Social Indicators</b>	<b>1,895,864</b>	<b>41.42</b>	<b>5.29</b>	<b>1,548,042</b>	<b>48.06</b>	<b>6.61</b>

4. Environmental Indicators	Value	% of OR	% of NR	Value	% of OR	% of NR
Related to corporate operations	29,350	0.64	0.08	48,404	1.06	0.14
In Programs and/or external projects	813	0.02	0.00	0	0.00	0.00
<b>Total Environmental investments</b>	<b>30,163</b>	<b>0.66</b>	<b>0.08</b>	<b>48,404</b>	<b>1.06</b>	<b>0.14</b>

5. Staffing Indicators	2002	2001
Number of employees at end of period	53,484	56,629
Staff hired during the period	3,932	7,079
Number of outsourced staff	10,744	nd
Number of trainees	578	nd
Number of staff aged over 45	5,991	3,899
Number of female employees	23,882	25,269
Number of female executives	27.4%	11.2%
Number of black employees	5,954	nd
Number of black executives	4.5%	nd
Number of handicapped or special needs employees	979	921

6. Relevant information about corporate social responsibility			
		2002	Goals for 2003
Ratio between highest and lowest salary in the company		ND	ND
Total number of work-related accidents		747	(1)
Social and environmental projects developed by the company were established by:	Board	X	X
	Board and managers		
	All staff		
Standards of security and healthiness in the workplace were established by:	Board and managers	X	X
	All staff		
	All staff + Cipa		
For collective bargaining rights and trade union representation among workers, the company:	Has no involvement		
	Follows ILO rules	X	X
	Supports and follows ILO rules		
Private pension plan for:	Board		
	Board and managers		
	All staff	X	X
Profit-or results sharing for:	Board		
	Board and managers		
	All staff	X	X
When choosing suppliers, the same standards of ethics and social and environmental responsibility adopted by the company:	Are not considered		
	Are suggested		
	Are required	X	X
For employees to be involved in volunteer work, the company:	Has no involvement		
	Supports	X	X
	Organizes and supports		

(1) Goals for 2003 of Itaúsa Companies: decrease of 10% to 20%. Elekeiroz had recorded 856 accident-free days by the end of 2002.

Total value added for distribution (in R\$ thousands)		In 2002 8,771,950	In 2001 7,273,782
Added Value Distributed (AVD)	Government	26.1%	26.6%
	Shareholders' dividends	9.8%	11.8%
	Staff	38.1%	36.6%
	Reinvestment of profits	23.3%	22.4%
	Financing remuneration	2.7%	2.6%

## Economy Review

Brazil's 2002 presidential election brought uncertainties to the markets over the new administration's economic policy, leading to pressure on the exchange rate, sovereign risk, and foreign capital inflows. The *real* devalued 52.3% in the year, reaching R\$4.00 to the dollar, with negative effects on inflation and public debt. Sluggish economic activity reflected this unfavorable environment, ending the year with GDP growth of just 1.5%.

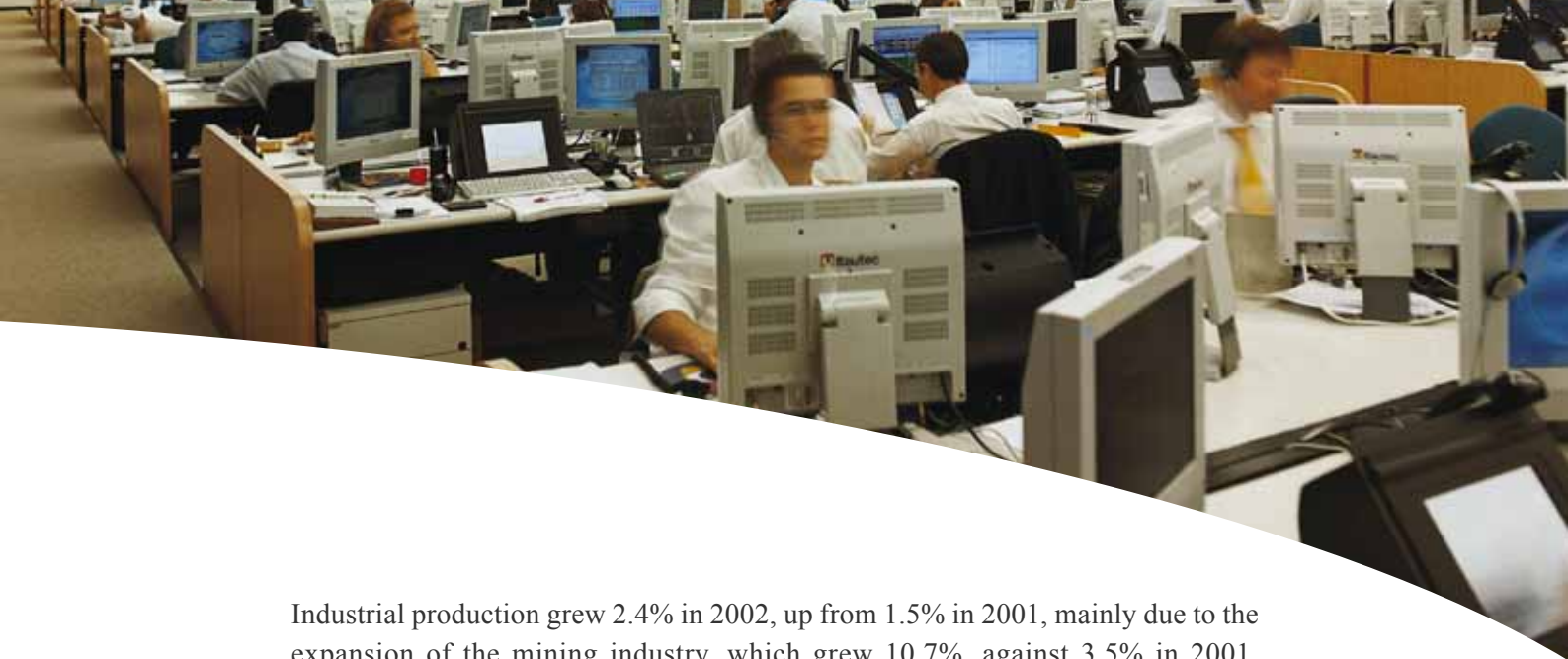
Inflation measured by the Broad-based Consumer Price Index (IPCA) totaled 12.5%, above the 5.5% target set by the government, while the price variation measured by the Market Price Index (IGP), more sensitive to the exchange rate variation on products sold abroad, reached 26.4%.

The Brazilian Central Bank maintained a strict interest rate policy, decreasing the basic interest rate (SELIC) by only 1.0% throughout the year until September (from 19.0% to 18.0%), and increasing it beginning in October, to a level of 25.0% by year-end.

The Government primary surplus reached 4.1% of GDP, above the 3.75% target agreed upon with the International Monetary Fund (IMF). Public debt rose to 56.0% of GDP, primarily as a result of the currency devaluation.

However, the devaluation also had some favorable effects: the trade surplus rose to US\$13.1 billion in 2002, up from US\$2.7 billion in 2001; as a consequence, the current account deficit fell to US\$7.8 billion, or 1.7% of GDP in 2002, down from US\$23.2 billion, or 4.5% of GDP in 2001. This deficit was easily financed by direct foreign investments of US\$16.6 billion.

After the election, the new economic team reaffirmed its commitment to maintain monetary discipline, the tax system, the floating exchange rate, and to deepen structural reforms. The market welcomed this policy, and the pressure on the exchange rate and on sovereign risk was mitigated. Funds raised in the international markets totaled over US\$2.0 billion in the first month of 2003 alone. This performance was maintained, while the perseverance to proceed with market reforms should be gratifying for the new government, and provide the grounds for sustainable growth and improved social well-being.



Industrial production grew 2.4% in 2002, up from 1.5% in 2001, mainly due to the expansion of the mining industry, which grew 10.7%, against 3.5% in 2001. Manufacturing showed practically the same growth from 2001 (1.4%), with exporting segments registering the best results. Durable consumer goods grew 2.8%, while non-durable consumer goods grew just 0.2% and capital goods decreased 1.0%.

The production of electrical and communication material was severely affected by decreased consumption levels caused by the weakened economy, registering a 12.0% drop at year-end. The most affected segments were telecommunications and information technology. The chemical and lumber industries, on the other hand, showed practically no growth for the second consecutive year.

The civil construction segment showed a recovery over the last few months, from an 8.0% drop in mid-2002 to a drop of 2.8% at the end of the year, still greater than the 2.3% drop registered in 2001. The downturn of the sector over these past two years was due to lower purchasing power and indebtedness of potential buyers as a consequence of low growth levels in income and employment.

Credit provided by the private financial sector's own funds reached 15.3% of GDP, virtually unchanged from 2001. Default levels rose to 8.5%, up from 7.9% on average in 2001, reflecting growth in the individual loan segment to 15.3%, against 12.9% in 2001, whose effect was greater than the corporate loan segment, which fell to 4.6%, from 5.2% in 2001.

The resumption of accelerated economic growth and credit will likely be gradual, as the market sees how the new government meets the commitments it has taken on.





Banco Itaú



Financial Area

As in prior years – despite local and international market volatility – results in 2002 were thanks to the solid bases built by Itaú over the years: state-of-the-art technology, a solid brand, a wide diversification of revenue sources, our market segmentation strategy, constant international expansion, control over expenses, ability to raise funds, expansion of credit operations, expansion of the capital base, experienced managers and employees, a conservative risk policy, plus the adoption of best transparency and corporate governance practices. The consolidation of BBA's assets and liabilities also had a strong impact on growth. The acquisition of BBA affected the result only through amortization of related goodwill (R\$1.3 billion) in the consolidated statements. This set of attributes gives management confidence in sustaining Itaú's future performance.

	2002 (1)	2001	% Growth
<b>Results – (in R\$ millions)</b>			
Net income from financial operations	7,183	5,892	21.9
Operating income	4,252	3,140	35.4
Consolidated net recurring income	3,080	2,354	30.8
Consolidated net income	2,377	2,389	(0.5)
Individual net income	2,215	2,872	(22.9)
<b>Net income per thousand shares – R\$</b>			
Consolidated net income	21.36	21.41	(0.2)
Book value	81.23	67.89	19.6
Interest on own capital	7.45	7.24	2.9
Price of Registered Preferred Share (PN) (2)	159.49	174.69	(8.7)
Price of Common Share (ON) (2)	149.39	174.50	(14.4)
Interest on own capital – R\$ million	829	808	2.6
Market capitalization (3) – R\$ million	17,743	19,499	(9.0)
<b>Balance Sheet – (in R\$ millions)</b>			
Total Assets	111,141	81,416	36.5
Total Loans	45,414	34,282	32.5
Own, third-party and managed funds	152,907	123,970	23.3
Subordinated Debt	5,707	1,433	298.3
Individual Shareholders' Equity	9,885	8,564	15.4
Consolidated Shareholders' Equity	9,036	7,578	19.2
Capital Base (4)	16,573	10,585	56.6
<b>Financial ratios (%)</b>			
Consolidated net recurring income/Shareholders' equity	34.1	31.1	
Consolidated net income/Shareholders' equity	26.3	31.5	
Consolidated net income/Total assets	2.1	2.9	
Net income/Shareholders' equity in constant currency (5)	20.6	-	
Solvency ratio (Basel ratio)	18.4	16.9	
Efficiency ratio	49.3	55.0	
Fixed asset ratio	33.1	36.7	

(1) The consolidation of BBA appears only on the Balance Sheet, and does not affect results.

(2) Based on the average quotation for December.

(3) Calculated based on the average quotation of preferred shares in December.

(4) Capital base, calculated in compliance with Resolution 2837, based on economic-financial consolidated data.

(5) Profitability in constant currency based on IPCA (12.5%).



## Acquisition of Banco BBA – Creditanstalt S.A.

Banco Itaú acquired 95.75% of the total equity of Banco BBA-Creditanstalt S.A. The transaction includes Banco BBA and its local and foreign subsidiaries (Fináustria Companhia de Crédito, Financiamento e Investimento, BBA Corretora de Títulos e Valores Mobiliários, BBA Investimentos Distribuidora de Títulos e Valores Mobiliários and Fináustria Arrendamento Mercantil), all foreign investor capital and the minority stake held by third parties in Fináustria Participações Ltda. The price for these companies totaled approximately R\$3.3 billion, paid in a combination of cash, subordinated debt securities and stocks. The issue of preferred shares represents 3.0% of Itaú's total shares. After approval by the Brazilian Central Bank (Bacen), announced on December 26, 2002, this transaction was concluded and settled on February 2, 2003.

As a result of this investment, a new bank was created – Banco Itaú-BBA S.A. (Itaú-BBA), with operating autonomy and shared control. Itaú-BBA becomes the country's largest wholesale bank, comprising supplementary aspects from the two institutions, which will potentially reinforce Itaú's segmentation in the corporate and investment banking business.

Fund management, portfolio management and private banking, as well as BBA's brokerage firm, will be incorporated into their corresponding segments in Itaú, or in its subsidiaries, reinforcing Itaú's leadership in these areas.

The control and management of Fináustria Companhia de Crédito, Financiamento e Investimento, as well as its significant consumer credit portfolio, will be fully transferred to Itaú, expanding its presence in the motor vehicle financing segment.



## Acquisition of Banco Fiat S.A.

Itaú acquired 99.99% of the total equity of Banco Fiat S.A., the leading bank among those financial firms and banks associated with car manufacturers in Brazil. The company handles the automobile financing and leasing operations, financial services and management of Fiat's car financing system (*consórcio*). This acquisition involves an exclusivity agreement with Fiat Automóveis S.A.

The acquisition price will be approximately R\$897 million, with a premium of R\$462 million, or 1.06 times shareholders' equity. This will represent a significant strengthening of Itaú's position in the car financing, leasing, and *consórcio* segments, and the expansion of its potential business with Fiat dealers and customers.





**Banco Itaú**

## Stock Restructuring

### Creation of Banco Itaú Holding Financeira S.A.

Banco Itaú Holding Financeira S.A. was created, and will centralize all risk control, audit and treasury areas of the financial group. Initially, the primary subsidiaries will be Banco Itaú-BBA, focusing on the wholesale segment, and Banco Itaú S.A., focusing on the retail segment.

The management of Banco Itaú Holding will include the current members of Itaú's Board of Directors and some members of its Executive Board. Therefore, strategies to allocate resources, ethics and legitimacy practices, standards of corporate governance, and a commitment to create value for shareholders remain unchanged for Banco Itaú Holding, which will maintain its focus on the financial market.

The restructuring, approved on February 27, 2003, reinforces the company's business segmentation and operating autonomy, allowing it to take better advantage of recently available opportunities, while maintaining strong, centralized control. In addition, the stock restructuring will create conditions for the Group's other business units to have greater autonomy in future.

The creation of Banco Itaú Holding does not change the share holdings of Itaúsa (Investimentos Itaú S.A.), or those of Itaú's other shareholders. The substitution of shares of Banco Itaú for shares of Banco Itaú Holding will be made using a parity system, without diluting the shareholding: one common book-entry share in Itaú will represent the same in Banco Itaú Holding and one preferred book-entry share in Itaú will represent the same in Banco Itaú Holding. This is possible as Banco Itaú Holding will hold the same shareholders' equity and the same amount of shares currently held by Itaú.

With the stock restructuring, Banco Itaú's Financial Holding Company status, originally granted in 2002, will have to be transferred to Banco Itaú Holding by the U.S. Federal Reserve.



## Insurance, Private Pension Plans and Capitalization

In 2002, the Itaú Group ranked second among earned life insurance and property premiums (except health), totaling R\$2,320 million, representing 55.1% growth for the year.

Itaú Seguros (Itauseg) and its subsidiaries reported net income of R\$312 million in the period, with a return of 19.1% on equity of R\$1,634 million. Itauseg itself (without its subsidiaries) posted net income, net equity and return on equity of R\$185 million, R\$635 million, and 29.1%, respectively. Consolidated premiums earned reached R\$1,649 million, a 10.2% increase for the year, and balance sheet technical reserves stood at R\$788 million. The claims ratio was 53.9%, against 58.9% in 2001. Selling expenses plus administrative expenses and other operating expenses totaled 44.7% on premiums earned, an improvement of 5.1 percentage points over 2001. Accordingly, the combined ratio reached 98.6% against 98.5% in 2001.

This year, the Life and Pension Funds segments of Itaú Vida e Previdência (Itauprev) were also consolidated, giving more strategic synergy in the sale of these core bancassurance products.

Pension plan and VGBL reserves grew 81.5% to R\$2,459 million. This steep growth (approximately 138% higher than the growth rate of the market as a whole) pushed the company to third place in the technical provisions ranking and second in revenues and technical provisions in the PGBL and VGBL product families. Contributions to the pension fund plans and the premiums earned by VGBL reached R\$ 1,155 million.

Itaú Capitalização (Itaucap) sold over 200,000 PIC Primavera premium savings bonds. Itaucap's technical provisions totaled R\$904 million, while its portfolio now covers 2,036 million active bonds. In 2002, the company distributed R\$19 million in prizes to 477 customers.



**Banco Itaú**

## Industry Recognition

Following is just some of the industry recognition for management quality received by Group companies in 2002.

For the third consecutive year, Banco Itaú was listed in the Dow Jones Sustainability World Index (DJSI World), along with 310 other companies, only four of which are Brazilian. The index considers 30 items related to economic, social and environmental performance, reflecting corporate sustainability – the ability to create long-term value to shareholders.

Other highlights include:

- Best Domestic Bank – *Euromoney* (fifth consecutive year)
- Best Domestic Bank– *The Banker* (third consecutive year)
- Best Bank in Brazil – *Global Finance* (second consecutive year)
- Top brand among Latin American banks and third most valuable brand in the entire region – Brandchannel
- Most Admired Companies in Brazil – First in their sectors for Banco Itaú, Itaú Previdência and Itaú Seguros – Interscience/*Carta Capital* magazine.
- Listed Company Award – Abamec Nacional (Brazilian Association of Capital Market Analysts) (second time) – Atlantic Rating (fifth consecutive year)



# Itaúsa Portugal

Responsible for the financial activities of the Group in the European Union, Itaúsa Portugal (a holding company) registered total consolidated assets of •2.2 billion at year-end, up 9.0% over 2001. Consolidated net income reached •31.4 million, with an annualized return of 10.9% on consolidated shareholders' equity of •293.2 million.

Banco Itaú Europa, a Europe-based bank which has held an investment grade rating since 2000, has focused its operations on the growing trade and investment relationships between European countries and Brazil, as well as structuring financing to support the international activities of Brazilian companies.

Itaú Europa's consolidated assets maintained their growth rate, reaching •1,932 million at year-end, up 8.7% year-on-year. The bank's issues in the European capital market contributed considerably to this growth. In 2002, the Bank conducted three issues totaling •230 million in the international capital market, which were widely taken up by institutions and investors, primarily in Europe.

Banco Itaú Europa Luxembourg, which is exclusively engaged in the international private banking activities of the Itaú Group, had over US\$1.1 billion in assets under administration at the end of 2002, and generated net income of •1.7 million and shareholders' equity of •27.4 million.

BPI, S.A. (formerly BPI - SGPS, S.A.), is associated with Itaúsa and is one of the most important Portuguese banking groups. The Itaú Group holds a 15.1% equity stake in BPI, which posted consolidated assets of •25.7 billion and net income of •140.1 million at year-end. Itaú's stake in Banco BPI, S.A. is held by IPI (Itaúsa Portugal Investimentos SGPS, Ltda), in which Itaúsa Portugal holds a 51% equity stake while Banco Itaú holds the remaining 49%.

(in R\$ millions)  
Itaú Europa + Itaú Europa Luxembourg

	2002	2001	% Growth
Consolidated assets	10,183	4,071	150.1
Loan operations	2,745	1,363	101.4
Own and third-party funds	9,874	3,900	153.2
Managed funds	1,269	661	92.0
Shareholders' equity	868	490	77.0
Net income	82	44	86.0
ROE %	9.5	9.0	-
ROA %	0.8	1.1	-
Solvency ratio %	24.5	25.9	-





Industrial Area



Despite an unstable economic environment in 2002, Duratex delivered positive results.

	(in R\$ millions)		
	2002	2001	% Growth
Consolidated gross revenue	1,093	1,000	9%
Net income	71.7	52.1	38%
Return on equity (%)	7.9%	6.0%	-
Operating income	152.9	121.9	25%
Operating cash flow	253.9	186.0	36%
EBITDA	210.4	187.6	12%

Exports totaled US\$41.5 million, a 10% increase year-on-year.

Duratex's consolidated figures showed a loss of R\$29.4 million from investments in Argentina, of which R\$16.8 million came from the devaluation of the Argentine peso, and R\$10.8 million from allowances for indemnities and losses on assets.

In 2002, the furniture segment picked up after a brief period of slack demand. The devaluation of the Brazilian *real* boosted exports of panels, absorbing the additional capacity of new lines installed domestically. Sales in the Wood Division (Divisão Madeira) grew 7.0% compared to 2001, showing a recovery of the average price in the local and foreign markets.

Sales of Durafloor grew over 20% from 2001. The company also launched Durawall, a product developed from MDF, used for ceilings and walls, which was widely accepted in the decoration segment.

At the end of 2002, Duratex ceased producing particle boards at its Gravataí plant, in Rio Grande do Sul state, which will allow annual savings of around R\$10 million, given the cut on fixed costs, as expenses with indemnities and allowances for losses on assets of around R\$10 million were fully recognized for the year.

Despite the low growth seen in Brazil's civil construction finishing materials segment, sales in the Deca Division rose 8.0% in metal bathroom fixtures and 11% in the bathroom ceramics segment. This performance was due to a better marketing strategy and aggressive sales, price increases for some lines and accessories, launching of new product lines and expansion of the customer base. Among the new products were the "Link" metal line, which won the "Brazilian House Design Museum" award, and the Slim bathroom T-joint.







Interior project: architect Paula Godoy Tenório

Exports decreased appreciably due to the economic difficulties of the Southern Cone Market (Mercosur), where Deca's sales are concentrated.

The company maintained its strategy of continuing to invest in the expansion of production capacity, increasing productivity and developing new products. Such investments totaled R\$303 million during the year, and included the implementation of the new MDF/HDF/SDF plant in Botucatu, in São Paulo state (SP), the new line of BP coating in Itapetininga (SP), the acquisition of 4,400 hectares of land and forests, the expansion of bathroom ceramics production capacity at the Cerâmica Sanitária Plant II in Jundiaí (SP) and the acquisition of advanced machining equipment to expand production of metal bathroom fixtures.

To supplement the funds necessary for this program, Deca issued R\$200 million of non-convertible debentures, of which R\$50 million was placed in the market. Thanks to maintaining its hedge policy for 100% of liabilities exposed to dollar exchange rate fluctuations, Duratex did not show negative impacts in its results.



Industrial Area

Itautec Philco reported significant growth during the year.

	(in R\$ millions)		
	2002	2001	% Growth
Consolidated gross revenue	1,517.1	1,334.3	14%
Net income	53.3	4.2	1,169%
Return on equity (%)	17.3%	1.6%	
Operating cash flow	119.8	89.8	33%
EBITDA	156.5	79.8	96%

In 2002, the Company went through a substantial restructuring, in which Business Units (BU) were created. Each BU focuses on a specific market segment, and uses an independent manufacturing, sales and product development structure. Accordingly, Management Systems were adapted to the new structure by implementing modern CRM software and making alterations to their material control systems. In addition to the technical aspect of systems migration and implementation, the Company promoted the training of its managers and supervisors, all of which has helped increase profitability.

The self-service BU of Itautec reported a substantial growth in WebWay terminal sales to several segments, such as human resources, magazines and solutions for government agency services. As well, 80 Infomusic systems were exported to a supermarket chain in Portugal.



For the second year in a row, the ticket dispenser terminal (TES) design won the top award in the Public Design category of the IF Design Award (2003 International Forum Design) in Hanover, Germany.

In the Bank Automation BU, revenues increased 24% year-on-year, having sold 7,500 self-service banking equipment units.

The Commercial Automation BU grew 23%, reaching 2,800 machines. The company increased its presence in the Brazilian supermarket segment, while Itautec placed its automation system in a major supermarket chain in Portugal.

The BU of personal computers, notebooks and personal digital assistants (PDAs) used the worldwide introduction of the latest Intel hyper-threading technology processor by including it in the InfoWay Advanced TG. It also launched the Pocket-Way, a slim design hand-held computer that is the lightest in its class. Total sales reached 150,000 computers and printers.

The New Technologies BU launched its InfoCluster – a high processing performance supercomputer – that has already been sold for petroleum, weather forecast and scientific study applications.

The Servers BU launched its InfoServer 6482, the first Itautec server equipped with the Itanium 2 processor, which ranked first in the Sixth Edition of the INFO Award. During the year, 3,300 servers were sold.

The e-Business Solutions BU is focused on the development of customized applications and internet solutions, in addition to identifying new software solutions for the corporate market. During the year, Itautec closed a new agreement with Microsoft USA related to search engine technologies using the Portuguese language.



The Itec BU began operating in 2002 as an IBM Solutions Provider, and now supplies other platforms sold by this company, such as the i-Series (formerly AS-400) and the p-Series (formerly Risk), among others. After these changes, consolidated revenues in Brazil, including its Argentina subsidiary, amounted to R\$57.3 million against R\$50.5 million in 2001, a 14% increase.

At the Itaotec.com Services BU, the implementation of internal control and management systems have already increased the productivity levels of customer service, reaching 4,500 calls/day and covering 2,500 municipalities throughout Brazil.

At Philco, the High End Products BU launched its 32" HDTV – Digital Ready and the 34" Real Flat televisions. In August, it began producing TVs with 15" liquid crystal displays (LCD), being the first company operating in Manaus to meet all requirements of the Basic Production Process (PPB) approved by the Ministry of Development, Industry and Trade. By year-end, total production had reached 18,000 units.

Philco focused its efforts on reducing costs and increasing production of the DVD model DV-P2500. 67,000 units were sold: a 271% y-o-y increase in gross sales revenues of this product line. Exports to Latin America and the United States, begun in August 2001, showed consistent sales in 2002: 34,000 units were sold, which increased revenues 76%. The entry-level products BU implemented several measures to reduce costs, making Philco products more competitive and enabling a y-o-y revenue increase of 37%, thanks to sales of 649,000 units.

At Itaucom, gross sales revenues of the semiconductor BU grew by 54%, due primarily to exchange rate fluctuations, and the short time period between the launch of the SDRAM-DDR memory and its rapid take up in the market.

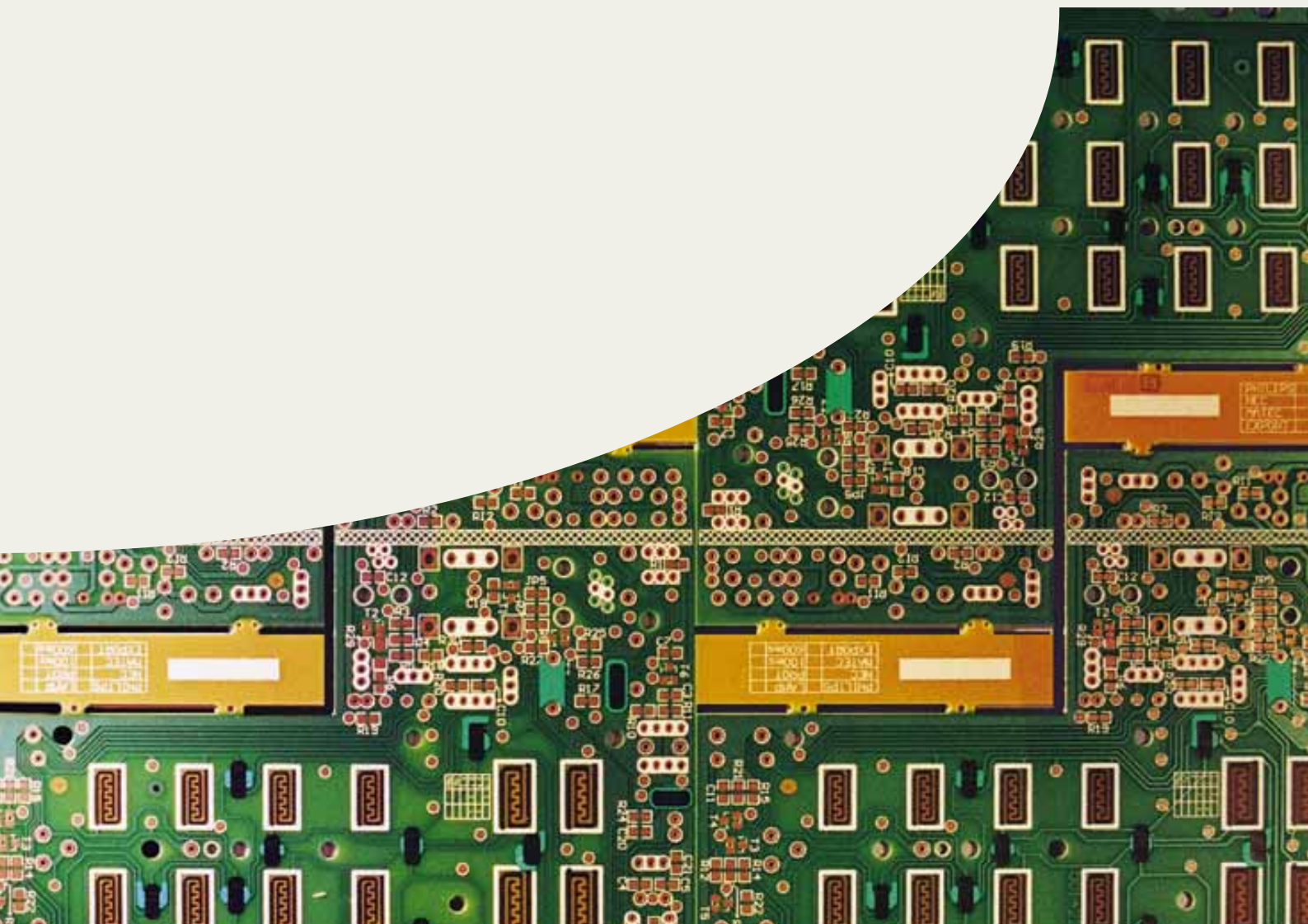
In the printed circuit boards BU, gross sales revenues increased 10%, thanks to outstanding growth in exports, whose US\$12 million in sales represented almost 50% of all sales for the year.

The Company's investment plan (PAR) funding amounted to R\$158.8 million for the year, and comprised the following: R\$56.2 million in equipment for rental to customers, R\$50.0 million for technology development, R\$19.8 million in fixed assets for industrial automation and modernization of plants and to develop the internal IT manufacturing base, and R\$32.8 million for promotions and advertising.

R&D investments enabled the creation of centers of excellence possessing deep knowledge of server environments (hardware and software) in several universities and research facilities, such as Universidade Católica de Brasília (UCB),



Universidade Católica de Pernambuco (UNICAP), Centro de Estudos Avançados de Recife (CESAR), Escola Politécnica of Universidade de São Paulo (USP), and the Research Institute of the Faculdade de Engenharia Industrial (IPEI). These associations have contributed significantly to the following: launching of the InfoCluster parallel processing supercomputer; obtaining the Infomusic invention patent in the United States (beginning September 2002 and valid for 20 years), featuring 100% Brazilian technology; and winning the 2002 *INFOEXAME* magazine “Best Desktop Category” for the boldly designed Infoway Advanced.





Industrial Area



The Brazilian chemical industry, affected by price increases in electrical power, natural gas and petroleum, grew 3.7% in output and increased its prices in *reais* by 49.0%, which is below the prices in US dollars (+52.3%) and Euros (+79.4%). On average, 80% (78% in 2001) of the installed capacity was used. Imports decreased 6.3% in value and increased 3.8% in quantity, exports increased 8.4% in value and 14.8% in quantity, while the balance of trade decreased from US\$7.3 to US\$6.3 billion.

Despite this, Elekeiroz maintained its policy of investing in modernization, rationalization and automation, and on May 10, 2002 acquired control of Ciquine Companhia Petroquímica, in the 3<sup>rd</sup> public auction conducted by Banco Econômico S.A., which is undergoing an out-of-court liquidation by the Brazilian Central Bank. The head office and main industrial unit of Ciquine is in the Camaçari Petrochemical Complex, located in the state of Bahia, while a second manufacturing unit is in Taubaté in São Paulo state, which produces oxoalcohol, phthalic anhydride, plasticizers and fumeric acid, complementing and giving more competitiveness to Elekeiroz's product lines. In compliance with current legislation, this acquisition was submitted for approval to the Administrative Council for Economic Defense (CADE), where it is under review.

The change in shareholding control and the resulting change in managers has ushered in a new phase in the company's life:

- In May, an opening balance sheet was prepared, adapting the company's accounting procedures to the requirements of applicable legislation and independent auditors, which resulted in extraordinary adjustments, reducing the result and net equity, and bringing it in line with its actual status (including asset write-offs, correcting asset classifications, and setting aside adequate provisions to cover the undisclosed liabilities found);
- On July 31, at the extraordinary general meeting, the by-laws were adapted, and tag-along rights for preferred shareholders were granted;
- On October 10, Ciquine's registration request with the Individual Retirement Plan (PAI) – managed by Itaúsa Industrial Foundation – was submitted to the Complementary Social Security Secretariat (SPC);
- On November 14, long-term financial support was requested from BNDES for the 1<sup>st</sup> stage of investments to enhance, modernize, rationalize and automate operations and management, with the overall goal of increasing the company's competitiveness in local and international markets;
- On November 28, it was requested that as of December 31, 2002, Ciquine should no longer sponsor the pension plan managed by Previnor, and
- On December 6, an auction for a Public Offering of common shares from minority shareholders was carried out at the São Paulo Stock Exchange (BOVESPA), at an amount equivalent to 80% of what had been paid to the majority shareholders, making the parent company become the holder of 99.94% of the company's voting shares.



During the year, Elekeiroz shipped 355,000 tons of products, a 3.8% increase year-on-year, of which 259,000 tons were inorganic products (sulfuric acid, carbon hydrosulphide and melted sulfur) and 96,000 tons of organic products (phthalic and maleic anhydride, plasticizers, unsaturated polyester resin, formaldehyde, urea formaldehyde concentrate and fumeric acid). Installed capacity use reached 92%.

In the same period, Ciquine shipped 144,000 tons of chemical organic products (of which 37,000 tons, or 26%, were exported), including 81,000 tons of alcohol, 48,000 tons of plasticizers, 14,000 tons of phthalic anhydride and 1,000 tons of fumeric acid.

Results (consolidated data with Ciquine):

	(in R\$ millions)		
	2002	2001	% Growth
Parent company gross revenue	218.0	164.5	33
Consolidated gross revenue (1)	429.3	164.5	161
Parent company operating profit (2)	28.0	18.8	50
Consolidated operating profit (1)	44.7	18.8	138
Parent company net income	37.0	13.1	183
Return on equity (%)	20.4	8.4	

(1) The consolidated statements present the results of Ciquine from May to December 2002

(2) Operating profit before Equity Accounting results





Panamerica Park

Property Development





Itaúsa Empreendimentos, a property developer, launched Condomínio Ville Belle Époque in partnership with Construtora Líder. This high-end residential venture features three towers with 110 units, and a total area of 38,050 square meters. The expected completion date is October 2005.

The commercial rental segment for units exceeding 500 square meters was saturated, with 50.5% of the units of Panamerica Park being rented.

Raposo Shopping's sales increased significantly during the year, with revenues 11.1% higher than 2001, due to better management and investments in restructuring.



Ville Belle Époque



## Corporate Information

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