

# Itaúsa - Investimentos Itaú S.A.

Consolidated Financial Statements

Six-Month Periods Ended June 30, 2002 and 2001

Information Published since 08-12-02

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# Itaúsa - Investimentos Itaú S.A.

## Management Report

Six-Month Periods Ended June 30, 2002 and 2001

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#### Management Report

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#### To our Stockholders

We are pleased to present the Management Report and financial statements of Itaúsa - Investimentos Itaú S.A. and its subsidiaries for the first half of 2002. This report and financial statements were prepared in accordance with Brazilian corporate legislation and in accordance with the standards of the Brazilian Securities and Exchange Commission (CVM). They also have the favorable opinion of the Audit Committee.

#### ECONOMIC SITUATION

The high market anxiety in relation to the presidential election next October and the risk-averse environment that dominates the international market started to increase in May and caused a steep devaluation of the Brazilian real, with adverse impacts on inflation, public debt service levels and economic activities.

Accumulated inflation totaled 2.9% in the first half (Expanded Consumer Price Index (IPCA)),

mainly affected by managed prices (a reflex of the foreign exchange fluctuation), while free market prices maintained their downward trend. Current price trends may compromise the attainment of the inflation target of 5.5%, even if the benchmark interest rate is maintained.

The federal government's consolidated primary surplus totaled 3.4% of GDP for the 12-month period ended in June 30, in line with the new target of 3.75% for 2002. The public debt/GDP ratio increased to 58.6% from 54.6%, from April to June 2002, chiefly as a result of currency devaluation. The government has issued securities maturing in the coming months to substitute those maturing in 2003, in order to reduce the pressures caused by the current political situation.

To ease the pressure of foreign accounts, in June the government drew down US\$ 10.0 billion made available by the IMF, and negotiated the decrease of the international reserves floor from US\$ 20.0 billion to US\$ 15.0 billion, to increase the government's ability to intervene in the foreign exchange market and allow the accelerated redemption of up to US\$ 3.0 billion of public foreign debt. During the first half, the current account deficit was reduced to US\$ 8.3 billion from US\$ 13.3 billion in the same period in 2001, in view of the reversal of the trade deficit to a trade surplus of US\$ 2.6 billion, which helped to relieve the adverse effect of lower capital inflows.

However, the new agreement with the IMF announced on August 7, 2002, that sought to increase the international financial support during the political transition, should result in a improvement in the short-term scenario, with a positive impact on the exchange market, the international credit facilities, the sovereign risk and on the market expectations, also benefiting the political scenario.

### **Direct impact of the scenario on the main transactions of Itaúsa**

The total industrial production showed zero growth in the first half, strongly influenced by the slowdown in the durable consumer goods sector (-5.1%). Only the intermediate goods showed a positive performance (0.6%).

The poor performance of the durable goods mainly reflects the 9.6% slowdown in the auto industry production, due to the 11.9% fall in domestic market sales, which absorbs 89% of production. The fall of around 80.0% of the sector's exports to Argentina is being strongly offset by sales to Mexico, that showed a 37.0% expansion in the period and that should increase even further with a recent trade agreement.

The expectation for the industrial sector is of a slow growth during the third quarter, which could improve in the fourth quarter, depending on whether market confidence is regained, and should end the year with a 1.0% growth.

The civil construction sector has been severely affected by the unfavorable economic activity conditions and financial cost, showing a 7.0% fall in the first half. The perspective for the employment and income conditions for the rest of the year still does not keep hopes up for a recovery of the sector, which should end the year with a decline compared to the previous year.

Credit transactions in the financial system showed a growth of 4.0% in the first half, consistent with the industrial activity and default levels. The current economic and political scenario conditions indicate a modest growth of the credit level by the end of the year.

The mark-to-market regulation of the investment fund portfolio led to a loss of profitability and withdrawals by investors. However, most of the funds withdrawn remained in the national financial system, and were mainly redirected to savings accounts and CDBs (Bank Deposit Certificates), which shows investors' confidence in the system. The recent implementation of the Brazilian Settlement System, which makes the real-time settlement of interbank transactions possibly leading to a significant reduction of the systemic risk, is an important step to consolidate this confidence.

## ITAÚSA'S RESULTS FOR THE HALF

The holding company Itaúsa obtained a consolidated net income of R\$ 595 million in the first half, representing an annualized 22.3% return on consolidated equity of R\$ 5,632 million. Recurring net income amounted to R\$ 688 million. Consolidated net income per thousand shares of Itaúsa was R\$ 189.09, while net asset value per share reached R\$ 1,788.61.

### Main indicators of the Holding and Itaúsa Conglomerate

R\$ thousand

	1st half	Parent company	Minority stockholders	Conglomerate
<b>Total net income</b>	<b>2002</b>	<b>595,422</b>	<b>588,840</b>	<b>1,184,262</b>
	2001	852,111	802,648	1,654,759
<b>Recurring net income</b>	<b>2002</b>	<b>687,741</b>	<b>601,879</b>	<b>1,289,620</b>
	2001	604,961	683,387	1,288,348
<b>Extraordinary net loss</b>	<b>2002</b>	<b>(92,319)</b>	<b>(13,039)</b>	<b>(105,358)</b>
	2001	247,150	119,261	366,411
<b>Stockholders' equity</b>	<b>2002</b>	<b>5,631,987</b>	<b>4,961,449</b>	<b>10,593,436</b>
	2001	4,891,834	4,520,890	9,412,724
<b>Annualized profitability (NI/SE) (%)</b>	<b>2002</b>	<b>22.26</b>	<b>25.15</b>	<b>23.61</b>
	2001	37.87	38.66	38.25
<b>Dividends/Interest on own capital</b>	<b>2002</b>	<b>167,448</b>	<b>100,449</b>	<b>267,897</b>
	2001	226,856	210,928	437,784

**PRINCIPAL INDICATORS OF THE COMPANIES CONTROLLED BY ITAÚSA**

R\$ Thousand

	First six-month period	FINANCIAL AND INSURANCE AREA		INDUSTRIAL AREA			CONSOLIDATED / CONGLOMERATE (2)
		BANCO ITAÚ S.A. (Consolidated)	INSURANCE, PENSION PLAN AND CAPITALIZATION (1)	DURATEX	ITAUTEC PHILCO	ELEKEIROZ	
<b>Total assets</b>	<b>2002</b>	<b>87,021,746</b>	<b>5,539,704</b>	<b>1,479,634</b>	<b>831,836</b>	<b>397,870</b>	<b>90,273,061</b>
	2001	74,885,902	5,491,950	1,471,619	802,618	213,867	77,879,907
<b>Operating income (3)</b>	<b>2002</b>	<b>14,964,006</b>	<b>1,951,341</b>	<b>382,361</b>	<b>642,464</b>	<b>101,899</b>	<b>16,366,840</b>
	2001	10,936,658	1,688,577	380,496	561,280	61,841	12,117,525
<b>Net income</b>	<b>2002</b>	<b>1,047,831</b>	<b>142,362</b>	<b>27,065</b>	<b>16,485</b>	<b>4,032</b>	<b>1,184,262</b>
	2001	1,456,829	204,869	37,365	(6,188)	4,297	1,654,759
<b>Stockholders' equity</b>	<b>2002</b>	<b>8,288,313</b>	<b>1,578,976</b>	<b>878,803</b>	<b>280,860</b>	<b>158,986</b>	<b>10,593,436</b>
	2001	7,310,904	2,176,499	864,414	262,876	149,150	9,412,724
<b>Annualized profitability (NI/SE) %</b>	<b>2002</b>	<b>26.9%</b>	<b>18.8%</b>	<b>6.3%</b>	<b>12.1%</b>	<b>5.1%</b>	<b>23.6%</b>
	2001	43.8%	19.7%	8.8%	-4.7%	5.8%	38.3%
<b>Internal funds rising (4)</b>	<b>2002</b>	<b>2,489,937</b>	<b>221,011</b>	<b>88,990</b>	<b>45,020</b>	<b>9,489</b>	<b>2,577,485</b>
	2001	2,339,993	105,443	59,497	14,670	8,370	2,520,508

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

(2) Data related to consolidated/conglomerate present net amounts of eliminations and unrealized income from intercompany operations.

(3) Following a worldwide trend, operating income by area of operation was obtained as follows:

- Banco Itaú S.A.: totality of income from financial intermediation, income from services rendered, income from insurance premiums, capitalization and pension plans and other operating income.

- Insurance, pension plan and other operating income: take into consideration income from insurance premiums, capitalization, pension plans, financial income and capital gains.

- Duratex, Itautec Philco, and Elekeiroz: take into consideration net income from sales of products and/or services rendered.

(4) Covers sources arising from operations:

- plus expenses from allowance for possible loan losses;

- not taking into consideration changes in mathematical provisions for capitalization and pension plan and considering the changes in unsettled claims, credits and debts from operations with insurance and deferred trade expenses from insurance, pension plan and capitalization.

## **Extension of preferred stockholders' rights**

The April 29 Stockholders' Meeting of ITAÚSA approved the amendments to its by-laws that increase the rights of preferred shares, granting the holders of preferred shares the right to tag along with majority stockholder sales for 80% of the price paid for the shares of the majority stockholder. This major change, unique in the Brazilian market, draws the rights of preferred shares closer to the rights usually granted in international markets, thus increasing the interest of foreign investors in this stock. It is also a strong proof of the confidence of majority stockholders in Itaú's capacity to overcome the challenges created by the globalization of financial markets.

## **Capital Increase**

The Stockholders' Meeting also approved the capital increase of Itaúsa amounting to R\$ 149 million with the issue of new shares, subscribed in the period from April 30 to May 29, 2002, and payment of capital at June 5, 2002, in cash or through offsetting of credits arising from interest on own capital, recorded by Itaúsa. This increase was approved in a Stockholders' Meeting of July 1, 2002.

## **FINANCIAL AREA**

### **BANCO ITAÚ**

#### **ADR Program**

Itaú listed its shares in the New York Stock Exchange (NYSE) on February 21, 2002, and raised its ADR program to Level II. This new situation increased the average daily trading volume of Itaú shares to R\$ 30 million, which brought a significant increase in liquidity. With this volume, Itaú is now an investment alternative for several international institutional investors.

## Acknowledgements

In the first half, Itaú received the following awards and recognitions:

<ul style="list-style-type: none"> <li>● Best Public Company – 2001</li> </ul>	Abamec Nacional
<ul style="list-style-type: none"> <li>● Best Bank in Brazil – 2002</li> </ul>	Global Finance
<ul style="list-style-type: none"> <li>● Best Financial-sector Borrower – Latin America – 2002</li> </ul>	Euromoney
<ul style="list-style-type: none"> <li>● 3rd Most Valuable Brand in Latin America – 2001</li> </ul>	Brandchannel
<ul style="list-style-type: none"> <li>● Transparency Standout (5th consecutive year) - 2001</li> </ul>	Atlantic Rating
<ul style="list-style-type: none"> <li>● Best Investor Relations Website in Brazil and Latin America 2002</li> </ul>	Investor Relations Magazine
<ul style="list-style-type: none"> <li>● Honorable mention - Best Investor Relations in Brazil and Latin America – 2002</li> </ul>	Investor Relations Magazine
<ul style="list-style-type: none"> <li>● Honorable mention - Best Annual Report in Latin America – 2002</li> </ul>	Investor Relations Magazine
<ul style="list-style-type: none"> <li>● Honorable mention - Best Communication with the Retail Market in Latin America – 2002</li> </ul>	Investor Relations Magazine
<ul style="list-style-type: none"> <li>● Honorable mention - Best Corporate Governance in Latin America – 2002</li> </ul>	Investor Relations Magazine
<ul style="list-style-type: none"> <li>● E-Finance Prize - in four categories: Investor Relations Websites, Insurance, Storage and Fund Distribution (Investa) – 2002</li> </ul>	Executivos Financeiros Magazine
<ul style="list-style-type: none"> <li>● Best Internet Banking in Brazil, among domestic banks in Brazil in the categories Corporate and Individual Customer Services – 2001</li> </ul>	Banking Excellence Center, Ibope e-Ratings, and Business Standard magazine
<ul style="list-style-type: none"> <li>● Marketing Top for the Campaigns Super PIC Carnaval and Fund Raising</li> </ul>	ADVB

## Main Financial Indicators

The results for the first half were strongly and positively influenced by the impact of the depreciation of the Brazilian real in Itaú's foreign investments. On the other side, management decided to record high provisions to cover for the great volatility in the markets.

	1st Half 2002	1st Half 2001	Growth (%)
<b>Statements of Income – R\$ million</b>			
● Consolidated net recurring income	1,071	1,232	(13.1)
● Consolidated net income	1,048	1,457	(28.1)
● Individual net income	996	1,384	(28.0)
<b>Net income per thousand shares– R\$</b>			
● Consolidated net income	9.41	12.90	(27.1)
● Book value	74.47	64.76	15.0
● Interest on own capital	1.62	3.43	(52.8)
● Price of Registered Preferred Share (1)	160.27	192.98	(16.9)
● Total interest on own capital – R\$ million	180	387	(53.4)
● Market capitalization (2) – R\$ million	17,838	21,787	(18.1)
<b>Balance Sheet – R\$ million</b>			
● Total assets	87,022	74,886	16.2
● Total loans	34,839	31,099	12.0
● Own free, third-party and managed funds	125,881	107,008	17.6
● Subordinated debt	1,887	-	-
● Individual stockholders' equity	9,247	7,741	19.4
● Consolidated stockholders' equity	8,288	7,311	13.4
<b>Financial ratios (%)</b>			



● Recurring consolidated ROE (annualized)	27.5	36.5	
● Consolidated ROE (annualized)	26.9	43.8	
● ROA (annualized)	2.4	3.9	
● Risk-based capital ratio (Basel Ratio) (3)	15.3	13.7	
● Efficiency ratio	55.2	56.0	
● Capitalization ratio (3)	33.9	43.9	

(1) Average price for the month of June.

(2) Calculated based on the average preferred share quotation in June. With this amount, Itaú became the Brazilian bank with the highest market value.

(3) Calculated based on the consolidated economic-financial balance sheet.

## Assets and Loans

(in R\$ million)	06/30/2002	12/31/2001	06/30/2001	Growth %	Growth %
	(A)	(B)	(C)	(A/B)	(A/C)
<b>Total loans</b>	<b>34,839</b>	<b>34,282</b>	<b>31,099</b>	<b>1.6</b>	<b>12.0</b>
<b>Local currency</b>	<b>25,135</b>	<b>25,878</b>	<b>23,308</b>	<b>(2.9)</b>	<b>7.8</b>
Individuals	11,995	11,738	10,686	2.2	12.2
Small businesses and middle market	3,205	3,132	2,465	2.3	30.0
Large companies	9,935	11,008	10,157	(9.7)	(2.2)
<b>Foreign currency</b>	<b>9,704</b>	<b>8,404</b>	<b>7,791</b>	<b>15.5</b>	<b>24.5</b>
Foreign trade	5,660	4,476	4,640	26.5	22.0
Banco Itaú Buen Ayre	360	732	961	(50.9)	(62.6)
Other	3,684	3,196	2,190	15.3	68.2
<b>Interbank deposits</b>	<b>13,471</b>	<b>10,070</b>	<b>7,374</b>	<b>33.8</b>	<b>82.7</b>
<b>Securities</b>	<b>19,818</b>	<b>19,318</b>	<b>18,711</b>	<b>2.6</b>	<b>5.9</b>

The macroeconomic scenario influenced the demand for loans, which led to a balance

growth of only 1.6% in the first half. Note that the 26.5% growth in the foreign trade portfolio is above the appreciation of the dollar.

## FUNDING AND FUND MANAGEMENT

(in R\$ million)	06/30/2002 (A)	12/31/2001 (B)	06/30/2001 (C)	Growth % (A/B)	Growth % (A/C)
Total funds	125,881	123,970	107,008	1.5	17.6
Own free funds	5,538	4,843	4,656	14.4	18.9
Third-party funds	64,100	63,331	54,807	1.2	17.0
Managed funds	56,243	55,796	47,545	0.8	18.3

Note the growth of 24.6% of time deposits in the first half, which received most of the resources migrating from investment funds, which registered a period of greater volatility regarding the valuation of their quotas, as a consequence of the market scenario.

### Banco Itaú Buen Ayre

Despite the political and economic situation in Argentina, Banco Itaú Buen Ayre obtained positive results in view of the high liquidity and quality of its assets. The bank maintained a liquid position as constant provider of funds to the financial market and also by granting new loans to clients.

The Bank is implementing a process to reduce costs to in order to become compatible with its new dimension.

The level of allowances for loan losses, considering those recorded in the local books and the allowance carried in Brazilian books, are still considered by management as sufficient to absorb probable losses.

### Process for the acquisition of Banco Sudameris Brasil S.A.

It was signed on May 3, 2002 with Banca Intesa Bci S.p.A. and Banque Sudameris S.A. an agreement for the acquisition of 94.58% of Banco Sudameris Brasil S.A. for an amount corresponding the US\$ 925 million goodwill plus the bank's adjusted net book value at December 31, 2001. The procedures in course to complete the calculation of PLA transaction are those established in the contract.

### Insurance, Private Pension Plans and Capitalization

Itaú Seguros – Itauseg and its subsidiaries posted net income for the first half of R\$ 125 million, with an annualized return of 16.7% on equity of R\$ 1,556 million. Consolidated income from insurance premiums reached R\$ 802 million, excluding the health insurance

business in 2002, while technical reserves stood at R\$ 900 million. The claims ratio was 52.5%, against 60.9% in the same period in the prior year. Therefore, the combined ratio was 97.7%, an improvement of 0.5 percentage points. These figures attest the quality of Itaúseg's management and implemented controls.

The technical reserves for VGBL pension and insurance plans reached R\$ 1,640 million, a 21.0% increase as compared to the first half of 2001. Plan revenues plus Flexprev VGBL insurance revenues totaled R\$ 368 million, posting a growth of 56.1% for the period.

As a result of a restructuring, Itaúseg transferred to Itaúprev the mission of preparing life insurance products that will be offered to the Bank's customer base. This decision is justified by the existing synergy between life insurance and pension plan products.

Itaú Capitalização (Itaúcap) sold 443,000 premium capitalization bonds. Reserves totaled R\$ 848 million at the end of the first half.

## **ITAÚSA PORTUGAL**

At the end of the first half, the holding Itaúsa Portugal, which concentrates the conglomerate's financial activities in the European Union, stated total consolidated assets of EUR.2.2 billion, a 9.5% increase in relation to the same period in 2001. Consolidated net income reached EUR.14.9 million, with an annualized return of 10.4% on equity of EUR.282.6 million.

Banco Itaú Europa (BIE) has focused its activities on the growing trade relations and investments between European countries and Brazil. This has allowed the Bank to increase its capital market, trade finance structuring, treasury, finance advisory, trading and service activities, thus diversifying significantly its revenues. The bank placed, during the first half, EUR.125 million in three-year bonds and EUR.50 million in five-year bonds. Total volume of interbank deposits and structured fund raising reached EUR.1,610 million.

BIE assets reached EUR.1,881 million for the six-month period, an 8.4% increase as compared to the first half of 2001. This increase is due to the expansion of the funding at costs compatible with the European financial system on account of the investment grade rate granted to BIE branched by Moody's and Fitch IBCA rating agencies.

BIE's net income for the six-month period was of EUR.10 million, representing an annualized return of 9.5% on net income of EUR.201 million. The Bank reports a solvency ratio of 22.8%.

Banco Itaú Europa Luxembourg, a bank exclusively engaged in the international private banking activities of the Itaú conglomerate, operates under the supervision of the Central Bank of Luxembourg, and under consolidated terms of the Central Bank of Portugal. At the end of the first half, the bank managed client funds in excess of US\$ 1 billion.

Associated company BPI, SGPS, S.A., the holding company of one of the most important Portuguese banking groups, in which the ITAÚSA Conglomerate holds a 15.08% stake, reported in the first half of 2002 consolidated assets of EUR.24.7 billion, net income of EUR.70.8 million, and consolidated stockholders' equity of EUR.1,116.1 million. The stake of ITAÚSA Conglomerate in BPI is held by IPI – Itaúsa Portugal Investimentos SGPS, Ltda., of which Itaúsa Portugal holds 51% share of capital and Banco Itaú the remaining 49%.

(in R\$ million)

<b>Itaú Europa + Itaú Europa Luxembourg</b>	<b>1st half of 2002</b>	<b>1st half of 2001</b>	<b>% Growth</b>
Consolidated assets	5,805	3,672	58.1
Loan operations	1,844	1,196	54.2
Own free and third-party funds	5,557	3,462	60.5
Managed funds	862	627	37.3
Stockholders' equity	647	458	41.3
Net income	31	26	19.4
ROE % (annualized)	9.8	11.6	-
ROA % (annualized)	1.1	1.4	-
Solvency ratio %	22.8	28.6	-

## **INDUSTRIAL SEGMENT**

### **DURATEX**

Duratex's performance for the first half was again impacted by the losses in its Argentine operations. The Company posted consolidated revenues of R\$ 485.0 million. Exports amounted to US\$ 19.7 million, close to exports in the same period in 2001.

Operating profit totaled R\$ 42.7 million, representing an EBITDA of R\$ 91.9 million, slightly lower than the R\$ 94.6 million recorded in the first half of 2001.

Net income of R\$ 27.1 million includes losses of R\$ 24.0 million recorded by the company in Argentina. Operating cash flow totaled R\$ 106.3 million.

The sales volume of the Wood Division was 2% higher than in the same period in 2001, despite the increase in offer of particle board and MDF products in the period. The company started its regular MDF exports to new markets, taking advantage of a favorable foreign exchange rate. These exports offset price reductions in the domestic market.

Deca Division's shipped volume was 4% lower than in the same period in 2001. The sales decline in the domestic market was caused by a downturn in the civil construction industry,

while a higher reduction occurred in exports to Argentina due to recession in that country.

Duratex invested R\$ 187.9 million relating to the continued expansion of its industrial units, which includes the start of the assembly of the new HDF/MDI board plant in Botucatu-SP, with start-up scheduled for the first quarter of 2003, to complete the construction of the new low pressure lamination facilities in Itapetininga, SP, to proceed with the expansion of China Sanitaryware Unit II to in Jundiaí (SP), and to purchase 1.8 thousand hectares of forest related to the Botucatu and Itapetininga expansion plans.

## **ITAUTEC PHILCO**

Gross sales and service revenues of Itautec Philco for the period totaled R\$ 730.8 million. Net income reached R\$ 16.5 million, against the R\$ 6.2 million loss recorded by the company in the prior year. Annualized ROE was 12% in the first half.

Operating cash flow generated amounted to R\$ 76.3 million, while the prior year resulted in cash consumption of R\$ 40.8 million. Accumulated EBITDA in 2002 was R\$ 68.8 million, 107% higher than in the first half of 2001.

The company's Resource Investment Plan (PAR) amounted to R\$ 90.0 million in the period, of which R\$ 43.3 million relates to equipment leased to customers mainly in the public sector, R\$ 23.9 million to technology development, R\$ 7.8 million to industrial automation and plant modernization fixed assets and upgrading of the company's IT hardware, and R\$ 15.0 million to promotions and advertising.

At Itautec, the PC segment is still deeply affected by the gray market, both in terms of input purchases and end product sales. Itautec and nine other companies operating in this segment met with the President of the Republic to express their concerns regarding the current situation and to obtain some type of government commitment against these unfair competition practices.

The banking automation segment recorded a 61% increase in ATM production as compared to the 1st half of 2001.

In the software sales segment, we highlight the installation of the IHC in 500 branches of a major international bank. IHC is recognized by Microsoft as the best Intranet solution in the market.

In terms of retail automation, we highlight the sale of the SIAC software to a major international retail chain in Portugal.

As regards web-based businesses of Itautec.com, the company developed e-business projects for pharmaceutical, transportation and retail companies, focusing on the deployment of the Delivery Internet system at a major Portuguese supermarket.

Philco showed a positive performance in the first half, due to the improvement of the product mix and the increase in the sales of high-end TV sets and DVD players. In May, it launched a 32" model - HDTV - Digital Ready, featuring fully flat screen, progressive scan, and high-

resolution video inputs, in addition to the possibility of connecting eight devices simultaneously, including a computer. This launching once again confirms Philco pioneering stance by launching innovative products and bringing the Brazilian consumer to the “Digital Age” in advance.

At Itaucom, the international prices of semiconductors showed signs of recovery in the first quarter but closed the first half at the same level of last year’s end. Printed circuit board segment revenues decreased in view of the downturn in the car business and the investment freeze by the telecom companies. Board exports accounted for 39% of Adiboard’s total revenues in the period.

## **ELEKEIROZ**

The chemical industry is highly sensitive to exchange fluctuations since raw material and finished product prices are pegged to the exchange rate. We anticipate a highly volatile market in the second half of 2002 as a result of the impact of exchange fluctuations on these prices.

On May 8, Elekeiroz acquired the indirect control of Ciquine Cia Petroquímica, upon the third public auction promoted by Central Bank of Brazil as part of the out-of-court sale of this company by Banco Econômico S.A.. This acquisition was submitted to the appreciation of the Brazilian Anti-Trust Agency (CADE), as prescribed by legislation in force.

Total shipments of Elekeiroz and Ciquine reached a new record of 230,000 tons, 2% higher than in the first half of 2001. This figure was not higher by reason of the strong recession and the market downturn in June, when sales dropped 18% as compared to the month's forecasts, and of the flat growth of shipments to the new subsidiary in the period. Organic product sales accounted for 112,000 tons of total sales.

The acquisition of Ciquine permitted Elekeiroz to return to the production of oxoalcohols, which it discontinued last year by closing the Igarassú unit in Pernambuco, precisely because at the time it had signed a long-term agreement with Ciquine for the supply of this important raw material to produce plastifiers.

## **ITAÚSA EMPREENDIMENTOS**

The real estate market is still adversely impacted by the high interest rates and the uncertainties of the political scenario.

The residential segment still has a good inventory absorption rate, with a high demand by the high middle class. The office building segments still records the same seasonal trend with a very low demand for new units.

As a result of the investments made in the first half, the Raposo Shopping mall posted a growth of 17.4% in rent revenues, as compared to the same period last year, which permitted a significant increase in the distribution of resources to investors.

## **HUMAN RESOURCES**

Staff compensation plus charges and benefits totaled R\$ 1,419 million. Social benefits conceded to employees and their dependents include supplementary pensions, food vouchers, medical assistance and dental care, welfare services, scholarships, leisure, sporting and cultural activities, loans at subsidized rates, insurance, travel vouchers, contributions and special concessions among others. These benefits amounted to R\$ 221 million, especially the Supplementary Pension Funds, which already benefit 12,185 former employees, totaling R\$ 107 million.

In this first half, group companies invested R\$ 18.8 million in education, training and career development programs.

## **SOCIAL ACTIVITY**

In the social area, the highlight is Fundação Itaú Social (Itaú Social Foundation), which focuses on creating, developing and supporting social projects, especially in the education and health areas. In the first half, R\$ 4 million was invested and this institution was able to complete a further important stage of the Melhoria da Educação no Município (Improving Education in the City) and its large project Educação & Participação (Education & Participation). In addition, in April 2002 it launched the Escrevendo o Futuro (Writing the Future) Prize.

The Melhoria da Educação no Município program, which is a partnership with Unicef, the Education, Culture and Community Action Study and Research Center, Culture and Community Action, and the National Union of Municipal Officers (Undime), has already reached over 500 cities in Brazil and over one million students and 40,000 teachers, since its launch in 1999.

Programa Parcerias (Partnership Program), which is part of the Educação & Participação project conquered this year the participation of companies, institutions and foundations which will give financial, technical and pedagogical assistance to the 30 frontrunner programs of the Itaú-Unicef Prize 2001. This half, we also started to extend the Study on the Profile of Programs enrolled in the Itaú-Unicef Prize, which contains material data on Brazilian NGOs.

The Escrevendo o Futuro Prize is granted in association with the Ministry of Education, UNDIME, and TV Futura, and is coordinated by the Culture and Community Action Study and Research Center (CENPEC). The Prize is for nationwide elementary public school students from the 4th and 5th grades, with the objective of increasing the awareness of the

value of written Portuguese amongst these youngsters. Its objectives include more than a mere award, and its planning includes actions to train teachers, such as the "Itaú Writing Day", a series of text writing workshops both for students and teachers; to prepare guidelines to participating schools; and value and increase the cultural universe of the participants.

In the first half, Fundação Itaú Social won the Top Social 2001 Award, from the Marketing and Sales Managers Association of Brazil, for the Project "Saúde & Cidadania" (Health and Citizenship); and Marketing Best Award of Social Accountability, by Editora Referência and Fundação Getúlio Vargas, for the Melhoria da Educação no Município Program.

## **CULTURAL ACTIVITY**

Itaú Cultural has the call to "promote, articulate and spread knowledge, art production and distribution using new technologies, to increase people's access to and involvement in the social participation process".

In the first half, Itaú Cultural's head office in São Paulo was refurbished to expand the gathering and exhibition areas and to offer its visitors more modern technological resources for its regular and permanent programming addressing contemporary art productions, in addition to education workshops for children and an environment full of cyber novelties for young people.

Since May when the new head office was opened, the institute has already presented 14 lectures and workshops, three exhibitions, three shows, and 29 cinema and video events, and other activities, which were attended by over 37,000 visitors.

As a confirmation of this commitment to the community, in January Itaú Cultural signed an agreement with the Ministry of Education for the project Laboratório dos Sentidos (Senses Lab). The pilot project is being carried out in 40 schools in the States of Goiás, Santa Catarina, Pernambuco and Paraíba.

## **ACKNOWLEDGEMENTS**

We wish to thank our stockholders for their continuous support and trust. We are also especially grateful to our customers for their loyalty and their receptiveness to the innovations introduced in our products and services. To our employees and associates, we also wish to express our appreciation for their efforts and competence while performing their work.

(Approved at the Meeting of the Board of Directors on August 12, 2002)



# Itaúsa - Investimentos Itaú S.A. and Subsidiary Companies

## Consolidated Balance Sheet

Six-Month Periods Ended June 30, 2002 and 2001

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### Consolidated Balance Sheet

(In Thousands of Reals)

<b>ASSETS</b>	<b>06.30.2002</b>	<b>06.30.2001</b>
<b>Current assets and long-term receivables</b>		
Cash and cash equivalents	2,111,008	1,663,849
Short-term interbank deposits	13,470,590	7,373,642
Loan operations	22,910,543	20,041,474
Rentals and leasing operations	1,118,054	1,193,647
Accounts and trade notes receivable	16,924,067	15,338,461
Securities	20,793,916	19,814,630
Inventories		
Products	398,300	385,720
Properties	46,290	39,758
Prepaid expenses	509,797	193,673
Interbank accounts of subsidiary companies	7,137,920	7,495,063
<b>TOTAL</b>	<b>85,420,485</b>	<b>73,539,917</b>
<b>Permanet assets</b>		
Investments	992,928	761,155
Fixed assets		
Property for own use	3,408,063	3,239,936
Leased property	56,135	24,537
Forest reserves	75,212	73,403
Deferred charges	320,238	240,959
<b>TOTAL</b>	<b>4,852,576</b>	<b>4,339,990</b>
<b>TOTAL</b>	<b>90,273,061</b>	<b>77,879,907</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>06.30.2002</b>	<b>06.30.2001</b>
<b>Current and long-term liabilities</b>		
Funds raised by subsidiary companies		
Foreign currencies	8,752,931	7,628,885

Local currency	33,808,248	32,859,013
Money market	12,750,308	9,448,390
Financial instruments - derivatives	654,370	-
Borrowings		
Foreign currencies	394,385	497,317
Local currency	539,780	443,542
Real estate commitments	1,269	2,482
Dividends payable	258,549	426,845
Taxes and social security contributions	1,685,751	1,453,265
Provisions and accounts payable	14,072,314	9,363,233
Interbank accounts of subsidiary companies	3,111,976	3,302,408
Technical provisions for insurance, pension plan and capitalization - restricted	507,549	452,570
<b>TOTAL</b>	<b>76,537,430</b>	<b>65,877,950</b>
<b>Technical provisions for insurance, pension plan and capitalization in subsidiary companies - unrestricted</b>	<b>2,951,025</b>	<b>2,412,245</b>
<b>Deferred income</b>	<b>191,170</b>	<b>176,988</b>
<b>STOCKHOLDERS' EQUITY</b>		
<b>Stockholders' equity relating to minority interest in subsidiary companies</b>	<b>4,961,449</b>	<b>4,520,890</b>
<b>Stockholders' equity of parent company</b>		
Capital	3,000,000	2,316,939
Capital reserves	25,073	25,392
Revaluation reserves	54,100	55,184
Retained earnings	2,558,528	2,494,319
Adjustment to market value - securities and derivatives	(5,714)	-
<b>Total stockholders' equity of parent company</b>	<b>5,631,987</b>	<b>4,891,834</b>
<b>Stockholders' equity of the Itaúsa Conglomerate</b>	<b>10,593,436</b>	<b>9,412,724</b>
<b>TOTAL</b>	<b>90,273,061</b>	<b>77,879,907</b>

# Itaúsa - Investimentos Itaú S.A.

## Consolidated Statements of Income

Six-Month Periods Ended June 30, 2002 and 2001

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#### Consolidated Statement of Income for the Period *(In Thousands of Reais)*

	1.01. to 6.30.2002	1.01. to 6.30.2001
Operating revenues	16,366,840	12,117,525
Operating expenses	(14,647,703)	(10,606,551)
Operating income	1,719,137	1,510,974
Non-operating income	(53,981)	36,156
Income before Income tax and Social Contribution	1,665,156	1,547,130
Income tax and social contribution		
Due on the results for the period	(559,157)	(386,413)
Deferred related to temporary additions	278,416	256,034
Extraordinary result		
Parent company	(92,319)	247,150
Relating to minority interest in subsidiary companies	(13,039)	119,261
Profit sharing		
Employees	(63,700)	(105,443)
Directors - statutory	(31,095)	(22,960)
Net income relating to minority interest in subsidiary companies	(588,840)	(802,648)
<b>Net income of parent company</b>	<b>595,422</b>	<b>852,111</b>
Net income of parent company	595,422	852,111
Net income relating to minority interest in subsidiary companies	588,840	802,648
<b>NET INCOME OF THE ITAÚSA CONGLOMERATE</b>	<b>1,184,262</b>	<b>1,654,759</b>
Number of outstanding shares (in thousands)	3,148,803	3,070,505
Net income of parent company per thousand shares (R\$)	189.09	277.51

Book value of parent company per thousand shares (R\$)	1,788.61	1,593.17
RECURRING NET INCOME OF PARENT COMPANY	687,741	604,961
CHANGE IN RECURRING NET INCOME OF PARENT COMPANY	13.7%	
EXTRAORDINARY RESULT	(92,319)	247,150
TOTAL - PARENT COMPANY	595,422	852,111

# Itaúsa - Investimentos Itaú S.A.

Notes to the Consolidated Financial Statements  
Six-Month Periods Ended June 30, 2002 and 2001

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## Note 1 - Operations

*(In Thousands of Reals)*

ITAÚSA INVESTIMENTOS ITAÚ S.A. main objective is to support the companies in which capital it holds interest, through studies, analyses and suggestions on the operating policy and projects for the expansion of the mentioned companies obtaining resources to meet the related additional needs of risk capital through subscription or acquisition of securities issued, to strengthen its position in the capital market and related activities or subsidiaries of interest of the mentioned companies, except for the private of financial institutions.

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# Itaúsa - Investimentos Itaú S.A.

Notes to the Consolidated Financial Statements  
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## Note 2 - Presentation Of The Financial Statements

*(In Thousands of Reais)*

The consolidated financial statements of Itaúsa – Investimentos Itaú S.A. – (ITAÚSA) and its subsidiaries (ITAÚSA CONSOLIDATED) have been prepared in accordance with accounting policies derived from the Brazilian Corporate Law and the instructions issued by the Brazilian Securities and Exchange Commission (CVM), the Superintendency of Private Insurance (SUSEP) and the Brazilian Central Bank (BACEN), which include accounting policies and estimates to calculate accounting provisions.

The consolidated financial statements are being presented without the differentiation between current and long-term, which is consistent with prior quarterly presentations.



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# Itaúsa - Investimentos Itaú S.A.

Notes to the Consolidated Financial Statements  
Six-Month Periods Ended June 30, 2002 and 2001

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## Note 3 - Consolidated statements

(In Thousands of Reals)

The consolidated financial statements comprise ITAÚSA and its subsidiary companies among which we highlight:

Banco Itaú S.A. (Itaú); Banco Itaú Europa, S.A. (BIE); Banco Banerj S.A. (Banerj); Banco Banestado S.A. (Banestado); Banco BEG S.A. (BEG) (a); Banco Bemge S.A. (Bemge); Banco Itaú Buen Ayre S.A. (Itaú Buen Ayre); Itaú Seguros S.A. (Itauseg); Itaú Capitalização S.A. (Itaucap); Duratex S.A. (Duratex); Elekeiroz S.A. (Elekeiroz); Itautec Philco S.A. (Itautec); Itaúsa Empreendimentos S.A. (Itaúsa Empreendimentos).

New name of Banco do Estado de Goiás S.A, acquired by the parent company at December 04, 2001

*(a) New name of Banco do Estado de Goiás S.A, acquired by the parent company at December 04, 2001*

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# Itaúsa - Investimentos Itaú S.A.

Notes to the Consolidated Financial Statements  
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## Note 4 - Summary of the Main Accounting Principles

(In Thousands of Reals)

**a) Consolidation** - The material balances of balance sheet accounts and the amounts of the transactions between the consolidated companies have been eliminated. The difference between ITAÚSA and ITAÚSA CONSOLIDATED in net income and stockholders' equity results from the effects of the differing policies for the amortization of goodwill on acquisitions of investments and in the establishment of deferred tax assets from the subsidiary ITAÚ, as well as own goodwill and goodwill from other subsidiaries, and the elimination of unrealized results on transactions among consolidated companies, which corresponding taxes have been deferred.

**b) Short-term interbank deposits, loans, discounted trade receivables and financings, funds raised by subsidiary companies, funds obtained in the open market and other receivables and payables** - Transactions subject to monetary correction or foreign exchange rates are recorded at present value, calculated "pro rata die" based on the variation of the contracted index. Real estate loans are adjusted to present value of future installments. Balances with fixed remuneration rates are recorded at their redemption value, adjusted for unearned income/expenses. Loans, discounted trade receivables and other type of loans from financial institutions are recorded on the accrual basis until they are 60 days overdue. Income from recovery of credits, which have been previously written-off, is recorded in Income from Loan Operations.

**c) Securities** - In subsidiaries characterized as financial institutions, insurance, pension plan and capitalization companies and related subsidiaries (Financial and Insurance Areas), as from June 30, 2002, securities shall be classified in the following categories in accordance with BACEN and SUSEP regulations:

- trading securities – securities acquired to be actively and frequently traded which should be adjusted to market value through a contra-entry to the results for the period;

- securities available for sale – securities that are not intended for negotiation nor will be maintained through to their maturity. They are adjusted to their market value with a contra-entry to an account disclosed in stockholders' equity; and

- securities held to maturity – securities, except for non-redeemable shares, for which there is the intention or obligation and financial capacity of the institution to hold in the



portfolio up to their maturity . They are accounted for at original acquisition cost, plus income with a contra-entry to the results of the period.

Gains and losses on securities available for sale, when realized, will be recognized through specific identification at the date of the negotiation in the statements of income, as contra-entry to a specific stockholders' equity account, net of related tax effects.

Decreases in the market value of securities available for sale and those held up to maturity, below their related costs, resulting from non-temporary reasons, are recorded in result as realized losses.

In ITAÚSA and non-financial subsidiaries (Industrial Area) they are recorded at cost of acquisition updated and adjusted by provision to reflect the market value, when this is lower.

**d) Financial Instruments Derivatives** - In the financial area subsidiaries, as from June 30, 2002, also in accordance with BACEN regulations, the derivative financial instruments shall be classified at their acquisition date, in accordance with management intention of using them as instrument for hedge or not.

Transactions involving financial instruments, carried out at customers request, at one's own account, or which do not comply with hedging criteria (mainly derivative used to manage global risk exposure) are recorded at market value , including realized or unrealized gains and losses, which are directly recognized in the statement of income.

Derivatives used for protection against risk exposure or to modify the characteristics of assets and liabilities which might be highly associated to changes in market value of the item being protected, both at the beginning or throughout the contract life, and which are deemed as relevant to reduce the risk-related exposure being protected, are classified as a hedge, according to their nature:

- Market Value Hedge – Financial assets and liabilities, as well as their related financial instruments are recorded by market value plus realized and unrealized gains and losses, directly recognized in the statement of income.

- Cash Flow Hedge – The actual amount of the financial assets and liabilities, as well as their related financial instruments are recorded at market value plus realized and unrealized gains and losses, less of tax effects, when applicable, and recorded in a specific reserve account in stockholders' equity. The non-hedged amount is recorded directly in the statement of income.

**e)** The effects of applying the procedures described in notes 4c and 4d above, in Itaúsa subsidiaries of the financial and insurance areas, have been recorded directly in the stockholders' equity or in the result of the parent company equity proportionally to the

holding percentage.

**f) Allowance for loan losses** - The allowance for loan losses was constituted based on an analysis of the credit risks, in amounts considered sufficient to cover loan losses. For the subsidiaries of the financial area, the allowance was based on legislation determined by BACEN Resolution 2682 of December 21, 1999, including the following rules:

- Provisions necessary are recorded from the date of the loan disbursements, based on the periodical analysis of the quality of the customer and the customer's sector, and not just in the event of default;
- Based only on delinquency, write-offs may be made 360 days after the due date or 720 days, for operations that mature after a period of 36 months. Other factors related to the analysis of customer/loan quality may generate write-offs before these periods, but never before 180 days after the due date.

**g) Investments** - Investments in subsidiary and affiliated companies are recorded on the equity method. The financial statements of foreign subsidiaries are adapted to comply with current Brazilian accounting policies and converted into reais. Other investments are recorded at cost, restated up to December 31, 1995.

**h) Fixed Assets** - These are stated at cost of acquisition or construction, less accumulated depreciation, monetarily restated up to December 31, 1995. For insurance, private pension and capitalization operations, property and equipment are adjusted to market value supported by appraisal reports. Depreciation is calculated using the straight-line method, based on monetarily corrected cost at the following annual rates:

	%
Buildings in use	4
Installations, furnishings, equipment in use and security and communication systems	10% to 25%
Electronic data processing systems	20% to 50%

**i) Deferred charges** - Deferred organization and expansion expenses mainly represent leasehold improvements, which are amortized on a straight-line basis over the respective rental periods, and acquisition and development of logical systems, which

are amortized on a straight-line basis over five years.

## j) Technical Provisions for Insurance, Pension Plan and Capitalization

- **Restricted:** as regards insurance, these provisions correspond basically to provisions for unsettled claims set up based on the notices of loss, in an amount sufficient to cover future commitments. The provision is supplemented by the provision for Incurred But Not Reported (IBNR) claims. In the Pension Plan and Capitalization segments, these provisions correspond to benefits and withdrawals claimed but unpaid at the balance sheet date, or known or estimable liabilities accrued of the corresponding charges, when applicable.

- **Unrestricted:** in the insurance segment, these provisions correspond to provisions for unearned premium calculated in accordance with the criteria established by the National Council of Private Insurance (CNSP) Resolution 59/2001 and the mathematical provision for the individual life insurance segment based on actuarial study, and the purpose of which is the guarantee of future commitments. In the Pension Plan and Capitalization segments, these provisions are set up by applying mathematical formulas calculated by an actuary and substantiated by actuarial technical notes approved by SUSEP.

## k) Income Tax, Social Contribution, Social Integration Program (PIS) and Social Contribution on Revenues (COFINS) - The

provisions were calculated according to the current legislation at the rates shown below.

Income tax	15.00%
Additional income tax	10.00%
Social contribution	8.00%
Additional social contribution	1.00%
PIS	0.65%
COFINS	3.00%

Amounts subject to litigation have been fully provided.



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# Itaúsa - Investimentos Itaú S.A.

Notes to the Consolidated Financial Statements  
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## Note 5 - Securities and derivative financial instruments – financial area

(In Thousands of Reals)

We present below the composition of the Securities and Derivative Financial Instruments portfolio in Itaúsa subsidiaries of the financial and insurance areas classified in accordance with BACEN and SUSEP new rules, stated at their cost and market values, as well as the effects directly recorded in the subsidiaries and Itaúsa net equity.

	Cost	Market value	Provision for market value adjustment reflected in	
			Results	Net equity
Trading securities	9,377,557	9,232,585	(144,972)	-
Derivative financial instruments	848,923	528,530	(320,393)	-
Securities available for sale	11,131,150	10,522,120	-	(609,030)
Securities held to maturity	131,273	131,273	-	-
<b>SUB – TOTAL</b>	<b>21,488,903</b>	<b>20,414,508</b>	<b>(465,365)</b>	<b>(609,030)</b>
Deferred tax assets	-	-	-	214,694
<b>TOTAL ADJUSTMENT TO MARKET VALUE</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(394,336)</b>
Reclassification of additional provision	-	550,000	-	550,000
Reclassification of deferred tax assets	-	-	-	(187,000)
<b>TOTAL RECLASSIFIED</b>	<b>-</b>	<b>550,000</b>	<b>-</b>	<b>363,000</b>
Additional provision (exceeding the minimum required) (*)		(1,147,000)	-	-
<b>TOTALS</b>	<b>21,488,903</b>	<b>19,817,508</b>	<b>-</b>	<b>(31,336)</b>
<b>Minority interest</b>				<b>(25,622)</b>
<b>Value reflected in Itaúsa net equity</b>				<b>(5,714)</b>

(\*)Additional provision to face future risks arising from market price fluctuations. Part of this provision totaling R\$ 550,000, was reclassified in this half as a counter entry to Stockholders' Equity account – Adjustment to Market value– Securities and Derivatives, which reflects the impact of the implementation of criteria established by BACEN Circular 3068/2001. In addition, this provision was increased by R\$ 467,000 to neutralize the foreign exchange gain with hedge to

*the payment related to the purchase of Banco Sudameris S.A., which exceed the variation of the Interbank Deposit rate in the period, in order to not distort the amount, in Reais, of the goodwill to be calculated at the time of actual acquisition and by R\$ 130,000 for the risks of future fluctuations in the other securities.*

The adoption of new policies regarding the classification of Securities and Derivative Financial Instruments resulted in effects on Net Income and Net Equity of the Financial Area subsidiaries, whose reflects on ITAÚSA were of R\$ 160,700 and R\$ 12,163 respectively.

On Net Income, the effect was basically the adjustment to market value of Securities Available for Sale, not recognized in net income, and the adjustment to market value of Derivative Financial Instruments (Swap) which, according to the rules so far effective, was not required. In Net Equity, the effect was basically due to innovations of the new rule that started contemplating the gains from adjustments to the market of securities portfolio and the adjustment to market of the Derivative Financial Instruments (Swap), with the portion related to gains accrued up to December 31, 2001, being highlighted as adjustments to prior years.



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# Itaúsa - Investimentos Itaú S.A.

Notes to the Consolidated Financial Statements  
Six-Month Periods Ended June 30, 2002 and 2001



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## Note 6 – Income tax and social contribution

(In Thousands of Reais)

a) Income tax and social contribution due on operations for the period are shown below

:

	01.01 to 06.30.2002	01.01 to 06.30.2001
<b>Income before income tax and social contribution</b>	<b>1,665,156</b>	<b>1,547,130</b>
Tax charges (Income tax and social contribution) at the rates of 25% and 9% respectively (*)	(566,153)	(526,024)
<b>Increases/Decreases in income tax and social contribution charges as a result of</b>		
<b>Permanent (Inclusions) Exclusions</b>	<b>260,612</b>	<b>380,241</b>
Equity in affiliates and subsidiaries	67,440	7,263
Interest on own capital	76,369	193,459
Non-deductible expenses/provisions and others	116,803	179,519
<b>Temporary (Inclusions) Exclusions</b>	<b>(249,856)</b>	<b>(227,384)</b>
Allowance for loan losses	(82,941)	(86,666)
Labor provisions, tax contingencies and others	(166,915)	(140,718)
<b>Other adjustments:</b>	<b>(3,760)</b>	<b>(13,246)</b>

Income tax of foreign subsidiary companies	(3,760)	(13,246)
<b>Income tax and social contribution due on operation for the period</b>	<b>(559,157)</b>	<b>(386,413)</b>
Withholding tax on distribution of interest on own capital	(40,138)	(65,629)
<b>Total income tax and social contribution due</b>	<b>(599,295)</b>	<b>(452,042)</b>

(\*) according to Note 4k.

**b)** The composition of accounting adjustments comprising temporary additions for income tax and social contribution is shown below:

	01.01 to 06.30.2002	01.01 to 06.30.2001
<b>Deferred income tax and social contribution related to temporary additions</b>	<b>278,416</b>	<b>256,034</b>
Deferred tax assets		
Increase (Reversal) from temporary additions/exclusions	249,856	159,877
Increase (Reversal) from tax losses and negative social contribution basis	(14,524)	67,291
Increase (Reversal) in others	43,084	28,866

**c)** The balance of deferred tax assets and deferred tax liabilities (Income tax and social contribution), is represented by:

	12.31.2001	Net movement	06.30.2002
<b>Deferred tax assets</b>			

Temporary differences represented by:			
Allowance for loan losses	822,992	96,946	919,938
Provision for devaluation of securities/interbank deposits	241,219	164,806	406,025
Provision for interest on own capital	88,755	(44,768)	43,987
Provision for tax contingencies	216,028	13,320	229,348
Provision for labor contingencies	181,497	29,708	211,205
Provision for civil contingencies	73,914	19,715	93,629
Real estate allowances	44,898	2,372	47,270
Tax losses and negative social contribution basis	796,668	(14,523)	782,145
Others	413,080	35,285	448,365
<b>TOTAL</b>	<b>2,879,051</b>	<b>302,861</b>	<b>3,181,912</b>
<b>Deferred tax liabilities</b>			
Temporary differences			
Excess of depreciation in leasing operations	185,107	37,967	223,074
Revaluation reserve	19,594	(407)	19,187
Taxation on branches and subsidiaries abroad	8,280	3,759	12,039
Taxation on results abroad – Capital gain	38,221	14,093	52,314



Other provisions	292	1,017	1,309
<b>TOTAL</b>	<b>251,494</b>	<b>56,429</b>	<b>307,923</b>

**d)** The estimate for realizing portions of total deferred tax assets, existent at June 30, 2002, according to the expectation of generation of future taxable income, based on the profitability history and technical study of feasibility are of 10.2% for the first year, 17.6% for the second year; 16.1% for the third year; 10.0% for the fourth year; 10.1% for the fifth year; 26.6% between the sixth and eighth year and 9.4% for the ninth year.



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## Note 7 - Stockholders' Equity – ITAÚSA

(In Thousands of Reais)

### a) Shares

Capital comprises 3,148,802,782 (3,070,505,414 at June 30, 2001) book entry nominative shares, of which 1,156,079,213 (1,127,332,427 at June 30, 2001) are common shares and 1,992,723,569 (1,943,172,987 at June 30, 2001) are preferred shares.

As decided at the Ordinary Stockholders' Meeting (AGO) held on April 29, 2002, a capital increase from R\$2,316,939 to R\$ 2,851,235, was approved without issuing of shares through capitalization of reserves consigned in the balance sheet of December 31, 2001.

Still at the AGO on April 29, 2002, the capital increase of ITAÚSA, from R\$ 2,851,235 to R\$ 3,000,000, was approved by issuing 78,297,368 new shares, of which: 28,746,786 are common shares and 49,550,582 are preferred shares, to be paid-up at the price of R\$ 1.90 each, in cash or through the offset of credits from interest on own capital, declared by ITAÚSA. The referred capital increase was approved by the Extraordinary General Meeting held on July 1, 2002.

### b) Dividends

Stockholders are entitled to a minimum mandatory dividend of 25% of net income, adjusted according to rules set forth in the Brazilian Corporate Law. Both types of shares participate equally, after common shares have been assured payments equal to the minimum preferential dividends or preferred shares

As from July 1, 2002, the quarterly advance of the minimum mandatory dividend, paid as interest on own capital, amounts to R\$ 4.00 (Four Reais) per thousand shares.

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## Note 8 - Related Parties

(In Thousands of Reals)

Transactions between related parties are carried out at the usual market amounts, terms and average rates in effect on respective dates under reciprocal conditions.

Transactions involving ITAÚSA and its subsidiary companies were eliminated and take into consideration the lack of risk.

The unconsolidated related parties are the following:

- The controlling stockholders of ITAÚSA;
- Fundação Itaúbanco, Fundação Duratex, Fundação Itaúsa Industrial, FUNBEP – Multi-Sponsored Pension Fund and Social Security Savings of BEG (PREBEG), closed private pension entities, which administer supplementary retirement plans sponsored by ITAÚSA and/or its subsidiaries, as described in Note 12a; and
- Fundação Itaú Social and Instituto Itaú Cultural (IIC), entities sponsored by the subsidiary Itaú to act in their respective areas of interest. During the period, consolidated companies made donations to IIC in the amount of R\$ 10,350.

The transactions with these related parties are not significant in the overall context of ITAÚSA operations and besides those already mentioned above, are basically characterized by:

- Banking transactions under normal operations, in unrestricted compliance with the limits imposed by BACEN, such as movement of current accounts, investments and redemption of securities, and of portfolio custody/management services.
- Property leases involving Fundação Itaúbanco, FUNBEP and PREBEG.

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## Note 9 - Financial Instruments

(In Thousands of Reals)

### a) Derivatives

The globalization of the markets in the last years has resulted a high level of sophistication to the financial products used. As a result of this process, there has been an increasing demand for derivative financial instruments to manage market risks, arising mainly from fluctuations in interest and exchange rates and assets prices. Accordingly, ITAÚSA is fully involved in the operation of derivative markets, either in complying with the growing clients' needs, or in the performance of its risk management policy. Such policy is based on the use of derivative instruments to minimize the risks resulting from commercial and financial operations.

The derivatives negotiated by the Bank are purchased for two basic purposes:

- *Hedge* - to perform hedges of structural portfolios;
- *Trading* - to serve as instruments for the Bank to assume proprietary and risk management positions of the negotiated derivatives with large clients.

Most derivative contracts negotiated with clients in Brazil are swap and future contracts, which are registered with Futures and Commodities Exchange (BM&F) or Clearing House for the Custody and Financial Settlement of Securities (CETIP). BM&F future contracts involving interbank rates and U.S. dollars are mainly used to fix the financing rates offered to customers with maturities or in currencies which are mismatched with the resources used to fund these operations. Transactions overseas are carried out with futures contracts, forwards, options and swaps, with registration mainly in the stock exchanges of Chicago, New York and London.

The main risk factors of the derivatives assumed at June 30, 2002 were related to the foreign exchange rate, interest rate, U.S. dollar and reference rate, Libor and variable income. The management of these and other market risk factors is supported by the infrastructure of sophisticated statistical and deterministic models. Based on this management model, the institution, with the use of transactions involving derivatives, has been able to maximize the relation risk and return, even under high volatility situations.

Under normal conditions, the exchange prices are the best indicators of the fair value of the financial instruments. However, not all instruments have liquidity or quotes and, in this case, it is necessary the adoption of current value estimates and other valuation techniques. To obtain these market values, the following criteria were adopted:

- Futures and Forwards: quotes in the stock exchanges;
- Swaps: the cash flow of each of their legs is discounted to estimated current value, according to the corresponding interest curves, obtained based on the BM&F prices and/or market prices of the public securities for Brazilian transactions, and on the international stock exchanges prices for transactions carried out abroad.
- Options: statistical models that take over the volatility behavior of the asset objective, the interest rates, the exercise price and the spot price of the good, such as the *Black & Scholes* model.

The positions of these financial instruments have their reference values recorded in memorandum accounts and the adjustment/premiums in balance sheet accounts.

The following chart summarizes the reference value restated at market price and the respective net exposures in the balance sheet for the derivative financial instruments.

ITAÚSA						
	MEMORANDUM ACCOUNTS NOTIONAL VALUE		BALANCE SHEET ACCOUNT RECEIVABLE/RECEIVED (PAYABLE/PAID)		MARKET VALUE	ADJUSTMENT TO MARKET VALUE
	06.30.2002	06.30.2001	06.30.2002	06.30.2001	06.30.2002	06.30.2002
<b>Future contracts</b>	<b>46,627,524</b>	<b>46,826,818</b>	<b>(10,926)</b>	<b>(10,113)</b>	<b>(10,926)</b>	-
Purchase commitments	22,255,335	23,859,366	(41,279)	(52,783)	(41,279)	-
Commitment to sell	24,372,189	22,967,452	30,353	42,670	30,353	-
<b>Swap contracts</b>			<b>(42,323)</b>	<b>(120,494)</b>	<b>(200,145)</b>	<b>(157,822)</b>
Asset position	16,999,998	8,783,325	721,716	209,413	377,088	(344,628)
Liability position	17,042,321	8,903,819	(764,039)	(329,907)	(577,232)	186,806
<b>Option contracts</b>	<b>3,988,627</b>	<b>7,189,123</b>	<b>(12,439)</b>	<b>(85,928)</b>	<b>(27,445)</b>	<b>15,006</b>
Purchase commitments – purchased position	1,644,780	1,787,634	(75,573)	(48,461)	(104,632)	29,059

Commitments to sell – sold position	840,816	1,997,581	(6,216)	(91,411)	(625)	(5,591)
Purchase commitments – sold position	716,655	1,988,337	16,766	6,338	26,168	(9,402)
Commitments to sell – sold position	786,376	1,415,571	52,584	47,606	51,644	940
<b>Forward</b>			<b>54,328</b>	<b>122,440</b>	<b>55,095</b>	<b>767</b>
Commitment to sell - shares			54,328	122,440	55,095	767
		<b>ASSET</b>	<b>857,833</b>	<b>471,725</b>	<b>537,440</b>	<b>(320,393)</b>
		<b>LIABILITY</b>	<b>(833,389)</b>	<b>(383,851)</b>	<b>(655,044)</b>	<b>178,344</b>
		<b>TOTAL</b>	<b>24,444</b>	<b>87,874</b>	<b>(117,604)</b>	<b>(142,049)</b>

Futures, swaps, options and forward mature as follows:

<b>Clearing</b>	<b>0 - 30</b>	<b>31 - 180</b>	<b>181 - 365</b>	<b>Over 365</b>	<b>06.30.2002</b>	<b>06.30.2001</b>
<b>Futures</b>	2,846,537	15,537,771	7,780,411	20,462,805	46,627,524	46,826,818
<b>Swaps</b>	1,761,951	5,279,931	3,422,151	5,814,249	16,278,282	8,573,912
<b>Options</b>	487,000	1,690,044	1,182,533	629,050	3,988,627	7,189,123
<b>Balance sheet account – Market</b>	<b>0 - 30</b>	<b>31 - 180</b>	<b>181 - 365</b>	<b>Over 365</b>	<b>06.30.2002</b>	
<b>Futures</b>	(5,877)	(21,156)	(26,114)	42,221	(10,926)	
<b>Swaps - asset</b>	56,429	125,248	37,872	157,539	377,088	
<b>Swaps - liability</b>	(109,781)	(236,109)	(132,855)	(98,487)	(577,232)	
<b>Options - asset</b>	10,847	52,565	9,181	32,663	105,257	
<b>Options - liability</b>	(3,276)	(26,976)	(16,181)	(31,379)	(77,812)	

<b>Forward</b>	21,612	20,360	13,123	-	55,095
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## b) Market Value

The financial statements were prepared in conformity with accounting principles, which assume the normal continuity of the operations of ITAÚSA and its subsidiaries.

The book value of each financial instrument, whether included or not in the balance sheet, when compared with the value that might be obtained in an active market, or in the absence of such market, using the net present value of future cash flows adjusted based on the current market interest rate, approximates its corresponding market value, or the market value is not available, except for those included below (basically represented by Itaú and its indirect controlled subsidiary companies):

	Book value		Market value		Unrealized income (loss) (1)	
	06.30.2002	06.30.2001	06.30.2002	06.30.2001	06.30.2002	06.30.2001
Interbank investments	13,470,590	7,373,642	13,474,605	7,374,254	4,015	612
Securities and derivatives (1)	20,793,916	19,758,036	21,931,857	20,672,078	1,137,941	914,042
Loan operations	22,910,543	21,073,253	22,820,816	20,985,009	(89,727)	(88,244)
Investment in BPI	471,357	270,344	796,404	521,045	325,047	250,701
<b>Other investments</b>	430,387	395,562	424,250	393,980	(6,137)	(1,582)
Funds raised by subsidiary companies	55,965,857	49,936,147	55,909,245	49,779,828	56,612	156,319
Borrowings	934,165	940,859	927,546	931,692	6,619	9,167
Treasury shares	273,031	308,990	361,951	548,672	88,920	239,682
<b>Total unrealized (2)</b>					<b>1,523,290</b>	<b>1,480,697</b>

(1) Does not include the reclassification of additional provision in the amount of R\$ 550,000.

(2) Includes unrealized gains to minority interest s amounting to R\$ 729,865 (R\$ 714,261 at June 30, 2001).

To obtain the market values for the financial instruments, the following criteria were adopted:

- Interbank deposits, certificates of bank deposit and mortgage securities, the latter two included in securities, on the basis of their nominal values, monetarily restated to maturity dates and discounted to present value using futures market interest and swap market rates for fixed-rate securities and using rates published in the Gazeta Mercantil on July 1, 2002, for floating-rate securities.
- Public Securities included in Securities based on market rates validated through comparison with information provided by National Association of Open Market Institutions (ANDIMA).
- Investment fund quotas included in Securities were determined based on the net value per quota on the balance sheet date.
- Publicly traded shares, when included in Securities, were valued using the average price quote of the last trading day of the month, if available, or on the most recent quotation published in the daily bulletin of each Stock Exchange.
- Loans with maturity dates over 90 days, when available, were calculated based on their net present value of future cash flows discounted at market interest rates at the balance sheet date, also considering the effects of hedges (swap contracts).
- Other investments and equity shares in foreign subsidiary and affiliated companies are determined on the basis of stock market quotations, book value per share and auction quotations.
- Time and interbank deposits and funds from acceptances and issuance of securities, when available, were calculated based on their present value determined by means of future cash flows discounted using future market interest rates, swap market rates for fixed-rate securities, and market rates for floating-rate securities published in the Gazeta Mercantil on July 1, 2002. The effects of hedges (swap contracts) are also taken into account.
- Derivatives, comprising swap contract to hedge other assets and liabilities are determined based on reference values for each parameter (part/counterpart) monetarily restated through maturity and discounted to



present value using futures market interest rates, according to the characteristics of each contract.

- Treasury shares are valued according to the average quotation available in the last trading day of the month or, if this is not available, on the most recent quotation on prior trading days published in the bulletin of each Stock Exchange



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## Note 10 – Extraordinary Result

*(In Thousands of Reais)*

For a better analysis of the financial statements of the period, non-operating losses, net of R\$ (34,088) from the variation of interest in subsidiary Itaú due to the acquisition of treasury shares and capital increase, as well as amortization of goodwill in subsidiaries net of tax effects (Social Contribution) arising from the acquisition on an auction of preferred shares from BEG in the amount of R\$ (21,234), capital increase in Banco del Paraná in the amount of R\$ (1,526), increase in interest in BPI in the amount of R\$ (436), and acquisition of stockholding control from Ciquine Cia. Petroquímica in the amount of R\$ (48,074), have been recorded in the extraordinary results account.



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## Note 11 – Reclassification for Comparison Purposes

(In Thousands of Reals)

For comparison purposes, reclassifications in the balances of June 30, 2002 were carried out relating to the consolidation of the credit card administrators as financial institutions.

06.30.2001			
	Prior disclosure	Reclassifications	Reclassified balances
<b>ASSETS</b>			
Loan operations	21,141,869	(1,100,395)	20,041,474
Accounts and trade notes receivable	14,171,397	1,167,064	15,338,461
Securities	19,810,056	4,574	19,814,630
<b>TOTAL ASSETS</b>	<b>77,808,664</b>	<b>71,243</b>	<b>77,879,907</b>
<b>LIABILITIES</b>			
Funds raised by subsidiary companies			
Foreign currency	7,638,590	(9,705)	7,628,885
Local currency	32,849,308	9,705	32,859,013
Taxes and social security contributions	1,456,796	(3,531)	1,453,265
Provisions and accounts payable	9,288,459	74,774	9,363,233
<b>TOTAL LIABILITIES</b>	<b>77,808,664</b>	<b>71,243</b>	<b>77,879,907</b>
<b>STATEMENT OF INCOME</b>			

Operating revenues	12,107,678	9,847	12,117,525
Operating expenses	(10,603,362)	(3,189)	(10,606,551)
<b>Operating income</b>	<b>1,504,316</b>	<b>6,658</b>	<b>1,510,974</b>
Non-operating income	42,814	(6,658)	36,156
<b>Net income</b>	<b>1,654,759</b>	<b>-</b>	<b>1,654,759</b>



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## Note 12 - Benefits to Employees

*(In Thousands of Reals)*

Under the terms of CVM Deliberation 371, dated December 13, 2000, we present the policies used by ITAÚSA and its subsidiaries regarding the benefits to employees, as well as the accounting procedures adopted:

### **a) Supplementary retirement benefits:**

ITAÚSA and its subsidiaries are sponsors of the supplementary retirement plans managed by Fundação Itaúbanco, Fundação Itaúsa Industrial, by FUNBEP – Fundo de Pensão Multipatrocinado and Caixa de Previdência dos Funcionários do BEG, and by Fundação Duratex (closed and supplementary private pension funds), which are intended to grant benefits that, as a life annuity (in the case of FUNBEP and of the plan of Fundação Bemge de Seguridade Social FASBEMGE, also granted a death benefit), will supplement the retirement paid by the Social Security. During the period, contributions totaled R\$ 15,408 (R\$ 14,626 from January 1 to June 30, 2001). The contribution rate increases with the participant's income.

### **b) Post-employment benefits:**

BANESTADO and BEG sponsor a health plan for their retired workers and beneficiaries according to the acquisition agreements signed by ITAÚ, under the terms and conditions established. During the period, contributions totaled R\$ 2,587 (R\$ 2,156 from January 1 to June 30, 2001). The contribution rate increases with the beneficiary's age.

## c) Net amount of assets and actuarial liabilities of the Benefit Plans:

The assets and actuarial liabilities at June 30, 2002, calculated in conformity with the concepts established by CVM Deliberation 371/2000, regarding the revision of actuarial models and assumptions in relation to those defined in the Notes of the plans, were not recorded by the sponsors and are summarized below:

	06.30.2002
Net assets of the plans	5,271,922
Actuarial liabilities	(5,061,517)
Surplus	<u>210,405</u>

Main assumptions used in the actuarial assessment:

Discount rate	10.24% a.a.
Return rate expected for the assets	12.32% a.a.
Future salary growth	8.16% a.a.
Growth of the pension fund and social security benefits	4.00% a.a.
Inflation	4.00% a.a.
Actuarial method	Projected unit credit (1)

(1) Using the Projected Unit Credit actuarial method, the mathematical reserve is determined by the current projected benefit amount multiplied by the ratio between the time of service in the company at the assessment date and the time of service that will be reached at the date when the benefit is granted. The cost is determined taking into account the current projected benefit amount distributed along the years each participant is employed.

In addition to the reserves kept by the plans, the sponsors have provisions in the amount of R\$ 59,481 to cover insufficient actuarial reserves.



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## Note 13 - Additional Information

(In Thousands of Reais)

- a) Despite the low risk exposure due to non-physical concentration of its assets, the policy of ITAÚSA and its subsidiary companies is to assure its values and assets at amounts considered sufficient to cover eventual claims (fire and robbery).
- b) The balances in Reais, connected to foreign currency were:

	06.30.2002	06.30.2001
Permanent foreign investments	5,686,152	4,581,109
Net amount of assets and liabilities indexed in foreign currency, including derivatives.	(1,501,421)	(178,052)
Net foreign exchange position	4,184,731	4,403,057

- c) The amount of R\$ 1,212,280 (R\$ 898,921 from January 1 to June 30, 2001) was withheld or provisioned in ITAÚSA CONSOLIDATED related to taxes and contributions on income, revenues and salaries. Additionally, the amount of R\$ 2,063,002 (R\$ 1,719,089 from January 1 to June 30, 2001) was retained from customers and paid on financial intermediation transactions.

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# Itaúsa - Investimentos Itaú S.A.

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## Note 14 - Consolidated Statement of Cash Flow

(In Thousands of Reals)

	1º.01 to 06.30.2002	1º.01 to 06.30.2001
<b>Operating activities</b>		
Net income	595,422	852,111
Valuation allowance for securities	-	55,311
Allowance for loan losses	946,510	613,675
Variation in technical provisions of insurance, private pension and capitalization	494,514	413,745
Deferred income tax assets	(104,969)	(178,930)
Allowance for devaluation of assets	-	9,522
Amortization of goodwill	78,258	3,355
Equity in the results of subsidiary and associated companies	(198,352)	(21,361)
Gain/loss on translation of currency	175,327	(1,917)
Allowance for losses with other investments	2,212	2,776
Depreciation and amortization	314,345	282,817
Minority interest	588,840	802,648
<b>Changes in assets and liabilities</b>		
(Increase) Decrease in short-term interbank deposits	(3,406,430)	1,339,347
(Increase) Decrease in securities	(436,465)	924,075
(Increase) Decrease in interbank accounts and subsidiary companies	522,972	(367,002)
Increase in loan operations	(1,363,909)	(3,181,166)
(Increase) Decrease in rentals and leasings	131,515	(337,335)



Increase in inventories	(68,940)	(84,012)
(Increase) Decrease in accounts and trade accounts receivable	1,713,339	(1,821,895)
(Increase) Decrease in prepaid expenses	(67,308)	70,044
Increase in technical provisions of insurance, pension plans and capitalization	(259,626)	(310,980)
(Decrease) Increase in accounts payable and other liabilities	(1,403,592)	987,458
Decrease in deferred income	(19,777)	(5,044)
<b>Net cash provided by (used in) operating activities</b>	<b>(1,766,114)</b>	<b>47,242</b>
<b>Investment activities</b>		
Sale of investment	12,111	15,237
Sale of fixed assets	144,829	54,413
Decrease in deferred charges	8,258	770
Acquisition of investments	(204,385)	(23,251)
Goodwill on the acquisition of investments	(102,646)	(3,355)
Purchase of property and equipment and forest resources	(535,979)	(382,235)
Deferred charges	(66,240)	(39,520)
Change in minority interest	(142,726)	(201,290)
<b>Net cash provided by (used in) investing activities</b>	<b>(886,778)</b>	<b>(579,231)</b>
<b>Financing activities</b>		
Increase in funds borrowed by subsidiary companies - foreign currencies	1,265,214	2,560,651
Increase in funds borrowed by subsidiary companies - local currency	300,304	28,842
Increase (Decrease) in funds borrowed by subsidiary companies - open market	226,378	(1,724,167)
Increase in derivative financial instruments	654,370	-
Decrease in loan payable - foreign currencies	(64,566)	(129,327)
Increase in loan payable - local currency	76,716	81,057
Increase in subordinated debt payable	453,985	-
Dividends paid to minority interest	(100,449)	(210,928)

Capital increase	148,825	151,939
Subscription of shares	-	379
Prior years' adjustment to securities and derivatives - financial subsidiaries	8,874	-
Change of market value in the period - financial subsidiaries	3,289	-
Interest on own capital paid and/or provisioned	(167,448)	(226,856)
<b>Net cash provided by (used for) financing activities</b>	<b>2,805,492</b>	<b>531,590</b>
<b>Increase in cash and cash equivalents, net</b>	<b>152,600</b>	<b>(399)</b>
Cash and cash equivalents at the beginning of the period	1,958,408	1,664,248
Cash and cash equivalents at the end of the period	2,111,008	1,663,849
<b>Increase in cash and cash equivalents, net</b>	<b>152,600</b>	<b>(399)</b>



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Consolidated Financial Statements at June 30, 2002 and 2001

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## Report of Independent Accountants on the Limited Reviews

### Report of Independent Accountants on the Limited Reviews

August 9, 2002

To the Board of Directors and Stockholders  
Itaúsa - Investimentos Itaú S.A.

1. We have carried out limited reviews of the accounting information of Itaúsa - Investimentos Itaú S.A. and subsidiary companies related to the six-month periods ended June 30, 2002 and 2001, including the consolidated balance sheets and the corresponding consolidated statements of operations, prepared in conformity with Brazilian generally accepted accounting principles. This information is the responsibility of Company management.
2. Our reviews were performed in accordance with specific standards established by the IBRACON - Institute of Independent Auditors of Brazil, in conjunction with the Federal Accounting Council and mainly comprised: (a) inquiries of and discussions with management responsible for the accounting, financial and operating areas of the Company and its subsidiary companies with regard to the main policies adopted for the preparation of the financial statements and (b) a review of the significant information and of subsequent events which have, or could have, significant effects on the financial position and operations of the Company and its subsidiaries.
3. Based on our limited reviews, we are not aware of any significant adjustments which should be made to the aforementioned financial information for it to be stated in conformity with Brazilian generally accepted accounting principles.

PricewaterhouseCoopers  
Auditores Independentes  
CRC 2SP000160/O-5

Ricardo Baldin  
Partner  
Contador CRC 1SP110374/O-0