
Annual

Report

2007

Annual Report 2007

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Company profile

Our history

In 1943, the banker Gastão Vidigal, in partnership with the Polish industrialist Isydor Kleinberger, acquired the Fábrica Nacional de Tambores in an auction. The company, which produced steel drums, gas cylinders and refrigerators, had been confiscated from its German owners in consequence of the Second World War. This was the beginning of Confab's history in the São Paulo district of Pompéia.

Gastão Vidigal placed his son, Carlos Bueno Vidigal in charge of Confab, and it was he who ensured the consolidation of the company, imbuing it with a sense of seriousness, responsibility, transparency and respect for its employees, combined with a constant drive to improve the quality of products and services and invest in technology and human capital.

With the creation of Petrobras in 1953 and the development of the petroleum refining industry in Brazil, Confab had the opportunity to expand its business, by manufacturing equipment for the new industry.

Growing with Brazil

In 1961, Confab began to manufacture welded steel pipes. It was at this time that the company closed its first large-scale manufacturing contract: the supply of tubular stakes for the construction of Usiminas. In the 1970's, Confab was split into two units: pipes and equipment, and two plants were built in Pindamonhangaba, 160 km from São Paulo. The company started supplying the petroleum & gas, petrochemical, mining, steel, cellulose & paper and sanitation industries, as well as nuclear power plants.

It was during this period, with the business now under the command of Roberto Caiuby Vidigal, that Confab realized that it was time to expand into new markets. The company played a major role in the implementation of the petrochemical industry, aimed at making Brazil a self-sufficient oil producer, as well as in the expansion of Brazil's steel industry.

Exports and going public: new challenges

Confab began to gain global recognition in the beginning of the 1980's, when, in partnership with Cosipa, it won a competitive bid to construct part of a 2,000 km oil pipeline from Texas to California, for All American Pipeline, in the United States. That was the period when the company expanded its commercial network from Singapore and Teheran to Houston, Texas.

It was also during the 1980's that the Board of Directors decided to go public, considering this measure essential to the company's future. 60% of its shares were offered to ensure growth, diversification and external funding. The funds raised – and the confidence of shareholders – provided the fuel for the company to continue its activities, in addition to bringing on board a large number of shareholders.

Product Engineering

- ▶ Focussing on quality and best results for its clients, the Product Engineering team holds bimonthly meetings with its steel suppliers, in order to coordinate information about on-going projects and future developments.



Tenaris: global leader

In 1993, as part of the company's growth and globalization strategies, 30% of Confab's shares were swapped with Siat, a welded steel pipe manufacturer belonging to the Techint Organization, which had similar values and principles. The company shares remained listed on the São Paulo Stock Exchange (Bovespa), with 60% of its capital in the hands of Brazilian shareholders.

In order to add value and increase the range of products offered to customers, in 1998 Confab formed a joint venture with the Argentine company Soco-Ril. The partnership was sealed with the construction of a center of excellence in pipe coatings – today known as Socotherm Brasil, also located in Pindamonhangaba.

In 1999, the Techint Organization acquired a controlling share in Confab, and Roberto Vidigal was invited to stay on as president of the company.

In 2001, the Tenaris brand – which originally denoted a strategic alliance involving eight welded and seamless steel pipe producers strategically located around the globe – came into existence. The following year, the company signed some of the biggest export contracts in its history for supply of pipes to the Camisea project in Peru, OCP in Ecuador, Gasryg in Bolivia and Carina & Aires in Argentina.

Tenaris is the world's leading producer of steel pipes and supplier of drilling, completion and production services for oil and gas wells. It is also leader

in the production of tubular products and services for processing and energy generating plants for specialized industrial and automotive applications. With an annual production capacity of 6 million tons of pipes, Tenaris currently has 23,500 employees, production centers in 15 countries and a distribution and service network in over 25 countries. Furthermore, it also has advanced research and development centers in five countries.

TenarisConfab and Confab Equipamentos

In Brazil, after merging with Tenaris, the Confab divisions were renamed: TenarisConfab and Confab Equipamentos.

TenarisConfab is leader in the production and supply of welded steel tubes to the Brazilian energy industry and the leading exporter of these products to Latin America. Confab Equipamentos produces heavy metallic structures utilized in chemical, petrochemical, steel, energy, steam generation, oil and gas, cellulose, infrastructure, engineering, and construction industries, and storage tanks for gas stations.

With the mission of complementing its products with an increasing number of services, TenarisConfab maintains a base in Rio das Ostras (RJ) to attend the clients from the oil fields in Campos, Santos and Espírito Santo. The company offers other services such as administration of customers' inventories to ensure the just-in-time supply of pipes for oil wells.

For four years, the company has produced sucker rods and accessories for the onshore industry. To meet clients' demands for special coatings, the venture has reinforced Tenaris' global partnership with Socotherm.

28 years on the São Paulo stock exchange

In 2003, TenarisConfab adhered to Level 1 Corporate Governance, confirming the commitment to its investors that the company had striven to maintain since its shares were first traded on the stock market. By adopting some standards in addition to the legal requirements, the select group of companies of which Confab is part today aims solely and exclusively at providing greater security to its investors.

The share split in 2004 was meant to provide more liquidity for Confab's shares and once again the market responded positively to the valorization of the company's securities.

In 2005, the company celebrated 25 years on the São Paulo Stock Exchange. It also received the APIMEC SP Seal for Assiduity, awarded by the Capital Markets Investments Analysts and Professionals Association, for five consecutive years of activity in the institution.

Sustained by its transparent and responsible performance, over the years Confab has earned the trust of the market and its shareholders.

Tenaris' Numbers

18

Pipe
Production
Centers

4

Commercial
Research and
Development
Centers

37

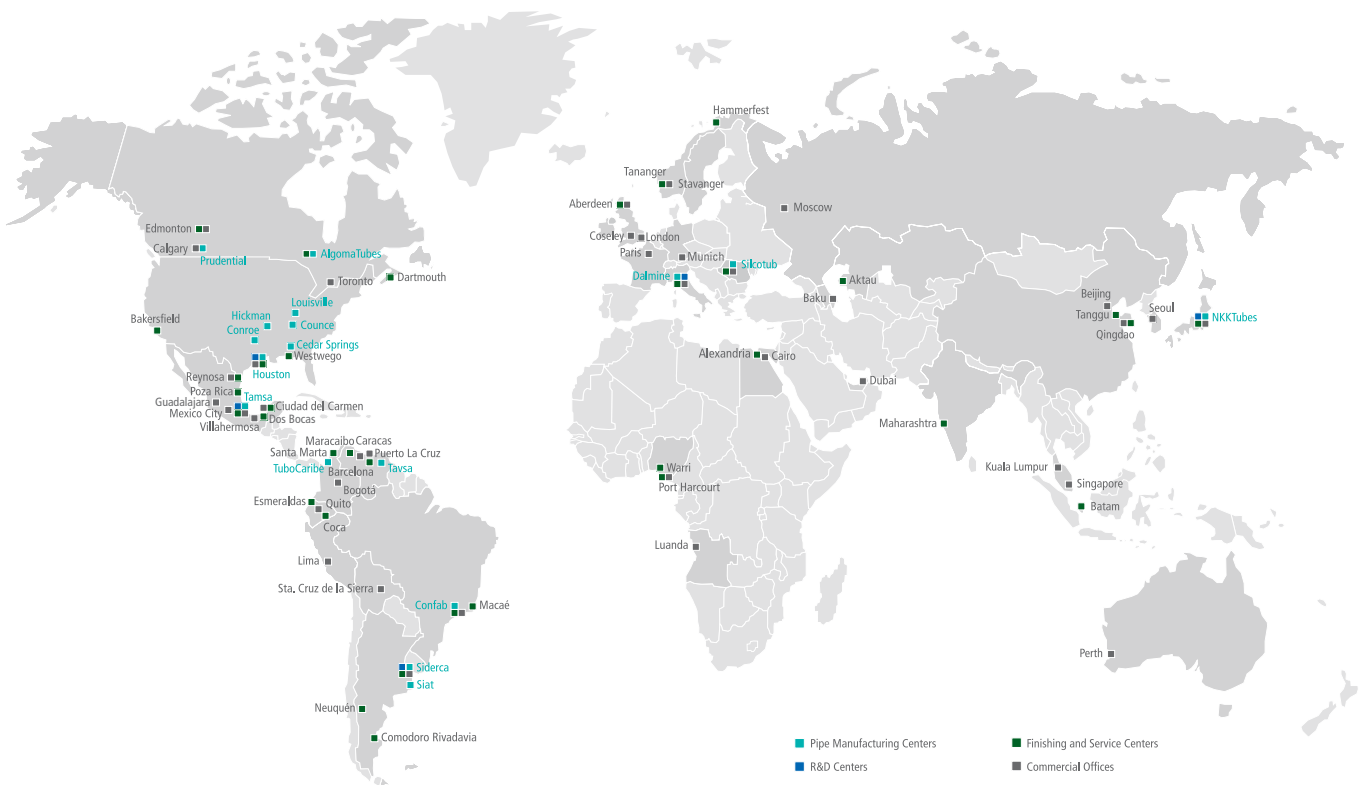
Product
Finalization and
Service Centers

46

Offices

23.500

Employees



Highlights



	2007	2006
PIPE DIVISION (IN TONS)		
Domestic sales	319,999	111,683
Export sales	107,745	130,883
Total sales	427,744	242,566
Total production	414,344	284,441
EQUIPMENT DIVISION (IN MAN/HOURS)		
Level of activity	588,161	503,468
HEADCOUNT (NUMBER OF EMPLOYEES)		
	2,383	2,361
CONSOLIDATED FINANCIAL INFORMATION*		
Net operating revenues	1,808,780	1,030,767
Net earnings	249,114	87,824
Net earnings per share in R\$	0.7052	0.2524
Gross margin	29.4%	28.6%
EBITDA	400,807	167,663
EBITDA margin	22.2%	16.3%
Current assets	1,340,191	1,149,029
Long term receivables	74,719	59,830
Permanent assets	300,303	327,819
Total assets	1,715,213	1,536,678
Current liabilities	760.213	722.514
Long term liabilities	87.750	95.151
Minority interest	–	18.877
Shareholders' equity **	867.250	700.136
Total equity and liabilities	1.715.213	1.536.678
DIVIDENDS / INTEREST ON OWNERS' EQUITY ***	82.000	25.315
OTHER INDICATORS		
PORTFOLIO AT THE END OF THE YEAR		
Pipe Business	1.102.441	1.349.700
Equipment Business	310.659	233.556
Total backlog	1.413.100	1.583.256

(*) Amount expressed in thousand of reais.

(**) Amount expressed in thousand of reais at Shareholders' Meeting on April 16, 2008.

(***) To be confirmed at Shareholders' Meeting on April 16, 2008.

Message to the shareholders

Dear shareholders,

In the year of 2007 we achieved important victories which reinforce our team's determination to overcome challenges. Several of our productive areas celebrated new safety records of zero-accident days. Some of these areas have not had an accident in over a year.

In research and development, we have successfully concluded the tests for the production of X80 steel grade pipes in the linepipe market and we have advanced in the X100 steel grade pipe tests. We are responding to the market's demand for more resistant pipes, which places us within a select group of global suppliers.

We have also registered unprecedented consolidated sales of R\$ 1.8 billion –a number 75% superior to the R\$ 1.0 billion in 2006 – which resulted in a consolidated net profit of R\$ 249.1 million (R\$ 87.8 million in 2006). This result was made possible by the important investments made in Brazil, highlighting the oil and gas sectors, which had a positive impact on the company's business.

Pipe Business revenues were especially benefitted by the expansion of the domestic market, which corresponded to 75% of the volume invoiced in 2007. The growing demand in Brazil for natural gas, notably in the industrial sector, has brought new investments to increase the capacity of gas transport and distribution. This has caused a significant increase in sales in the Pipe Business, highlighting GASCAC, a gas line which is part of the GASENE project. Our performance in the delivery of pipes for the PLANGAS project was also significant and will influence the company's economic performance in 2008.

The PLANGAS and the Mineral Duct Minas-Rio sales played a fundamental role for the Pipe Business at the end of 2007: R\$ 1.1 billion (the previous year had been R\$ 1.3 billion). Petrobras' future projects, aimed at increasing national production of oil and gas, and the recent discovery of new oil fields have led us to foresee a fertile scenario for our products.

In the exportation market, the highlight in 2007 was the supply of pipes for the expansion of Argentina's north and south gasline transport systems. In 2008, in spite of the devaluation of the dollar and the increase in the price of steel, the scenario remains favorable for the company.

Invoicing in the Equipment Business registered an increase of 59% compared to the previous year. This significant increase also resulted from local demand, with sales mainly for the petroleum sector, which ordered storage spheres, reactors and furnaces. The results were also influenced by the completion of the Black Liquor Evaporation System in Aracruz and Alunorte's Alumina Precipitation System.

In this business, we concluded the year of 2007 with a portfolio of R\$ 311 million (the previous year was R\$ 234 million), mainly made up of projects in the petroleum sector. Sales forecasts are favorable in the oil refinery sector, due to modernization investments – especially those adopted by Petrobrás in several of its refineries.

In the petrochemical sector, several investment plans are being developed to be implemented in the short and medium term in São Paulo, Bahia, Rio de Janeiro and Rio Grande do Sul. We anticipate great business opportunities with the acquisition of equipment for the Petrochemical Complex in Rio de Janeiro (COMPERJ).

In the medium term, the steel-making and mining sectors should continue to demand equipment for new reactors, plants and ports, aimed at the external market. The same should happen in the cellulose industry as a result of future investments.

We are also alert to business opportunities with cogenerator steam boiler power for the alcohol and biodiesel sectors, an extremely promising market in the near future. In the energy sector, it is worthy to note the reactivation of equipment supply contracts for the nuclear power plant Angra 3.

In summary, there are several external factors which support our optimism in relation to our company's perspectives for 2008.

We have many reasons to believe that we will make competent use of the opportunities which may arise. On one hand, our team has demonstrated the capacity to deal with challenges with professionalism and dedication. On the other hand, we count on the support and trust of our clients, suppliers and shareholders. To all, our most sincere thanks.



Roberto Caiuby Vidigal
President of the Board



► Our corporative university creates a common culture, by integrating and aligning the knowledge of Tenaris' processes and procedures around the world.

TenarisUniversity offers learning and development opportunities to its collaborators. More than 152 thousand hours of training sessions were carried out in 2007.



Management report

Operating Performance

In 2007 the company obtained an unprecedented consolidated invoicing level of R\$ 1.8 billion (R\$ 1.0 billion in 2006), generating a consolidated net profit of R\$ 249.1 million (R\$ 87.8 million in 2006).

This outstanding invoicing was made possible due to investments in Brazil, mainly in the petroleum and gas sectors, with a demand which favored both businesses of the company.

The revenue of the Pipe Business was boosted mainly by the expansion of the domestic market. In the industrial sector in Brazil, the demand for natural gas maintained its upward curve, generating new investments in the transport and distribution capacity of this product.

The revenue for the Equipment Business presented a significant increase also as a result of a demanding local market. This has generated sales, mainly in the petroleum sector, with products such as storage spheres, reactors and furnaces.

Revenues

Confab Industrial S.A and its subsidiaries recorded net operating revenues of R\$ 1,8 billion in 2007, 75% more than in 2006. This increase was mainly due to a significant increase in sales in the Pipe Business, especially in the domestic market, highlighting the GASCAC project. Equipment Business registered a 59% increase in relation to the previous year, with greater representation in the petroleum, steel-making and metallurgy segments.

Consolidated Results

In 2007 the company recorded a net profit of R\$ 249.1 million, compared with R\$ 87.8 million in 2006. Earnings per share were R\$ 0.7052 in 2007, against R\$ 0.2524 in 2006.

This result is composed of:

- Net earnings reached the figure of R\$ 1.8 billion in 2007. Due to the greater participation in domestic market sales, the consolidated gross margin was 29,4%, slightly superior to 2006, which was 28.6%.

- Expenditures for sales, general and administrative expenses in 2007 registered an increase of 17% against a 75% increase in net earnings. Consequently, these expenditures, which represented 14% of the earnings in 2006, represented only 9% in 2007.
- The remuneration and expenses for administrators totalled R\$ 7.1 million (R\$ 7.2 million in 2006).
- Other operational expenditures of R\$ 4.8 million (5.8 million in 2006) were accounted for, mainly because of the provision for emergencies with law suits, partially compensated by cases won in tax litigations.
- The equity equivalence results showed a profit of R\$ 3.8 million, compared to the 0.6 million loss registered in 2006. Confab Industrial S.A. holds stock in SIAT S.A. (30%), an Argentinean welded steel pipe manufacturer, and in TenarisConfab Hastes de Bombeio S.A. (49%), a company specialized in the production and sale of sucker rods and other materials for the petroleum and petrochemical segments.

SIAT's participation in Company results represented a loss of R\$ 0.5 million in 2007 (R\$ 2.2 million in 2006) due to a positive operational result of R\$ 9.3 million and a negative exchange rate result of R\$ 9.8 million, because of the devaluation of the Argentinean Peso in relation to the Brazilian Real. Activity levels were higher than those registered in 2006, mainly because of the delivery of products for the expansion of Argentina's north and south gasoline networks.

In 2007, TenarisConfab Hastes de Bombeio's participation represented a profit of R\$ 4.3 million, compared to the R\$ 1.6 million in 2006. This has

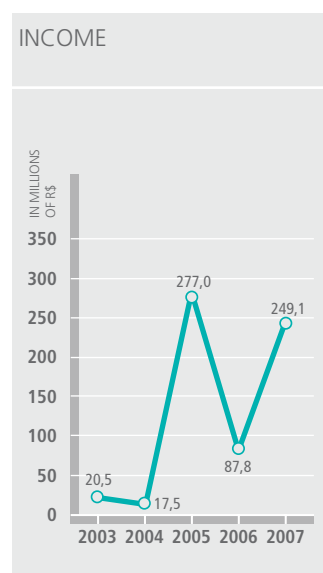
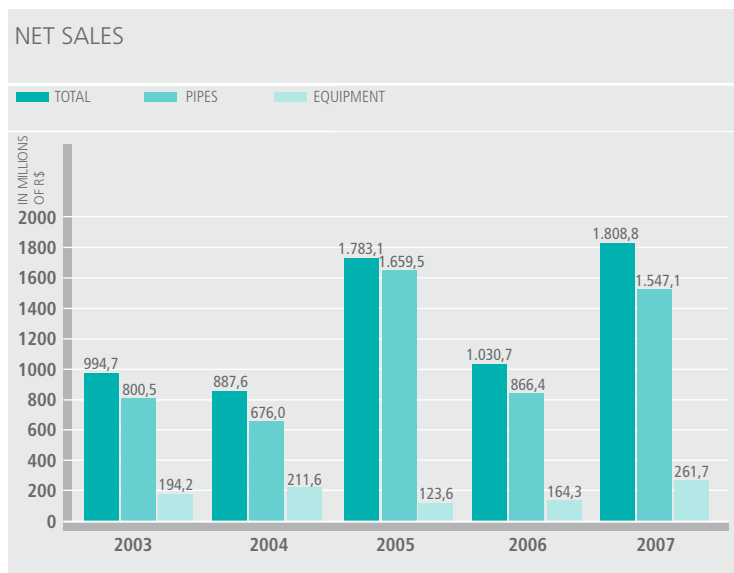
strengthened its operations for the supply of sucker rods to the petroleum industry, especially to Petrobrás.

The net financial income in 2007 showed an expense of R\$ 17.0 million (R\$ 14.2 in 2006) equivalent to 0.9% of net revenues (1.4% in 2006). The breakdown of these expenses follows: I) net interest from asset and liability operations showed an income of R\$ 36.3 million in 2007 and an income of R\$ 11.7 million in 2006; II) exchange variation and forwards recorded a net expense of R\$ 41.6 million in 2007 against R\$ 18.9 million in 2006; III) CPMF and other taxes on financial income of R\$ 10.6 million in 2007 and R\$ 8.4 million in 2006.

Non-operational results for 2007 registered profits of R\$26.9million, mainly due to the sale of property in Barueri (SP), partially compensated by the elimination of the assets of the coating plant in Ubu.

EBITDA

EBITDA is not a measure adopted in Brazilian accounting practice, but our management uses it to measure our operational performance. Since it does not have a standardized meaning, our definition of EBITDA may not be comparable with adjusted EBITDA as defined by other companies.



The EBITDA result (Earnings before Interest, Taxes, Depreciation and Amortization) was R\$ 400.8 million (R\$ 167.6 million in 2006), broken down as follows:

	R\$ millions	
	2007	2006
Operating Income	336.0	120.8
Equity Equivalence	(3.8)	0.5
Financial Income	(41.4)	(21.8)
Financial Expenses	58.4	36.0
Depreciations and Amortizations	34.4	34.1
Profit share employees	(9.7)	(2.0)
Non Operational Expenses	26.9	–
EBITDA	400.8	167.6

Debt / Net Cash Flow

The total financial debt on December 31, 2007 was R\$36.5million, of which 32% was short term and 68% long term.

At the end of the period, net cash flow (quick assets minus loans and short term bank financing) totalled R\$418 million, influenced by client advances received during the period on projects in portfolio. Of the R\$418 million, R\$385 million are invested in US\$.

Investments

During the year the Company invested R\$ 26.6 million (in 2006, 45.3 million), mainly in expanding and updating plants, updating technologies to improve quality, automation, productivity and competitiveness.

Corporate Governance

Since 2003, the Company has adhered to Level 1 of Corporate Governance of the Bovespa Stock Exchange, which provides greater transparency and reliability for our stockholders.

Market Value

The prices of Company preferred shares (CNFB4), in 2007 followed the upward trend of the Bovespa Index, closing the year at R\$6.06 per share, an increase of 22% (Ibovespa grew 44% in this period). In 2006, the CNFB4 increased 61%, compared to 33% of the Ibovespa. The market value of the company, estimated on preferred share price at the end of 2007, was R\$2.1 billion.

Dividends and Interest on Investment

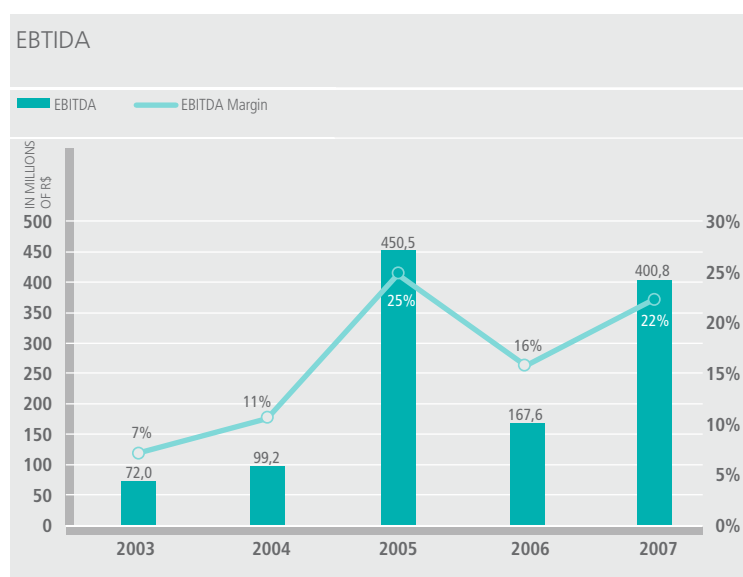
The company distributed interest on owners' equity in a total of R\$44.3 million in anticipation of a mandatory minimum dividend for fiscal year 2007. In addition, at the General Assembly to be held on April 16, 2008, a proposal to distribute additional dividends in the amount of R\$37.7 million, at a date yet to be determined. R\$21.5 million were reserved on December 31, 2007 to comply with the mandatory minimum dividend.

Share Repurchase Program

On February 26, 2008 the Board of Directors approved a repurchase program for preferred shares of the Company to keep in the treasury for future cancellation or disposal, with no reduction of capital stock. This program is limited to the acquisition of no more than 10,700,000 preferred shares and will be in effect for one year as of February 28, 2008.

Risk management and Internal Controls

The company uses a risk management system which provides an adequate degree of security on operations. Internal controls are tested and analysed by internal and external audits, in order to guarantee their reliability.



External audits

The Company's policy with regard to hiring services not related to external auditing from its independent auditors is intended to preserve the independence of the external auditor, in accordance with Brazilian and international rules.

During 2007 we hired our external auditors for tax consulting services in the direct tax area, for less than a year, in the amount of R\$40,608.51, equivalent to 8% of the yearly contract for independent audit services.

Social Action and Human Resources

Environment, safety and occupational health received investments of R\$5.9 million, including amounts for the implantation of the Integrated

Management System (Sistema de Gestão Integrado – SGI) which deals with ISO 14001 and OHSAS 18001 Certifications.

Investments for courses for employees reached over R\$1.7 million, totalling more than 152,000 hours of training.

About R\$0.5 million was invested in the modern installations of a new 250m² infirmary and another R\$8.1 million in medical and dental assistance. Meals served to employees in the restaurants totalled R\$4.3 million and transportation R\$3.1, besides another R\$0.6 million in diverse benefits.

We also maintained investments relative to our policy of social responsibility (See page 30, Social Development).

Service Base



- ▶ The new base in the city of Rio das Ostras (RJ) improves logistics and just-in-time services to clients with operations in the Campos, Santos and Espírito Santos oil fields.



Income Statement

(amounts expressed in thousands of reais, except for earnings per share)

	2007	2006	2005	2004	2003
INCOME STATEMENT – CONSOLIDATED					
Net operating revenues	1,808,780	1,030,767	1,783,105	887,626	994,756
Costs and operating expenses	(1,459,634)	(895,184)	(1,346,818)	(822,908)	(948,879)
Operating income before financial and other income	349,146	135,583	436,287	64,718	45,877
Financial results	(16,983)	(14,201)	(11,688)	(24,165)	(10,940)
Earnings in associates	3,783	(541)	3,182	(6,146)	(15,409)
Interest Shares / Statutory Contributions and non-operating results	17,276	(2,161)	(23,193)	(4,734)	(5,242)
Income Tax and Social Contribution	(104,108)	(30,856)	(127,575)	(12,154)	6,221
Net profit for year	249,114	87,824	277,013	17,519	20,507
FINANCIAL POSITION					
Net profit per share in R\$	0,7052	0,2524	0,8517	0,0539	0,1892
Total shares	353,235,587	348,015,357	325,247,997	325,247,997	108,415,999
EBITDA (profit before Interest, Taxes, Depreciation and Amortization)	400,807	167,654	450,515	99,225	72,018
Working capital	579,978	436,995	411,268	217,433	175,166
Total assets	1,715,213	1,544,423	1,126,533	1,213,594	1,118,811
Long term debt	38,781	56,710	64,251	78,059	50,417
Shareholders' equity	867,250	700,136	637,627	426,401	430,478

Global Trainee Program

- ▶ In 2007, 21 Confab trainees concluded the GTP. A strategic innovation that strives to improve the development of young talents.



Pipes

In 2007, welded tubular product sales totalled 427.8 thousand tons, a 76.3% increase compared with the 242.6 thousand tons sold in 2006.

The domestic market accounted for the major part of sales in 2007, with 75% of the total.

Pipes Business had net revenues of R\$ 1.5 billion in 2007, an increase of 78.6% compared to 2006 (R\$ 866.4 million).

During 2007, the main factors affecting demand were:

- Invoicing of the gasduct GASCAC, part of Petrobrás' GASENE Project.

Sold in September of 2006, the gasduct unites Cacimbas, in the state of Espírito Santo and Catu, in the state of Bahia;

- Partial invoicing of the purchase order for ducts for the increase in transport capacity of the north and south Argentinean gasducts;

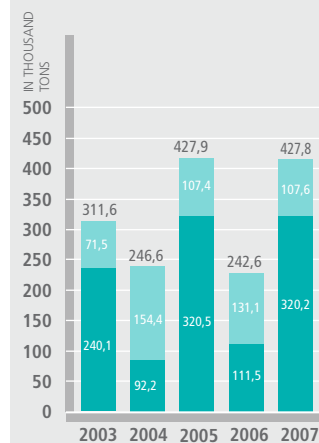
- Partial invoicing of purchase orders for the Petrobrás PLANGAS gasducts, sold by the company in April of 2007. This project will increase the offer of gas in Southeastern Brazil and one of the main items is the construction of gasducts for transportation of the product. This project started billing in the last quarter of 2007 and will also influence the economic activity of the company in 2008.

Business Prospects

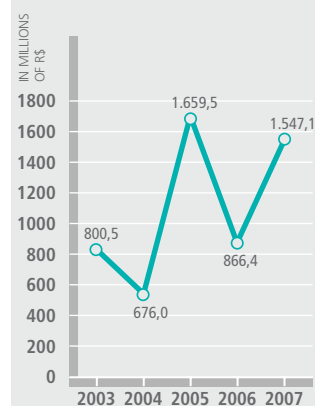
We closed the year of 2007 with a significant level of projects in portfolio, R\$1.1 billion (previous year was R\$1.3 billion), mainly as a consequence of the sales of PLANGAS and the mineralduct Minas-Rio, of the MMX company, obtained during 2007.

It is believed that demand for natural gas and oil in Brazil and Argentina will continue to grow, sustained mainly by economic growth and the growing participation of natural gas in the Brazilian energy grid. The investments projected by Petrobrás to increase national production of gas and oil and the recent announcements of new discoveries

PIPES SALES



PIPES NET INCOME



of national oil and gas, as well as the record international prices of oil, have demonstrated a scenario of demand that is promising for company products.

Boosted by current prices, the demand for products in the OCTG (Oil Country Tubular Goods) market, used in petroleum wells, has stimulated exploration projects and presents a growing segment.

In the export markets, in spite of the competitiveness of the Company having suffered due to the desvalorization of the dollar and the increase in the price of steel, the scenario continues to be favorable, especially in South América.

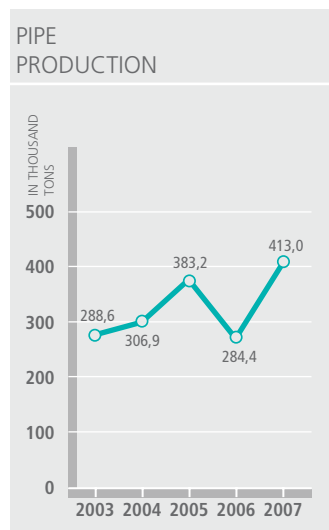
Production

Accompanying the increase in sales, Confab's pipe production totaled 413 thousand tons in 2007, a 45% increase compared with the 284 thousand tons produced in 2006.

Several safety records were broken during 2007: 152 zero-accident days and 314 days without lost time accidents, and also a 0.6% frequency of lost time accidents in 2007, a record never before achieved by the Company.

Several challenges were surpassed in the production of SAW pipes, such as the Mexilhão Offshore Project, with special welding requirements and in the production of Plangas tubes with a 38" external diameter, heavy tubes with high tolerance.

In December, Factory 4(SAW production) underwent a major revamping – increasing quality and productivity – with investments of R\$4.2 million, calling attention to the Revamping of the “O” Press and the Expansor, as well as an automatic system of measuring extremities using robots.



Confab Equipamentos

► Industrial equipment operations, which include manufacture and assembly, represented a nominal increase in production levels to 588,000 man-hours in 2007.



Equipments

There was an increase in the nominal production level for industrial equipment operations, which include manufacture and assembly, from 503,000 man hours in 2006 to 588,000 man hours in 2007, due basically to the different types of products supplied during the year.

Net revenues of the equipment business in 2007 were R\$ 261.7 million, a 59% increase compared with the previous year (R\$ 164.3 million).

The main contracts contributing to revenues in 2007 were:

- Vessels and reactors (drums) for coke ECOVAP/Petrobras (REVAP and RPBC).
- Black Liquor Evaporation System and GNC system, a complement to Aracruz Celulose project in Aracruz, ES.
- Boiler FM – Carbocloro/SP
- Alumina precipitation system – Expansion for Alumar/MA.
- Gas storage spheres – Rio Polímeros/RJ and Petrobras (REPAR, REPLAN,

Cacimbas/ES, Barra do Riacho/ES, Belém/PA and São Luiz /MA).

- Reactors and furnaces for Petrobras' refineries.

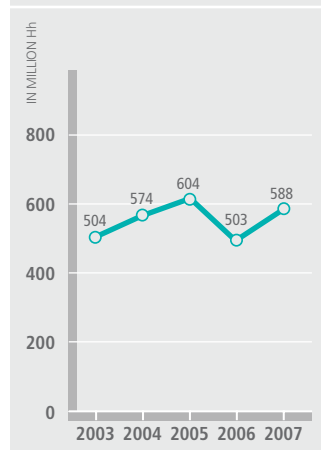
Perspectives

We closed 2007 with a portfolio of R\$311 million (2006 was R\$234 million), mainly made up of oil segment projects.

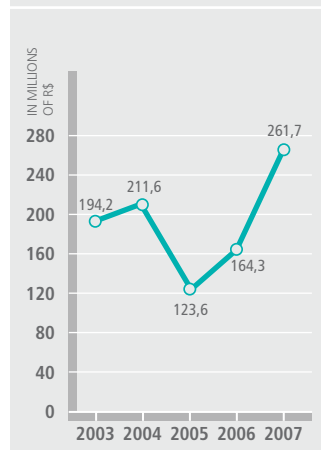
Perspectives for sales are favorable in the oil refinery segment, based on new modernization investments implemented principally by Petrobrás in various refineries.

In the petrochemical segment, a number of investment plans will be coming to fruition in the short and medium term in São Paulo, Bahia, Rio de Janeiro and Rio Grande do Sul. The Petrochemical Complex of Rio de Janeiro (COMPERJ) should begin purchase of equipment, opening great opportunities for the Company.

EQUIPMENT LEVEL OF ACTIVITY



EQUIPMENT NET SALES



Research and Development



► Research and Development successfully finalized tests for the production of tubes with steel grade X80, for use in the linepipe market, and we have made progress in the tests for steel grade X100.



The steel sector will continue to require equipment for new mills to fulfill export orders. Companhia Vale do Rio Doce, ArcelorMittal and Usiminas have already announced new investments.

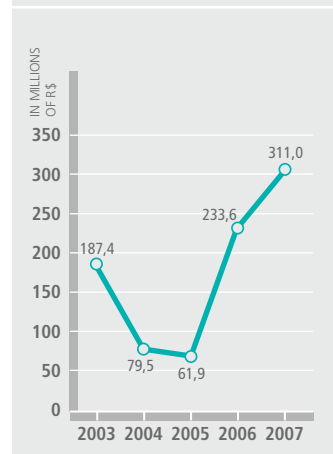
In the mining sector, which has announced a large volume of investments for 2008, Vale will be the main client, followed by Usiminas, the Votorantim Group, MMX and Alcoa.

The biodiesel and alcohol market is extremely promising due to the goal of increasing energy generation in Brazil. Since the demand for ethanol increased because of the growth of the fleet of flex cars and the probable start of exportation of the product, the sugar/alcohol sector should continue to grow in 2008 with large internal and external investments. There are reasonable perspectives for the Company to participate in the supply of equipment for this sector, especially boilers for energy cogeneration.

The national cellulose market is active due to heavy demand for the product from China. There are various studies for investments, with a strong possibility of fulfillment in the next four years (2007 – 2010), especially for new plants for Aracruz (Guaíba/RS), Klabin (Octacílio Costa/SC), Veracel (Eunápolis/BA) and VCP.

The probable reactivation of the Brazilian Nuclear Program, with the start of the construction of the nuclear reactor of Angra 3, will demand a large quantity of special equipment, which Confab Equipamentos is qualified to supply due to the know-how acquired from participation in the Angra I and II projects.

EQUIPMENT BACKLOG



Social Action Report

Confab strives to practice corporate social responsibility through diverse actions that focus on the needs of the public with which the company interacts. To do this, the company seeks to identify the needs of its employees and the communities where its plants are located, in addition to emphasizing respect for the environment.

By assuming this commitment to be socially responsible and, at the same time, doing business in an ethical and transparent way, Confab contributes to sustainable social, economic and environmental development, therefore improving the quality of life of society as a whole.

Human capital – the company's main asset

Confab's present and future depend on the professional and personal development of its employees, who are the company's main asset. The quality of the company's products and services is the result of talents and technologies brought together in a global organizational structure.

Confab's philosophy for human resources is to promote synergies, team work, flexibility and exchange, aimed at meeting the growing demands of an increasingly competitive market.

The company closed the year of 2007 with 2,383 employees.

TenarisUniversity – A common culture

TenarisUniversity was created in order to provide tools for the development and continuous improvement of employee performance. It collects the best practices utilized in Tenaris and disseminates this knowhow through four schools, which offer management and other specific training courses.

The Industrial School curriculum is made up of a series of courses that deal with matters connected with the production of steel pipes. These courses include modules of e-learning and classroom activities, and may be regional or global.

The Commercial School is dedicated to reinforcing the skills of employees in the Supply Chain, Commercial Front End

and Marketing. The School of Finance and Administration is responsible for helping Administrative and Finance teams guarantee that Tenaris attains the highest international levels in financial management, reporting and controls. The School of Management is focussed on developing skills that the employees need to deal with management challenges while attuned to the values and business ethics of the Company.

TenarisUniversity plays a strategic role in the consolidation of a unified culture and in the integration of knowledge and processes in different regions where the company is present, through global presence and strong brand identification to corporate identity.

In August of 2007 the Industrial School held an unprecedented training course specifically for Welded Products and Processes, in which 43 employees from the plants in Brazil, Argentina, Canada, Colombia, United States, Italy and Venezuela participated. The following month the first International Orientation was held, a global activity offered by the School of Management. The focus was on welded and dealt with production, quality and safety.

In 2007 the company invested more than R\$1.7million in technical, management, IT, languages and post graduation courses. More than 152,000 hours of training were realized. The high standards of these activities were guaranteed by the credibility of Confab's partner institutions, such as USP (Universidade de São Paulo), UFRJ (Universidade Federal do Rio de Janeiro), (TWI) The Welding Institute, ABM (Associação Brasileira de Metalurgia e Materiais, FDC (Fundação Don Cabral and FGV (Fundação Getúlio Vargas).

The company continued its partnership with Colégio Objetivo so employees could participate in the courses of the EJA (Youth and Adult Education). Last year, 48 employees started elementary school and high school courses. Besides supplying a quality program, the Company also paid for transportation, meals and school material for the participants.

Global Trainee Program

Confab has an exclusive trainee program, adopted throughout Tenaris. Called the Global Trainee Program (GTP), this is a strategic initiative to develop young talents. The main features of the program are: rotation of the Global Trainees (GT's) through at least two company areas, formal assessment with pre-established targets (which are related to departmental targets), individual follow-up throughout the program, specific e-learning courses for the GT's specific

area of activity and training packages.

The program also stimulates the global integration of participants. All the Tenaris trainees spend a month together to learn more about the organization's culture and values and other pertinent information.

In 2007, 21 Confab trainees completed the GTP. In the past seven years, 133 young professionals have gone through the program, in which they had contact with the most modern business tendencies. At the moment they are working in their respective areas within Confab or in other Tenaris plants around the world. Another 26 GT's should receive their graduation certificates until the end of 2008.

Relationship with universities

In order to strengthen relations with the universities from which its professionals are recruited, Confab hired 15 interns during the 2007 vacation for its Summer Work Program (known as PRV). In addition to the PRV, the company has a one-year internship program providing opportunities for university students in the human and exact areas.

In 2007, the company continued its Roberto Rocca Education Program (RREP), designed to promote the development of human resources in the Science and Technology areas. One component of the program is to award undergraduate students with scholarships.

The latest group in this program consisted of 38 students, selected among the best engineering students of Universidade Estadual de São Paulo – Guaratinguetá Campus (UNESP-FEG), Escola Politécnica (Poli-USP), FEI, of the Lorena Engineering School (EEL-USP) and Aeronautical Technological Institute (ITA).

The program includes monthly financial support, a quarterly in-company meeting and academic performance follow-up. The selected students have priority in the recruitment of interns and trainees.

Profit share and rewards

The company maintains its Profit Share Program to acknowledge the contribution of employees who fulfill their targets and improve company indicators. In 2007, the company paid approximately R\$ 6.0 million to employees under this scheme.

Environment, safety and occupational health

In order to achieve ever lower accident occurrence rates, Confab continued the OEP program which monitors activities relative to the organization, equipment and employees with regard to accident prevention.. Throughout 2007, the program evolved significantly in the identification and resolution of mistakes which could result in accidents.



- The present and future of the company depend on the personal and professional development of its employees, which are the company's most valuable assets.



Managerial safety meetings and other initiatives have also stimulated proactive measures aimed at eliminating unsafe conditions and attitudes. As a result of such involvement and commitment, several production areas have broken records in the number of zero-accident days; indeed, some areas have had no accidents for over a year. As a result, Confab has a record of outstanding performance in accident reduction among the Tenaris companies.

Environmental preservation has also been the target of important Confab initiatives. 2007 was highlighted by investments in the implantation of a managerial system for environment, safety and occupational health, in order to obtain the ISO 14001 and OHSAS 18001 certificates. In order to do this, the job of plant conformity has been initiated.

The solid and liquid waste reception areas have received improvements that increased their efficiency, such as the PH correction and chlorine dosing station for potable water, infrastructure for the analysis of effluents, a water recirculation system for ultra-sound and hydrostatic tests, and the creation of a scouring basin.

The company has also created a project for water recycling, in accordance with environment legislation, to minimize consumption of this precious resource.

In 2007, Confab invested R\$ 5.9 million in the environment, safety and occupational health area.

Quality of life

Confab has adopted a number of measures to improve its employees' quality of life. In 2007, the company invested R\$500,000 in the construction of modern installations in a new 250 m² infirmary, designed in accordance with the proposal of continued improvement of medical assistance offered to the employees during working hours.

Besides the physical accommodations – seating for eight persons in the reception area, two consulting rooms, rooms for specific purposes (audiometry, physiotherapy, dressings, exams, feminine and masculine repose, pre-selection and administration), coffee room and dressing rooms – the new infirmary is equipped with indispensable equipment for emergency treatment, such as a defibrillator and cardiac monitors, an electrocardiograph, a wrist oxymeter and an infusion pump. There is a room especially prepared for these emergencies, which distinguishes this new infirmary from all the other infirmaries in companies of the Vale do Paraíba.

In the future, physiotherapy equipment, and an audiometry and visual testing (ortho-rather) booth, among other resources, will also be available to improve the comfort and double the care given to the employees. The company invested another R\$200.000 to acquire ambulances for its two plants (Pinda and Moreira Cesar), which guarantee the adequate removal of employees whenever necessary.

Confab also invested R\$8,09 million in medical and dental assistance. Employees

and their legal dependents have a number of options in health plans with differentiated coverage.

The Company also strives to offer a balanced diet at the plant restaurants, which operate on a self-serve basis. In 2007, more than 557,000 meals were served to employees as well as in excess of 259,000 breakfasts at the beginning of each shift. R\$4.3 million were spent on this benefit.

The Company subsidizes part of the transportation costs between its plants and the homes of 1,280 employee/users. Last year R\$3.06 million was spent on this benefit.

Another R\$644,000 were invested in pharmaceutical subsidies, school material, toys, Christmas baskets and layettes for new-borns.

Credit Cooperative

Employees who are members of the Credit Cooperative have access to fast and inexpensive loans. On December 31, 2007, the 1,974 members had a capital of R\$6.6 million. R\$10.9 million were loaned during the year.

Confab Sports Association (Associação Desportiva Classista Confab)

The Confab ADC continues to be an excellent option in leisure and sports activities for employees and their families.

Located on a former farm, Confab's ADC offers ample green areas where

employees and their families can use the athletics track, adult and infantile swimming pools, dressing rooms, playground, barbeque pits, exercise gymnasium, a multi-use sports court, a football field, a five-a-side football court, a reception area and a large common room for events.

Swimming classes, hydrogymnastics, tennis and the exercise gym are available during the entire week, at times which accommodate the shift workers.

Supporting the Community

Confab contributes to the common well-being also through the support of several initiatives of the Pinda Community. The company elected health and education as priorities.

The projects supported by Confab benefit hundreds of people, among children, youth and the elderly. In 2007, Company investments for corporate social responsibility were more than R\$730,000.

Project Pinda in Bloom

Confab increased its activities in the community in October of 2007, when it signed an agreement with the City Hall of Pindamonhangaba, to support the project Pinda in Bloom. The objective of this project is to increase scientific knowledge about the diversity of the Trabijú Municipal Park and to stimulate environmental education.

This Project also integrates the park to other green areas of the county, including squares and traffic circles. Some of these

were adopted by Confab in 2002, when the company accepted the monthly costs of their maintenance. With Pinda in Bloom, these green areas will receive native species and panels showing Trabijú and its natural resources. Located in the Mantiqueira Mountains (Serra da Mantiqueira), in a protected area of the Atlantic Forests (Mata Atlantica), the park is 14 kilometers from Pindamonhangaba. The park is surrounded by 600 rare species of trees, in an area equivalent to 590 football fields. It has a beautiful waterfall and is an area reserved for birds and animals in danger of extinction.

Pinda Race

With Confab's support, the 2007 Pinda Race became one of the largest events ever realized in the region, with more than 3,000 athletes of all ages. The competition involved three tests: 2, 4 and 10 kilometers, plus a 4-kilometer walk. The initiative mobilized the population of the city, who considered sport to be a way to value life quality. Incentive to the educational area was reinforced by awarding the schools with the largest number of participants.

From now on, this will be one of the official activities realized during celebrations of the city's anniversary and will be part of Confab's calendar of events.

Award for Excellence in Education

High school students of municipal, state and private schools received an incentive to dedicate themselves even more to their studies: Confab Award for Excellence in Education. The objective is to stimulate,

Domestic Market

- ▶ Confab's business has benefited mainly from the expansion of the domestic market, which corresponded to 75% of the total volume invoiced in 2007.



distinguish and award students who demonstrate excellent school performance.

In 2007, the schools indicated the 100 students with the highest averages out of 7,000 enrolled in high school in 2006. Each one received a recognition certificate and a monetary award in the amount of R\$1,000. This project will continue in 2008 with the same selection criteria.

Staying off the Streets Project

About 2000 children and teenagers are benefitted from the Staying off the Streets Project. When they are not studying, they dedicate their free hours to educational and cultural activities. Besides street dance classes, aerobics, capoeira, field and court soccer, they receive scholastic reinforcement classes given by specialized professionals. In this way, the Staying off the Streets Project provides healthy entertainment and directs the interest of the young people, taking them off the streets, increasing their self-esteem and contributing to their social inclusion.

In 2007, a partnership between Confab and the Junior Achievement ONG prepared Project teachers to give teenager three courses: “Personal Finance”, “The advantages of remaining in school” and “Our resources”.

Anália Franco Youth Space

More than 400 children and teenagers of poor families habitually visit the Anália Franco Youth Space, where they

participate in various activities to develop their self-esteem as well as many skills. The Space has the mission of transmitting values and attitudes that are compatible with ethical principles and citizenship. Six years ago, Confab helped in the construction of the Space, and has contributed monthly ever since to the cost of the activities there.

For the first time, in 2007, Anália Franco offered, without charge, a university pre-entrance exam course for needy students. The results were excellent: of the 15 students who concluded the course, 14 passed the entrance exams, which represents a 93% success rate.

APAE (Association of Parents and Friends of the Handicapped)

Nationally recognized for its important role in the education of children, teenagers and adults with special needs, the Pinda APAE has received support from Confab for the construction of its multi-sport gymnasium.

The only gymnasium in the Vale do Paraíba adapted to attend this specific group, this gymnasium will permit activities that contribute to the development of motor and cognitive capacities of the APAE students, with positive results for their physical and psychological well-being.

São Vicente de Paulo and Sister Terezinha Homes

Last year Confab continued to support the two old folks' homes in Pindamonhangaba. The two institutions

have received, in the last seven years, approximately R\$344,000. With this amount, the company guarantees a better quality of life, leisure and special care for the elderly.

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Financial statements

December 31, 2007 and 2006

All amounts in thousands of Reais, unless otherwise stated.

Balance sheet

ASSETS	Parent company		Consolidated	
	2007	2006	2007	2006
CURRENT ASSETS				
Cash and banks	26,863	14,828	31,145	48,845
Financial investments (Note 3)	387,506	292,730	398,289	292,730
Accounts receivable (Note 4)	299,116	143,590	302,707	153,635
Inventories (Note 5)	499,878	564,170	490,805	552,180
Receivables from associated parties (Note 11)	1,023	1,364	511	–
Taxes recoverable (Note 6)	93,211	67,576	96,965	84,334
Deferred income tax and social contribution (Note 17a.)	11,107	8,173	13,218	9,709
Prepaid expenses and others	6,066	7,421	6,551	7,596
Total current assets	1,324,770	1,099,852	1,340,191	1,149,029
NON-CURRENT ASSETS				
Long term receivables				
Subsidiaries and associated parties (Note 11)	11,043	10,486	11,027	10,470
Deferred income tax and social contribution (Note 17a.)	12,881	22,366	14,341	23,463
Taxes recoverable (Note 6)	6,117	6,568	13,692	13,666
Legal Deposits	34,091	4,456	34,949	4,679
Property for investment	–	6,894	–	6,894
Other receivables	710	658	710	658
Permanent Assets				
Investments				
Associates (Note 7)	120,858	102,938	54,925	51,141
Other investments	–	–	66	77
Property, plants and equipment (Note 8)	224,445	226,428	240,178	267,899
Intangible (Note 9)	5,133	8,699	5,134	8,702
Total non-current assets	415,278	389,493	375,022	387,649
Total assets	1,740,048	1,489,345	1,715,213	1,536,678

The explanatory notes are an integral part of the financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Parent company		Consolidated	
	2007	2006	2007	2006
CURRENT LIABILITIES				
Suppliers (Note 10)	133,904	161,148	110,602	155,126
Borrowings (Note 12)	11,807	17,650	11,807	25,468
Customer advances (Note 13)	548,804	485,023	552,686	511,395
Taxes and contributions payable	3,790	1,091	5,794	2,220
PAES – Special Installment Plan (Note 14)	3,119	2,974	3,733	3,317
Salaries and related costs	16,645	12,814	18,027	14,978
Employee profit share provision	6,315	2,003	6,770	2,228
Loans – related parties (Note 11)	17,362	13,029	–	–
Dividends and interest payable on own capital	47,369	677	47,880	2,041
Other accounts payable	1,378	4,392	2,914	5,741
Total current liabilities	790,493	700,801	760,213	722,514
NON-CURRENT LIABILITIES				
Long term liabilities				
Deferred income tax and social contribution (Note 17a.)	1,814	2,097	1,814	2,097
Borrowings (Note 12)	24,675	37,805	24,675	37,805
PAES – Special Installment Plan (Note 14)	14,106	16,448	15,451	18,905
Provision for contingencies (Note 15)	41,710	32,058	45,810	36,344
Total non-current liabilities	82,305	88,408	87,750	95,151
MINORITY INTEREST	–	–	–	18,877
TOTAL EQUITY				
Share Capital (Note 16 a.)	347,419	316,419	347,419	316,419
Capital reserve	309	309	309	309
Reevaluation reserve (Note 16 b.)	4,843	5,391	4,843	5,391
Profit reserves	514,679	378,017	514,679	378,017
Total equity	867,250	700,136	867,250	700,136
Total liabilities and equity	1,740,048	1,489,345	1,715,213	1,536,678

The explanatory notes are an integral part of the financial statements.

Income statement

	Parent company		Consolidated	
	2007	2006	2007	2006
GROSS REVENUE	2,056,441	1,098,104	2,148,373	1,206,981
Sales taxes	(314,786)	(159,010)	(339,593)	(176,214)
NET SALES	1,741,655	939,094	1,808,780	1,030,767
Cost of goods and services sold	(1,241,418)	(665,381)	(1,277,271)	(736,236)
Gross profit	500,237	273,713	531,509	294,531
OPERATING EXPENSES				
Selling	(97,498)	(75,757)	(100,313)	(80,092)
Administrative and general	(68,594)	(61,979)	(70,144)	(65,889)
Management fees	(6,440)	(6,468)	(7,107)	(7,156)
Other operational expenses, net (Note 18)	(2,011)	(416)	(4,799)	(5,811)
	(174,543)	(144,620)	(182,363)	(158,948)
OPERATIONAL RESULTS BEFORE EQUITY EQUIVALENCE AND FINANCIAL RESULTS	325,694	129,093	349,146	135,583
Results of equity equivalence (Note 7)	19,123	5,312	3,783	(541)
OPERATING INCOME BEFORE FINANCIAL RESULTS	344,817	134,405	352,929	135,042
Net exchange variation (Note 19)	(30,067)	(14,505)	(33,611)	(14,276)
Financial expenses	(26,012)	(19,770)	(24,809)	(21,680)
Financial income	40,557	20,564	41,437	21,755
	(15,522)	(13,711)	(16,983)	(14,201)
OPERATING INCOME	329,295	120,694	335,946	120,841
Non operating results (Note 20)	29,209	49	26,944	9
PROFIT BEFORE INCOME TAX, SOCIAL CONTRIBUTION, PROFIT SHARE AND MINORITY INTERESTS	358,504	120,743	362,890	120,850
Income tax and social contribution (Note 17b.)	(100,418)	(31,530)	(104,108)	(30,856)
Profit share – employees (Note 21)	(8,972)	(1,389)	(9,668)	(2,045)
Minority interest	–	–	–	(125)
Net income for year	249,114	87,824	249,114	87,824
Net earnings per share – R\$	0,70523	0,25236		

The explanatory notes are an integral part of the financial statements.

Statement of changes in equity

	Capital Reserve			Profit Reserve				Total
	Capital	Investments incentives	Revaluation reserve	Legal reserve	For capital increase	Retention of profits	Accumulated profits	
On December 31, 2005	229,419	309	6,035	44,135	87,000	270,729	–	637,627
Capital increase with retained earnings (Note 16a)	87,000	–	–	–	(87,000)	–	–	–
Reserves for capital increase (Note 16d)	–	–	–	–	31,000	(31,000)	–	–
Revaluation reserves, net of taxes	–	–	(644)	–	–	–	644	–
Net income for year	–	–	–	–	–	–	87,824	87,824
Constitution of reserves (Nota 16e.)	–	–	–	4,391	–	84,077	(88,468)	–
Interest on share capital (R\$ 0,07274 per share) (Note 16 f.)	–	–	–	–	–	(25,315)	–	(25,315)
On December 31, 2006	316,419	309	5,391	48,526	31,000	298,491	–	700,136
Capital increase with retained earnings (Note 16 a.)	31,000	–	–	–	(31,000)	–	–	–
Reserves for capital increase (Note 16d)	–	–	–	–	84,000	(84,000)	–	–
Revaluation reserves, net of taxes	–	–	(548)	–	–	–	548	–
Net income for year	–	–	–	–	–	–	249,114	249,114
Constitution of reserves (Note 16 e.)	–	–	–	12,456	–	237,206	(249,662)	–
Interest on share capital (R\$ 0,12549 per share) (Note 16 f.)	–	–	–	–	–	(44,328)	–	(44,328)
Proposed complementary dividends (R\$ 0,10665 por ação) (Nota 16f.)	–	–	–	–	–	(37,672)	–	(37,672)
On December 31, 2007	347,419	309	4,843	60,982	84,000	369,697	–	867,250

The explanatory notes are an integral part of the financial statements.

Statement of origin and use of resources

	Parent Company		Consolidated	
	2007	2006	2007	2006
ORIGIN OF RESOURCES				
FROM OPERATIONS				
Net income for year	249,114	87,824	249,114	87,824
Expenses (income) not affecting working capital				
Depreciations and amortizations (Note 8 and 9)	31,741	28,483	34,385	34,116
Residuals from assets (Note 8 and 9)	360	800	2,788	839
Residuals from sale of property	6,701	–	6,701	–
Result of equity equivalence (Note 7)	(19,123)	(5,312)	(3,783)	541
Monetary variation and other long-term results	863	1,105	(124)	1,267
Minority Variation	–	–	–	125
Exchange variation in associates abroad	–	–	12	6
Contingencies provision (Note 15)	13,644	3,506	14,852	7,949
	283,300	116,406	303,945	132,667
Effect of change in consolidation criteria – Socotherm Brazil	–	–	2,268	–
GENERATED BY THIRD PARTIES				
Obtention of Borrowings	–	13,091	–	13,091
Dividends from Associates (Note 7)	1,203	1,364	–	–
Total resources provided	284,503	130,861	306,213	145,758

The explanatory notes are an integral part of the financial statements.

	Parent Company		Consolidated	
	2007	2006	2007	2006
RESOURCES USED FOR				
Intangible assets and property, plants and equipment (Note 8 and 9)	26,552	35,602	26,602	45,272
Interest and dividends (Note 16 f.)	82,000	25,315	82,000	26,679
Transfer to short term – borrowings	13,130	17,676	13,130	17,676
Increase in long term receivables	20,252	14,728	21,860	20,680
Reduction in long-term debt	7,343	15,821	9,158	20,204
Total investments	149,277	109,142	152,750	130,511
INCREASE IN WORKING CAPITAL	135,226	21,719	153,463	15,247
VARIATIONS IN WORKING CAPITAL				
WORKING CAPITAL				
At beginning of year	1,099,852	729,991	1,149,029	769,311
At end of year	1,324,770	1,099,852	1,340,191	1,149,029
	224,918	369,861	191,162	379,718
CURRENT LIABILITIES				
At beginning of year	700,801	352,659	722,514	358,043
At end of year	790,493	700,801	760,213	722,514
	89,692	348,142	37,699	364,471
Increase in working capital	135,226	21,719	153,463	15,247

The explanatory notes are an integral part of the financial statements.

Explanatory Notes

1. Operational context

Confab Industrial S.A. (hereinafter called “Company”) is a publicly traded corporation based in São Caetano do Sul, with manufacturing plants in Pindamonhangaba in the state of São Paulo. Its parent company is Siderca S.A., a subsidiary of the Tenaris Group.

The main operating activities of the Company and its subsidiaries and associated companies involve the manufacture of welded steel pipes for the petroleum, petrochemical, gas and sanitation industries and of industrial equipment for the petroleum, petrochemical, cellulose, metallurgical, steel industries, among others.

2. Presentation of financial statements and main accounting practices

The financial statements have been prepared and are presented in conformity with the accounting practices adopted in Brazil and in compliance with Corporation Law and the specific norms established by the Securities Commission – CVM.

The main accounting practices adopted were the following:

2.1. Determination of income

Income is determined by the accrual accounting basis, considering the following:

- Revenues from steel pipe sales are recognized only when the respective risks and rewards are transferred to the customer.

- The gross profit on equipment sales contracts is recognized proportionally to the work performed on each contract up to the balance sheet date. Provisions for losses are made in those cases where costs incurred to date plus the estimate of costs still to be incurred exceed the total restated sale price.
- Provisions for income tax and social contributions are calculated and recorded based on rates and taxable profits adjusted by specific legislation, including tax incentives.

2.2. Current assets and long term receivables

Assets are stated at their historical cost, including, whenever applicable, monetary or exchange variations and related accrued income, not exceeding their realizable value.

Financial investments are represented by highly liquid temporary investments, which will be maintained until their due date and are recorded at cost price plus income until the balance sheets date, which do not exceed their market or realizable value.

Accounts receivable are recorded and maintained in the financial statements at the nominal value of the securities representing these credits. The provision for doubtful receivables is based on individual analysis and in an amount considered sufficient by the company management to cover possible losses in realizing these credits, the balance of which is deducted from this provision.

Inventories are stated at their average cost of acquisition or production, which does not exceed the market value,

including provisions to cover possible losses. Imports in progress and advances to suppliers are stated at the accrued cost of each import / advance.

The income tax and social contributions on temporary differences between the book profit and the profit determined for taxation purposes are recognized as deferred tax credits or debits to the extent of their probable realization.

2.3. Non-current assets

Stated at cost price restated up to December 31, 1995, under the following conditions:

- Investments in associated companies are evaluated using equity equivalence.
- Revaluation of properties, plants and equipment, conducted in 1991, based on appraisals by independent experts.
- Depreciation of properties, plants and equipment on a straight line basis, using the annual rates mentioned in explanatory note 8, which take into account the useful working life of the assets.
- Amortization of intangible assets on a straight line basis, at the annual rate mentioned in explanatory note 9.

2.4. Current and long term liabilities

They are shown at known or calculable amounts, in addition to monetary or exchange variations and corresponding charges, whenever applicable.

2.5. Contingencies reserve

The reserve for contingencies is recorded based on an appraisal done by the Company's legal advisors for legal and administrative processes where losses are deemed probable, in compliance with NPC n° 22 of the Brazilian independent auditors Institute – IBRACON. The balances of contingency reserves are stated net of the respective legal deposits, where applicable.

2.6. Derivatives

Operations with financial derivatives are recorded on an accrual basis, considering the net result of each operation in accordance with contractual conditions.

2.7. Amounts in foreign currency

Monetary assets and liabilities denominated in foreign currency are converted to Reais at the exchange rate on the balance sheets closing dates. The differences arising from currency conversion are stated in the income statements.

2.8. Profit per share

Calculated based on the quantity of shares on the closing dates of the financial years.

2.9. Use of estimates

In the preparation of the financial statements it is necessary to use estimates for certain assets, liabilities and other operations. Therefore the financial statements show a number of estimates relative to the useful working life of properties, plants and equipment, the realization of deferred tax credits, the reserves necessary for doubtful credits, inventory losses and contingencies; the actual results may differ from the estimates.

2.10. Consolidation criteria

The consolidated financial statements were prepared in accordance with the technical consolidation criteria in Ruling n° 247/96 issued by the CVM. In the preparation of these financial statements, the parent company's accounting practices were strictly observed.

For the preparation of the consolidated financial statements, the following accounts are eliminated: investments, unrealized profits or losses between the parent company and subsidiaries or associated companies, results of equity equivalence, income and expenses from transactions between the companies, the balances between the companies for current and long term assets and liabilities.

As of the beginning of 2007, after the Company's Council confirmed a greater balance in the administrative, commercial and operational decisions between shareholders of the associate, Socotherm Brasil S.A., it was decided to consolidate the statements of this associate proportionally to its 50% participation

in stockholders' equity. Until the year ending December 31, 2006, the financial statements of this associate were entirely consolidated by the Company. The effects of this change are considered to be irrelevant for comparison with the financial statements of the year of 2006.

The consolidated financial statements encompass the following associated companies:

- Confab Montagens Ltda.
- Confab Revestimentos Ltda.
- Socotherm Brasil S.A.
- Confab Trading LLC and its subsidiary Confab Trading N.V.

2.11. Supplementary information

In order to maximize the information disclosed to the market, the Company is including as supplementary information the cash flow statement (parent company and consolidated), prepared in accordance with NPC n°20 issued by IBRACON.

3. Financial investments

Structure		Parent company		Consolidated	
		2007	2006	2007	2006
FIXED TERM DEPOSITS	ANNUAL INTEREST RATE				
Local currency	101.1% CDI	28,780	119,767	28,805	119,767
Foreign currency	4.1% to 9.7% + US\$	358,726	172,963	369,484	172,963
Total		387,506	292,730	398,289	292,730

The Company diversifies its investments between local and foreign currency, seeking to manage exchange risks in accordance with the nature and composition of its working capital and the estimated time of use.

Financial investments are made with leading banks, with every effort made to reduce risk exposure and maximize earnings. These investments are fully liquid.

4. Accounts receivable

	Parent Company		Consolidated	
	2007	2006	2007	2006
THIRD PARTIES				
Domestic market	232,059	44,372	241,228	50,481
Foreign market	54,397	2,975	55,513	64,580
	286,456	47,347	296,741	115,061
Related parties (Note 11)				
Domestic market	4,170	5,408	2,190	2,908
Foreign market	6,694	86,097	1,975	30,849
	10,864	91,505	4,165	33,757
Other credits	1,796	4,738	1,801	4,817
	299,116	143,590	302,707	153,635

On December 31, 2007, accounts receivable from clients are liquid of reserve for doubtful receivables, in the amounts of R\$11,510 (R\$6,444 on December 31, 2006) in the Controlling and R\$14,458 (R\$9,438 on December 31, 2006) in Consolidated.

5. Inventories

	Parent Company		Consolidated	
	2007	2006	2007	2006
Finished products	120,909	118,915	122,968	136,595
Products in progress	69,544	102,948	69,684	102,948
Raw materials	215,720	121,475	221,287	135,820
Sundry materials	25,733	23,770	26,839	25,897
Advances to suppliers	67,329	210,187	49,077	163,231
Imports in progress	11,035	4,177	11,494	5,652
Provision for obsolescence/market	(10,392)	(17,302)	(10,544)	(17,963)
	499,878	564,170	490,805	552,180

The level of products in stock is directly related to the orders on backlog. On December 31, 2007, the PLANGAS project was mainly responsible for the level of products in stock in the domestic market (on December 31, 2006 – Gascac Project, in the domestic market, and Loops – Argentina, in the foreign market).

6. Taxes Recoverable

Represented mainly by credits and tax advances,
as follows:

	Parent Company		Consolidated	
	2007	2006	2007	2006
CURRENT				
Value added tax on goods and services – ICMS	61,471	19,346	61,876	26,113
Excise tax – IPI	1,353	12,437	1,841	16,365
Income tax and social contribution – IRPJ and CSLL	11,130	10,018	13,586	13,179
PIS and Cofins – non cumulative	7,785	17,827	7,785	19,497
PIS and Cofins recoverable – others	4,520	7,653	4,896	8,256
Others	6,952	295	6,981	924
	93,211	67,576	96,965	84,334
LONG TERM				
Finsocial recoverable	2,368	2,368	2,368	2,368
INSS recoverable	–	–	6,784	5,143
ICMS recoverable on fixed assets	3,749	4,200	4,540	6,155
	6,117	6,568	13,692	13,666

The company periodically checks its accumulated tax credits, with the aim of using them in the short term, as follows:

- Federal taxes (IPI, PIS and Cofins) – used to offset federal tax payments on sales and income tax and social contributions on taxable income, whenever applicable.
- State tax (ICMS) – used to offset the amounts payable for the ICMS – value- added tax on sales and on diverse imports. Under the special regime granted by the state tax authority, this is currently used to pay suppliers. On December 31, 2007, no provision was made for losses on these credits, since they should be entirely used in Company operations during 2008.

7. Investments in associated companies

	Confab Montagens Ltda. ⁽ⁱ⁾	Confab Revestimentos Ltda. ⁽ⁱ⁾	Socotherm Brasil S.A. ⁽ⁱⁱ⁾	TenarisConfab Hastes de Bombeio S.A. ⁽ⁱⁱ⁾	Confab Trading LLC ⁽ⁱ⁾	Siat S.A. ⁽ⁱⁱⁱ⁾	Total
MOVEMENT							
Balances on December 31, 2006 (parent company)	14,244	(5)	18,736	1,111	18,822	50,030	102,938
Dividends proposed	–	–	(1,203)	–	–	–	(1,203)
Equity Equivalence	14,299	–	4,172	4,293	(3,132)	(509)	19,123
Balances on December 31, 2007 (parent company)	28,543	(5)	21,705	5,404	15,690	49,521	120,858
Eliminations	(28,543)	5	(21,705)	–	(15,690)	–	(65,933)
Balances on December 31, 2007 (parent company)	–	–	–	5,404	–	49,521	54,925

- (i) Reviewed by our independent auditors.
(ii) Examined by our independent auditors.
(iii) Examined by other independent auditors.

	Thousands of shares or quotas held by company		Company share in paid in capital – %	Adjusted shareholder equity	Adjusted net profit/loss	Exchange parity/Profit not realized
	Ordinary shares	Quotas				
On December 31, 2006						
Confab Montagens Ltda. ⁽ⁱ⁾	–	10,419	100	14,244	5,314	–
Confab Revestimentos Ltda. ⁽ⁱⁱ⁾	–	7,103	100	(5)	–	–
Socotherm Brasil S.A. ^(v)	932	–	50	37,755	249	(84)
TenarisConfab Hastes de Bombeio S.A. ⁽ⁱⁱⁱ⁾	1,505	–	49	2,266	3,322	–
Confab Trading LLC. ^(iv)	–	–	100	18,822	1,931	(1,601)
Siat S.A. ^(vi)	12,000	–	30	166,768	9,399	(16,628)
On December 31, 2007						
Confab Montagens Ltda. ⁽ⁱ⁾	–	10,419	100	28,543	14,299	–
Confab Revestimentos Ltda. ⁽ⁱⁱ⁾	–	7,103	100	(5)	–	–
Socotherm Brasil S.A. ^(v)	932	–	50	44,875	9,528	(592)
TenarisConfab Hastes de Bombeio S.A. ⁽ⁱⁱⁱ⁾	1,505	–	49	11,027	8,761	–
Confab Trading LLC. ^(iv)	–	–	100	15,690	96	(3,228)
Siat S.A. ^(vi)	12,000	–	30	165,069	31,029	(32,727)

(i) Confab Montagens Ltda – activities consist mainly of conducting studies and carrying out the assembly, installation and maintenance of apparatus, machinery or industrial sub-assemblies made by third parties.

(ii) Confab Revestimentos Ltda. – Non-operational company.

(iii) TenarisConfab Hastes de Bombeio S.A. The company's main activity is manufacturing and commercializing sucker rods and other metallic material, equipment and accessories for oil and petrochemical segments.

(iv) Confab Trading LLC – Based in Delaware – USA, the company was incorporated on November 9, 2001, with a capital injection consisting of all the shares of Confab Trading NV. It was created as a means of holding shares in foreign companies.

(v) Socotherm Brasil S.A. Activities consist mainly of the industrialization, commercialization and provision of services in internal and external coatings for steel pipes and metallic parts in general, and the acquisition and transfer of technology in anticorrosive and thermal coating for metallic parts.

(vi) Siat S.A. Located in Argentina, the company is involved mainly in manufacturing welded steel pipes for the oil, petrochemical, gas and sanitation industries.

8. Property, plants and equipment

	Parent company				
	2007				2006
	Annual depreciation rate – %	Corrected and restated cost	Accumulated depreciation	Net value	Net value
Land	–	9,010	–	9,010	9,010
Buildings	4	84,112	(34,923)	49,189	50,493
Machinery and equipment	10	248,139	(126,850)	121,289	109,074
Installations	10	23,576	(8,570)	15,006	13,191
IT equipment	20	10,462	(7,767)	2,695	3,435
Furniture and fixtures	10	4,004	(2,514)	1,490	1,307
Vehicles	20	17,242	(13,647)	3,595	4,659
Construction in progress	–	22,171	–	22,171	35,259
		418,716	(194,271)	224,445	226,428

	Consolidated				
	2007				2006
	Annual depreciation rate – %	Corrected and restated cost	Accumulated depreciation	Net value	Net value
Land	–	9,010	–	9,010	9,010
Buildings	4	88,330	(36,346)	51,984	58,161
Machinery and equipment	10	262,636	(132,909)	129,727	128,528
Installations	10	25,121	(9,500)	15,621	15,627
IT equipment	20	10,701	(7,971)	2,730	3,559
Furniture and fixtures	10	4,074	(2,556)	1,518	1,376
Vehicles	20	19,038	(14,593)	4,445	5,169
Construction in progress	–	25,143	–	25,143	46,469
		444,053	(203,875)	240,178	267,899

a. On December 31, 2007 and 2006 the property, plant and equipment balances for the parent company include a reappraisal of assets which occurred in 1991, carried

out by specialists and approved by the general meeting. The position of the reassessed goods is:

	2007				2006
	Annual depreciation rate – %	Restated cost	Accumulated depreciation	Net value	Net value
Land	–	1,331	–	1,331	1,331
Buildings	4	15,009	(11,261)	3,748	4,396
Machinery and equipment	4	11,886	(10,329)	1,557	1,770
Vehicles	–	428	(428)	–	–
		28,654	(22,018)	6,636	7,497

b. The balance of construction in progress refers essentially to the expenditures on the expansion and modernization of the pipe division plant in

Pindamonhangaba – SP. Changes in property, plants and equipment:

	Parent Company		Consolidated	
	2007	2006	2007	2006
Balance at beginning of year	226,428	216,748	267,899	254,219
ADDITIONS				
Buildings	1,787	4,031	2,519	9,971
Machinery and equipment	30,961	12,691	31,827	24,246
Installations	3,700	1,993	3,957	4,212
IT equipment	961	1,866	961	1,934
Furniture and fixtures	455	132	456	151
Vehicles	732	3,105	1,558	3,188
Construction in progress (Net transfers of finished projects)	(13,087)	10,818	(15,719)	604
Total additions	25,509	34,636	25,559	44,306
Effects of the changes in the consolidation criteria – Socotherm Brasil	–	–	(20,717)	–
Net write offs	(360)	(800)	(2,788)	(839)
Depreciation	(27,132)	(24,156)	(29,775)	(29,787)
Balance at end of year	224,445	226,428	240,178	267,899

9. Intangible

Parent Company					
	2007				2006
	Annual rate of amortization %	Corrected cost	Accumulated amortization	Net value	Net value
Software licenses	20	27,244	(22,111)	5,133	8,699
Others	–	20	(20)	–	–
		27,264	(22,131)	5,133	8,699

Consolidated					
	2007				2006
	Annual rate of amortization %	Corrected cost	Accumulated amortization	Net value	Net value
Software licenses	20	27,364	(22,230)	5,134	8,702
Others	–	29	(29)	–	–
		27,393	(22,259)	5,134	8,702

Changes in intangibles:

	Parent company		Net value	
	2007	2006	2007	2006
Balance at beginning of year	8,699	12,060	8,702	12,065
ADDITIONS				
Software licenses	1,043	966	1,043	966
Effects of the changes in the consolidation criteria – Socotherm Brasil	–	–	(1)	–
Depreciation	(4,609)	(4,327)	(4,610)	(4,329)
Balance at end of year	5,133	8,699	5,134	8,702

10. Suppliers

	Parent company		Consolidated	
	2007	2006	2007	2006
THIRD PARTIES				
Domestic market	80,103	106,296	87,466	126,876
Foreign market	3,153	3,511	4,456	5,534
Subtotal	83,256	109,807	91,922	132,410
RELATED PARTIES (NOTE 11)				
Domestic market	24,701	6,281	12,351	209
Foreign market	25,947	45,060	6,329	22,507
Subtotal	50,648	51,341	18,680	22,716
	133,904	161,148	110,602	155,126

11. Transactions with related parties

EQUITY ACCOUNTS	NOTES	Parent company		Consolidated	
		2007	2006	2007	2006
CURRENT ASSETS					
ACCOUNTS RECEIVABLE					
Confab Trading N.V.	(I)	4,672	85,618	–	–
Dalmine S.p.A.		351	–	351	–
Exiros BR Ltda.		9	6	9	6
Hydril Company		85	–	85	–
Information Systems & Technology S.A.		2	–	2	–
Maverik Tube Corporation		170	–	170	–
Siat S.A.		53	64	53	64
Socominter S.A.		2	3	2	3
Socotherm Brasil S.A.	(II)	3,889	2,491	1,944	–
Tecgas Argentina S.A.		–	37	–	37
Techint Compagnia Tecnica Internazionale S.p.A.		38	46	38	46
Techint S.A.		83	–	83	–
TenarisConfab Hastes de Bombeio S.A.		93	2,898	93	2,898
Tenaris Global Services (USA) Corporation		–	–	–	28,237
Tenaris Global Services S.A.		–	257	–	1,555
Tubos del Caribe Ltda.		–	–	12	–
Tenaris Global Services Nigéria Ltd.	(III)	1,262	–	1,262	907
		10,709	91,420	4,104	33,753
ACCOUNTS RECEIVABLE (CREDITS TO BE BILLED)					
Confab Trading N.V.		59	72	–	–
Exiros BR Ltda.		8	4	8	4
Socotherm Brasil S.A.		71	9	36	–
TenarisConfab Hastes de Bombeio S.A.		17	–	17	–
		155	85	61	4
INVENTORIES (ADVANCES TO SUPPLIERS)					
Socotherm Brasil S.A.	(IV)	36,651	47,237	18,325	–
		36,651	47,237	18,325	–
DIVIDENDS RECEIVABLE					
Socotherm Brasil S.A.		1,023	1,364	511	–
		1,023	1,364	511	–
NON-CURRENT ASSETS					
LONG-TERM RECEIVABLES (LOANS)					
TenarisConfab Hastes de Bombeio S.A.	(V)	11,027	10,470	11,027	10,470
Confab Revestimentos Ltda.		16	16	–	–
		11,043	10,486	11,027	10,470
Total		59,581	150,592	34,028	44,227

EQUITY ACCOUNTS	NOTES	Parent company		Consolidated	
		2007	2006	2007	2006
CURRENT LIABILITIES					
SUPPLIERS					
Confab Trading N.V.	(VI)	(19,678)	(21,592)	–	–
Dalmine S.p.A.		(322)	(541)	(322)	(555)
Exiros BR Ltda.		–	–	(25)	–
Finma S.A.I.F.		–	(5)	–	(5)
Information Systems & Technology S.A.		(61)	(354)	(61)	(354)
Siat S.A.		(8)	(4,831)	(43)	(4,873)
Siderar S.A.I.C.		(1)	(1)	(1)	(1)
Siderca S.A.I.C.		(21)	(752)	(21)	(811)
Socotherm Brasil S.A.	(VII)	(24,701)	(6,068)	(12,351)	–
Tamsa – Tubos de Acero de México S.A.		–	(2)	–	(2)
Techint Eng. Technical and Commercial Services LLC		–	(28)	–	(28)
Techint Engineering Holding S.A.		(5)	(6)	(5)	(6)
Techint S.A.		–	(11)	–	(11)
Tenaris Global Services LLC	(VIII)	(303)	(421)	(303)	(427)
		(45,100)	(34,612)	(13,132)	(7,073)
SUPPLIERS (DEBITS TO BE BILLED)					
Confab Trading N.V.		–	(1,141)	–	–
Dalmine S.p.A.		(172)	(965)	(172)	(965)
Exiros BR Ltda.		–	(198)	–	(198)
Finma S.A.I.F.		–	(19)	–	(19)
Metalmecanica S.A.		–	(1)	–	(1)
Siat S.A.		(5)	(6)	(5)	(6)
Siderca S.A.I.C.	(IX)	(3,753)	(483)	(3,753)	(542)
Socotherm Brasil S.A.		–	(4)	–	–
Tamsa – Tubos de Acero de México S.A.		(22)	(26)	(22)	(26)
Tenaris Global Services LLC	(VIII)	(1,415)	(13,667)	(1,415)	(13,667)
Tenaris Global Services S.A.		(181)	(219)	(181)	(219)
		(5,548)	(16,729)	(5,548)	(15,643)
ADVANCES TO CUSTOMERS					
Confab Trading N.V.		–	(2,672)	–	–
Tenaris Global Services (USA) Corporation		–	–	(365)	(3,809)
		–	(2,672)	(365)	(3,809)
DIVIDENDS PAYABLE					
Siderca S.A.I.C.		(11,980)	–	(11,980)	–
		(11,980)	–	(11,980)	–
LOANS					
Confab Montagens Ltda.	(X)	(17,362)	(13,029)	–	–
		(17,362)	(13,029)	–	–
Total		(79,990)	(67,042)	(31,025)	(26,525)

ACCOUNTS	Parent company		Consolidated	
	2007	2006	2007	2006
SALES OF PRODUCTS AND SERVICES				
Confab Montagens Ltda.	117	76	–	–
Confab Trading N.V.	90,894	371,200	–	–
Dalmine S.p.A.	356	215	356	215
Finma S.A.I.F.	18	–	–	–
NKK Tubes K.K.	149	–	–	–
Siat S.A.	1,270	713	1,270	713
Siderar S.A.I.C.	127	–	127	–
Socominter Sociedade Comercial Internacional Ltda.	–	16,162	–	16,929
Socominter S.A.	–	3	–	3
Socotherm Brasil S.A.	2,862	3,349	1,229	–
Tecgas N.V.	33	–	–	–
Techint International Construction Corp.	–	–	–	5,497
Techint S.A.	833	7	833	59
TenarisConfab Hastes de Bombeio S.A.	2,463	1,936	2,463	1,936
Tenaris Global Services (Canada) Inc.	–	–	–	903
Tenaris Global Services (USA) Corporation	4,296	–	65,494	220,663
Tenaris Global Services S.A.	10,360	8,608	11,252	36,700
Tenaris Global Services Nigéria Ltd.	1,328	–	1,328	2,866
	115,106	402,269	84,352	286,484
INTEREST ON LOANS (ASSETS)				
Confab Montagens Ltda.	–	113	–	–
Confab Trading N.V.	1,306	–	–	–
Socotherm Brasil S.A.	60	761	–	–
TenarisConfab Hastes de Bombeio S.A.	1,209	2,243	1,209	2,243
	2,575	3,117	1,209	2,243
RENTAL INCOME				
Socotherm Brasil S.A.	616	579	308	–
TenarisConfab Hastes de Bombeio S.A.	332	299	332	299
	948	878	640	299
Total	118,629	406,264	86,201	289,026

ACCOUNTS	Parent company		Consolidated	
	2007	2006	2007	2006
COSTS AND/OR EXPENSES RELATED TO				
Confab Montagens Ltda.	(1,267)	(49)	–	–
Confab Trading N.V.	(639)	–	–	–
Dalmine S.p.A.	(3,426)	(1,249)	(3,426)	(1,263)
Exiros BR Ltda.	(6,034)	(5,350)	(6,188)	(5,350)
Exiros S.A.	(1,134)	–	–	–
Finma S.A.I.F.	–	(41)	–	(41)
Information Systems & Technology S.A.	(733)	(358)	(1,682)	(358)
Italimpianti International do Brasil Ltda.	–	–	–	(74)
Metalmecanica S.A.	(786)	(928)	(786)	(928)
Siat S.A.	(340)	(5,695)	(340)	(5,695)
Siderca S.A.I.C.	(3,656)	(472)	(3,656)	(531)
Socotherm Brasil S.A.	(104,638)	(47,661)	(52,319)	–
Socominter S.A.	–	(3)	–	(3)
Socominter Sociedade Comercial Internacional Ltda.	–	(590)	–	(590)
Tamsa – Tubos de Acero de México S.A.	(789)	–	(789)	–
Techint Compagnia Tecnica Internazionale S.p.A.	–	(24)	–	(24)
Techint Eng. Technical and Commercial Services LLC	(100)	(84)	(100)	(84)
Techint S.A.	–	(151)	–	(151)
TenarisConfab Hastes de Bombeio S.A.	(11)	–	(11)	–
Tenaris Global Services LLC	(5,933)	(14,253)	(5,933)	(14,253)
Tenaris Global Services (USA) Corp.	–	(22)	–	(22)
	(129,486)	(76,930)	(75,230)	(29,367)
INTEREST ON LOANS (LIABILITIES)				
Confab Montagens Ltda.	(2,170)	(1,411)	–	–
Socotherm Brasil S.A.	(309)	–	(155)	–
	(2,479)	(1,411)	(155)	–
Total	(131,965)	(78,341)	(75,385)	(29,367)

The main credits and debits between related parties are given below:

(I) Balance receivable of R\$4,672 refers to commercial operations, with no guarantees, due as follows: R\$3,570 in January of 2008 and R\$1,102 in March 2008.

(II) Balance receivable of R\$3,889 refers to commercial operations, with no guarantee, due as follows: R\$1,662 in January 2008 and R\$2,227 in December 2008.

(III) Balance receivable of R\$1,262 refers to commercial operations, with no guarantee, due in January 2008.

(IV) Advance of R\$36,651 granted for pipe coating services for the following projects: Gascac project – R\$10,206, between January and March 2008; PLANGAS project – R\$24,321, between February and August 2008; Mexilhão project – R\$1,462, between April and May 2008; Loops project – R\$86, between February and November 2008; and GDK – R\$576, between January and April 2008.

(V) Balance receivable of R\$11,027 for loan granted, remunerated by variation in the SELIC rate, due in May, 2008.

(VI) Balance payable in the amount of R\$19,678 for commercial operations, without guarantee, due in December, 2008.

(VII) Balance payable in the amount of R\$24,701 for commercial operations, without guarantee, with the following due dates: R\$13,203 in January, 2008; R\$384 in February, 2008; R\$10,988 in March, 2008 and R\$126 in December, 2008.

(VIII) Balance payable in the amount of R\$1,718 for sales commissions with the following due dates: R\$511 in March, 2008; R\$1,168 in April, 2008 and R\$39 in June, 2008.

(IX) Balance payable in the amount of R\$3,753 for corporative services, scheduled for payment in December, 2008.

(X) Balance payable in the amount of R\$17,362 for mutual operations, indeterminate due date, subject to interest of 1% per month.

The operations of purchase and sale of products and service are carried out following the evaluation of the Company and associates, in accordance with normal market conditions, and the amount in assets and liabilities cover credits and debits respectively, with associates, and are subject to normal market fees.

12. Borrowings

Type	Index / currency	Annual interest rates	Parent company		Consolidated	
			2007	2006	2007	2006
a. BREAKDOWN OF AMOUNTS PAYABLE						
LOCAL CURRENCY						
BNDES investments	TJLP	4.25 and 6.25	28,676	42,296	28,676	42,296
BNDES investments	UMBND	4.25 and 6.46	7,806	13,159	7,806	13,159
			36,482	55,455	36,482	55,455
FOREIGN CURRENCY						
Exchange contract advances – ACC	US\$	4.05 and 5.59	–	–	–	7,818
			36,482	55,455	36,482	63,273
CURRENT LIABILITIES						
			(11,807)	(17,650)	(11,807)	(25,468)
LONG TERM LIABILITIES						
			24,675	37,805	24,675	37,805

TJLP – Long term interest rate
UMBND – BNDES monetary unit (basket of currencies)

b. LONG TERM DUE DATE						
2008			–	12,127	–	12,127
2009			11,605	12,054	11,605	12,054
2010			8,628	8,980	8,628	8,980
2011			4,442	4,644	4,442	4,644
			24,675	37,805	24,675	37,805

c. GUARANTEES

Investment borrowings were guaranteed by mortgaging company assets.

Borrowings in foreign currency are guaranteed by promissory notes.

13. Customer advances

The balance of R\$ 548,804 (R\$485,023 on December 31, 2006) in the parent company and R\$ 552,686 (R\$ 511,395 on December 31, 2006) in the consolidated statements refers to customer advances for the production of goods or rendering of services. A substantial amount of this balance is related to advances received for production of the PLANGAS project, the Minas-Rio ore pipeline and the Cacimbas-Catú (Gascac) gas pipeline in the domestic market, for which the company had received advances of R\$331,772, R\$93,010 and R\$32,087, respectively, on December 31,

2007. This liability is represented by the contractual obligation to produce the goods or services, and if this does not occur, to return the amounts received.

14. PAES – Special Installment Plan

On July 31, 2003, the parent company and its subsidiary Confab Montagens Ltda. adhered to the PAES regime, which allows payment of taxes and charges in up to 120 installments. On December 31, 2007 and 2006, the annual amounts due for the long term installments were as follows:

YEAR	Parent company		Consolidated	
	2007	2006	2007	2006
2008	–	2,990	–	3,576
2009	3,135	2,990	2,929	3,576
2010	2,873	2,990	3,280	3,576
2011 a 2013	8,098	7,478	9,242	8,177
	14,106	16,448	15,451	18,905

15. Contingencies

The Company and its associates are parties in labor, tax and civil legal suits involving contingency responsibilities. These legal suits are currently either at the administrative defense phase or are in the judicial sphere.

Based on the advice of its legal advisors, the management of the parent company and the associates make contingency provisions deemed sufficient to cover eventual losses in the event of an unfavorable decision, as shown below:

	Parent company		Consolidated	
	2007	2006	2007	2006
Labor suits	20,750	14,265	23,020	17,158
Labor suits – Rio de Janeiro Refrescos S.A.	3,930	3,579	3,930	3,579
Tax suits	10,975	9,501	13,131	11,014
Tax suits – Rio de Janeiro Refrescos S.A.	2,658	2,625	2,658	2,625
Civil suits	4,463	2,592	4,463	2,592
	42,776	32,562	47,202	36,968
Judicial deposits	(1,066)	(504)	(1,392)	(624)
	41,710	32,058	45,810	36,344

The main contingencies are described below:

Labor suits

These refer to diverse labor suits brought against the Company and its ex-associate Rio de Janeiro Refrescos S.A., which have been provisioned because they are deemed probable losses by the company's legal advisors.

Tax suits

Related to claims brought against the Company and its ex-associate Rio de Janeiro Refrescos S.A., mainly in the indirect tax area.

Civil suits

Related substantially to indemnity suits brought against the Company and deemed probable losses.

Provisions are demonstrated below:

	Parent	Consolidated
	2007	2006
Balance on December 31, 2005		
Provisions, net of reversions (Note 18)	41,133	44,072
Compensation by amounts receivable – Rio de Janeiro Refrescos S.A.	3,506	7,949
Payments	(1,615)	(1,615)
Effects of the changes in the consolidation criteria – Socotherm Brasil	(10,966)	(14,062)
Balance on December 31, 2006	32,058	36,344
Provisions, net of reversions (Note 18)	13,644	14,852
Compensation by amounts receivable – Rio de Janeiro Refrescos S.A.	(1,097)	(1,097)
Payments	(2,895)	(3,455)
Effects of the changes in the consolidation criteria – Socotherm Brasil	–	(834)
Balance on December 31, 2007	41,710	45,810

The company is responsible for contingent liabilities from the period it administered its ex-associate Rio de Janeiro Refrescos S.A., sold in 1994. Additionally, in accordance with the corresponding sales contract, the company has a mortgage on its plant equipment with a net book value of R\$13,511.

On December 31, 2007, the Company still has law suits deemed by its legal advisors to be possible losses in the amounts of R\$143,231 (R\$96,758 on December 31, 2006) for the parent company and R\$151,161 (R\$104,252 on December 31, 2006) in the consolidated account. From these suits, the amount of R\$14,742 (R\$9,566 on December 31, 2006) refer to the company Rio de Janeiro Refrescos S.A. Based on legal opinion and management appraisal, no provision was made for these contingencies.

On the other hand, on December 31, 2007, there are ongoing law suits with a probable positive outcome, involving the consolidated amount of R\$78,210 (R\$ 91,418 on December 31, 2006), net of legal fees, which will be recognized as the controversy comes to an end (transit in rem judicatam).

The Company questioned the legality of the demand for payment of certain taxes, including IOF (tax on financial operations), FNT (national telecommunications fund), and IRPJ (corporate income tax). During the first quarter of 2007, the legal suits on these taxes were judged favorable to the Company, which resulted in a gain of R\$2,006 in the income of year ending December 31, 2007 (Note 18).

Furthermore, in the month of December, the company legally contested the constitutionality of the broadening of the calculation base determined by Law n° 9.718/98, as well as the increase of the aliquot from 2% to 3% for COFINS (contribution for financing of social security).

The legal decision regarding the broadening of the calculation base was favorable, with receipt of R\$13,551 for the parent company; of which R\$6,640 was on the principal (Note 18) and R\$6,911 of interest; and R\$14,187 in the Consolidated, of which R\$6,945 was on the principal (Note 18) and R\$7,242 in interest. Regarding the decision on the increase of the rate, which was unfavorable, the Company had provisions for the tax with suspended payment, so there was no effect on the year's results.

The income declarations for the last five years and the taxes and contributions with varying expiry terms, are subject to review by the competent authorities. Nevertheless, the Company Management considers that all taxes have been properly paid or provisioned and that, on December 31, 2007, no significant contingencies were known to exist against the Company.

16. Shareholders equity

a. Share capital

The Company by-laws authorize a capital increase up to the total limit of 459,206,263 shares, respecting proportionality between the existing classes. The Board of Directors is responsible for determining the conditions applicable to share issues, based on the authorized capital and on the applicability or not of the preference rights of current shareholders, under the terms of article 172 of Law n° 10.303/2001.

The subscribed and paid up capital on December 31, 2007 shows the following holdings:

Shareholders	Quantity of ordinary shares	%	Quantity of preferential shares	%	Total quantity	%
Controlling (foreign capital)	137,711,828	99.22	–	–	137,711,828	38.99
Management						
Board of Directors	121,818	0.09	27,921,600	13.02	28,043,418	7.94
Executive Officers	651,630	0.47	6,141,612	2.86	6,793,242	1.92
Audit Council	–	–	564,821	0.26	564,821	0.16
Other shareholders	305,580	0.22	179,816,698	83.86	180,122,278	50.99
Total	138,790,856	100.00	214,444,731	100.00	353,235,587	100.00

Share composition on December 31, 2006:

Shareholders	Quantity of ordinary shares	%	Quantity of preferential shares	%	Total quantity	%
Controlling (foreign capital)	135,676,678	99.22	–	–	135,676,678	38.99
Management						
Board of Directors	120,018	0.09	27,441,808	12.99	27,561,826	7.92
Executive Officers	642,000	0.47	6,050,850	2.86	6,692,850	1.92
Audit Council	–	–	570,200	0.27	570,200	0.16
Other shareholders	301,064	0.22	177,212,739	83.88	177,513,803	51.01
Total	136,739,760	100.00	211,275,597	100.00	348,015,357	100.00

The Ordinary and Extraordinary Shareholders' Meeting held on April 19, 2007 approved a capital increase from R\$316,419 to R\$347,419, using R\$31,000 from the profit reserve balance. 5,220,230 new shares were issued, made up of 2,051,096 ordinary shares and 3,169,134 preferred shares, to be distributed to shareholders as a bonus.

b. Revaluation reserve

Consists of the surplus value of fixed assets, net of tax effects, established after appraisals by independent experts.

c. Legal reserve

Allocated 5% of the net profit accrued each fiscal year under the terms of article 193 of Law n° 6.404/76.

d. Capital increase reserve

As mentioned above, the amount of R\$31,000 was used to increase the capital as approved by the General and Extraordinary Shareholders Meeting on April 19, 2007. Additionally, it will be proposed at the General and Extraordinary Shareholder Meeting to be held on April 16, 2008 that a capital increase reserve of R\$ 84,000 be constituted and used in full for another capital increase.

e. Retained profits reserve

Considering that the company's main source of finance is its own income generation, and considering the prospects of important investments in pipelines in Brazil and other Latin American countries, the company's main market, it will be proposed, at the General and Extraordinary Shareholders Meeting to be held on April 16, 2008, that the remaining balance of surplus earnings be retained in accordance with the capital budget proposed by the management.

f. Dividends and interest on equity capital

Preferred shares, with no voting rights, have priority on the return of capital, as well as the preferential right to the receipt of non-cumulative fixed dividends of 8% per year on that portion of the capital attributable to them, which take priority in payment above all other classes of shares. After payment of the 8% to the preferred shares, the ordinary shares are guaranteed equal profit share, equivalent to a minimum of 25% of the adjusted net profit, whichever the higher.

In accordance with the referred tax legislation, the company paid shareholders a gross total of R\$44,328 as anticipated payment on the mandatory minimum dividend for 2007. These interest payments were approved in Board meetings held on February 27, August 1 and October 30, 2007.

In addition, the General and Extraordinary Shareholders' Meeting to be held on April 16, 2008, will propose the distribution of complementary dividends in the amount of R\$37,672, at a date yet to be defined.

The interest on equity capital, corresponding to the years ending on December 31, 2007 and 2006, was initially recorded in the income statement as a financial expense, and upon the calculation of the net profit for the year, it was later reverted and restated as the destination of accumulated profits in the statement of changes in shareholders' equity.

The calculation of dividends and interest on share capital on net profit in the years ending December 31, 2007 and 2006 is shown below:

	Net profit		Capital	
	2007	2006	2007	2006
Percentage	25%	25%	8%	8%
Net profit for year	249,114	87,824	–	–
Share Capital	–	–	347,419	316,419
Legal reserve (5%)	(12,456)	(4,391)	–	–
Basis of calculation	236,658	83,433	347,419	316,419
Minimum dividend	59,165	20,858	27,794	25,315
Interest on share capital anticipated during year	44,328	–	–	25,315
Proposed Dividends	37,672	–	–	–
Total interest on share capital and declared dividends	82,000	–	–	25,315

17. Income tax and social contribution

a. Deferred taxes

The parent company and associates recorded deferred tax credits as a result of temporary timing differences related to income tax losses and a negative social contribution base. These credits have been recorded in current and long term assets based on the expected date of realization, taking into account projections

of taxable future income of the Company and its associates approved by the Board of Directors as well as finalization dates and the limit of offsets to 30% of annual taxable income in accordance with the legislation in effect.

Breakdown of deferred taxes:

	2007			2006		
	Current	Long term/ asset liability	Change in result	Current	Long term/ asset liability	Change in result
DEFERRED TAX ASSET						
Taxes challenged in court	–	675	6,186	–	6,861	509
Provision for doubtful receivables and other receivables	3,016	–	(1,576)	1,440	–	503
Contingencies provision	–	11,636	(3,360)	–	8,276	2,736
Provision of adjustment of market/ obsolescent inventory	4,359	–	2,349	6,708	–	(3,550)
Other temporary credits	3,732	570	2,952	25	7,229	(2,394)
Tax loss and negative base	–	–	–	–	–	1,358
Total parent company	11,107	12,881	6,551	8,173	22,366	(838)
Effects of the changes in the consolidation criteria – Socotherm Brasil	–	–	(412)	–	–	–
Associates	2,111	1,460	(938)	1,536	1,097	(2,446)
Consolidated Total	13,218	14,341	5,201	9,709	23,463	(3,284)
DEFERRED FISCAL LIABILITIES						
Revaluation reserves	–	1,814	(283)	–	2,097	(326)
Total parent and consolidated	–	1,814	(283)	–	2,097	(326)
Net change in result			4,918			(3,610)

Estimate of realization of credits:

	1 year	2 years	3 years	From 4 years	Total
DEFERRED TAX ASSET					
Taxes challenged in court	–	318	–	357	675
Provision for doubtful receivables and other receivables	3,016	–	–	–	3,016
Contingencies provision	–	1,031	521	10,084	11,636
Provision for adjustment of market value / obsolescent inventory	4,359	–	–	–	4,359
Other temporary credits	3,732	–	–	570	4,302
Total parent company	11,107	1,349	521	11,011	23,988
Associates	2,111	71	93	1,296	3,571
Consolidated total	13,218	1,420	614	12,307	27,559
DEFERRED FISCAL LIABILITIES					
Revaluation reserves (*)	–	283	283	1,248	1,814
Total parent and consolidated	–	283	283	1,248	1,814

(*) Deferred income tax and social contribution calculated based on the revaluation of property, plants and equipment are expected to be realized based on the depreciation of assets, the rates of which are informed in Note 8.

b. Reconciliation of income tax and social contribution expenses as a result of directly applying those tax rates to income before taxes.

	Parent company		Consolidated	
	2007	2006	2007	2006
PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION AND AFTER EMPLOYEE PROFIT SHARE	349,532	119,354	353,222	118,805
NOMINAL AGREED RATE – %	34	34	34	34
EXPENSES WITH NOMINAL INCOME TAX AND SOCIAL CONTRIBUTION	(118,841)	(40,580)	(120,095)	(40,394)
TRIBUTARY EFFECT ON PERMANENT DIFFERENCES				
Results in equity equivalence	6,502	1,806	1,286	(184)
Interest on share capital	15,072	8,607	15,481	8,607
Other permanent additions, net	(3,151)	(1,363)	(2,597)	(695)
TEMPORARY DIFFERENCES				
Tax loss and negative base	–	1,358	1,249	1,358
Tax credit on temporary additions, net	6,268	(2,522)	5,486	(3,158)
Current income tax and social contribution	(94,150)	(32,694)	(99,190)	(34,466)
Composition of tax loss and negative base	–	–	1,817	–
Use of tax loss and negative base	–	(1,358)	(1,249)	(1,358)
Deferred taxes on temporary additions, net	(6,268)	2,522	(5,486)	4,968
Deferred income tax and social contribution	(6,268)	1,164	(4,918)	3,610
Result of income tax and social contribution	(100,418)	(31,530)	(104,108)	(30,856)

18. Other operating income (expenses), net

	Parent company		Consolidated	
	2007	2006	2007	2006
Contingency provision (Note 15)	(13,644)	(3,506)	(14,852)	(7,949)
Earnings with legal suits in transit (Nota 15)	8,646	–	8,951	–
Other income, net	2,987	3,090	1,102	2,138
	(2,011)	(416)	(4,799)	(5,811)

19. Net exchange variation

	Parent company		Consolidated	
	2007	2006	2007	2006
Positive exchange variation on financial assets	5,987	367	6,022	386
Positive exchange variation on financial liabilities	6,470	2,627	7,004	4,615
Negative exchange variation on financial assets	(42,511)	(17,474)	(46,615)	(19,266)
Negative exchange variation on financial liabilities	(13)	(25)	(22)	(11)
	(30,067)	(14,505)	(33,611)	(14,276)

20. Non-operational Results

	Parent company		Consolidated	
	2007	2006	2007	2006
Sale of property in Barueri – SP	29,299	–	29,299	–
Write-off of assets of coating plant in Ubu (Socotherm Brasil)	–	–	(2,332)	–
Other income (expenses), net	(90)	49	(23)	9
Total	29,209	49	26,944	9

The company concluded the sale of property in Barueri – SP in the month of December, 2007.

21. Employee profit share

The Company and its associates grant a share in profits to employees, linked to operational profit targets and other specific objectives that are established and approved each year.

For the year ending December 31, 2007, the parent company and the consolidated statements show R\$8,972 and R\$9,668 respectively in the income statement for employee profit share (R\$1,389 and R\$2,045, respectively in the parent company and consolidated for the year ended on December 31, 2006). These amounts are gross of income tax and social contribution.

22. Financial instruments

The parent company and its associates engage in transactions involving financial instruments, all registered in equity accounts, to reduce exposure to the effects of changes in interest and exchange rates and other market risks. Risk management, as well as the respective instruments, are effected by means of definition of strategies, establishment of control systems and determination of limits of exposure to exchange rates, according to guidelines established and monitored by the corporate executive board.

a. Appraisal of financial instruments

The Company's main asset and liability financial instruments on December 31, 2007 are described hereinafter, along with the criteria for appraising / evaluating them:

(I) Cash funds, financial investments

Financial investments are stated based on the effectively negotiated interest rates, given that the company and its associates aim to maintain such investments until their effective maturity. The book values are close to the market values on the financial statement dates.

(II) Accounts receivable, other current assets and accounts payable

The amounts accounted for are close to market values.

(III) Investments

These consist mainly of investments in private associates, recorded by the equity equivalence method,

which are of strategic interest to the Company.

(IV) Borrowings

Subject to interest rates close to normal market rates on the date of the financial statements, as described in explanatory Note 12.

b. Risk management

The main risks to which the Company and its associates are exposed reflect strategic/operational and economic/financial aspects.

The economic and financial risks reflect mainly the behavior of macroeconomic variables, such as interest and exchange rates.

Policies and guidelines determined by Company management prohibit speculative negotiation and establish the diversification of instruments and counterparts. They also aim to constantly monitor and evaluate the global backlog position in order to measure financial results and their impact on cash flow.

To protect its equity, the company and its associates adopt conservative fund raising and financial investment policies and seek to minimize capital cost.

(I) Interest rate risk

The debt portion shown in Reais subject to floating rates basically involves the long-term Brazilian interest rates (TJLP), informed by the Brazilian Central Bank – BACEN.

(II) Exchange rate risk

The Company monitors the effect of exchange rate oscillations on its equity position and on the commercial flow of contracts on backlog and in negotiation.

Additionally, it strives to diversify its financial investments between domestic and foreign currency (reais and U.S. dollar), in accordance with its working capital and estimated usage of same.

The equity position for the main foreign currency accounts on December 31, 2007:

	Parent company	Consolidated
CURRENT ASSETS		
Cash and banks	13,420	15,785
Financial investments (Note 3)	358,726	369,484
Accounts receivable (Note 4)	61,091	57,488
Total current assets	433,237	442,757
CURRENT LIABILITIES		
Suppliers (Note 10)	(29,100)	(10,785)
Total current liabilities	(29,100)	(10,785)
Net hedge	404,137	431,972

In 2007, the Company and its associates entered into operations involving financial instruments of the type short term “forward” in American dollars and Euros, in order to reduce the exposure to exchange risks in their main commercial contracts. The execution of these operations followed the orientation and monitoring of the Board of Directors of the Company and its associates.

(III) Credit risk

These risks are managed and minimized through a specific policy of granting credit to selected customers, with coverage for eventual default as established in explanatory Note 4.

(IV) Strategic / operational risks

Strategic operational risks such as demand behavior, competition and technological innovation, come under the competence of the Company’s management model.

The Company’s economic performance is related to the supply of steel pipes for infrastructure projects in the oil, petrochemical, gas and sanitation industries, and may vary significantly from time to time, depending on the order backlogs and delivery terms.

c. Market values

The Company and its subsidiaries evaluate their book assets and liabilities in relation to market values using available information and appropriate methodologies, a procedure requiring considerable judgment and reasonable estimates to produce the most suitable realizable value.

The market values of financial investments and borrowings were calculated based on the current value of the respective contracts, using indexes and interest rates applicable to instruments of similar nature, terms and risks, and which approximate accounting amounts.

23. Insurance coverage (not audited)

It is the policy of the Company and its associates to maintain fire insurance for plants and equipment subject to risk for amounts considered sufficient to cover possible losses, considering the nature of the operation and based on insurance consultants’ advice.

24. Changes in Brazilian corporative legislation, as of January, 2008.

On December 28, 2007, Law 11.638 was approved, which alters, revokes and introduces new rules to the Law of Share Societies, especially with regard to Chapter XV, on accounting, which becomes effective in the period beginning January 1, 2008.

The main objective of this change was to update the Brazilian corporative law, simplifying the convergence of accounting practices used in Brazil with those contained in international accounting norms. It also allows new accounting norms and procedures to be issued by CMV in agreement with international accounting practices.

Some rules should become applicable as of the beginning of the next period, while others depend on regulation by the appropriate organs.

The main changes that could affect the Company may be summarized as follows:

- Substitution of the Statement of origin and use of income for the Cash Flow Statement.
- Inclusion of the statement of value added (DVA).
- Possibility of registering transactions to attend tax legislation, and, as a result, making the necessary adjustments to adapt accounting practices.
- Two new account subgroups: a) intangible and b) adjustments of equity evaluation in net equity, to allow the register of certain evaluations of assets at market price, especially financial instruments; register exchange variations on foreign stock investments by equity equivalence (until December 31, 2007 this exchange variation was registered in the results of the period); adjustments of the assets and liabilities to market value, due to fusion and incorporation between non-related parties and linked to effective transfer of control.
- Obligation of the Company to periodically analyze the recuperation capacity of amounts registered in fixed, intangible and deferred assets.
- Introduction of the concept of adjustment to present value for long term asset and liability operations and for relevant short term operations.
- Elimination of the reevaluation reserves. Existing balances in the reevaluation reserve should be maintained until their realization or cancelled until the end of the period in which the legislation becomes applicable.

- Requirement that investments in financial applications, including derivatives, be registered: (I) by market value or equivalent, when dealing with applications for negotiation or available for sale; and (II) by purchase or emission price, updated by legal rules or contracts, adjusted to probable sale value, when this is less.

Due to the fact that these changes have recently been approved and some still depend on adjustment by competent organs, it was not possible to estimate all effects on the financial statements.

Cash flow Statement

	Parent company		Consolidated	
	2007	2006	2007	2006
OPERATIONAL ACTIVITIES				
Net income for year	249,114	87,824	249,114	87,824
EXPENSES (REVENUES) NOT AFFECTING CASH AND EQUIVALENTS				
Depreciations and amortizations	31,741	28,483	34,385	34,116
Monetary / exchange variations	38,370	23,203	41,383	23,898
Income from sale of property	(29,299)	–	(29,299)	–
Residual value of written off permanent assets	360	800	2,788	839
Equity equivalence results	(19,123)	(5,312)	(3,783)	541
Deferred income tax and social contribution	6,268	(1,164)	4,918	(3,610)
Variation in minority shareholdings	–	–	–	125
Exchange variation in investment abroad	–	–	12	6
Contingency provision	13,644	3,506	14,852	7,949
	291,075	137,340	314,370	151,688
(INCREASE) REDUCTION IN ASSETS				
Accounts receivable	(155,526)	(13,721)	(161,117)	(14,143)
Receivable from associated parties	(377)	32,932	(1,068)	13,782
Inventories	64,292	(334,527)	67,299	(290,875)
Prepaid expenses	1,356	(6,493)	1,037	(4,351)
Taxes recoverable	(17,890)	(7,489)	(12,745)	(18,401)
Others	(29,044)	(192)	(31,134)	(1,305)
	(137,189)	(329,490)	(137,728)	(315,293)
INCREASE (REDUCTION) IN LIABILITIES				
Suppliers	(27,244)	77,032	(37,703)	84,117
Customer advances	63,781	383,687	45,935	388,960
Taxes payable	61,987	(40,728)	65,605	(40,609)
Salaries and related costs	3,831	1,928	3,783	2,600
PAES – special installment plan	(2,197)	(1,654)	(3,037)	(2,975)
Disbursement for contingencies provision	(2,895)	(10,966)	(3,455)	(14,062)
Disbursement for income tax and social contribution	(67,032)	(44,140)	(69,725)	(47,628)
Others	201	(10,166)	1,267	(11,380)
	30,432	354,993	2,670	359,023
Cash generated by operational activities	184,318	162,843	179,312	195,418

	Parent company		Consolidated	
	2007	2006	2007	2006
INVESTMENT ACTIVITIES				
Sale of property	36,000	–	36,000	–
Dividends received from associates	1,364	–	–	–
Acquisition of property, plants and equipment	(26,552)	(35,602)	(26,602)	(45,272)
Cash generated (used) for investments	10,812	(35,602)	9,398	(45,272)
FINANCING ACTIVITIES				
Payment of dividends and interest on own capital	(35,309)	(51,340)	(35,309)	(51,906)
Borrowings	41,419	15,119	9,614	56,252
Amortization of borrowings– principal	(56,343)	(15,037)	(30,360)	(48,064)
Amortization of borrowings – interest	(4,712)	(5,083)	(4,900)	(5,920)
Cash used in financing activities	(54,945)	(56,341)	(60,955)	(49,638)
EFFECT OF EXCHANGE VARIATIONS ON CASH AND EQUIVALENTS	(33,374)	(18,024)	(38,619)	(18,709)
EFFECT OF CHANGES IN THE CONSOLIDATION CRITERIA – SOCOTERM BRASIL	–	–	(1,277)	–
Increase in cash and equivalents	106,811	52,876	87,859	81,799
Initial balance cash and equivalents	307,558	254,682	341,575	259,776
Final balance cash and equivalents	414,369	307,558	429,434	341,575
Increase in cash and equivalents	106,811	52,876	87,859	81,799
ADDITIONAL INFORMATION TO CASH FLOW				
Payment of derivative operations (net of receipts)	6,212	4,076	6,416	4,695

Sérgio Ricardo Putini
TC CRC 1SP221919/O-2
CPF 063.498.578-79

Report of the independent auditors

To the Board of Directors and Shareholders of Confab Industrial S.A.

1. We have audited the balance sheets of Confab Industrial S.A. and its associates (parent company and consolidated) as of December 31, 2007 and 2006, and the respective statements of income, of changes in shareholders equity (parent company) and of origins and uses of resources corresponding to the periods ending on those dates, prepared under the responsibility of the management. It is our responsibility to express an opinion about these financial statements. The financial statements of the associated company SIAT S.A. for the period ending on December 31, 2007 and 2006 were examined by other independent auditors, and our opinion with respect to the value of this investment, totalling R\$ 49.521 thousand on December 31, 2007 (R\$ 50.030 thousand on December 31, 2006) and the respective loss of equity equivalence referring to the period ending on that date, in the amount of R\$509 thousand (R\$2.169 thousand in losses for the period ending on December 31, 2006) is based on the report of those other independent auditors.

2. Our audit was conducted in accordance with Brazilian auditing standards and encompassed: (a) the planning of work, considering the relevance of balances, the volume of transactions, and the Company's and associates' accounting and internal control systems; (b) the confirmation, based on tests, of evidence and records supporting the amounts and disclosures in the financial statements, and (c) the assessment of the most representative accounting practices and estimates used by the company's management, as well as the overall presentation of the financial statements.

3. In our opinion, based on our examination and on the opinion of other independent auditors, the financial statements referred to in paragraph 1 properly show, in all relevant aspects, the equity and the financial position of Confab Industrial S.A. (parent company and consolidated) on December 31, 2007 and 2006, as well as the results of its operations, the changes in shareholders' equity (parent company) and origins and uses of resources corresponding to the periods ending on those dates, in compliance with the accounting practices adopted in Brazil.

4. This audit was conducted with the objective of presenting an opinion about the financial statements referred to in paragraph 1 taken as a whole. The statements of cash flow (parent company and consolidated) for the period ending on December 31, 2007 and 2006, that are being presented to provide supplementary information about the Company and its associates, are not required by the accounting practices adopted in Brazil. These statements of cash flow were submitted to the same audit procedures described in paragraph 2 and, in our opinion, these supplementary statements are adequately presented, in all relevant aspects, with regard to the financial statements of the periods ending on December 31, 2007 and 2006.

São Paulo, January 25, 2008

Deloitte Touche Tohmatsu Independent Auditors

CRC nº 2 SP 011609/O-8

Paulo Manuchakian – Accountant

CRC nº 1 SP 108972/O-1

