

Financial statements

December 31st, 2008 and 2007

All amounts in thousands of reais, unless otherwise indicated

Balance sheet

ASSETS	Parent Company		Consolidated	
	2008	2007	2008	2007
CURRENT ASSETS				
Cash and banks	7,935	26,863	10,181	31,145
Financial investments (Note 3)	425,915	387,506	456,534	398,289
Accounts receivable (Note 4)	370,820	299,116	387,144	302,707
Inventories (Note 5)	605,086	499,878	605,211	490,805
Receivables from associate parties (Note 11)	5,350	1,023	2,675	511
Taxes recoverable (Note 6)	143,834	93,211	147,444	96,965
Deferred income tax and social contribution (Note 17a)	36,619	11,107	37,917	13,218
Prepaid expenses and others	43,355	6,066	43,746	6,551
Total current assets	1,638,914	1,324,770	1,690,852	1,340,191
NON-CURRENT ASSETS				
Long term receivables				
Subsidiaries and associated parties (Note 11)	12,320	11,043	12,320	11,027
Deferred income tax and social contribution (Note 17a)	18,149	12,881	19,712	14,341
Taxes recoverable (Note 6)	5,447	6,117	14,658	13,692
Legal Deposits	34,294	34,091	36,966	34,949
Other receivables	708	710	708	710
Investments				
Associates (Note 7)	166,782	120,858	90,345	54,925
Other investments	75	–	84	66
Property, land and Equipment (Note 8)	212,482	224,445	226,154	240,178
Intangible (Note 9)	3,051	5,133	3,088	5,134
Total non-current assets	453,308	415,278	404,035	375,022
Total assets	2,092,222	1,740,048	2,094,887	1,715,213

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Parent Company		Consolidated	
	2008	2007	2008	2007
CURRENT LIABILITIES				
Suppliers (Note 10)	194,538	133,904	173,489	110,602
Borrowings (Note 12)	12,550	11,807	12,550	11,807
Customer advances (Note 13)	371,430	548,804	372,771	552,686
Taxes and contributions payable	26,287	3,790	36,091	5,794
PAES – Special Installment Plan (Note 14)	2,975	3,119	3,490	3,733
Salaries and related costs	19,643	16,645	22,256	18,027
Employee profit share provision	16,489	6,315	17,526	6,770
Loans – related parties (Note 11)	–	17,362	–	–
Dividends and interest payable on own capital	90,012	47,369	92,687	47,880
Other accounts payable	5,861	1,378	6,819	2,914
Total current liabilities	739,785	790,493	737,679	760,213
NON-CURRENT LIABILITIES				
Long term liabilities				
Deferred income tax and social contribution (Note 17a)	12,463	1,814	12,549	1,814
Borrowings (Note 12)	14,086	24,675	14,086	24,675
PAES – Special Installment Plan (Note 14)	11,697	14,106	11,786	15,451
Provision for contingencies (Note 15)	71,268	41,710	75,864	45,810
Total non-current liabilities	109,514	82,305	114,285	87,750
NET EQUITY				
Share capital (Note 16a)	431,419	347,419	431,419	347,419
Capital reserve	309	309	309	309
Reevaluation reserve	–	4,843	–	4,843
Profits reserve	807,179	514,679	807,179	514,679
Share in treasury (Note 16f)	(34,628)	–	(34,628)	–
Adjustments to equity evaluation	38,644	–	38,644	–
Total net equity	1,242,923	867,250	1,242,923	867,250
Total liabilities and net equity	2,092,222	1,740,048	2,094,887	1,715,213

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

Income statement

	Parent Company		Consolidated	
	2008	2007	2008	2007
GROSS REVENUE	2,535,096	2,056,441	2,674,302	2,148,373
Sales taxes	(372,943)	(314,786)	(404,084)	(339,593)
NET SALES	2,162,153	1,741,655	2,270,218	1,808,780
Cost of goods and services sold	(1,448,950)	(1,241,418)	(1,498,587)	(1,277,271)
Gross profit	713,203	500,237	771,631	531,509
OPERATING INCOME (EXPENSES)				
Selling	(166,043)	(97,498)	(168,736)	(100,313)
Administrative and general	(72,701)	(68,594)	(75,196)	(70,144)
Management fees	(6,933)	(6,440)	(7,458)	(7,107)
Other operational income (expenses), net (Note 18)	(33,693)	27,198	(35,866)	22,145
	(279,370)	(145,334)	(287,256)	(155,419)
OPERATIONAL RESULTS BEFORE EQUITY EQUIVALENCE AND FINANCIAL RESULTS	433,833	354,903	484,375	376,090
Results in equity equivalence (Note 7)	49,168	19,123	14,064	3,783
OPERATING INCOME BEFORE FINANCIAL RESULTS	483,001	374,026	498,439	379,873
Net exchange variation (Note 19)	186,946	(30,067)	187,616	(33,611)
Financial expenses	(11,758)	(26,012)	(11,763)	(24,809)
Financial income	85,608	40,557	89,382	41,437
	260,796	(15,522)	265,235	(16,983)
PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION, PROFIT SHARE AND MINORITY INTERESTS	743,797	358,504	763,674	362,890
Income taxes and social contribution (Note 17b)	(217,068)	(100,418)	(235,335)	(104,108)
Profit share – employees (Note 20)	(18,639)	(8,972)	(20,249)	(9,668)
Net income for year	508,090	249,114	508,090	249,114
Net earnings per share – R\$	1.37513	0.70523		

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

Statements of changes in net equity (parent)

	Capital Reserve						Profits Reserve			Total
	Capital	Investment incentives	Reevaluation reserve	Legal reserve	For capital increase	Retention of profits	Shares in treasury	Adjustments of equity evaluation	Accumulated profits	
On december 31st, 2006	316,419	309	5,391	48,526	31,000	298,491	–	–	–	700,136
Capital increase with retained earnings (Note 16a)	31,000	–	–	–	(31,000)	–	–	–	–	–
Constitution of reserves for capital increase (Note 16c)	–	–	–	–	84,000	(84,000)	–	–	–	–
Reevaluation reserves, free of taxes	–	–	(548)	–	–	–	–	–	548	–
Net income for year	–	–	–	–	–	–	–	–	249,114	249,114
Constitution of reserves (Note 16d)	–	–	–	12,456	–	237,206	–	–	(249,662)	–
Interest on share capital (R\$ 0,12549 per share) (Note 16e)	–	–	–	–	–	(44,328)	–	–	–	(44,328)
Proposed complementary dividends (R\$ 0,10665 per share) (Note 16e)	–	–	–	–	–	(37,672)	–	–	–	(37,672)
On december 31st, 2007	347,419	309	4,843	60,982	84,000	369,697	–	–	–	867,250
Capital increase with retained earnings (Note 16a)	84,000	–	–	–	(84,000)	–	–	–	–	–
Constitution of reserves for capital increase (Note 16c)	–	–	–	–	171,000	(171,000)	–	–	–	–
Reversion of the reevaluation reserve (Note 8)	–	–	(4,843)	–	–	–	–	–	302	(4,541)
"Hedge Accounting", net of deferred tax credit	–	–	–	–	–	–	–	17,288	–	17,288
Exchange variation of overseas associates	–	–	–	–	–	–	–	21,356	–	21,356
Net income for year	–	–	–	–	–	–	–	–	508,090	508,090
Constitutions of reserves (Note 16d)	–	–	–	25,302	–	483,090	–	–	(508,392)	–
Shares in treasury (Note 16f)	–	–	–	–	–	–	(34,628)	–	–	(34,628)
Interest on share capital (R\$ 0,145860 per share) (Note 16e)	–	–	–	–	–	(53,892)	–	–	–	(53,892)
Proposed complementary dividends (R\$ 0,211105 per share) (Note 16e)	–	–	–	–	–	(78,000)	–	–	–	(78,000)
On december 31st, 2008	431,419	309	–	86,284	171,000	549,895	(34,628)	38,644	–	1,242,923

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

Statement of added values

	Parent Company		Consolidated	
	2008	2007	2008	2007
INCOME				
Sales of goods, products and services	2,548,477	2,062,830	2,687,683	2,154,791
Other income	7,313	31,022	7,676	29,291
Constitution of provision for doubtful accounts	(1,639)	(1,801)	(1,774)	(2,340)
	2,554,151	2,092,051	2,693,585	2,181,742
GOODS ACQUIRED FROM THIRD PARTIES (includes the ICMS, IPI, PIS and CONFINS taxes)				
Cost of products, goods and services sold	1,639,132	1,401,929	1,705,340	1,446,623
Materials, energy, third party services and others	272,046	165,545	252,108	165,400
	1,911,178	1,567,474	1,957,448	1,612,023
GROSS ADDED VALUE	642,973	524,577	736,137	569,719
DEPRECIATION, AMORTIVATION AND WEAR	32,428	31,741	34,669	34,385
NET ADDED VALUE PRODUCED BY THE COMPANY	610,545	492,836	701,468	535,334
ADDED VALUE RECEIVED THROUGH TRANSFERENCE				
Results in equity equivalence	49,168	19,123	14,064	3,783
Financial income	272,554	32,630	276,998	33,408
	321,722	51,753	291,062	37,191
TOTAL ADDED VALUE TO DISTRIBUTE	932,267	544,589	992,530	572,525
DISTRIBUTION OF ADDED VALUE				
Personnel	152,490	124,955	188,662	141,034
Direct remuneration	129,176	103,197	162,415	116,699
Benefits	14,870	12,878	16,913	14,471
FGTS	4,278	3,517	4,716	4,084
Others	4,166	5,363	4,618	5,780
Taxes, fees and contributions	257,685	133,363	277,759	139,994
Federal	256,591	132,478	276,666	139,086
State	823	595	822	618
Municipal	271	290	271	290
Remuneration on third party capital	14,002	37,157	18,019	42,383
Interest	7,357	36,334	7,210	37,983
Rent	4,127	(1,006)	6,720	1,201
Others	2,518	1,829	4,089	3,199
Remuneration on share capital	508,090	249,114	508,090	249,114
Interest on share capital	53,892	44,328	53,892	44,328
Dividends	78,000	37,672	78,000	37,672
Retained profits for year	376,198	167,114	376,198	167,114

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.

According to what was instituted by CPC n°13 – Initial Adoption of Law n° 11.638/07 and the Transitory Measure n° 449/08, the Company selected Jan 1st, 2008 as the transitory date to adopt the changes brought by Law 11.638/07, by the Instructive and Explicatory Note CVM 449/08, and by the Technical Pronouncements emitted by the Accounting Pronouncements Committee – APC and approved by the CVM. Management evaluated that the selection of Jan 1st, 2008 as the transitory date, would not pose relevant effects that would justify the reissuance of the balances related to the prior period, and nor could it hinder the users’ analysis of the financial records.

Follows the changes mentioned previously and the impacts to the Company, where applicable:

CPC N° 01 – Reduction to the Assets’ Recoverable Value: Approved by the CVM Deliberation n° 527/07, has as objective define procedures which will ensure that the Assets will not be recorded at a higher value than what could be recovered through usage or sale. The Company adopted this Deliberation, evaluated the assets as “impairment” and concluded that no adjustment was needed.

CPC N° 02 – The Effects of the Changes in the Exchange Rate and the Conversion of Financial Results: Approved by the CVM n° 534/08 has as objective define how to include transactions in foreign currencies and transactions made abroad into the financial records of a Brazilian Entity; aid in selecting the functional currency and how to convert the transactions made abroad into the currency used in the financial records in Brazil, so to define equity equivalence, of full consolidation or proportional. The adoption of this Proceedings had the following effects:

- The Company concluded that, due to the fact that it is not characterized as a separate stand alone entity, e thus represents and extension of its operations, the balances of the assets, liabilities, and results of Confab Trading LLC and Confab Trading N.V. were integrated into the controlling entity’s financial statements, starting in the Jan 1st 2008 period. The investments in these entities were evaluated and recorded previously using the “equity equivalency method”, and with this, the equity changes derived from the results of these entities and the gains and losses through the conversions of the financial records, were registered as results in the accounting period. Management believes that there are no significant effects in the period’s results nor in the net equity resulting from this change in accounting practice.

- The gain or loss by the conversion to Reais in the financial statements of SIAT S.A. abroad, utilizing the equity equivalence method and which its respective functional currency was the dollar, was recorded as equity evaluation adjustments in net equity. The Company adopted this change in accounting principle as of Jan 1st 2008 and through the accounting period of 2008, it recorded an increase in equity of \$21.356. During the 2007 period, this same item demonstrated a loss of R\$9.818, recorded as equity equivalency results.

CPC N° 03 – Demonstrations in Cash Flow: approved through CVM n° 547/08 Deliberation, has as objective instruct the preparation and presentation of the cash flow results. The Company adopted the Proceedings and is publishing the comparative cash flows for the 2007 and 2008 periods.

CPC N° 04 – Intangible Assets: Approved through CVM N° 560/08 Deliberation, has as objective to define the accounting principles, establish criterias to recognize and to measure the value of the intangible assets, and to define the specific considerations for these assets. The Company adopted this Proceedings without any effect in the accounting practices previously adopted.

CPC N° 05 – Interested Parties Disclosure: Approved by CVM n° 560/08 Deliberation, has as objective the establishment that the financial records must contain the necessary information to show the possibility that its financial position and its results may have been affected through the existence of transactions and balances with interested parties. The Company adopted this Deliberation and is publishing all the balances and transactions with Interested Parties (see Explanatory Note n°11).

CPC N° 06 – “Merchant Lease Operations”: Approved by CVM n°554/08, has as objective, establish to landlord, and tenants, the accounting practices and appropriate forms of publishing in regards to the merchant lease relations. The Company evaluated the Deliberation and concluded that there are no adjustments to be made since there are no contracts nor existing characteristics of financial merchant lease operations.

CPC N° 07 – Subvention and Government Assistance: Approved by the CVM n° 555/08, has as objective establish the accounting practices and appropriate forms of disclosure in regards to the subventions and government assistance. The Company evaluated this Deliberation and concluded that it is not applicable.

CPC N° 08 – Transactional Costs and Bonus in the Emission of Titles and Chattel Values: Approved by the CNM n° 556/08, has as objective establish the appropriate accounting treatment in the recognition, in the measurement, and in the publishing of the transactions costs incurred, and the bonus received in the process of integration of resources through the issuance of equity bonds, and/or debts. The Company evaluated and concluded that there are no adjustments to be made as a result of the adoption of this Deliberation.

CPC N° 09 – Demonstration of Added Value : Approved by the CVM n° 557/08, has as objective establish criterias for the elaboration and presentation of the Added Value Demonstrations. The Company adopted this Deliberation and is publishing the Added Value Demonstrations in comparable format for the 2007 and 2008 periods.

CPC N° 10 – Payment Based on Shares: Approved by the CVM n° 562/08, has as objective, the establishment of procedures to recognize and publish the financial results derived from the payment based on the sale of shares transactions. The Company evaluated this Deliberation and concluded that this is not applicable.

CPC N° 11 – Insurance Contracts: Approved by the CVM n° 563/08, has as objective the determination of accounting principles for the insurance of contracts for any party that issues such insurances. The Company analyzed the Deliberation and concluded that it is not applicable.

CPC N° 12 – Adjustment to the Present Value: Approved by the CVM n° 564/08, has as objective the establishment of the basic requisites to be considered when adjusting to the present value elements of the assets and liabilities when elaborating the financial reports. The Company analyzed the Deliberation and concluded that the long term assets are not subject of adjustments and the effects in the short term are not relevant.

CPC N° 13 – Initial Adoption of Law n° 11.638/07 and the Transitory Measure n° 449/08: Approved by the CVM N° 565/08, has as objective to ensure that the financial reports be prepared according to the new accounting principles adopted in Brazil. According to previously mentioned, the Company adopted the Proceedings and selected January 1st, 2008, as the transitory date.

CPC N° 14 – Financial Instruments: Recognition, Measurement and Evidence: Approved by the CVM n° 566/08, has as objective the establishment of principles to recognize and to the measurement of assets and financial liabilities, for the sales and purchase contracts

of non-finance items, and for publishing the derivative finance instruments. Additionally, the CVM issued the Instruction Norm N° 475/08, that deals with presenting information about financial instruments, and makes it mandatory publishing the Sensibility Analysis Board. For the financial derivative instruments utilized from the second quarter 2008 onwards, for the protection against the exchange rate effect on the raw materials purchased in international currency, which are “hedged” of firm compromises and were classified as cash flow “hedge”, the Company adopted progressively from the date of contracting these financial instruments, the accounting principle foreseen in the CPC n° 14. On Dec 31st, 2008, the cumulative reserve balance of the “accounting hedge” is R\$17.288 of gain recorded in the section “Equity Evaluation Adjustments”, free of taxable effects. According to CPC n° 14, this accounting principle is optional and can only be applied if at the date of contracting such financial derivative instrument, the Company prepared the required documentation. In this case, the Company believes that there are no adjustments to be made in prior periods, as the financial derivative instruments were already recorded at fair values.

Reversion of the Revaluation Reserve: according to what is stated in the Explanatory Note n°8, with the objective of updating itself to the Brazilian Societary Law changes, the Company recorded the reversion of the revaluation reserve, which was approved in the Management Council Meeting which occurred on July 31st 2008.

Non Operational Result: presented other revenues and expenses in the operational group and not after the operational results line, thus eliminating the segregation of operational and non operational results.

Tributary Effects in the initial usage of Law n°11.638/07 and Transitory Measure n° 449/08: the tributary effects resulting from the adoption of the above Law and Transitory Measure were recorded according to existing accounting principles, explicitly in the Income Tax and Social Contribution. The adjustments of adopting initially Law 11.638/07 contemplates the effects of income tax and deferred social contributions, when applicable.

The effects following the adoption of Law no 11.638/07 for financial demonstrations referring to the period ending on December 31st 2007 were the following:

	Asset Debit (Credit)	Liability Debit (Credit)	Net equity Debit (Credit)	Result Debit (Credit)
CHANGE				
Reversion of re-evaluation reserve	(6,636)	1,814	4,822	(579)
Integration of Confab Trading as an extension of Confab Industrial	(16,158)	16,158	–	–
Effect of conversion to Reais of foreing investments	–	–	–	(9,818)
Net effect – parent	(22,794)	17,792	4,822	(10,397)
Eliminations	16,158	(16,158)	–	–
Net effect – consolidated	(6,636)	1,814	4,822	(10,397)

2.1. Determination of results

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 combined cost price under the following conditions:

- Investments in associated companies are evaluated using equity equivalence. Exchange variations in foreign investments are registered under a specific account in net equity and will be recognized as income or expense only at the moment of sale or cancelling of the investment.
- The foreign entities that, according to CPC no 02, will not be considered as an independent entity and therefore represent an extension of the Company's operations have results in assets, liabilities and results integrated to the financial demonstrations of the parent company. Revaluation of properties, plants and equipment, conducted in 1991, based on appraisals by independent experts. As described in explanatory note no 8, with the objective of adapting to the alterations in the Brazilian legislation, a reversion of this re-evaluation reserve was approved in the Administration Council on 31st of June, 2008, as determined by Instruction CVM no 469/08, with effect only in equity accounts.

- 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, and the Company uses specific tools to calculate the market value of every financial instrument. The consistency of this value is reviewed by the Administration.

Furthermore, the Company contracts derivative financial instruments to protect itself against exchange rate variations in the acquisition of raw materials in a foreign currency for certain sale contracts which are established in Reais. These instruments, named "hedges" of firm commitment for the purchase of raw materials, are classified as 'hedge' of cash flow, according to the rules of CPC no 14.

The variations in the fair value of derivative financial instruments classified as ‘hedge’ of cash flow in the purchase of stated raw materials are registered as the following: (i) an effective installment, net of income taxes and social contributions, in the “adjustments in equity evaluation” in net equity; and (ii) a non-effective installment as result of operations. The registered values in the ‘adjustments to equity evaluation’ account are transferred to the cost of raw materials in stock upon arrival at the Company and later, after the sale of products where the raw materials were applied, to the ‘cost of products sold’ account.

The derivative financial instruments that, although contracted with the objective of offering economic protection in accordance to the Company’s risk management policies, do not comply with the rules of CPC no 14 in relation to ‘hedge’ accounting to protect the commitment of purchase of raw materials shall be classified as derivatives maintained for negotiation, and the respective variations in fair value are registered in the results exercises where applicable.

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. Adjustment to current value

The monetary assets and liabilities are analysed and adjusted when the effect is considered relevant in relation to the financial demonstrations when taken as a whole.

2.9. Evaluation of asset recovery

The Administration annually revises the net accounting value of its assets aiming to evaluate events or changes in economic, operational or technological circumstances which may indicate deterioration or loss of its recoverable value. When such evidence is identified and the net accounting value exceeds the recoverable value, a deterioration provision is carried out adjusting the net accounting value to the recoverable value. These losses, if any, are classified as other operational expenses.

2.10. Cash flow demonstrations

Cash Flow demonstrations were prepared and presented in accordance with Deliveration CVM no 547, approved on August 13th, 2008, which approved CPC no 03 – Demonstrations in Cash Flow.

2.11. Demonstrations in added value

The added value demonstrations were prepared and presented in accordance with Deliveration CMV no 557, approved on November 12th, 2008, which approved CPC no 09 – Demonstrations in Added Value.

2.12. Profit per share

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

2.13. 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.

2.14. 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.

The consolidated financial statements encompass the following associated companies:

- Confab Montagens Ltda.
- Confab Revestimentos Ltda.
- Socotherm Brasil S.A. (partnership control – 50%)
- Confab Trading LLC and its subsidiary Confab Trading N.V. (up to 31st of December, 2007)

For presentation purposes, starting from the period ending on December 31st 2008, the Company adopted the prospects of Technical Pronouncement CPC n° 2, levelling the activities of the controlled companies Confab Trading LLC and Confab Trading NV to an affiliated company, thus integrating their assets, liabilities and results to the financial demonstrations of the parent company Confab Industrial S.A.

3. Financial applications

Type	ANNUAL INTEREST RATE	Parent Company		Consolidated	
		2008	2007	2008	2007
FINANCIAL INVESTMENTS IMMEDIATE AVAILABILITY:					
National currency (fixed date deposit)	102% CDI	–	28,780	2,827	28,805
Foreign currency (fixed date deposit)	0,15% + US\$	425,915	358,726	453,707	369,484
Total		425,915	387,506	456,534	398,289

On December 31st 2008, the balance of financial applications of the parent company was represented by quotas in an investment fund of the ‘money market’ type, with immediate liquidity. According to this fund’s

prospects, the values are invested in “U.S. treasuries securities” and “U.S. treasury-backed repurchase agreements” (repurchase agreements guaranteed by “U.S. treasuries securities”).

4. Clients

	Parent Company		Consolidated	
	2008	2007	2008	2007
INTERNAL MARKET				
Third parties	120,110	232,059	139,427	241,228
Interested parties (Note 11)	6,247	4,170	3,225	2,190
	126,357	236,229	142,652	243,418
EXTERNAL MARKET				
Third parties	243,655	54,397	243,672	55,513
Interested parties (Nota 11)	125	6,694	125	1,975
	243,780	61,091	243,797	57,488
Other credits	683	1,796	695	1,801
Total	370,820	299,116	387,144	302,707

On December 31st 2008, the client’s accounts receivable values are demonstrated net of doubtful account credit provisions, in the values of R\$14,425 (R\$11,510

on December 31st 2007) in the parent company and R\$14,698 (R\$14,458 on December 31st 2007) in the consolidated.

5. Stocks

	Parent Company		Consolidated	
	2008	2007	2008	2007
Finished products	126,695	120,909	127,876	122,968
Semi-finished products	61,603	69,544	62,001	69,684
Raw materials	255,701	215,720	262,001	221,287
Diverse materials	27,552	25,733	28,854	26,839
Supplier advances	51,664	67,329	42,510	49,077
Importations in progress	94,930	11,035	95,189	11,494
Provision for adjustment for obsolescence/market	(13,059)	(10,392)	(13,220)	(10,544)
	605,086	499,878	605,211	490,805

The level of products in stock is related to order backlog. On December 31st, 2008, the parties related to the values in stock were the projects Alças do Gasbel II and Pilar – Ipojuca in the domestic market and TGP and Loops in the foreign market.

6. Taxes recoverable

Represented mainly by credits and tax advances, as follows:

	Parent Company		Consolidated	
	2008	2007	2008	2007
CURRENT				
Value added tax on goods and services – ICMS	62,891	61,471	63,342	61,876
Excise tax – IPI	1,001	1,353	1,648	1,841
Income tax and social contribution – IRPJ and CSLL	6,140	11,130	8,205	13,586
PIS and CONFINS – non cumulative	36,302	7,785	36,302	7,785
PIS and CONFINS recoverable – others	13,600	4,520	13,997	4,896
Others	23,900	6,952	23,950	6,981
	143,834	93,211	147,444	96,965
LONG TERM				
Finsocial recoverable	2,368	2,368	2,368	2,368
INSS recoverable	–	–	7,996	6,784
ICMS recoverable on fixed assets	3,079	3,749	4,294	4,540
	5,447	6,117	14,658	13,692

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.

The company foresees these credits should be entirely used in Company operations during 2009.

7. Investments in associated companies

	Confab Montagens Ltda.	Confab Revestimentos Ltda.	Socotherm Brasil S.A.	TenarisConfab Hastes de Bombeio S.A.	Confab Trading LLC	Siat S.A.	Total
MOVEMENT							
Balances on december 31st, 2007 (parent company)	28,543	(5)	21,705	5,404	15,690	49,521	120,858
Equity Equivalence	21,926	–	13,178	1,625	–	12,439	49,168
Exchange rate conversion results to Reais in financial demonstrations in foreign investments	–	–	–	–	–	21,356	21,356
Dividends	–	–	(8,910)	–	–	–	(8,910)
Adoption of CPC n°2	–	–	–	–	(15,690)	–	(15,690)
Balances on december 31st, 2008 (parent company)	50,469	(5)	25,973	7,029	–	83,316	166,782
Eliminations	(50,469)	5	(25,973)	–	–	–	(76,437)
Balances on december 31st, 2008 (consolidated)	–	–	–	7,029	–	83,316	90,345

	Thousands of share or quotas		Company participation in paid in capital – %	Adjusted shareholder equity	Adjusted net profit/loss	Net profit	Exchange parity/ Profit not realized
	Ordinary shares	Quotas					
On december 31st, 2007							
Confab Montagens Ltda. ^(a)	–	10,419	100	28,543	–	14,299	–
Confab Revestimentos Ltda. ^(b)	–	7,103	100	(5)	–	–	–
Socotherm Brasil S.A. ^(e)	932	–	50	44,875	(733)	9,528	(592)
Tenaris Confab Hastes de Bombeio S.A. ^(c)	1,505	–	49	11,027	–	8,761	–
Confab Trading LLC ^(d)	–	–	100	15,690	–	96	(3,228)
Siat S.A. ^(f)	12,000	–	30	165,069	–	31,029	(9,818)
On december 31st, 2008							
Confab Montagens Ltda. ^(a)	–	10,419	100	50,469	–	21,926	–
Confab Revestimentos Ltda. ^(b)	–	7,103	100	(5)	–	–	–
Socotherm Brasil S.A. ^(e)	932	–	50	53,814	(934)	26,759	(201)
Tenaris Confab Hastes de Bombeio S.A. ^(c)	1,505	–	49	14,343	–	3,316	–
Confab Trading LLC ^(d)	–	–	100	20,961	–	170	5,101
Siat S.A. ^(f)	12,000	–	30	277,720	–	41,463	21,356

(a) 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.

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

(c) 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.

(d) 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. As of December 31st, 2008, for not being characterized as an independent entity and therefore representing an extension of the Company's operations, as defined by CPC no 02 – The Effects of the Changes in the Exchange Rate and the Conversion of Financial Results, the balances of assets, liabilities and results of Confab Trading LLC and Confab Trading N.V. were integrated to the parent company's financial demonstrations.

(e) 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.

(f) 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	
					2008	2007
	Annual depreciation rate %	Corrected and restated cost	Accumulated depreciation	Net value	Net value	
Land	–	7,680	–	7,680	9,010	
Buildings	4	72,689	(26,152)	46,537	49,189	
Machinery and equipment	10	247,325	(137,562)	109,763	121,289	
Installations	10	28,327	(10,669)	17,658	15,006	
IT equipment	20	12,176	(9,345)	2,831	2,695	
Furniture and fixtures	10	4,332	(2,858)	1,474	1,490	
Vehicles	20	17,824	(13,714)	4,110	3,595	
Construction in progress	–	22,429	–	22,429	22,171	
		412,782	(200,300)	212,482	224,445	

					Consolidated	
					2008	2007
	Annual depreciation rate %	Corrected and restated cost	Accumulated depreciation	Net value	Net value	
Land	–	7,680	–	7,680	9,010	
Buildings	4	77,094	(27,788)	49,306	51,984	
Machinery and equipment	10	263,091	(145,166)	117,925	129,727	
Installations	10	31,084	(11,780)	19,304	15,621	
IT equipment	20	12,425	(9,566)	2,859	2,730	
Furniture and fixtures	10	4,413	(2,906)	1,507	1,518	
Vehicles	20	19,745	(14,938)	4,807	4,445	
Construction in progress	–	22,766	–	22,766	25,143	
		438,298	(212,144)	226,154	240,178	

On December 31, 2007 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, in the value of R\$ 6,636. During the period ending on 31st of December, 2008, with the objective of adapting itself to the changes in Brazilian legislation, the Company

filed a reversion of this re-evaluation reserve, without effect in results, as approved in the Administration Council held on June 31st, 2008, as foreseen in Ruling CVM no 469/08.

The movement in property, plants and equipment is demonstrated as follows:

	Parent Company		Consolidated	
	2008	2007	2008	2007
Balance at beginning of year	224,445	226,428	240,178	267,899
ADDITIONS				
Buildings	3,587	1,787	3,774	2,519
Machinery and equipment	11,311	30,961	12,580	31,827
Intallations	4,751	3,700	5,962	3,957
IT equipment	1,725	961	1,736	961
Furniture and fixtures	328	455	339	456
Vehicles	1,932	732	2,056	1,558
Constructions in progress (net transfers of finished projects)	258	(13,087)	(2,376)	(15,719)
Total additions	23,892	25,509	24,071	25,559
Net write offs	(6,418)	(360)	(6,418)	(2,788)
Effects of the changes in the consolidation criteria – Socotherm Brazil	–	–	–	(20,717)
Depreciation	(29,437)	(27,132)	(31,677)	(29,775)
Balance at the end of year	212,482	224,445	226,154	240,178

The balance of construction in progress refers essentially to the expenditures on the expansion and modernization of the pipe division plant in Pindamonhangaba – SP – Pipe Business.

As mentioned in the explanatory notes no 12 and no 15, on 31st of December of 2008 there were goods given as collateral for certain financial investments and legal suits in effect.

9. Intangible

Parent Company					
	2008			2007	
	Annual depreciation rate %	Corrected cost	Accumulated depreciation	Net	Net
Rights of usage of softwares	20	28,153	(25,102)	3,051	5,133
Others	–	20	(20)	–	–
		28,173	(25,122)	3,051	5,133

Consolidated					
	2008			2007	
	Annual depreciation rate %	Corrected cost	Accumulated depreciation	Net	Net
Rights of usage of softwares	20	28,310	(25,222)	3,088	5,134
Others	–	29	(29)	–	–
		28,339	(25,251)	3,088	5,134

The changes in intangible are demonstrated as follows:

	Parent Company		Consolidated	
	2008	2007	2008	2007
Balance at beginning of period	5,133	8,699	5,134	8,702
ADDITIONS				
Rights of usage of software	909	1,043	946	1,043
Effect of changes in consolidation – Socotherm Brazil	–	–	–	(1)
Depreciations	(2,991)	(4,609)	(2,992)	(4,610)
Balance at the end of period	3,051	5,133	3,088	5,134

10. Suppliers

	Parent Company		Consolidated	
	2008	2007	2008	2007
DOMESTIC MARKET				
Third parties	108,256	80,103	112,879	87,466
Interested parties (Note 11)	52,123	24,701	26,286	12,376
Subtotal	160,379	104,804	139,165	99,842
EXTERNAL MARKET				
Third parties	6,576	3,153	6,741	4,456
Interested parties (Note 11)	27,583	25,947	27,583	6,304
Subtotal	34,159	29,100	34,324	10,760
	194,538	133,904	173,489	110,602

11. Transactions with related parties

EQUITY ACCOUNTS	NOTES	Parent Company		Consolidated	
		2008	2007	2008	2007
CURRENT ASSETS					
CLIENTS (BILLED – INTERNAL MARKET)					
Exiros BR Ltda.		3	9	3	9
Socotherm Brasil S.A.	(a)	2,871	3,889	1,435	1,944
Techint S.A.		–	83	–	83
Tenaris Confab Hastes de Bombeio S.A.		179	93	179	93
		3,053	4,074	1,617	2,129
CLIENTS (CREDITS TO BE BILLED – INTERNAL MARKET)					
Exiros BR Ltda.		27	8	27	8
Confab Revestimentos Ltda.		16	–	–	–
Socotherm Brasil S.A.		3,140	71	1,570	36
Tenaris Confab Hastes de Bombeio S.A.		11	17	11	17
		3,194	96	1,608	61
Total internal market		6,247	4,170	3,225	2,190
CLIENTS (BILLED – FOREIGN MARKET)					
Confab Trading N.V. (Note 7)		–	4,672	–	–
Damilne S.p.A.		–	351	–	351
Hydril Company		–	85	–	85
Information System & Technology S.A.		2	2	2	2
Maverik Tube Corporation		–	170	–	170
Siat S.A.		70	53	70	53
Socominter S.A.		3	2	3	2
Techint Compagnia Tecnica Internazionale S.p.A.		50	38	50	38
Tenaris Global Services Nigeria Ltd.		–	1,262	–	1,262
Tubos del Caribe Ltda.		–	–	–	12
		125	6,635	125	1,975
CLIENTS (CREDITS TO BE BILLED – FOREIGN MARKET)					
Confab Trading N.V. (Note 7)		–	59	–	–
		–	59	–	–
Total foreign market		125	6,694	125	1,975
Total clients		6,372	10,864	3,350	4,165
INVENTORIES (ADVANCES TO SUPPLIERS)					
Siat S.A.	(b)	19,157	–	19,157	–
Socotherm Brasil S.A.	(c)	19,049	36,651	9,524	18,325
		38,206	36,651	28,681	18,325
DIVIDENDS RECEIVABLE					
Socotherm Brasil S.A.		5,350	1,023	2,675	511
		5,350	1,023	2,675	511
NON-CURRENT ASSETS					
LONG TERM RECEIVABLE (LOANS)					
Tenaris Confab Hastes de Bombeio S.A.	(d)	12,320	11,027	12,320	11,027
Confab Revestimentos Ltda.		–	16	–	–
		12,320	11,043	12,320	11,027
Total		62,248	59,581	47,026	34,028

EQUITY ACCOUNTS	NOTES	Parent Company		Consolidated	
		2008	2007	2008	2007
CURRENT LIABILITIES					
SUPPLIERS (BILLED – DOMESTIC MARKET)					
Confab Montagens Ltda.		27	–	–	–
Exiros BR Ltda.		–	–	–	25
Socotherm Brasil S.A.	(e)	51,620	24,701	25,810	12,351
		51,647	24,701	25,810	12,376
DIVIDENDS PAYABLE					
Exiros BR Ltda.		450	–	450	–
Techint S.A.		26	–	26	–
		476	–	476	–
Total domestic market		52,123	24,701	26,286	12,376
SUPPLIERS (BILLED – FOREIGN MARKET)					
Confab Trading N.V. (Nota 7)		–	19,678	–	–
Dalmine S.p.A.		400	322	400	322
Information Systems & Technology S.A.		–	61	–	61
Siat S.A.		399	8	399	43
Siderar S.A.I.C.		1	1	1	1
Siderca S.A.I.C.		28	21	28	21
Techint Eng. Company Inc. Suc. B. Aires		19	–	19	–
Techint Engineering Holding S.A.		6	5	6	5
Tenaris Global Services LLC	(f)	1,766	303	1,766	303
Tenaris Global Services S.A.	(g)	3,931	–	3,931	–
		6,550	20,399	6,550	756
SUPPLIERS (DIVIDENDS PAYABLE – FOREIGN MARKET)					
Exiros S.A.		140	–	140	–
Dalmine S.p.A.		124	172	124	172
Siat S.A.		550	5	550	5
Siderca S.A.I.C.		6,972	3,753	6,972	3,753
Tamsa – Tubos de Acero de México S.A.		29	22	29	22
Techint Eng. Company Inc. Suc. B. Aires		29	–	29	–
Techint Eng. Tec. Comercial Serv. LLC		1	–	1	–
Tenaris Global Services LLC		–	1,415	–	1,415
Tenaris Global Services S.A.		13,188	181	13,188	181
		21,033	5,548	21,033	5,548
Total foreign market		27,583	25,947	27,583	6,304
Total suppliers		79,706	50,648	53,869	18,680
ADVANCES TO CUSTOMERS					
Tenaris Global Services (USA) Corporation		–	–	481	365
		–	–	481	365
DIVIDENDS PAYABLE					
Siderca S.A.I.C.		35,821	11,980	35,821	11,980
		35,821	11,980	35,821	11,980
LOANS					
Confab Montagens Ltda.		–	17,362	–	–
		–	17,362	–	–
Total		115,527	79,990	90,171	31,025

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

(a) Balance receivable of R\$2,871 refers to commercial operations, with no guarantees, due as follows: R\$644 in January of 2009 and R\$2,227 in December 2009.

(b) Advance of R\$19,157 granted for the production of steel pipes for Gasmig project, due in January 2009.

(c) Advance of R\$19,049 granted for pipe coating services for the following projects:

Gasbel project – R\$2,545, between January and April 2009; Loops project – R\$801, between January and April 2009; Plangas project (Gaspal) – R\$1,020, in February 2009; Pilar Ipojuca project - R\$3,371 between January and August 2009, Uruguá-Mexilhão project – R\$ 5,815 between February and June 2009, Gasmig Project – R\$1,187 between February and June 2009, Gás Transboliviano project – R\$963 between January and April 2009, Tupi Project – R\$2.856 between June and November 2009, other projects – R\$491 between January and April 2009.

(d) Balance receivable R\$12.320 for loan granted, remunerated by variation in the SELIC rate, due in May, 2009.

(e) Balance payable in the amount of R\$51,620 for commercial operations, without guarantee, with the following due dates: R\$4.421 in January, 2009; R\$26,661 in February, 2009; R\$18,523 in March, 2009; R\$47 in April, 2009; R\$1,130 in June 2009; R\$19 in September 2009; and R\$819 in December 2009.

(f) Balance payable in the amount of R\$1,766 for sales commissions with due dates between February and June 2009.

(g) Balance payable in the amount of R\$3,931 for sales commissions with due dates in February 2009.

RESULT ACCOUNTS	Parent Company		Consolidated	
	2008	2007	2008	2007
SALE OF PRODUCTS AND SERVICES				
Confab Montagens Ltda.	–	117	–	–
Confab Trading N.V.	–	90,894	–	–
Dalmine S.p.A.	–	356	–	356
Finma S.A.I.F.	–	18	–	18
NKK Tubes K.K	–	149	–	149
Hydril Company	462	–	462	–
Socotherm Brasil S.A.	3,767	2,862	1,883	1,229
Siat S.A.	2,347	1,270	2,347	1,270
Siderar S.A.I.C.	–	127	–	127
Tecgas N.V.	–	33	–	33
Techint S.A.	36	833	36	833
Techint Eng. Tec. Comercial Serv. LLC	4	–	4	–
Tenaris Confab Hastes de Bombeio S.A.	1,062	2,463	1,062	2,463
Tenaris Global Services (USA) Corporation	15,931	4,296	15,931	65,494
Tenaris Global Services Nigéria Ltd.	–	1,328	–	1,328
Tenaris Global Services S.A.	34,028	10,360	34,028	11,252
	57,637	115,106	55,753	84,552
INTEREST ON LOANS (ASSETS)				
Confab Trading N.V.	–	1,306	–	–
Socotherm Brasil S.A.	950	60	475	30
Tenaris Confab Hastes de Bombeio S.A.	1,370	1,209	1,370	1,209
	2,320	2,575	1,845	1,239
RENTAL INCOME				
Socotherm Brasil S.A.	671	616	336	308
Tenaris Confab Hastes de Bombeio S.A.	397	332	397	332
	1,068	948	733	640
Total	61,025	118,629	58,331	86,431

RESULT ACCOUNTS	Parent Company		Consolidated	
	2008	2007	2008	2007
COST AND/OR EXPENSES RELATED TO				
Confab Montagens Ltda.	–	(1,267)	–	–
Confab Trading N.V.	–	(639)	–	–
Dalmine S.p.A.	(1,231)	(3,426)	(1,231)	(3,426)
Exiros BR Ltda.	(7,565)	(6,034)	(7,565)	(6,188)
Exiros S.A.	–	(1,134)	–	(1,134)
Finma S.A.I.F.	(7)	–	(7)	–
Information Systems & Technology S.A.	(352)	(733)	(352)	(1,682)
Metalmecanica S.A.	–	(786)	–	(786)
Santa Maria S.A.I y F.	(8)	–	(8)	–
Siat S.A.	(1,837)	(340)	(1,837)	(340)
Siderca S.A.I.C.	(6,381)	(3,656)	(6,381)	(3,656)
Socotherm Brasil S.A.	(153,017)	(104,638)	(76,509)	(52,319)
Techint Eng. Technical and Commercial Services LLC	(52)	(100)	(52)	(100)
Tamsa – Tubos de Acero de México S.A.	(492)	(789)	(492)	(789)
Techint S.A.	(108)	–	(108)	–
Techint Eng. Company Inc. Suc. B. Aires	(28)	–	(28)	–
Tenaris Confab Hastes de Bombeio S.A.	(35)	(11)	(35)	(11)
Tenaris Global Services LLC	(2,783)	(5,933)	(2,783)	(5,933)
Tenaris Global Services S.A.	(15,462)	–	(15,462)	–
	(189,358)	(129,486)	(112,850)	(76,364)
INTEREST ON LOANS (LIABILITIES)				
Confab Montagens Ltda.	(464)	(2,170)	–	–
Socotherm Brasil S.A.	–	(309)	–	(155)
	(464)	(2,479)	–	(155)
Total	(189,822)	(131,965)	(112,850)	(76,519)

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

a. BREAKDOWN OF ACCOUNTS PAYABLE

Type	Index / Currency	Annual interest rates %	Parent Company / Consolidated	
			2008	2007
LOCAL CURRENCY				
BNDES investments	TJLP	+ 4,25	19,485	28,676
BNDES investments	UMBND	+ 4,25	7,151	7,806
			26,636	36,482
CURRENT LIABILITIES			(12,550)	(11,807)
LONG TERM LIABILITIES			14,086	24,675

TJLP – Taxa de Juros de Longo Prazo

UMBND – Unidade monetária de BNDES (cesta de moedas)

b. LONG TERM DUE DATE

YEAR		
2009	–	11,605
2010	9,277	8,628
2011	4,809	4,442
	14,086	24,675

c. GUARANTEES

The financing destined to investments were guaranteed by the mortgage of property, plants and equipment owned by the Company.

13. Customer advances

The balance of R\$ R\$371,430 (R\$548,804 on December 31, 2007) in the parent company and R\$372,771 (R\$552,686 on December 31, 2007) 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 Uruguá-Mexilhão, Gasmig and Tupi in the domestic market, for which the company, as of 31st of December, 2008, had received advances of R\$109,981, R\$50,241 e R\$52,239, respectively.

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, 2008 and 2007, the annual amounts due for the long term installments were as follows:

YEAR	Parent Company		Consolidated	
	2008	2007	2008	2007
2009	–	3,135	–	3,577
2010	3,234	2,873	3,323	3,280
2011	3,276	3,135	3,276	3,338
2012	3,276	3,135	3,276	3,338
2013	1,911	1,828	1,911	1,918
	11,697	14,106	11,786	15,451

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	
	2008	2007	2008	2007
Labor suits	46,816	20,750	51,384	23,020
Labor suits – Rio de Janeiro Refrescos S.A.	4,257	3,930	4,257	3,930
Tax suits	9,581	10,975	9,645	13,131
Tax suits – Rio de Janeiro Refrescos S.A.	2,754	2,658	2,754	2,658
Civil suits	8,644	4,463	8,644	4,463
	72,052	42,776	76,684	47,202
Judicial deposits (suit accruals)	(784)	(1,066)	(820)	(1,392)
	71,268	41,710	75,864	45,810

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 Company	Consolidated
Balances in december 31st, 2006	32,058	36,344
Provisions, net of reversions	13,644	14,852
Compansation 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 S.A.	–	(834)
Balances in december 31st, 2007	41,710	45,810
Provisions, net of reversions	34,184	35,532
Compansation by amounts receivable – Rio de Janeiro Refrescos S.A.	(59)	(59)
Payments	(4,567)	(5,419)
Balances in december 31st, 2008	71,268	75,864

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\$12,170.

On December 31, 2008, the Company still has law suits deemed by its legal advisors to be possible losses in the amounts of R\$166,610 (R\$143,231 on December 31, 2007) for the parent company and R\$170,858 (R\$151,161 on December 31, 2007) in the consolidated account. From these suits, the amount of R R\$11,015 (R\$14,742 on December 31, 2007) 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, 2008, there are ongoing law suits with a probable positive outcome, involving the consolidated amount of R\$80,939 (R\$78,210 on December 31, 2007), net of legal fees, which will be recognized as the controversy comes to an end (transit in rem judicatam).

The financial demonstrations on earnings over the last five fiscal years and the taxes and contributions with variable due dates are subject to revision by legal entities. However, the Company Administration affirms that all payments have been met or properly accrued and, on December 31, 2008, no significant contingencies were held against the company.

16. Shareholders' equity

a) Share capital

The Company by-laws authorize a capital increase up to the total limit of 480.329.751 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, 2008 shows the following holdings:

Shareholders	Quantity of Ordinary Shares	%	Quantity of Preferential Shares	%	Total Quantity	%
Controlling (foreign capital)	144,046,572	99.22	–	–	144,046,572	38.99
Management						
Executive Officers	127,420	0.09	20,375,000	9.08	20,502,420	5.55
Board of Directors	681,604	0.47	6,424,126	2.86	7,105,730	1.92
Audit Council	–	–	600,820	0.27	600,820	0.16
Other Shareholders	319,639	0.22	188,631,843	84.10	188,951,482	51.14
Shares in Treasury	–	–	8,277,400	3.69	8,277,400	2.24
Total	145,175,235	100.00	224,309,189	100.00	369,484,424	100.00

Share Composition on December 31st, 2007:

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						
Executive Officers	121,818	0.09	27,921,600	13.02	28,043,418	7.94
Board of Directors	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

The Ordinary and Extraordinary Shareholders' Meeting held on April 16, 2008 approved a capital increase from R\$347,419 to R\$431,419, using R\$84,000 from the profit reserve balance. 16,248,837 new shares were issued, made up of 6,384,379 ordinary shares and 9,864,458 preferred shares, to be distributed to shareholders as a bonus.

b) Legal reserve

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

c) Capital increase reserve

As mentioned above, the amount of R\$84,000 was used to increase share capital. Additionally, it will be proposed at the General and Extraordinary Shareholder Meeting to be held on April 16, 2009 the alteration of share capital from R\$431,419 to R\$602,419, using the balance of the reserves account in the amount of 171,000, to be constituted and used in full for another capital increase.

d) Retained profits reserve

Considering that the company's main source of finance is its own income generation, and considering the prospects of the current global economic scenario, it will be proposed, at the General and Extraordinary Shareholders Meeting to be held on April 16, 2009, that the remaining balance of surplus earnings be retained in accordance with the capital budget proposed by the management.

e) 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\$53,892 as anticipated payment on the mandatory minimum dividend for 2008. These interest payments were approved in Board meetings held on April 30, June 31 and October 29, 2008.

In addition, the General and Extraordinary Shareholders' Meeting to be held on April 16, 2009, will propose the distribution of complementary dividends in the amount of R\$78,000, at a date yet to be defined.

The interest on equity capital, corresponding to the years ending on December 31, 2008 and 2007, 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, 2008 and 2007 is shown below:

	Net Profit		Capital	
	2008	2007	2008	2007
Percentage	25%	25%	8%	8%
Net profit for period	508,090	249,114	–	–
Share capital	–	–	431,419	347,419
Legal reserve (5%)	(25,302)	(12,456)	–	–
Basis of calculation	482,788	236,658	431,419	347,419
Minimum dividend	120,697	59,165	34,514	27,794
Interest on share capital anticipated during year	53,892	44,328	–	–
Proposed dividends	78,000	37,672	–	–
Total interest on share capital and declared dividends	131,892	82,000	–	–
Income tax - source	(8,084)	(6,650)	–	–
Total net interest on equity capital and declared dividends	123,808	75,350	–	–

f) Repurchase of shares program

The Administration Council in a meeting held on 26th of February, 2008 approved the repurchase of preferential shares emitted by the company to keep them in treasury, for later disposal or cancelling, without reductions to capital stock. The program is limited to the acquisition of up to 10,700,000 preferential shares and will be in effect for one year, starting as of 28th of February 2008.

Since the beginning of the program 8,266,574 preferential shares were repurchased from the market at an average price of R\$4,19, the minimum and maximum prices R\$2,96 and R\$6,40, respectively. These shares were rebated and totalled 8,277,400 shares as of 31st of December 2008, none having been disposed of in the period.

The shares market value registered on 31st of December 2008 was R\$3.75. The total value of acquisitions in the period ending on 31st of December of 2008 was R\$34,628, having been registered as a debit in the profit retention reserve account in net equity.

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 Administration Council 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:

	2008				2007		
	Current	Long Term Asset/ Liability	Changes in net equity Debit/ (Credit)	Changes in results Debit/ (Credit)	Current	Long Term Asset/ Liability	Changes in results Debit/ (Credit)
DEFERRED TAX ASSET							
Taxes challenged in court	–	675	–	–	–	675	6,186
Provision for doubtful receivables	3,600	–	–	(584)	3,016	–	(1,576)
Contingencies provision	6,147	15,559	–	(10,070)	–	11,636	(3,360)
Provision of adjustment of market/ obsolescent inventory	4,806	460	–	(907)	4,359	–	2,349
Provision for employee participation	4,679	–	–	(3,778)	901	–	–
Provision for commissions (exportation)	6,081	–	–	(4,788)	1,293	–	–
Derivatives	2,603	–	4,214	(6,817)	–	–	–
Provisions for costs and other receivables	8,703	1,455	–	(8,050)	1,538	570	2,952
Total parent company	36,619	18,149	4,214	(34,994)	11,107	12,881	6,551
Effects of the changes in consolidation criteria – Socotherm Brasil	–	–	–	–	–	–	(412)
Associates	1,298	1,563	–	710	2,111	1,460	(938)
Total consolidated	37,917	19,712	4,214	(34,284)	13,218	14,341	5,201
DEFERRED FISCAL LIABILITIES							
Derivatives	–	12,463	7,473	4,990	–	–	–
Reevaluation reserve	–	–	(1,680)	(134)	–	1,814	(283)
Total parent	–	12,463	5,793	4,856	–	1,814	(283)
Associates	–	86	–	86	–	–	–
Total consolidated	–	12,549	5,793	4,942	–	1,814	(283)
Net change in results				(29,342)			4,918

Estimate of realization of credits:

	1 year	2 years	3 years	Starting from 4 years	Total
DEFERRED TAX ASSETS					
Taxes challenged in court	–	319	–	357	676
Provision for doubtful receivables and others receivables	3,600	–	–	–	3,600
Contingencies provision	6,147	4,303	1,844	9,412	21,706
Provision for adjustment of market value/obsolescent inventory	4,806	460	–	–	5,266
Provision for employee participation	4,679	–	–	–	4,679
Provision for commissions (exportation)	6,081	–	–	–	6,081
Derivatives	2,603	–	–	–	2,603
Provisions for costs and others credits	8,703	–	–	1,455	10,158
Total parent	36,619	5,082	1,844	11,224	54,769
Associates	1,298	211	141	1,210	2,860
Total consolidated	37,917	5,293	1,985	12,434	57,629
DEFERRED TAX LIABILITIES					
Derivative	–	12,463	–	–	12,463
Total parent	–	12,463	–	–	12,463
Associates	–	86	–	–	86
Total consolidated	–	12,549	–	–	12,549

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	
	2008	2007	2008	2007
Profit before income tax and social contribution and after employee profit share	725,158	349,532	743,425	353,222
Nominal agreed rate – %	34	34	34	34
Expenses with nominal income tax and social contribution	(246,554)	(118,841)	(252,765)	(120,095)
Tributary effect over social contributions				
Results in equity equivalence	16,717	6,502	4,782	1,286
Interest on share capital	18,324	15,072	18,324	15,481
Other permanent additions, net	(5,109)	(3,151)	(5,230)	(780)
Reversion of deferred tax (Oca Mineração)	(446)	–	(446)	–
Current income tax social contribution	(217,068)	(100,418)	(235,335)	(104,108)

18. Other operating income (expenses), net

	Parent Company		Consolidated	
	2008	2007	2008	2007
Contingency provision (Note 15)	(34,184)	(13,644)	(35,532)	(14,852)
Results in the sale of land property in Barueri – SP	–	29,299	–	29,299
Earnings with other suits in transit	591	8,646	591	8,951
Other income (expenses), net	(100)	2,897	(925)	(1,253)
	(33,693)	27,198	(35,866)	22,145

19. Net exchange variation

Breakdown of net Exchange variation:

	Parent Company		Consolidated	
	2008	2007	2008	2007
Positive exchange variation on financial assets	206,764	5,987	207,991	6,022
Positive exchange variation on financial liabilities	166	6,470	228	7,004
Negative exchange variation on financial assets	–	(42,511)	–	(46,615)
Negative exchange variation on financial liabilities	(19,984)	(13)	(20,603)	(22)
	186,946	(30,067)	187,616	(33,611)

20. 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, 2008, the parent company and the consolidated statements show R\$18,639 and R\$20,249 respectively in the income statement for employee profit share (R\$8,972 and R\$9,668, respectively in the parent company and consolidated for the year ended on December 31, 2007). These amounts are gross of income tax and social contribution.

21. Financial instruments

a) General considerations

The parent company engages in transactions involving financial instruments to reduce exposure to the effects of changes in market risks.

b) Appraisal of financial instruments

The Company's main asset and liability financial instruments on December 31, 2008 are described hereinafter, along with the criteria for appraising / evaluating them:

(i) Cash Funds, Financial Investments

Financial investments, due to the current turbulence in the international economic system, have been substantially kept in financial application funds composed of bonds issued by the American Government. These applications possess high market liquidity, minimizing exposition to solvency risk.

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

The amounts accounted for are close to market values at the closing date of the period, taking into consideration the due date nature and deadlines.

(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 and Financing Activities

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

c) Risk management

(i) Exchange rate risk

The Company and its associates participate in operations involving financial instruments with the objective to reduce the risks of exchange rate nature, using this strategy to preserve in American dollars its financial position and the profitability of its major operations.

The Company monitors the effect of exchange rate oscillations by currency on its equity position and on the commercial flow of its major contracts on backlog, contracting, derivative financial instruments to achieve the objective defined in the strategy mentioned above.

The Company does not maintain or contract financial derivative operations which are not defined in its policies.

The Company maintains internal controls for its derivative instruments, which are adequate to control associated risks, according to Administration. The results obtained from coverage measures adopted by the company were successful in preserving, in American dollars, the monetary assets and profitability of its major projects.

Due to its preservation policy of financial positioning in American dollars, the Company presents its equity position on 31st of December, 2008, substantially in American Dollars:

	Parent Company	Consolidated
CURRENT ASSETS		
Cash and banks	3,045	3,154
Financial investments (Note 3)	425,915	453,707
Accounts receivable (Note 4)	243,780	243,797
Total current assets	672,740	700,658
CURRENT LIABILITIES		
Suppliers (Note 10)	(34,159)	(34,324)
Total current liabilities	(34,159)	(34,324)
Net position	638,581	666,334

(ii) Risk of increase in raw material prices

The main raw material used by the Company is steel. In order to protect itself from fluctuations in the industrial cost of this component, the Company contracts its sales, fixing its prices simultaneously to the sale of the products. With the adoption of this strategy, aligned to the one related to exchange rate fluctuation risk, Administration believes to have minimized the risks from fluctuations of raw materials which could affect its industrial costs and its gross margins.

(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.

In addition, due to the nature of its activities, the Company usually carries out a substantial part of its sales within a period to one single client or clients belonging to the same group. To minimize this risk, the Company strives to commercialize its products with payment advances for the production of goods or rendering of services.

(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.

On the period ending on 31 of December, 2008, an equivalent of 48% of the earnings were represented by several projects for two of the main clients of the Company.

d) 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, obtained mainly from BM&F Bovespa.

e) Accounting for derivative financial instruments and hedging activities

(i) Composition

The fair value of these instruments at the date of the financial demonstrations, classified in the groups of “debts paid in advance and others” and/or “other accounts payable”, are demonstrated as follows:

TYPE	Notional amount (\$mil)	Currency	Counterpart	Contracted exchange rate (average)	Due date	2008	2007	Gain (loss) in the exercise
NDF/Swap (Hedge Accounting)	22,140	EUR	HSBC	3.0283	Jan to Feb/09	5,354	–	–
NDF/Swap (Hedge Accounting)	13,345	EUR	Santander	2.8684	Mar to May/09	6,099	–	–
NDF/Swap	4,360	USD	Itaú BBA	1.7891	Feb/09	2,551	–	1,708
NDF/Swap	10,800	USD	HSBC	1.7885	Jan and Jun/09	6,465	–	3,234
NDF/Swap	28,500	USD	Santander	1.8709	Feb to Ago/09	15,733	–	9,850
NDF/Swap	15,000	USD	Itaú BBA	2.3682	Feb/09	120	–	120
NDF/Swap	7,500	USD	HSBC	2.4607	Feb/09	(655)	–	(655)
NDF/Swap	33,900	USD	Santander	2.3270	Jan/09	990	–	990
NDF/Swap	7,000	USD	HSBC	1.7867	Jan/08	–	(107)	–
Total parent						36,657	(107)	15,247
Swap	675	EUR	HSBC	2.8521	Jan and Feb/09	252	–	252
Total consolidated						36,909	(107)	15,499
Other credits						39,925	–	
Other accounts payable						(3,016)	(107)	

(ii) Currency Contract without physical liquidation (NDF and Swap)

On Dec 31st 2008, the Company possessed several contracts which totaled an active position in US\$ and Euros, which would be due by August 2009. These contracts were realized according to the risk coverage practices mentioned above and are registered in the Custody and Liquidation Chamber – Cetip, having the counterparts financial institutions acting in the regional market. The contract liquidation will happen in Reais, and will be calculated thru the difference in the exchange rate's future value and the PTAX rate calculated by using the contracts' prior days due date, thus not requiring to physically receive the currency, and not having warranty given as collateral.

The Company reserves the right to liquidate these contracts prior to the due date and the anticipated liquidation value, if there is, will be calculated using pre-determined formulas agreed previously and will take into account the market rates at the anticipated liquidation date.

(iii) Hedge Accounting

As a basic rule, the Company recognizes gains and losses related to its derivative financial instruments as financial results.

Specific derivative financial instruments are contracted as hedge for a particular known risk related to an asset or liability or for a transaction representing a firm offer to buy. These transactions are classified as cash flow hedge (specially types of contracts deriving from currency forward and swap).

The effective variation portion at fair market value, from these derivative instruments are designated and qualified as cash flow hedge and are recognized in net equity. The accumulated values in the net equity are transferred to the raw materials inventory cost as it is received into the Company, and later, recorded in that period's results in which the coverable item had an impact in the revenue and expenses. The ineffective portion of the results is immediately recorded.

For the transactions designated and qualified as hedge, the Company registers, at the moment of designation, the relationship between the coverable instruments and the insured items, as well as documenting the objective of risk management and operational strategy of the insured transactions.

The adjustment changes, related to hedge are registered in the equity adjustment evaluation cost center and is show below:

	Parent Company and consolidated
Balance in december 31st 2007	-
Aditions to the reserve	42,030
Inventory reevaluation	(11,688)
Recognized in the results	(1,367)
Differed tributary credit	(11,687)
Balance on december 31st 2008 – gain	17,288

(iv) Sensibility Analysis Demonstration – fair value variation effect
Considering the Company's current exposure to the exchange rate changes, an eventual strengthening (increase in value) of the Real versus the US\$ dollar and or Euro, would negatively impact the company.

For these financial instruments, the Company considered as a probable scenario (scenario I), the Real's future exchange rate weighted average versus the US\$ dollar and or Euro, obtained through Bovespa BM&F, for every due date of each instrument, including NDF and Swap contracts opened on Dec 31st 2008, and calculated based on the notional amounts of these contracts.

Following the CVM 475/08 Instruction, used to determine the effects on the fair value of the financial instruments and its equity position resulting from an unfavorable exchange rate variation, the Company adopted two scenarios of negative variation based on the Instruction, 25% (Scenario II) and 50% (Scenario III) on to the respective exchange rates utilized in the probable scenario (scenario I).

The values are shown in gross form, not considering Income Tax and Social Contribution Tax:

		Scenario I	Scenario II	Scenario III
POSITION				
Unfavorable variation (strengthening of the Real)		0%	-25%	-50%
USD drop	BRL/USD	2.39	1.79	1.20
UST drop	BRL/EUR	3.34	2.51	1.67

OPERATION	Scenario I (probable) (loss)/gain	Unfavorable		
		Risk	Scenario II (loss)/gain	Scenario III (loss)/gain
Net equity position	15,113	USD drop	(166,600)	(333,200)
NDF/Swaps	(61)	USD drop	(58,460)	(116,920)
Hedge accounting (derivative)	1,770	EUR drop	(28,726)	(57,453)
Hedge accounting (committed)	(1,770)	EUR drop	28,726	57,453

In summary, based on the equity position and the notional amounts of the derivative instruments still open in Dec 31st 2008, it is estimated that a 1% positive or negative exchange rate variation of the Real in comparison to other currencies, would result in a gross gain or loss for the parent company of approximately R\$8,724 (R\$9,024 consolidated), not considering income tax nor social contribution tax.

22. 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.

23. Commitments

On December 31st 2008, the main commitments made by the Company in relation to the purchase of raw materials (steel) and finished products totalled R\$ 408,511.

24. Subsequent events

On February 5th, 2009, the repurchase of shares program which was approved on February 26th, 2009, was concluded. The Administration Council decided, on February 19th, 2009, to propose to the General Council the cancellation of 10,700,000 preferential shares currently in treasury.

Additionally, on the same date, the Administration Council approved a new repurchase of preferential shares program, issued by the Company up to the limit of 10,680,000 shares, equivalent to 5% of the total shares of this class, exempting the ones currently in treasury, to be in effect for a period of one (01) year as of February 20th, 2009, with conclusion date set for February 18th, 2010.

Cash flow statements

	Parent Company		Consolidated	
	2008	2007	2008	2007
OPERATIONAL ACTIVITIES				
Net income for year	508,090	249,114	508,090	249,114
EXPENSES (REVENUES) NOT AFFECTING CASH EQUIVALENTS:				
Depreciations and amortizations	32,428	31,741	34,669	34,385
Monetary / exchange variations	(89,961)	38,370	(96,657)	41,383
Income from the sale of property	–	(29,299)	–	(29,299)
Residual value of written off permanent assets	197	360	197	2,788
Equity equivalence results	(49,168)	(19,123)	(14,064)	(3,783)
Deferred income tax and social contribution	(30,138)	6,268	(29,342)	4,918
Obsolescence and adjustment to inventory market value	2,667	(6,911)	2,677	(7,089)
Provision for doubtful accounts	1,648	2,232	1,784	2,771
Foreign investment exchange variation	(18)	–	(18)	12
Contingency provision	34,184	13,644	35,532	14,852
	409,929	286,396	442,868	310,052
(INCREASE) REDUCTION IN ASSETS:				
Accounts receivable	(77,887)	(157,758)	(86,221)	(163,888)
Receivables from associated parties	(1,277)	(377)	(5,749)	(1,068)
Inventory	(107,875)	71,203	(117,083)	74,388
Prepaid expenses	2,456	1,356	2,729	1,037
Taxes recoverable	(50,623)	(17,890)	(50,479)	(12,745)
Others	(21,894)	(29,044)	(25,594)	(31,134)
	(257,100)	(132,510)	(282,397)	(133,410)
INCREASE (REDUCTION) IN LIABILITIES:				
Suppliers	79,652	(27,244)	62,887	(37,703)
Customer advances	(180,218)	63,781	(179,914)	45,935
Taxes payable	252,000	61,987	272,019	65,605
Salaries and related costs	2,998	3,831	4,228	3,783
PAES – Special Installment Plan	(2,552)	(2,197)	(3,908)	(3,037)
Disbursement for contingency provision	(4,567)	(2,895)	(5,419)	(3,455)
Disbursement for income tax and social contribution	(229,519)	(67,032)	(241,722)	(69,725)
Others	13,299	201	16,868	1,267
	(68,907)	30,432	(74,961)	2,670
Written off derivative financial instruments	12,965	–	12,965	–
Cash generated by operational activities	96,887	184,318	98,475	179,312

	Parent Company		Consolidated	
	2008	2007	2008	2007
INVESTMENT ACTIVITIES				
Securities – applications	(187,448)	–	(187,448)	–
Securities – rescue	178,024	–	178,024	–
Securities – interest	(957)	–	(957)	–
Shares in treasury	(34,628)	–	(34,628)	–
Sale of property	–	36,000	–	36,000
Dividends received from associates	4,583	1,364	2,292	–
Acquisition of property, plants and equipment	(24,801)	(26,552)	(25,017)	(26,602)
Cash generated by (used by) investment activities	(65,227)	10,812	(67,734)	9,398
FINANCING ACTIVITIES				
Payment of dividends and interest on own capital	(89,250)	(35,309)	(90,651)	(35,309)
Borrowings	6,295	41,419	6,255	9,614
Amortization of borrowings – principal	(35,812)	(56,343)	(18,022)	(30,360)
Amortization of borrowings – interest	(3,087)	(4,712)	(3,087)	(4,900)
Cash used in financing activities	(121,854)	(54,945)	(105,505)	(60,955)
EFFECT OF EXCHANGE VARIATIONS ON CASH AND EQUIVALENT	105,737	(33,374)	112,045	(38,619)
EFFECT OF CHANGES IN CONSOLIDATION CRITERIA – SOCOTHERM BRAZIL	–	–	–	(1,277)
Increase in cash equivalent	15,543	106,811	37,281	87,859
Initial balance cash and equivalent	414,369	307,558	429,434	341,575
Initial balance cash equivalent – Confab Trading NV	3,937	–	–	–
Final balance cash and equivalent	433,849	414,369	466,715	429,434
Increase in cash and equivalent	15,543	106,811	37,281	87,859

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

Sérgio Ricardo Putini
Accountant CRC 1SP221919/O-2

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, 2008, and the respective statements of income, of changes in shareholders' equity (parent company), cash flow and added value corresponding to the period ending on that date, 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. and the parent company along with Socotherm Brasil S.A. for the period ending on December 31, 2008 were examined by other independent auditors, and our opinion with respect to the value of this investment, totalling R\$83,316 and R\$25,973, respectively, on December 31, 2008 and the respective gains in equity equivalence referring to the period ending on that date, in the amount of R\$12,439 and R\$13,178 respectively 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, 2008, as well as the results of its operations, the changes in shareholders' equity (parent company) and origins and uses of resources corresponding to the period ending on that date, in compliance with the accounting practices adopted in Brazil.

4. Previously, we have audited the financial demonstrations (parent company and consolidated) referring to the period ending on December 31st, 2007, encompassing shareholders' equity, demonstration of results, the changes in equity equivalence and cash flows (the last as supplementary information) of this period, dated on January 25th, 2008. The financial demonstrations of the associate SIAT S.A. were examined by other independent auditors, and our opinion with respect to the value of this investment, totalling R\$45,521 on December 31st, 2007, the the loss in shareholders' equity, totaling R\$ 509 thousand in that period is based on the report of those independent auditors. As mentioned in Explanatory Note #2, the accounting practices adopted in Brazil were changed as of January 1st, 2008. The financial demonstrations referring to the period ending on December 31st, 2007, presented in conjunction with the period ending on December 31st, 2008, were prepared in accordance with the accounting practices adopted in Brazil in the period until December 31st, 2007, and according to what was instituted by CPC n°13 – Initial Adoption of Law n° 11.638/07 and the Transitory Measure n° 449/08, will not be presented with adjustments for comparative purposes for these periods.

5. The added value demonstrations (parent company and consolidated) referring to the period ending on December 31st, 2007, prepared in conjunction with the financial demonstrations of the 2008 period, were submitted under the same proceedings described in paragraph 2, and in our opinion, these demonstrations are adequately presented in all its relevant aspects, in relation to the overall financial demonstrations mentioned in paragraph 4.

São Paulo, February 19th, 2009

