

TUPY S.A. AND SUBSIDIARIES

FINANCIAL STATEMENTS
2007

MANAGEMENT REPORT

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MANAGEMENT REPORT

To the Shareholders,

On the 70th year of its existence, Tupy has plenty of reasons to celebrate. In 2007, the company achieved, 3 years ahead of schedule, the restructuring project's primary objective and finished the year with an excellent capital structure, consistent with the nature of its business.

The realization of this goal was made possible through the conversion into capital of debentures issued in 2004, subscribed back then mostly by Tupy's controlling shareholders. The quality of the new capital structure is proven not only by the net debt to EBITDA ratio - equal to 1.4 times in 12.31.2007 - but also by the debt maturity profile that is well distributed over the coming years.

In light of these results, all the signatories of Tupy's 2003 financial restructuring agreement accepted the resolution of said contract. This has resulted in greater management flexibility and the end of many barriers that had limited Tupy's ability to respond to the market through strategic investments.

It is significant that the decision of the debentures holders to transform their rights into capital was made in a time of great financial stability, so it is safe to assume that it was the result of their trust that Tupy will be a profitable part of their portfolios.

This trust undoubtedly stems from successive demonstrations that the Company is capable of overcoming many different challenges, such as the persistent appreciation of the Brazilian currency and the rising costs of raw and process materials that have their prices determined by the international markets.

In 2007, as in the past few years, Tupy's answer to these challenges was a constant effort to protect and improve its results. In the sphere of manufacturing this was observed by the demand for a greater workforce productivity, better use of the materials mentioned above, and the consolidation of decision support tools, recently introduced.

The Company has also continued to work to transform the sales mix that has, as a main directive, given preference to the commercialization of more valuable products, whose development and manufacture are very technology intensive. Also notable in the commercial front has been the progress seen in the working capital reduction.

Where Tupy acts as a buyer, much energy was spent in the search for opportunities to reduce the supply costs of the most important raw materials, and to improve the management of price fluctuations; activities that are particularly important in the context of the continuing high demand for commodities seen on a global level in the last five years.

As well as the attention given to its traditional activities, Tupy's Executives and the Board of Directors also held in-depth discussions on its corporate strategy for the next five to ten years. This work resulted in the approval of an investment plan that will allow the Company to transform recently successful projects into concrete value for its shareholders.



The investments in question will allow Tupy to increase its manufacturing capacity in order to adequately supply its clients; they will grant the Company the means to increase the relative importance, in the sales mix, of engine blocks - particularly those manufactured in CGI (Compacted Graphite Iron) – engine heads and other geometric or metallurgical complex items; and finally, they will provide the necessary conditions to permit the Company to keep conquering new projects, allowing it to explore in the best possible ways its abilities to develop and manufacture these items.

Beyond the effort to compensate for the negative effects of the appreciation of the Real on its operational profitability, Tupy adopted, in 2007, a much more active stance in exchange rate exposure management. Making use of the natural hedge provided by its considerable export volumes in US Dollars, the Company began to monitor the level of its net exposure in that currency and obtained positive results that served to reinforce overall results.

At this time, the necessity of Tupy to adapt to the new exchange rate reality is inarguable, especially as it pertains to sustaining the operational results. The benefits of managing exposure to the exchange rate, though certainly welcome, are not recurring and their origin is not related to the core business of the company.

In these circumstances we can safely say that Tupy is on the right track, seeing, as mentioned above, that it has demonstrated a remarkable ability to respond to the obstacles that have obstructed its progress in the last few years.

In parallel with the activities developed in its operational and financial areas, Tupy also advanced with respect to its legal structure. This was done by means of the merger of Tupy Fundições Ltda., a controlled subsidiary into Tupy S.A. Once the operation was finalized, leading to the extinction of Tupy Fundições, Tupy S.A. went from a holding to an operational company, a condition that will allow the better management of the business, specially the deductibility of current expenses and the use of accumulated fiscal losses.

Summary of Results

Tupy's businesses and operations in 2007 evolved in a manner relatively similar to what was observed in the past year, especially in respect to the considerable volume of physical sales and certain continuing economical phenomena which have a direct impact over the Company's results.

The period was characterized by a slight growth (1.7%) of physical sales – 472,315 tons in 2007 against 464,417 in the previous year. This growth was sustained by a strong demand by some of Tupy's North American clients that balanced out a drop in the volume of products acquired by other clients in the region, by the good performance of sales to Europe, and by the heated domestic market, specially in the second semester.

The satisfactory results of physical sales provided stability to the net revenue which totaled R\$ 1,595.8 million, with a small drop - 0,9% - in relation to the value seen in the previous year. This result deserves recognition, especially if we consider the following:

- a. the appreciation experienced by the Brazilian Real, especially against the US Dollar - 11.5% when we compared to the average rates of 2007 and 2006;
- b. that exports represents 58% of total sales - with a significant portion in US dollars;



- c. the registered drop of only 2.6% in average unit prices (R\$/kg).

Pressured by the strong growth of the Asian economies, main raw and process materials markets remained heated in 2007, especially in the first semester. In such circumstances, it bears pointing out the success achieved by the work done in the second semester, whose objective was not only to contain the rising prices of these materials, but also to achieve at least a zero variation in the basket of materials and services used as reference.

At the end of the year, despite the adverse scenario, the sum of cost of goods sold with the operational costs when measured in Reais per kg, showed a drop of 0.7%, benefited by the actions described in the last paragraph and the admirable effort made by both engineering and manufacturing to achieve greater efficiency in the production process.

Despite the fact that the benefits obtained from the costs and expenses management were notable, with the gains in relation to 2006 being estimated at about R\$ 62.2 million, the effect of the Brazilian Real appreciation on the businesses was even greater, causing operational losses equivalent to R\$ 91.4 million when compared to 2006. Therefore, the operational profit (EBIT), before financial expenses was R\$ 167.3 million, corresponding to a 10.5% margin, and a 14.9% drop of when compared to last year.

The profit after the financial results reached R\$ 112.2 million, presenting a growth of 9.3% over the amount observed in the previous year. This result directly shows the appropriateness of the chosen method of managing the Company's debt, especially those that affect the dynamics applied to the exposure management, and its contribution to reducing Tupy's financial costs.

The profit before taxes reached R\$ 91.5 million in 2007, 21.2% greater than the R\$ 75.5 million registered in 2006. When taxes are considered, especially the recognition of deferred tax credits in the amount of R\$ 56,8 millions, the profit after taxes reached R\$ 111.4 million against R\$ 34.6 million in 2006, a growth of 221.8%.

Cash Flow

The Company's performance in 2007, when measured by cash-flow from operational activities, is very similar to performance verified in 2006, with the exception of the effects of the loss suffered by the operational results previously commented on.

Amongst the variations in the operational assets and liabilities we must distinguish the exceptional reduction in working capital, sustained mainly by the following factors:

- a. a reduction of inventories, especially of finished products;
- b. the significant reduction in the recoverable taxes balance - mainly rights coming from the ICMS paid in the purchase of manufacturing materials applied in the production of exported goods;
- c. the advancement of values that will be applied in the development of tooling for clients.



The excellent performance of the cash-flow from operations allowed the Company to invest R\$ 63.6 million. The Company was also able to pay debt in the amount of R\$ 118.5 million, a value five times higher than the payments made in 2006; all this without registering any adverse effects to the maintenance of a cash balance of R\$ 137.8 million.

Merger of the formerly controlled Tupy Fundições Ltda and Tupy S.A.

In a meeting held on the 30th of November of 2007, the combination of Tupy SA and the previously controlled Tupy Fundições Ltda - previously in charge of the operational activities of the Group - was approved. This merger will bring significant benefits to the Company and Shareholders, including the following:

- a. the ability to make use of tributary synergy;
- b. the reduction of costs with the concentration of operations under one entity;
- c. greater transparency in the group's operations;
- d. the recognition of R\$ 56.8 million in deferred tax credits in 2007, and the utilization of tax credits coming from fiscal losses up to 30% of the taxable profit, according to the legislation.

The costs inherent to the operation, including legal and audit fees, amongst others added up to R\$ 172 thousand.

Relationship with independent auditors

According to the CVM Instruction n°.381/03 , we inform that at Tupy S.A. independent auditors do not perform any other services for the company except those concerned with auditing the Financial Statements.

Social Impact of Tupy's activities

The large investment made in the last few years to improve the environmental management system has given great results in 2007. In fact, the Company's progress in this direction was notable, especially in the following areas:

- a. the beginning of full operations, at the Joinville plant, of closed circuit effluents treatment stations. A drop of 28% in the use of "new" water was observed;
- b. the increase seen in the reutilization of industrial waste in the Joinville and Mauá units;
- c. the completion of the green belt around the Joinville and Mauá units;
- d. technical and scientific analyses to enable the reutilization of the foundry sand, undertaken in partnerships with several different entities, for example the Associação Brasileira de Normas Técnicas (ABNT), the Conselho Estadual do Meio Ambiente de Santa Catarina (CONSEMA/SC), the Companhia de Tecnologia de Saneamento Ambiental (CETESB/SP), the Associação Brasileira de Fundação (ABIFA), the Universidade Federal do Paraná (UFPR), the



Instituto Militar de Engenharia (IME), the Departamento Nacional de Infra-Estrutura de Transportes (DNIT), the Conselho Nacional de Trânsito (CONTRAN), amongst others.

Tupy's work in protecting the environment was recognized at a state level and the Company received the Fritz Muller prize in the *Environmental Management* category, granted by the Fundação do Meio Ambiente/SC (FATMA). The work was also recognized on a national level when the Company was awarded at the 27th Encontro Nacional de Comércio Exterior, in the category *Social Responsibility* for its success in managing the impact of its operations on the environment. Recently Tupy also won the Prêmio Expressão Ecologia, granted by the magazine Revista Expressão, also in the *Environmental Management* category.

The recognition of the importance of the employees to Tupy's continuing success was shown through the expenditure of R\$ 220.3 million on social projects, profit sharing and the personal and professional development of our employees, especially in the areas of nutrition, health and education, as well as the constant training required in the Company's continuous search for technological and operational excellence.

The net value added to the Company, in the form of salaries and payroll expenses, interest, taxes and contributions, reached R\$ 791.9 million, representing 49.6% of the net revenue

Perspectives

In our 2006 annual report we said that the closer we came to achieving our strategic objective of reducing the Company debt leverage, making it consistent with the nature of our businesses, the closer we would be to the beginning of a new era. Now we can say that this new era has already begun.

In this new stage, which begun with the approval of the new strategic plan, the emphasis on value creation will be seen in the application of the Company's competitive technological, operational, and human advantages in concrete projects. We will do this without compromising the Company's belief in values such as discipline, austerity, and the focus on performance, collaboration, and teamwork, that have been fundamental to the advances achieved so far.

Overall, the execution of the strategic plan mentioned above, will required the implementation, in the next eighteen months, of a number of projects leading towards the consolidation of Tupy's leadership in high tech engine blocks and heads, as well as the capture of expansion opportunities in this segment.

Additionally, we will invest to increase the production capacity for suspension, brake and other parts, that will allow higher domestic sales, a richer sales mix with the inclusion of higher value added products, and cost dilution through the consolidation production lines.

All this without losing focus on the cost reduction and efficiency increase efforts that have prevailed in recent years and which, combined with the competitive advantages mentioned



before, have allowed Tupy to demonstrate to its Shareholders the capacity it has to respond to the challenges presented by an adverse business environment.

We believe that the capacity to respond is the basis of the confidence demonstrated by the debentures holders, mainly controlling Shareholders, when they decided to convert their credit rights into equity, accelerating the capital structure recuperation.

We would like to thank our employees, shareholders, customers, creditors, suppliers and other stakeholders, highlighting that our optimism regarding the future is to a great extent justified by the belief that we will continue to receive the support and the consideration that we have received until now.

The Management



FINANCIAL STATEMENTS

TUPY S.A. AND SUBSIDIARIESBALANCE SHEETS AS OF DECEMBER 31, 2007 AND 2006(In thousands of Brazilian reais - R\$)

	Notes	Company		Consolidated	
		2007	2006	2007	2006
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	5	101,647	34	137,381	187,798
Trade accounts receivable	6	224,384	-	187,192	148,003
Allowance for doubtful accounts	7	(2,243)	-	(2,243)	(704)
Inventories	8	117,364	-	147,614	187,181
Customers' tools		29,535	-	29,535	31,589
Recoverable taxes	9	50,670	-	53,636	69,027
Deferred income and social contribution taxes	10	10,937	-	10,937	10,774
Accounts receivable and other		15,484	19	14,391	14,045
Total current assets		547,778	53	578,443	647,713
NONCURRENT ASSETS					
Long-term assets					
Intercompany receivables		7,123	140,723	-	-
Recoverable taxes	9	112,518	16,610	117,307	123,885
Deferred income and social contribution taxes	10	125,930	-	129,150	106,866
Eletrobrás loans	12	64,795	-	64,795	76,024
Escrow deposits and other		2,868	167	3,532	2,943
		313,234	157,50	314,784	309,7180
Permanent Assets					
Investments-					
Subsidiaries	13	63,430	438,877	-	-
Reforestation and other	13	1,541	233	19,404	19,360
		64,971	439,110	19,404	19,360
Property, plant and equipment	14	789,235	72	795,654	803,918
		854,206	439,182	815,058	823,278
Total noncurrent assets		1,167,440	596,682	1,129,842	1,132,996
Total Assets		1,715,218	596,735	1,708,285	1,780,709

The accompanying notes are an integral part of these financial statements

**TUPY S.A. AND SUBSIDIARIES****BALANCE SHEETS AS OF DECEMBER 31, 2007 AND 2006****(In thousands of Brazilian reais - R\$)****LIABILITIES AND SHAREHOLDERS' EQUITY**

		Company		Consolidated	
	Notes	2007	2006	2007	2006
CURRENT LIABILITIES					
Trade accounts payable		90,918	-	92,009	102,019
Advances on exchange contracts and export prepayments	15	241	-	241	51,526
Loans and financing	16	5,782	-	6,823	94,883
Debentures	17	1,507	21,799	1,507	21,799
Financing of taxes and payroll charges	18	10,094	-	10,094	9,329
Customer financing for investment	19	2,923	-	2,923	7,462
Taxes payable		38,814	9,836	47,523	39,481
Accrued salaries, payroll charges and profit sharing	20	58,006	1,114	58,792	61,796
Advances from customers		92,150	-	37,193	26,155
Dividends		15,678	12	15,678	12
Accounts payable and other		32,870	2	18,107	18,806
Total current liabilities		348,983	32,763	290,890	433,268
NONCURRENT LIABILITIES					
Long-term liabilities					
Advances on exchange contracts and export prepayments	15	29,870	-	29,870	114,645
Loans and financing	16	172,291	-	349,421	290,543
Debentures	17	20,032	289,730	20,032	289,730
Financing of taxes and payroll charges	18	39,671	-	39,671	46,723
Customer financing for investment	19	-	-	-	7,309
Advances from customers		119,645	-	-	-
Subsidiaries and associated companies		11,482	-	-	-
Allowance for investment loss	13	32,318	22,026	-	-
Reserve for contingencies and other	21	210,598	-	248,073	251,425
Other noncurrent liabilities		8,653	-	8,653	-
Taxes on revaluation reserves		88,133	-	88,133	94,850
Total noncurrent liabilities		732,693	311,756	783,853	1,095,225
SHAREHOLDERS' EQUITY					
Capital	22	379,295	93,721	379,295	93,721
Revaluation reserve		203,988	219,007	203,988	219,007
Retained earnings (accumulated deficit)		-	(60,512)	-	(60,512)
		633,542	252,216	633,542	252,216
Total liabilities and shareholders' equity		1,715,218	596,735	1,708,285	1,780,709

The accompanying notes are an integral part of these financial statements

**TUPY S.A. AND SUBSIDIARIES****STATEMENTS OF OPERATIONS****FOR THE YEARS ENDED ON DECEMBER 31, 2007 AND 2006****(In thousands of Brazilian reais - R\$)**

	Notes	Company		Consolidated	
		2007	2006	2007	2006
GROSS SALES		116,133	-	1,808,037	1,830,921
Taxes, returns and discounts		(15,296)	-	(212,272)	(220,493)
NET SALES		100,837	-	1,595,765	1,610,428
COST OF SALES		(91,459)	-	(1,284,906)	(1,256,692)
GROSS PROFIT		9,378	-	310,859	353,736
OPERATING EXPENSES:					
Selling		(5,320)	-	(105,745)	(119,428)
General and administrative		(4,287)	(1,703)	(33,773)	(33,883)
Management compensation	27	(3,982)	(3,812)	(3,982)	(3,812)
INCOME (LOSS) BEFORE FINANCIAL (EXPENSES) INCOME		(4,211)	(5,515)	167,359	196,613
FINANCIAL (EXPENSES) INCOME:					
Financial expenses		(31,951)	(29,538)	(85,219)	(115,277)
Financial income		25,107	13,531	11,596	10,405
Monetary and exchange variations, net		(8,325)	(5,187)	18,502	10,964
INCOME (LOSS) AFTER FINANCIAL (EXPENSES) INCOME		(19,380)	(26,709)	112,238	102,705
Equity in subsidiaries	13	70,814	67,865	-	-
Other operating income (expenses)	24	(1,340)	(6,528)	(19,522)	(27,936)
INCOME FROM OPERATIONS		56,094	34,628	92,716	74,769
Nonoperating income (expenses)	25	(66)	-	(1,189)	755
INCOME BEFORE TAXES		50,028	34,628	91,527	75,524
Current income and social contribution taxes	26	-	-	(9,273)	(1,704)
Deferred income and social contribution taxes	26	61,390	-	29,164	(39,192)
NET INCOME		111,418	34,628	111,418	34,628
Earnings per thousand shares (outstanding shares at the balance sheet) - R\$		2.0121	1.2973		

The accompanying notes are an integral part of these financial statements



TUPY S.A. AND SUBSIDIARIES
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED ON DECEMBER 31, 2007 AND 2006
(In thousands of Brazilian reais - R\$)

	Notes	Company		Consolidated	
		2007	2006	2007	2006
SOURCES OF FUNDS:					
From operations (see below)		-	-	136,897	146,741
Debt renegotiation	4	213,293	-	-	-
Capital contribution from minority shareholders	4	1	-	1	-
Loans and financing		-	-	166,370	108,710
Sale of permanent assets		64	-	377	3,922
Intercompany payables		42,464	35,653	-	-
Other noncurrent liabilities		-	-	11,800	-
Reversal of part of Eletrobrás loans	12	-	-	19,995	-
Decrease in long-term assets and others		12,863	-	9,029	-
Total sources		<u>268,685</u>	<u>35,653</u>	<u>344,469</u>	<u>259,373</u>
USES OF FUNDS:					
In operations (see below)		8,006	36,289	-	-
Additions to property, plant and equipment	14	8,056	-	53,291	51,784
Increase in investments		-	-	438	559
Increase in long-term assets		3,456	3,807	710	4,004
Transfers of financing and payables from long-term to current liabilities		177	-	146,787	139,613
Repayment in advance of long-term loans		-	-	-	71,156
Transfers of taxes and customer financing from long-term to current liabilities		1,379	-	16,528	27,408
Dividends	23	15,666	-	15,666	-
Decrease other noncurrent liabilities		197	-	3,147	-
Decrease due to settlement of contingent liabilities		243	-	34,794	27,762
Total uses		<u>37,180</u>	<u>40,096</u>	<u>271,361</u>	<u>322,286</u>
INCREASE (DECREASE) IN WORKING CAPITAL		<u>231,505</u>	<u>(4,443)</u>	<u>73,108</u>	<u>(62,913)</u>
REPRESENTED BY:					
Final working capital-					
Current assets		547,778	53	578,443	647,713
Current liabilities		348,983	32,763	290,890	433,268
		198,795	(32,710)	287,553	214,445
Less – Initial working capital		(32,710)	(28,267)	214,445	277,358
INCREASE (DECREASE) IN WORKING CAPITAL		<u>231,505</u>	<u>(4,443)</u>	<u>73,108</u>	<u>(62,913)</u>
FUNDS PROVIDED BY (USED IN) OPERATIONS:					
Net income (loss)		111,418	34,628	111,418	34,628
Items not affecting working capital -					
Depreciation, amortization and depletion	14	5,081	-	61,775	64,316
Equity in subsidiaries	13	(70,814)	(67,865)	-	-
Gain on sale of permanent assets	25	(32)	-	(203)	(2,222)
Deferred income and social contribution taxes	26	(61,390)	-	(29,164)	39,192
Long-term monetary variations		(909)	(8,345)	(14,014)	17,472
Allowance for investment loss	24	6,060	5,293	-	-
Reserve for contingencies	21	2,580	-	7,085	23,389
Recognition (reversal) of reserve for contingencies arising from unapproved offsets	24	-	-	-	(30,034)
Total funds provided by (used in) operations		<u>(8,006)</u>	<u>(36,289)</u>	<u>136,897</u>	<u>146,741</u>

The accompanying notes are an integral part of these financial statements



TUPY S.A. AND SUBSIDIARIES
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED ON DECEMBER 31, 2007 AND 2006

(In thousands of Brazilian reais - R\$)

	Notes	Capital	Revaluation reserves of subsidiaries	Profit reserves		Retained earnings (accumulated deficit)	Total
				Legal reserve	Investment reserve		
BALANCES AS OF DECEMBER 31, 2005		93,721	239,354	-	-	(110,195)	222,880
Revaluation of property, plant and equipment		-	(5,292)	-	-	-	(5,292)
Realization of revaluation reserve		-	(15,055)	-	-	15,055	-
Net loss		-	-	-	-	34,628	34,628
BALANCES AS OF DECEMBER 31, 2006		93,721	219,007	-	-	(60,512)	252,216
Capital increase through conversion of debentures	17	285,573	-	-	-	-	285,573
Capital contribution from minority shareholders	4	1	-	-	-	-	1
Realization of revaluation reserve		-	(15,019)	-	-	15,019	-
Net income		-	-	-	-	111,418	111,418
Appropriation of net income:							
Legal reserve	23	-	-	3,296	-	(3,296)	-
Investment reserve	23	-	-	-	46,963	(46,963)	-
Dividends	23	-	-	-	-	(15,666)	(15,666)
BALANCES AS OF DECEMBER 31, 2007		379,295	203,988	3,296	46,963	-	633,542

The accompanying notes are an integral part of these financial statements



TUPY S.A. AND SUBSIDIARIES
STATEMENTS OF CASH FLOW UNDER THE INDIRECT METHOD
FOR THE YEARS ENDED ON DECEMBER 31, 2007 AND 2006
(In thousands of Brazilian reais - R\$)

	Notes	Company		Consolidated	
		2007	2006	2007	2006
Cash flows from operating activities:					
Net income (loss)		111,418	34,628	111,418	34,628
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	14	5,081	-	61,775	64,316
Equity in subsidiaries	13	(70,814)	(67,865)	-	-
Gain on sale of property, plant and equipment and investment	25	(32)	-	(203)	(2,222)
Deferred income and social contribution taxes	26	(61,390)	-	(29,164)	39,192
Interest and monetary variations		(20,207)	(7,540)	(48,716)	14,619
Allowance for investment loss	24	6,060	5,293	-	-
Reserve for contingencies, net		2,337	-	(27,709)	(4,373)
Other noncurrent liabilities		(197)	-	8,653	-
Reversal of reserve for Eletrobrás loans	12			19,995	-
Reversal of reserve for contingencies arising from unapproved offsets	24	-	-	-	(30,034)
		(27,744)	(35,484)	96,049	116,126
Changes in operating assets and liabilities:					
Trade accounts receivable		(6,635)	-	(37,650)	32,502
Inventories		6,332	-	39,567	(21,469)
Customers' tools		870	-	2,054	75
Recoverable taxes		(2,177)	(3,807)	27,034	8,750
Accounts receivable and other		4,145	(19)	(346)	7,740
Escrow deposits and other		88	-	(368)	3,519
Trade accounts payable		11,422	-	(10,010)	(10,256)
Taxes payable		(7,931)	3,424	8,042	7,864
Accrued salaries, payroll charges and profit sharing		(18,770)	251	(3,004)	4,003
Advances from customers		14,541	-	11,038	6,247
Accounts payable and other		(4,794)	(1)	(699)	608
		(2,909)	(152)	35,658	39,583
Cash flows from operating activities		(30,653)	(35,636)	131,707	155,709
Cash flows from investing activities:					
Increase in investments		-	-	(438)	(559)
Additions to property, plant and equipment	14	(8,056)	-	(53,291)	(51,784)
Customer financing for investment		(108)	-	(10,303)	(21,638)
Sale of permanent assets		64	-	377	3,922
Net cash provided by (used in) investing activities		(8,100)	-	(63,655)	(70,059)
Cash flows from financing activities:					
Settlement of advances on exchange contracts and negative goodwill		-	-	(153,314)	(35,909)
Payment of loans and financing		(271)	-	(122,595)	(86,160)
Amortization of tax financing		(762)	-	(8,931)	(10,675)
New loans and financing		-	-	166,370	108,710
Subsidiaries and affiliates		42,464	35,653	-	-
Capital contribution from minority shareholders	4	1	-	1	-
Net cash provided by (used in) financing activities		41,432	35,653	(118,469)	(24,034)
Increase (decrease) in cash		2,679	17	(50,417)	61,616
Cash at beginning of year		34	17	187,798	126,182
Cash from subsidiary merged	4	98,934	-	-	-
Cash at end of year	5	101,647	34	137,381	187,798



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

(Amounts in thousands of Brazilian reais – R\$, unless otherwise stated)

1. OPERATIONS

Tupy S.A. (the “Company”) and its subsidiaries, is engaged in the development, manufacture and sale of cast iron and machined products with high technology content. These products include engine blocks, cylinder heads and components for transmission, suspension, brake and steering systems for the global automotive industry. The Company also manufactures cast iron fittings for hydraulic and gas networks, steel and iron shot, as well as section iron for industrial use.

Currently, 58% of the Company’s revenues are derived from sales in the foreign market, especially in North American and European countries.

Upon the Company’s early repayment of a significant portion of its restructured debt, the signatory parties formally manifested an intention to terminate the Financial Restructuring Agreement entered into as of December 4, 2003 between Tupy, Controlling Shareholders and Creditors.

Accordingly, the Company was released from fulfilling certain financial covenants and is no longer subject to investment limitations.

2. PRESENTATION OF FINANCIAL STATEMENTS

The interim financial statements have been prepared in accordance with Brazilian corporate law and the standards established by CVM (Brazilian Securities Commission).

The financial statements for the year ended December 31, 2006, presented for comparative purposes, reflect the Company’s financial position before the merger occurred on November 30, 2007, as detailed in note 4. Accordingly, their comparability with the financial statements for the year ended December 31, 2007, which reflect the Company’s financial position after the merger, is impaired.

For better comparability, the allowance for investment loss, in the amount of R\$ 5,293, recorded in the Company’s statement of operations for the year ended December 31, 2006, was reclassified from nonoperating expenses, net to other operating income (expenses).

Significant accounting practices adopted are summarized below:

(a) Cash and cash equivalents - Include banks, highly liquid foreign-currency investments and securities indexed to the CDI (interbank deposit rate). Foreign-currency investments and indexed securities are stated at nominal values, translated into Brazilian reais at the exchange rate in effect at the balance sheet date, when applicable, plus income earned through the balance sheet date, which does not exceed the market value;



- (b) **Allowance for doubtful accounts** - Recorded in an amount considered sufficient by Management to cover potential losses on realization of receivables from third parties, by aging of trade accounts receivable, as described in note 7;
- (c) **Inventories** - Stated at average cost of acquisition or production, under the full cost absorption method for manufacturing costs, less an allowance to adjust them to probable realizable values, when applicable;
- (d) **Customer's tools** – Refers to costs of construction of tools, which are charged from customers when the corresponding products enter into production, less, when applicable, a provision for adjustment to their probable realizable value;
- (e) **Income and social contribution taxes** – The provision for income and social contribution taxes is calculated based on taxable income and applying tax rates in accordance with prevailing tax legislation. Deferred taxes were recognized for tax loss carryforwards, temporary differences and revaluations of property, plant and equipment;
- (f) **Investments** - Investments in subsidiaries are accounted for under the equity method, eliminating profits not realized by the balance sheet date. In the consolidated balance sheet, the reforesting balance of the indirect subsidiary is reclassified to investments. Other investments are stated at acquisition cost, less an allowance for adjustment to probable realizable value, when applicable;
- (g) **Property, plant and equipment** - Stated at acquisition or construction cost, partially revalued, less accumulated depreciation. A contra entry for revaluations is recorded in a specific caption of shareholders' equity, at the net amount, and deferred taxes in noncurrent liabilities. Interest accrued over the construction period is capitalized. Depreciation is calculated based on the estimated useful lives of the assets, defined in an appraisal report;
- (h) **Receivables and payables** - Stated at the amounts updated through the balance sheet dates, on a pro rata basis;
- (i) **Results of operations** - Revenues and expenses are recorded on the accrual basis. Revenue from sale of products and cost of sales are recognized in the statement of operations when all risks and benefits inherent in the product are transferred to the buyer. Expenses are recognized as incurred;
- (j) **Reserve for contingencies** – Recognized in an amount considered sufficient by Management to cover probable losses and updated through the balance sheet dates, based on the nature of each contingency and supported by the opinion of the Company's legal counsel;
- (k) **Use of estimates** - The preparation of financial statements requires Management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities and other transactions, such as determination of depreciation rates for property, plant and equipment, reserve for contingencies, and others.



3. CONSOLIDATION

The consolidated financial statements include all the Company's direct or indirect subsidiaries, as described in note 13 (Investments). Intercompany balances and transactions and unrealized profits, net of taxes, have been eliminated in consolidation.

4. MERGER

The Extraordinary Shareholders' Meeting of November 30, 2007 approved the merger of the subsidiary Tupy Fundições Ltda. by Tupy S.A. (the "Company") through the transfer of the merged company's net assets and consequent dissolution thereof. As a result, the Company assumed all its rights and obligations as the merged company's successor.

The merger was effected based on the balance sheet of Tupy Fundições Ltda. and Tupy S.A. as of September 30, 2007.

The merged company's minority shareholders received 522 shares in the Company per share they formerly held in the merged company, which totaled 117,450 shares, with full rights, thus generating a capital increase of R\$ 1.

The main benefits that the merger provided to the Company and its shareholders include: (i) a better financial-economic synergy (ii) reduction of costs, as operations are concentrated in a single entity, and (iii) increased transparency of the merged company's operations. The merged net assets may be summarized as follows:

Description	Merger Company's balances
Cash and cash equivalents	98,934
Other current assets	439,328
Current liabilities	(324,969)
Merger working capital	213,293
Long-term assets	244,391
Permanent:	
Investments	60,617
Property, plant and equipment	786,188
Long-term liabilities	(798,951)
Merger net assets	505,538



5. CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	2007	2006	2007	2006
Cash and bank	33,925	34	34,030	3,016
Foreign-currency investments	12,665	-	48,294	148,409
Securities indexed to the CDI (interbank deposit rate)	55,057	-	55,057	36,373
	101,647	34	137,381	187,798

Investments and securities have high liquidity, maturities of less than 90 days, and are indexed to the CDI (interbank deposit rate), or to Libor, for foreign-currency investments.

6. TRADE ACCOUNTS RECEIVABLE

	Company		Consolidated	
	2007	2006	2007	2006
Domestic market	65,843	65,940	55,522	
Foreign market	158,541	121,252	92,481	
	224,384	187,192	148,003	

7. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Recognized based on default customers, under the conditions described below.

	Past due	Provision	Company and Consolidated	
			2007	2006
Domestic market	From 60 to 180 days	50%	63	119
	Over 180 days	100%	400	535
Foreign market	From 90 to 180 days	50%	118	30
	Over 180 days	100%	1,662	20
			2,243	704

8. INVENTORIES

	Company		Consolidated	
	2007	2006	2007	2006
Finished products	26,105	56,355	109,953	
Work in process	23,432	23,432	19,433	
Storeroom supplies	74,822	74,822	61,429	
Allowance for inventory loss	(6,995)	(6,995)	(3,634)	
	117,364	147,614	187,181	



9. RECOVERABLE TAXES

Recoverable taxes, classified as current or long-term according to the expectation of realization, are represented as follows:

	Company				
	2007				
	Current	Noncurrent	Total	Noncurrent	Total
IPI (federal VAT) export premium credit	-	54,002	54,002	-	-
Recoverable income tax	27,826	18,287	46,113	16,610	16,610
Recoverable social contribution tax	15,335	-	15,335	-	-
Recoverable ICMS (state VAT)	6,151	30,822	36,973	-	-
Recoverable COFINS (tax on revenue)	1,130	6,464	7,594	-	-
Recoverable PIS (tax on revenue)	228	895	1,123	-	-
Recoverable IPI and other	-	2,048	2,048	-	-
	50,670	112,518	163,188	16,610	16,610

	Consolidated					
	2007			2006		
	Current	Noncurrent	Total	Current	Noncurrent	Total
IPI (federal VAT) export premium credit	-	54,002	54,002	-	52,802	52,802
Recoverable income tax	27,826	18,619	46,445	16,792	29,007	45,799
Recoverable social contribution tax	15,335	-	15,335	7,219	3,873	11,092
Recoverable ICMS (state VAT)	6,150	30,822	36,972	24,863	21,251	46,114
Recoverable COFINS (tax on revenue)	1,130	6,464	7,594	8,227	6,464	14,691
Recoverable PIS (tax on revenue)	228	895	1,123	4,663	894	5,557
Recoverable IPI and other	2,967	6,505	9,472	7,263	9,594	16,857
	53,636	117,307	170,943	69,027	123,885	192,912

The origin of the above tax credits is as follows:

- (a) IPI export Premium credit – are credits related to the periods 1979 to 1981 and 1981 to 1985, for which unappealable decisions were rendered more than 2 years ago and whose lawsuits for settlement or ratification of the corresponding amounts are regularly filed with administrative or judicial courts;



- (b) Recoverable income and social contribution taxes – arise from taxes on income, overpaid in 2006 and 2007, and withholding taxes on financial transactions;
- (c) Recoverable ICMS – credits arising from the purchase of raw materials used in exported products. Management initiated negotiation to obtain special regimes and transfer credits generated within the State of São Paulo to suppliers in that State;
- (d) Recoverable COFINS, PIS and IPI – credits primarily arising from the purchase of raw materials used in exported products that may be realized either by offsetting them against other federal taxes or requesting reimbursement.

10. DEFERRED INCOME AND SOCIAL CONTRIBUTION TAXES

	Company					
	2007					
	Current			Noncurrent		
	Income	Social	Total	Income	Social	Total
tax credits	contribution tax credits	tax credits		contribution tax credits		
On tax loss carryforwards	8,042	2,895	10,937	33,687	12,128	45,815
On temporary differences:						
- Tax contingencies	-	-	-	25,701	9,252	34,953
- Civil contingencies	-	-	-	24,092	8,673	32,765
- Social security contingencies	-	-	-	685	246	931
- Labor contingencies	-	-	-	1,392	501	1,893
- Other temporary differences	-	-	-	7,143	2,791	9,934
TOTAL	8,042	2,895	10,937	92,700	33,591	126,291

	Consolidated					
	2007			2006		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Income tax credits						
On tax loss carryforwards	8,042	33,687	41,729	7,922	9,356	17,278
On temporary differences:						
- Tax contingencies	-	25,435	25,435	-	27,743	27,743
- Civil contingencies	-	24,092	24,092	-	22,888	22,888
- Social security contingencies	-	685	685	-	29	29
- Labor contingencies	-	1,392	1,392	-	2,832	2,832
- Other temporary differences	-	9,511	9,511	-	15,870	15,870
	8,042	94,802	102,844	7,922	78,718	86,640
Social contribution tax credits						
On tax loss carryforwards	2,895	12,128	15,023	2,852	2,131	4,983
On temporary differences:						
- Tax contingencies	-	9,157	9,157	-	9,988	9,988
- Civil contingencies	-	8,673	8,673	-	8,240	8,240
- Social security contingencies	-	246	246	-	11	11
- Labor contingencies	-	501	501	-	1,020	1,020
- Other temporary differences	-	3,643	3,643	-	6,758	6,758
	2,895	34,348	37,243	2,852	28,148	31,000
TOTAL	10,937	129,150	140,087	10,774	106,866	117,640



Pursuant to CVM Instruction No. 371, Tupy Fundições Ltda., then a subsidiary of Tupy S.A., recorded deferred tax assets related to income and social contribution taxes on tax loss carryforwards and temporary differences. Upon its merger into the Company, income and social contribution tax credits on tax loss carryforwards were fully realized.

Tax credits related to temporary differences were absorbed by Tupy S.A. The Company had tax loss carryforwards whose credits had not yet been recorded and, with the merger of an operating activity generating taxable income, income and social contribution tax credits were recorded in the amounts of R\$ 41,729 and R\$ 15,023, respectively.

The decision to maintain deferred tax assets on the absorbed temporary differences and to record credits arising from tax loss carryforwards, as mentioned above, was based on the history of profitability of the merged company, Tupy Fundições Ltda., and on the expected future taxable income from its operations over the next 10 years. The expected future realization, based on the Company's income projections, is as follows:

Year	<u>Company</u>	<u>Consolidated</u>	
	2007	2007	2006
2007	-	-	10,774
2008	10,937	10,937	10,574
2009	11,355	11,355	11,480
2010	12,485	12,485	12,475
2011	13,489	13,489	13,520
2012	14,011	14,011	14,461
2013	14,555	14,555	15,325
After 2013	60,035	63,255	29,031
	<u>136,867</u>	<u>140,087</u>	<u>117,640</u>

The Company did not recognize deferred tax assets on the remaining balance of income and social contribution tax loss carryforwards in the amounts of R\$ 150,659 and R\$ 180,991, respectively, since economic feasibility studies indicate the realization of credits limited to the amounts already recognized.

The subsidiary Sociedade Técnica de Fundições Gerais S.A. - Sofunge (under liquidation) has income and social contribution tax loss carryforwards of R\$ 63,677 and R\$ 54,386, respectively, that may be utilized to offset future taxable income. The respective credits have not yet been recorded.

The tax effects on revaluation reserves of tracts of land and buildings revalued in 1990 were not recorded in the financial statements, and total R\$ 11,188 (R\$ 14,691 in 2006).



11. RELATED-PARTY TRANSACTIONS

The main transactions between the Company and its direct or indirect subsidiaries are conducted under usual market conditions, and may be summarized as follows:

	Intercompany		Payables	Sales	Financial income		
	receivables				revenue		
	2007	2006				2007	2007
Tupy Fundições Ltda.	-	140,723	-	-	17,196	19,036	
Sociedade Técnica de Fundições Gerais S.A. - Sofunge (em liquidação)	-	-	9,494	-	(6)	-	
Tupy Agroenergética Ltda.	-	-	1,988	-	(1)	-	
Tupy American Foundry Co.	64,970	-	194,443	24,323	(1,030)	-	
Tupy American Iron & Alloys Co.	4,242	-	-	982	-	-	
Tupy Europe GmbH	33,198	-	-	11,504	-	-	
Tupy Argentina S.R.L.	13,901	-	-	432	(50)	-	
	116,311	140,723	205,925	37,241	16,109	19,036	

The Company's transactions with its subsidiaries basically consist of purchases and sales of goods, which have been eliminated in consolidation.

The intercompany loan with Tupy Fundições Ltda. presented in 2006, when Tupy Fundições Ltda. was a Company's subsidiary, was subject to the general market price index (IGP-M) variation plus interest of 10% p.a. However, the receivable under such loan was settled when the subsidiary was merged into the Company.

Receivables presented in 2007 refer to trade accounts receivable, except for R\$ 7,123, related to an intercompany loan with the subsidiary Tupy Argentina S.R.L.

Payables to the subsidiary Tupy American Foundry Co. refer to advances from customers whereas payables to the other subsidiaries refer to intercompany loans.

12. ELETROBRÁS LOANS

Based on the final and unappealable decision of August 6, 2003 of the Superior Court of Justice, which upheld the decision of the Federal Regional Court of the 4th region, in December 2003 the subsidiary Tupy Fundições Ltda. recognized the right to the supplementary monetary restatement of the Eletrobrás compulsory loan and respective interest in the provisional amount of R\$64,618.

In October 2005, the Company started the execution of a court-ordered judicial bond, and in June 2006, a letter was issued to notify Eletrobrás to present the statements requested by Court Accounting Department.



On November 24, 2006, Eletrobrás filed a claim presenting the statements of receivables of the Company. Based on these statements, the Court Controllershship informed on June 27, 2007 the Company's receivables amount to R\$ 42,389. On July 18, 2007, the subsidiary filed a claim pinpointing several errors made by the Court Controllershship and data that had been disregarded to prepare its calculations. At the same time, the subsidiary revised its calculations now considering the monetary adjustment laid down in the monetary adjustment indices table disclosed by the 4th Region Federal Court and reached the amount of R\$ 59,995 as the receivable in April 2007. The revision of the calculation generated an adjustment in the amount of R\$ 19,995, in relation to the balance adjusted as of June 30, 2007 of R\$ 79,990, which was recorded as operating expenses in the statement of operations for the six-month period.

This adjustment is necessary because the subsidiary understands that it will not be able to collect this receivable adjusted by the previous indices but based on the IPCA-E (extended consumer price index- electricity) – an index included in monetary adjustment indices table disclosed by the 4th Region Federal Court. The election of this index is based on the fact that the decision that recognizes the receivable does not mention which index should be used to adjust the receivable, and it is necessary to use the general monetary adjustment index of the 4th Region Federal Court (the court that issued the decision and recognized the subsidiary's receivable). This understanding is based on the opinion of the outside legal counsel and previous decisions of federal courts.

The discrepancy between the amount disclosed by the Court Controllershship, R\$42,389, and the amount claimed by the subsidiary, R\$59,995, results, therefore, from the several errors made by the Court Controllershship in its calculations. These errors and their amount are briefly detailed below.

- a) Interest - The Court Controllershship incorrectly discontinued the computation of interest, zeroing interest payable starting 1986 as if it had been paid, which is not the case. This error generates a difference of R\$9,305 between the two calculations;
- b) Base Date - The Court Controllershship uses the monetary adjustment table disclosed by the 4th Region Federal Court with base date January 2007 to determine the total amount, although the table used should be for the base date April 2007. The discrepancies between the two tables disclosed by the 4th Region Federal Court generated a difference of R\$7,268;
- c) Monetary Adjustment – Because it used the January 2007 index, the Court Controllershship did not adjust the receivable through April 2007. This error represents a difference of R\$948;
- d) Number of UPs (Production units) – The Court Controllershship disregarded the amounts paid in each of the months considered up to the first business day of the subsequent year. This error represents a difference of R\$85.



13. INVESTMENTS

	<u>Company</u>		<u>Consolidated</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
IN SUBSIDIARIES:				
Tupy Fundições Ltda.	-	438,877	-	-
Tupy Agroenergética Ltda.	25,230	-	-	-
Tupy American Foundry Co.	21,084	-	-	-
Tupy American Iron & Alloys Co	1,881	-	-	-
Tupy Europe GmbH	19,498	-	-	-
Lucros não realizados	(4,263)	-	-	-
	63,430	438,877	-	-
OTHER INVESTMENTS:				
Reforestation and other	1,541	233	19,404	19,360
	64,971	439,110	19,404	19,360

Information on subsidiaries is as follows:

	<u>Ownership</u>		<u>Shareholders' equity</u>		<u>Net income (loss)</u>	
	<u>interest %</u>		<u>(deficit)</u>		<u>2007</u>	<u>2006</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Tupy Fundições Ltda.	100.00	100.00	-	438,877	70,814	67,865
Sociedade Técnica de Fundições Gerais S.A. - Sofunge (under liquidation)	100.00	100.00	(27,896)	(22,026)	(5,870)	(5,293)
Tupy Agroenergética Ltda.	100.00	100.00	25,230	24,492	738	128
Tupy American Foundry Co.	100.00	100.00	21,084	17,807	6,332	3,493
Tupy American Iron and Alloys Co.	100.00	100.00	1,881	2,104	138	(865)
Tupy Europe GmbH	100.00	100.00	19,498	14,084	6,471	5,360
Tupy Argentina S.R.L.	100.00	100.00	(4,422)	(10,451)	3,978	(256)

An allowance for investment loss has been recorded in connection with the Company's investments in the following subsidiaries:

- Sociedade Técnica de Fundições Gerais S.A. - Sofunge (under liquidation), whose balance as of December 31, 2007 was R\$ 27,896 (R\$ 22,026 in 2006);
- Tupy Argentina S.R.L., whose balance as of December 31, 2007 was R\$ 4,422 (R\$ 10,451 in 2006, recorded in the Company's then subsidiary Tupy Fundições Ltda.).

The effect of profits from operations with foreign subsidiaries on income, net of taxes, is R\$ 8,364 (negative by R\$ 5,730 in 2006, from the then subsidiary Tupy Fundições Ltda). Unrealized profits, net of taxes, as of December 31, 2007 total R\$ 4,263 (R\$ 12,627 in 2006, from the then subsidiary Tupy Fundições Ltda.).



14. PROPERTY, PLANT AND EQUIPMENT

	Rate %	Company					
		2007				2006	
		Cost	Revaluation	balances	depreciation	Net value	Net value
Machinery, installations and equipment	7.3%	721,687	298,725	1020,412	(344,106)	676,306	-
Buildings	3.0%	65,143	68,360	133,503	(72,348)	61,155	-
Land		5,231	3,517	8,748	-	8,748	72
Furniture and fixtures	9.4%	8,470	-	8,470	(7,693)	777	-
Vehicles	9.8%	6,162	-	6,162	(4,345)	1,817	-
Property, plant and equipment in progress		40,211	-	40,211	-	40,211	-
Others		221	-	221	-	221	-
		847,125	370,602	1217,727	(428,492)	789,235	72
Consolidated							
	Rate %	2007				2006	
		Cost	Revaluation	balances	depreciation	Net value	Net value
Machinery, installations and equipment	7.3%	723,229	298,725	1021,954	(345,198)	676,756	692,813
Buildings	3.0%	66,405	68,360	134,765	(73,243)	61,522	64,469
Land		10,642	3,517	14,159	-	14,159	14,158
Furniture and fixtures	9.4%	9,321	-	9,321	(8,420)	,901	1,227
Vehicles	9.8%	6,263	-	6,263	(4,408)	1,855	2,286
Property, plant and equipment in progress		40,211	-	40,211	-	40,211	28,812
Others		275	-	275	(25)	250	153
		856,346	370,602	1226,948	(431,294)	795,654	803,918

On December 30, 2005, based on Management's decision, the subsidiary Tupy Fundições Ltda. recorded a revaluation of machinery, installations and equipment related to the automotive industry and located in its unit in Joinville, State of Santa Catarina, supported by a revaluation report prepared by CP Consult Soluções Integradas Ltda., an independent appraiser, which established the new values of the equipment and their remaining useful life for a new basis for depreciation. The revaluation, in the amount of R\$ 298,725, was credited to a revaluation reserve account in the amount of R\$ 197,158, net of taxes of R\$ 101,567, recognized in long-term liabilities. In 2007 depreciation on revaluation was R\$ 19,755 (R\$ 19,755 in 2006).

The Company recognized as construction costs of assets the interest and financial charges incurred during the construction period. The amount recorded in 2007 totals R\$ 1,710 (R\$ 1,883 in 2006).

Property, plant and equipment in progress include mainly the investments for expansion of operating capacity, environmental adjustments in the plant in Joinville, State of Santa Catarina, and Mauá, State of São Paulo.



Additions to property, plant and equipment in 2007 totaled R\$ 53,291 (R\$ 51,784 in 2006) and are composed as follows:

	Consolidated	
	2007	2006
Investments with own funds		
Support to operating capacity	49,523	34,959
Environment	2,058	14,942
Interest and financial charges	1,710	1,883
	53,291	51,784

Environmental investments, made at the request of the Public Prosecution Office through a civil lawsuit filed against the subsidiary Tupy Fundições Ltda., which resulted in a Conduct Adjustment Commitment legally ratified, include mainly the implementation of the second stage of the industrial landfill and construction of discharge treatment stations (industrial and sanitary) both at the plant in Joinville, State of Santa Catarina. This work was completed in the first quarter of 2007.

The depreciation calculated in 2007 is R\$ 61,775 (R\$ 64,316 in 2006), allocated to operating expenses in the amount of R\$ 60,579 (R\$ 63,058 in 2006) and nonoperating income (expenses) in the amount of R\$ 1,196 (R\$ 1,258 in 2006).

Part of the industrial facilities in Joinville, State of Santa Catarina, and reforestation were pledged as mortgage guarantees for long-term loans and financing.

15. ADVANCES ON EXCHANGE CONTRACTS AND EXPORT PREPAYMENTS

	Company and	
	Consolidated	Consolidated
	2007	2006
FOREIGN CURRENCY:		
Advances on exchange contracts (ACC)	20,922	59,596
Export prepayments	9,189	106,575
	30,111	166,171
Less – Current portion	(241)	(51,526)
Total noncurrent	29,870	114,645

Transactions are updated based on exchange variation, plus LIBOR + 1.85% p.a. The long-term portion matures as follows:

	Consolidated	
Year	2007	2006
2008	-	16,419
2009	8,534	28,065
2010	8,534	28,065
2011	8,534	28,065
2012	4,268	14,031
	29,870	114,645



16. LOANS AND FINANCING

	<u>Company</u>	<u>Consolidated</u>	
	<u>2007</u>	<u>2007</u>	<u>2006</u>
LOCAL CURRENCY:			
Expansion project of Tupy Fundições Ltda. – BNDES*	20,562	20,562	20,557
FINAME** – Machinery and equipment	6,846	6,846	11,014
Working capital / Export credit note	61,976	61,976	219,127
FOREIGN CURRENCY:			
Expansion project of Tupy Fundições Ltda. – BNDES	1,806	1,806	2,176
Financed import	-	-	14,432
Working capital	86,883	265,054	118,120
	<u>178,073</u>	<u>356,244</u>	<u>385,426</u>
Less – Current portion	<u>(5,782)</u>	<u>(6,823)</u>	<u>(94,883)</u>
Total noncurrent	<u>172,291</u>	<u>349,421</u>	<u>290,543</u>

* National Bank for Economic and Social Development

** National Equipment Financing Authority

The long-term portion matures as follows:

Year	<u>Company</u>	<u>Consolidated</u>	
	<u>2007</u>	<u>2007</u>	<u>2006</u>
2008	-	-	73,618
2009	46,435	93,177	72,398
2010	70,554	139,438	72,322
2011	43,025	82,388	60,048
2012	12,277	34,418	12,157
	<u>172,291</u>	<u>349,421</u>	<u>290,543</u>

In September 2006, the subsidiary Tupy Fundições Ltda., through its subsidiary Tupy American Foundry Co., contracted a working capital operation in the amount of US\$ 50 million (R\$108,710 as of agreement date), for a five-year term, with a grace period of two years and three years for repayment. These funds are being used for payment in advance of installments of the Financial Restructuring Agreement.

In March 2007, the subsidiary Tupy Fundições Ltda., through its subsidiary Tupy American Foundry Co., contracted a working capital operation in the amount of US\$ 50 million (R\$106,370 as of agreement date), for a four-year term, with a grace period of two years and two years for repayment. These resources are being used to substitute short-term debts to improve the Company's capital structure.

In May 2007, the subsidiary Tupy Fundições Ltda contracted a working capital operation in the amount of US\$50 million (R\$96,783 as of agreement date), for a four-year term, with a grace period of two years and two years for repayment. These funds are being used to replace operations with a shorter maturity and higher financial expenses.



Loans and financing in local currency are subject to average financial charges calculated based on the variation of the TJLP (long-term interest rate) plus 4.8% p.a. or the CDI (interbank deposit rate) plus 0.75% p.a. Loans and financing in foreign currency are adjusted based on the exchange variation, plus LIBOR interest and 2.8% p.a.

Some loans and financing agreements require that the Company maintain certain financial ratios, which have been fully complied with.

17. DEBENTURES

In the Extraordinary Shareholders’ Meeting held on January 30, 2004, the Company’s shareholders approved the issuance of debentures convertible into common shares, with additional resolutions approved by the Company’s Board of Directors in a meeting held on July 23, 2004.

Characteristics of the Debêntures

- Issuance date:	April 1, 2004
- Number:	25,195 debentures (56,000 originally issued)
- Outstanding number:	1,618 debentures
- Unit price:	R\$ 10,000.00 on the issuance date
- Limit amount for issuance:	R\$ 251,950 (originally R\$ 560 million)
- Form:	Book-entry
- Updating:	IGP-M
- Interest:	10% p.a. – annually amortized
- Maturity:	April 1, 2012 – last installment

In May 2005, the Company assumed obligations related to debentures convertible into common shares through the redemption of securities related to the debt to shareholders and the contribution of debentures with funds from new investors, distributed as follows:

DEBENTURE PLACEMENT SUMMARY

Investor	Number of debentures acquired
Pension funds	11,920
Other legal entities	12,171
Other financial institutions	440
Investment funds	660
Individuals	4
Total placed	25,195
Total cancelled	30,805

The Board of Directors’ Meeting held on June 1, 2005 approved the cancellation of the unplaced balance of debentures convertible into common shares, represented by 30,805 debentures.

The debentures can be redeemed in annual and consecutive installments, originally provided for, beginning April 1, 2007, as long as the financial ratios are met, calculated on the annual consolidated financial statements as follows:



- Net Debt / Shareholders' Equity (before distribution of dividends) ≤ 1.8 ;
- Net Debt / Shareholders' Equity (after distribution of dividends) ≤ 2.4 ;
- Net Debt / EBITDA ≤ 2.0 .

Should the financial ratios not be met, the unamortized annual installments will be distributed on a straight-line basis, based on percentages among the remaining installments. These financial ratios had not been met as of September 30, 2007.

During 2007, several conversions of the debentures issued on April 1, 2004 were made, as detailed below:

SUMMARY OF CONVERSIONS OCCURRED IN 2007

Month	Investor	Number of Debentures	Capital increase	Number of shares issued
November	Pension funds	10,302	124,973	12,529,399,604
November	Other legal entities	12,171	147,723	14,810,221,634
August	Other financial institutions	440	5,149	535,772,566
April and June	Investment funds	660	7,681	801,260,749
August	Individuals	4	47	4,871,249
		23,577	285,573	28,681,525,802

The conversion of debentures into common shares followed the criteria established by clause 4.1.7.2 of the indenture, as follows:

- Number of Shares per Debenture = Adjusted Unit Par Value / Book Value per Share =, limited to 1,360,000 registered common shares per debenture.

The debentures are composed as follows:

	Company and Consolidated	
	2007	2006
Current – accrued charges	1,507	21,799
Noncurrent	20,032	289,730
	21,539	311,529

18. REFINANCING OF TAXES AND PAYROLL CHARGES

	Company and Consolidated	
	2007	2006
Federal taxes	2,621	3,287
Payroll charges	47,144	52,765
	49,765	56,052
Less – Current portion	(10,094)	(9,329)
Total noncurrent	39,671	46,723



Refinancing of taxes and payroll charges, recorded in long-term liabilities, is monetarily adjusted based on the SELIC (Central Bank overnight rate) or TJLP.

The long-term portion matures as follows:

Year	Company and	
	Consolidated	Consolidated
	2007	2006
2008	-	8,957
2009	9,434	8,957
2010	9,107	8,658
2011	8,452	8,060
2012	8,452	8,060
2013	4,226	4,031
	39,671	46,723

On July 31, 2003, the subsidiary Tupy Fundições Ltda. submitted a request to join REFIS-PAES (Tax Debt Refinancing Program), provided for in Law No. 10,684/03, to pay debts to the INSS (National Institute of Social Security), in the amount of R\$58,379, which is being amortized in 120 monthly installments of R\$486, without any guarantee provided by the Company.

19. CUSTOMER FINANCING FOR INVESTMENT

Customer financing for investment is updated based on exchange variation, plus interest of 4% p.a., and the flow of repayment is linked to the supply of products.

	Company and	
	Consolidated	Consolidated
	2007	2006
Current – accrued charges	2,923	7,462
Noncurrent	-	7,309
	2,923	14,771

20. PAYROLL CHARGES AND PROFIT SHARING

Employee profit sharing is linked to the operating profit (EBIT) and sector targets. Beginning for the year ended December 31, 2002, following the CVM's instructions, employee profit sharing is distributed between cost and operating expenses, whose amount recorded in 2007 totals R\$ 18,654 (R\$ 20,047 in 2006).



21. CONTINGENCIES

The Company and its subsidiaries are parties to ongoing lawsuits arising from the normal course of business and for which reserves for contingencies were recognized based on estimates made by their legal counsel.

The changes in consolidated reserves for contingencies in 2007 and the respective balances are as follows:

	Company				
	Merger	Additions	Updates	Write-offs	2007
	Nov/07				
Tax contingencies	108,024	1,063	669	-	109,756
Civil contingencies and other	95,184	624	603	(44)	96,367
Social security contingencies	2,672	67	-	-	2,739
Labor contingencies	4,871	826	-	(127)	5,570
	210,751	2,580	1,272	(171)	214,432
Escrow deposits	(3,762)	(72)	-	-	(3,834)
	206,989	2,508	1,272	(171)	210,598
	Consolidated				
	2006	Additions	Updates	Write-offs	2007
Tax contingencies	117,623	2,322	10,140	(20,286)	109,799
Civil contingencies and other	92,129	1,316	8,266	(4,765)	96,946
Social security contingencies	27,906	2,621	5,951	-	36,478
Labor contingencies	14,744	826	-	(6,687)	8,883
	252,402	7,085	24,357	(31,738)	252,106
Escrow deposits	(977)	(3,066)	-	10	(4,033)
	251,425	4,019	24,357	(31,728)	248,073

Tax contingencies include basically the reserve for contingencies, should the offset of the IPI premium credit not be allowed.

The above-mentioned contingencies are mainly monetarily adjusted based on SELIC, and their impacts on the statement of operations are described in note 24.

No reserves for contingencies were recorded for lawsuits whose likelihood of loss has been assessed by the Company's legal counsel as possible. The Company is a party to labor and civil lawsuits involving R\$ 7,711 (R\$ 5,641 in 2006) as of December 31, 2007.

22. CAPITAL, RESERVES AND DIVIDENDS

Authorized capital is limited to R\$ 450,000, represented by registered shares without par value, divided into common and preferred shares.



Of the authorized capital as of December 31, 2007, R\$ 379.294 is subscribed and paid up (R\$ 93,721 in 2006), represented by 55,373,581,954 shares (26,691,938,702 in 2006), of which 55,055,045,172 are voting common shares (26,373,401,920 in 2006), and 318,536,782 are non-voting preferred shares (318,536,782 in 2006).

The Company's Board of Directors may increase the subscribed capital by an amount deemed convenient and necessary up to the limit of authorized capital.

The Company, within the limit of authorized capital and in accordance with the plan approved by the Shareholders' Meeting, may grant stock options to its Management or employees, service providers or subsidiary. By December 31, 2007 such stock option had not been granted.

Preferred shares entitle to their holders:

- a. entitlement to priority in capital reimbursement, should the Company be wound up;
- b. entitlement, under equal conditions as other shares, to a share in distribution of dividends, receipt of bonuses arising from monetary adjustment, revaluation of assets, capitalization of reserves or use of any funds; and
- c. entitlement to be included in a public offering to sell the Company's shareholding control, in accordance with art. 254-A of Law No. 6404/76, being ensured dividends equal to those of ordinary shares.

Shareholders are entitled to minimum dividends of 25% of net income, adjusted pursuant to article 202 of Law No. 6404/76.

23. ALLOCATION OF INCOME

The distribution of net income for 2007, to be submitted to the Annual Shareholders' Meeting, is as follows:

- a. Recognition of legal reserve in the amount of R\$ 3,296, equivalent to 5% of net income after deductions provided for by law;
- b. Payment of dividends in the amount of R\$ 15,666, equivalent to 25% of net income after statutory allocations, of which R\$ 15,567 for all outstanding common shares as of December 31, 2007 (R\$ 0.28276 per thousand shares) and R\$ 99 for all preferred shares (R\$ 0.31103 per thousand shares).

The balance of R\$ 46,963 was allocated to the investment reserve, pursuant to the Company's bylaws, which establish a limit not lower than 5% of net income and not greater than 50% of capital and set forth that this account balance cannot exceed 80% of capital.

**24. OTHER OPERATING INCOME (EXPENSES)**

	Company		Consolidated	
	2007	2006	2007	2006
Recognition and update of reserves for:				
Tax contingencies	(1,732)	(1,235)	(12,462)	(14,815)
Civil contingencies	(1,227)	-	(9,582)	(22,626)
Social security contingencies	(67)	-	(8,572)	(5,625)
Labor contingencies	(826)	-	2,021	(8,282)
Reversal of reserve for contingencies arising from unapproved offsets	-	-	-	30,034
Reversal of reserve for tax contingencies	-	-	15,039	-
Reversal of part of Eletrobrás loans (note 12)	-	-	(19,995)	-
Reversal of provision for realization of Eletrobrás loans	-	-	2,999	-
Allowance for equity losses in subsidiaries	(6,060)	(5,293)	-	-
Results on sale of unusable and write-off of customers's tools	8,572	-	11,030	(6,622)
	(1,340)	(6,528)	(19,522)	(27,936)

25. NONOPERATING (EXPENSES) INCOME

	Company	Consolidated	
	2007	2007	2006
- Depreciation of nonoperating assets	(98)	(1,196)	(1,258)
- Liquidation expenses of subsidiary - Sofunge	-	(196)	(209)
- Gain on sale of permanent assets	32	203	2,222
	(66)	(1,189)	755



26. INCOME AND SOCIAL CONTRIBUTION TAXES

	Company		Consolidated	
	2007	2006	2007	2006
Income (loss) before tax effects	50,028	34,628	91,527	75,524
Statutory rate	34%	34%	34%	34%
Expense at statutory rate	(17,010)	(11,774)	(31,119)	(25,678)
Permanent additions (deductions):				
- Equity in subsidiaries	24,077	23,074	-	-
- Allowance for equity losses in subsidiaries	(2,060)	(1,800)	-	-
- Depreciation of assets revalued in 1990 (note 9)	(55)	-	(842)	(737)
- Depreciation of nonoperating assets (note 23)	(33)	-	(407)	(428)
- Other permanent (additions) deductions	(281)	(329)	(2,697)	(2,531)
Recognition of deferred tax credit	56,752	-	56,752	-
Effects on tax loss carryforwards without recognition of deferred tax credits of subsidiaries	-	(9,171)	(1,796)	(11,522)
Tax effects recognized in income	61,390	-	19,891	(40,896)

Composition of tax effect entered in income:

	Company		Consolidated	
	2007	2007	2006	
Current income and social contribution taxes	-	(9,273)	(1,704)	
Deferred income and social contribution taxes	61,390	29,164	(39,192)	
Tax effects recognized in income	61,390	19,891	(40,896)	

27. MANAGEMENT COMPENSATION

Management compensation amounted to R\$ 3,918 in 2007. The Annual Shareholders' Meeting held on April 27, 2007 approved a maximum overall management compensation of R\$ 4,055 for 2007. Management compensation expenses recognized in 2007 totaled R\$ 3,982 (R\$ 3,812 in 2006).

28. INSURANCE COVERAGE

Insurance is contracted based on the advice of experts, according to the nature and level of risk involved.

The covered risks include the following items and corresponding amounts:

- Buildings	55,141
- Machinery and equipment, furniture and fixtures	579,854
- Inventories	84,376
- Loss of profits	504,096
- Civil liability	16,178



29. FINANCIAL INSTRUMENTS AND RISKS

Through December 31, 2007, the Company and its subsidiaries conducted transactions with financial instruments pursuant to CVM Instruction No. 235/95, properly recorded at fair value.

The Company used the following methods and assumptions to calculate the fair value of its financial instruments:

Cash and cash equivalents -

Temporary cash investments are recorded at nominal value, plus income earned through the balance sheet date, which approximate their fair value as of the date of the interim financial statements (note 5).

Advances on exchange contracts and export prepayments, loans and financing, and debentures -

Determined based on interest rates agreed with creditors, which reflect fair value, considering the conditions and nature of these operations (notes 15, 16 and 17).

Credit risk -

These risks are managed in accordance with specific criteria for credit analysis and establishment of each customer's exposure limit.

Exchange exposure risk -

The Company and its subsidiaries conduct derivative transactions to hedge its assets and liabilities against exchange variations. The Company's foreign exchange risk is primarily related to fluctuations in the U.S. dollar exchange rate, as follows:

Assets	Dez/07	Dez/06
Cash and cash equivalents and receivables	173,130	265,948
Swap transactions	180,720	-
	<u>353,850</u>	<u>265,948</u>
Liabilities		
Bank debt	(300,880)	(301,445)
Other payables	(25,369)	(48,930)
	<u>(326,249)</u>	<u>(350,375)</u>
Net exposure (R\$ thousand)	27,601	(84,427)
Net exposure (US\$ thousand)	15,583	(39,489)

Swap contracts with double index -

The Company has swap contracts in the amount of US\$ 100 million, establishing the swap of exchange risk plus average interest of 7.72% for 10.83% p.a., with maturity in January 2008. The net proceeds totaled R\$ 1,320 in 2007 and were recorded in financial expenses.



30. AMENDMENT TO BRAZILIAN CORPORATE LAW

Law No. 11,638, published in the Federal Official Gazette of December 28, 2007, altered certain provisions of Law No. 6,404/76 (Brazilian Corporate Law).

Such changes are effective for fiscal years beginning on or after January 1, 2008 and apply to financial statements for the year ending December 31, 2008 and, for better presentation and comparability of the financial statements to be disclosed, changes introduced by said Law shall be applied retrospectively to December 31, 2007.

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

- Replacement of the statement of changes in financial position by the statement of cash flows.
- Requirement to present the statement of value added.
- Requirement that an analysis of the recoverability of noncurrent assets be performed.
- Regulation of the criteria for evaluation of financial instruments.
- Requirement that leases be recorded under property, plant and equipment.
- Creation of a new account group, valuation adjustments to shareholders' equity.
- Discontinuation of recording new revaluation reserves. Companies will have an irrevocable option to: (i) maintain any balance of existing revaluation reserve until its effective realization; or (ii) fully reverse the balance of existing revaluation reserve by the end of the first fiscal year beginning on or after January 1, 2008.

The Company already adopts part of the changes introduced by Law No. 11,638, such as the presentation of statement of cash flows. Management is currently evaluating the impacts that other changes introduced by the Law may have on its shareholders' equity and income for 2008, and will take into consideration the requirements to be issued by regulatory agencies. Presently, Management is not able to assess the effects of these changes on its shareholders' equity and income for the year ended December 31, 2007.



INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of
Tupy S.A.
Joinville – SC

1. We have audited the accompanying individual (Company) and consolidated balance sheets of TUPY S.A. and subsidiaries as of December 31, 2007 and 2006, and the related statements of operations, changes in shareholders' equity (Company), and changes in financial position for the years then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements.
2. Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries, (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the significant accounting practices and estimates adopted by Management, as well as the presentation of the financial statements taken as whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual and consolidated financial positions of TUPY S.A. as of December 31, 2007 and 2006, and the results of its operations, the changes in shareholders' equity (Company), and the changes in its financial position for the year then ended, in conformity with Brazilian accounting practices.
4. Our audits were conducted for the purpose of forming an opinion on the basic financial statements referred to in paragraph 1 taken as a whole. The accompanying individual and consolidated statements of cash flows are presented for purposes of additional analysis and are not a required part of the basic financial statements in conformity with Brazilian accounting practices. Such information has been subjected to the auditing procedures described in paragraph 2 and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements for the years ended December 31, 2007 and 2006, taken as a whole.
5. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Joinville, February 18, 2008.

DELOITTE TOUCHE TOHMATSU
Independent Auditors

Roberto Wagner Promenzio
Engagement Partner



AUDIT COMMITTEE REPORT

AUDIT COMMITTEE REPORT

The Audit Committee of TUPY S.A., in compliance with its legal duties, examined the Annual Board of Directors' Report and Financial Statements comprising the Balance Sheet, Income Statement, Statement of the Changes in Shareholders' Equity, Statement of Cash Flow by the Indirect Method, Statement of Cash Flow Under the Indirect Method, Statement of the Origins and Application of Resources and Explanatory Notes, related to the fiscal year ending on December 31, 2007.

Based on the examinations carried out, and further considering the statements from the auditing firm Deloitte Touche Tohmatsu Auditores Independentes, issued on February 18, 2008, the Audit Committee concluded that such documents are adequate and suitable to be submitted to the General Meeting of Shareholders.

Joinville, March 25, de 2008

Adriana Barreto Rodrigues
President

Antônio Carlos Dias Pastori
Eduardo Grande Bittencourt

Eduardo Costa Jardim de Resende
Gerardo Xavier Santiago



BOARD OF DIRECTORS

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Nélio Henriques Lima

Vice-Chairman

Sedat Özmen

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Antônio Carlos Lima Rios

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President, CEO and Investor Relations Officer

Luiz Tarquínio Sardinha Ferro

Officers

Fernando Cestari de Rizzo

Luis Carlos Guedes

Roberto Heeren

Rogério Tavares Nogueira

Accountant

Pedro Henrique Eyng

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