Operator: Good morning ladies and gentlemen. At this time we would like to welcome everyone to QGEP's 3rd quarter 2015 earnings conference call. Today with us, we have with us the executives Mr. Lincoln Rumenos Guardado, CEO of the Company, Ms. Paula Costa Côrte-Real, CFO and IRO, Mr. Danilo Oliveira, Production Director and Mr. Sergio Michelucci, Exploration Director.

We would like to inform you that this event is being recorded and that all participants will be in listen-only mode during the company's presentation. After QGEP's remarks are over, there will be a question and answer section and further instructions will be provided. Should any participant need assistance during this conference call, please press *0 for an operator. There will be a replay facility for this call for one week.

Before proceeding, let me mention that forward-looking statements that might be made during this conference call are based on the beliefs and assumptions of QGEP management, and on information currently available to the company.

They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of QGEP and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Lincoln Guardado, QGEP's CEO, who will start the presentation. Mr. Guardado, you may begin.

Mr. Guardado: Thank you and good morning everyone. Thank you all for participating in today's call to review QGEP's 2015 3rd quarter and 9 months results, and also to discuss recent accomplishments and to look ahead to some of what is in the drawing board for 2016.

Beginning on slide 3, the 3rd quarter was an important period for QGEP, both from a strategic and an operating perspective. We continued to make progress in all of our key areas of current activity: exploration, development and production.

Now I will list the operating highlights that contributed the most to our positive third-quarter performance and that have set the stage for our future progress. Starting with Manati, natural gas production capacity recovered to the 6 million m^3 per day level. And production at the Manati Field averaged 5.5 million m^3 per day, despite the 13-day shutdown during the quarter. This shutdown happened in order to connect the compression plant to the system.

We also signed an agreement to sell our share of the Atlanta Field's Early Production System oil to Shell. We continued with operations at Carcará with significant advance in consolidating knowledge of this discovery. We completed the drilling of 2 appraisal wells which confirmed the presence of good quality light oil in pre-salt reservoirs; North and Northeast of our Carcará discovery.

We also reduced the risk of our assets portfolio with the acquisition of 2 high potential exploration blocks in the Sergipe-Alagoas Basin in the last ANP Bidding Round, in what was in our opinion an excellent opportunity for the Company.

At the same time, our Ebitdax surpassed our initial expectation remaining stable with last quarter's levels despite the scheduled production shutdown. Importantly I'd like to highlight that we ended the 3rd quarter with R$1.4 billion in cash providing ample financial resources to fund our capital expenditures for at least this year and all of 2016.

Taken together these strategic highlights are a direct result of the work we have been doing over the last several years to add value to our portfolio and to diversify our sources of revenue; an important parameter for the sustainable growth of the Company in the short, mid and long-term.

Now I would like to turn the call over to Paula, our CFO, who will provide additional insight into our 3rd quarter financial performance. Please, advance to slide 5.

Ms. Côrte-Real: Thank you Lincoln. As you know, we derive our revenue and operating income from Manati field, which is one of Brazil's largest and non-associated gas field.

The resources for Manati help us fund our development and exploration activities in our portfolio and advance in our strategy to be Brazil's largest independent E&P Company.

As you can see on slide 5, gas production at Manati fell 15% in the 3rd quarter to an average 5 million m³ per day. That compares with 5.9 million m³ per day in the 3rd quarter of 2014 and with 5.7 million m³ per day in the 2nd quarter of this year.

The lower production is the result of the 13-day shutdown early in the quarter to connect the gas compression plant to the field. Compared with the 1st 9 months of last year production in this year's 1st 9 months is down 8%. However, we now expect full-year 2015 average production to be slightly higher than the previously forecast at 5.5 million m³ per day.

3rd quarter net revenues totaled R$112 million compared with R$126 million a year earlier. Year-to-date net revenue totaled R$363 million; down 5% from the 1st 9 months of 2014. The decrease in revenues, however, was smaller than the decrease in production due to the annual contract adjustments of Manati gas price. Demand for gas from Manati remains stable; reflecting the field's important role in supplying energy to the Northeast of Brazil.

However, the current macroeconomic scenario in Brazil leads us to forecast production to average 5.7 million m³ per day in 2016; slightly below the field's current capacity of 6 million m³ per day.

Please, go to slide 6. Slide 6 shows our financial results including operating cash flow. And on an operating level our results were robust, showing positive comparisons both for the quarter and year-to-date. Net financial income was up substantially totaling R$42 million for the quarter and R$180 million year-to-date.

As you know, QGEP's disciplined approach includes maintaining a confortable cash position, thus funds that are not immediately being deployed in operation are invested in Brazilian Real denominated funds and in US exchange funds, following our hedge policy to partially hedge our dollar exposure for the next 24 months.

Both depreciation of the US dollar and the higher interest rates in Brazil have both provided a boost to our financial income. On the other hand, the stronger dollar also leads to higher income tax and social contribution, which totaled R$66 million in the 3rd quarter and R$118 million year-to-date. It is important to note that the final effective tax amount payable for 2015 will be defined at the end of the fiscal year.

Ebitdax remains resilient at R$62 million in the 3rd quarter and R$212 million for the 1st 9 months of the year. Operating cash flow has also risen up to R$202 million for the 3rd quarter and R$442 million in the 1st 9 months of the year.

Slide 7 shows the breakdown of our operating costs and expenses. Total operating costs fell R$7 million in the quarter and R$10 million year-to-date. Depreciation costs and royalties both fell sharply in line with the production decrease due to the signature of the amendment for the sale of Manati Field's remaining gas reserves, which increases the developed reserves figure on which depreciation is calculated. This decrease was partially offset by higher production costs after the start of operations of the compression plant.

Looking ahead, we estimate that the additional operating costs at Manati related to the compression plant will be about US$12 million annually net to QGEP with the major part payable in US dollars.

Despite these higher production costs we expect to be able to achieve an average Ebitda margin of approximately 60% from the field over the next several years reflecting the profitability of our operations there.

Exploratory costs were down both for the quarter and for the 1st 9 months of the year at R$8 million and R$34 million respectively. This largely reflects a high base of comparison in 2014 when there was more activity in the acquisition of seismic data for blocks acquired in the 11th ANP Bidding Round, as well as costs associated with the relinquishment of the Biguá discovery to the ANP. We are now moving ahead with the acquisition of further seismic data for these blocks in the equatorial margin. So it's reasonable to expect higher exploratory costs again in 2016.

SG&A costs on the quarter were down R$3 million as we made a greater effort in the projects operated by QGEP and also saw a reduction in the provision for annual compensation costs.

For the next quarters we expect figures in line with these observed in the first 2 quarters of the year.

Please go to slide 8. QGEP maintained a disciplined approach to capital expenditures proceeding with prudent expenditures while maintaining a strong cash position to support its future needs.

Decisions regarding capital expenditures are made by the Consortium at the different assets in QGEP's portfolio and then QGEP books the portion corresponding to its ownership in the relevant asset.

Capex for 2015 will total US$137 million with the focus being on the exploratory portfolio including exploratory activities in Block BM-S-8, where we expect to spend US$42 million.

In addition, we have budgeted US$35 million for the development of Atlanta in Block BS-4 and another US$25 million for signature bonus payments related to the 2 blocks acquired in the Sergipe-Alagoas Basin, expected to be disbursed in December.

It is important to note that US$71 million will be spent in the 4th quarter of this year, this will cover the entirety of payments for the signature bonuses related to the blocks acquired in the 13th Bidding Round, as well as investments that are being made in the ongoing operations at Carcará discovery and also costs related to Atlanta Field.

For 2016 our Capex budget is US$130 million. The major factors in the Capex reduction are the postponement of drilling at Block BM-CAL-12 due to the environmental license and the change in the time line of Block BM-S-8. The drilling at Guanxuma was postponed to the end of 2016/beginning of 2017.

Spending related to BS-4 may double in case a 3rd well is drilled while costs related to the acquisition and processing of seismic data for the 11th Bidding Round are expected to rise to US$24 million.

I'll now turn the call back to Lincoln, who will provide an update of our assets.

Mr. Guardado: Thank you, Paula. As Paula has already described the financial effect and impacts on production with the startup of the compression plant at Manati as well as the production forecast for 2015 and 16, I'll now provide a snapshot of the remaining assets.

On slide 10, we are progressing and showing how we develop the Atlanta Field in Block BS-4 with the customization work that is being done to the FPSO at Netherlands as expected.

The latest news here is that we signed a contract with Shell to sell them all of the oil production from the Early Production System at the Atlanta Field.

The contract is for 3 years with the possibility of a one-year extension and the oil delivered will be free on board (FOB) to the FPSO with a net back price mechanism.

Production from the EPS is scheduled to start in the beginning of the 2nd half of 2016. During this 1st phase the potential oil production is estimated at 25,000 barrels of oil per day based on the 2 production wells which have already been drilled and equipped with wet Christmas trees and submersible pumps.

However, the Consortium is considering drilling a 3rd production well, which would increase average oil production to 30,000 barrels of oil equivalent per day.

The FPSO Petrojarl 1 will have a storage capacity of 180,000 barrels of oil. The Consortium's capital expenditure for 3 producing wells in the Early Production System amount to US$733 million and operating costs are estimated at US$480,000 per day, in which QGEP has a 30% share.

We'd like to highlight that we received R$266 million in low-cost financing from FINEP to develop the Atlanta Field given the technical innovations applied. I think it's always important to underscore that total Capex of U$733 million takes into account drilling of the 3rd well. The bulk of equipment has already been acquired.

Moving now to slide 11, I'll update you on the BM-S-8 activities where our Carcará discovery is located. In the last month we completed the drilling of 2 appraisal wells: Carcará North and Carcará Norwest both located about 5 km from the Carcará wildcat well – that you can see highlighted in the drawing.

We are very pleased with the initial findings, which confirm the extension of the accumulation of oil with the same characteristics already disclosed, such as 31° API light oil free of contaminants and thermo porosity characteristics of the reservoirs that are very equivalent.

Based on the results of these drillings we can estimate that the oil column at Carcará is of at least 530 m.

We have begun a drill stem test at Carcará North to evaluate the reservoir characteristics and its production capacity. This is an important step on the roadmap to the full development of the field, as the data obtained will better determine the size of the infrastructure we will need in the development phase of the field, result the amount of CAPEX to be allocated to this discovery.

These 2 drillings in the block and the subsequence evaluation program combined with the allocation of 2 rigs during part of this year show the growing importance of this asset to the Consortium.

Still in BM-S-8, the Guanxuma prospect located 30 km southeast of the Carcará discovery has drilling scheduled to begin by the end of 2016 or maybe in the beginning of 2017, as Paula already highlighted.

Please, turn to slide 12, where we highlight in orange the 2 new exploratory blocks acquired in ANP's 13th bidding round in October. Both blocks are located in ultra-deep waters in the Sergipe-Alagoas Basin between 80 and 100 km off the coast.

QGEP acquired 100% interest in both blocks for an aggregate cost of R$100 million, which was equal to the minimum bonus required for the areas.

It is important to highlight that Sergipe-Alagoas is a traditional basin that produces oil and gas onshore and in shallow and deep waters. Six excellent discoveries in the basin's ultra-deep waters are currently being evaluated in blocks adjacent to those we acquired in the last bidding round, rating our blocks, known as CAL-M-428 and CAL-M-351 as having low exploratory risk.

We see the acquisition of these blocks as an important milestone for QGEP as it increases significantly the potential of our portfolio under extremely favorable financial conditions if we consider the full potential behind these blocks.

We know this is partly due to the challenging industry scenario as well as the uncertain outlook of the Brazilian economy. On the other hand, it creates opportunities for companies like QGEP focused on Brazil to benefit from their strong balance sheet, technical know-how and expertise as operator.

The acquisition of seismic data for the 2 blocks is estimated between US$15 million and US$20 million and we are expecting contracts to be signed in December this year before we can define the next steps for these areas.

We can see in the picture the wells drilled by Petrobras and its partners and we highlight the 6 discoveries that we mentioned before.

Now please move to slide 13, which sums up our strategy for the Company's sustainable growth. Some of the key strengths that support QGEP's activities are: technical expertise and deep knowledge of the Brazilian oil and gas industry, as well as the commitment of our people to achieving operational excellence.

Our business model for long-term growth is underpinned by strong and sustainable cash generation, active management of our portfolio – as we see our participation in the bid – and disciplined financial management.

We believe that QGEP is in a strong position to face the current challenges of the oil and gas industry and the economy in Brazil and should continue to take advantage of opportunities that add value for all of our stakeholders.

At this point I would like to open the call to questions. Operator, please.

Q&A Session

Operator: Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please, press star one on your touchtone phone now. If at any time you would like to remove yourself from the questioning queue, please, press star two.

Our first question comes from Mr. Felipe Santos, from JP Morgan.

Mr. Santos: Hello Lincoln and Paula. I have 2 questions. Could you elaborate more on the next steps regarding the drilling and assessment of Carcará and what we can expect? Will you be communicating the volumes for this prospect? That's my 1st question.

My 2nd question: will this new cost base be recurrent from now on? Do these costs consider the lower expectation of production at Manati? Thank you.

Mr. Guardado: Good morning, Felipe. Thank you for the question. I will answer the question about Carcará and then I will turn the floor to Paula and Danilo to speak about costs at Manati. But you also gave us a summary of what we think of that.

Well, for Carcará, we continue with the drill stem test. Petrobras is trying to test that well, they've done a number of lateral samples, everything that we should do in a discovery of this magnitude so that in the future we will have all of the elements we need to continue to do all the necessary work regardless of the position of Petrobras regarding this discovery.

We are in the middle of this process of the drill stem test, the data we've collected so far made us very happy. Part of this data have been disclosed to you, which was the end of the drilling of the wells, the increase in the oil column – not necessarily the reservoir column, but the oil column – we were not able to identify the oil-water contact yet, even though we've drilled 2 other wells, but we haven't been able to see the oil-water contact yet. But all of these are important points to define the future.

For example: oil-water contact is still a question mark, which is a good thing, the productivity of the wells is one of the most important elements for reservoir engineering because the production capacity is what will define the number of wells and the kind of production design which we will implement and will have a huge consequence on Capex.

We need to have a more accurate definition of GOR and other things, but we are drilling this well and depending on the results we will define what we will be doing in the coming year; whether we will drill another well, whether we will do another test or not. Now honestly if the tests that are being conducted give us enough information we will probably not need to test another well, but this is still pending and we will have to wait.

The fact is: for the 1st half of 2016 we expect to have added-value and we expect to have collected sufficient data so that we can discuss this with you and above all discuss this at the Consortium level to be able to have more information regarding the consequence of the results that we are obtaining with these 2 wells.

This was an important step, Petrobras and the Consortium advanced quite fast, but this discovery for well we had 2 rigs working, then one was demobilized, the other one continued drilling and then another one came to do the test, so this comes to show that we caught up in terms of the time that we waited for the MPD.

You know that we always were waiting for the MPD that is a necessary tool for high-pressure wells and very deep wells, and hopefully we will have the minimum amount necessary to be able to get back to the market with more information.

Undoubtedly, as much as possible and according to what is allowed in terms of disclosure of results, we will be discussing this matter with you. This should be discussed in the coming months with the Consortium, but given the time it takes to perform these tests it is very likely that we are going to have something more solid to disclose to you about the tests in the beginning of 2016, ok.

Ms. Côrte-Real: Felipe hello, this is Paula. You asked about Manati. Yes; these are the costs we expect for the future. The operating costs at Manati do not vary very much with volume, what varies with volume would be special participation and royalties, but the operating costs of the plant are basically fixed.

So we had a one month and a half impact until September of the compression plant, but looking forward we will have this compression cost which will amount to about US$1 million per month net to QGEP. This cost is greatly denominated in dollars, 80% to 90% of that amount is dollar-denominated and the remaining is in real.

I'd like to remind you that this fits our hedge policy and in the amount we consider when we invest in exchange funds, but when you look at the margins of the field we start to see some influence of the exchange rate, which up until recently we didn't have, as cash is basically in real, except for the sale of condensate, which corresponds to a smaller amount of our revenue.

Mr. Santos: Okay, thank you very much.

Operator: The next question comes from Mr. Diego Mendes, from Itaú BBA.

Mr. Mendes: Good morning, I also have 2 questions. The 1st has to do with Atlanta and the definition of the 3rd well. Could you please tell us what you expect in terms of cash generation during the Early Production System with the current oil price?

And my 2nd question has to do with BM-J-2. You were talking about the Evaluation Plan, if it continues or not. So could you give us an update on this project, what you expect for the future and if you decide to stop, would you book this amount in the 1st or in the 4th quarter of next year?

Mr. Oliveira: Good morning Diego. On Atlanta, this 3rd well is considered in our Capex for 2016, however, the decision to drill it will be made after we begin production, and basically what will decide this will be the oil price at the time and the Capex costs to be disbursed.

So 90% of the equipment has been acquired, actually, he corrects himself; 90% of the equipment has been delivered, the only thing that has been acquired, but has not been delivered is the Christmas tree; will be delivered in the coming days.

So we are totally ready to drill this well, okay?

And the schedule, the timeline that we have for Atlanta remains for the beginning of the 2nd half of 2016 for production. So everything is on track as planned.

Mr. Guardado: Are you happy with your question regarding Atlanta?

Mr. Mendes: Well, my question was more connected to the cash generation with the current oil price. I'm trying to do the math, but it seems that the EPS will have a breakeven period if we consider 25,000 barrels.

Does this make sense to you?

Mr. Oliveira: Yes, EPS (the early production system) was not conceived to give us profit, EPS was clearly defined; it aims to collected data both regarding the reservoir and to help us surpass the challenges related to drilling and production, and also to have an oil mark to market and so it does not aim profit.

However, with the current oil price the operating cost is easily surpassed and depending on how things unfold in the next 3 years we might derive some profit.

However, if this price is maintained it's easy to do the math; it will not pay for the Capex that we have disbursed with the current oil price, but we still have 3 years ahead of us plus 2 years of it possible the utilization of FPSO Petrojarl 1.

Mr. Mendes: Thank you very much.

Ms. Côrte-Real: This is Paula, just as an example, if we consider $60 for example then we start having a significant contribution from this project compared to the Ebitda of the company, which is more or less the figures that we are working with for 2016.

Our expectation is that when the EPS starts production next year hopefully the oil price will be around $60 per barrel.

Mr. Mendes: Okay, thank you.

Mr. Guardado: And I guess that you also asked about BM-J-2. Well, we are finalizing the assessments, we are doing some reprocessing of the area, we received this about 2 to 3 months ago and we are now in the process of going a geophysical and geological evaluation of this area.

We expect that by the end of the year we will be able to make a decision regarding BJ-2. Obviously the technical aspect is what really matters because our initial question after drilling was regarding the potential size of this area and the quality of the reservoirs that we got.

And this is what is prevailing in our analysis and it has to do with everything that is happening above ground; oil price, the economic situation of the country, etc. All of this needs to be taken into account in our evaluation, analysis and hopefully we will be able to make a decision by year-end, which is actually the deadline that we have with the agency (ANP).

We are quite advanced in this analysis and now we just have to hurry a bit in terms of the analytics of the economic effect, economic conditions to see how we should consider these areas.

It is always important to highlight that between the drilling of J2 and the results that we started to obtain the company evolved quite a lot either in data acquisition for the blocks of the 11th bidding round and for this other bidding round, so as a mechanism to actively manage the portfolio we will compare this result with everything we have now and looking forward.

This is the strategic analysis that will be guiding our actions until mid-December regarding BJ-2.

Mr. Mendes: Thank you very much.

Operator: The next question is from Luiz Carvalho, HSBC.

Mr. Carvalho: Good afternoon everyone. How are you? I have 2 follow-up questions very briefly. First about Carcará, I understand that you keep on working on the drill stem test and there are things to be defined for next year.

Do have an update about conversations with PPSA folks about the unitization process? Is there any definition about a request of a well outside the block area where you fail to find an oil-water contact in the well that you drilled? Something along those lines.

And the 2nd question just a quick follow-up: I would just like to double check what about discounts on Atlanta oil? We know this oil is slightly heavier, 15 degrees API. Could you tell is about the discount in the contract with Shell? Was the discount fixed or percentage base or a mixture of both? Thank you.

Mr. Guardado: Luiz, Lincoln speaking, how are you? I had already made some comments and we had all made comments already about our conversations with PPSA; Petrobras continues having active conversations with PPSA about potential unitization.

It is common practice and we are all aware of the idea that Carcará is outside the area, we can say it is outside of the area in a very significant manner. Possibly I don't have proxy by the government or by PPSA to know what to do next, but Carcará is the kind of accumulation which possibly fits into the areas that will be submitted to a future bid.

We have considerable area that is out. In reality this has led to discussions with PPSA, we've had an agreement, we already have data, we have already made comments on the need for some kind of additional effort in the external part of the block regardless of whatever happens inside, we already have important elements in order to better define the picture, but there is no doubt it will take some kind of drilling there.

And it's also crystal clear that in the conditions we are today if we stick to them it is very hard for the Consortium to embark on or to use any kind of Capex to drill outside the block. First we have to overcome or meet a series of requirements that we have to consider in the pre-unitization agreement, or perhaps even the unitization agreement per se.

So we have a lot of moves, spearheaded by IBP and also with the PPSA and other agencies, so these problems related to unitization or pre-unitization come to an end in the legal framework or only related to standards.

So we are moving forward, but just very briefly I can tell you that something is necessary outside, but 1st we need an agreement by the Consortium or with another Consortium that might be involved in the bid. But things are moving forward.

Unitization is an important progress considering the magnitude of the areas still held by the government in pre-salt.

This is underway and in our opinion this is critical, it is very significant. We all know the Petrobras processes going through divestment process, so that's a very important moment even for Petrobras and its development process.

Having said that, as to Atlanta's discount that's another point. Danilo put it so well; he said that the anticipated system (or EPS, early production system) answers many questions about operations, productivity, there are so many things and other things that we are also working on for the field, which are novelties in the industry lag heavy well.

So that's the purpose of the EPS and now we add another point, which is oil marketing. In one year of anticipation we have a sales agreement with Shell and I can tell that we talked about the top traders of the world market, the Consortium decided to go for Shell, the other 2 companies also decided to have a contract, a sale contract with Shell, which gives us a lot of assurance for marketing purposes considering all the volume.

So Shell is going to add value to us because this oil does not have a specific decision yet and we know that possibly we have the best value through a blend, and that's what Shell will do next.

So this is the time Shell needs with the roadshow, market perspective, identifying potential buyers, refineries and market as a whole and then with refineries, and Shell will bring it all to us.

Historically… and by the way, from Shell we had a discounter that was around 18% of Brent; that's a historical discount. Brent was slightly higher at that time compared to current values. We believe that not all this cost that will comprise the net back is due to Brent alone; some are fixed costs and there is not such as sudden variation compared to Brent etc.

So we keep on working with values between… or around 20% of Brent. Ever the actual… the real value will only be known from the moment Shell begins to work and oil marketing identifying the potential market and identifying potential refineries.

Please note as we highlighted before that our vision for this identification and the makeup of a market for this oil is not oriented in 30,000 barrels that we can have from the 3 wells, but for what happened down the road, and actually in this case we will need a very specific current about this oil.

So we are getting ourselves ready to perform some tests and this is part of our contract with Shell, and we are pretty confortable so to speak considering the magnitude and the knowledge held by Shell in the oil market. So it's very hard to say anything else right now.

In addition to confidentiality – and you admitted that right? – there is confidentiality in these agreements and the framework, the basis to identify the market followed by identification of refineries and only then we will have enough grounds to tell the possible discount for the oil.

But it shouldn't be outside this range if we consider what happens in the US and other markets; they keep on taking and using heavy oil very intensively. The level of production they have for light oil compared to this heavy oil is about 2 million barrels of oil per day for the US.

Mr. Carvalho: Perfect, thank you very much.

Operator: Our next question is from Bruno Montanari, Morgan Stanley.

Mr. Montanari: Good afternoon, thank you for taking my question. Just 2 brief questions. First question about operating costs in Atlanta. Is there any possibility to renegotiate the $480 in line with what we see in the industry in so renegotiations?

And the 2nd question: You mentioned the company cash supports all investments by the end of 2016. You were the only company that disbursed more significantly in this bid. Does it lower the appetite of the company to potentially have assets divested by Petrobras or other companies in Brazil? Thank you.

Mr. Oliveira: Good morning Bruno. Our calculation of $480,000 per day of operating costs at Atlanta basically reflects the contract, which is FPSO.

This is not a short-term; we don't see any potential renegotiation in the short term. However, other costs like supporting areas and other areas basically these might have a reduction.

However, I would not consider them today as something significant. These are items that represent approximately 20% of the total cost and they might reach up to 50% discount in the future, but because we haven't signed the agreements yet we expect to see a reduction, but we are maintaining 480 cost, and as a soon as we conclude all the agreements there might be an update. Possibly slightly lower, but we would stick to 480,000 today.

Mr. Guardado: Okay Bruno, what I can tell you is that after the 13th bidding round, in which we had the acquisitions, the company to some extent met part of the requirements in the mid and long run. We have constantly been trying to act in our portfolio management to lower risk or improve production. Lower risk in expiration and increase production generating revenue in production.

So this acquisition added very well to the 1st requirement, both areas have a very broad exploratory outlook that goes beyond the areas acquired in the 13th bidding round. At that time it was a different outlook, a different context; 5 years without the bidding process, we didn't know when another one would come around, so we decided to have a strategy to distribute and to be close to several basins that were making up that bid.

This case was different; we are very much familiar of the area, we have been studying for 2 years and we only focus on this area. So we were focused to be there with at least one block. We decided to take 2 blocks owing to a window of opportunities that came around and for several different reasons.

It's hard to say why other companies were not there, but we as a company focused on Brazil simply had to be there.

So today I would say that this brings to the company the requirements… it does meet the company's requirement in terms of risk and reward vis-à-vis the exploratory projects with a very broad negotiation margin for the future, and it actually improved the balance or our cost effectiveness in our portfolio because these areas have a much better infrastructure perspective compared to the rest and therefore it will bring as many elements and possibilities to optimize our portfolio in coming years.

Does that mean that we exhausted everything we have? No. Actually, our acquisition was below what we expected, but we achieved to much more in our strategic plan and that's why today we are not actively pursuing anything specific, but as we've always done – and not because we have a comfortable cash position – like we said before, for our future disbursements this year and next year.

But for the moment we increasingly improve our portfolio; any block any area any discovery that might happen in the future will have to meet this requirement in terms of further improving what we already have. Today for any new opportunities this new concept will apply.

We do have investment capacity, but we might never need it, but we always pay keen attention to whatever is taking place and there is no doubt Petrobras is in the process and we're keeping an eye on it. But I have to tell you that today we are very comfortable at least in the mid to long horizon.

As to short-term, that's something to analyze and tactics in our operation in Atlanta and operations in other areas that might even prevail as a means to optimize our work Opex.

But he will take an area that is really in our interest with disbursement within the company's abilities not only for acquisition purposes, but also for future development. This is an absolute requirement.

Mr. Montanari: Perfect, thank you very much.

Operator: Our next question comes from Vicente Falanga, with Bank of America.

Mr. Falanga: Hello Lincoln, Paula, Danilo. I have 2 quick questions. One has to do with the blocks in Sergipe.

Do you expect this to be more of a gas or oil profile? Correct me if I'm wrong, but we hear normally Petro accumulations are very much of the gas type, and if this is the case of what do you expect will be the flow rates of the gas? Perhaps taking advantage of the infrastructure of the Petrobras will develop there.

And my 2nd question and going back to the $480,000 per day, does this include the daily rate cost of service? From what I understood, yes. Is there anything related to tax year? Thank you.

Mr. Michelucci: Hello, this is Michelucci speaking. Our expectation regarding the blocks in the Sergipe-Alagoas basin is that discoveries over there will be of oil, preferably oil.

That is a region with a high gas-oil ratio given the quality of the oil – excellent, very light oil – and normally accumulations of light oil have a lot of associated gas.

And as for the presence of a higher amount of gas associated, what we expect in the area is to have some synergy between the discoveries that we are making in our own blocks and the infrastructure for the flow of gas that Petrobras and their partners will have to deploy in the region to deal with the discoveries that they already there.

Mr. Falanga: Okay.

Mr. Guardado: Vicente, as for the $480,000 we include all of the operating costs in that number, but we do not include the costs related to royalties. We also include the offload cost; it's all included, all factored in.

Mr. Falanga: So no tax, royalties or special participation?

Mr. Guardado: We will not be paying especial participation in this EPS; we did not reach the necessary volume before that, so we will only have to pay for the royalties.

Mr. Falanga: Okay, very clear. Thank you very much.

Operator: Our next question comes from Felipe Santos, from JP Morgan.

Mr. Santos: Hello, I'm back with 2 quick questions. Given your cash position I know that you have some Capex commitments for next year. Do you consider paying more dividends this year?

And 2nd question: In the release you mentioned that there are 300 odd million that you would need to decide by year-end. If you do not decide to relinquish the block would this be the amount that you would have in the accounting write-off?

Ms. Côrte-Real: Felipe, this is Paula. To answer: Yes, that would be the write-off if we are to relinquish the block this year, so it will be R$330 million give or take.

The question regarding dividends, you touched a point that has an important impact on our results, which would be the relinquishment or not of J2. But if the company has results and if the company has reserves to pay dividends the intention is to follow our dividend policy, which we communicated to you in the end of last year.

Mr. Santos: Okay, thank you.

Operator: We would like to remind you that if you want to pose a question please press star one.

Again, if you would like to ask a question please press the star key followed by the one key.

This concludes today's question-and-answer session. I would like to invite Mr. Lincoln Guardado to proceed with his closing statements. Please, go ahead Sir.

Mr. Guardado: Again I would like to thank all of you for being here with us.

I hope that we have made progress with you, not only in terms of our activities, but also in terms of helping you understand our strategy, our data, our Capex because we always want to share with you all of the potential that we see for this company and despite all of the challenges that we are facing we do believe that this is a spike in time and these things come and go, and we will always be thinking about the present, but always trying to think ahead about the future.

And I would like to renew my invitation to you to our APIMEC presentation on November 24 when we will then be able to discuss some more of these matters in detail and perhaps by then we'll have a little bit more information for you regarding everything that is going on now. I would like to have all of you in our meeting.

And again on behalf of our top management I would like to thank you for attending this call and for your interest in the company. We continue to be available through our IR Department. Thank you very much.

Operator: That does conclude QGEP's audio conference for today. Thank you very much for your participation and have a good day.