

Operator: Good afternoon ladies and gentlemen, thank you for waiting. At this time, we would like to welcome everyone to **QGEP's second quarter 2016 earnings conference call**.

Today we have here 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. José Milton Mendes, Exploration Manager**.

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, when further instructions will be provided. Should any participant need assistance during this conference call, please press *0 to reach the 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 relative to QGEP's business expectations, projections and operating and financial goals 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 proceed.

Mr. Guardado: Good morning everyone, thank you for joining QGEP's 2nd quarter 2016 earnings conference call.

If you are following our presentation on the QGEP website, I will begin on slide 3, please.

The 1st half of 2016 was a challenging period for QGEP; we faced an adverse environment both in terms of the macro economy and volatility in price of oil. However, we continued to execute our strategic plan advancing towards our goal of becoming an independent producer of both oil and gas.

We highlight that we have a balanced portfolio of assets in different stages of maturation, which allow us to advance in a consistent manner with our exploration and development activities and maintain a positive cash generation.

One of the highlights of our portfolio is Block BM-S-8, where the Carcará discovery is located, in the pre-salt. The high potential of this asset, like all Brazilian pre-salt assets, has remained attractive despite the challenges that the industry has faced over the last two years.

The Brazilian pre-salt is a unique area with large reserve, favorable geology and a proven track record of production. Last month we saw an important development for

the oil and gas market when it was announced that Statoil entered the consortium that Block BM-S-8 as partner and operator investing US\$2.5 billion in this project.

We believe Statoil's acquisition demonstrates industry confidence in the Brazilian pre-salt potential. This transaction followed Royal Dutch Shell's acquisition of BG Group paying US\$52 billion earlier this year, and we believe that these two deals highlight the attention that Brazilian asset are receiving from the global industry.

Now, there are clear challenges in Brazil and QGEP is not immune to them. The country is undergoing a big recession and, as a consequence, there is a decrease in gas demand, which affected our results in the 2nd quarter.

Even in the scenario, we are seeing steady improvement in the competitiveness of the Brazilian oil and gas sector. We see further move towards greater flexibility as the industry of all oil and gas in Brazil with the initiative to amend, for example, rules related to local content and to allow multiple operators in the pre-salt polygon, as well as the announcement of new bidding round expected in 2017.

We remain resilient in the face of this temporary challenges due, in large part, to our discipline in our long-term vision of our business. This approach is focused on maintaining a positive cash flow from our operations, a strong cash balance and CAPEX optimization.

Please, turn to slide 4 please. In the 2nd quarter of 2016 QGEP was impacted by several of the challenges I mentioned in the previous slide. Even so, we maintained a positive cash flow from operations and continued our progress in different assets of our portfolio.

Average gas production at the Manati Field was 5.0 million m³ per day in the 2nd quarter. This is significantly lower than both the output for the 1st quarter of the year and the 2nd quarter of 2015.

The recession in Brazil has led to a decline in gas demand in the Northeast region, and as a result Manati production was reduced. We are now forecasting full-year output of Manati of 5.1 million m³ per day; lower than the 1st half production of 5.5 million m³ per day on average.

It is important to emphasize that this reduced production does not affect the value of Manati as an asset; the latest certification put Manati's 2P reserves at 11.7 billion m³. The field's production capacity will remain at 6.0 million m³ per day at least until the beginning of 2018.

In addition, even at an output of 5.0 million m³ per day, Manati's Ebitdax margin should remain between 60 and 65%. This will generate more than enough cash to cover QGEP's operating expenses.

At the Atlanta field, in Block BS-4, we continue to work towards the start of our production in the 1st half of 2017. The key step in this is the arrival of the FPSO, which we now expect to arrive in the 1st quarter of next year.

As I already mentioned, Statoil has announced the acquisition of Petrobras stake in Block BM-S-8. We view this as positive as it highlights the value of the asset where QGEP has a 10% stake, and this asset has real significance for the company in the medium term.

We are optimistic regarding the timeline for Carcará discovery activities, and we will keep the market updated on this topic.

Financially speaking, our position remains strong. Even with lower production, we had a positive EBITDAX of R\$19.5 million, approximately R\$20 million for the 2nd quarter. We ended the period with a cash position of approximately R\$1.3 billion, or the equivalent of R\$4.98 per share. Our CAPEX need for 2016 and for 2017 total approximately US\$155 million. Therefore, we are in a comfortable position financially speaking.

I will now turn the call over to our CFO, Paula Costa Côrte-Real, for a closer look at our financials for the quarter.

Ms. Côrte-Real: Thank you, Lincoln. As Lincoln already mentioned, our 2nd quarter results were impacted by a concentration of expenses in the period. Even so, we generated positive EBITDAX and cash flow from operation.

On slide 6, please, you can see the details of our gas production and revenue for the 2nd quarter in the 1st half of 2016.

Gas production, average gas production from Manati fell in the 2nd quarter to 5.0 million m³ from 5.7 million m³ in the 2nd quarter of 2015. This reduced the production in the 1st half of this year by 4% from the 1st half of 2015.

The impact in revenue was partially mitigated by the annual contracted adjustment of gas prices, which are corrected by inflation. As a result, 2nd quarter revenue only fell 3%, to R\$120 million. First half revenue interim rose 5%, to R\$264 million year-on-year.

We booked R\$16 million in additional costs in the period, these expenses related to the painting of the Manati platform as well as other maintenance services in the field. The total cost net to QGEP in this process will be approximately 50 million BRL. The remaining 34 million BRL will be booked in the 3rd and 4th quarters of 2016.

Please, turn to slide 7. This slide shows our financial results in more detail. As I just outlined, we had lower revenue and higher costs, which resulted in a gross profit of R\$53 million compared to R\$61 million a year ago. Expenses with seismic data in blocks of Pará-Maranhão basin also impacted the results for the period. I will discuss this in more detail on the next slide.

We posted a net financial result negative by R\$12 million for the 2nd quarter of 2016 compared with a positive net financial result of R\$17 million a year earlier, reflecting the appreciation of the Brazilian real against the US dollar.

According to our policy of market risk management and in order to maintaining our investment capacity, we hold approximately 30% of our cash packed to the US dollar to support the portion of the company's future commitment, also denominated in this currency.

As a result of a lower gross profit, higher exploratory expenses and financial expenses, we posted a loss for the quarter of approximately R\$8 million.

Year-to-date, in the 1st half net income was R\$39 million reflecting the strong performance in the 1st quarter of the year, but also the impacts of this quarter, that we have already mentioned.

We are confident in our ability to generate positive net income from our operations in the 2nd half of 2016 based on our current visibility and the exchange rate at the current levels.

Please, turn to slide 8. The slide shows the breakdown of our costs in the 2nd quarter and 1st half of the year. You can see that cost increased to R\$68 million compared with a R\$63 million in the 2nd quarter of 2015.

Several factors contributed to this, including higher maintenance costs related to the painting of the platform and the startup of operations at the Manati gas compression plant in mid-2015. Depreciation and amortization were significantly lower year-on-year as a result of the signing of the contract amendment to sell the total reserve of Manati gas.

G&A costs fell 12% in the quarter totaling R\$11 million and were also down for the 1st half of the year. This is due to higher allocation of costs to partners at blocks operated by QGEP, as well as to the ongoing internal efforts to reduce corporate expenses.

In the 2nd quarter we booked exploration expenses of R\$37 million; up from R\$16 million in the 2nd quarter 2015, due to the seismic data activity previously mentioned.

We are now moving to slide 9, please. Following recent changes in the timeline of developments in some assets of our portfolio, we are adjusting our CAPEX expectations lowering Capex commitment for 2016 and increasing our budget for 2017.

Our Capex for 2016 was reduced from US\$80 million to US\$60 million with 50% of spending concentrated on Block BS-4, and the remaining 50% on BM-S-8 and the 11th bidding round blocks.

The main reason explaining this change was the change of date for the FPSO's arrival at the Atlanta field, now plan for the 1st quarter of 2017.

Similarly, the budget for the next year have also been adjusted in order to include this new project schedule. So talking about 2017, the activities planned for the blocks acquired in the 11th bidding round were also revised and the purchase of equipment to drill wells was postponed to the following year.

In this 1st half of 2016 we have already spent US\$20 million, or about 1/3 of our total CAPEX budget for the year.

I will now turn the call back to Lincoln for a review of our asset portfolio.

Mr. Guardado: Thank you Paula. Please, turn to slide 11. QGEP's working towards becoming an oil producer in 2017 through the oil production that will come from the Atlanta Field. The first stage of production at Atlanta will be the early production system, or EPS.

We have already drilled the two production wells and we are estimating a daily output of 20,000 barrels of oil per day for the EPS. The Consortium also has the option to drill an additional well, which could take initial production to 30,000 barrels per day.

We now expect first oil in the 1st half of 2017. This delay is the result of a change in the timeline for the arrival of Petrojarl I related to the challenges in the customization of the unit, which is being adapted process-wise in Rotterdam, in the Netherlands.

The output from the EPS will be commercialized through an oil sales agreement with Shell. It is important to stress that the EPS goal is to obtain data for the customization of the full development system at Atlanta, scheduled for 2020.

Please, turn to slide 12. As you know, 2015 was an important year for the Carcará discovery, with very encouraging result from the test carried out at both the Carcará Norte and Carcará Noroeste wells. The test showed high-quality oil with no contaminants, as previously announced, as well as an oil column in the accumulation of at least 530 m.

The Consortium did not identify the oil-water contact in either of these wells. All of these results confirm our opinion that BM-S-8 is one of the most attractive assets in the Brazilian pre-salt.

We believe the arrival of Statoil into the BM-S-8 Consortium attests the attractiveness of Block BM-S-8. Statoil paid US\$2.5 billion for 66% of the block. The next steps are a drill stem test at Carcará Noroeste in 2017, as well as the drilling of the 1st well at Guanxuma, located 30 km Southwest of Carcará.

We are awaiting for the conclusion of the sales process for us to discuss the timeline with partners and with the new operator.

Please, turn to slide 13. Elsewhere in the exploratory portfolio, we are making incremental progress, which takes into account the challenging scenario in the industry at large including Brazil.

At the blocks acquired in the 11th ANP bidding round in 2013 we have acquired and processed seismic data for the blocks in the Foz do Amazonas, Ceará and Espírito Santo basins.

At the blocks in the Pará-Maranhão basin, the processing of the seismic data is currently underway. We are working to evaluate the potential of the block for future drilling.

At our two blocks in the Sergipe-Alagoas basin we have requested the term of reference from IBAMA (the environment regulator) for the acquisition of seismic data, and also the necessary environmental permits.

The timeline for the seismic data acquisition process is still being evaluated. At Block CAL-M-372, operated by Petrobrás, we are still awaiting the drilling license to be issued by IBAMA.

Please, turn now to slide 14. We remain optimistic on the institutional developments of the country in the 2nd half of 2016. We envisage significant improvement in the scenario of the oil and gas industry with high potential to leverage our assets.

Manati Field remains a valuable source of revenue, EBITDAX and cash flow, despite the lower output. The Field reserve and production capacity are unchanged. The increase in gas production is related to the economic recovery and the resulting increase in demand for gas in the country.

We remain confident in our ability to generate positive net income from operations in the 2nd half of 2016, despite the lower level of gas production. This assessment, naturally, is based on our current visibility, as well as current exchange rate.

We have a schedule of activities planned for Carcará discovery, which is a relevant asset for QGEP, and will certainly contribute to the solid cash generation in the medium and long-term.

In the last 12 months, we kept optimizing our portfolio and maintained our focus on the highest potential asset with allocation of capital.

We continue to monitor market opportunities, selectively evaluating the participation in future bids. Similarly, we keep on evaluating the best time for the farm out of the two high potential blocks acquired in the Sergipe-Alagoas Basin in 2015.

To sum up, we are moving forward with our operation, even in an industry adverse scenario, but with clear signs of improvement in the economy and in the institutional and, above all, regulatory environment in Brazil.

Thank you. And we will now open the floor for questions.

Q&A Session

Operator: Ladies and gentlemen, we will start now the question-and-answer session. If you want to ask questions, please, press star one. If you want to remove your question from the line thank you, please, press star 2.

The 1st question is from Bruno Montanari, from Morgan Stanley.

Mr. Montanari: Good morning everyone. Thank you for taking my question. My 1st question is about BM-S-8. Lincoln, I would like to understand if QGEP confirms the expectation of Statoil that the volume in the Block has a range of 700 million to 1.3 million barrels. Is this in line with QGEP's vision or could it be a conservative number? What about Carcará, what is your position vis-à-vis the preemption right in the concession?

My 2nd question is about Atlanta. I'd like to better understand the delays in FPSO, if they are recurrent. And what about your challenge? Is this more related to suppliers to adapt the plant or, actually, the challenge lying in specificity or the oil that is too heavy in the field? Thank you.

Mr. Guardado: Okay, Bruno, thank you for your question. Bruno, what I can tell you, over all speaking, is that the volume's data there belongs or is within the range that the company is also assessing.

But I would like to highlight that Carcará still has many questions that remain unanswered. One of them, for instance, has to do with the oil-water contact, and it gives room to other interpretation vis-à-vis volume and also vis-à-vis the oil column, which would lead to some kind of change to these volumes.

So although I would say the volume is compatible, there are also other views and other interpretations that might be applied to Carcará's volume, and the answers will

come as we keep on with our exploration effort. It is nothing so alarming, but I would like to say that there are other visions too about such recovered volumes.

With regards to preemption right, I can tell you right off the back that even though we know that that's an extremely attractive area and it's hard to assess, the importance of the deal when it comes to financial for every company – the company had a specific cash need or a deleverage need for future CAPEX, like Petrobras –, the other company that is getting into one of the best areas identified worldwide today, which is Brazilian pre-salt, naturally there is a set strategy.

So I can tell you that considering what we already know about Carcará, undoubtedly, if we could perhaps we would even try to work on this. But when it comes to the quality of the whole deal and the amount of capital involved, it would be possible for the company to make any move in that direction. And we will be announcing Petrobras and also our partners a decision made by our Board of not exercising the preemption right in this transaction, right? But I can say that we are happy for both companies, both Statoil and Petrobras for the performance of their actions.

As to Atlanta, Danilo is going to give you more color, to give you more detail about Atlanta's scenario.

Mr. Oliveira: Good morning Bruno. Answering your question about the delay of the FPSO, if it comes from oil or it was due to the supplier or due to the oil, I would say that both factors had an impact.

We signed a contract in December 2014 to upgrade the existing FPSO and the construction schedule involved to 14 months, and in March 2015 we detected that the conversion of existing to Atlanta needs would not be so simple, or as simple as we first imagined. So it required the acquisition of a number of equipment and a new engineering for exposure and work schedule, and that caused the delay. So we relied on the delivery of several pieces of equipment that were purchased and also the new assembly.

So now we are discussing with Teekay (the contracted company) in order to work on the new delivery schedule for the FPSO, which will happen in the 1st quarter of 2017, okay?

Mr. Montanari: Perfect, thank you Lincoln, thank you Danilo for your answers.

Operator: Our next question comes from Diego Mendes, with Itaú BBA.

Mr. Mendes: Good morning. I also have some questions about BM-S-8. Lincoln, in your opinion, what do you think: do you think Statoil will be able to accelerate the production curve for the Field? Because the number of decisions still to be made regarding unitization, so perhaps we should be working with the 1st oil for 2021, 2022. Does it make sense or do you think Statoil could bring perhaps this deadline forward?

And in a possible bidding of the unitizable area you said you don't intend to use the preemption right, but do you think it would be worthwhile getting into these unitizable area, or there is still too much to be decided before you look into this?

And finally, in the last answer by Danilo regarding the FPSO, since there was a delay also because of engineering changes, well, perhaps could you sue Teekay or enforce a fine for delaying the arrival of the FPSO? Thank you.

Mr. Guardado: Okay Diego, regarding a possible acceleration, we do see a possibility. Now, obviously there are some points that are necessary to accelerate Carcará.

As you know, we need to unitized the outer area, the external area, because the commerciality statement was for Carcará, but the development plan has to involve the external area as well.

But those two points are fundamental. Two things that in our opinion make a difference, it makes a difference for us, I cannot answer for Statoil, but these two points serve as elements for a possible acceleration.

And this connects with your second question. So there are two fundamental points: one, that the bidding process happens. We need to have a bidding of the external area so that we can have an economic agent, and other Consortium or, perhaps, the same consortium so that we can reach a unitization agreement.

So we need to have a bid and we need to have the unitization rules, which are being studied and being considered by the government matching the two fiscal models; the concession model and the production sharing model. These two points are fundamental.

And a third point, which I believe is being discussed as we speak, is the possibility of allowing for other operators in the pre-salt area. This would definitely be a catalyst and this would facilitate decision-making and a possible acceleration of Carcará. Not just Carcará, but other projects as well that are at an embryonic stage and these definitions will be important.

So I think there is room for acceleration, 2022 is a possible date as long as all of the actions that we are envisioning at the institutional and regulatory levels take place this year, with a possible bidding for the external area for next year. So we would have between 4 and 5 years for this development.

So I see if this is a possibility, but like I said, these two points are fundamental: Unitization rules, the outer area, and the 3rd point allowing other operators in the pre-salt. All of that would definitely facilitate an acceleration of the process.

Now, participating in the bid it is undoubtedly a possible because we know Carcará very well, we have a feeling regarding what could be on the external area, we've made investments in Carcará, we've run all of these risks, so it makes sense to participate.

However, this decision will follow these rules that I just mentioned to you. Not that we want to be the operator, but we need rules that would allow us to have some visibility for 1st oil, and we will need to know what are the elements of the bidding; will there be a bonus? If so, which will be the bonus? What are the other commitment elements that will be packed to the bidding process?

And we'll definitely look into it, and we will look into it considering that we are a company that owns 10% stake of Carcará, and we should always take that into account when we analyze this possibility and also regarding the criteria that will be adopted for the bidding.

And probably and hopefully all of this will be informed this year, at least with some news regarding the bidding and its fundamental, just like what happened in Libra, in which case some points were mentioned way ahead of time so that the companies could look into it.

And we will be looking into this as well, and we will take into account our limitations and our financial aspects and our long-term financials and long-term exposures.

But, to sum up, in other word: we are interested.

And as for the FPSO and contract details, and also respecting confidentiality, the confidentiality agreement, Danilo will answer your question, okay?

Mr. Oliveira: This is Danilo, good morning Diego. Evidently, every agreement and contract set forth penalties if there are delays or events that can hinder the performance of the contract.

We are negotiating with Teekay to have a firm deadline for the arrival of the FPSO, and while we negotiate we are considering penalties. I don't want to get into details in terms of the penalties, but this negotiation is involved. Not only penalties, but also contract provisions, which are being reviewed according to the current market conditions, okay?

Mr. Mendes: Okay, great. Thank you very much Danilo.

Operator: Our next question will be asked in English by Mr. Frank McGann, with Bank of America.

Mr. McGann: Okay, thank you. Just in terms of Manati, just to make sure I heard correctly, did you say that the expected production of 5,0 million m³ per day would continue through 2017 or through 2018?

And perhaps you could go a little bit more into what's really driving the change in demand for the gas and... because if the economy were to begin to improve say in 2017-2018, would you not expect to see a notable pickup in demand for natural gas? Thank you.

Ms. Côte-Real: Good morning Frank, this is Paula. To answer your question, I think that regarding production we mentioned that it would extend to 2018, but this is not the projection of 5.0 million m³. What we said is that the ability of the field is to produce up to 6.0 million m³ per day.

Now, that's a variable that will depend on how much we will produce until then. If we produce less, the rate of the reserve will be, and we can extend this production capacity of up to 6.0 million m³ per day for longer.

Regarding what drives demand and what we see for this year, we see a smaller demand for gas also because of the economic situation of the country, but Lincoln mentioned that we start to see signs of an economy rally.

We can't really estimate production for 2017. We cannot disclose this to the market yet because we want to have more visibility on the outlook so that we can give your production estimate. But we are confident that production should pick up to levels higher than this year if we have an economic rally.

Thank you very much.

Mr. McGann: Okay, thank you. Very clear.

Operator: Next question Felipe Santos, JP Morgan.

Mr. Santos: Good morning Lincoln, good morning Paula. I have one question. I don't know if you can give us more detail about this, but it wasn't clear to me what basically is being changed in the FPSO for Atlanta.

Is it your demand, a technical issue, or analysis that requires a change to the project to be adapted to the new analysis? Or was it a delay due to something that happened in the past and failed to be met?

Secondly, what about the penalty you mentioned, this possible penalty? Would it basically be a daily rate or fee, or the use of the platform, perhaps with some discount or something along the lines? What about this negotiation?

Mr. Oliveira: Okay Felipe, just clarifying once again: Atlanta is an existing FPSO, already processed plant and with the data even in the bid we imagine a conversion that would only last 14 months. Detailed engineering studies showed that the equipment aboard were not enough for the right process of Atlanta oil, and this led to the demand of... the demand for new equipment that were purchased from several suppliers, international suppliers.

As to penalties, out of confidentiality agreement, they are not related to daily fees. There are some penalties that are being negotiated because our penalty is not to charge fines or they involve negotiations for the FPSO to arrive and meet the purpose to process oil and perpetuate our revenues.

So everything is being negotiated with Teekay, including penalties, amendments, changes, negotiations of fees. Everything vis-à-vis the new international oil market, okay?

Mr. Santos: Perfect. Thank you very much.

Operator: The next question is from Gustavo Allevato, Santander.

Mr. Allevato: Good morning everyone. I have a simple question. You said that the two blocks acquired last year you are still assessing the process for the farm out of these blocks.

I would like to better understand the company's decision; farm out, developing or not? Could you give us some color about it? Thank you.

Mr. Mendes: Gustavo, Mendes speaking. Sergipe-Alagoas block we are having internal discussions, we are in the move to start the farm out process. Farm out is something defined, we don't intend to have 100% in both Sergipe blocks, so the timing and the mode of the operational farm out is still being discussed at the company.

It will happen, we have the licensing, process for seismic data, we want to be as fast as possible for the seismic data, and the timing for the farm out phase, one stage, single stage, or two stages; this is still being internally discussed.

Mr. Allevato: Okay. I do know if you can share at this, but any interest by any particular party or partner, or is it too early to say anything?

Mr. Mendes: We've been having several contacts from several companies who came to us with their interest. From the moment we open to the farm out, there are several companies interested in this.

Mr. Allevato: Okay, it's clear. Thank you.

Mr. Mendes: Thank you.

Operator: The next question is from Mariana Bertone, GBM.

Ms. Bertone: Hello, thank you for the opportunity. I have one question about the Atlanta Block. Given the difficulty of OGX to pay the cash calls for the operation, there is a possibility that OGX will sell part of their stake to the partners. Would you be interested in increasing your interest in the Block?

And my second question has to do with Carcará. Any update regarding the unitization of the Block? And when should we expect a decision by ANP, the Brazilian oil and gas agency?

Ms. Côrte-Real: Hello Mariana, this is Paula. I will answer your question about OGX regarding BS-4. Well, I think that it's public knowledge that OGX is going through financial difficulties, and as part of their bankruptcy protection plan, they were expecting to sell part of their stake at Atlanta.

It is not part of QGEP's strategy to increase our stake in the block because, although we like the asset, we would be focused on concentrating on an asset that we already have in our portfolio, and our idea is always to diversify and broaden our portfolio of assets.

Now, having said that, I think that we are all aligned to find a solution for the project. The solution can perhaps include a sale and if we, as operator, can help in the process we are always available to help, and perhaps other partners may take on an additional stake in the block.

At the moment, the alternative is still on the table, but is possible that we will increase our stake although originally this was not part of QGEP's strategy.

Regarding the question about the unitization of Carcará, I will turn the floor to Lincoln.

Mr. Guardado: Well, Mariana, the unitization process is moving ahead well and I can tell you that because we have a close contact between the government and the industry. The government sees the need to advance regarding the rules and this is taking place.

Things are being assessed, it should be sent to CNPE that is committed to assessing all of these rules and hopefully the new rules will be announced, perhaps together with the announcement of the next bid.

But the unitization rule is linked to the new bidding because we need both things to have a successful bidding process, and the consequent unitization and the supply is not only to pre-salt areas, there are some post-salt areas that would be subjected to that; Tartaruga Verde, Targaruta Mestiça, and other areas that belong to Petrobras.

So it's all moving ahead well and hopefully will happen. Once we get the bid and once we get proven or approved rules and clear rules, we believe that whatever the activities in this area, some of them will need to have some wells drilled to assess internal volumes, so we should expect to between 1 and 2 years most likely depending on what is the Consortium. It could be the same Consortium, and this would definitely expedite the unitization process.

If a new consortium comes along, there is a maturation process. So we should expect 1 to 2 years once we drill a well, so 1 or 2 years so that we can get to an agreement between the consortium and, anyway, what I can tell you in a nutshell is that we are all sparing no effort for this to happen very quickly; the government, the industry and the regulatory agency.

Ms. Bertone: Okay, thank you very much.

Operator: Our next question comes from Mr. Bruno Montanari, with Morgan Stanley.

Mr. Montanari: Thank you. I have one more question. In your release and in the presentation you mentioned an improvement regarding the rules for local content. I'd like to hear from you: What can be changed? What would you like realistically to change and what is the expected timing for this change to take place? Thank you.

Mr. Guardado: Well, Bruno, the local content has been very controversial in the country because in our opinion, in the beginning of the industry, it did not fulfill the goal for what it was created.

The industry is not against it, we are not against the local content. We, as a company in Brazil and as companies in Brazil, this is upfront opportunity to drive the industry in Brazil, but it has to be adapted, not only to the need of who is buying, but also adapted to the capacity of the industry to deliver the equipment in terms of costs, delivery deadline and payment terms.

So all of these things are being assessed and the initiative by the industry has been to more than punish people for not delivering the terms of the contract to include levels of local content, which would be accessible and affordable for the Brazilian industry and compatible with the delivery deadline.

And we should have the right incentives in place, so we don't want to have penalties; we want to have incentives, and this would be one of the main reasons that we are submitting as a philosophy for the local content, which is nothing but the country's industrial policy, which needs to be adequate to the needs of the buyer.

Another important point has to do with some rules for a waiver. In other words, if the industry is not able to deliver, how will this be addressed? I want to buy, but the industry might be able to deliver what I need at the right time. So how should we cope with this?

Actually, this is an issue we suffered with, particularly in the last 2 years with the bankruptcy of Brazilian shipyard.

So that's another important point and I cannot speak for the whole industry, but I speak with people, and I participate in seminars and I've been in contact with IBP, and IBP has been the contact with the government or being intermediate between

the industry and the government, and they are trying to address this topic and in principle local content should not be a part of the bidding process.

Ideally, the government should give a number that would be compatible with the Brazilian industrial capacity and if you go beyond that you can enjoy your benefit. And if you don't reach that point due to preference of the operator and of course we will have to follow the rules to make that decision, or if the level is not achieved for industry difficulties we would have the right policies to deal with that.

And I think that not just this administration, the prior administration was already willing to make some changes in that regard admitting that they did not achieved their ultimate goal.

And today vis-à-vis the measures that are being taken, now with the incentive of the arrival of new operators in the country, I guess that a realistic local content model, a realistic one, could be very successful with many, many buyers, and not just focus on what Petrobras could do.

So I see this with good eyes and it's definitely part of reinserting the Brazilian oil and gas market in the global market.

Mr. Montanari: Perfect, thank you very much.

Operator: The next question is from Vicente Falanga, Bank of America.

Mr. Falanga: Good afternoon. Thank you for taking another question. Lincoln, if I understood it correctly, you are more prone to increase exposure to Carcará than lowering exposure.

Have you ever considered selling part of the asset and cash in part of this big cash generation that you already have? Or is this fully out of the question? Thank you.

Mr. Guardado: Vicente, sale always has to be related to something else. If I'm about to sell something and because we are a long maturity company, well, we have very long maturity terms, it is not something... sales always have to be related to the immediate cash need, which might happen, or because you have something that is... has a better prospect.

In cases like this, we always try to perform a sale as it right to do farm out or to diverse revenue wise because we are focusing on diversification.

We did not do any kind of offer, but naturally we are here to produce, to be profitable and to add value to the portfolio and to our shareholders. This is always going to be the core of any action performed at the company.

We didn't have any action, but at the same time Carcará is not for sale. Naturally, once we have an offering it will be analyzed vis-à-vis our commitments, vis-à-vis our evaluation. Carcará does have a strategic importance to us, so any possible sale would have to take that into account, and we also have to think what to do with the money; just having it as cash is not enough.

We have our profit due to our liquidity policy, we increasingly value this, but we always have to think about our commitments in the future. If a sale opportunity arises with good potential and leverage of capital, for instance, increasing our short-

term cash flow or lowering our risk, which is also an important element, then we will be considering this.

But for Carcará today, and if you consider the market, you all know the numbers that were disclosed, the number of barrels between US\$3 and US\$5.4 per barrel, so in our opinion for any possible sale it would have to be slightly higher than that to start with.

Mr. Falanga: Perfect Lincoln. Thank you very much.

Operator: The next question is from Pedro Medeiros, Citigroup.

Mr. Medeiros: Good morning everyone. I have 3 questions. Lincoln, still about Carcará and the transaction between Statoil and Petrobras, with regards to your preemption right, what are the contingencies considered to attribute the value of US\$1.5 billion or US\$2.5 billion as announced by both companies?

In your opinion, and we consider it is more upward or downwards? What are the specific contingencies required to come to a number?

Secondly, considering the process and the transaction and potentially the operator of the Field is being changed, how firm is CAPEX for BM-S-8 for 2017? Is it prone to change or do you already have contract with the equipment operator to have a flat and firm CAPEX?

And my last question is the following: Are you still interested and are you actively keeping the room and a data of Petrobras for upstream assets? Is there any discussion that is more ahead of the curve?

Mr. Guardado: Pedro, nice to hear from you again.

Mr. Medeiros: I'm happy to be here. Thank you.

Mr. Guardado: Answering your question, we are still analyzing this. We do have preemption right, we are having a look at the documents, it's a very dynamic and fast process. So we haven't had the chance to see it totally, it has a lot of confidentiality.

But I don't have much to say right now, except information that was already disclosed and announced, and maybe what is more relevant, is related to the unitization process.

It seems that there is a contingency of payment linked to the unitization process, which is understandable considering the size of this M&A deal. I believe that this process, this contingency has to do with and the fact that the unitization has to happen is linked to a possible (well, I cannot speak about Statoil) interest in the external part. In our opinion, it is very reasonable and we would be doing the same because Carcará today has to be considered in the whole picture.

There is a lot of information, certainly information that can be extrapolated, but unitization is a critical process so we can have the 1st oil there. So, we are assured about that, but certainly Petrobras and even Statoil would give you more specific information with regards to these contingencies. In our case, it is more challenging because we are just beginning to check these documents right now.

So we are maintaining this value, which is very much related to Guanxuma test and drilling, but we already consider a possible a slight delay here because all the operational aspects, particularly in terms of drilling, this is in the operator's control, not the block control.

So maybe that's the point to increase our model because it belongs to the operator. As a result, Statoil, once Statoil concludes the process maybe by year-end or early next year, then the Statoil might ask for the environmental license and the drilling permit under its name.

So this might slightly change our schedule for drilling works in Guanxuma at first. We cannot tell you right now because, well, there have been changes in IBAMA (the regulator of authority), but particularly drilling and environmental permits have to be considered because we have already 3 wells drilled, we don't think we will have serious problems.

However, it's a process that definitely will be needed and so we did, we did it in Atlanta. We had environmental licenses, they weren't Shell's and we had to do it under our company name in order to do the same.

So at first we are maintaining this approach, we are going to have contacts with the new operator whenever possible in the farm out process, which is expected to happen in a couple of months, and then we will have more clarity about this.

And certainly this should be announced to you because that's also a key process, Guanxuma drilling is very significant in our portfolio.

With regards to Petrobras data room, we were far more focused and perhaps checking the result, the outcome of the operation. Petrobras has already showed that it was interested in transferring the operation with the whole sale of the asset.

But they might not have a full sale, and that was the window of opportunity that we considered. That was the window of opportunity the company was mostly focused on.

We did not have any specific move to any other Petrobras block even though our documents state that we might be interested in being involved in the process. But, undoubtedly, it was clear to Petrobras that this was the major area to be assessed. They sold the 66%, naturally we were interested in being there, but we did not have the ability to do any move considering the value of the deal.

We were not there, but it doesn't mean that we, well, maybe in the future we might consider other assets by Petrobras, but right now we were more focused on Carcará.

Mr. Medeiros: Perfect, thank you Lincoln. Thank you again.

Operator: As a reminder, ladies and gentlemen, if you would like to ask a question, please, press star one.

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: Well, I would like to thank all of you for joining us. I'd like to thank you for your questions because we believe that despite what we are seeing in terms

of the global oil market, what's happening in the country, it seems that we should have some optimism now.

And I would like to thank you for your questions and, again, I would like to reiterate that our Investor Relations Department is always at your disposal to answer further questions you might have.

I'd like to stress our belief in our strategy and in the results that the company is having and should continue to have in the foreseeable future. I wish you all a good day and thank you very much for joining us.

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