

Operator: Good morning ladies and gentlemen, and thank you for waiting. Welcome to the QGEP's conference call to discuss the material fact released yesterday to the market regarding the sale of 10% interest in Block BM-S-8.

Today with us we have Mr. Lincoln Rumenos Guardado, CEO of the company, Mrs. Paula Costa Côrte-Real, CFO and IRO of the Company, and Mr. Danilo Oliveira, Production Director, also Mr. José Milton Mendes, Exploration Superintendent.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. After QGEP's remarks are completed, there will be a Q&A Session when further instructions will be provided. Should any participant need assistance during this call, please press star zero (*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 are based in the beliefs and assumptions of QGEP's 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 also 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 Rumenos Guardado, QGEP the CEO, who will start the presentation. Mr. Lincoln, you may proceed.

Mr. Guardado: Thank you and good morning. It is a pleasure to be with you once again, and it is very good to have you joining us at this moment when we have the announcement of something very relevant to our company.

Well, we plan to make some brief comments on the release we issued yesterday on the sale of our interest in Block BM-S-8, and then after that brief remarks we will open the call for questions.

This first slide tells all the details of our agreement with Statoil to sell QGEP's 10% stake in Block BM-S-8. The total price of the transaction will be US\$ 379 million, of which 50% (or US\$ 189.5 million) will be paid at closing, which will take place upon receiving approval from the Regulatory Agencies in Brazil, at first CADE and ANP.

Given the timing of ANP processing, we are expecting to close the transaction before the end of this year. The remaining amounts, as you can see, will be paid in two installments that are contingent upon signing of unitization agreement and other subsequent events.

In terms of capital allocation and given that this was an unsolicited offer and also considering the short term of the negotiation, the management is still evaluating the best use of these proceeds in order to maximize value creation to all our shareholders.

On slide 2 we present a timeline that shows the history of BM-S-8 block considering that almost 6 years have passed since the discovery, that was in early 2012, until the current date. Let me say that the Carcará discovery represented a very successful investment for QGEP and that also generated a significant value to the company.

Bear in mind that our purchase of 10% interest in Block BM-S-8 from Shell represented a major step for QGEP because it gave us our first exposure to pre-salt. At the time, we saw that as an important short-term catalyst for the Company, but a combination of technical challenges caused the timeline to expand far beyond the original plan. Certainly, does not remove the merit of that significant discovery.

Several aspects related to the timing of first oil from this discovery were taken into account when we made the decision to accept the offer. Amongst them there were the uncertainties regarding overcoming the technical challenges related to the developments as well as the deployment of large gas volumes and also the lack of clarity related to the unitization rules until the present moment.

We believe that they will come, but we still have very few visibilities. And for all of these reasons, we chose to monetize this larger asset today and redeploy our resources to further develop our exploration portfolio.

This transaction represents a return on invested capital of 15% a year in BRL for QGEP, which we consider to be a very successful investment. Another significant benefit for our shareholders and ourselves is the flexibility this sale gives us in terms of reducing our future capital expenditure commitment, especially that related to this development, which certainly involves a significant amount.

In terms of short-term Capex, our Capex for 2017 and 2018 shows a reduction of approximately US\$ 21 million for the next 18 months, and that is usually related to the drilling of Guanxuma well and other activities. As for our evaluation, the most significant Capex for BM-S-8 should occur as of 2020, and even though we do not have the final figures we can certainly say that it would have been a substantial amount for us.

Now, speaking about Atlanta, which we know as an asset that investors are keen on having updates on the progress related to the delivery of our FPSO for the development of the Field, I can say that we are finalizing our agreement with Teekay Offshore and that we remain optimistic that we will ensure production of first oil in the first quarter of 2018.

Thus, I could certainly formalize to you today that we are pleased with what we believe will generate positive results for QGEP and its shareholders with the monetization of our interest in Block BM-S-8. We see many more opportunities in the pre-salt today than there were back in 2011, when we made our initial investment, and also the conditions to entry are much more accessible.

We have several bidding agenda in Brazil, which will allow QGEP for more strategic repositioning *vis-à-vis* new investments in the oil and gas industry in the country. Moreover, since our original investment in BM-S-8 we have put together a very diversified exploratory asset portfolio across the major Brazilian basins, which also include several high potential blocks and good farm out opportunities.

And lastly, we are currently evaluating all of the options before us regarding the use of these proceeds in order to generate value to our shareholders, which could include investments in E&P assets as well as a potential dividend future payout.

Once again, I would like to thank all of you very much for joining us today, which is a significant date to our company, and as of this moment I would like to open the call for questions. Thank you very much.

Questions & Answers Session

Operator: Ladies and gentlemen, we will now initiate our Q&A session. If you have a question, please press the star key, star one. To remove yourself from the queue, please press star 2.

Our first question comes from Mr. Gustavo Alevato, from Banco Santander.

Mr. Alevato: Good morning Lincoln, good morning Paula, and congratulations for the transaction. I would just like to get a better understanding if now with the farm out at the BM-S-8 if you do not have any other further possibility of further farm out, farm out in other assets or whether this transaction does not include other possible future for farm outs.

My second question relates to the liquidity of the company and whether that increases the appetite for further auctions.

Mr. Guardado: Gustavo, thank you. I would like to say that, in fact, I just want to reinstate that the offer we received from Statoil was an unsolicited offer, but we already initiated a farm out process, which was initiated 6 months ago, for the 11th and the 13th round.

The process is still in process, it's a longer process when compared to the process involving the sale of BM-S-8 due to several contingencies, and this farm out process will continue, it will continue, and currently we just concluded the first farm out phase and we are now discussing with some companies regarding these opportunities.

That does not mean that we will not get back to the market. We will. We believe will go back to the market in the near future, probably right after the bids for a new round if that is the case. But again, we continue to discuss with the companies about all of these other possibilities, therefore, I reinstate that there is no lack of continuity. What happened now is just a regain focus.

This... you know, in answering the first question on farm out, this question is closely related to your second question; we always said that our participation in the auctions was also linked to the success of our farm out process, and certainly – and it was obvious that even before the sale – the company has always been very liquid, we have a lot of liquidity, but we always plan our commitments down the line in the future, especially also commitments related to Carcará itself and other investments in this area.

Therefore, our position *vis-à-vis* the farm out, has always been dependent on the success of this farm out, which is still in progress. Certainly, the sale can give us some relief in terms of liquidity and in the short and mid-range, and we will also take this fact into account in terms of deciding whether we will participate or not in further auctions. But certainly, the continuity of the discussion in the company about farm out precedes the possibility of liquidity because today certainly liquidity is better because of Carcará sale, but we have other exploratory projects, we have areas of high possibilities that will certainly demand significant investments.

Mr. Alevato: Okay, that's very clear. Thank you very much for your answers.

Operator: Next question is in English, from Mr. Frank McCann, from Bank of America.

Mr. McCann: Hello, good morning. Thank you. Two questions if I could, and I apologize if perhaps I missed you speaking of that. I was just wondering in terms of the sale proceeds, what are the tax effects there could be when you receive those proceeds, if that would reduce the net amount the company receives.

And then secondly, with regards to the negotiations for the FPSO and BS-4, I was wondering how the potential is there to be changed in costs that might help the profitability of BS-4 or the Atlanta field and how you are seeing the overall profitability in that field now in the current lower price environment?

Mrs. Costa: Hi Frank, this is Paula. I will start answering your first question about taxes that incur on sale of BM-S-8.

We... as we said in the material fact, the payment will take place in 3 installments, the first installment will be paid upon closing of the transaction, now we just... we have the write-off of the amount, the total amount invested was 554 million, but about R\$ 50 million of that amount related to that tax, and so the write-off of that 50 million is done, so we have close to R\$ 500 million in our assets referring to BM-S-8.

We benefit from the write-off of that amount and then we recognize the revenue coming from the payment, and the other installments will be considered as revenue and they will be posted in our calculation of corporate tax payment and the tax rate is 34% including the social contribution, and we also have all the legal deductions in terms of corporate in our result year on year, and this will depend on the debentures related to the payment of the second and third installments of the sale.

In terms of your second question, I would like to ask you to repeat it, because it wasn't very clear to us what was the point related to the FPSO.

Mr. McCann: Yes, sure. In terms of the negotiations for the FPSO, I was just wondering if there would be a potential improvement in the cost structure of production at Atlanta, and how you are seeing profitability for production in Atlanta currently with the weak oil prices that we have in the market currently?

Mr. Guardado: Okay, Frank, this is Lincoln. Danilo is here for further details if necessary. In fact, we already started negotiations with the Teekay. For the very beginning, this was a negotiation very much in keeping with the market and that was from the start, and we believe that our cost was very much aligned, and today we are already recovering some costs and so we do believe that we are very much in keeping with the market at that time and also today.

The negotiation that is about to be concluded also seeks for some relief, not only relief for the company in terms of future costs at least in regards to certain span of time, but at the same time in the future this will allow the operating company Teekay to recover some advantages we may have in terms of our daily rates.

The negotiation is not yet concluded, but is about to be concluded and it is supposed to be a win-win transaction. We should be able to accommodate any delays caused by technical issues faced by Teekay and also, we will certainly overcome the current landscape of lower prices of oil.

This new agreement involves some kind of relief for the Consortium while at the same time it also provides the possibility for Teekay to recover... to recover gains throughout the contract depending on the Brent price recovery.

I think we are very close to arriving at a final agreement, which will be mutual and beneficial for both companies, also very much aligned to the current landscape in the market.

Mr. McCann: Okay, thank you very much.

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

Mr. Montanari: Good morning and thank you for taking my questions. There is one issue, because in terms of the priority of capital allocation, would you also consider to acquire a mature asset in case Petrobras sells some of the fields that for Petrobras may be very small, but for other companies may be very attractive? Or QGEP wants to be exposed to assets with exploratory potential?

Mr. Guardado: Bruno, thank you for your question. Certainly, our DNA has always been in we put the company together in order to add value to our assets, leveraging on all the knowledge available in the company, and this has been so up to now.

This transition to a possible purchase of a mature asset will always be open as long as there is any advantage of derisking our portfolio or whether there are other good possibilities that are compatible with the value of the asset.

What we've seen in terms of Petrobras is that they have large assets, very large assets for sale, especially they have been... those that have been announced to the press, and so these assets are still far from our cash capability given the challenge we have now with our exploration project in Atlanta.

But certainly, this is not out of our radar completely, but we... it just has to make sense in terms of our capital allocation and it should also be able to add value to the company.

Today we are currently concerned with cash generation. In Manati we have good liquidity at present, so it would have to bring to us some tactical impact. I mean, it will not just be the core of the company terms of the use proceeds, but certainly we'll be very alert from now on because our movement will also demand a more strategic repositioning of the company and we intend to do that in the next coming months to position and to reposition the company *vis-à-vis* this new liquidity that we will be getting.

Your question makes sense, but I do not have a definite answer to give you right now. The past hasn't focused much on those acquisitions, but from now on we will probably be able to look at it more carefully. But again, I reinstate that it will have to make sense and it will have to be in tune with our possibility to operate these assets.

Mr. Montanari: Thank you very much.

Operator: Our next question is from Pedro Bruno, from Charles River.

Mr. Bruno: Good morning Lincoln and Paula. This is Ruan in fact. I have two questions. My first question refers to the putting of the installments where you get

50% cash upon closing of the transaction, and I understand that there are two other payments, two other installment payments, and I would just like you to clarify how the payments will be done.

My second question refers to taxes. Once you receive... according to my understanding, once you do the write off of that 50% you wouldn't be paying much tax on year one, but I would just like to know whether you can also deduct part of that tax in the following year, probably you know, declaring interest on capital or I just want to get a better understanding how that will work.

Mrs. Costa: Hi Ruan, this is Paula. To answer your question about the payment, that 50% will be paid once we get the approval from ANP and once that revenue is recognized we will do the write off of the bonus that we paid when we acquired the asset, the price we paid when we acquired the asset.

Both amounts combined is about R\$ 500 million, so that amount is deductible at first once we receive the first statement. The other payments I do not have any other amount in my asset line to deduct. So, they will be part of my income tax at corporate level, and I may not have other deductibles that may bring some other tax benefits.

But the analysis may occur, but it will be dependent on other factors and how the company will allocate future payments. But as these are contingent payments, contingent upon event, so we will just post it when the events occur. This is our understanding.

Currently, we are discussing with our auditor considering the terms of the agreement that was signed yesterday, so we still have to discuss further facts with our auditors to see what will be the tax impact on the payments.

Mr. Bruno: Just as a follow-up, regarding the two last payments (because I understand that there were third payments), they will be divided between the agencies... I mean, the first payment involves almost half of the amount, and then the second 12% of the amount, and the third refers to 38% of the amount.

Mrs. Costa: The second payment is linked to the bid, and the third payment linked to the unitization agreement.

Mr. Bruno: Thank you Paula.

Operator: Next question is from Mr. Pedro Medeiros, from Citigroup.

Mr. Medeiros: Good morning and congratulations for the transaction. I have one question. Lincoln, I would just like to understand that once you get so much liquidity in the company and given the fact that you are revisiting your portfolio, would that change, the schedule you had in terms of your exploratory assets in the Northeast and the Equatorial Margin? Because now you have more flexibility of terms.

But does the company intend to expedite your exploratory activities in these blocks?

Mr. Guardado: Good morning Pedro, thank you for your question because of the question comes to add up to what we said before. In terms of Equatorial Margin, we do not intend to accelerate it. We have a well-defined target because we wanted to farm out in that area.

This still places some administrative impediments, like the drilling licenses. We do not have the drilling licenses, especially in the Equatorial Margin, moreover the 11th bidding round, but for all the drilling in the Equatorial Margin. That alone would be an impediment for the acceleration of the drilling there.

We had to give out the drilling rigs, we couldn't start the farm out without the drilling license. But in terms of our business outlook, we do not intend to accelerate that. Our priority today is to do the farm out and to decrease our exposure in that area. So, throughout the next few years we will then make decisions depending on what we will have in terms of partnerships in that area. I mean, the startup of drillings and other companies have other commitments and maybe this will be able to accelerate that drilling. This is a fact, we know that and they know it as well.

A possible good news coming from these areas may modify the situation, but until then we will pursue dilution. The only area that due to other characteristics could be... could lead us to an exploration even though we do not have any commitments, is Sergipe Alagoas, which is good, we already have some deep-water discoveries, which are quite significant, and in terms of logistics and infrastructure the scenario is different when compared to the Equatorial Coast.

So once there is a discovery in that area, logistics will come, as usual. But today decisions are much more favorable and easier to make because of Sergipe, which is also included in our farm out. And I can tell you that at first... so at first, we wouldn't like to drill 100% in neither of these areas, so depending on the success we have on the negotiations underway, we may change the schedule at least in terms of Sergipe.

Mr. Medeiros: Thank you.

Operator: I would like to remind you for questions, please press star one.

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

Mr. Montanari: Thank you for taking my question again. It's just a follow-up question. You said that the remaining installments will be paid, you know, first and after the agreement is signed. Is there any kind of link or any risk involving the fact that the second installment is lower than the 50%?

Mr. Guardado: Bruno, the issue is that the major event is what matters for the payment, which is unitization. Unitization (and as you know) is very important to define the development of the field project as a whole, and for regulatory purposes it's important that the unitization occurs, and the elements that lead to unitization some of the elements are still being defined by the government, some unitization rules are to be defined how we will do the accounting procedure, there are two different tax models; one involves special participation, the other has profit oil. So, there are different methods and these rules are not yet defined. Therefore, we have some provisions that ensure to the buyer that if economic criteria does not follow the criteria that we are considering today, then there may be some discount. But we do not anticipate anything like that.

But currently we just need to have more clarity in terms of how the tax events will take place and how we will do the accounting of all that. This is something new, it's still in progress, that's why I say that it's just normal procedure to set some provisions in case things do not occur as planned. We do not have any reduction in terms of 100%.

We think that's reasonable. So, anyway, we would also be subject to any event, any contingency event, and this would affect us no matter the situation, whether we are there or not. At first, the situation is neutral *vis-à-vis* the amount of the sale.

Mr. Montanari: Thank you, I understand. Thank you very much.

Operator: Next question is from Mr. Leonardo Marcondes, from UBS.

Mr. Marcondes: Well, this is Julia. Some of my questions have been answered already, I just have a follow-up. You talked about the three installments, or three payments. In terms of dividend payout, I think we should expect any evaluation after the payment of the third installment. Am I right?

Mrs. Costa: Hi Julia, this is Paula. Things are not that linked. When we mentioned dividends, we mentioned them as... the portfolio of the company, as Lincoln said. So currently, and as this was an unsolicited offer and because of the short-term negotiation and the liquidity that this will bring to the company, you know, as the payments are made, we have to revisit our portfolio and look at the investment opportunities further ahead, and I think the dividends will be a consequence of our cash position.

So, that doesn't mean that they will necessarily be linked to the payment of the installments and they are not linked to the sale of Carcará. It will be just a consequence of our strategic repositioning *vis-à-vis* the fact that we are now relieved of some Capex commitments in the medium and long-range, Carcará was corporate asset and we had anticipated a large investment in the coming years and now these commitments are released.

So, the combination of all of these factors and looking ahead, looking at our possible assets, the board and the company if they understand that they would have access cash and it will be better to shareholders to do a dividend payout, this could be just a combination of factors together with our investments. So, we will just favor shareholders through payout of dividends or assets.

Ms. Julia: Thank you.

Operator: Once again, if you have questions, please press star one.

As a reminder, if you have questions, please press star one.

The next question is from Luis Pinho, East Spring.

Mr. Luis, your line is open.

Mr. Pinho: Good morning everyone. I have two questions. My first question refers to the amount of the sale, if denominated in US dollars or is there any exchange cap?

My second question is that this is a transaction... I mean, when I talked to you in the past, I didn't feel that the valuation... I mean, once you knew what happened to Petrobras that you are not very excited with evaluation, but now you made the decision to sell.

Should we use you that the assumption you have for oil in the mid and long-range is significantly lower than what it was one or 2 years ago, and that's why the valuation is now more attractive with the current assumption?

Mrs. Costa: Hi Luis, this is Paula. Yes, the price is denominated in US dollars. What we have are some cash call disbursements during that interim period until we get the approval from ANP, and the amounts are then denominated in BRL and corrected according to the SELIC rate. But the base price is nominated in US dollars, and the installments should be paid in the future are also dollar-denominated.

In terms of the value of the amount, Carcará is an asset of significant value and I think it's an asset where we were able to generate and add value to that asset, when we acquired it, it was a merely exploratory asset and we participated in the discovery of the largest oil column ever discovered in the pre-salt, and it gave QGEP a 15% return. Looking at the price of oil, when we look at it in real terms, it came down 15%. So even in a scenario with lower price, we were able to add value to the asset and value to the company, therefore, that represents a success story to QGEP.

Looking ahead, that became a too large of an asset for the company. We had a large Capex commitment for that asset in the future and we still have challenges to overcome related to the gas evacuation, and there was very little visibility in terms of first oil. And as Lincoln said, it has been 6 years from the discovery and we have very little visibility of when that will be able to generate cash, and for an asset of that magnitude it became less compatible with our activity.

So, reviewing our risk management portfolio we thought it would be more interesting to monetize, and in parallel to that we received that unsolicited offer and then we saw a good opportunity to monetize the asset, and that would give us the opportunity to invest in our portfolio so as to generate more gains to our shareholders.

And I think that Lincoln could also add to what I said.

Mr. Guardado: Luis, I reinstate and reaffirm Paula's answer, but also that has to do with timing and strategy in terms of our approach.

When the sale was done about a year ago, our vision of the country in terms of pre-salt regulation were totally different than today. Today, the oil industry is going through changes because there are still some rules that have to be defined by the government, all of the auctions have been announced, the areas are announced, several pre-salt areas are now available and they weren't available when we came in and we made a strategic decision to be part of the pre-salt.

That doesn't mean that we will be out of the pre-salt. By no means. But there is this possibility of returns under more favorable conditions when it comes to the future of pre-salt. The government is making some significant moves to make the auctions more attractive, not only for the pre-salt, but for other areas as well in terms of local content, we are now waiting for the Repetro evaluation and some other alternatives.

But all of that, the potential return from areas of higher attractiveness are much better today when compared to the past, and it's much easier to enter when compared to 5 to 6 years ago because the potential of pre-salt is here to stay associated to this play.

Also in regards to deep waters (and that's why we chose deep waters first), nothing changed to that end, and we intend to be there, but now we will concentrate our focus, we will review our positioning, but certainly we will focus more in some of these areas.

Operator: Once again, if you have any question, please press star one.

We now conclude the Q&A session. I would like to give the floor to Mr. Lincoln Guardado for his final remarks. You may proceed, Sir.

Mr. Guardado: Thank you all very much for joining us today so early in the morning. We tried to shed some more light to this process, we know that everything occurred in a very speedy fashion and we are now thinking about the developments of the transaction and I would just like to reinstate the availability of our IR Department so that as much as possible we will be able to give you all the necessary information and guide you through the next steps.

The sale of Carcará is not our only challenge, but this repositioning and the fact that we are diligently working to maintain the position of Atlanta in early 2018 and we are also now working on our farm out.

I would like to thank you once again and reinstate the invitation to assist you in whatever you think is necessary. Thank you very much, and I will see you next time.

Operator: QGEP's conference call is now concluded. Thank you for participating and have a good day.