Operator: Good afternoon, thank you for waiting. At this time, we would like to welcome everyone to **QGEP's second quarter 2017 earnings conference call**. Today, 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. José Milton Mendes, Exploration Superintendent.**

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 completed, there will be a question and answer section, when further instructions will be provided. Should any participant need assistance during this call, please press *0 to reach the operator.

Before proceeding, let me mention that forward-looking that might be made during this conference call relative to the company's business perspectives, operating and financial goal and projections, are based on the beliefs and assumptions of **QGEP** management, and on information currently available to the company. Forward-looking statements are not a guarantee of performance, 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.

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

Mr. Guardado: Good morning everyone and thank you for participating in our call today to review second quarter 2017 results and our business outlook. To begin, I would like to apologize for the delay in disclosing our second quarter results, this was due to a technical operational problem in accessing the CVM system and that led to a slight delay, which we hope was not too problematic for all of you.

Let's go to slide 2, please. There is a lot to talk about as this is a very eventful period for QGEP marking a certain turning point in our growth strategy. In essence, we can say that we made important progress in clarifying two important issues for our valuation in the market related to the closing of the agreement with Teekay and the sale of our stake in Block BM-S-8, where Carcará discovery is located.

With these events, we confirm the company's visibility for the beginning of production at Atlanta Field and we guarantee additional resources that will enable us to take advantage of the reopening of the E&P sector and improved economic conditions in Brazil. We are pleased to see that our investors have taken notice of this progress.

The first highlight of the quarter, we underscore consistent financial result. Both our EBITDAX and net revenues improved quarter on quarter. We see a pickup in demand for our Manati field gas with demand of 6.5% when compared to the first quarter 2017 level.

One of the uncertainties that we clarified this quarter relates to our development activities in Atlanta Field. We finally succeeded in reaching an agreement with Teekay

Offshore regarding the delivery of our FPSO to the Field, now confirmed for the end of 2017 with first oil set for the first quarter of 2018.

However, the top news of the second quarter was our agreement to sell our 10% working interest in BM-S-8 to Statoil for US$379 million.

This was a very difficult decision given the potential of this discovery, but a strategically and financially sound decision for QGEP given, as we had mentioned before, the lack of visibility for first oil over the last 5 years and the technical challenges that the field in addition to substantial CAPEX expected for this development.

And finally, our farm out process, which began in the beginning of the year, is still ongoing with potentially interested partners.

Now I will turn the floor to our CFO, Paula Costa Côrte-Real, for a financial review. Paula.

Ms. Paula Costa Côrte-Real: Thank you Lincoln and thank you all for joining us today. Now I will address our second quarter results.

We are pleased to report very solid financial results for the second quarter, we are improving our operating efficiency, expanding our margins and focusing on delivering consistent returns to our shareholders by increasing our profitability. We generated significant cash flow and ended the quarter with cash and cash equivalent of a R$1.5 billion approximately.

Let me begin with slide 3. Our producing asset is Manati Field, where gas production was 4.5 million m³ in the second quarter; 10% lower than the second quarter 2016, but at a similar level to that of the second half of 2016.

Importantly, this represented an acceleration from first quarter 2017 levels, where the level was 4.2 million m³ a day. July production have continued the favorable trend and Petrobras is buying all the gas that we can produce.

During the second quarter, while undergoing maintenance, one of our flow lines was damaged and this resulted in the shutdown of one of the producing wells, and temporarily reduced our total capacity to 5.5 million m³ a day while repairs are under way.

The estimated total cost of the repair work of this line is estimated at US$12 to 15 million, of which our portion is 45%. We are not making any changes to our full-year production estimate and we affirm our guidance for full-year 2017 to average daily gas production of 4.9 million m³ per day.

On slide 4, largely to you to the contract in place for the Manati Field, which calls for annual price adjustments to account for Brazilian inflation, the second quarter revenue decline of 5% was only half of the year over year production decline, with annual price adjustments occurred at the beginning of the year.

Moving now to slide 5, operating costs. For the quarter, total operating costs were 50% lower year on year, reflecting lower costs across the board. Maintenance cost, one of the key drivers of higher cost last year, are winding down as the painting in maintenance project at the Manati platform, which began in the second quarter of 2016, have been completed.

In this quarter, we had an additional expense of 3.6 million for repair work of the damaged flow line. We expect to have this repair work extending over the next quarters.

Depreciation and amortization in the quarter decreased 8% compared to the previous year, mainly due to a lower production on which depreciation is calculated. Exploration expenses were down by half compared to last year's second quarter, related mainly to les seismic data acquisition and lower data processing costs.

Let's go to slide 6, please. The company continues to manage general and administrative costs. Our efforts are not fully reflected in the numbers of the second quarter of 2017, since the temporary reduction in activity has reduced the allocation of expenses to the blocks where we are the operator. As a result, our G&A expenses were up 24% in the quarter, and they also increased as a percentage of our net revenue when compared to the same period of last year.

Moving to slide 7, let us talk about our profitability. Although Manati Field´s production remained lower year on year, this field remains very profitable for us. EBITDAX was up 136% year over year with a corporate margin of 40% in the quarter, reflecting lower production costs.

When compared to the first quarter of 17, however, EBITDAX was reduced due to higher exploration costs primarily related to increased acquisition and processing of seismic data for the Pará-Maranhão Basin. We generated net income of R$61 million in the quarter compared to a loss of R$8 million in the same period of the prior year.

Although revenue was lower in the current quarter, this reduction was partially offset by an improved cost structure, lower seismic data acquisition, as well as a greater financial result contribution versus second quarter of 16. The reason for this swing was the higher contribution of exchange funds.

On slide 8, we have our CAPEX. The capital expenditures totaled US$7 million during the quarter, with US$2.2 million spent in the Atlanta Field. On this slide, we are showing the breakdown of our planned capital expenditures for 2017 and 18. For the current year, we are budgeting Capex of US$48 million.

Till June 30th, we have invested US$14 million. Once again, the Atlanta Field, who will account for the majority of the spending, targeted at US$30 million for the full year. We plan to spend remaining funds with exploratory activities as well as seismic data acquisition for the blocks we acquired in the 11th ANP bidding round, estimated at US$14 million.

The figures we see here for 2018 are a rough estimate based on where we stand today. The sale of our interest in Block BM-S-8 significantly reduced our CAPEX commitment, particularly for the years 2019 to 2021, providing us with substantial flexibility for future investments.

Now I would like to turn back the call to Lincoln for strategic and business review. Lincoln.

Mr. Guardado: Thank you Paula. We are very pleased to see a sequential increase in Manati gas production this quarter. The drought in the Northeastern part of Brazil has increased the use of thermal power, thereby increasing demand for our natural gas, and that trend continues over July mostly. And with this drought expected to continue through the end of this year, we could see further increase of such demand in the third quarter.

As Paula mentioned, during the quarter's maintenance work, a flow line to one of our Manati wells was damaged. As a result, our production capacity was down temporarily to 5 million m³ per day at the end of the second quarter, but we are already working hard to restore it as soon as possible, and expect to have that done as soon as possible to 6 million m³ per day.

Another important and positive highlight of the period was the signing of the amendment with Teekay Offshore, which I mentioned earlier. The terms of the contract amendment provided for a significantly lower daily rate for the FPSO for the first 18 months of production, which should reduce overall operating expenses at the Field to US$410,000 per day (we used to have 480, as we told you before), and equivalent to a reduction of US$4 per barrel, which enable us to optimize our results in a potentially period of lower oil prices.

After this period, the original daily rate of the FPSO will become effective with possible adjustment linked to oil prices among other variables. It might even have a rate increase.

Now that this difficult complex situation is behind us, we are looking forward to the delivery of the FPSO by year-end, with first oil in Atlanta scheduled for the first quarter of 2018.

Slide 10 provides detail on the agreement with Statoil to sell 10% stake of *Queiroz Galvão Exploração Produção* in Block BM-S-8, which we announced on July 11. The deal total US$379 million. We considered several elements when making the decision to accept it, among them, we highlight again the lack of visibility to first oil and uncertainties regarding the deployment of large gas volumes, and obviously we also considered the lack of definition related to current unitization rules.

For all these reasons, we opted to monetize this long-term asset and redeploy our resources to further develop our exploration portfolio and the Atlanta Field and potentially have an extraordinary dividend payout.

This deal represents a return on invested capital of 15% per year in BRL for QGEP, which we consider a successful investment. Another key benefit for us and our shareholders is the flexibility this sale gives us in terms of reducing our future capital expenditure commitments, which are very high for this discovery.

In terms of capital allocation, given our strong cash position, we are evaluating the best use for these funds in order to maximize value creation for our shareholders.

Slide 11 is a snapshot of our existing exploratory asset portfolio, excluding, naturally, Block BM-S-8. We will focus on investing in the area of are recognized geological potential and that are less capital-intensive.

As you know, we are quite keen on the prospect for our blocks in the Sergipe-Alagoas basin and on the farm out potential they bring goes, and also from other blocks. Considering that future financial commitments for the development of the Carcará discovery will no longer be included in our medium and long-term capital expenditures budget, we will have a leaner company, focused on areas of high potential and hopefully quicker returns.

Summing up, as I mentioned earlier, we took important steps during the quarter to position our company for continuous success in the mid and long run. Our decision to monetize a key asset has increased consistently our financial flexibility, which is even more relevant now that we are entering what we believe to be a time of improved economic growth for the Brazilian oil and gas industry.

QGEP's track record is one of consistent solid growth, accompanied by a disciplined risk management profile, but we are also ready to invest when we see significant potential. And as a local player with deep technical expertise, we are in an excellent position to partner with international companies that are coming back to the Brazilian market in the short time frame.

With that, I would like to finish the presentation and open the floor to questions. Thank you very much.

Q&A Session

Operator: Ladies and gentlemen, we are starting now the question-and-answer session. If you want to ask questions, please press star one. If at any time you would like to remove yourself from the questioning queue, please press star 2.

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

Mr. Alevato: Good morning everyone. I have two questions. The first is related to the sale of the stake of Carcará to Statoil. How is this evolving and what is lacking to sign the contract so that you can get paid the first part, the first installment?

The second question, in the press release you mentioned that you are considering participating in the 14th ANP bidding round in September, and I would like to understand, looking forward, what makes more sense to you: continuing in the exploration area given that you are divesting from an asset about which you have certain geological certainties, Carcará, or will you move to a production asset in addition to Atlanta that would start contributing with a cash generation? These are my two questions. Thank you.

Mr. Guardado: Gustavo, thank you for the question. As you know, once you decide to sell, you have a procedure to follow, the first one is related to the shareholders that have to give their opinion regarding their right of first refusal, or preemption right. So, the shareholders have to agree with… the partners actually, the partners have to agree whether they wanted to buy. So, under this Joint Operating Agreement we have to wait a certain period of time for the partners to speak what they want to do. We are waiting for that, but we are getting close to their deadline.

After that, we will be submitting the documentation to ANP and we will send the documentation also to CADE [the Brazilian Antitrust Agency] and they will give their expert opinion regarding economic concentration and ANP will prepare the whole documentation to change the concession contract as it relates to this sale.

In our opinion, this should be finished by November or December of this year because we hope that ANP will act quickly. The fact that the magnitude of this deal, the stake we are selling is not that big so as to make the approval difficult by ANP, or CADE. So, we expect and believe that by year-end at the most the whole process will be fully completed if there are no changes regarding the positioning of our partners.

Now as for the 14th ANP bidding round, we are still looking into it. I'll give you a little bit of our rationale here regarding what may happen. Even before we sold our stake, we had already a goal regarding our participation in the upcoming bidding, which would be our divestment in our blocks where we have a higher exposure, and this has been the major driver for our repositioning regarding the upcoming rounds, not just limited to the 14th bidding round.

This is a farm out process which continues underway. I cannot deny, even the announcement of all the blocks that will make up the 14th around in the second and third round of the production sharing contract, all of that brought a little bit of competitiveness for us, but we still continue discussing this, and the size of our potential participation in the 14th bidding round is closely linked to what we can get in terms of divestments in our current blocks so that we can have a controlled exposure.

Now, whether we will continue with the focus on exploration or not or whether we will move to production, we have an expected production, we want to diversify our sources of revenue and Atlanta is a key player there, it is definitely very important. Now it doesn't mean that we will give up on other areas where there is production happening, but it has to fit the size of our company; in other words, operating production under certain circumstances can be difficult for us, for example, onshore or on areas whit a concentration of very old fields.

So, participating in a production and producing asset has to fit a certain rationale for us, it has to be linked with our goal to diversify our sources of revenue. But again, it has to fit the tactic and the strategy of our company so that it will make sense to us.

We believe that exploration is a growth refund for us as long as it is an area that will allow us to make an assessment in an area that will not pose too great a technical challenge regarding requiring high technology or high Capex.

I don't think that exploration and production compete with one another. For exploration, we look at the mid to long-term as to reduce the risk in our portfolio, and production is what we look at as a reinforcement for our cash. If we can couple both things we will go continue looking into that as much as possible, and undoubtedly this reinforcement to our cash that we have now will help us make this kind of analysis.

But I always underscore that producing assets are not that easy to buy a stake of for our company, and I'm not even talking about our operating assets in production that might be very… as an operator. But a stake is always possible as long as it makes sense and as long as… and also in terms of future liabilities, okay?

Mr. Alevato: Thank you Lincoln, it was very clear. Thank you for the answers.

Operator: Our second question comes from Ms. Julia Ozenda, with UBS.

Ms. Ozenda: Hello everyone, thank you for the call. I have a couple of questions. The first is regarding the negotiation with Teekay when the daily rate is falling or declining. Does this change in any way your decision to drill the third well? That is my first question.

My second question, regarding the sale of Carcará, you said that one of the options could be an extraordinary dividend payout. Is this conditioned to the payment of all three installments, is it something to be expected in one or two years or by the end of this year when you get paid the first installment we could expect that?

My third question, regarding the farm out process, I don't know whether you can talk about this, but you mentioned potential investors, potential partners. Do we have to wait until the end of the year or can you give us a color on that? Thank you.

Mr. Guardado: Juliana, thank you for the question. You asked three questions, so we will try to answer them all. Your first question, that reduction in the daily rate of the FPSO is very important, particularly in the first 18 months of production, and this will reduce our total Opex. The amount I gave you is a decline in total Opex, overall daily operating expenses declined by approximately 15%. Now drilling the third well is not necessarily linked to that because the third well will increase our revenue, it will not entail additional costs, at least not material costs if we drilled the third well.

The third well will only be positive, it will add to our revenue. This decision is a lot more linked to what we call a flow assurance; in other words, the behavior of the reservoir and the production we will get with the first or two wells, they will give us a guarantee. And the second element is oil price; if oil price is depleted, we might not drill the third well.

But it's always good to remember that this decision will be linked to technical aspects, and once we make a decision it will only be positive, it will only increase the revenue of the field, there will be no substantial increase in our operating costs if we have a third well. All of the equipment is already acquired.

The second question was about dividends, and Paula will give you some color in terms of what we are thinking about this, there are some decisions to be made, and I'll come back to answer your third question.

Ms. Côrte-Real: Hello Julia, this is Paula. Regarding the dividends, you asked about the dividends payout schedule and the schedule of installments regarding the sale.

In terms of the amounts and date for dividends payout, we are not necessarily linked receiving payment by Statoil, actually, the sale of Carcará ended up motivating a review of our strategic positioning given the relevance of the asset to the company, and all the Capex commitment linked to that asset. This led us to review our strategic positioning and our portfolio.

This is still an internal exercise that we are carrying out. In this context, we have to consider farm outs that are under way, participating in future ANP bidding rounds, so dividend payout will depend on the review variance strategic position rather than on the payment by the Statoil.

Of course, the amount we will get paid for Carcará will join our corporate cash flow, but there is no match between waiting for payment to be made to payout dividends. We might pay before, we might pay dividends later. Again, it's an internal exercise that we are doing so that we can decide the amount to be distributed and the date.

I'd like to remind you that these are potential dividends, we don't even know whether the payout will happen. If it happens, the amount and the dates are still pending and will depend on our review of our portfolio and will depend on our strategic repositioning.

Mr. Guardado: This is Lincoln. You asked about the farm out and I will ask Mendes to give you an update in terms of what we can disclose at this point.

Mr. Mendes: Good afternoon Julia. Regarding the farm out process, we are completing the first cycle and the data room for that. There were some major companies showing interest in participating in this farm out round with our blocks, where we have 100% stake.

So, we finalized the data room part for the first cycle, we are now having some discussions regarding the proposals that have been submitted to QGEP and we expect (and we actually mentioned this in the prior call) that by the end of the third quarter we will have a position to disclose to the market regarding the first round of farm out.

It doesn't mean that we will stop here. Half by year-end and in the beginning of next year we might continue, depending on the results of the first round. Lincoln has mentioned that there is some competition regarding the blocks in many of the bids that have been announced, and there have been some divestments by Petrobras, but we are rather happy and satisfied with what we are getting in this first phase of the farm out process.

Ms. Ozenda: Okay, thank you very much.

Operator: Our next question is from Fernanda Cunha, Citigroup.

Ladies and gentlemen, if you want to ask questions, please, press star one.

Our next question is from Vicente Falanga Neto, Bank of America.

Mr. Falanga: Good afternoon everyone, Lincoln, Paula. ANP recently announced a list of those interested in taking part in the 14th bidding round; QGEP's name was not on the list. I would like to understand if you decided not to be included or are you still considering? Thank you.

Mr. Guardado: Right, we are as curious as you are Vicente. We are also interested in finding that out, but maybe standard procedure. Companies should be there and we'll also be there taking part in the bid. We have already enrolled, but a couple of documents are still under way for the approval process, and QGEP, well, we had 22 enrolled, but not approved, officially approved yet.

But the answer is yes, we will be there, we will be taking part, which doesn't mean that… well, it's always… we are being very cautious and companies have to register, enroll and then be assessed, and like we said before, there are still some pending barriers so we can be effectively participating.

But we will definitely be there. Soon you will see our name on the list, at least that's our intention, okay?

Mr. Falanga: Thank you Lincoln. And if I may, another question. I was late, I logged on late for the call. What about OGpar, what is your view about it? Why did ANP decide… I don't know if you have further information, why did they extend the date or cancel OGpar's stake in BS-4?

Mr. Guardado: We are still having access to the documents, it was an administrative process at the agency, and it also happened to OGX in the past about exploration blocks and they decided to have the compulsory measure.

This time we are having access to the documents which supported the decision by the board, by the management. Apparently, there was a position of PROGE, so now we are analyzing these documents and trying to check the fundamentals that led to this decision, and also consider our position in the future considering administrative items.

So, we are in the process of checking the documents.

Mr. Falanga: Thank you Lincoln, thank you very much.

Mr. Guardado: You're welcome.

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

Mr. Medeiros: Good afternoon. Can you hear me clearly?

Operator: The line is open.

Mr. Medeiros: Thank you. I apologize, I was having a technical problem here. I have two questions, actually. My first question is the following: I would like to understand the take-or-pay payment of Manati for 2016. We still have the remainder to be paid. Could you talk more about what is happening there?

My second question is also about Manati. I apologize, I logged on late, I do know if you talked about it already, but I didn't precisely understand what happened to production line. Do you already have a contingency plan for the other flow lines?

Mr. Guardado: For the damage flow lines, right, well, it all boils down to money and cash flow and etc., so Paula is going to answer your question. And then Danilo will further explain or give you more detail about what happened, but I can tell you there is no contingency whatsoever or pre-anticipated contingencies about the other lines, but he will give you more color about it, okay Pedro? Paula, over to you.

Ms. Côrte-Real: Pedro, when it comes for the take-or-pay last year, what happened was that at the end of the year we had a provision and the amount does not have an impact on the liability, but receivables of R$19 million from Petrobras this year in terms of adjusted volume that it was not taken last year or lower than the take-or-pay.

Over the first quarters, we had some discussions with Petrobras and basically because it is the first time after 10 years of production that we are effectively using the take-or-pay clause for additional collection, so some details of the clause were discussed over the first quarter, and we keep on having this amount being discussed with Petrobras.

So, Petrobras paid the amount that was not controversial, close to R$7 million, this is our part of the 19, they paid close to R$7 million, and 12 million… oh, actually, even higher than the 12 million, we are still with conversations with Petrobras considering different readings of the clauses and, once again, I think it's the first time that we are making use of it.

As to auditors, we consider lowering this, writing it off from the balance sheet so the 7 million are no longer in accounts receivable, nor the 12. So, we lowered the 19 million, we wrote off and the liabilities we have, our obligation to deliver gas already paid by Petrobras. So, liabilities were also recalculated from the 19 that we had at the end of last year and the first quarter of this year, it was calculated to 7, which is the amount already paid to Petrobras. We decided not to have another provision of what is being discussed, and we are awaiting for the discussions with Petrobras.

Mr. Medeiros: Great, thank you Paula.

Ms. Côrte-Real: Danilo is going to talk about what happened to the flow lines that were damaged.

Mr. Mendes: Good morning Pedro. What happened was that, well, just recapping, we had a vessel anchored close to Manati platform, and we concluded the works to remove the vessel, we had a problem, one of the flow lines of the wells was damaged, and this led to a shutdown of the production in one of the wells.

Because it was a subsea damage, the operator was in charge of inspecting (at least the visual inspection) using subsea cameras and they it really confirmed that there was damaged to the line. Now the extension of the damage is still being assessed.

We had a hydrostatic test confirming a loss of pressure in the flow line and the operator, based on the test, is working on a recovery plan, and internally we considered to be from US$12 to 15 million, 100%, because that will require special vessels to repair the line and launch it again.

So, the shutdown of the well slightly decreases our total outcome in the field, but it's not that significant, around 300,000 m³ per day tops.

Mr. Medeiros: Thank you Danilo. So just to clarify and confirm, I don't know if you have come to a conclusion, but you want to reposition the well or will you simply shut it down?

Mr. Mendes: You are right, the line will be recovered and once again connected to the well, and we expect that from 30 to 60 days, a little bit more or less, to recover the total capacity, okay?

Mr. Medeiros: Perfect, so from the US$12 to 15 million, is that the gross amount of the Consortium?

Mr. Medeiros: That's an internal estimate by Queiroz Galvão. That's our estimate. The operator has not concluded a recovery plan yet, and consequently, has not come to a final amount. That's just an internal, in-house assessment.

Mr. Medeiros: Thank you.

Operator: Ladies and gentlemen, I would like to remind you that if you want to ask a question, please press star one.

As a reminder, if you would like to pose a question, please press star one undertone touchtone phone now.

Ladies and gentlemen, as a reminder if you want to ask a question, please press star one now.

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

Mr. Guardado: Well, one more time I would like to thank all of you for your questions, for your participation, and we have a technical problem and we lost connection with some of you, and hopefully this will not happen again.

Again, our investor relation department remains available to answer your question as of this afternoon, and again I thank you for joining us and I hope to have you again on board in the next conference call. Thank you very much.

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