

Operator: Good day ladies and gentlemen. Thank you for standing by. At this time, we would like to welcome everyone to QGEP's second quarter 2018 earnings conference call.

Today we have here 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 over, there will be a question and answer session when further instructions will be provided. Should any participant need assistance during this conference call, please press star 0 to reach the operator.

Before proceeding, let me mention that forward-looking statements that might be made during this conference call relative to QGEP's business perspectives, projections and operating and financial goals 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.

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

Mr. Lincoln Guardado: Good day everyone. Thank you for participating in today's conference call to review our second quarter results when we will also present our business outlook heading into the near future.

Firstly, let me say that we are very pleased with QGEP's position in the market today and with the progress that we have made over the last several quarters in executing our strategy to maximize our company's growth potential and to maximize shareholders' returns, mainly reflected in the sharp increase in QGEP's share value.

And we would like to highlight that currently the company market cap surpassed R\$4 billion, we appreciate the continuous interest and support from our investors and analysts as we move forward with our investment plans.

Please go to slide 2, where we present the strategic highlights of the second quarter 2018. First and foremost, I'd like to highlight that our improved second quarter results were driven by considerable operating progress. Total production in the quarter reached 1,450,000 barrels of oil equivalent, reflecting the diversification of our revenue sources, which is something that we continuously seek considering that Manati field presented a significant pickup in production volumes, thus being the key driver of higher revenues and cash flow in the quarter.

Considering this, in June QGEP was the biggest independent Brazilian company in the ranking of oil producers according to ANP data, and the 7th biggest in the total

ranking which includes all companies in terms of barrels of oil equivalent. We will try to maintain this position of production.

Our operating and financial results benefited from two months of production at the Atlanta field where we flowed first oil on May 2nd, 2018, representing a major milestone for the company as you all know.

We have also commissioned 3-D seismic data for the six blocks in the Sergipe-Alagoas basin, these blocks represent the most relevant, the core of our current exploratory portfolio, and we are all very keen to move ahead as quickly as possible with data shooting and interpretation in a basin that is known to be of high potential.

Finally, our firm out process is ongoing for the two Pará-Maranhão blocks in which we have 100% working interest with the visit from several companies.

At this point, I would like to turn the call over to Paula, our chief financial officer, for a review of our second quarter financial performance, and I will come back after that. Paula.

Ms. Paula Costa Côte-Real: Thank you Lincoln and thank you all for joining us today. As always, I will review our results for our most recent quarter followed by an update on our cash flow and Capex for the quarter, I will then turn the call back to Lincoln to discuss our operating achievements and our business outlook.

We are pleased to report very strong results for the second quarter stemming from an increase in demand for our gas from Manati and start-up of production at Atlanta Field, thus we have been able to post this strong performance in terms of profitability, cash flow generation and overall financial strength. So let's see the numbers.

Beginning on slide 3, in this second quarter for the first time we have posted the results of two producing assets. QGEP's gas production in the quarter totaled almost 200 million m³ while oil production for two months of the quarter at Atlanta was 178 thousand barrels per day, net to QGEP. Starting with Manati, the field average daily gas production of 4.9 million m³ in this year's second quarter, up 9.3% over second quarter 17. This increase was primarily due to dryer weather conditions during the quarter, which created increased demand for gas powered thermal electric plants.

Manati field has been the main driver responsible for our strong flow generation, providing significant funds for us to continue investing in attractive opportunities in our sector. As you all know, Atlanta Field flowed first oil in May of this year. Production for the two months of the quarter averaged around 10,000 barrels of oil per day and we forecast an average daily production of 13,000 barrels a day for the coming quarters.

Please go to slide 4. Revenue in the quarter was R\$158 million, up 38% year on year reflecting the high production from Manati as well as the contribution from Atlanta Field. Oil revenue from Atlanta in this period was approximately R\$32 million net to QGEP.

Moving on to costs, we start on slide 5. For the quarter, total operating costs were 45% higher than the same period of the prior year, with the increase primarily attributable to the Atlanta operation. Considering Manati alone, costs totaled R\$44 million, down 23% year on year mainly benefiting from an insurance revenue of R\$8 million related to an incident occurred in one of the flow lines last year.

Of the total R\$84 million in total costs, approximately R\$39 million referred to the startup of Atlanta field equivalent to roughly US\$410,000 per day for 100% of the field. This cost should remain stable at this level for the first 18 months of operations at the field. These higher costs in the quarter were also impacted by higher depreciation and amortization expenses and royalties related to higher production from Manati as well as to Atlanta's initial production. Our exploration costs have trended down in this year's second quarter, 70% lower year on year as fewer funds were spent on seismic data acquisition in the quarter.

In this period, we started processing seismic data of the six blocks in the Sergipe-Alagoas basin, an area where we benefit from cash calls by our partners, Exxon Mobil and Murphy Oil, as part of the farm out agreement of 2017, by contrast, last year's higher costs related to seismic data processing for our 100% owned blocks in the Pará-Maranhão basin.

On slide 6, general and administrative expenses were 83% lower year on year, primarily due to the reversal of the first stock option plan granted in 2011, which had a positive impact of R\$10 million.

Moving on to profitability, we are now on slide 7, total Ebitdax in the quarter was R\$101 million, more than double compared to the same period of the prior year, these solid results benefited from both operating improvements leading to higher production, and the start-up of production at Atlanta and lower general and administrative expenses. With that, we generated net income of R\$85 million in the quarter, up from R\$61 million in the same period of last year.

Along with our Board of Directors, we continuously review all capital allocation options with the view to generate the best long-term returns for the company and its shareholders.

Moving on to slide 8, in the quarter Capex totaled US\$20 million with the majority, or 72%, invested in Atlanta field. During the second quarter, we also began the process of seismic shooting for the Sergipe-Alagoas basin. On this slide you can also see the breakdown of our capital expenditures for full year 2018 and 2019.

For the current year, we are budgeting capital expenditures of US\$60 million, which is US\$10 million lower than what we have disclosed previously. The majority, or US\$39 million, is allocated for development of the Atlanta Field, this includes equipment for the drilling of a third well. The remaining funds will be invested in exploratory activities with approximately US\$10 million allocated for seismic shooting for our Sergipe-Alagoas blocks, and 5 million for seismic data acquisition for the blocks acquired in ANP's 11th bidding round.

It is worth noting that historically we have funded our Capex requirements with internally generated funds or with the IPO proceeds. Over the past years, funds received from the sale of Block BM-S-8 and some farm out agreements have increased our liquidity and provided even more financial flexibility for the company. Lincoln will review our capital allocation priorities in a moment.

As always, we will remain disciplined in our use of capital while continuing to invest for ongoing works. In summary, we are very pleased with our second quarter results and are confident in our prospects moving into the second half of this year.

I will now turn the call back to Lincoln for his the strategic and projects review.

Mr. Guardado: Thank you Paula. On slide 9 we provide an update on our operational activities in the second quarter.

As mentioned earlier, there was a considerable increase in gas production at our 45% owned Manati Field due to dry weather conditions, which led thermal power plants in Northeastern Brazil to use fossil fuels to supplement hydroelectric power. Based on average daily gas production of 4.8 million m³ from January through July and on the current run rate, we are pleased to confirm our initial guidance of 5.1 million m³ of average daily gas production in Manati Field for full year 2018.

These volumes do not take into consideration any material pickup in industrial demand in the region in the second half of this year. In July Manati Field produced on average 5.2 million m³ per day, confirming therefore this increase in the need for gas in the region. The main highlight of the second quarter was certainly the flow of first oil from the Atlanta field, which became our second producing asset.

As Paula mentioned, the Atlanta Field reservoir is meeting our expectations and our daily production from May to June average 10,000 BOEs, which is below our initial estimate. I always like to highlight the main merit related to the early production system, so we can have the right conditions to follow the behavior of the reservoir, and undoubtedly the production already seen are in line with such behavior. So maybe the best or the greatest challenge we had for the early production system was per size of the to do this assessment of the flow of the early initiatives we had, our efforts and also the behavior of the reservoir, which is fully working based on the data we monitor so far.

Undoubtedly, there was a malfunctioning, a mechanical problem in the well pumps, this is being assessed and this happened right after the start-up of production in the two wells, which has forced us to use the pump on the seabed, which was expected to happen later on.

As a reminder, the well pumps installed by QGEP have a very long residency time, 4 years, with regards to the FPSO and it might be the cause of this malfunctioning that we've seen so far of these pumps that are close to the reservoir. However, our average production was approximately 13,000 barrels of oil per day in July. Confirming what we said before, we are searching for new ways to increase production, but at this time we estimate that average production will remain around the current level. In other words, 13,000 barrels of oil per day until the drilling of a third well. Further information will be provided later on about the actions that are in progress, which also stem for drilling this well and also benefiting from the use of a rig in the field.

The Consortium has been performing a technical economic assessment to replace nonoperational pumps as soon as the third well is drilled. Danilo can give you further information during our conference call, however, I can say that we had already the approval by our Board and Barra Energia, our partner, to perform the intervention, the work over in both wells trying to replace the pumps for other pumps.

This is very recent information and it confirms our belief, our trust in the capacity of production of this reservoir, otherwise naturally we wouldn't have to do this intervention. And allied to the third well, we may recover the bulk of this production, which we mentioned before.

So, as you may recall, the company also has an agreement to sell total oil produced in the early production system. In the second quarter, approximately 486,000 barrels

of oil were transferred, the total net to QGEP was 146,000 barrels of oil, and the oil was sent above all to refineries on the West Coast of the United States and in Asia.

And by the way, we are creating an economic commercial stream for this oil as well. It is heavy oil and therefore there are many good characteristics like the low presence of CO². So right in the beginning of marketing this area through a very renowned company, which is Shell.

The performance of the reservoir combined with the production and pricing outlook has led the Consortium to decide to move forward with the third well, which completes the early production system. It's also worth bearing in mind that we have a limited capacity number on the plant plant at 30,000 barrels of oil per day. We expect to conclude the tender to charter a rig by the end of this month. Drilling is expected to take place in the first quarter next year with first oil expected in the second quarter of 2019.

With a third well aligned the average daily production in the field could increase roughly 10,000 barrels of oil per day, which is what we already achieved when the well pumps were working in the first two wells.

In 2019 the Consortium will decide whether to move forward or not based on the data collected to move forward with the full development system in Atlanta, which would bring the production capacity to a pick at 75,000 barrels of oil per day.

With regards to our exploratory assets, we continue to be quite enthusiastic about our position in the Sergipe-Alagoas basin, where QGEP holds a 30% interest and six adjacent blocks in partnership with Exxon Mobil and Murphy Oil.

As I mentioned earlier, we have already started the acquisition of 3-D seismic data. Everything is going well, interpretation of the data will take place throughout 2019, and drilling may be started by 2020. The prospects already identified in these areas are considered to be medium to low risk with potential for higher volumes due to their proximity to several discoveries performed by Petrobras in adjacent blocks. In fact, we expect the extended well test at the adjacent Farfan discovery to take place later this year, and we expect it to bring good news about the area, and once again, it contains one of the best oils in the country, approximately 30° API in excellent reservoirs.

In addition, we also made progress in the farm out process that we launched early this year. Our main goal is to attract partners for our stake in the two in Pará-Maranhão blocks, in which we hold 100% interest. We are also awaiting the environmental license for the block located in Foz do Amazonas basin before proceeding with a farm out process for that asset. And you are all very much aware of that debate about the drilling license in the area.

In addition, we and our partners are evaluating the next steps with regards to our Ceará and Espírito Santo blocks in Santos basin by Total and Statoil respectively Equinor.

Please turn to slide 10. As you can see, QGEP's portfolio is well diversified in terms of risk and our assets are located in most of the main producing basins along the Brazilian coast. In addition to providing geographic diversification, this diversified portfolio generates a wide range of risk and return scenarios, we are closely monitoring discoveries by other operators in this basin and I highlight again that despite the sale of Block BM-S-8, were there was a discovery of a giant structure,

which is Carcará, we are still interested in pre-salt reservoirs, always driven by our will to be involved in these bidding processes.

Slide 11 summarizes our key messages and our competitive edge boosted by our achievements in the first half of this year and by our strategic positioning heading for future planning and results.

I highlight that we are very pleased with our strong year to date financial results, and as for our operating results, after August 1 we reached a milestone of 1 million barrels produced at Atlanta field, which is certainly something to be celebrated and which will be an important growth leverage to this company in the short and mid run.

In addition, the sale of our 10% interest of BM-S-8, where Carcará discovery is located which we announced it just one year ago, was a major inflection point for QGEP representing a positive return on investment, significant cash inflow and a substantial reduction in our future capital commitments.

This has enabled us to develop a capital allocation plan which covers key priorities, mainly maintain financial flexibility to fund existing projects without leverage needs, retain the capacity to acquire assets that deliver growth in line with a compatible risk profile already set by the company with a potential participation in pre-salt bidding processes, and therefore continue to reward shareholders with regular dividend payout.

As you know, we perform a special dividend payout of R\$1,54 per share early this year and we will continue to assess such opportunities in keeping with the capital required to unlock the value of our current asset base and the opportunities we see on the short-term horizon.

It is always important to highlight the current more open scenario and the attraction of big players to Brazil, these have been instrumental aspects to optimize our portfolio as you recently saw in our participation in Sergipe bid and our expertise as an independent Brazilian company that knows the fundamentals of E&P industry in Brazil, therefore positioning us as a unique partner. We always consider our competitive edge in this regard.

Our first half results have benefited from our strategic focus on diversification of revenue sources, and QGEP is ready to report continuous growth in the following months. We are ready to continue posting progress in the second half of 2018.

Slide 12 summarizes very briefly our competitive edge, which makes QGEP stand out in Brazil's increasingly attractive oil and gas industry. As highlight, the efficiency of our operations and the ongoing optimization of our portfolio generating consistent, robust financial results in the short and mid run. We always bear in mind that for our activities, which also has a mid to long-term unfolding as well.

I always like to send a message of optimism of whatever is happening now, we are also learning quite a lot with Atlanta operation and daily optimizing our logistics, optimizing costs for the benefit of the Consortium, our partners and investors. This is an increasing learning progress and the outcome will be seen in production in this and in future fields that we certainly will be participating in as an operator or partner. We firmly believe in the short-term future of our company.

This concludes our presentation, and now I would like to open the call to questions.

Question-and-Answer Session

Operator: Ladies and gentlemen, we will now begin the Q&A session. If you have a question, please press star 1 on your touchtone phone now. If at any time you would like to remove yourself from the queue, please press star 2.

Our first question comes from Luiz Carvalho, with UBS.

Mr. Carvalho: Good day Lincoln, Paula and Danilo. I have two questions. The first is about Sergipe-Alagoas. We saw that the players of the industry regarding the wells of Petrobras, that your blocks could suffer some kind of bidding process in the future when you start drilling these blocks. So I'd like to understand 2 things: first, is there anything that we should expect from Sergipe-Alagoas? And secondly, would you be interested... are you having any conversation to sell your stake at these blocks with a farm out?

And my second question is regarding Atlanta. Assuming the current productivity close to 13,000 and perhaps adding the third well, my question is: Assuming this level of productivity, would you move forward with the full development project?

And a third question regarding the oil differential, we see a smaller spread considering heavier oil and the Brent crude oil, so I'd like to know what is your discount for your oil compared to the Brent crude oil benchmark? Thank you.

Mr. Guardado: Luiz, thank you for the question. As always, you are very knowledgeable, and we expect to answer your question. Well, it's not very simple that we are going to have a negotiation with Petrobras. What we know is that Petrobras should do an Extended Well Test at Farfan and with all of the 3-D seismic data that we have in that area and in neighboring areas that referenced our evaluations.

So, with all that, there might be some continuity of Petrobras discoveries for these areas where we are. So that is possible, Farfan is one of them. But it's still based on 2-D seismic data, so we know well these reservoirs, normally the deposit as stacking, so there is a possibility at this considering our 2-D seismic data that we currently have, we have to prove them with 3-D seismic shooting so there might be a continuity stretching to our areas, and it is with this reason that the Consortium with Exxon Mobil and others reinvest these areas that are with Petrobras because that's where we can have the best correlations that we see for these blocks.

So there is a unitization possibility, but there is nothing going on at this point, there is no reason for that because we haven't got full knowledge yet, we'll only get that knowledge with 3-D and when we drill a well, only when we have 3-D seismic data.

But we are very confident that part of these discoveries, that the trend of these discoveries will stretch to our areas and a well will have confirmed that. It's a bit too early, but yes, there is a chance that this will happen.

Undoubtedly, the Petrobras farm out, that is your second question, it is important, but we find it a little difficult to participate isolatedly. If in the future, given some discoveries in our block, and once Petrobras has started the farm out and if it makes sense to approach Petrobras, the idea would be good for sure. But it's not something that a decision that QGEP can make on our own because Petrobras projects involve a large volume of oil already discovered and we mentioned that this is a deep pocket for Petrobras to do it alone, but in the future, and if we have a discovery in our block,

it is something that could be enabled, that could be approached by Petrobras if they are not able to do this earlier.

I think it is an area that is triggering or sparking a lot of interest given the consensus that the Aracaju part there is a demand for gas, most likely there will be a demand for oil as well. So, we see on the growing economic interest in the Sergipe-Alagoas area.

Mr. Carvalho: If I might ask a follow-up question regarding that area, I don't remember having seen public data regarding volumes. Do you have any idea of what we could expect in terms of volume for that accumulation? Not specifically about your block, but about Petrobras' block as well. Do you have any idea, just an order of magnitude?

Mr. Guardado: No, we hear rumors, but it's nothing official, it could be up to 1.5 billion barrels of potential volume recoverable, but this is just market rumors. Petrobras has never confirmed that. What we know for a fact is that they have six discoveries with very high success rates in terms of the publicly released information. It could be close to 80% of the wells the Petrobras drilled, wildcat wells and appraisal wells.

So that's the kind of data that we have. But that area indeed has a high visibility in terms of seismic data and etc., but we haven't got any official information that could underpin these volumes. Most likely, Petrobras along their farm out process could perhaps inform the market because they are doing the farm out, but they are maintaining the operation, which is a renewal of their belief in this area, they are maintaining the operations in all of the blocks.

To us, that gives us a little comfort that they probably want to accelerate things. Of course, I cannot speak on behalf of Petrobras, but the fact that Petrobras is maintaining the operation on, it means that they still have interest in that area.

Regarding productivity and its impact on full development of the wells, I turn the floor to Danilo because he can give you more color on what we have already achieved and about our belief that this might become a substantial element for our decisions.

Mr. Oliveira: Good morning Luiz. As Paula and Lincoln mentioned during the presentation, the early production system at Atlanta is behaving exactly as expected in terms of productivity. Both wells in the first days of operations produced way beyond what we had expected, over 10,000 barrels per day each, but considering the time that they were waiting for years for the pump to start operating, like I said, between the FPSO and the pump for electric connection, there are subsea and what deteriorates the functioning of the pump when we say that the lifespan is 2.5 years, it's not the pump itself, the bottleneck is not the pump itself, but the transmission of electricity from the FPSO to the pump.

We think that this is an excessive time, so much so that these well pumps are 2 and we installed 4, and therefore they were installed in the subsea are working perfectly in the seabed are working perfectly, because each one of the pumping loads in the bottom of the sea has 2 pumps.

So, productivity is really good, we are monitoring the pressure of the reservoir with a pressure gate at the level of the reservoir and it can predict exactly the pressure that we had imagined, which is exactly the pressure that we had predicted. And regarding the loss of charge, that the well pump that is broken is impacting the

reservoir, the pressure of the reservoirs is about 240 kg just to give you an idea, and we are losing 35 to 45 kg just to overcome these 100 m of pump, would be 3,500 to 4,500 barrels of oil more in each well.

But the productivity is okay, we are considering drilling the third well, we are seeing how to chart the rig and we should close that contract and sign that contract by the end of the month. We have evaluated the cost, we have made proposals for the partners to replace the pumps that are inoperant in the well and considering also the rig that is going to drill the third well considering the cost of the rig, which is affordable in our estimates.

And just before this call, I learned that the partner is also approving these work overs. With that, we should bring it back to our estimate 27,000 barrels per day, we should reach that production in the second quarter of 2019.

So the plan is to drill the third well, put the third well into production, stop one of the wells, do the work over, about 45 days to do the work over and to replace the pump, put the first well that we did the work over on into production, stop the second well, do the work over and the same process and having all three working well.

So, we have to tell you that we are totally happy with the engineering of the Early Production System project. To give you an idea, the temperature at the reservoir is 41°, very very low, that's a concern that we always had because the oil freezes at the temperature in the bottom of the sea, so we have flow lines with special thermal isolation so we are leaving the reservoir with 41 degrees and we can bring the oil to the FPSO at 40°, it's very very good results.

Also, what we do to preserve the flow lines to avoid freezing even if there is a long-lasting downtime. In May we had 13 stoppages at the FPSO, in June 10 stoppages, in July 5 stoppages, and in all of them we applied exactly the methodology of conservation, replacing by diesel oil, replacing, fulfilling the flow lines with diesel oil, which gives us the proof that our system is robust and that it can guarantee production.

So we are already looking into the full development system so we can make the necessary changes along 2019. We are totally confident about Atlanta.

And regarding the oil sold, for confidentiality reasons we cannot disclose the value, but what I can tell you is that the discount compared to Brent crude oil is compatible with any oil with this API, 14 degrees API. It is compatible, and according to our discount estimates, for confidentiality reasons, we cannot disclose this because we have a number of offtake-offers in several places and we are not authorized to disclose this number, but I can assure you it is within, it is in compliance with our estimates that we have informed the market.

Mr. Carvalho: Danilo, just one follow-up to the second question. So, assuming the data that you currently have, would you move forward with the full development system? Is that a fair statement?

Mr. Oliveira: Yes, it is. The oil price is very stable, the forecast are very close to this price of US\$70 a barrel, it makes the full development system feasible and we are preparing the whole process to submit this to the partners in mid-2019.

We are just waiting for the consolidation of the EPS. And then we will submit for partners' approval.

Mr. Carvalho: Perfect, thank you. Thank you all.

Operator: Our next question is from Gustavo Allevato, Santander bank.

Mr. Allevato: When it comes to Atlanta production, I have one question: What would make you stop production? What is the level that would make you stop activities in the region? And what about starting the drilling of the third well, is it only a problem with a pump or any other problems related to the EPS?

Mr. Guardado: Gustavo, we apologize, but the connection is not good. We couldn't hear you well. I'll try to repeat what we managed to understand. So you want to know the level of protection that might lead us to stop production of a well or the field. This is not clear to us.

Secondly, you want us to confirm what caused the change from 16,000 approximately 10 to the current 13, and if this was caused specifically by the pump. So I ask you if these are really your questions.

Mr. Allevato: You are right. These are my questions.

Mr. Guardado: Naturally, I confirm. What is the meaning of the EPS? The early production system is a project, it's not really a pilot project because it already entails investment, production of three wells, but the purpose is to gather data. The main role is to bring this data so that later on we can work on our forecast of the full development system where we have an upfront, a higher upfront of Capex. So the EPS should meet these needs.

Now, we went beyond that, we tried not only to make investments to gather data, but we also wanted to have some kind of return, and that's why we thought about the system to 3 wells, so we could have at least, to say the least, the operational cost or the operating cost met. Today we know that even with 2 wells our cost is lower than the operating revenue, and with the third well it will get even higher.

So, theoretically speaking, one well could not continue to produce if production would not even pay the operating cost, so we are very far from the scenario, we are very far from the scenario. Our current production is already reasonable stable, and this production provides an operating return that is above the cost. Unless we have a very serious mechanical problem in the EPS, unless we have something unexpected.

Water production, for instance, is something irrelevant today, this is not to the oil-water context, but water that pushes the oil. So unexpected water production what undoubtedly lead us to shut down the well, not because we cannot have the oil and water being produced, but it's just that the plant cannot treat the water for disposal purposes, and that's why we designed this EPS to keep on producing up to 3 or 3.5 years, which would be the most proper number today. This is when we expect to see water production, and then this is a well that will be close to, remain close just awaiting for the full development system, which has an expected production and water treatment.

So this is the condition, and it's an extreme condition. I can tell you it's an extreme condition.

Now with regards to production, it is right, we started delivering well, these two pumps started well, let, Danilo already explained, and plenty of conditions to go even

deeper if you need more information. So our forecast was based precisely on this ramp-up performance. We have a ramp-up, today not anymore, but at that time we had ramp-up production, and everything was doing well until we had problems in the pump. So, we maintained our early production, which was beginning to be delivered, and we just awaited for the new announcement, and that's when we managed to come to a number adequate to disclose to you.

It is our responsibility to disclose these facts to you, but just as we changed to 13,000 I underscore again that this is owing to the pump, this is related to the pump, the well pump, because those on the seabed are working within our expectations, a natural load for the seabed and the pump that is close to the reservoir.

So this is what led to these factor, and luckily to all of us it was not the arrival of water. Just up to now, so far everything is within our mathematical model, which was even based on tests that we had performed when we drilled the well. So we do have some content and to support this with a drill stem test, and when we have this failure in the pump it was still within our expectation. Now with the third well and the well pump it shows to us this trust and confidence we've had on the data that we collected from this reservoir.

So we do expect to go back to the initial 10,000, and like Danilo said, we just heard today we had the confirmation with our partner that we have the approval for work overs in both wells, and with the removal of the pump we will be able to precisely find out what happened to the pump, if it's a mechanical fault or, Danilo said, it's only normal to have this, I mean, sometimes you can also have electricity problems with seawater. It is not the perfect match, so we also have a history of these pumps in Campos basin, more than 100 installed, and usually problems are related to connections.

So let the said before, we expect to invest, we don't know precisely what the amount will be, this is very recent, but we are already considering recover our production in these two wells and also drill the third well.

Mr. Allevato: Okay, Lincoln. Just a follow-up question. Could you tell us more about the production level in July? It would be really helpful to have this kind of information to our protections.

Mr. Guardado: The connection is still bad, but he wanted to know the production level in July, is that okay? Our production in July, was that you question?

Mr. Allevato: Yes.

Mr. Guardado: The average was 13,000, 13,400, 13,500 sometimes we had a stoppage, sometimes in the FPSO because it is still in the stabilization phase. We even have an operational level above 95% in the FPSO, but it's improving day by day. So when that happens, sometimes you can stop for 1 hour or 2 and the average goes down, but we even have 13,400 or 500, so an average in July was 13,000. This is what we are disclosing to you.

Mr. Allevato: It's clear, thank you.

Operator: Next question was sent via webcast by Mr. Sergio Simon, the question is: "According to messages from the management, QGEP intends to have dividends payout. So as a shareholder my question is: Do you know when the dividend payout

will take place? For investors planning, it is important that we know if you intend to have dividend payout in 2019, as you had in 2018. Please elaborate."

Ms. Costa: Good day, thank you for your question. Regarding the use of our cash, this is an ongoing discussion at the level of the management of the company involving the management, the Board of Directors, because this involves a long-term planning for the company. At this moment, we haven't got any amounts, deadlines or date or even a definition whether we are going to be distributing a special dividend. What we currently have in our policy is R\$0.15 per share. This is something that we can predict, and it is something that we have been doing over the past two years, R\$0.15 per share.

And as for special dividend payout, they will happen as we identify a surplus of cash vis-à-vis the planning for the company. We still have options for cash allocation that we are studying. We don't want to negatively impact the growth of the company or the fundability of the company just because we distribute dividends in the short term. We need to grow the company, so we are studying options. If in the future we identify a surplus cash, then yes, for sure we would be remunerating our shareholders.

This is the rationale of the management of the company, this is how we've been proceeding in recent years and it is how we intend to continue. But the main focus of the company's growth the business, but whenever we identify a surplus cash we will consider remunerating our shareholders, liquidity to our shareholders as a way to improve their profitability.

Operator: Next question was also sent via webcast by Mr. Claudio Miller: "Number 1, when will you be replacing Atlanta's pump? And how long do you estimate the system will be down? Second, is there any strategy to reduce the discount vis-à-vis the Brent? And what is the penalty if you break the contract with Shell? Are you planning any launch or FPSO? What about Petrojarl for the EPS? Four, do the operators confirm a well in ES-M-598 e CAL-M-372? And finally, how will you continue to make decisions about Atlanta?"

Mr. Oliveira: All right. Let's try to answer these questions in order. When we will replace the pumps at Atlanta, as I mentioned, as soon as we drill the third well, which is scheduled to begin in the first quarter of 2019, so the replacement of the pumps would be happening in the second quarter of 2019. Estimated time or estimated downtime is 45 days for every replacement.

As for the strategy to reduce the discount vis-à-vis the Brent, that's very hard because that depends on the world market. Oils are marked in terms of discounts to the Brent depending on their weight, density, which is degrees API, and based on their qualities or defect in their composition, if they have CO², if they have sulfur. So as Atlanta is a new oil, it starts with the degree API discount, 14 degrees API, and the discount will increase or be reduced according to what each refinery will use or according to what the refineries will do without oil, and that's why we don't disclose that discount because every refinery will do their distillation and see what their margin of profits is.

Penalty if we breach the contract with Shell, if we ended the contract with Shell. Well, this is a contract involving the three partners, it's a joint offtake with Shell and the penalty if we breach the contract is confidential, of course. But yes, there is a fine in case of termination of the contract. Just like if they terminate the contract they will have to pay a penalty as well.

But we are not envisioning any problems because Shell is the one of the mainstream players worldwide, so at the moment we are very happy with their operation.

As for the full development at Atlanta, no, we haven't got any FPSO in mind, the process should be somewhere to the early production system, we should issue a certification, open the bidding process with the suppliers and based on the bidding we are probably going to have 24 to 30 months to build or to adapt an FPSO.

As for Petrojarl, we have a contract, when we chartered Petrojarl we knew that the production time frame would be three years, we signed a contract for 5 years, in other words, it can be extended if there is a delay in the full development system, so it can be extended to up to 5 years. Petrojarl is fine, the contract for Petrojarl is fine, there is no surprises there.

And the last question was if the operators confirm for 2019 a well in Espírito Santo 596 and CAL-M-372.

Mr. Mendes: For the Camamu Almada, it really is waiting for an environmental license. The block stopped at the moment, the concession clock has stopped. So far, the Consortium is assessing the best alternatives as soon as we get the environmental license.

We have a commitment to drill this Block 372, but we will have to do an assessment as soon as we have the environmental license. As for Espírito Santo, we have the possibility of entering a phase of extension our time frame of exploratory interest. We haven't defined anything regarding the drilling of Espírito Santo block.

Sergipe-Alagoas as mentioned, the expectation of the partners is to start drilling by 2020. All partners are very optimistic, and we are shooting really seismic data and expect to start drilling containing the Sergipe-Alagoas by 2020.

Mr. Guardado: And I could add to what Mendes said that for CAL-M-372 we have a budget for 2019 for this, we maintained this provision, but we have to consider what Mendes said, there are some decisions to be made by the operator. But this is in our Capex, I think US\$16 million. No CAPEX for Espírito Santo because this decision is not up to us, as mentioned.

Operator: Our next question is also from the webcast, Calvin Romani, Omega: "First question, what is the estimate for the execution of the production individualization agreement for payment of 38% of BMS-8 sale, the remaining part? Second question, in the release of the first quarter you said the cash position would be further strengthened with the receipt of 70 million-portion related to the farm out agreements in Sergipe-Alagoas blocks basin, but these amounts have not come in yet. When are they expected to come?"

Ms. Costa: Good morning, Paula speaking. As your question about unitization or individualization of BM-S-8, because we have very similar consortiums within BM-S-8 and the extension of Carcará discovery, which is outside BMS-8, it does make the process much easier. Our internal expectation (and it's just an expectation, it's not yet part of the negotiation or the individualization agreement) this portion might come around 2020, in a couple of years, 2.5 years precisely. That's our expectation to receive the last portion.

As to the 70 million farm out in Sergipe-Alagoas, they were fully received.

Operator: The next question, also via webcast, is from Claudio Miller: "Is Dommo still making decisions in Atlanta?"

Mr. Guardado: Thank you. The answer is no. The documents we have, and which rule governance of the Consortium, the joint operation agreement does not allow companies in default to be involved in decisions. They haven't involved payments for a while, so the operators' decision and the decisions made by the Consortium don't have involvement of Dommo while they are in this status that they currently are in terms of the block in the default.

Operator: As a reminder, if you want to ask questions in the audio equipment please press star one.

We are now closing the Q&A session. I would like to turn the floor back to Mr. Lincoln Rumenos Guardado for his final statements.

Go ahead Sir.

Mr. Guardado: Very welcome. I would like to thank all of you for joining us in this call, for the questions asked, and we hope that we have answered your questions with this change in the guidance for production, but also making it very clear to all of you that we have positive release an expectations because of everything we've done so far with Atlanta, just like we expect the continuity of gas production at Manati at the levels disclosed to you, which undoubtedly will bring us a lot of joy along 2018 and 19.

And I would like to end this presentation highlighting that as soon as we have more elements regarding the chartering of the rig, this process is progressing well in terms of selecting the rig that will drill the third well, and as soon as we have for this we need to have the rig and the costs related to the drilling of the third well that will be the reference for the work overs that we will do in our wells, then we will be informing you in terms of the Capex involved and etc.

I want to say that things are unfolding as expected, and with everything that we expected to do regarding wells, regarding drilling decisions. I want to reaffirm that had we doubted the production capacity with what we've got so far, we would not be making the decision to drill the third well, because what we got was very relevant and led us to discuss a third well.

And I would also like to clarify that part of the equipment has been commissioned for quite a while now, and we are now beginning the commissioning of the rest of the equipment that will support not only drilling, but also the completion of the third well, and that will be also supporting other actions involved in the work overs to replace the pumps.

I expect that I will be able to bring you more novelties in the short term and to maintain you above all informed of what is going on. To us, transparency is very important, but we are convinced that the future of the company will continue to be bright, a future of growth and being active in the oil and gas industry in Brazil, and always bringing value to our shareholders.

I would like to stress that our investor relations department is always available to you for further clarification, as well as all of us in the management and all QGEP technicians. Thank you very much and have a good day.

Operator: QGEP's conference call is concluded for today. Thank you very much for your participation, have a good day.