



**Conference Call Transcript**  
**2<sup>nd</sup> Quarter 2012 Earnings Results**  
**Queiroz Galvão – QGEP Participações (QGEP3 BZ)**  
**August 15, 2012**

**Operator:** Good afternoon ladies and gentlemen, thank you for waiting. At this time we would like to welcome everyone to QGEP's 2Q12 earnings conference call. Today with us we have Mr. Lincoln Rumenos Guardado, CEO of the company; Ms. Paula Costa, CFO and IRO and Mr. Danilo Oliveira, Production Officer.

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 session. At that time further instructions will be given. Should any participants need assistance during this call please press star zero to reach an operator. There will be a replay facility for this call for one week.

Before proceeding let me mention that forward-looking statements are based on 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 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's CEO who will start the presentation. Mr. Lincoln you may begin the conference.

**Mr. Lincoln Rumenos Guardado:** Good morning everyone and thank you for participating in today's conference call when we will be presenting our 2Q12 financial and operating performance. Joining me today we have Paula Costa, our Chief Financial Officer and IR Officer and Danilo Oliveira, our Production Director.

We will provide you with an overview of our results for 2Q and the first half of 2012 and then as usual we will open the call to questions.

We will move now to slide 3 and we will give you the highlights of this past quarter. This was a period of mixed results for QGEP. However, I am glad to report to everyone that the quarter ended with very positive news. Among them we would like to highlight some main key takeaways. Number one: the natural gas production at the Manati Field reached 6,6 million m<sup>3</sup>/day, the highest level since 4Q10.

The exploratory costs totaled R\$ 157 million million given the lack of exploratory success in block BM-S-12, which cost us to report a net loss for 2Q as we are going to see momentarily, this was quite disappointing.

However, we also had very positive news regarding the Carcará prospect, which has the potential to be a turnaround discovery for the company.

We also ended 2Q12 with a very strong cash position and with interesting opportunities to add to our exploratory portfolio.

I would also like to highlight that we do not have debt in our balance sheet.



On slide 4 we can see the recent production trends at the Manati Field, which accounts for 100% of QGEP's revenues and where we have a 45% ownership. In 2Q12 average gas production reached 6,6 million m<sup>3</sup>/day, up 27% compared to the previous period, particularly due to an increased demand from Brazil's thermal power plants.

We can see an increment in average production in recent months reaching levels that are similar to those of 2010. As previously mentioned the company has a long-term contract with Petrobras to sell gas with a price defined in reais readjusted annually using a Brazilian inflation index. Our current contract has a take or pay clause based on a 4 million m<sup>3</sup>/day obligation. However, Petrobras has the option to buy a lot more than the amount of natural gas contracted according to market demand and we expect this demand to be maintained at similar levels in the foreseeable future.

In addition to this, the contract allows this obligation to increase to 6 million m<sup>3</sup>/day beginning in 2014 through 2018 and that would include the total reserve for the field, highlighting that this addition is in the process of being signed by Petrobras.

Scheduled maintenance will take place at the Manati Field towards the end of this year, beginning of next year and it is not expected to affect the average forecasted daily production of 6 million m<sup>3</sup> for 2012.

We recently received the Gaffney, Cline and Associates report about the Manati reserves. We are analyzing the information and very soon we will be communicating to the market the report for your appreciation. The first evaluations indicate that the number of proven reserves is in line with our expectation.

Holding on to slide 6, we have a snapshot of our results to date at Block BM-S-8, which are very positive. As announced on Monday, new data obtained from intermediate wireline logging has confirmed the importance of the Carcará discovery. We have seen a major continuous column of 471 meters of oil of 31° API.

Even more promising is the fact that at least 400 meters out of these 471 meters of column have revealed microbial carbonate reservoirs with excellent permeability and porosity characteristics. The well is inside the oil zone at a depth of 6,213 meters. At this moment the well is being cased and the drilling will continue to an estimated 6,500 meters to determine the total thickness of this oil zone and to investigate the presence of other deeper hydrocarbon zones.

The excellent results from this well, which include light oil in optimal porosity and permeability conditions, led us to become even more optimistic regarding our initial expectations for this prospect. The recent announcement of Petrobras Business Plan that points the first oil of Carcará for 2018 confirms our confidence in this asset.

We are optimistic concerning the results discovered here. We will wait, however, until the final logging of the well is completed, before additional results are communicated to the market.

On slide 7 we have our most recent farm-in in Block BS-4 which includes Atlanta and Oliva post-salt Fields. We are the operator of this block and we own a 30% stake. We are now preparing for drilling activities in this block and to purchase the long lead items. Revised development plans have been presented to ANP - the Brazilian Petroleum Agency by the blocks consortium and the drilling is scheduled to begin here in the second half of 2013 with first oil in 2014.



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We also identified prospects in the pre-salt of this block, Piapara, which is adjacent to the Atlanta Field. Drilling is expected to begin in 2014.

We are also in the process of acquiring new state-of-the-art 3-D seismic data which will provide enhanced images of the area's post-salt and pre-salt reservoirs. The seismic will help us identify any new potential discoveries in this area. We remain very enthusiastic about Block BS-4, as it has the potential to significantly increase our oil reserves and diversify our revenue source over the medium term.

On the next slide we have Block BM-J-2 which is located in the Jequitinhonha basin where we are the operator and have 100% ownership. Last year we were forced to stop drilling this well due to environmental restrictions imposed by Ibama - the Brazilian Environmental Agency, which prohibited drilling and seismic activities during the months of October through March.

A request has already been submitted to Ibama for a renewal of our environmental license which currently expires in June 2013 and to further define next year's drilling timeline. We are currently working to secure a rig in order to restart the drilling at the Alto de Canavieiras prospect in 2Q13. Once drilling is restarted we expect that it will take us about 60 days to reach the final depth of the well as we are already at 2,540 meters and the estimated final depth is 4,700 meters in the pre-salt section. The remaining CAPEX for drilling in this well continues at US\$ 70 million.

On slide 9 we have an update on Block BM-S-12. As you know, the drilling of Ilha do Macuco well was concluded in May 2012 and the results did not identify potentially productive zones. The consortium of this block is now awaiting approval from the ANP for a 60-day extension of the original evaluation plan. This extension will allow us additional time for the team to process the information obtained here and to determine any next steps which could possibly include a reentry into the discovery well.

I will now turn the call over to our CFO, Ms. Paula Costa, to discuss our financials.

**Ms. Paula Costa:** Thank you Lincoln. We will begin with the major financial highlights for 2Q and first half of 2012. As you can see on slide 11, our strong year-on-year revenue performance for 2Q12 was driven by improved production at the Manati Field. Net revenues reached R\$ 123 million in the period, which was more than double last year's result when maintenance stoppages caused a reduction in production.

For the first half of 2012 total net revenues were R\$ 219 million, a 66% increase over last year's first half.

Moving to slide 12 the EBITDAX reached R\$ 79 million for 2Q12 and our EBITDAX margin was 64%, up from 56% in last year's 2Q11. We had a net loss of R\$ 96 million for 2Q12, which was a result of special exploration costs. Excluding these items net income would have been R\$ 61 million for the quarter.

On slide 13 we have detailed 2Q and the first half operating expenses for both 2011 and 2012. Increased production at the Manati Field resulted in a 77% year on year increase in operating costs of R\$ 45 million compared to R\$ 26 million in last year's 2Q. This was caused by higher production from the Manati Field, which impacts royalties, special participation and depreciation costs.



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General and administrative expenses totaled R\$ 20 million for 2Q12, which included R\$ 7 million in nonrecurring expenses related to profit-sharing costs in 2011 and a recent change in QGEP's management. Excluding these expenses G&A expenses would have been R\$ 13 million.

Exploration costs in 2Q12 amounted R\$ 157 million. As Lincoln mentioned earlier in this call, these special costs were primarily due to unsuccessful exploration activities at Block BM-S-12, Ilha do Macuco well, which amounted R\$ 120 million. There was also cost of R\$ 37 million for the return of the Jequitibá prospect to ANP.

On slide 14 we have the breakdown of the CAPEX for 2012 and 2013. We confirm our 2012 CAPEX budget of US\$ 80 million, US\$ 80 million I stress. US\$ 40 million have already been used in the first half with the remaining to be spent during the second half of 2012.

Next year's CAPEX budget is expected to increase to US\$ 165 million. We have also included the breakdown of our exploratory capital expenditures by block with a majority of the 2013 budget to be spent in Blocks BM-J-2, BM-S-8 and BM-CAL-12.

Here on slide 15 you will see that on June 30, 2012, the company had a very strong net cash position of R\$ 896 million. In 2Q we paid our BNDES and BNB loans that were granted for the development of the Manati field thereby eliminating all that. Thus, we have significant room in the balance sheet for potential new leverages, improving our financial condition for future investments. We invest our cash mostly in highly rated liquid assets. This slide shows the breakdown of our investment portfolio, 94% allocated to Triple A rated instruments and the remaining to Double A rated instruments.

I would now like to turn the call back to Lincoln for closing comments.

**Mr. Guardado:** Thank you Paula. To wrap up today's presentation I would like to remind you of our unique position in Brazil. We are an independent private exploration and production company with a balanced portfolio of producing and exploratory assets.

I would like to highlight other very important aspects: the Manati Field is showing consistent production and providing strong operating cash flow. Carcará news are very encouraging and data to further evaluate this discovery should be available after we complete and evaluate the results for the well.

We have solid and promising exploratory prospects at Jequitinhonha, in the Camamu Basin and in the pre-salt at Block BS-4 and we have assembled a very experienced team committed to delivering results so as to face the challenges that we will have in the short and medium term, which involve activities as operator, our presence in the new ANP's bidding rounds and the capacity to capture the opportunities available in the market.

Overall, we are very confident that the second half of the year will be a promising period for QGEP and we look forward to keeping you updated on all important developments.

Operator, I would now like to open the call for questions.

**Q&A Session**



**Operator:** Thank you. Ladies and gentlemen we will now begin the question-and-answer session. If you have a question please press star one and if at any time you would like to remove yourself from the questions queue please press star two.

The first question comes from Ms. Paula Kovarsky, Itaú BBA.

**Ms. Paula Kovarsky:** Good morning. I have two questions, the first is about Carcará. Lincoln I will apologize if I am extrapolating too much; but I want to try and understand how big this discovery is.

When we look at the map on page 6, that small piece of the block where Carcará is located is not very big. Looking at all the accumulations around it in the respective sizes, if it is much bigger than Bem-te-Vi, that had an estimate of 500 million, if we are talking about 1 billion or 2 billion, in your view do you think there is a risk of unitization? To have such a big accumulation, does it need to be beyond the frontiers of the block? That is my first question.

And my second question has to do with BS-4. Could you give us an investment estimate for the initial post-salt development in this block?

**Mr. Guardado:** Good afternoon Paula, it is always a pleasure to speak to you. Well, we should not get too impressed with the size of Carcará in the map. Indeed over there is a large area and to answer your question directly I can tell you that yes, there might be a chance of unitization, there is a possibility.

As the well is not completed yet, the evaluation of the area of this discovery still needs to be determined. But a very important factor which is obviously making us very optimistic is not just the area effect which is what you referred to; but above all the thickness that we have found so far is very differentiated compared to the average of what we know.

Obviously we have more limited information than Petrobras and other operators; but in terms of what is public domain, the thickness has gone beyond what we have observed and this is a factor that will probably influence the future volumes to be confirmed in this discovery.

**Ms. Kovarsky:** To continue the question, once you complete the well, could you give us an estimate of volume or is this coming only when we have a new Gaffney report?

**Mr. Guardado:** The answer is the discovery that we had in Carcará will definitely call a meeting between the companies. We have to review the initial plans for this area. It seems that it is going to be a very important discovery for the consortium, for each of the three companies, and it will require a repositioning of the consortium for this area.

So what can I say? We had already expected to have another pioneer well drilled in this area, which we are even more optimistic in doing now. However, the potential signs of this discovery might lead to an appraisal well or even to another test so that we can add more information on this discovery.

So it is still pending and we can run a test or have a pioneer well drilled this year or the next. We will communicate to the market the volumes if we can confirm the volumes in the exploratory phase and that will dictate whether we need one or two wells so that we can have a real understanding of the volumes.



**Ms. Kovarsky:** To continue the question do you intend to continue the tests in this well?

**Mr. Guardado:** The answer is that it is an option to be verified with Petrobras. A formation test involves a number of preparations beforehand. Since we are still drilling the well and we are covering this zone that was already identified so that we can ensure operating stability, we intend to continue the drilling activity.

Depending on what we find from now on new decisions will have to be made; but it is still a little bit early in the process. However, we can already begin to discuss the next steps together with the operator. But the key point for us is to define to what depth we will drill. Today, we are thinking of drilling up to 6.500 meters, but we have to wait because there are some limitations in the well. When everything is complete we intend to communicate to the market what the next step will be.

**Ms. Kovarsky:** Still Paula here. Could you make a comparison between the column there and the Bem-te-Vi column?

**Mr. Guardado:** Paula, despite being in the Block, we are did not give too much importance to Bem-te-Vi well. It is a well that was drilled 3 to 4 years ago, I think the column is of 10 or 15 meters of oil. I cannot tell you for certain what was the initial column of Bem-te-Vi, I do not know, I actually do not know.

Now we are a lot more focused on integrating the result of this well to the other areas that we have, also to the West and to the East where we could have similar discoveries. So I cannot give you an immediate comparison with Bem-te-Vi. I can tell you it is a lot better than Bem-te-Vi from what we know.

**Ms. Kovarsky:** Thank you very much.

**Mr. Guardado:** And as for BS-4, your second question, our investment estimations are not defined yet. As you know, the plans for BS-4 were resubmitted, the production concept changed from TLP to a FPSO, as did the drilling of the wells. We are awaiting ANP's decision for their ok for the plans that were resubmitted.

So we have not got a final volume of investments yet. But as soon as ANP gives us a response we will get back to you. What we can tell you is that for this year it is going to be very little given that we are preparing, that I can tell you, all the bidding rounds, all the documentation so that we can go to market. When we have the results, well then, Paula, we are going to have a pretty good idea of how the market is responding to these biddings.

**Ms. Kovarsky:** Thank you very much.

**Operator:** Our next question comes from Mr. Vicente Falanga from Santander.

**Mr. Vicente Falanga:** Good afternoon Lincoln, thank you for the call. Two questions: firstly, regarding this excellent discovery of Carcará, does it change anything related or vis-à-vis the plans for Biguá? If I recall the volume was low, not economically feasible at that time. Does anything change for Biguá, in the sense of maybe drilling another well there in order to try to have a joint production, or something like that?

Second question: as a follow-up to the first question, would you say that an estimated volume for Carcará could be included in a Gaffney, Cline report, that you maybe intend to disclose to the



market early next year? I know that there has to be another well or even a formation test, but can you give us an estimate if Carcará will be in the next Gaffney report? Thank you.

**Mr. Guardado:** It is a pleasure to talk to you, Vicente. Carcará's discovery, a discovery of this magnitude has many novelties on the way even for the operator. As you know, the operator know the pre-salt very well. About 100 wells have been drilled by Petrobras in the pre-salt and they issued a very optimistic communication about this discovery.

So these things happen and it is only natural that they should happen now. Just as we have results that disappoint us, as it happened with Ilha do Macuco, we are thrilled by some other results, and this is one of them. And even Petrobras, which has a wide range of results and knowledge about the area, is also very optimistic related to this case.

Obviously this result will lead us to be more careful about the area. Biguá was not as porous as we expected. We have the biolites and the carbonate section there, but it failed to have a fundamental requirement, which is porosity. As you know, in these carbonates the secondary porosity is a very complex process to create and maintain porosity.

So this data on Carcará will make us look to the so-called repositioning model, or the porosity creation model, with different eyes and try to see the implications when it comes to repositioning for Biguá and also for other drillings in the area. And we can discuss whether we can have this replicated in terms of geography for the block.

But answering your question, the answer is yes. There should be an impact in the block reassessment and that would make us define the next steps for the future, if we drill another well and where, because all these appraisal wells have this characteristic: they try to provide us with information related to volumes and the size of the structure that we are willing to test.

Now, we do expect that Carcará be included in the next certification of our assets that we expect to have by the end of the year and it was a component that we decided to delay in our evaluation due to the importance we attributed to this block. That does not necessarily mean that volumes will only come in the future. We want to check with our partners if there is any other potential discovery; however, being prudent is also important and in order to disclose any volume the idea would be to have at least an additional well.

This is very natural and understandable of Petrobras; but when it comes to the technical and managerial aspects and our commitment with the market we do believe the ideal would be to have at least another well. But nothing prevents it to be included in Gaffney Cline's next report on our assets, with the certain reservations.

**Mr. Falanga:** Great Lincoln, thank you very much.

**Mr. Guardado:** Thank you.

**Operator:** Our next question comes from Mr. Oswaldo Filho, Espírito Santo brokerage firm.

**Mr. Oswaldo Filho:** Good afternoon everyone. My question has to do with Carcará again, I would just like to elaborate that topic better. I know you do not want to take the risk in terms of providing volumes; but I also understand that there are still doubts on the commerciality of the whole BM-S-8 Block. Even without estimating volumes, I wonder if today you can estimate if this Block would



already be commercially explorable with Carcará well or if you still need all the other tests that you mentioned and considered to be required.

**Mr. Guardado:** Oswaldo, what I can tell you is that what we are absolutely certain has to do with the commercial aspect of the block when it comes to Carcará, we have no doubt in its commerciality whatsoever. What we still question is the size, the results, the extension, any other potential reservoirs that can even be deeper or that we might find in the area.

So the coquinas were always a goal behind this block, and not only in this well, in other wells they were not reached for other reasons but there is still a lot to do in this well, in this block, that we have no doubt. An evidence of this is the fact that Petrobras has already listed this discovery in its business plan with first oil announced for 2018 and that I could say is nearly a fast track, as Petrobras has a certain queue for projects

This oil being expected for 2018, while the well is still being drilled in 2012, reflects the confidence in the discovery and shows that it has a differential, which is the oil, as we know, and also the permeability, porosity, continuity and the collectivity of what has been discovered so far.

Another key point is the proximity to the coast. We are closer to the coast, 230kilometers, compared to other discoveries and also close to other discoveries in adjacent blocks; and this discovery or this block might even be used as an exportation hub. I cannot tell you for sure, I do not have a proxy by Petrobras; but probably Petrobras is considering all these differentials to have it set in 2018.

And in addition, the platform that will be taken into account for production in this area, possibly in the anticipated process, is P-73, and that is a name, it is not only a nickname; it has a name and a last name, that platform that is expected to produce out of this discovery.

And it probably will not be limited to that. We still have some homework to do in this area related to exploration. This is always conditioned to the inherent risks of this activity and the final evaluation of these two discoveries, like Bem-te-Vi or Biguá, that is the remaining aspects for Biguá.

And there is also Abaré with unitization and now there is a discussion with the participants of Block BM-S-9, as they could probably benefit from a production infrastructure to the area. So there are a couple of things to be added and I can say that in terms of economic feasibility we have no doubt whatsoever about it.

**Mr. Filho:** Thank you very much.

**Operator:** Our next question comes from Mr. Auro Rozenbaum, from Bradesco.

**Mr. Auro Rozenbaum:** Good afternoon everyone, good afternoon Lincoln and Paula. I would like to hear from Lincoln, first of all, how is the assets acquisition process and specifically on Petrobras' development assets purchase case.

**Mr. Guardado:** Auro, as you know the lack of the so awaited bidding process requires us to be proactive and try to seek further assets and new opportunities. So this transfer of assets continues to happen in Brazil. Some of them have high volumes, few people have our interest or at least follow and in other things we are actually involved. Today we have some opportunities being analyzed with different colors and different stages on the process. Some are right at the beginning,



we are still monitoring and evaluating the impact whereas in others we are in more advanced discussions.

I would tell you that probably in one or two months we expect to have something concluded and can give you some disclosures. But the answer is yes, we keep our eyes open and not only that; we are getting ourselves ready for the bidding process that is expected to happen next year. We do believe there is a big chance of having a bidding process next year and it would not be strange, based on media comments or even according to some comments made in the industry, a potential pre-salt bidding already in the second half of next year.

Our acquisition in BS-4, as well as our partners', also has this characteristic, to be involved in these acquisitions so we can be included in the area once and for all, to get ourselves ready for a potential bidding process. So we keep our eyes open and we expect to share the news in the near future.

**Mr. Rozenbaum:** With regards to Carcará, today there is a plan for the first oil in 2018. My question is the following: with the development of Carcará, I wonder if we could have some anticipation in this schedule depending on the conditions, if some other equipment could be allocated or maybe if it could have additional priority? And what about future steps required to actually define the size or the future of Carcará?

**Mr. Guardado:** Auro, let me begin by the end. In the next one or two years we expect to conclude Carcará's evaluation. This is not fully defined with the operator, the well is still drilling, so we will have to wait. The operator as we know is giving priority to this area, so future plans will stem from the end of the drilling and then we will come to a decision. But I would say it would take us one or two years to actually define what Carcará really means.

As to anticipate the production I can tell you that today 2018 is already very challenging. We expect this volume's commercial aspects will not be disclosed right now but optimization is always possible. But we can anticipate the production through a Extended Well Test with an Early Production System,. But I can tell you that if we consider Petrobras' challenges for the future... not only Petrobras but the market's today in order to serve and meet all this demand, I would say 2018 is very challenging, in our opinion, for this kind of production. A couple of things can happen to anticipate, but I would say 2018 is already very challenging, but it can be overcome if we start thinking about it right now.

**Mr. Rosenbaum:** Thank you.

**Operator:** Our next question comes from Ms. Lilyanna Yang, UBS.

**Ms. Lilyanna Yang:** Hello, thank you for the opportunity. I have two questions, one question still related to Carcará. Could you give us the names of some analogous areas or fields so we can have some comparisons? We do not have so many terapoints for columns in order to make associations or extrapolate volumes. But we would like to have a better understanding comparing Carcará to other fields.

The second question is to Paula, please: what about the R\$ 7.5 million that you consider to be nonrecurring? You mentioned it is a last year's profit-sharing provision and is also related to changes in the management. Could you clarify if this is related to the payment of bonus for instance, for the former CEO, or an incentive and retaining plan? What exactly is this? Or maybe to attract new people to the area? Thank you.



**Mr. Guardado:** Lily, it goes as follows: we do have some comparisons, no doubt about it. You have some huge and supergiant Fields, such as Libra and Franco, which have columns similar to those, though they are smaller. They have a reservoir which is very thick but the oil column is around 200, 250 or 300 meter tops.

Recently we had Pão de Açúcar field, a discovery made by Repsol and Petrobras, in which they also mentioned about 300 meters of oil columns, and this field seems to have 1.2 or 1.3 billion barrels or boe. Our thickness is slightly above the thicknesses announced by them.

And other fields with very large thicknesses, Guará is one of them and Sernambi another. But I do not want you to consider the thicknesses as having a direct reflex on the volumes of the fields mentioned. These fields have those thicknesses but that does not necessarily mean that our volumes will correspond to that. That should be emphasized.

But there is something we can take which is different: the type of oil, at least based on what we know. By the way that is the second-best oil ever identified in the pre-salt in Santos Basin; Our porosity on average has higher values compared to those already announced that are in the public domain; and we also have a continuous reservoir.

So that is a critical point in the production schedule, because the further away the the oil zone is from the water, the longer it will produce and the higher is the potential in the initial phase. So apparently these things have differentiated this discovery, based on what we know at least. I know we do not know it all, everything related to pre-salt we should be very cautious before announcing, not only out of confidentiality of each and every company, but basically because usually these are very huge numbers.

I will pass the call to Paula now.

**Ms. Costa:** Good afternoon, Lilyanna. Answering your question on the R\$ 7 million, actually here we have two impacts: the first impact is the profit-sharing related to 2011. It is nonrecurring because it is a timely impact this quarter. Even though we have profit provisions for 2012 over the year, this was very much concentrated and that is why it is nonrecurring particularly in this quarter and that is why we want to highlight that it was about.

R\$ 4 million, and the remainder is related to the management change and that is also something nonrecurring and it is not part of the retention program.

The retention program has a R\$ 2.6 million impact in this quarter, the stock option provision, but it is a recurring item and that is why it was not included in the R\$ 7 million as nonrecurring expense. Is that clear?

**Ms. Yang:** So the 3.5 million in change in management is not to attract new people, or is it?

**Ms. Costa:** No, just the change in management, the change we had in the company's officers.

**Ms. Yang:** Thank you.

**Operator:** Our next question comes from Mr. Anish Kapadia, TPH Fund.



**Mr. Anish Kapadia:** Hi, good afternoon. I had a couple of questions again on BM-S-8. I was wondering if you could give what the total cost of the well has been so far on Carcará and how much you would expect future wells to cost and if they take less time to drill.

And just, I am not sure if you have addressed it already, but in terms of the potential flow rate from the well, would you expect flow rates similar to that of what you have seen from Lula and Sapinhoá, 25 to 50,000 barrels/day initial production rates given the reservoir you have seen?

And then the final question was could you give what the area extent of the field is? Thank you.

**Mr. Guardado:** Very well. I am going to answer in Portuguese, but if you need any further clarification we can reply in English. All right. What we can tell you is that the drilling cost today expected for this well, Carcará, is US\$ 220 million. This is the cost forecasted to reach the end-depth of 6,500 meters.

That cost may increase a little if we decide to do a DST – a Drill Stem Test. Not a Extended Well Test, but a regular drill stem test, and results would come in about 30 to 40 days. That cost could actually be added in the next few months. What we expect is something around US\$ 220 million and US\$ 22 million would be net for QGEP.

As for possible wells, we believe the cost might be smaller. Every new well gives us new information and we learn on the job in this case. So any possible new wells will be optimized in terms of the results we had from the previous, as the pressure regime, the areas of interest. In that way, a possible well to be drilled or in next development phase would probably entail fewer costs because we will have customized pressure regime, depth, porosities, and the formations.

As for the flow rate is still very early to say. Regular flow rates for pre-salt reservoirs have been very high. Those in production are reaching between 25,000 and 30,000 barrels/day, these are the rates of fields that are in Extended Well Test phases or in production phases, as is Tupi's case.

In our case however it is still too early to say. All we can tell you is that we will be in the average range for these discoveries. But it is very early for us to give you a final number and a final evaluation. However, I would like to stress the permeability is very good and the porosity is also above average for the pre-salt. That makes us very optimistic. Now giving you a figure is a little bit difficult for us to do right now. It is difficult to estimate at this point because we could be making serious mistakes regarding flow rates and production.

And we are not done yet in the well area, so we do not know yet. We know how much it could be but the well remains in that oil zone that already has a 471 meter column, and not everything is the reservoir though. Only upon completion and when we finalize drilling will we be able to tell you what is the area that we are estimating for this discovery and this will undoubtedly take a little longer, at least another two months.

**Operator:** Our next question comes from Mr. Gustavo Gattass, BTG Pactual.

**Mr. Gustavo Gattass:** Good morning everyone, I have a couple of questions. I would like to perhaps change gears a little, leave Carcará behind and talk a little bit about Atlanta and Oliva. I want to know three things about Atlanta and Oliva: the first one, you mentioned in the release that you are going to have 12 wells for the development; so I would like to understand: the plan is 12 wells including injection and production or 12 planned wells for production?



The second thing in Atlanta an Oliva, a little while ago you mentioned you were looking for an FPSO with a capacity of 80,000 barrels, I think Danilo gave that interview in the past and I would like to know if that has remained the plan.

And finally still in Atlanta and Oliva could you please tell us what exactly you are trying to test? What kind of questions you want to address with the Extended Well Test planned for 2014?

**Mr. Guardado:** Very well. Since Danilo was mentioned and in order to give you a more brilliant answer I will pass him the call.

**Mr. Gattass:** I will come back with another question on Carcará later.

**Mr. Danilo Oliveira:** This is Danilo, good afternoon, Gattass. The 12 wells of Atlanta, they refer only to producing wells. In the development plan submitted to ANP we are not considering any injection wells. This is because there is a very large aquifer, a large water source under the producing reservoir and the studies of the reservoir lead us to the assumption that we do not need injection wells.

As for the FPSOs, we have two FPSOs in two distinct phases: the first one, according to the plan submitted to the agency, is the FPSO with capacity of 20,000 barrels/day during the Extended Well Test, that the agency is calling anticipated production system; and the second FPSO which is for the definitive system, the final system, has an oil capacity of 75,000 barrels.

**Mr. Gattass:** And if I may continue I would like to ask a quick question: is Seillean still in the market? Is it still being offered?

**Mr. Oliveira:** It is stopped for the moment, it is docked. It was one of the options we actually considered. We have not discarded it totally but it is not our first option.

And what do we want to test during the anticipated production system? As you know this is going to be the first deep water field for heavy oil and it is heavy oil of 14° API. So we want to test three things: first a production concept using high-power pumps; the second thing we want to test is the draining of horizontal wells, performing the Gravel Pack on these wells,; and thirdly to check the Productivity Index (PI) of these wells, in other words, the production capacity of each one of the wells so as to better size the FPSO for the definitive system, ok?.

**Mr. Gattass:** Thank you. I would like to ask a question to Lincoln, now I would like to go back to Carcará. Two quick things that I would like to hear from you: the first is, during the conference call at a given moment you mentioned that we could have more than one unit. It is not clear to me whether you were talking just about Carcará or if you are talking about the block as a whole.

In practice what I want to understand is that if, in your opinion, Carcará might have two FPSOs? Is that the rationale? That would be my first question.

And the second part of the question, if I may, still on Carcará, about its column. I know that you cannot give us the size of the reservoir, but I just want to understand something: when you got into the well what was the column size that you were expecting to find? I just want to have a sense of how optimistic you are.



**Mr. Guardado:** As for the FPSOs I would really love to have more than one, but we actually are down to one because this is what was released by Petrobras, the P-73 that we saw today. But if we think that this could be a pig back to other accommodations in the area, for possible discoveries in this block that could be integrated in a system where other discoveries in BM-S-9 wells could be integrated, then we could expect a more complex production system that would involve more FPSOs.

But for Carcará particularly, today we do not have this kind of visibility. We do not know whether we are going to have one or two FPSOs because we do not really have a real estimate of the volume in the area of the accumulation, and that is an important point in our production design. In other words we have to know what is the distribution of the reservoir, if it is all stacked, if it is laterally dispersed. It is too early to say, but since Petrobras talked about P-73 and since they have talked about the production we are replicating what Petrobras is saying. But it is still too early to say whether we are going to have more than one FPSO. We cannot say this now.

Now as for the size of the column we actually expected less because our evaluations are always based on statistics of other previous discoveries. When we analyze the thickness of a reservoir we use statistics.

Obviously we do use seismic; but we use statistics as well, because geology follows some laws, and they cannot be ignored constantly. We cannot foresee, for example, porosity, it is Biguá's case. Seismic will not give us information for that kind of reservoir.

For thickness we always use seismic and we are always trying to model and limit based on thicknesses seen in other accumulations of a given area. In this case I cannot give you precise numbers; but what I can tell you is the figures that we already have are much higher than what we had initially forecasted, almost double what we had initially forecasted.

**Mr. Gattass:** Thank you.

**Operator:** Our next question comes from Mr. Pedro Medeiros, Citi.

**Mr. Pedro Medeiros:** Good morning and congratulations on your progress in Carcará. I would like to start with Carcará, with some questions and also to ask for a confirmation. I do not know if you will be able to answer all of them, Lincoln, given the seismic data are still being collected in the agreement you have with the consortium.

But initially you announced a bigger column in the press release than Petrobras and I was in doubt: by the description you gave us in the release, are you already intersecting the coquina in Carcará? Do you still continue only in the microbiolite or have you crossed any coquinas along the way?

**Mr. Guardado:** What we announced is no different than what Petrobras announced. We just released a little bit more information. To date we have a column of hidrocarbonates identified of 471 meters. But obviously not all of that refers to reservoirs. When we said that we had at least 400 meters of reservoir we were referring to the gross pay, to the total.

Not everything in the 471 meters is reservoir. There are other types of rocks as well. But we have 471 meters column of oil, of which 400 meters would be of reservoir - gross pay, I stress, gross pay - nobody talked about net pay. In order to talk about net pay it takes longer: we have to get all the logs, take lateral samples and then we will to have net pay.



Net pay is a number to calculate the reserves and so it has to be a lot more accurate, a lot more complete, based on logging, sampling and all of these activities. We have not got the net pay yet, so I want to make this clear: 471 meters we believe is the oil column based on a test that we saw so far and we have at least 400 meters of reservoir gross pay.

As for the coquina, coquina is one of the objectives of the well and we expect to continue to drill and see what happens. This is a deep well with an oil zone on top that requires more caution because of the hidrocarbonates column. We have to be more careful in the drilling, and we are casing the well now because of that.

Now I just do not know when we are going to get there; but the coquina is always a target and for Block BM-S- 8 it is the same. We wanted to get to the coquinas in Biguá, but it was not possible as we encountered some operational issues, so there was no reason to continue. But if we were able to get there in Carcará it would be very good. Coquina is a target but we have not reached it yet.

**Mr. Medeiros:** As a follow-up to your comment given the data that you have collected for the 400 meters of column, is it possible to talk about net porosity, perhaps based on similarities? Can we assume by similarity that it is similar to Tupi's microbiolite or the one in Iracema? How do you see that?

**Mr. Guardado:** The whole team always stresses that our data and statements are based on what we know, and on what is public domain today, and this has led us to say that this reservoir on average is superior than some of those fields that you mentioned.

As for the Gas-Oil Ratio(GOR), etc., it is hard to say. It requires tests, Drill Stem Tests, we need to collect all the data so that we can estimate the GOR and other components of the hidrocarbonate. We do not have that yet. All we know is that the oil is lighter than the average; the porosity is better on average and that can lead us to think about better productivity for the future because we have better quality oil, lighter oil. These are some of the differentials that we have identified.

As for the GOR, we cannot give you that yet. But what we have seen and reported is that apparently – I underscore, apparently - there is not a lot of CO<sub>2</sub> and H<sub>2</sub>F and that is really good. But again we stress: these are preliminary data.

**Mr. Medeiros:** Thank you and if I may ask one last question about BM-S-8: when we look at the CAPEX for 2013, there is an estimate of US\$ 40 million net CAPEX invested in that block. How many drillings are you considering for this kind of CAPEX?

And in the timeline for the evaluation of BM-S-8 due this year do you still expect to drill other wells?

**Mr. Guardado:** Indeed. In the forecasted US\$ 40 million to be invested in 2013, we would be completing two wells: one that could start production this year and end in 2013 and another well to be drilled. From our standpoint, QGEP's, this could be representing an appraisal well, and another well in the area, but you are right.

The PAD - the Discovery Evaluation Plan - ends in the end of this year but Petrobras is already thinking about that and we have started to discuss with them, we are probably going to submit this to ANP. The operator has to do that but we will be participating in these discussions to perhaps expand a bit the plan so that we can fulfill everything that was expected.



So given the results to date we do not expect more difficulties in dealing with ANP. It will not be too challenging to fulfill all the works that were included for BM-S-8. Some of the works will be starting this year in principle.

**Mr. Medeiros:** Thank you very much. There is something else I wanted to ask about Manati. In the beginning of the call you said you received the preliminary data in the GCA report and that the data fit the initial expectations, but they were going to do further assessment before communicating anything to the market

Could you comment if I could assume that within your initial expectations, the P2 numbers would be below the original, accumulated production?

**Mr. Guardado:** I am going to pass the call to Danilo because he will be able to answer you based on what we can disclose.

**Mr. Oliveira:** This is Danilo. We did receive Gaffney's certification, it happened recently, one or two weeks ago. We are evaluating it and comparing with our studies and the studies from the operator. What I can tell you is that the 2P reserves are very much in line or a little bit better than the previous year.

**Mr. Medeiros:** Thank you, and one last question if I may: I just want to confirm and to understand how the process of acquisitions is unfolding, and understand a bit about the potential farm-ins happening in the market.

Could you confirm whether you were participating in the farm-out of the Vanco/Panoro Consortium that was done recently for Ecopetrol? Did you participate in that bidding?

**Mr. Guardado:** As you know we cannot affirm anything because we cannot disclose that with any Company. But we are considering some things in this market and I can tell you that this is not the one in our radar. But we are looking at other possibilities in the market and like I said previously, with different colors and progress. In the next month or two we expect to be able to disclose something to the market.

So we are still looking and, once again I stress, we are getting ready, we are preparing ourselves internally for possible bidding rounds to come either in the equatorial coast or perhaps closer to the Santos basin or the pre-salt area because there are market rumors of a possible bidding round before the end of 2013.

So we are preparing for all that but like I said, preparing ourselves is not just looking at the technical aspects; we are preparing ourselves with the right staff and that is why we had more costs. We are preparing the company; we are hiring more people, more specialized people to face these evaluations in the future in a responsible way so that we can analyze a possible entry in a block so that we can consider all the operational pieces in economics.

So this is mid to long-term. We are not just thinking about the short term. We are preparing ourselves to face these challenges in the short to medium term for the company.

**Mr. Medeiros:** Thank you very much again and congratulations on your results.



**Conference Call Transcript**  
**2<sup>nd</sup> Quarter 2012 Earnings Results**  
**Queiroz Galvão – QGEP Participações (QGEP3 BZ)**  
**August 15, 2012**

**Operator:** Our next question comes from Mr. Frank McGann, Merrill Lynch.

**Mr. Frank McGann:** Hello good day. Just a couple of things on Manati, one you mentioned both in the press release and in the comments that you are close to an agreement or an amendment that would increase the amount the minimum amount for the take or pay provision. I was just wondering when you think that would be completed.

Also would that have any impact in your business since we are talking about 6 million m<sup>3</sup>/day and would that just give us greater confidence that the amount would be at that level or higher?

And then in addition you mentioned the maintenance towards the end of this year, beginning of next year and I was just wondering no impact on this year's production. What type of maintenance is that? If there is any risk that there would be some effect on the average level of production you could have in 2013?

**Mr. Oliveira:** Good afternoon, Frank, I am sorry but I am going to answer in Portuguese, ok?

In terms of the agreement, it has already been agreed with Petrobras more than two years now. We always say that we are willing to sign it and we are always expecting to sign the agreement. So what is postponing our signing of the agreement? The fact is that it is associated to the compression plant that will be built in Manati, and Petrobras, as it is the operator and in charge of building the plant, will only be willing to sign this agreement once the compression plant or the bidding process of the plant is formally approved by Petrobras' Board.

Even though the compression plant is already scheduled in the development plan that was submitted to the Agency back in 2004 and 2005 and already approved by the Board of the partnering companies and in the OPCOM meetings, Petrobras is still in the process of considering all the internal issues related to the Board's approval. So we expect this to happen by year-end.

As to production levels, we are producing very well, over the last four months it was over 6,5 million m<sup>3</sup>/day. Our maximum production capacity is still around 7 to 7,2 million m<sup>3</sup>/day and we expect that the market in the second half of the year continues to demand or continues to buy gas. We are confident that our annual average will be maintained at 6,0 million m<sup>3</sup>/day.

Answering the last part of your question related to maintenance, the programmed maintenance is a scheduled stoppage of the treatment station. Every five years the whole process and production facility has to be shut down for maintenance purposes, 10 to 15 days of total shutdown of the field in order to have maintenance at the processing plant. But for the whole year it should not have an impact on the average availability of gas of 6 million m<sup>3</sup>/day, ok?

**Operator:** Our next question comes from Luiz Pinho, UBS.

**Mr. Luiz Pinho:** Good afternoon everyone. Another follow-up about Manati. Correct me if I am wrong; but I believe that production in 2Q, in the first month was 6.4, then 6.6 and then I imagine it closed at 6.8 to have an average of 6.6 according to what you announced.

Considering that we are already in the middle of 3Q what could you say about the production? Can you imagine the same level in which you closed 2Q or something closer to 7 or would it go down? Thank you.



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**Mr. Oliveira:** Luiz, we closed July with 6.6 and we are in the same level in August. So the trend continues.

**Mr. Pinho:** Ok, thank you.

**Operator:** We would like to remind you that to ask questions please press star one.

This concludes the Q&A session. I would like to turn the call back to Mr. Lincoln Rumenos Guardado for the final remarks. Mr. Guardado, you may proceed.

**Mr. Guardado:** Once again I would like to thank you all for joining us for this call. Thank you for your questions, they were all very clarifying and we expect to give you adequate information, but also taking into account our responsibilities vis-à-vis our partners and the market. Feel free to contact us for any additional need, through our IR Department, as usual always trying to serve you the best way possible.

Thank you again, enjoy the afternoon.

**Operator:** QGEP's conference call is concluded. Thank you all for joining us, have a great day.

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