

**Operator:** Good afternoon ladies and gentlemen and thank you for waiting. We would like to welcome everyone to QGEP's update conference call to address analyst' and investors' questions regarding the notice to the market released yesterday on Carcará at Block BM-S-8.

Today with us we have Ms. Paula Costa, CFO and Investor Relations Officer, and Mr. Sérgio Michelucci, our Director of Exploration.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. After QGEP's remarks are completed there will be a question-and-answer session, at that time further instructions will be given.

Should any participant need assistance during this call, please, press star (\*) zero (0) to reach the operator. There will be a replay facility for this call for one week.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of QGEP management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of QGEP, and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Ms. Paula Costa, QGEP's CFO and IRO, who will start the presentation. Ms. Costa, you may begin the conference.

**Ms. Paula Costa:** Good morning to all. Thank you for participating in today's conference call. We know how important the developments of Carcará are to our analysts and investors, and we wanted to give you the chance to speak directly to our Senior Management so that you may ask any questions you may have.

I'll turn now the call to Sergio Michelucci, our Exploration Officer.

**Mr. Sérgio Michelucci:** Thank you Paula. Good afternoon to all. As you know, yesterday we announced along with our partners of block BM-S-8 updated information on the Carcará well. As previously announced, the well reached a final depth of 6.671 meters and presented exceptional results

regarding oil column, reservoir quality and thickness, as well as the quality of the oil found.

Due to well conditions, that slowed down the operations quite a lot, and as the results raised the costs of the drilling activities, the consortium decided not to perform the Drill Stem Test (DST) originally scheduled, thus we will now perform the first Drill Stem Test at an appraisal well, that will be drilled later this year.

What we can say is that given the data we have, and which were acquired during drilling, together with the operator's experience with Drill Stem Tests (DSTs) and the Extended Well Tests (EWTs) in reservoirs as the same type as Carcará, that the Carcará's reservoirs have a high potential flow rate which would have a very positive impact on the economic deliverables of this project.

The consortium has submitted to the ANP – the Brazilian Petroleum Agency – a revision request for the Evaluation Plan that is currently in place. We are in frequent communication with the Agency and expect to receive approval within the next few months.

Among the new commitments proposed for the block is the drilling of the extension well at the Carcará accumulation, in which the Drill Stem Test shall be performed.

These recent developments are not expected to affect the drilling schedule of the delineation wells or the production development plan for Carcará. As previously outlined by the operator of the block the development phase for Carcará continues on schedule, with drilling of wells expected by 2016 and 17 using the Grumari and Bracuhy rigs, and first oil is expected by 2018 using FPSO P-73.

**Ms. Costa:** Thank you Michelucci. To add to what was previously said, we reaffirm our intention to conduct a reserves certification for our entire exploratory portfolio in the first half of 2013, which will include the data already collected for Carcará, and we reaffirm our conviction that Carcará is a truly transformational discovery for the company, one that will lead us in a foreseeable future to be an important player in the Brazilian landscape.

### **Q&A Session**

**Operator:** This is the operator. At this time, we would now like to open the call for questions. Thank you. If you want to ask a question, please, press \*

(star) 1 (one). If you want to remove yourself from the queue, press \* (star) 2 (two).

Our first question comes from Mr. Frank McGann, Bank of America Merrill Lynch.

**Mr. McGann:** Hello, good day and thank you for the call. Just a couple of things; One, I was wondering in terms of the information that will be provided in the reserves certification, that will, I assume, provide at least a range of volume estimates that the accumulation could have? If you could confirm whether we could expect that and do you expect that to be released during the first half or is it likely later in the third or fourth quarter that it would come out?

And the appraisal well in terms of timing, do we know when you plan to drill it at this point, in which quarter (or quarters) you would expect to drill it?

And then, third, if I might, is there any risk that the ANP would deny the extension or is it really just a formality at this stage?

**Mr. Michelucci:** With regards to the reserves certification, the result of these certifications give us a range, given the uncertainties we have in terms of a number of parameters out in the field. We will be doing the certification during the first half of 2013, and we expect it to be completed by the end of the first half of the year.

As for the appraisal well, we expect to start drilling it in the second half of this year, in the beginning of the second half of this year. And as for the approval by ANP of the revision for the evaluation plan, this negotiation with ANP is undergoing for quite a while now and we believe that in a short term we should have an approval by ANP.

This is a standard procedure; these revisions of evaluation plans are quite a routine. And as for this subject, we've had the approval by ANP *ad referendum*. What does it mean? It means it is an approval given by a hierarchical level, which would be the Exploratory Superintendent of ANP, he has given us approval to continue our activities for, at least, another 60 days, after which we should have the formal approval by the Board of the ANP.

**Mr. McGann:** Ok, thank you very much.

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

**Mr. Pinho:** Good morning everyone. My first question is: I would like to understand a little bit more the issues with drilling; was this strictly linked to the rig? I'd like to understand what the issue was.

And another point (related to my first question) is; from what I understood, you did not reach the oil-water contact, and I would like to understand; is there any upside in terms of the oil column being bigger than what you announced? And then after I'll ask my second question. Thank you.

**Mr. Michelucci:** Luiz, as for the rig or the final depth, the well was stopped before we achieved the deeper targets that we had initially because the drilling yield dropped a lot because of these rocks that we were drilling, and that is why we didn't reach the 7,000 meters that we had initially estimated and intended to reach.

As for the formation test, what happened was that the tooling got caught in the operations preceding the test, and because the tooling was stuck we had a fish; and we encountered adverse conditions on the well – since it was very deep we had high pressures, these conditions actually happen quite frequently. But what happened was that some intervals of the reservoir were covered by the fish and we started fishing the fish and the drilling became very slow. We came to a conclusion that we would spend a lot of money and we could not be sure to recover all of the fish. So there was an optimization; we tried to have more efficiency and we chose to change the DST to an appraisal well, and this test is a commitment with the ANP, but if we move it to the appraisal well, both operationally and in terms of efficiency of using our financial resources, it would be a lot better to do the DST in the appraisal well, and it doesn't impact the development of the project in Block BM-S-8 in the least.

And as for the oil-water contact, the data we have so far do not allow us to come to any conclusion about where the oil-water contact is. We have nothing new to add about that.

**Mr. Pinho:** Thank you. My second question is: in talking with our analysts in Europe, Galp could announce volumes at any time, even before the appraisal well. Given that in the past European companies have all turned to be a little bit more optimistic than Petrobras, what is your position in terms of volumes that Galp can announce?

Is it something that is being discussed together? Can they report a different number than what we will see in the certification report? I'd like to hear your take about this.

**Mr. Michelucci:** The idea is to have a convergence in the association. Because this is the first well that we have in the structure, there is a large amount of uncertainties regarding a number of the parameters that are used in determining volumes. So what we seek is a consensus in the consortium, but basically what we seek is to have this certification because that is a third-party opinion.

We have to have a consensus regarding basically the parameters that will be used in those certifications by the consortium companies, so that the criteria that we agree on will be an agreement with the criteria used by the certifier, or else the consortium might provide a number that will not match the number given by the certifier; that wouldn't be good for anybody, not for the market, not for the companies.

**Mr. Pinho:** Ok, I understood, but in practical terms, in terms of timing, there is a possibility that Galp will release a number to the market before you certification report or not? Or they cannot do it?

**Mr. Michelucci:** Well, the consortium has meetings scheduled to discuss everything related to volumes. We expect that any notice to the market will be the result of a consensus.

But as for timing, it is very difficult for me to evaluate because I don't know how far along Galp is in the certification process.

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

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

**Mr. Montanari:** Good afternoon to all. Thank you for the opportunity. I'd like to have a follow-up question about the drilling of the appraisal well. I understand it is going to start being drilled in the second half of the year. Is there any expectation regarding when you should conclude drilling and when you would get started with the DST?

And my second question is; looking at your CAPEX curve that you reported in the last release, should we expect any change in the 50 or 45 million dollars that you reported for the BM-S-8?

**Mr. Michelucci:** Well, the appraisal well should start being drilled in the second half. Normally drilling of such a well should take 180 days (six months) and with the Drill Stem Test we should add another 40/45 days, so in reality, in fact, the completion of the DST would be in the beginning of 2014.

**Ms. Costa:** As for the CAPEX – this is Paula – it included two wells; one being the extension or the appraisal well of Carcará so there would be no changes in the CAPEX

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

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

**Mr. Kapadia:** Hello. I had a question on further prospectivity on the BM-S-8 block. There are other prospects that you've mentioned in the past – that I think you were potentially looking at drilling in 2013 – are you still considering drilling these either this year or next year? Can you give some update on that? Thank you.

**Mr. Michelucci:** For 2013 we intend to drill only the appraisal well in the Carcará area that we mentioned in this call. Drilling other prospects existing in BM-S-8 block, well, they are expected to be drilled in 2014 or in following years.

Drilling these wells in these prospects that haven't been drilled yet is part of the revision for the evaluation of the discovery plan that we are negotiating with ANP.

**Ms. Costa:** This is Paula. As for Capex – I'd like to add – we do have some expenses related to a next well to be drilled more towards the end of the year, and one appraisal well to be completed by the end of 2013, as mentioned by Michelucci.

**Mr. Kapadia:** Can I just ask one follow-up? In terms of the CAPEX for the Carcará well, can you just say what the total gross cost ended up being for Carcará?

**Ms. Costa:** This Capex has exceeded \$300 million, above \$300 million. We are finalizing the figures together with the operator of the consortium, and we intend to disclose the final figure very soon, but it is above \$300 million so far.

**Mr. Kapadia:** Thank you.

**Operator:** Our next question comes from Mr. Bruno Varella, from Bradesco BBI.

**Mr. Varella:** Hello Paula and Michelucci, good morning. I have two questions. The first one, regarding the GCA report, Paula mentioned that Carcará will be in that report with the data obtained so far. Do you think that the report could be negatively impacted with the level of detail that you

have now and with the lack of the DST? This is my first question, I have another one afterwards.

**Mr. Michelucci:** Bruno, we've mentioned it in the notice to the market; we will be doing the assessment using an analogy with existing results of wells that were drilled in the pre-salt in Santos Basin, which have already been tested through either Drill Stem Tests or Extended Well Tests.

So, obviously, that adds some uncertainties regarding the appraisals, but it doesn't really impact negatively, it extends the range that we are going to report because of these uncertainties.

But Petrobras and the Basin itself have a huge amount of tests performed already, and Petrobras perhaps is one the most important points about this call, due to this estimate that Petrobras is presenting that the Carcará reservoirs have a potential to produce with high flow rates. When we talk about high flow rates, we are talking about something that is being produced today in the Lula wells, there are wells producing more than 30,000 barrels of oils equivalent, about 28,000 barrels of oil, with the remaining being gas.

So, when we talk about potential high flow rates, we are talking about that kind of range of production in the likes of wells that are already producing.

They give us very solid information. The information doesn't come from one single well, but from several wells that are showing very high flow rates.

**Mr. Varella:** Thank you. I have a second question; a question/curiosity. Why would it take about six months to start drilling the appraisal well? Wouldn't it be possible to start a little bit earlier?

**Mr. Michelucci:** There are two things to be taken into account; one of them is the planning of the well using all the lessons learned with the drilling of Carcará. So, undoubtedly, there is a learning curve, and if we don't use it well in planning the well we might run into problems, so perhaps that's the determining factor.

Secondly, there is another point, of the slots of equipments, slots of the rigs. But basically the preponderant fact is that we want to have adequate planning and preparation.

**Mr. Varella:** One last question: is the rig already contracted or will it be the same one?

**Mr. Michelucci:** It is one the rigs contracted by Petrobras. It is part of the fleet already contracted by Petrobras. We don't know yet which rig it will be,

but as soon as we have this information, it will probably be informed to all as soon as we finish the drilling planning for the well.

**Mr. Varella:** Thank you.

**Operator:** I'd like to remind you that if you want to ask questions, please, press \* 1.

Our next question comes from Mr. Luiz Pinho, from UBS.

**Mr. Pinho:** I have one more question. Looking forward to the future, what could be the timing for the production development or for new platforms to come in? In other words, you were talking about the first FPSO that would take about six years after the discovery of the reservoir. What do you think would be feasible to think in terms of a second or third unit, in terms of timing after 2018?

**Mr. Michelucci:** Luiz, we haven't discussed that yet, it is way too early considering where we are in the project. The most long-term vision we have is to drill the production development wells by 2016, 2017 with an FPSO coming in in 2018.

We should not forget that before that we are going to have an Extended Well Test that will generate the parameters for our final production system. Until we have the results of the Extended Well Test, it will be way too early to talk about the second FPSO, but undoubtedly, based on what we expect in terms of volume for this accumulation, we will definitely need more than one FPSO over there.

**Mr. Pinho:** And finally, my last question is about the flow rate. I just want to confirm, because the call was kind of cut off for me, you compared with Lula and their wells producing about 20,000, or perhaps you mention 35,000.

I just want to understand what you expect in terms of expected flow rates for Carcará?

**Mr. Michelucci:** I mentioned the highest productions seen in the Lula field, which are above 30,000 barrels of oil equivalent a day. So, the reservoir conditions in Carcará are better than some of the existing conditions in some of those wells in the Lula field. We imagine that we could expect – if conditions in Carcará are confirmed to be somewhere we estimate – that we can reach a minimum of this kind of productivity that we see in the ANP website for the Lula field wells.

**Mr. Pinho:** Thank you.

**Operator:** We would like to remind you that if you would like to ask questions, please, press \* 1.

### **Closing**

**Operator:** This concludes today's question and answer session. I would like to invite Ms. Paula Costa to proceed with her closing statements. Please go ahead Ms Costa.

**Ms. Costa:** Well, again, I would like to thank for participating, for joining us in this call. Thank you for your questions. We remain available for any clarification you might need through our Investor Relations Department. Thank you and have a good afternoon.

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