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February 27, 2014

# Fourth Quarter and Full Year 2013 Results



# Agenda



## **Performance Overview**

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Financial Highlights

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Assets Update

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- ▶ Solid financial and operating performance in 2013
- ▶ Significant progress in development
- ▶ Expanded exploratory portfolio
- ▶ Distinguished by:
  - ▶ a diversified asset portfolio
  - ▶ robust balance sheet
  - ▶ a balanced program of exploration, development and production as an operator and a partner

- ▶ Average daily gas production from the Manati Field was 6.1 MMm<sup>3</sup> in 4Q13, bringing average production for full year 2013 to 6.0MMm<sup>3</sup> per day
- ▶ Positive drill stem test results from first horizontal well at the Atlanta Field in BS-4 indicate production potential at the high end of the expected range, to approximately 12Kbbl/d
- ▶ Acquired 8 blocks in Brazil's 11<sup>th</sup> Bidding Round, in partnership with global and independent oil companies, significantly diversifying exploration portfolio
- ▶ Submitted an Evaluation Plan to the ANP in December, related to our discovery at the 1-QG-5A-BAS well in the Alto de Canavieiras Prospect (JEQ#1)
- ▶ Obtained R\$266 million financing package from Brazil's Financiadora de Estudos e Projetos (FINEP), to finance its portion of the Early Production System (EPS) for the Atlanta Field
- ▶ Board proposes dividend of R\$0.15 per share; proposal to be voted at the shareholder meeting on April 16

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# Q4 AND Y2013 FINANCIAL OVERVIEW



## Consolidated Financial Information (R\$ million)

	4Q13	4Q12	Δ%	2013	2012	Δ%
Net income	21.2	47.3	-55.3%	192.2	82.5	133.1%
Amortization and depreciation	31.4	20.7	51.5%	97.3	82.9	17.3%
Net financial income (expenses)	(18.0)	(16.0)	-12.3%	(62.1)	(82.5)	24.8%
Income tax and social contribution	(14.7)	9.2	-259.4%	(4.6)	40.0	-111.4%
<b>EBITDA<sup>(1)</sup></b>	<b>19.9</b>	<b>61.2</b>	<b>-67.5%</b>	<b>222.9</b>	<b>122.9</b>	<b>81.3%</b>
Oil and gas exploration expenditure with subcommercial and dry wells <sup>(2)</sup>	45.6	(1.6)	N/A	48.5	162.1	-70.1%
<b>EBITDAX<sup>(3)</sup></b>	<b>65.6</b>	<b>59.6</b>	<b>10.0%</b>	<b>271.5</b>	<b>285.1</b>	<b>-4.8%</b>
EBITDA Margin <sup>(4)</sup>	15.8%	52.8%	-70.0%	45.9%	26.6%	72.5%
EBITDAX Margin <sup>(5)</sup>	52.7%	51.4%	1.4%	55.8%	61.7%	-9.4%
Net Debt <sup>(6)</sup>	(837.8)	(952.3)	12.0%	(837.8)	(837.8)	12.0%
Net Debt/EBITDAX	(3.1)	(3.3)	7.6%	(3.1)	(3.3)	7.6%

<sup>(1)</sup> We calculate EBITDA as profit before taxes and social contributions, net financial results and amortization expenses. EBITDA is not a financial measure according to Brazilian GAAP; or IFRS. It should also not be considered in isolation or as a substitute for net income, as a measure of operating performance, or as an alternative to operating cash flow as a measure of liquidity. Other companies may calculate EBITDA differently than us. Furthermore, EBITDA has limitations which inhibit its usefulness as a measure of our profitability as it does not consider certain costs inherent in our business, which could significantly impact our net results, such as net financial income, taxes and amortization. EBITDA is utilized by us as an additional measure of our operating performance.

<sup>(2)</sup> Exploration expenses relating to subcommercial wells or to non operational volumes.

<sup>(3)</sup> EBITDAX is a measure used by the oil and gas industry calculated as follows: EBITDA + exploration expenses with subcommercial and dry wells.

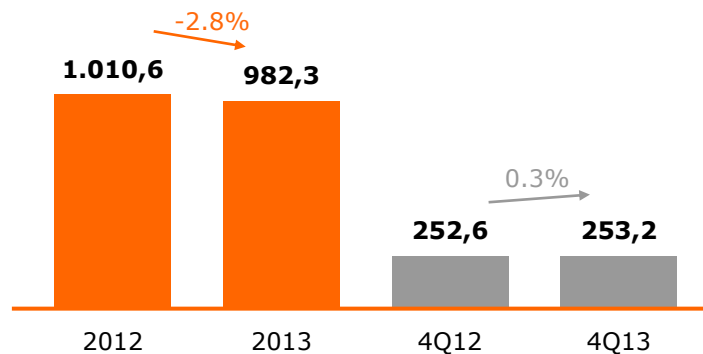
<sup>(4)</sup> EBITDA divided by net revenue.

<sup>(5)</sup> EBITDAX divided by net revenue.

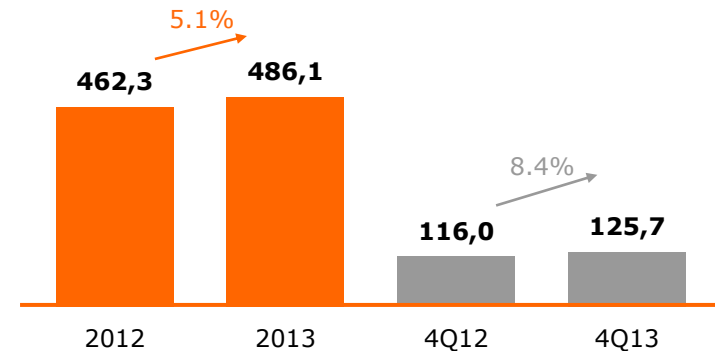
<sup>(6)</sup> Net debt corresponds to total debt, comprising current and long-term loans and financing and derivative financial instruments, less cash and cash equivalents and marketable securities. Net debt is not recognized under Brazilian GAAP, U.S. GAAP, IFRS or any other generally accepted accounting principles. Other companies may calculate net debt in a different manner.

# MANATI FIELD PRODUCTION

## Gas Production (Millions of m<sup>3</sup>)



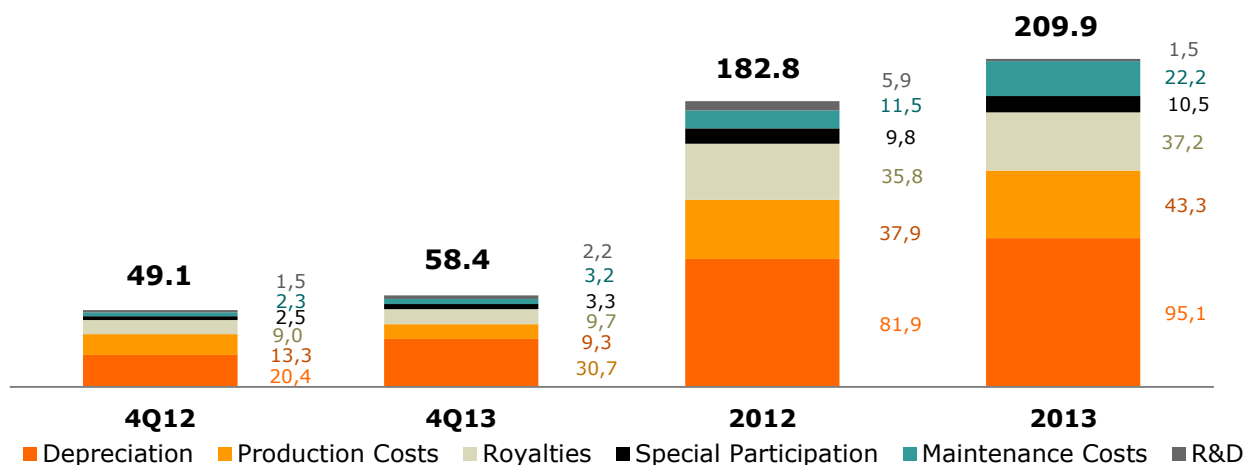
## Net Revenue (R\$ million)



- ▶ Production at the Manati Field in 4Q13 averaged 6.1MM m<sup>3</sup> per day; Average production for the full year was 6.0MMm<sup>3</sup> per day, at the high end of the guidance range provided in the beginning of the year
- ▶ Estimated 2014 average production increased to 5.5MMm<sup>3</sup>, based on strong demand from Brazil's thermal power plants and results to date
- ▶ Bidding process for the construction of the gas compression plant at Manati was concluded and the results are awaiting the operator's internal approvals. Construction of compression plant is expected to begin in mid-2014. The compression plant will allow average output at the Manati Field to return to 6.0MMm<sup>3</sup> per day production capacity, starting mid-2015
- ▶ Painting of the platform to be carried out in 2H14 with a cost net to QGEP of R\$20 million. This maintenance will not impact production

# OPERATING COSTS, EXPLORATORY AND G&A EXPENSES

## Operating Costs (R\$ million)



- ▶ Operating costs in the 4Q13 were up 18.9% from 4Q12, mainly due to higher amortization costs. For FY13, operating costs increased 14.8% compared with FY12, mainly due to costs related to scheduled maintenance
- ▶ 4Q13 G&A were R\$23.6 million, 28.2% higher than 4Q12, as a result of R\$9.9 million of the total amount were linked to profit sharing costs and a 49% increase in our number of QGEP's employees. For FY13, total G&A expenses were R\$68.6 million, 8.4% higher than the R\$63.3 million reported in FY12
- ▶ Exploration expenses in 4Q13 were R\$55.1 million, up from R\$8.0 million in 4Q12. This increase was largely due to expenses of R\$42.3 million related to the return of Block BM-S-12 to the ANP. FY13 exploration expenses totaled R\$81.5 million, compared with R\$177.0 million in FY12, when expenses were impacted by the write-off of the Ilha do Macuco well and the relinquishment of the Jequitibá discovery well



# CAPEX 2013-2015

▶ **2013 capital expenditure: US\$193 million**

2013's CAPEX was spent on Blocks BS-4, BM-J-2, BM-CAL-12, BM-S-8, and Blocks won in Round 11

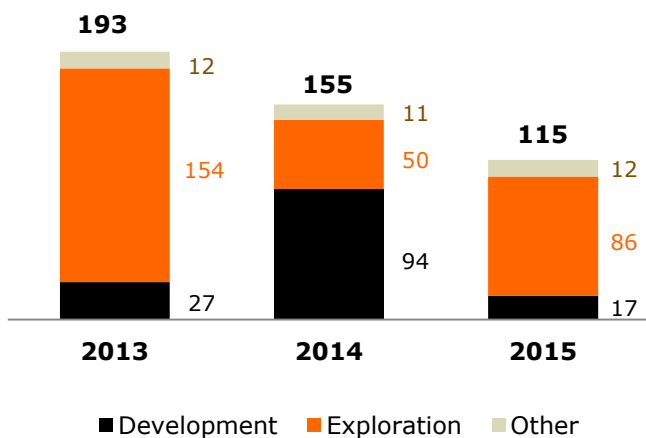
▶ **2014 capital expenditure: US\$155 million**

2014's CAPEX to be spent on Blocks BS-4, BM-J-2, BM-CAL-12, BM-S-8 and Blocks won in Round 11

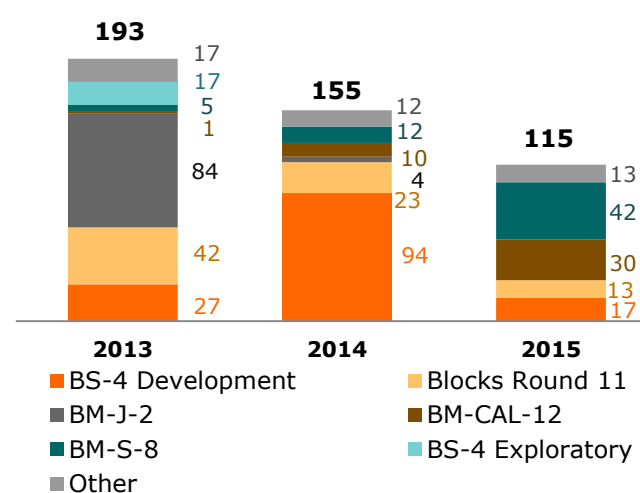
▶ **2015 capital expenditure: US\$115 million**

2015's CAPEX to be spent on Blocks BS-4, BM-CAL-12, BM-S-8 and Blocks won in Round 11

**CAPEX net to QGEP  
(US\$ million)**



**CAPEX net to QGEP  
(US\$ million)**



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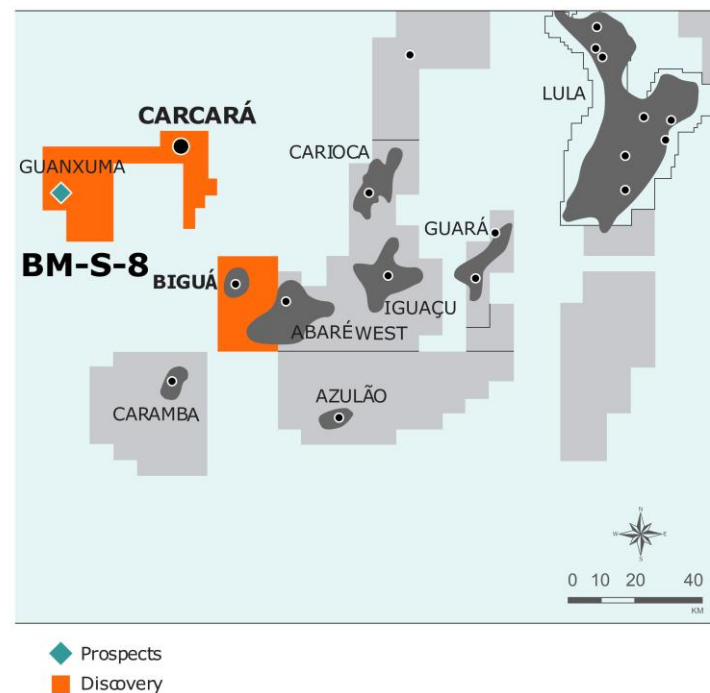
# BS-4 OPERATORSHIP ACTIVITIES UPDATE

- ▶ Successful drilling and completion of first horizontal well of the Early Production System (EPS) of Atlanta Field
- ▶ Drill Stem Test (DST) indicated production capacity at the high end of the expected range, close to 12Kbbl/d, and test results also confirmed the expected characteristics of the oil at the well, with an API of 14°
- ▶ Drilling of second Atlanta horizontal well is currently underway and is expected to be completed within 3 months
- ▶ QGEP has launched the bidding process for the FPSO, which we expect to be completed in 3Q14. There are 2 possible scenarios: developing the Early Production System or proceeding directly to Full Development
- ▶ The final decision on the FPSO will be based on factors including the availability and cost of the FPSOs, as well as the impact on the economics of the project
- ▶ Under both scenarios, first oil at Atlanta is expected in late 2015 or early 2016, depending on the arrival date of the FPSO
- ▶ Development Plan for the Oliva Field includes the drilling of 5 producing wells and 3 injection wells, all horizontal and to be tied back to facilities at Atlanta. First oil from Oliva is expected in 2021.



# UPDATE ON BM-S-8 ACTIVITIES

- ▶ Drilling of the first Carcará discovery appraisal well began in December 2013 and was interrupted in the early phases due to operational issues
- ▶ The Consortium is evaluating whether it will continue with the strategy of drilling in two phases, using two different rigs, or in a single phase:
  - If drilling is carried out in 2 phases, it should restart in 2Q14, with the second phase beginning in 4Q14. If drilling is to be carried out in a single phase, it will begin in 4Q14
  - Under both scenarios, a rig with equipment suitable for drilling deep reservoirs with a high level of efficiency and safety will be used
  - Under both scenarios, the results of drilling and of the DST are expected to be completed by mid-2015
- ▶ The Consortium plans to carry out an Extended Well Test (EWT) in the appraisal well and first oil is expected by the end of 2018
- ▶ Drilling at the Guanxuma prospect expected to begin in 2H15
- ▶ The Consortium is evaluating the economic viability of the Biguá discovery and has until the end of 1Q14 to decide whether to return them to the ANP. If they are returned, charges net to QGEP would total approximately R\$28 million.



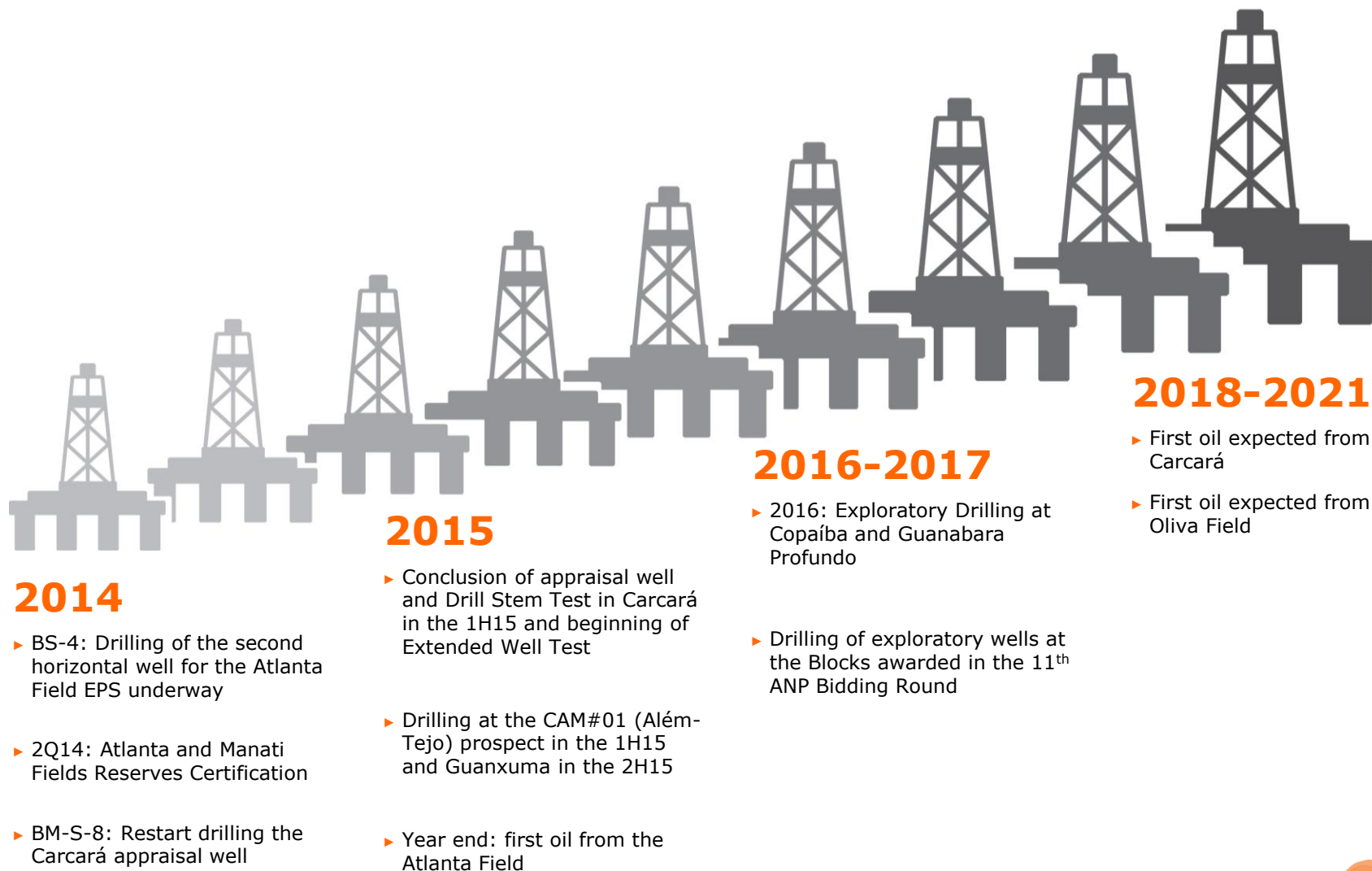
## ▶ **BM-J-2**

- In August 2013, the Company filed a Notice of Discovery with the ANP based on gas detector anomalies, oil shows in cuttings and the interpretation of pay zones in well logs in the pre-salt section of its 1-QG-5A-BAS well, which was drilled to a final depth of 4,800 meters, 750 meters below the salt layer, at the Alto de Canavieiras Prospect (JEQ #1).
- In December 2013, QGEP submitted an Evaluation Plan to the ANP. QGEP is currently in discussions with the Agency about next steps for the Block. The Company expects to receive final approval of the proposed Plan in 1H14.

## ▶ **Blocks Acquired in 11th ANP Bidding Round**

- QGEP is in the process of contracting 3D seismic data for the blocks awarded in the 11<sup>th</sup> ANP Bidding Round in 2013. The Company expects to begin acquiring seismic data for assets in the Espírito Santo, Foz do Amazonas and Pará-Maranhão basins in 2014.
- Seismic data will be acquired in 2015 for Ceará Basin assets and in 2016 for Pernambuco-Paraíba Basin assets.

# MAJOR MILESTONES AHEAD



## **Investor Relations** **QGEP Participações S.A.**

Av. Almirante Barroso, nº 52/sala 1301, Centro, Rio de Janeiro, RJ

CEP: 20031-918

Phone - IR: 55 21 3509-5959

Fax: 55 21 3509-5958

E-mail: [ri@qgep.com.br](mailto:ri@qgep.com.br)

[www.qgep.com.br/ri](http://www.qgep.com.br/ri)

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