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May 8, 2014

# First Quarter 2014 Results



# Agenda



## **Performance Overview**

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Financial Highlights

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Assets Update

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- ▶ Successful drilling, completion and testing of second well at Atlanta; productivity rates slightly higher than the first well results
- ▶ Independent reserve certification at Atlanta indicates 147 million bbl of 1P, 191 million bbl of 2P and 269 million bbl of 3P
- ▶ Independent certified 2P reserves for the Manati Field indicate 7.1 billion of m<sup>3</sup>, net to QGEP, as of December 31<sup>st</sup> , 2013
- ▶ Average daily gas production from the Manati Field was 6.0MMm<sup>3</sup> in 1Q14; compression plant construction contract signed
- ▶ 1Q14 EBITDAX of R\$82.5 million, up 5.9% from 1Q13
- ▶ Net cash position at end of quarter of R\$827.6 million, allowing the Company to make further progress in 2014/15
- ▶ Establishment of a Fiscal Council, as requested by minority shareholders, during the Company's Annual Shareholders meeting

# Agenda



Performance Overview

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**Financial Highlights**

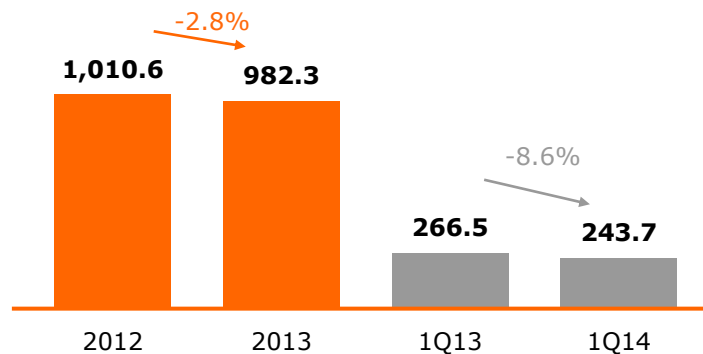
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Assets Update

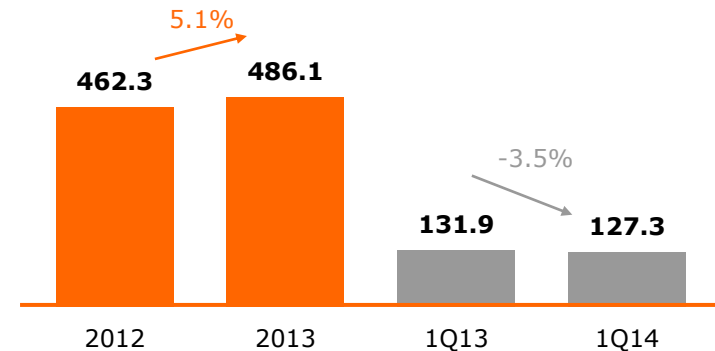
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# MANATI FIELD PRODUCTION

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



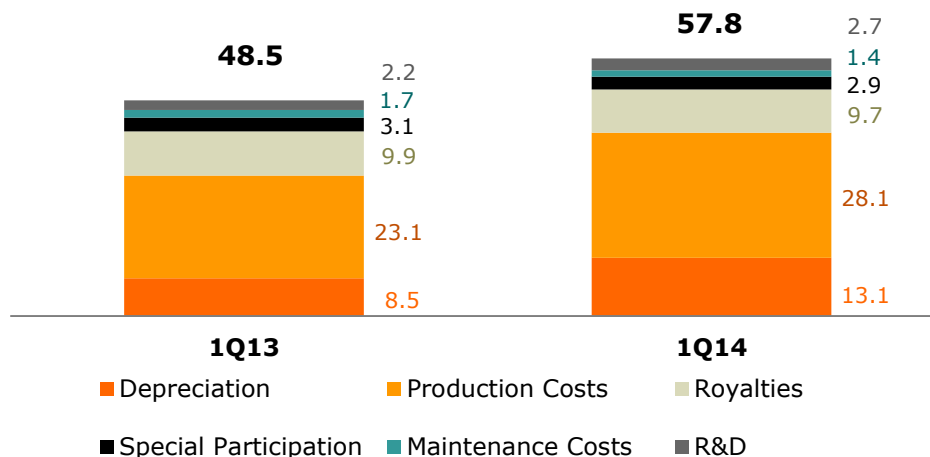
## Net Revenue (R\$ million)



- ▶ 1Q14 production averaged 6.0MM m<sup>3</sup> per day, in line with the average daily production for 2013
- ▶ Full year 2014 production expectation of 5.5MMm<sup>3</sup>/ day; 2Q14 levels expected to be similar to 1Q14
- ▶ Contract for construction of compression plant signed:
  - Construction to start in the end of the 2Q14
  - Operations to begin 2H15
  - Average output capacity will then return to 6.0MMm<sup>3</sup> / day

# OPERATING COSTS, EXPLORATORY AND G&A EXPENSES

## Operating Costs (R\$ million)



- ▶ Operating costs rose 19,2% from 1Q13, mainly due to higher amortization costs related to the increase in the provision for abandonment of the Manati Field
- ▶ 1Q14 G&A fell 27.1% to R\$12.2 million, mainly due to the increase in the total amount transferred to partners related to QGEP operated projects in 1Q14 of R\$9.6 million compared to R\$3.5 million in 1Q13
- ▶ Exploration expenses in 1Q14 were R\$35.1 million, reflecting mainly the relinquishment of the Biguá Discovery area to the ANP (R\$28.1 million)

# 1Q14 FINANCIAL OVERVIEW



## Consolidated Financial Information (R\$ million)

	1Q14	1Q13	Δ%
Net income	25.1	65.7	-61.8%
Amortization and depreciation	29.0	23.6	22.9%
Net financial income (expenses)	(20.1)	(18.3)	-9.6%
Income tax and social contribution	16.8	5.6	202.9%
<b>EBITDA<sup>(1)</sup></b>	<b>50.8</b>	<b>76.5</b>	<b>-33.6%</b>
Oil and gas exploration expenditure with sub commercial and dry wells <sup>(2)</sup>	31.8	1.4	N/A
<b>EBITDAX<sup>(3)</sup></b>	<b>82.5</b>	<b>77.9</b>	<b>5.9%</b>
EBITDA Margin <sup>(4)</sup>	39.9%	58.0%	-31.2%
EBITDAX Margin <sup>(5)</sup>	64.8%	59.1%	9.8%
Net Debt <sup>(6)</sup>	(827.6)	(1,034.3)	20.0%
Net Debt/EBITDAX	-4.05	-3.43	-18.0%

<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.

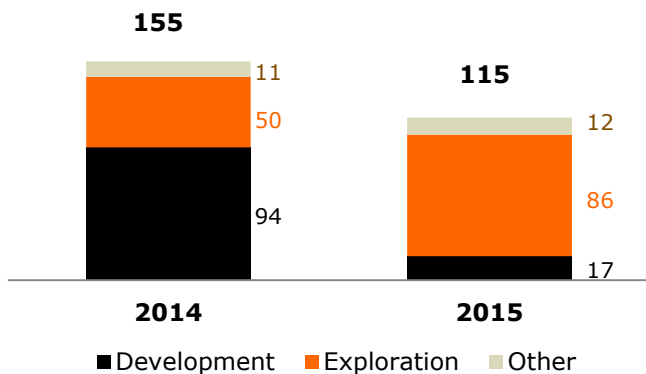
<sup>(5)</sup> EBITDAX divided by net revenue.

<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.

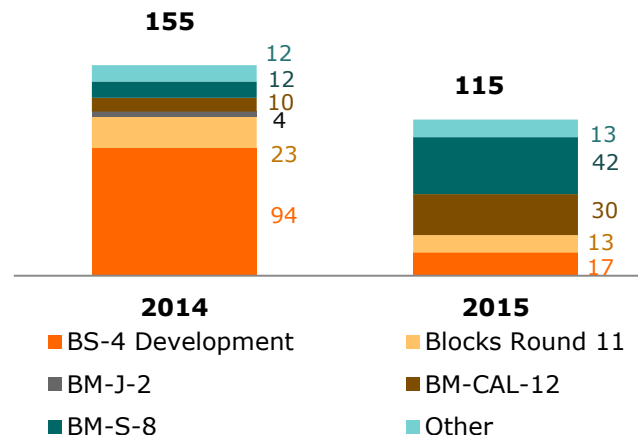
# CAPEX 2014-2015

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



(\* US\$35 million had been spent as of March 31, 2014.



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## BS-4: IMPROVING VISIBILITY OF RESOURCES

- ▶ Successful drilling and completion of first and second horizontal well of the Early Production System (EPS) of Atlanta Field
- ▶ Drill Stem Test (DST) of the second well indicated that the well's production capacity is slightly above the high end of expected range of 6-12Kbbl/d
- ▶ For the second well, the electrical submersible pump (ESP) was placed on the ocean floor, rather than at the reservoir level, like the first. Based on the productivity levels obtained using this technique, the Consortium expects to be able to place the ESP on the ocean floor during production. This will substantially reduce the operating costs of the field
- ▶ GCA reserves certification for the Atlanta Field indicates 1P reserves of 147 MM bbl, 2P of 191 MM bbl and 3P of 269 MM bbl

### Next steps:

- ▶ QGEP has launched the bidding process for the FPSO, expected to be completed in 3Q14
- ▶ Bidding process considers two scenarios: continue with EPS or move to full production FPSO
- ▶ Under both scenarios, first oil at Atlanta is expected in late 2015 or early 2016



# UPDATE ON BM-S-8 ACTIVITIES

- ▶ ANP approved a three year extension of Evaluation Plan in April 2014
- ▶ The Consortium will resume drilling at Carcará extension well in late 2014 using a rig equipped with MPD (Measured Pressure Drilling)
- ▶ Drilling to be carried out in a single phase and will be followed by a DST which should be concluded by mid-2015.
- ▶ An Extended Well Test will be carried out in the second half of 2016
- ▶ First oil by end of 2018
- ▶ Drilling at the Guanxuma prospect expected to begin in 2H15
- ▶ Relinquishment of the Biguá area to the ANP, with a net charge of R\$28.1 million to QGEP in 1Q14.

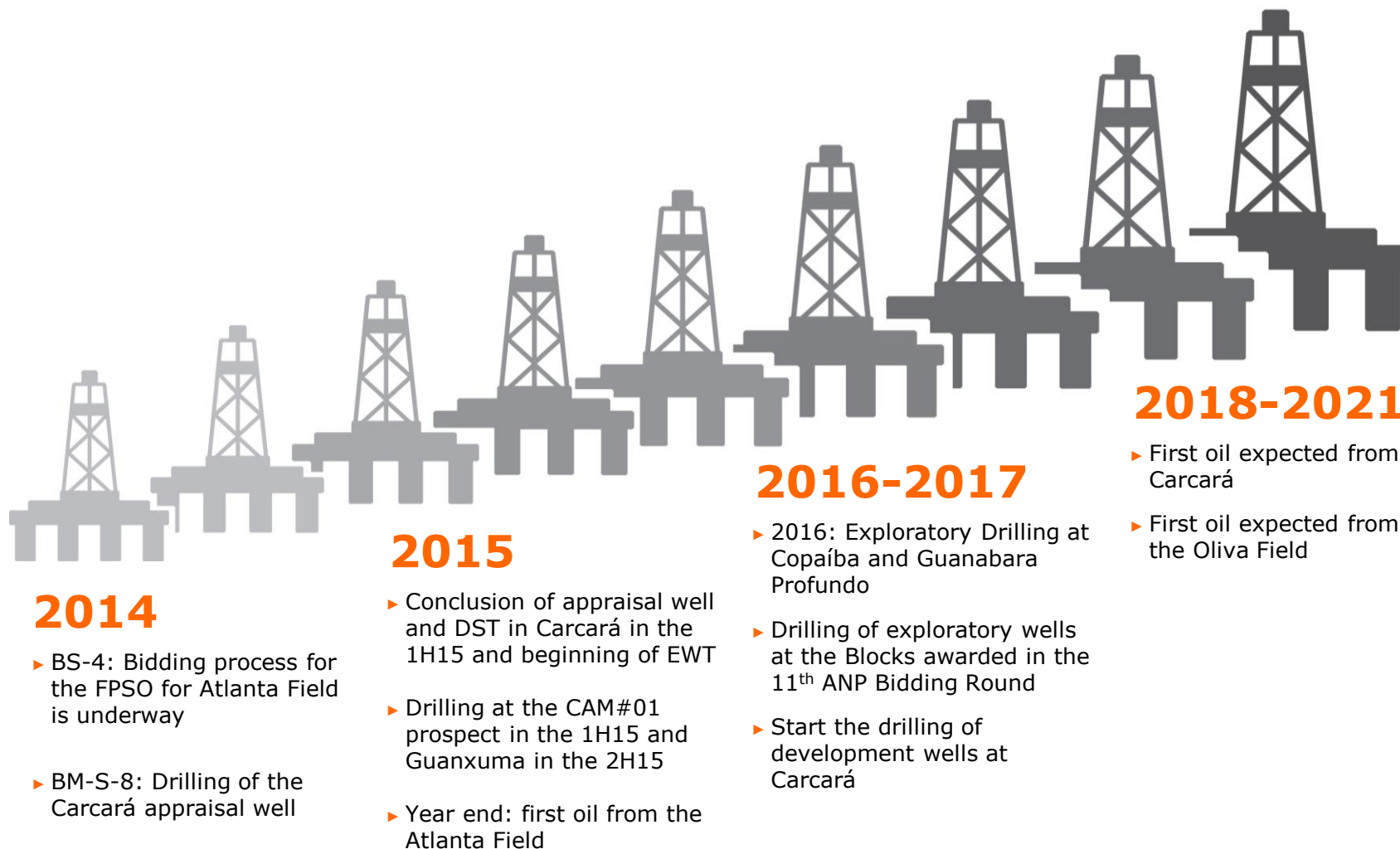


## ▶ **Blocks Acquired in 11<sup>th</sup> ANP Bidding Round**

- QGEP is in the process of contracting the 3D seismic data for the blocks awarded in the ANP's 11th Bidding Round in 2013:
  - Foz do Amazonas Basin – initiated
  - Espírito Santo, Pará-Maranhão and Ceará Basins – 2H14
  - Pernambuco-Paraíba Basin - 2016
- QGEP expects to spend US\$46 million for the acquisition of the data over the next three years, as well as approximately US\$200 million related to the drilling of at least four exploratory wells, starting in 2017.

## ▶ **BM-J-2**

- The Company continues to negotiate its Evaluation Plan for Block BM-J-2 with the ANP. The Plan was submitted in December 2013 and QGEP expects final decision by the end of June.
- 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).



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

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