Operator: Good morning ladies and gentlemen. At this time we would like to welcome everyone to QGEP's 2nd Quarter 2014 earnings conference call. Today with us, we have Mr. Lincoln Rumenos Guardado, CEO of the Company, Mrs. Paula Costa Côrte-Real, CFO and IRO, Mr. Danilo Oliveira, Production Director and Mr. Sergio Michelucci, Exploration Director.

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 section. At that time further instructions will be given. Should any participant need assistance during this call, please press *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'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. Guardado, you may proceed.

Mr. Guardado: Good morning everyone and thank you for participating in QGEP's second quarter 2014 earnings conference call.

With me today are Paula Costa Côrte-Real, our Chief Financial Officer and Investor Relations Officer, Danilo Oliveira, Production Director and Sergio Michellucci, Exploration Director.

QGEP's financial and operating results continue to distinguish us as an independent exploration and production company in Brazil and to position us for long-term and midterm value creation.

In the first six months of this year we have made significant progress across all the operating phases of our business. We maximized our natural gas production, which provided us over R$130 million in operating cash flow in the first half.

We continued to prepare for new oil production that will be an additional source of cash flow in the Atlanta Field over the midterm and we continued to gather technical information on our key exploratory assets and other high potential prospects that will guide our future planning and our future results.

Our balance sheet at the end of the first half of 2014 was robust with a net cash position of around R$840 million.

Please turn to the slide 3, where we present the major highlights of the 2014 second quarter. This was a successful period for QGEP, showing a number of positive comparisons over last year's second quarter.

Average daily production at Manati Field was higher than our initial expectations, reaching 5.9 million m³ in the second quarter and 6.0 million m³ in the first six months of 2014.

We expect full year 2014 production for Manati Field to average 5.8 million m³ per day approximately, based on the strong performance of the field in the first half of the year and forecasts for gas demand for 2014.

The bidding process for the FPSO for Atlanta Field is underway and we are considering two options: Either continuing with the Early Production System (EPS) or proceeding directly to full production. We will make our final decision based on the relevant economics of each option, which will define the capacity of the FPSO.

We expect to complete the bidding process in the fourth quarter of this year with the FPSO arriving on-site at BS-4 by the end of 2015.

The appraisal well of our important Carcará discovery at Block BM-S-8 is now scheduled to start drilling in the first quarter of 2015 with the arrival of the equipment needed to begin operations. However, I would like to highlight that we maintained first oil for the end of 2018.

I'd now like to turn the call over to Paula, who will provide a more detailed financial review.

Ms. Côrte-Real: Thank you, Lincoln. Please turn to slide 5. As you can see, it was a positive quarter for production at Manati. Total gas production net to QGEP was 243 million m³ in the second quarter of this year, compared with 204 million m³ in the second quarter of 2013, when scheduled maintenance shut down production for a period of 20 days.

This took our gas production for the first six months of the year to 486 million m³; that's a 3% improvement over the first six months of 2013.

Both for the second quarter and the first half of 2014, net revenues grew faster than total gas production; up 26% and 9% from last year's same period. This was primarily stemming from higher gas prices as a result of the annual contract readjustment, as well as the strong demand for gas during the period. In the second quarter of 2014, the Consortium began the construction of the compression plant at Manati and the project remains on schedule and on budget.

The plant is expected to become operational in the second half of next year, at which point we will see the field's average output capacity return to 6 million m³ per day.

As Lincoln mentioned, we raised our full year forecast for Manati average gas production to 5.8 million m³ per day, based on first-half results and on our visibility for the second half of the year. Manati remains a very profitable field and we are confident that it will continue to deliver significant operating cash flow for the Company.

Please turn to slide 6, which details our operating costs for the second quarter and first half of 2014. As you can see, operating costs were up by R$3 million year on year and the main reason for this variation was the impact on the amortization costs at Manati Field related to the provision for abandonment of the Field late last year, that is expected to be definitive. On the other hand, maintenance costs were lower this quarter compared to last year's second quarter, as a result of the scheduled maintenance that was carried out at Manati in the 2Q13.

We can observe the same variations when comparing the semesters, first-half 2014 operating costs totaled R$117 million compared with R$104 million year-on-year, with additional R$15 million in amortization costs and a reduction of R$11 million in maintenance costs in the first half of the year.

Exploration expenses were R$15 million in the second quarter compared with R$7 million year-on-year. This increase is tied to the acquisition of seismic data for some of the blocks we won in the 11th ANP Bidding Round last year.

Turning to slide 7, you can see that both net income and EBITDAX were up significantly in the 2Q13 due to the impact of maintenance work at Manati. The main differences were: i) depreciation and amortization, which increased by R$10 million as a result of the revision of the provision for abandonment of the Field and ii) net financial income, which was largely impacted by currency movements, which has a non-cash effect on liabilities related to the provision for abandonment at the Manati and Atlanta Fields.

We ended the 2Q14 with a net cash position of R$840 million, putting us in a confortable financial position as we move into the second half of the year.

Please turn to slide 8. We are expecting capital expenditures for full-year 2014 to total approximately US$125 million and we had already spent a little more than half of this amount by the middle of the year.

For 2014, US$96 million of our capital expenditures will be allocated to development at Atlanta Field in Block BS-4. We also expect to spend about US$17 million on exploration and about 60% of that is related to the acquisition of seismic data for some of the blocks won at the 11th ANP Bidding Round.

In 2015, we forecast total CAPEX to amount to US$130 million, of which US$97 million are related to exploration activities at Blocks BM-CAL-12, BM-S-8 and the Blocks won at the 11th ANP Bidding Round. Development CAPEX will fall to US$20 million.

It is important to emphasize that the figures for 2014 and 15 are based on our current plans. That is, we are considering only two production wells for Atlanta and depending on the results of the bidding process for the FPSO, which is underway, this figure can change significantly.

I will now turn the call back to Lincoln, who will talk about our development activities at BS-4 and our exploratory portfolio.

Mr. Guardado: Thank you, Paula. Please turn now to slide 10. I would like to emphasize that we are pleased with the progress of our operational activities at the Atlanta Field. Initial testing of the two horizontal production wells of the Early Production System showed production capacities at the high-end of our expected range, higher than our initial expectations, which were close to 12,000 barrels per day per well.

The GCA reserves certification report for Atlanta – that we made public in May – indicated 1P reserves of 147 million bbl, 2P of 191 million bbl, and 3B of 269 million bbl, which confirms our expectation regarding the value of this asset, which will contribute as an additional source of revenue for QGEP in the near future.

We are in the final completion phase of the first two production wells of the Atlanta Field, which includes lowering the Christmas trees, pumps and other equipment to prepare for future production.

The FPSO bidding process is underway and, as you know, we are considering to either continue with the Early Production System or move straight on to full production. The final decision will be obviously based on the economic evaluation of these two different FPSO options. In both scenarios, first oil is expected in the beginning of 2016.

In the second quarter, we agreed to extend the deadline for the bidders to submit their proposals and the bid is now expected to be finalized in the beginning of the fourth quarter of 2014. Based on this schedule, we would have the contract signed by the end of 2014 and the FPSO delivered by the end of 2015. We believe that this additional time will not affect our production schedule and will allow for the submission of consistent proposals for our evaluation.

Please turn to slide 11 for a summary of activities in Block BM-S-8. Drilling of the first appraisal well in Carcará is now scheduled to start in the first quarter of 2015, the delay stems from the arrival of the right equipment for drilling purposes; MPD.

Given the importance of the Carcará discovery to all the Consortium, QGEP is having ongoing discussions with the operator of the block, which has a highly qualified team dedicated to the project, enabling us to be updated on the progress of the studies and their development.

We are very motivated by the technical expertise that is being used to ensure the efficiency and safety of this operation and hopefully it will lead to advances in later stages of the project. In addition we would like to highlight that the Consortium is analyzing the allocation of a dedicated rig for this block, and evaluation is in progress.

The drilling of the appraisal well will be carried out in a single phase with a rig equipped with Measured Pressure Drilling (MPD) and we expect to run a Drill Stem Test with the results awaited by the end of 2015.

The Extended Well Test is also scheduled to follow in early 2017 and the first oil, as we said before, is expected for late 2018.

Please turn now to slide 12. QGEP remains active elsewhere in its exploratory portfolio, most notably in the blocks won last year during the 11th ANP Bidding Round.

The next step for these assets is to acquire 3-D seismic data, a process we have already begun at Block FZA-M-90 in Foz do Amazonas Basin, and also for our blocks in Espírito Santo Basin.

Process of contracting for the acquisition of seismic data for our blocks in Pará-Maranhão and Ceará basins is at the final stage. The beginning of our activities is subject to the issuance of IBAMA'S environmental license, expected for 2015.

Seismic data for blocks located in Pernambuco-Paraíba will only be acquired in 2016. We are working with other block operators in the region in order to form rig clubs and optimize costs and accelerate operating activities in the area.

The total CAPEX for data acquisition will be approximately US$46 million for QGEP for the next three years. Starting in 2017, four exploratory wells will be drilled at these blocks, with total estimated CAPEX for QGEP of $200 million.

At Block BM-J-2, we continue to await ANP's approval for the evaluation plan that was submitted at the end of last year and we expect to have the agency's final decision by year end.

On slide 13 we show the upcoming milestones for QGEP. As you can see, there is a steady screen of catalysts across our portfolio of assets in the following years. This year, in 2014, we will wrap up the bidding process of the FPSO for the Atlanta Field, which is another step in the consolidation of our performance as an operator in deep waters.

In 2015 we will start drilling Carcará's appraisal well. We believe these results will have a significant impact on our knowledge about this area. By the middle of the year, the compression plant at Manati will be operational, raising our average production capacity in the Field back to 6 million m^3 per day.

We also expect to have the FPSO on site in Atlanta by the end of next year. We expect first oil from Atlanta Field for 2016. It will be an additional source of operating cash flow to help support exploratory activities at the Company and will also contribute to the development of other production projects, such as Carcará.

In 2017 we expect to start drilling the blocks won at the 11th ANP Bidding Round and also to work on the development of the Carcará discovery. Later on, we will see major milestones starting in 2018, such as first oil from Carcará.

Let me emphasize that the progress achieved so far has been based on a diligent financial approach with a high level of technical expertise and this has allowed us to unlock value from our portfolio, while maintaining operational strength and flexibility. This helps us benefit from potential asset acquisition opportunities in Brazil which may add value to our portfolio and ensure continuous and consistent growth now and in years to come.

Operator, now I'd like to open the call for the Q&A session.

Q&A Session

Operator: Excuse me, ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please, press *1. If at any time you would like to remove yourself from the questioning queue, please, press *2.

Our first question is from Frank McGann, Bank of America.

Mr. McGann: Hello, good day, thank you. Just about the Manati field, I was wondering how you were thinking of that, from a cost standpoint, as you go out over the next several years with the construction or implementation of the compression plant and how you see costs at the field evolving over the next 2 to 3 years as the field continues to mature and as you bring on stream the plant?

Mr. Oliveira: Good morning, Frank, just to confirm, your question is about Manati costs after the implementation of the compression plant?

Mr. McGann: Yes.

Mr. Oliveira: During the implementation phase, that is, from today until mid-next year, we have up front expenses of US$30 million net for QGEP and after the startup there will be an increase in our operating costs of 50% over the current lifting cost.

So just repeating; the production costs will increase about 50%, okay?

Mr. McGann: Okay, thank you.

Ms. Costa: Just to add, Danilo just mentioned that despite this cost increase of 50% vis-à-vis the current cost, because Manati today's quite profitable, it remains with a high-margin and with significant operating cash flow generation for the Company in years to come.

Operator: Our next question is from Luiz Carvalho, HSBC.

Mr. Carvalho: Good morning everyone. I have two questions. You mentioned the completion of the two Atlanta wells has already been performed, so depending on the decision for the installation of the FPSO, have you defined the position of the pump or will you only do it later? And will you need another rig to install a pump inside the well?

And still about Atlanta, what about Capex for 2015, would there be any changes in terms of the possibility of drilling more wells over the next year before the arrival of the FPSO? And another follow-up question about the amendment to the Manati contract; any update about this? Thank you.

Mr. Oliveira: Let me start answering your question about Atlanta. The two wells have been completed with a pump, production column and christmas tree, so today they are ready to produce. All we need is to have the FPSO arrive and the interconnection of the production lines to the FPSO.

So we won't need another new rig once the FPSO arrives, all we need is to interconnect the wells to the FPSO.

As to Manati, we have contacted Petrobras and we have resumed our conversations about the contract terms that were outdated, particularly when it comes to delivery volumes. The contract was originally written in 2008. So, we defined a new production curve for the new delivery and the contract was already submitted to our legal department and we are ready to submit it to Petrobras' management for signature purposes. We expect that by year end we will have completed the signing process.

Now, coming back to Atlanta, just adding to the previous comment, repeating, the wells were completed with the down hole pump and christmas tree and are ready for production.

Mr. Carvalho: Just a follow-up question. If you decide to have a larger FPSO with a full development system, will you consider drilling more wells in 2015 and how could that have an impact on your Capex?

Mr. Oliveira: As we mentioned before, as soon as we decide the FPSO – if it is the small or the large one – we will be informing the Capex, but basically the only difference is that, if we decide for a bigger FPSO, there will be an anticipation of drilling and therefore an anticipation of acquisitions.

However, we have no conditions to drill wells in 2015 or at least during the first half of 2016. We don't have the equipment. We don't have anything yet to continue our drilling schedule.

Perhaps we could have an additional well anticipated, but as for other wells, they would take a new schedule that would be announced later on with the arrival of the FPSO.

Mr. Carvalho: Thank you.

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

Mr. Gattass: Good morning everyone. I have three questions. The first is just a confirmation: you discussing the 2 FPSOs solutions, right? But you seem to stress that both options would be available in the beginning of 2016, so I just want to confirm, if you move directly to 80,000 barrels, do you think that there is a possibility that, even with a bigger unit, will you be operating in the beginning of 2016? That is my first question.

My second question is: I'd like you to elaborate on the decline curve of Manati because we have a stronger production projection and I would like to understand what happened there; is it a better reservoir response or was there something done along the way to avoid that scenario that you were expecting previously?

And my third question, if possible, you mentioned about R$4 million related to costs with maintenance. You mentioned that in the press release. Is this an extraordinary event or is it just a different breakdown of costs that we saw in previous quarters?

Mr. Oliveira: Good morning, Gattass, so let us answer your questions in order. Big FPSO arriving in 2016, yes, it is confirmed. We have two options and both bidders confirmed the delivery date for the FPSO; the delivery is expected in the end of 2015 and so production will begin in early 2016.

Now, as to your question about Manati, the projections that we have for Manati were performed based on the production conditions that we had during these six years of production at Manati. The strong demand for gas in recent years has forced the operator to revise the production method, and what was done was: from the reservoir all the way to the gas sale delivery point, along that path, they made an effort to remove, mitigate or reduce any counter pressure that could exist so that the reservoir would face a lower pressure and thus it could work at full power.

And this is what was done: we lowered the pressure of some vessels in the processing plant, we increased the frequency of cleaning of the gas pipeline so as to leave it as clean as possible, as unobstructed of liquid as possible. At the reservoir there was no improvement; the reservoir simply responded to the incentives that we gave. We removed all of the obstacles, the reservoir produced more, but the decline is coming and it will come, our estimates with the new measures is that we will now in September start to see a decline down from 6 million, but anyway our expectations increased quite a lot.

Your third question, on maintenance. We had a scheduled maintenance, actually, it wasn't really maintenance, although it is included as maintenance cost, it is really a subsea inspection, which is compulsory every three years. I mean, it's not that it's compulsory, but the production methodology recommends that inspection should be done, from the trees, from the subsea lines all the way to the platform. These inspections are done using divers along all of the production lines at all the wells.

And we had a cost estimate for this that was not confirmed. When we hired the boat, the diving team was about US$6 million more expensive and this cost is reflected in this first half of the year.

Mr. Gattass: Thank you very much. If I may ask a follow-up question. Do you continue to think that when you have the FPSO you will be able to set a more solid Capex for the future and perhaps you will reassess Atlanta Field with a financial assessment or has anything changed?

Mr. Oliveira: Nothing has changed. As soon as we define the FPSO we will make public our decision, the Capex program and the estimated Opex and even the production curve we expect.

Mr. Gattass: That's great, thank you very much.

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

Our next question comes from Mr. Vicente Falanga, Merrill Lynch.

Mr. Falanga: Good afternoon everyone. Mine is a follow-up question to Frank's. Perhaps you could refresh our memory. With the startup of the compression plant, the idea is to produce a 6 million m³ per day until 2017 and after that there will be a decline or perhaps not? Or could you extend this level of production a little longer?

Mr. Oliveira: Hello Vicente, good afternoon. Well, that's it, with the operational startup of the gas compression plant we estimate the production will be taken up to 6 million m³ until 2017, and considering that we are going to deliver 6 million m³, as of 2017 we are going to set a new level of production. In other words, it is a contractual clause. In practice we are going to establish what will be our new obligation; it will no longer be of 6 million, it will be a lower level of production. It could be five or four as it was in the original contract, but it doesn't limit our sales.

The contract will just set a new compulsory level meaning a new minimum level, but it will not limit sales of what the field is able to produce.

Mr. Falanga: Thank you.

Operator: Again, if you would like to ask a question, please press *1.

This concludes today's question-and-answer session. I would like to invite Mr. Lincoln Guardado to proceed with his closing statements. Please, Mr. Guardado, you may proceed.

Mr. Guardado: My friends, once again I would like to thank you for participating in this earnings conference call and for your questions.

I would like to renew to you our belief in the safe, sustainable and tangible growth QGEP has been experiencing. The coming months and the coming years will bring a lot of results as we see an excellent pipeline of results for all of us, for investors, and our majority shareholders. I'd like to thank you again and we continue to count on your support.

Our Investor Relations Department is always available to you and all of us are always here to speak with you and we always want to keep the market up-to-date regarding all of the developments in our activities.

Once again, have a good day and thank you very much.

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