QGOG Constellation S.A.

Unaudited Condensed Consolidated Interim Financial Statements as of March 31, 2014 and for the Three-Month Period Then Ended and Report on Review of Interim Financial Statements

Deloitte Touche Tohmatsu Auditores Independentes

Deloitte Touche Tohmatsu
Av. Presidente Wilson, 231 – 22º
Rio de Janeiro – RJ – 20030-905
Brasil

Tel: + 55 (21) 3981-0500
Fax:+ 55 (21) 3981-0600
www.deloitte.com.br

REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

To the Board of Directors and Shareholders of
QGOG Constellation S.A.
Luxembourg

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of QGOG Constellation S.A. (the "Company") as of March 31, 2014, the related condensed consolidated interim statement of operations, statement of comprehensive income, statement of changes in shareholder's equity and statement of cash flows for the three-month period then ended, and other explanatory notes.

Management is responsible for the preparation and fair presentation of this condensed consolidated interim financial information in accordance with International Accounting Standards 34 *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ("ISRE 2410"). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information does not present fairly, in all material respects, the financial position of the Company as of March 31, 2014, and of its financial performance and its cash flows for the three-month period then ended in accordance with IAS 34, as issued by the IASB.

Emphasis of matter

Partnership with SBM Holding Inc. - contingent liability

Without qualifying our conclusion, we draw attention to Note 9 to the condensed consolidated interim financial statements, which describe the uncertainty related to the outcome of the contingent liability of the Company's investments in associates and joint ventures held with its partner, SBM Holding Inc. and its subsidiaries.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU
Auditores Independentes
Rio de Janeiro, Brazil
May 26, 2014

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF MARCH, 2014
(Amounts expressed in thousands of U.S. dollars - US$)

ASSETS	Note	March 31, 2014	December 31, 2013
CURRENT ASSETS			
Cash and cash equivalents	3	189,852	217,530
Short-term investments	4	295,729	283,399
Restricted cash	5	53,360	38,674
Trade and other receivables	6	85,039	90,941
Inventories	7	164,566	153,190
Recoverable taxes	21.a	859	1,979
Deferred mobilization costs		12,954	14,116
Deferred tax assets	21.c	1,383	153
Receivables from related parties	8	619	8,011
Other current assets		37,992	14,898
		842,353	822,891
NON-CURRENT ASSETS			
Receivables from related parties	8	288,184	237,496
Other non-current assets		514	487
Investments	9	178,656	200,850
Deferred mobilization costs		31,406	33,740
Deferred tax assets	21.c	696	58
Property, plant and equipment, net	10	4,302,960	4,201,634
		4,802,416	4,674,265
TOTAL ASSETS		5,644,769	5,497,156

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF MARCH, 2014
(Amounts expressed in thousands of U.S. dollars - US$)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	March 31, 2014	December 31, 2013
CURRENT LIABILITIES			
Loans and financings	11	692,280	609,896
Accrued liabilities	12	170,637	42,920
Payroll and related charges		41,937	60,554
Derivatives	15	38,094	40,810
Trade and other payables		30,271	27,238
Payables to related parties	8	4,663	10,302
Taxes payables	21.b	5,812	5,051
Provisions	13	7,525	7,525
Deferred mobilization revenues		27,357	25,386
Other current liabilities		63,236	34,100
		1,081,812	863,782
NON-CURRENT LIABILITIES			
Loans and financings	11	2,245,433	2,393,362
Payables to related parties	8	232,096	223,013
Derivatives	15	32,083	37,579
Deferred tax liabilities	21.d	4,992	5,136
Deferred mobilization revenues		57,647	63,190
Other non-current liabilities		6,908	6,241
		2,579,159	2,728,521
TOTAL LIABILITIES		3,660,971	3,592,303
SHAREHOLDERS' EQUITY			
Capital	16	63,200	63,200
Share premium	16	766,561	766,561
Transaction costs on issuance of shares	16	(9,721)	(9,721)
Reserves	16	15,307	16,464
Retained earnings		1,143,159	1,065,781
Equity attributable to the owners of the Group		1,978,506	1,902,285
Non-controlling interests	16	5,292	2,568
TOTAL SHAREHOLDERS’ EQUITY		1,983,798	1,904,853
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY		5,644,769	5,497,156

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2014 AND 2013
(Amounts expressed in thousands of U.S. dollars - US$, except per share amounts)

	Note	2014	2013
NET OPERATING REVENUE	17	262,386	258,797
COST OF SERVICES	18	(143,766)	(151,626)
GROSS PROFIT		118,620	107,171
General and administrative expenses	18	(11,877)	(11,787)
Other income	19	97	249
Other expenses	19	-	(1,469)
OPERATING PROFIT		106,840	94,164
Financial income	20	5,251	1,913
Financial expenses	20	(33,200)	(42,587)
Net foreign exchange loss	20	(219)	(627)
FINANCIAL EXPENSES, NET		(28,168)	(41,301)
Shares of results of investments	9	1,237	2,088
PROFIT BEFORE TAXES		79,909	54,951
Taxes	21.e	311	145
PROFIT FOR THE PERIOD		80,220	55,096
Profit attributable to the owners of the Group		77,378	51,986
Profit (loss) attributable to non-controlling interests		2,842	3,110
Profit per share			
Basic	16	0.41	0.30
Diluted	16	0.41	0.30

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2014 AND 2013
(Amounts expressed in thousands of U.S. dollars - US$)

	Note	2014	2013
PROFIT FOR THE PERIOD		80,220	55,096
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Attributable to owners of the Group	16	(144)	3,883
Attributable to non-controlling interests	16	(118)	3,177
Cash flow hedges fair value adjustments	15/16	(262)	7,060
Shares of investments other comprehensive income (loss)	9/16	(2,685)	1,394
Items that will not be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments	16	1,672	613
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		78,945	64,163
Comprehensive income attributable to the owners of the Group		76,221	57,876
Comprehensive income attributable to non-controlling interests		2,724	6,287

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2014 AND 2013
(Amounts expressed in thousands of U.S. dollars - US$)

					Reserves							
	Note	Capital	Share premium	Transaction costs	Legal	Cash flow hedges fair value adjustments	Share of investments' other comprehensive income (loss)	Foreign currency translation adjustments	Retained earnings	Equity attributable to the owners of the Group	Equity attributable to non-controlling interests	Total shareholders' equity
BALANCE AS OF DECEMBER 31, 2012		55,632	470,487	-	-	3,395	(23,311)	18,432	759,462	1,284,097	(1,356)	1,282,741
Profit for the period		-	-	-	-	-	-	-	51,986	51,986	3,110	55,096
Other comprehensive income for the period	16	-	-	-	-	3,883	1,394	613	-	5,890	3,177	9,067
Total comprehensive income for the period		-	-	-	-	3,883	1,394	613	51,986	57,876	6,287	64,163
Legal reserve	16	-	(5,683)	-	5,683	-	-	-	-	-	-	-
BALANCE AS OF MARCH 31, 2013		55,632	464,804	-	5,683	7,278	(21,917)	19,045	811,448	1,341,973	4,931	1,346,904
BALANCE AS OF DECEMBER 31, 2013		63,200	766,561	(9,721)	5,683	5,553	(7,009)	12,237	1,065,781	1,902,285	2,568	1,904,853
Profit for the period		-	-	-	-	-	-	-	77,378	77,378	2,842	80,220
Other comprehensive income for the period	16	-	-	-	-	(144)	(2,685)	1,672	-	(1,157)	(118)	(1,275)
Total comprehensive income for the period		-	-	-	-	(144)	(2,685)	1,672	77,378	76,221	2,724	78,945
BALANCE AS OF MARCH 31, 2014		63,200	766,561	(9,721)	5,683	5,409	(9,694)	13,909	1,143,159	1,978,506	5,292	1,983,798

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2014 AND 2013
(Amounts expressed in thousands of U.S. dollars - US$)

	Note	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		80,220	55,096
Adjustments to reconcile profit to net cash provided by operating activities:			
Depreciation of property, plant and equipment	10/18	47,588	48,843
Gain on disposals of property, plant and equipment	19	(12)	(229)
Shares of results of investments	9	(1,237)	(2,088)
Recognition of mobilization costs		3,535	3,183
Recognition of mobilization revenues, net of taxes		(6,394)	(5,687)
Financial charges on loans and financings	11/20	27,451	33,091
Financial expenses (income) from related parties, net	8/20	(2,952)	491
Fair value loss (gain) on derivatives	15/20	3,193	6,307
Provision for employee profit sharing		5,839	6,160
Other financial expenses, net	20	476	1,412
Taxes	21.e	(311)	(145)
Changes in working capital:			
Increase in short-term investments		(11,028)	(77,938)
Decrease in trade and other receivables		6,661	34,212
Decrease/(increase) in receivables from related parties		636	(93)
Increase in inventories		(9,483)	(12,036)
Decrease/(increase) in recoverable taxes		1,139	(1,180)
Increase in deferred mobilization costs		(2)	(385)
Increase in other assets		(21,601)	(15,637)
Decrease in payroll and related charges		(25,700)	(17,130)
Increase in trade and other payables		2,550	1,165
Increase in payables to related parties		3	1
Increase in taxes payables		556	251
Increase in deferred mobilization revenues		804	-
Increase/(decrease) in other liabilities		24,274	(3,201)
Net cash provided by operating activities		126,205	54,463
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments to related parties		(44,690)	-
Capital decrease	9	22,817	-
Acquisition of property, plant and equipment	10/25	(16,351)	(3,977)
Capital contributions in investments	9	-	(2,835)
Proceeds from sales of property, plant and equipment	19	12	249
Net cash used in investing activities		(38,212)	(6,563)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from related parties		7,147	-
Proceeds from loans and financings	11	-	26,147
Interest paid on loans and financings	11	(10,468)	(13,796)
Cash payments on derivatives	15	(11,667)	(17,894)
Restricted cash	5	(14,686)	(5,427)
Repayment of principal on loans and financings	11	(85,808)	(102,948)
Net cash used in financing activities		(115,482)	(113,918)
Decrease in cash and cash equivalents		(27,489)	(66,018)
Cash and cash equivalents at the beginning of the period		217,531	219,613
Effects of exchange rate changes on the balance of cash held in foreign currencies		(190)	1,796
Cash and cash equivalents at the end of the period		189,852	155,391

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

1. GENERAL INFORMATION

QGOG Constellation S.A., ("QGOG Constellation" or the "Company") was incorporated in Luxembourg in August 30, 2011 as a "*société anonyme*" ("public company limited by shares") and is indirectly controlled by members of the Queiroz Galvão family. The Company has its registered address at 40, Avenue Monterey, L-2163 Luxembourg.

The unaudited condensed consolidated interim financial statements include QGOG Constellation and its subsidiaries ("the Group").

QGOG Constellation's objective is to hold investments in Luxembourg or foreign countries; to acquire any securities and rights through participation, contribution, underwriting firm purchase or option, negotiation or in any other way and namely to acquire patents and licenses, and other property, rights and interest in property as the Company shall deem necessary, and generally to hold, manage, develop, sell or dispose of the same, in whole or in part, for such consideration as the Company may deem necessary, and in particular for shares or securities of any entity purchasing the same; to enter into, assist or participate in financial, commercial and other transactions, and to grant to any holding entity, subsidiary, or fellow subsidiary, or any other entity associated in any way with the Company, or the said holding entity, subsidiary or fellow subsidiary, in which the Company has a direct or indirect financial interest, any assistance, loans, advances or guarantees; to borrow and raise money in any manner and to secure the repayment of any money borrowed; and finally, to perform any operation which is directly or indirectly related to its purpose. QGOG Constellation's fiscal year is from January 1 to December 31.

QGOG Constellation holds investments in subsidiaries that charter and operate onshore and offshore drilling rigs and drillships for exploration and production entities operating in Brazil. The Group currently charters rigs mainly to Petróleo Brasileiro S.A. ("Petrobras"), but also to HRT O&G Exploração e Produção de Petróleo Ltda. ("HRT") and lately to President Energy PLC.

The Group's fleet is currently comprised of the following drilling equipment:

Equipment	Type	Start of operations
QG-I	Onshore drilling rig	1981
QG-II	Onshore drilling rig	1981
QG-III	Onshore drilling rig	1987
QG-IV	Onshore drilling rig	1996
QG-V	Onshore drilling rig	2011
QG-VI	Onshore drilling rig	2008
QG-VII	Onshore drilling rig	2008
QG-VIII	Onshore drilling rig	2011
QG-IX	Onshore drilling rig	2011
Alaskan Star	Offshore drilling rig	1994
Atlantic Star	Offshore drilling rig	1997
Olinda Star	Offshore drilling rig	2009
Gold Star	Offshore drilling rig	2010
Lone Star	Offshore drilling rig	2011
Alpha Star	Offshore drilling rig	2011
Amaralina Star	Drillship	2012
Laguna Star	Drillship	2012
Brava Star (1)	Drillship	Under construction

(1) Delivery is expected to occur in December 2014.

As of March 31, 2014, the Group presents working capital deficiency in the amount of US$239,459 (US$40,891 as of December 31, 2013), mainly as result of the current investments. As of March 31, 2014 the working capital deficiency is mainly related to the Brava Star drillship construction costs amounting to US$170,637 (Notes 10 and 12). Management understands that the working capital deficiency is supported by the cash flow generation of the Group's existing long-term contracts in the regular course of business. Management is also evaluating other opportunities to obtain additional long-term financing.

Although the Group has long-term contracts, the operations are indirectly dependent upon conditions in the oil and natural gas industry and, specifically, on the exploration and production expenditures of oil and natural gas entities. The demand for charter and operate contracts for drilling and related services provided to the Group's customers is influenced by, among other factors, oil and natural gas prices, expectations about future prices, the cost of producing and delivering oil and natural gas, government regulations and local and international political and economic conditions.

Samsung Construction Contract

On August 15, 2012, the Company executed a Letter of Intent ("LOI") with Samsung Heavy Industries Co., Ltd ("Samsung"), which provided an option to enter into two Engineering, Procurement, Construction and Integration ("EPCI") contracts by November 15, 2012 aiming the construction of two ultra-deepwater drillships.

On November 14, 2012, the Company, through one of its subsidiaries, exercised the right to enter into a contract with Samsung to design, construct, complete and deliver an ultra-deepwater drillship, the Brava Star drillship. The Brava Star total project cost (without an estimate of capitalized interest) is of approximately US$660 million and the Company paid 10% of the contract price as a first milestone in the last quarter of 2012. The Company expects that Samsung will deliver this ultra-deepwater drillship by December 2014.

On October 15, 2013 the Company paid the amount of US$119,590 to Samsung related to the second milestone of Brava Star drillship construction contract.

Since January 16, 2013, the Company, through one of its subsidiaries, has been executing certain amendments to the LOI, which extended its right to enter in the second EPCI until June 30, 2014.

Initial Public Offering ("IPO")

On January 7, 2013, QGOG Constellation filed its registration statement within the U.S. Securities and Exchange Commission ("SEC") in connection with its IPO. On February 7, 2013 the Company announced that, due to market conditions, it has decided to postpone its previously-announced IPO.

Concurrent Private Placement

On January 17, 2013, the Company entered into a share exchange agreement with Alperton Capital Ltd. ("Delba") and its shareholders, conditioned to the completion of the Company's IPO, in which Delba agreed to exchange its 45% equity interest in Amaralina Star Ltd. ("Amaralina") and Laguna Star Ltd. ("Laguna") for 3,580,026 of the Company's common shares, which would represent 2.1% of the Company's common shares (excluding the common shares that would be issued in the IPO), together with the cancellation of Delba's loans with the Company's subsidiary, Constellation Overseas Ltd. ("Constellation"). The Company's shareholders would transfer these shares to the Company to implement the exchange with Delba concurrently with the completion of the IPO through a private placement that would not be registered within the SEC Act of 1933, as amended. Upon this transfer, the Company would hold 100% of the equity interest in Amaralina and Laguna.

The share exchange agreement terminated on July 17, 2013, and was not implemented due to the IPO's postponement.

FPSO Cidade de Maricá and FPSO Cidade de Saquarema

On March 26, 2013, LOIs were signed by Petrobras, by which the Company's subsidiary Queiroz Galvão Óleo e Gás S.A. ("QGOG") together with Single Buoy Moorings Inc. ("SBM Inc.") have been awarded with two charter and service agreements for two new FPSOs for the Consortium BM-S-11, operated by Petrobras. These FPSOs are owned by Alfa Lula Alto S.à.r.l. ("Alfa Lula") and Beta Lula Central S.à.r.l. ("Beta Lula"), which are investees of Arazi S.à.r.l. ("Arazi"), SBM Holding Luxembourg S.à.r.l ("SBM Lux"), Mitsubishi Corporation ("Mitsubishi") and Nippon Yusen Kabushiki Kaisha ("NYK Line").

These FPSOs will operate in the Lula field, the pre-salt Santos Basin and will have 65% of national content and a daily oil and gas production capacity of 150,000 barrels and 6 million cubic meters each, respectively. The construction of the FPSOs Cidade de Maricá and Cidade de Saquarema began in March 2013 and the FPSOs are expected to be delivered in the fourth quarter of 2015 and in the first quarter of 2016, respectively. The start of the operations of the FPSOs Cidade de Maricá and Cidade de Saquarema are expected to occur in the fourth quarter of 2015 and in the first quarter of 2016, respectively.

The Group has a participation of 5% in both Alfa Lula and Beta Lula and has the right to acquire an additional participation of 5% from SBM Lux within fifteen days of the final acceptance of the FPSOs, based on the capital invested by SBM Lux plus interest of 8% p.a..

On July 12, 2013, the Company entered into 20-year contracts to charter and operate the FPSOs Cidade de Maricá and Cidade de Saquarema, with the Consortium BM-S-11. The Group’s participation in the entities under the FPSOs Cidade de Maricá and Cidade de Saquarema structures is accounted for by the equity method in these unaudited condensed consolidated interim financial statements (Note 9).

FPSO P-63 Operation

In January 2010, the Group entered into a consortium agreement with BW Offshore do Brasil Ltda. (“BW Offshore”) in order to operate the FPSO P-63 which is owned by Petrobras. The Group holds a participation of 40% and BW Offshore, the consortium leader, holds the remaining 60%. The three-year agreement with Petrobras covers the production start-up period and progressive hand-over of the operation to Petrobras.

On June 18, 2013, the Group and BW Offshore started to provide operational services to Petrobras related to FPSO P-63. On November 11, 2013, the Papaterra Operações Marítimas Consortium started the FPSO P-63 operations in the Papa Terra field, in the Campos Basin, under the service contract with Petrobras, after a continuous oil flow of 72 hours and the consequent issuance of the Ready for Oil Certificate.

Onshore drilling rig QG-I charter and drilling service agreements

On November 27, 2013, the Group, through its indirect wholly-owned subsidiary QGOG Participações, has incorporated Domenica S.A. (“Domenica”) under the laws of Paraguay. Domenica will be responsible for the onshore drilling rig QG-I operations in Paraguay.

On March 21, 2014, the Group signed an agreement to charter and render drilling services for President Energy PLC and President Energy Paraguay S.A. with a 210-day term. The purpose of the agreement is to drill two oil wells in Paraguay, using the onshore drilling rig QG-I. The first oil well is expected to be drilled in May 2014.

Incorporation of new entity

On February 14, 2014, the Group, through its wholly-owned subsidiary Constellation Netherlands B.V., incorporated Brava Drilling B.V. under the laws of the Netherlands.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34 *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"), on a basis consistent with the significant accounting policies disclosed in Note 3 to the annual consolidated financial statements as of December 31, 2013 and for the year then ended.

IAS 34 requires the use of certain accounting estimates by the Company's Management. The unaudited condensed consolidated interim financial statements were prepared based on historical cost, except for certain financial liabilities, which are measured at fair value.

The unaudited condensed consolidated interim financial statements do not include all the information and disclosure items required in the annual consolidated financial statements. Therefore, they must be read together with the Company's annual consolidated financial statements referring the year ended December 31, 2013, which were prepared according to accounting policies, as described above. There were no changes in the accounting policies and critical accounting estimates adopted on December 31, 2013 and March 31, 2014.

The following new and amended IFRS have been effective since January 1, 2014 or will be effective on January 1, 2014 and 2015 and their adoption, where applicable, did not or will not have significant effect on the unaudited condensed consolidated interim financial statements:

Standard or interpretation	Description	Effective date for annual period beginning on or after
IFRS 9 (revised in 2010)	Financial Instruments	January 1, 2015
IAS 32 (amended)	Offsetting Financial Assets and Financial Liabilities	January 1, 2014
IAS 39 (amended)	Novation of Derivatives and Continuation of Hedge Accounting	January 1, 2014
IFRIC 21	Levies	January 1, 2014

3. CASH AND CASH EQUIVALENTS

	March 31, 2014	December 31, 2013
Cash and bank deposits	40,945	48,896
Cash equivalents	148,907	168,634
Total	189,852	217,530

Cash equivalents refer to time deposits with original maturities of less than 90 days. These investments are highly liquid and convertible into known amounts of cash and are subject to insignificant risk of changes in value.

The amounts of cash equivalents are comprised by time deposits as follows:

Financial Institution	Average interest rate (per annum)	March 31, 2014	December 31, 2013
Itaú BBA Nassau	0.20%	39,420	89,967
Bradesco S.A. Grand Cayman	0.36%	91,475	78,667
Banco do Brasil S.A.	0.39%	18,012	-
		148,907	168,634

4. SHORT-TERM INVESTMENTS

Short-term investments	Financial institution	Average interest rate (per annum)	March 31, 2014	December 31, 2013
Time deposits	HSBC Bank	0.04%	-	9,048
Time deposits	Citibank	0.12%	942	942
Time deposits	Itaú BBA Nassau	1.46%	89,240	94,336
Time deposits	ING Bank	0.15%	30,199	54,913
Time deposits	Bradesco Grand Cayman	0.90%	32,667	54,253
Time deposits	Banco do Brasil S.A	1.20%	44,298	44,166
Time deposits	Deutsche Bank	0.09%	62,468	-
CDB (*)	Banco do Nordeste do Brasil S.A - BNB	101% of CDI (**)	17,676	9,543
CDB (*)	Banco do Brasil S.A.	98% of CDI (**)	-	766
Repurchase agreements (***)	Bradesco S.A.	100% of CDI (**)	18,239	15,432
Total			295,729	283,399

(*) CDB - Bank Deposit Certificate
(**) CDI - Interbank Deposit Certificate.
(***) Repurchase agreements are contracts in which the financial institutions has a commitment to repurchase the asset back from the Group within a specified time limit.

5. RESTRICTED CASH

Under certain of the Group's project finance arrangements, surplus cash from operations is held in designated reserve accounts, up to a level determined in relation to the future debt servicing requirements on that financing arrangement.

These accounts refer to the financing agreements related to the construction of Lone Star, Gold Star and Olinda Star offshore drilling rigs, as described in Note 11, with original maturity of less than one year.

The amounts in these accounts are comprised by time deposits as follows:

Financial institution	Average interest rate (per annum)	March 31, 2014	December 31, 2013
ING Bank	0.21%	53,360	38,674
		53,360	38,674

6. TRADE AND OTHER RECEIVABLES

	March 31, 2014	December 31, 2013
Trade receivables	85,039	90,941
Total	85,039	90,941

Trade receivables are mainly related to receivables from Petrobras for charter and operational services relating to onshore and offshore drilling rigs and drillships used in the exploration of oil and natural gas in Brazil. Historically, there have been no defaults on receivables or delays in collections and consequently, the Group has not recorded an allowance for doubtful accounts for the periods presented. The average collection period is of approximately 30 days. See credit risks in Note 22.

7. INVENTORIES

Inventories refer basically to materials to be used in the onshore and offshore drilling rigs and drillships operations. The amounts recognised in the statement of operations are accounted for as cost of services in the account “Materials”, as disclosed in Note 18.

8. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries that are part of the Group are eliminated for consolidation purposes and are not presented in the note below.

The consolidated intercompany balances as of March 31, 2014 and December 31, 2013 and the intercompany transactions for the three-month periods ended March 31, 2014 and 2013 are as follows:

	March 31, 2014		Three-month period ended March 31, 2014	December 31, 2013		Three-month period ended March 31, 2013
	Assets	Liabilities	Income / (expenses)	Assets	Liabilities	Income / (expenses)
Delba [(a)]	242,041	232,095	3,865	235,914	229,833	377
FPSO Cidade de Paraty [(b)]	3,338	-	27	3,336	-	500
Queiroz Galvão S.A. [(c)]	-	4,605	(1,179)	-	3,426	(1,421)
FPSO Capixaba [(d)]	893	-	3	890	-	2
Espírito do Mar [(e)]	4,029	-	54	3,975	-	51
Sete Brasil [(f)]	474	-	611	1,053	-	1,981
FPSO Cidade de Saquarema [(g)]	18,712	-	64	-	-	-
FPSO Cidade de Maricá [(g)]	19,036	-	118	-	-	-
Others	280	59	8	339	56	127
Total	288,803	236,759	3,571	245,507	233,315	1,617
Total current	619	4,663		8,011	10,302	
Total non-current	288,184	232,096		237,496	223,013	

(a) In 2010, Constellation and Delba signed shareholders and loan agreements in order to construct, charter and operate two drillships for Petrobras, the Amaralina Star and the Laguna Star, through Constellation's 55% interest in each of Amaralina and Laguna, the remaining 45% of these entities shares being held by Delba.

Under these agreements, Constellation has committed to finance Delba's 45% expenditures share on these projects.

The receivables from Delba refer to the loans receivable bearing interest at 12% p.a., annually compounded, up to the sixth anniversary of the sub-charter contract with Petrobras. Thereafter, the loans receivable will bear interest at 13% p.a., annually compounded. Repayment of interest and principal is scheduled to occur quarterly as from one year after the "Date of Acceptance" of the drillships by Petrobras, with the principal being repayable in equal quarterly installments over the six-year term of the Petrobras charter contract, starting from the "Date of Acceptance", since Amaralina and Laguna comply with the financing agreement conditions to pay dividends. The amounts payables refer to intercompany loans provided by Delba to Amaralina and Laguna with the same terms and conditions of Constellation's receivable amounts from Delba.

The amounts of the loans receivable from Delba are secured by:

- ✓ A pledge of Delba's 45% shares in Amaralina and Laguna;
- ✓ An assignment of dividends payable to Delba by Amaralina and Laguna; and
- ✓ An assignment of amounts payable to Delba by Amaralina and Laguna.

Any cash available in Amaralina and Laguna for dividends payment will be used to repay the intercompany loans to Delba. Amaralina and Laguna may not pay any dividends or other payables to Delba, until the intercompany loans are fully paid. The intercompany loans may be extended in the event that the term of the charter contract with Petrobras is extended. In this case, the new maturity date will be the end date of the extended contract.

The Group charges a fee to Delba for being the guarantor of Amaralina Star and Laguna Star drillships project financings and a fee for being the guarantor for importations under the Special Regime of Temporary Admission ("REPETRO"). For the three-month period ended March 31, 2014, the fees charged to Delba totaled US$3,865.

Non-compliance with the contracts between Delba and Constellation could result in penalties to either entity. As of March 31, 2014, the Group was in compliance with the requirements of the respective contracts.

(b) The Group signed a shareholders' agreement with its partners to regulate their relation in the entities that will construct, charter and operate the FPSO Cidade de Paraty for Petrobras. As of March 31, 2014 loans receivable amounting to US$3,338 (US$3,336 as of December 31, 2013) refer to milestone payments made by Constellation in proportion to its participation in the referred FPSO. The loan bears interest rate at the London Interbank Offered Rate ("LIBOR") plus 3% p.a., with no maturity date.

(c) The payable amount of US$4,605 refers to the fee charged by Queiroz Galvão S.A., an entity under common control with the Group, for being the guarantor for importations under the REPETRO.

(d) Loans bearing interest at LIBOR plus 0.5% p.a., with maturity at the end of the charter contract period between Espírito do Mar and Petrobras (2022).

(e) The loan to Espírito do Mar reflects an effective interest rate of 5.56% p.a., with maturity at the end of the charter contract period between SBM Espírito do Mar Inc. and Petrobras (2022).

(f) On August 3, 2012, Angra Participações B.V. (“Angra”) signed three shareholders’ agreements in which the Company acquired a 15% equity interest in three special purpose entities (“SPEs”), each one owning an ultra-deepwater semi-submersible rig (Urca, Bracuhy and Mangaratiba) in partnership with Sete Brasil S.A. (“Sete Brasil”). In the same day, the partnership signed charter agreements of these assets with Petrobras. As of March 31, 2014, the receivable amount of US$474 and the income for the three-month period then ended amounting to US$611 (US$1,981 for three-month period ended March 31, 2013) refer to the fee charged by the Company related to the equipment’s project management.

(g) In January and February, 2014, the Group signed amendments to the shareholders’ agreement with its partners which regulate their relation in the entities that will construct, charter and operate the FPSOs Cidade de Maricá and Cidade de Saquarema for Petrobras, respectively, as described in Note 9. As of March 31, 2014 loans receivables amounts refer to milestones payments made by Constellation in proportion to its participation in the referred FPSOs. The loans bear interest at LIBOR plus 3% p.a. with no maturity date.

Key management personnel remuneration is presented below:

	Three-month period ended March 31,	
	2014	2013
Key management personnel compensation [(i)]	2,737	2,355

(i) Key management is defined as the statutory officers and directors of the Company.

All key management personnel compensation refers to short-term benefits.

The cash compensation for each member of senior management is mainly comprised of base salary and bonus. The compensation that is paid to senior management is evaluated on an annual basis considering the following primary factors: individual performance during the prior year, market rates and movements and the individual’s anticipated contribution to the Group growth. Members of senior management are also eligible to participate in the Group’s retirement savings plans (Note 24).

9. INVESTMENTS

	March 31, 2014										
	Associates					Joint Ventures					
	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Urca Drilling B.V. [3]	Bracuhy Drilling B.V. [3]	Mangaratiba Drilling B.V. [3]	Tupi Nordeste S.à.r.l.	Tupi Nordeste Ltd.	Guará Norte S.à.r.l. [4]	Guará Norte Ltd. [4]	Alfa Lula Alto S.à.r.l. [4]	Beta Lula Central S.à.r.l. [4]
Number of shares (thousands)	100	100	90	90	90	20	12	50,200	12	65,200	65,200
Ownership interest (%)	20.00%	20.00%	15.00%	15.00%	15.00%	20.00%	20.00%	12.75%	12.75%	5.00%	5.00%
Authorized share capital	82	88	€90k	€90k	€90k	16,020	12	50,200	12	65,200	65,200
Current assets	3,117	1,252	3,163	710	449	220,336	8,711	14,867	-	90	283
Non-current assets	222	285,492	541,418	104,750	92,781	1,162,579	4,641	1,535,855	296	742,061	584,545
Current liabilities	30,750	72,562	396,204	32,476	385	88,784	17,557	14,044	-	36	31
Non-current liabilities	4,434	68,577	95,756	66,279	85,844	986,963	2,209	1,090,003	276	528,623	374,354
Shareholders’ equity (deficit)	(31,845)	145,605	52,621	6,705	7,001	307,168	(6,414)	446,675	20	213,492	210,443

	December 31, 2013										
	Associates					Joint Ventures					
	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Urca Drilling B.V. [3]	Bracuhy Drilling B.V. [3]	Mangaratiba Drilling B.V. [3]	Tupi Nordeste S.à.r.l.	Tupi Nordeste Ltd.	Guará Norte S.à.r.l. [4]	Guará Norte Ltd. [4]	Alfa Lula Alto S.à.r.l. [4]	Beta Lula Central S.à.r.l. [4]
Number of shares (thousands)	100	100	90	90	90	20	12	50,200	12	65,200	65,200
Ownership interest (%)	20.00%	20.00%	15.00%	15.00%	15.00%	20.00%	20.00%	12.75%	12.75%	5.00%	5.00%
Authorized share capital	82	88	€90k	€90k	€90k	16,020	12	50,200	12	65,200	65,200
Current assets	1,334	(312)	91,758	816	416	241,145	7,037	30,627	296	90	87
Non-current assets	2,420	287,523	458,191	101,808	90,996	1,100,434	3,361	1,448,943	-	591,835	437,557
Current liabilities	16,613	71,605	402,859	32,136	493	108,461	11,280	12,829	-	-	-
Non-current liabilities	12,311	77,392	93,903	63,766	83,903	932,148	1,854	1,004,337	266	147,900	109
Shareholders’ equity (deficit)	(25,170)	138,214	53,187	6,722	7,016	300,970	(2,736)	462,404	30	444,025	437,535

The amounts presented in the schedules above correspond to the investee’s accounting balances before applying the Company’s ownership interest.

Investees comprehensive income (loss) for the three-month period ended March 31, 2014

	Associates					Joint Ventures					
	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Urca Drilling B.V. (3)	Bracuhy Drilling B.V. (3)	Mangaratiba Drilling B.V. (3)	Tupi Nordeste S.à.r.l.	Tupi Nordeste Holding Ltd.	Guará Norte S.à.r.l. (4)	Guará Norte Holding Ltd. (4)	Alfa Lula Alto S.à.r.l. (4)	Beta Lula Central S.à.r.l. (4)
Net income (loss)	(6,678)	7,390	(467)	(2)	(9)	9,509	(3,677)	-	(10)	-	-
Other comprehensive income	-	-	(99)	(15)	(6)	(3,312)	-	(15,729)	-	-	-
Total comprehensive income (loss)	(6,678)	7,390	(566)	(17)	(15)	6,197	(3,677)	(15,729)	(10)	-	-

Investees comprehensive income (loss) for the three-month period ended March 31, 2013

	Associates					Joint Ventures			
	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Urca Drilling B.V. (3)	Bracuhy Drilling B.V. (3)	Mangaratiba Drilling B.V. (3)	Tupi Nordeste S.à.r.l.	Tupi Nordeste Holding Ltd.	Guará Norte S.à.r.l. (4)	Guará Norte Holding Ltd. (4)
Net income (loss)	(1,725)	7,139	5,020	868	867	-	(30)	-	(16)
Other comprehensive income	-	-	-	-	-	4,437	-	3,927	-
Total comprehensive income (loss)	(1,725)	7,139	5,020	868	867	4,437	(30)	3,927	(16)

Changes in investments

	Asset (liability) balance as of December 31, 2013	Capital decrease [5]	Share of results	Share of comprehensive income	Asset (liability) balance as of March 31, 2014
Associates					
FPSO Capixaba Venture S.A.	(5,035)	-	(1,336)	-	(6,371)
SBM Espírito do Mar Inc.	27,643	-	1,478	-	29,121
Urca Drilling B.V. [3]	7,978	-	(70)	(15)	7,893
Bracuhy Drilling B.V. [3]	1,008	-	-	(2)	1,006
Mangaratiba Drilling B.V. [3]	1,052	-	(1)	(1)	1,050
Joint ventures					
Tupi Nordeste S.à.r.l.	60,194	-	1,902	(662)	61,434
Tupi Nordeste Holding Ltd.	(547)	-	(736)	-	(1,283)
Guará Norte S.à.r.l. [4]	58,958	-	-	(2,005)	56,953
Guará Norte Holding Ltd. [4]	4	-	-	-	4
Alfa Lula Alto S.à.r.l. [4]	22,168	(11,494)	-	-	10,674
Beta Lula Central S.à.r.l. [4]	21,844	(11,323)	-	-	10,521
Total	195,267	(22,817)	1,237	(2,685)	171,002
Total assets (investments)	200,850	(22,817)	3,309	(2,685)	178,656
Total liabilities (accumulated deficit in investments) [1]	(5,582)	-	(2,072)	-	(7,654)

	Asset (liability) balance as of December 31, 2012	Capital contributions [2]	Share of results	Share of comprehensive income	Asset (liability) balance as of March 31, 2013
Associates					
FPSO Capixaba Venture S.A.	(1,891)	-	(345)	-	(2,236)
SBM Espírito do Mar Inc.	27,906	-	1,428	-	29,334
Urca Drilling B.V. [3]	4,216	2,790	753	-	7,759
Bracuhy Drilling B.V. [3]	890	-	130	-	1,020
Mangaratiba Drilling B.V. [3]	890	42	130	-	1,062
Joint ventures					
Tupi Nordeste S.à.r.l.	10,957	-	-	894	11,851
Tupi Nordeste Holding Ltd.	-	2	(6)	-	(4)
Guará Norte S.à.r.l. [4]	26,854	-	-	500	27,354
Guará Norte Holding Ltd. [4]	-	1	(2)	-	(1)
Total	69,822	2,835	2,088	1,394	76,139
Total assets (investments)	71,713	2,834	2,441	1,394	78,380
Total liabilities (accumulated deficit in investments) [1]	(1,891)	1	(353)	-	(2,241)

(1) The liability to fund the deficit in FPSO Capixaba Venture S.A. and Tupi Nordeste Holding Ltd. is recognised in “Other current liabilities”.

(2) Capital contributions have been made considering the Group’s participation in each partnership. Therefore, there have been no interest changes in these investees.

(3) Although the Group has a participation of 15% in Urca Drilling B.V., Bracuhy Drilling B.V. and Mangaratiba Drilling B.V., each, the Group has significant influence over the investees decisions due to the following reasons: (i) the Group’s indirect subsidiary, QGOG, will be sole operator of the equipment; (ii) each Urca Drilling B.V., Bracuhy Drilling B.V. and Mangaratiba Drilling B.V. will have 2 (two) directors, and the Group will appoint 1 (one) of them, although these directors will only execute the planning approved by shareholders resolutions; and (iii) some matters that shall be subject to unanimous shareholders approval just with the purpose of investment protection of non-controlling interest.

(4) The Group jointly controls the entities within the FPSOs Cidade de Ilhabela, Cidade de Maricá and Cidade de Saquarema structures with its partners since all the major financial and operational decisions require the unanimous approval of the Directors and Managers, and or the shareholders of these entities.

The Group has the right to appoint one of five Managers in Luxembourg entities and one of four Directors in Bermuda entities. According to the shareholders agreement, the meetings of the Board of Managers and Board of Directors of Luxembourg and Bermuda entities, respectively, must have a quorum comprised by at least one Manager or one Director appointed by each shareholder, which means that the Manager or Director appointed by Arazi and or Lancaster Projects Corp. must be present. The Group participates actively in the operations' organization and execution by seconding personnel to the operating management team in agreed positions.

(5) Refer to amendments executed in January and February 2014, to the contracts which regulate the relationship of the Group with its partners in the FPSOs Cidade de Maricá and Cidade de Saquarema, respectively, in order to change the capital structure of the related projects. Previous capital structures of the projects were comprised by 100% of equity contributions.

The main activities of the Group's associates are as follows:

- FPSO Capixaba Venture S.A. ("Capixaba")'s core business is to support operations for contracts in the offshore oil and gas industry. Since March 16, 2007, this entity is a shareholder of a Brazilian entity which operates the FPSO Capixaba, currently located off the Brazilian coast and chartered to Petrobras until 2022.
- SBM Espírito do Mar Inc. ("Espírito do Mar") owns the FPSO Capixaba and its main activity is to support charter contracts in the offshore oil and gas industry.
- Urca Drilling B.V. owns the Urca semi-submersible drilling rig, which operation is expected to start in 2016. This offshore drilling rig will be equipped to operate in pre-salt water depths. Upon its construction completion and acceptance by Petrobras, Urca will be chartered to Petrobras until 2031. QGOG will be the sole operator of this offshore drilling rig. As of March 31, 2014 the Group's main capital commitments for the conclusion of Urca offshore drilling rig construction amounts to US$18 million, corresponding to the ownership interest percentage in this associate.
- Bracuhy Drilling B.V. owns the Bracuhy semi-submersible drilling rig, which operation is expected to start in 2018. This offshore drilling rig will be equipped to operate in pre-salt water depths. Upon its construction completion and acceptance by Petrobras, Bracuhy will be chartered to Petrobras until 2033. QGOG will be the sole operator of this offshore drilling rig. As of March 31, 2014 the Group's main capital commitments for the conclusion of Bracuhy offshore drilling rig construction amounts to US$28 million, corresponding to the ownership interest percentage in this associate.
- Mangaratiba Drilling B.V. owns the Mangaratiba semi-submersible drilling rig, which operation is expected to start in 2019. This offshore drilling rig will be equipped to operate in pre-salt water depths. Upon its construction completion and acceptance by Petrobras, Mangaratiba will be chartered to Petrobras until 2034. QGOG will be the sole operator of this offshore drilling rig. As of March 31, 2014 the Group's main capital commitments for the conclusion of Mangaratiba offshore drilling rig construction amounts to US$28 million, corresponding to the ownership interest percentage in this associate.

The main activities of the Group's joint ventures are as follows:

- Tupi Nordeste S.à.r.l.'s main activity is to act as a sub-charter party in the contracts in the offshore oil and gas industry. The entity charters the FPSO Cidade de Paraty to Petrobras until 2033, which is currently located off the Brazilian coast. Operations started in June 2013.
- Tupi Nordeste Holding Ltd.'s main activity is to support operations for contracts in the offshore oil and gas industry. This entity is a shareholder of a Brazilian entity which operates the FPSO Cidade de Paraty to Petrobras until 2033.

- Guará Norte S.à.r.l.'s main activity is to act as a sub-charter party in the contracts in the offshore oil and gas industry. The entity owns the FPSO Cidade de Ilhabela, which will operate off the Brazilian coast being chartered to Petrobras for 20 years. The expected date for the start of the operations is in late third quarter or early fourth quarter of 2014. As of March 31, 2014 the Group has no capital commitments for the conclusion of the construction of the FPSO Cidade de Ilhabela, although it is expected that the Group will make some advances for the conclusion of the FPSO Cidade de Ilhabela construction until the investee receives the proceeds of the project financing and Petrobras' payment related to the services rendered between the preliminary and final acceptance (first oil date).

- Guará Norte Holding Ltd.'s main activity is to support operations for contracts in the offshore oil and gas industry. This entity is a shareholder of a Brazilian entity which will operate the FPSO Cidade de Ilhabela to Petrobras for 20 years.

  Additionally, the Group has the right to acquire an additional participation of 12.75% in Guará Norte S.à.r.l. and Guará Norte Holding Ltd. from SBM within fifteen days of the FPSO final acceptance, based on the capital invested by SBM plus interest of 8% p.a.

- Alfa Lula Alto S.à.r.l. owns the FPSO Cidade de Maricá, which is expected to be delivered and start its operations in the fourth quarter of 2015. On July 12, 2013, the Company entered into a 20-year contract to charter the FPSO Cidade de Maricá with the Consortium BM-S-11. As of March 31, 2014, the Group's main capital commitment for the conclusion of the FPSO Cidade de Maricá construction amounts to US$4.5 million, corresponding to the ownership interest percentage in this joint venture. In connection with the fifth milestone payment amounting to US$7.4 million (Note 26), on the present date, the Group has no capital commitment for the conclusion of the FPSO Cidade de Maricá construction, although it is expected that the Group will make some advances for the conclusion of the FPSO Cidade de Maricá construction until the investee receives the proceeds of the project financing.

- Beta Lula Central S.à.r.l. owns the FPSO Cidade de Saquarema, which is expected to be delivered in the fourth quarter of 2015 and start its operations in the first quarter of 2016. On July 12, 2013, the Company entered into a 20-year contract to charter the FPSO Cidade de Saquarema with the Consortium BM-S-11. As of March 31, 2014, the Group's main capital commitment for the conclusion of the FPSO Cidade de Saquarema construction amounts to US$3.5 million, corresponding to the ownership interest percentage in this joint venture.

  Additionally, the Group has the right to acquire from SBM Lux an additional participation of 5% in Alfa Lula Alto S.à.r.l. and Beta Lula Central S.à.r.l. within fifteen days of the FPSOs final acceptance, based on the capital invested by SBM Lux plus interest of 8% p.a.

Other matters regarding the Company's investments

Partnership with SBM Holdings Inc. – Contingent Liability

QGOG Constellation, through one of its subsidiaries, is a minority shareholder in the following associates and joint ventures with SBM Holding Inc ("SBM"): FPSO Capixaba Venture S.A., SBM Espírito do Mar Inc., Tupi Nordeste Holding Ltd., Tupi Nordeste S.à.r.l., Guará Norte S.à.r.l, Guará Norte Holding Ltd., Alfa Lula Alto S.à.r.l., Alfa Lula Alto Holding Ltd., Beta Lula Central S.à.r.l. Beta Lula Central Holding Ltd.. The majority shareholder is SBM.

SBM Offshore N.V. ("SBM Offshore"), the parent company of SBM, announced through a press release on April 10, 2012 that it had become aware of certain sales practices involving third parties which may have been improper. An internal investigation had been carried out since 2012 by outside legal counsel and forensic accountants. The internal investigation was focused on the use of agents over the period 2007 through 2011. On April 2, 2014, SBM Offshore announced that such investigation was completed. The announcement confirms that there were commissions payments to an agent in Brazil amounting to US$139.1 million and certain red flags, but the investigations did not find any credible evidence that the agent made improper payments to government officials (including state company employees) in Brazil. Furthermore, the internal investigation found evidence that the agent provided substantial and legitimate services to SBM Offshore. SBM Offshore also informed that has reported this investigation to the Dutch Openbaar Ministerie and the U.S. Department of Justice.

On March 31, 2014, Petrobras announced that its Internal Commission, established on February 13, 2014 in order to investigate the occurrence of such alleged payments, concluded that there are no facts and documents which could give evidence of improper payments to its employees. Petrobras also informed that the final report of the Internal Commission has been submitted to the *Tribunal de Contas da União - TCU* ("Federal Court of Accounts") and to the *Ministério Público Federal - MPF* ("Federal Public Prosecutor´s Office") for investigation of the allegations of improper payments previously mentioned.

In May 2014, the Brazilian government established a *CPI – Comissão Parlamentar de Inquérito* ("Parliamentary Inquiry Commission") which started to investigate some alleged irregularities at Petrobras, among them the allegations of improper payments from SBM Offshore to Petrobras employees.

At this stage it is not possible to predict the outcome of the authorities' investigations. The confirmation of failure to comply with anti-corruption laws could give rise to criminal prosecution by local authorities, civil claims or administrative proceedings against SBM Offshore and its subsidiaries. As of the date of these unaudited condensed consolidated interim financial statements, it is not possible to reasonably estimate the possible impact, if any, of this issue on the Company's consolidated financial statements.

Partnership with Sete Brasil – Uncertainty with respect to the going concern assumption

Urca Drilling B.V. ("Urca"), Bracuhy Drilling B.V. ("Bracuhy") and Mangaratiba Drilling B.V. ("Mangaratiba") controlling shareholder is under negotiation with financial institutions to obtain long-term resources to meet existing obligations. These resources are required to complete the construction of Urca, Bracuchy and Mangaratiba drillships. The completion of such negotiations depends on the fulfilment of certain precedent conditions which indicates the existence of a material uncertainty that may cast significant doubt about Urca, Bracuhy and Mangaratiba's ability to continue as a going concern. Urca, Bracuhy and Mangaratiba's Management considers it appropriate to prepare the financial statements on a going concern basis as pre-operating costs will be recovered through future revenues to be generated by the drillships' operation and the concluded charter agreement with Petrobras.

10. PROPERTY, PLANT AND EQUIPMENT

		Equipment in operation										
		Drillships		Offshore drilling rigs						Onshore drilling rigs, equipment and bases		
	Equipment under construction	Amaralina Star	Laguna Star	Alaskan Star	Atlantic Star	Alpha Star	Gold Star	Lone Star	Olinda Star		Corporate	Total
Balance as of December 31, 2012	61,283	640,111	647,084	378,212	335,088	721,207	537,140	640,421	531,589	169,762	29,626	4,691,523
Additions	2,130	172	439	191	8	12	16	23	8	1,858	675	5,532
Disposals	-	-	-		-	-	-	-		-	(151)	(151)
Currency translation differences	-	-	-	-	-	-	-	-	-	1,282	216	1,498
Balance as of March 31, 2013	63,413	640,283	647,523	378,403	335,096	721,219	537,156	640,444	531,597	172,902	30,366	4,698,402
Balance as of December 31, 2013	237,056	639,435	648,258	378,480	335,192	721,214	537,949	640,477	532,319	164,102	28,831	4,863,313
Additions	135,266	5,129	1,848	341	303	485	9	20	240	2,985	722	147,348
Disposals	-	-	-	-	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	-	-	-	-	3,001	529	3,530
Balance as of March 31, 2014	372,322	644,564	650,106	378,821	335,495	721,699	537,958	640,497	532,559	170,088	30,082	5,014,191
<u>Accumulated depreciation</u>												
Balance as of December 31, 2012	-	(6,535)	(2,219)	(67,513)	(67,379)	(49,503)	(68,639)	(57,801)	(81,835)	(60,137)	(16,367)	(477,928)
Depreciation	-	(6,554)	(6,660)	(4,222)	(3,880)	(6,594)	(5,135)	(6,327)	(5,676)	(3,321)	(474)	(48,843)
Disposals	-	-	-	-	-	-	-	-	-	-	131	131
Currency translation differences	-	-	-	-	-	-	-	-	-	(674)	(81)	(755)
Balance as of March 31, 2013	-	(13,089)	(8,879)	(71,735)	(71,259)	(56,097)	(73,774)	(64,128)	(87,511)	(64,132)	(16,791)	(527,395)
Balance as of December 31, 2013	-	(32,553)	(28,412)	(84,074)	(82,332)	(75,429)	(88,761)	(82,834)	(104,367)	(66,008)	(16,909)	(661,679)
Depreciation	-	(6,499)	(6,552)	(4,094)	(3,678)	(6,436)	(5,007)	(6,227)	(5,636)	(3,019)	(440)	(47,588)
Disposals	-	-	-	-	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	-	-	-	-	(1,737)	(227)	(1,964)
Balance as of March 31, 2014	-	(39,052)	(34,964)	(88,168)	(86,010)	(81,865)	(93,768)	(89,061)	(110,003)	(70,764)	(17,576)	(711,231)
Property, plant and equipment, net												
December 31, 2013	237,056	606,882	619,846	294,406	252,860	645,785	449,188	557,643	427,952	98,094	11,922	4,201,634
March 31, 2014	372,322	605,512	615,142	290,653	249,485	639,834	444,190	551,436	422,556	99,324	12,506	4,302,960
Average useful life (years)		25	25	23	22	28	27	26	24	15	15	

The detailed cost of equipment under construction is as follows:

	Equipment under construction (Drillships)
Cost	
Balance as of December 31, 2012	61,283
Additions	2,130
Balance as of March 31, 2013	63,413
Balance as of December 31, 2013	237,056
Additions	135,266
Balance as of March 31, 2014	372,322

As of March 31, 2014 the balance of equipment under construction refers to the costs incurred in the Brava Star drillship construction, which total construction project cost (without an estimate of capitalized interest) is of approximately US$660 million, as described in Note 1. As of March 31, 2014 the unbilled costs by the shipyard (Samsung) and other suppliers amounts to US$170,637. The Company recognised these costs in PP&E against a provision recognized in accrued liabilities (Note 12).

Borrowing costs capitalized in PP&E for the three-month periods ended March 31, 2014 and 2013 amounted to US$3,280 and US$1,555, respectively (Note 25).

Borrowing costs are capitalized using the effective interest rates of each financing agreement described in Note 11.

The Group's assets which are pledged as security for financing agreements are also described in Note 11.

11. LOANS AND FINANCINGS

Financial institution	Funding type	Objective	Beginning period	Maturity	Contractual interest rate	Effective interest rate	Currency	March 31, 2014	December 31, 2013
Bradesco	Loan	Working capital	Aug 2013	Aug 2014	2.52%p.a.	2.52%p.a.	U.S. dollar	124,841	124,066
ING (leader arranger)	Financing	Gold Star rig construction[1]	Jul 2007	Dec 2017	Libor+1.15%p.a. to Libor+1.35%p.a.[2]	1.39%p.a.	U.S. dollar	235,916	244,707
ING (leader arranger)	Financing	Lone Star rig construction[3]	Jul 2007	Jan 2015	Libor+1.15%p.a.	1.39%p.a.	U.S. dollar	169,505	193,429
Santander, HSBC, Citibank (joint bookrunners)	Senior Notes ("Project Bond")	Refinance Alaskan Star and Atlantic Star rigs, and other corporate purposes	Jul 2011	Jul 2018	5.25%p.a.	5.55%p.a.	U.S. dollar	479,519	472,591
ING (leader arranger)	Financing	Olinda Star rig construction	Feb 2008	Jul 2014	Libor+1.40%p.a.	1.64%p.a.	U.S. dollar	78,013	93,616
Citibank and Santander (joint leader arrangers)	Financing	Alpha Star rig construction	Apr 2011	Jul 2017	Libor+2.50%p.a.	3.48%p.a.	U.S. dollar	378,121	393,741
BNP, Citi and ING (leader arrangers) and The Norwegian Ministry of Trade and Industry ("MTI")	Financing	Amaralina Star drillship construction	May 2012	Oct 2018[4]	Libor+2.75%	4.39%p.a.	U.S. dollar	382,133	392,702
BNP, Citi and ING (leader arrangers) and The Norwegian Ministry of Trade and Industry ("MTI")	Financing	Laguna Star drillship construction	May 2012	Dec 2018[4]	Libor+2.75%	4.59%p.a.	U.S. dollar	387,859	398,221
HSBC, BAML and Citibank (joint bookrunners)	Senior Unsecured Notes ("Corporate Bond")	Prepay working capital loans	Nov 2012	Nov 2019	6.25%p.a.	6.68%p.a.	U.S. dollar	701,806	690,185
						Total		2,937,713	3,003,258
						Current		692,280	609,896
						Non-current		2,245,433	2,393,362

(1) The repayment proceeds of this financing come from the charter receivables of the Lone Star offshore drilling rig.

(2) The interest rate is Libor plus 1.15% p.a. until the fifth anniversary as from the first principal repayment and thereafter is Libor plus 1.35% p.a.

(3) The repayment proceeds of this financing come from the charter receivables of the Gold Star offshore drilling rig.

(4) The maturity dates for MTI tranches for Amaralina Star and Laguna Star project financings are December 2020 and January 2021, respectively, unless the commercial banks tranche would not be extended to the same dates.

Changes in loans and financings

	Three-month period ended March 31, 2014	2013
Balance as of January 1,	3,003,258	3,415,547
Additions	-	26,147
Repayment of principal	(85,808)	(102,948)
Interest capitalized	3,280	1,555
Interest charged through profit and loss	24,904	30,309
Payment of interest	(10,468)	(13,796)
Transaction cost charged through profit and loss	1,995	2,188
Debt discounts charged through profit and loss	552	594
Balance as of March 31,	2,937,713	3,359,596

Loans and financings long term amortization schedule

For the years ending December 31,	Loans and financing	Transaction costs	Debt discounts	Net amount
2015	271,992	(5,277)	(1,440)	265,275
2016	340,728	(6,329)	(1,751)	332,648
2017	494,581	(5,009)	(1,596)	487,976
2018	467,435	(4,098)	(1,456)	461,881
2019	700,000	(1,156)	(1,191)	697,653
Total	2,274,736	(21,869)	(7,434)	2,245,433

Covenants

The financing agreements contain financial covenants and securities provided to lenders as described hereafter. Non compliance with such financial covenants could constitute a Restricted Payment Trigger Event, which would result in the borrower entity not being allowed to pay dividends, purchase, retire or otherwise distribute capital stock or make certain payments to related parties.

The financial covenants consists of: (i) a minimum requirement of Consolidated Tangible Net Worth; (ii) Consolidated Cash and Cash Equivalents and Marketable Securities; (iii) Interest Cover Ratio, that requires maintenance of a minimum Consolidated Adjusted EBITDA to Consolidated Net Interest Payable ratio (which calculations are subject to defined adjustments mainly related to borrowings to Project Finance); (iv) Leverage Ratio, which requires a maximum ratio of Consolidated Net Total Borrowings to Consolidated Adjusted EBITDA (which calculations are subject to defined adjustments mainly related to borrowings to Project Finance). Consolidated refers to the Group.

The financial covenants are assessed semi-annually based on the consolidated financial statements as of December 31 and June 30 of each year. As of December 31, 2013 the Group was in compliance with such restrictive clauses.

The indenture governing the Corporate Bond contains certain financial covenants that limit the Company's ability to incur additional indebtedness. The covenants are measured on the four most recent fiscal quarters for which financial statements are available and consist of: (i) Unconsolidated Interest Coverage Ratio and (ii) Consolidated Net Leverage Ratio. These financial covenants are not required to be measured on a regular basis and shall be assessed whenever additional indebtedness to be incurred by the Company, as required under the indenture.

Guarantees

The financings obtained by QGOG Constellation's subsidiaries in order to finance the construction of the offshore drilling rigs and drillships and for other corporate purposes are usually structured as Project Finance/Project Bond, therefore benefiting from a customary security package which includes guarantees such as assignment of the charter receivables, mortgages over the offshore drilling rigs and drillships, pledges over the shares of the equipment owners, charges over the relevant bank accounts held at the facility agents, including accounts into which the amounts payable under charter agreement are required to be paid, assignment of the relevant insurances along with corporate guarantees during pre-completion period. In addition, the terms of some of these financing debt instruments restrict the ability of project subsidiaries, to pay dividends, incur additional debt, grant additional liens, sell or dispose of assets and enter into certain acquisitions, mergers and consolidations, except as already established in such financing debt instruments.

This can be applied to the financings of the following offshore drilling rigs: Olinda Star, Gold Star, Lone Star, Alpha Star, Alaskan Star and Atlantic Star, and the Project Financing of Amaralina Star and Laguna Star drillships.

The Corporate Bond issued on November 9, 2012 is guaranteed on a senior unsecured basis by Constellation. In addition, the Company established an interest reserve account in favor of the collateral agent, which is fully funded by cash and/or letters of credit in an amount sufficient to provide for the payment of the next two succeeding interest payments.

12. ACCRUED LIABILITIES

Equipment under construction is recorded considering the incurred costs of the related project based on information provided by the shipyard and other suppliers. These costs are recognized in PP&E and the respective amounts of the unbilled costs are recognized as accrued liabilities, as follows:

	March 31, 2014	December 31, 2013
Equipment under construction:		
Brava Star drillship	170,637	42,920
Total	170,637	42,920

13. PROVISIONS

In the normal course of its business the Group engages in contracts with third parties which convey contractual obligations. The Group recognises provisions for contractual penalties which are more likely than not to be payable with respect to certain of its contracts. As of March 31, 2014 and December 31, 2013 the amount of US$7,525 corresponds to the contractual penalties of Amaralina Star and Laguna Star drillships, for which the Company's management does not expect the payable amount to materially differ from the estimate.

14. PROVISION FOR CONTINGENCIES

Labor, civil and tax claims

a) Provision for probable losses on labor, civil and tax claims:

During the normal course of its business activities, the Company has received labor and tax claims. Regarding each claim or exposure, Management has made an assessment of the probability that the matter resolution would ultimately result in a loss. Therefore, based on such assessment a provision to cover probable losses arising from labor claims was recorded. As of March 31, 2014 and December 31, 2013 the provisions for labor lawsuits included in "other non-current liabilities" are mainly related to hardship and retirement.

Changes in loss provision for labor claims are as follows:

	March 31, 2014	December 31, 2013
Balance as of January 1,	924	935
Additions	495	126
Reversals	(67)	(8)
Currency translation differences	51	(129)
Total	1,403	924

b) Claims assessed as possible losses by Management

Based on the in-house legal counsel and external legal advisors' opinions, these claims are not accrued in the unaudited condensed consolidated interim financial statements and consist of labor lawsuits (comprised mainly by compensation due to work related accidents and occupational diseases) in the amount of US$13,591 (US$15,268 as of December 31, 2013) and tax lawsuits in the amount of US$5,792 (US$5,378 as of December 31, 2013).

1) The main tax lawsuit assessed as possible loss refers to a Notice of Violation, received by QGOG, which was issued by the Rio de Janeiro tax authorities due to nonpayment of Services Tax ("ISS") in the city of Rio de Janeiro. QGOG argues, on appeal, that the operations tax jurisdiction was carried out in other places and in these collected taxes (ISS due to the site of the service provider). As of March 31, 2014, the estimated amount involved is US$4,904 (US$4,553 in December 31, 2013).

c) Tax, labor and social security matters

The Group enters into several transactions, agreements and operations which may be differently interpreted by third parties. Nevertheless, the Group’s interpretations and tax positions are supported by its in-house legal counsel and external legal advisors’ opinion.

15. DERIVATIVES

Under the terms of the Project Finance arrangements (Note 11), the Group is contractually required to manage its risk on floating interest rates by eliminating variable-to-fixed interest rate swaps on its long term variable rate loans. Accordingly, the interest rate swaps contracted by Management convert the variable component of interest rates to fixed rates ranging from 1.930% to 5.165% in order to mitigate such risk. The floating component of interest rate of all derivatives contracts is US$ LIBOR.

These swaps protect the Group from fluctuations in interest rates. As of March 31, 2014, the Group has interest rate swaps related to the loans funding Gold Star, Lone Star, and Alpha Star offshore drilling rigs, and Amaralina Star and Laguna Star drillships. The swap contracts cover the expected periods of the loans and terminate between 2014 and 2018.

Information on derivative contracts

Interest rate swaps US$ LIBOR/Pre-fixed rate

Financial institution	Loans and financings objective	Payable leg interest rate	Maturity	Notional amount Mar. 31, 2014	Notional amount Dec. 31, 2013	Fair value Mar. 31, 2014	Fair value Dec. 31, 2013
ING financing (leader arranger)	Gold Star rig construction	5.165% p.a.	Jul 2017	191,277	203,218	16,688	19,072
ING financing (leader arranger) (*)	Lone Star rig construction	5.165% p.a.	Jan 2015	162,373	184,061	3,746	5,600
Citibank and Santander financing (joint leader arranger) (*)	Alpha Star rig construction	1.930% p.a.	Jul 2017	381,934	397,919	9,579	10,588
BNP, Citibank and ING financing (joint leader arranger) (**)	Amaralina Star drillship construction	2.815% p.a.	Oct 2018	392,591	403,556	19,370	20,863
BNP, Citibank and ING financing (joint leader arranger) (**)	Laguna Star drillship construction	2.900% p.a.	Dec 2018	398,844	409,644	20,794	22,266
					Total amount	70,177	78,389
					Current liabilities	38,094	40,810
					Non-current liabilities	32,083	37,579

	Three-month periods ended March 31, 2014	Three-month periods ended March 31, 2013
Balance as of January 1,	78,389	148,360
Fair value adjustments through profit and loss	3,193	6,307
Fair value adjustments through other comprehensive income (loss)(*)	262	(7,060)
Cash payments	(11,667)	(17,894)
Total	70,177	129,713

(*) The Group has adopted the hedge accounting as from July 15, 2011, using derivative contracts related to Amaralina Star and Laguna Star drillships construction. Additional information on these instruments is included in Note 22. Accordingly, the effect of the changes in the fair value of these derivative contracts were recorded in “Other Comprehensive Income/(Loss)” until the completion of its construction and the disbursement of the Project Financing (Note 11). At the completion date of construction of each equipment, the fair value adjustments balance recognised in “Other Comprehensive Income/(Loss)” was capitalized.

Interest rate swap contracts exchanging floating interest rates for fixed interest rates are designated and effective as fair value hedges in respect of interest rates. During the periods presented, the hedge was effective in hedging the fair value.

Derivative contracts designated as cash flow hedges

Under interest rate swap contracts, the Group agrees to exchange the differences between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of cash flow exposures on the issued variable rate debt. The fair value of the interest rate swap at the end of the reporting period is determined by discounting the future cash flows using the yield curves, as disclosed below.

In connection with the Project Financing (Note 11) for the construction of Amaralina Star and Laguna Star drillships, the Group has a contractual commitment with the same financial institutions to contract derivatives as hedging instrument of the debt in relation to changes in LIBOR. Accordingly, the Group has swap contracts in connection with the rates, spreads, notional, terms and debt cash flows. The swap contracts were contracted on July 2011 and follow the Project Financing terms.

The following table details the notional amounts and remaining terms of interest contracts outstanding at the end of the reporting periods.

Interest rate swaps US$ LIBOR/Pre-fixed rate

Financial institution	Loans and financings objective	Payable leg interest rate	Maturity	Notional amount Mar. 31, 2014	Notional amount Dec. 31, 2013	Fair value Mar. 31, 2014	Fair value Dec. 31, 2013
BNP, Citibank and ING financing (joint leader arrangers)	Amaralina Star drillship construction	2.815%p.a.	Oct 2018	392,591	403,556	19,370	20,863
BNP, Citibank and ING financing (joint leader arrangers)	Laguna Star drillship construction	2.900%p.a.	Dec 2018	398,844	409,644	20,794	22,266

16. SHAREHOLDERS' EQUITY

Share capital

On July 26, 2013, the Company signed share subscription agreements with CGPE VI L.P. and CIPEF VI QGOG S.à.r.l. (together denominated "CIPEF VI") and Queiroz Galvão Oil & Gas International S.à.r.l. ("QGOG International") for the subscription of 18,750,000 Company's shares of US$16.00 each, with a nominal per share value of US$0.34, in the aggregate amount of US$300 million, consisting of US$250 million from CIPEF VI and US$50 million from QGOG International.

The transaction completion was subject to the compliance of certain conditions, including its approval by *CADE - Conselho Administrativo de Defesa Econômica* ("Administrative Council for Economic Defense"), the Brazilian antitrust authority, which occurred on August 16, 2013 and was published in the *Diário Oficial da União* ("Official Daily Gazette") on August 19, 2013. Under the Brazilian antitrust law, the parties must observe a waiting period of fifteen days from such publication to implement the transaction. Thus, the proceeds from the equity contribution were received in September 2013. The transaction costs amounted to US$396.

The Company's ultimate controlling party is the Queiroz Galvão family, who continued to be the indirect controlling shareholders of the Company through QGOG International after the capital increase previously described.

After the capital increase described above and the events described in "*Share Split*" and "*Share Dividend*" sections below, the Company's share capital amounts to US$63,200 comprised by 189,227,364 ordinary shares, with a nominal value of US$0.33, as follows:

		Rights over the amounts (1)		
Shareholders	Ordinary shares	Capital	Share premium	Total
Queiroz Galvão Oil & Gas International S.à.r.l	140,293,142	46,857	568,328	615,185
Constellation Coinvestment S.à.r.l.	15,570,123	5,200	63,075	68,275
Constellation Holding S.à.r.l.	17,739,099	5,925	71,861	77,786
CGPE VI L.P.	303,125	101	1,228	1,329
CIPEF VI QGOG S.à.r.l.	15,321,875	5,117	62,069	67,186
Total as of March 31, 2014	189,227,364	63,200	766,561	829,761

(1) Represents the shareholders rights over the amounts contributed based on the ownership interest at the balance sheet date.

The shareholders historical capital contributions were as follows: QGOG International, US$150,755, Constellation Coinvestment S.à.r.l. ("Capital 1"), US$196,063, Constellation Holding S.à.r.l. ("Capital 2"), US$223,552, CGPE VI L.P., US$4,844, and CIPEF VI QGOG S.à.r.l., US$244,826. Such amounts are net of transaction costs.

Capital 1 and Capital 2 are entities controlled by CIPEF Constellation Coinvestment Fund L.P. and Cipef V Constellation Holding L.P., respectively, which are limited partnerships organized under the laws of Delaware, United States of America.

Share Split

On January 29, 2013, the Company's shareholders approved a one-for-three forward share split of QGOG Constellation's common shares, immediately converting all of the Company's shares to shares with no par value.

Share Dividend

On January 29, 2013, the Company's shareholders approved a share dividend of 3,580,026 common shares. The shares were issued pro-rata to the Company's existing shareholders and the Company recorded a capital increase in the amount of US$1,193 using the share premium reserve. All references to common share values in these unaudited condensed consolidated interim financial statements have been retroactively adjusted to reflect this share dividend.

Legal reserve

In accordance with Luxembourg Corporate Law, the shareholders of a *société anonyme* must allocate 5% of the Company's annual profit of its individual financial information, after deduction of any losses brought forward from previous years, to the minimum legal reserve. Such allocation must consider the Company's individual financial statements prepared in accordance with Luxembourg Generally Accepted Accounting Principles ("LuxGAAP").

The above mentioned requirement will only cease when the legal reserve reaches an amount equivalent to 10% of the Company's issued share capital. Additionally, this reserve may not be distributed in the form of cash dividends, or otherwise, during the Company's existence. The appropriation to legal reserve becomes effective after approval at the general shareholders meeting.

On January 29, 2013, the Company's general shareholders meeting approved the transfer of US$5,683 from share premium to the legal reserve.

Dividends policy

Any future determination relating to Company's dividend policy will be made by the Board of Directors and will depend on a number of factors, including earnings, capital requirements, contractual restrictions, financial condition, future prospects and other factors that the Board of Directors may deem relevant. Nevertheless, the decision to distribute dividends will however be taken by the general shareholders meeting upon a proposal by the issuer's Board of Directors.

Additionally, any dividends paid by the Company will be subject to a Luxembourg withholding tax at a rate of 15% (17.65% if the dividend tax is not charged to the shareholder), subject to the exceptions provided by the Luxembourg tax law or by double tax treaties concluded by the Grand Duchy of Luxembourg and the country of the shareholders tax residency.

The withholding tax must be withheld from the gross distribution and paid to the Luxembourg tax authorities.

Other Comprehensive Items (OCI)

Cash flow hedging reserve

The hedging reserve consists of the effective portion of cash flow hedging instruments related to hedged financing transactions.

Foreign currency translation adjustments reserve

The currency translation adjustments reserve is used to record exchange adjustments arising from the translation of foreign subsidiaries' financial information.

Changes in Other Comprehensive Items

Changes in comprehensive income for the three-month periods ended March 31, 2014 and 2013 are as follows:

	Cash flow hedge fair value adjustments					
	Attributable to owners of the Group	Attributable to non-controlling interests	Total cash flow hedge fair value adjustments	Shares of investments other comprehensive income (loss)	Currency translation adjustments	Total
Balances as of December 31, 2012	3,395	2,779	6,174	(23,311)	18,432	1,295
Fair value adjustment on derivative contracts	3,883	3,177	7,060	-	-	7,060
Fair value adjustment on joint ventures' derivative contracts	-	-	-	1,394	-	1,394
Exchange differences arising during the period	-	-	-	-	613	613
Balances as of March 31, 2013	7,278	5,956	13,234	(21,917)	19,045	10,362
Balances as of December 31, 2013	5,553	4,545	10,098	(7,009)	12,237	15,326
Fair value adjustment on derivative contracts	(144)	(118)	(262)	-	-	(262)
Fair value adjustment on joint ventures' derivative contracts	-	-	-	(2,685)	-	(2,685)
Exchange differences arising during the period	-	-	-	-	1,672	1,672
Balances as of March 31, 2014	5,409	4,427	9,836	(9,694)	13,909	14,051

Non-controlling interests

The Group's unaudited condensed consolidated interim financial statements include Amaralina e Laguna, whose share capital is 55% owned by the Group. The portion of Amaralina and Laguna total shareholders' equity not attributable to the Group is included in non-controlling interests.

Profit per share

Basic and diluted profit per share amounts are calculated by dividing the profit for the period, all from continuing operations, attributable to ordinary equity holders of the parent by the Company's weighted average number of ordinary shares outstanding during the period.

	Three-month period ended March 31,	
	2014	2013
Profit attributable to the owners of the Company	77,378	51,986
Weighted average number of ordinary shares for calculation purposes (thousands of shares)	189,227	170,477
Basic and diluted profit per share	0.41	0.30

The Group has no potential dilutive shares. Therefore, diluted profit per share is equal to basic profit per share.

17. NET OPERATING REVENUE

The Group's operating revenue is mainly derived from charter agreements and related drilling services. As of March 31, 2014 and 2013, of the total revenues, 98% and 96%, respectively, are derived from one client, Petrobras.

Net operating revenue is presented after the following items:

	Three-month period ended March 31,	
	2014	2013
Operating revenue	269,139	266,341
Taxes levied on revenue:		
Social Integration Program (PIS)	(996)	(1,074)
Social Investment Program (COFINS)	(4,589)	(5,018)
Services Tax (ISS)	(1,168)	(1,452)
Net operating revenue	262,386	258,797

18. COST OF SERVICES AND OPERATING EXPENSES

	Three-month period ended March 31,					
	2014			2013		
Costs and expenses by nature	Cost of services	General and administrative expenses	Total	Cost of services	General and administrative expenses	Total
Payroll, charges and benefits	(52,487)	(7,673)	(60,160)	(57,046)	(7,002)	(64,048)
Depreciation	(47,350)	(238)	(47,588)	(48,560)	(283)	(48,843)
Materials	(14,881)	-	(14,881)	(17,645)	-	(17,645)
Maintenance	(15,099)	-	(15,099)	(11,850)	-	(11,850)
Insurance	(4,931)	-	(4,931)	(4,742)	-	(4,742)
Other (1)	(9,018)	(3,966)	(12,984)	(11,783)	(4,502)	(16,285)
	(143,766)	(11,877)	(155,643)	(151,626)	(11,787)	(163,413)

(1) Cost of services: mainly comprised of rig boarding transportation; lodging and meals; data transmission; among others.

General and administrative expenses: mainly comprised of transportation; information technology; external legal advisors; auditors; advisory services; among others.

19. OTHER INCOME (EXPENSES), NET

	Three-month period ended March 31, 2014	2013
Revenue from sales of PP&E	12	249
Other	85	-
Other income	97	249
Cost of PP&E sold	-	(20)
Transaction costs (*)	-	(1,449)
Other expenses	-	(1,469)
Total income (expenses), net	97	(1,220)

(*) Transaction costs written off due to the IPO's postponement (Note 1).

20. FINANCIAL EXPENSES, NET

	Three-month period ended March 31, 2014	2013
Interest on short-term investments	1,076	961
Financial income from related parties	4,131	930
Other financial income	44	22
Financial income	5,251	1,913
Financial charges on loans and financings	(27,451)	(33,091)
Derivative expenses	(3,193)	(6,307)
Financial expenses from related parties	(1,179)	(1,421)
Other financial expenses	(1,377)	(1,768)
Financial expenses	(33,200)	(42,587)
Foreign exchange rate variations, net	(219)	(627)
Financial expenses, net	(28,168)	(41,301)

21. TAXES

Most of the entities comprising the Group are located in jurisdictions that do not charge income tax. Certain of the consolidated entities operate in the Netherlands and Luxembourg, but none of these reported taxable income for the periods presented.

QGOG operates in Brazil, and the related taxes and contributions are as follows:

a) Recoverable taxes

	March 31, 2014	December 31, 2013
Social Integration Program ("PIS") and Social Investment Program ("COFINS")	175	1,832
Income tax (IRPJ) and social contribution (CSLL) (1)	684	147
Total	859	1,979

(1) Mainly refers to withholding taxes on Petrobras invoices.

b) Taxes payables

	March 31, 2014	December 31, 2013
Taxes on revenue (PIS and COFINS)	199	424
Income tax (IRPJ) and social contribution (CSLL)	2,806	3,349
Services Tax (ISS)	2,506	952
State VAT (ICMS)	121	135
Others	180	191
Total	5,812	5,051

c) Deferred tax assets

	March 31, 2014	December 31, 2013
Taxes on revenue (PIS/COFINS/ISS)	2,079	211
Total	2,079	211
Current	1,383	153
Non-current	696	58

d) Deferred tax liabilities

	March 31, 2014	December 31, 2013
Income tax (IRPJ) and social contribution (CSLL) (*)	4,992	5,136
Total	4,992	5,136

(*) Deferred tax liabilities effect related to the deemed cost adjustments.

e) Effect of income tax results

The tax rate used for the three-month periods ended March 31, 2014 and 2013 reconciliations below refers to the corporate nominal tax rate of 34% in accordance with the Brazilian tax law, jurisdiction in which QGOG (Brazilian subsidiary) operates.

The amounts reported as income tax expense in the consolidated statement of operations are reconciled from the nominal rate to the effective rate as follows:

	Three-month period ended March 31,	
	2014	2013
Profit before taxes	79,909	54,951
Income tax and social contribution at nominal rate	869	279
Adjustments to derive effective tax rate:		
Non-deductible expenses	(567)	(596)
Tax loss carryforwards utilized (i)	-	92
Other	9	370
Taxes	311	145
Effective tax rate	0.4%	0.3%

(i) As of March 31, 2014 and December 31, 2013, QGOG has tax loss carryforwards in the amounts of US$1,377 and US$1,330, respectively, for which no deferred tax assets are recorded. QGOG is managed in a consolidated basis along with the Group, thus there is no estimate of taxable profits in individual terms aiming the compensation of tax loss carryforwards in the foreseeable future.

Transitional Tax System (RTT)

For purposes of determining income tax and social contribution amounts regarding the Brazilian subsidiaries, in 2008 was issued the Provisional Measure ("MP") 449/08, subsequently converted into Law 11,941/09 that changed the Brazilian Corporate Law (Law 6,404/76) in order to grant the entities the option to adopt the provisions of the Transitional Tax System ("RTT"). These changes allowed the entities to neutralize the accounting effects derived from Law 11,638/07, and control the reconciling items between the accounting and tax books in the Taxable Income Assessment Book ("LALUR") or auxiliary records, in a way that the new introduced accounting framework (IFRS) would not impact the income tax and social contribution calculation.

On May 14, 2014, the Law 12,973/14 was enacted to cease the applicability of the RTT. The main objective of such Law is to establish the IFRS also as basis for the tax adjustments for income tax and social contribution calculation. The Group is still evaluating the impacts in its operations, as the referred Law is applicable for fiscal years beginning in January 1, 2015 and the early adoption is permitted. According to preliminary studies, the Group's management does not expect any material impact on the consolidated financial statements.

22. FINANCIAL INSTRUMENTS

a) General considerations

The Group manages its capital to ensure that its entities will be able to continue as a going concern while maximizing the return to shareholders through the optimization of debt and equity mix.

The Group's main financial instruments are cash and cash equivalents, short-term investments, restricted cash, trade and other receivables and payables, loans and financings and derivative instruments, as follows:

		March 31, 2014		December 31, 2013	
	Category	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Cash and bank deposits	Loans and receivables	40,945	40,945	48,896	48,896
Cash equivalents	Fair value through profit or loss	148,907	148,907	168,634	168,634
Short-term investments	Fair value through profit or loss	295,729	295,729	283,399	283,399
Restricted cash	Fair value through profit or loss	53,360	53,360	38,674	38,674
Trade and other receivables	Loans and receivables	85,039	85,039	90,941	90,941
Receivables from related parties	Loans and receivables	288,803	288,803	245,507	245,507
Financial liabilities					
Loans and financings	Other financial liabilities	2,937,713	2,954,702	3,003,258	3,003,713
Trade and other payables	Other financial liabilities	30,271	30,271	27,238	27,238
Payables to related parties	Other financial liabilities	236,759	236,759	233,315	233,315
Derivatives	Fair value through profit or loss	70,177	70,177	78,389	78,389

The Group has no forward contracts, options, *swaptions* (swaps with non-exercise options), flexible options, derivatives embedded in other products or exotic derivatives. The Group does not conduct derivative transactions for speculative purposes, thus reaffirming its commitment to a policy of conservative cash management.

Management believes that there is no significant risk of short-term fluctuations in the day-rates on charter agreements due to the respective agreements being long-term.

Except for loans and financings, Management also believes that the carrying amounts of the remaining financial instruments are not significantly different from their fair value as it considers that interest rates on such instruments are not significantly different from market rates.

Additionally, the amounts of trade accounts receivables and payables reported in these unaudited condensed consolidated interim financial statements do not significantly differ from their fair value due to the turnover of these accounts being of approximately 30 days.

b) Fair value hierarchy

IFRS 7 - *Financial Instruments: Disclosures* defines fair value as the value or price that would be received to sell an asset or paid to transfer a liability in a transaction between participants in an ordinary market on the measurement date. IFRS 7 clarifies that fair value shall be based on assumptions that market participants use when measuring a value or price for an asset or a liability and establishes a hierarchy that prioritizes the information considered to develop those assumptions.

The fair value hierarchy gives greater weight to available market information (i.e. observable data) and less weight to information related to data without transparency (i.e. unobservable data). Additionally, it requires that the entity consider all aspects of nonperformance risk, including the entity's own credit, to measure the fair value of a liability.

IFRS 7 also establishes a three levels hierarchy to be used in order to measure and disclose the fair value. A categorization tool in the fair value hierarchy is based on the lowest level of "input" significant for its measurement. A description of the three hierarchical levels is as follows:

Level 1 - The "inputs" are determined based on prices in an active market for identical assets or liabilities at the measurement date. Additionally, the entity must be able to trade in an active market and the price cannot be adjusted by the entity.

Level 2 - The "inputs" are other than prices as determined by Level 1 that are observable for the asset or liability, directly or indirectly. The "inputs" level include two prices in an active market for similar assets or liabilities, prices in an inactive market for identical assets or liabilities, or "inputs" that are observable or can corroborate the observation of market data by correlation or other means for substantially every part of the asset or liability.

Level 3 - The "inputs" are those unobservable from minor or no market activity. These "inputs" represent Management's best estimates as market participants could assign value or price for these assets or liabilities. Generally, the assets and liabilities are measured using Level 3 pricing models, discounted cash flow, or similar methods that require significant judgments or estimates.

According to IAS 39 - *Financial Instruments: Recognition and Measurement*, the Group measures its cash equivalents, short-term investments, restricted cash and derivative financial instruments at fair value. Cash equivalents, short-term investments and restricted cash are classified as Level 1 since they are measured using market prices for identical instruments. Derivative financial instruments are classified as Level 2 since they are measured using similar financial instruments.

Financial instruments fair value measurement

The Group assessed the evaluation of financial assets and liabilities in relation to its market values or its effective recoverable amount, using available information and best practices and methodologies of market valuations for each situation.

Market data information interpretation about methodologies choice requires a higher level of judgment and establishment of reasonable estimate to achieve the fair value. Consequently, the estimate presented may not indicate, necessarily, the amounts that maybe obtained in current market. The use of different hypothesis to fair values calculation can result in significant effect in obtained values.

The method used to assess the derivatives fair value, represented exclusively by interest rate swaps, was obtained by inputs that are observable or can corroborate the observation of market data by correlation or other means for substantially every part of the asset or liability.

For securities that has quoted price in active markets (Project Bond and Corporate Bond), the fair value is equal to its last quoted price at the balance sheet date obtained from Bloomberg, multiplied by the number of notes in circulation.

For contracts where the current conditions are similar to those in which they originated or that do not have parameters for quotation or contract, fair values are similar to its carrying amounts.

In the evaluation carried out for the purpose of determining the fair value of assets and liabilities measured at amortized cost method, it was not considered the applicability of this adjustment, due to the following reasons:

- ✓ Trade and other receivables and payables: very short-term of maturity; and
- ✓ Loans and financings (other than the Project Bond and the Corporate Bond) and related parties: the fair value information has not been disclosed for these instruments because fair value cannot be measured reliably.

c) Financial risk management

The Group is exposed to liquidity, credit and market risks. Management believes that the Group's principal market risk is its exposure to interest rate risk, as discussed below.

<u>Liquidity risk</u>

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built a liquidity risk management framework for managing the Group's short and long-term funding and liquidity management requirements. The Group manages liquidity risk by a combination of maintaining adequate reserves, banking facilities and reserve borrowing facilities (Note 11) and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group cultivates relationships with specific lenders and continually monitors its funding needs together with these lenders. The Group manages the majority of its long-term financing on a project-by-project basis. Such financing is arranged as required to support the Group's operations and growth.

As of March 31, 2014, the Group presents working capital deficiency in the amount of US$239,459 (US$40,891 as of December 31, 2013), mainly as a result of the current investments. The Group's strategy in relation to this working capital deficiency is described in Note 1.

The following table details the Group's liquidity analysis for its non-derivative financial liabilities and related derivative financial instruments. The table has been drawn up based on the undiscounted contractual cash inflows and outflows for the financial instruments.

When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period:

Period	Loans and financings	Derivatives	Trade payables	Related parties	Total
2014	622,783	30,126	30,271	4,663	687,843
2015	518,836	26,906	-	7,895	553,637
2016	435,287	11,888	-	7,927	455,102
2017	578,656	1,996	-	2,755	583,407
2018	532,914	(584)	-	9,931	542,261
After 2018	743,750	-	-	393,063	1,136,813
Total	3,432,226	70,332	30,271	426,234	3,959,063

Credit risk

Credit risk refers to the risk that counter-party will default on its contractual obligations resulting in financial loss to the Group. Financial instruments that potentially subject the Group to concentrations of credit risk are primarily cash and cash equivalents, trade receivables and receivables from related parties. It is the Group's practice to place its cash and cash equivalents in time deposits at financial institutions with high credit ratings or at mutual funds, which invest exclusively in high quality money market instruments. The Group limits the exposure amount to any one financial institution to minimize its credit risk exposure.

For the three-month period ended March 31, 2014 Petrobras has accounted for 98% of total revenues. Therefore, management considers that the credit risk arising from this concentration is minimal considering that Petrobras is a government controlled entity with a history of full payment and of being respectful of contractual rights.

Petrobras is an independent third party of the Group and has valid contracts until late 2034.

Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts. The Group is exposed to fluctuations in US$ LIBOR interest rates charged on its loans and financings as reported in Note 11. As discussed in Note 15, the Group manages this interest rate risk by eliminating variable-to-fixed interest rate swaps.

As a result of the swaps in place at the balance sheet date, the Group's exposure to changes in interest rate expense as a result of fluctuations in US$ LIBOR is in respect of changes in fair values of the respective interest rate swaps. As discussed in Note 15, these interest rate swaps are held at fair value in the statement of financial position. The fair value of these instruments is affected by factors including market expectations for future changes to US$ LIBOR. Changes to these expectations affect the value of the Group's swaps, producing effects in the statement of operations and statement of comprehensive income unless such changes are capitalized.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period and considers the effects of an increase or decrease of 0.1 percent on outstanding loans and financings and the effects of either an increase or a decrease of 0.1 percent in the interest curve (LIBOR), and its impacts in the swaps mark to market on the date of the unaudited condensed consolidated interim financial statements. For floating rate liabilities (US$ LIBOR plus spread), the analysis is prepared assuming the liability amount outstanding at the end of the reporting period was outstanding for the entire period. A 0.1 percent increase or decrease in US$ LIBOR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the US$ LIBOR had been 0.1 percent higher/lower and all other variables were held constant, the Group's:

- ✓ Profit for the three-month periods ended March 31, 2014 and 2013 would increase/(decrease) by US$146 and US$45, respectively. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings (US$ LIBOR plus spread); and

- ✓ Other comprehensive income for the three-month periods ended March 31, 2014 and 2013 would decrease/increase by US$791 and US$874, respectively. This is mainly due as a result of the changes in the fair value of the cash flow hedges.

d) Capital management

The Group manages its capital structure, which consists of the relation between financial debt and shareholders' equity in accordance with best market practices, as follows:

	March 31, 2014	December 31, 2013
Loans and financings [a]	2,937,713	3,003,258
Cash transactions [b]	(538,941)	(539,603)
Net debt	2,398,772	2,463,655
Shareholders' equity [c]	1,983,798	1,904,853
Net debt ratio [(a) + (b)] ÷ [(a) + (b) + (c)]	55%	56%

(a) Consider all loans and financings.

(b) Includes cash and cash equivalents, short-term investments and restricted cash.

(c) Includes all shareholders' equity accounts managed as capital.

23. INSURANCE

As of March 31, 2014 and December 31, 2013, major assets or interests covered by insurance policies and respective amounts are summarized below:

	March 31, 2014	December 31, 2013
Civil liability	2,207,185	2,125,044
Operating risks	5,488,695	5,631,040
Operational headquarter and others	13,306	12,328
Total	7,709,186	7,768,412

24. PENSION PLAN

The Company, through its subsidiary QGOG, offers a private defined contribution pension plan to all employees and management. Under the pension plan, up to 12% of the monthly salary is contributed by the employee and up to 6.5% by the employer, according to the employee's seniority level. The pension plan is managed by Bradesco Vida e Previdência S.A.. When employees choose to abandon the plan before the end of payments, the contributions still payable are reduced to the amount already paid by QGOG. QGOG's only obligation to the Pension Plan is to make its specified contributions.

For the three-month periods ended March 31, 2014 and 2013, contributions payable by QGOG at rates specified by the plan rules amounted to US$560 and US$601, respectively.

25. ADDITIONAL INFORMATION ON CASH FLOWS

	Three-month period ended March 31,	
	2014	2013
Non-cash investing activities:		
Recognition of accrued costs of the drillship under construction	127,717	-
Borrowing costs capitalized, net of hedging adjustments	3,280	1,555
	130,997	1,555

26. SEASONALITY

There is no seasonality impact over the Group's charter agreements and related drilling services.

27. SUBSEQUENT EVENTS

FPSO Cidade de Ilhabela milestone payment

On April 9, 2014 the Group made an equity contribution to Guará Norte S.à.r.l. amounting to US$10,155, in connection with the twelfth milestone of the FPSO Cidade de Ilhabela construction contract.

FPSO Cidade de Maricá milestone payment

On April 17, 2014 the Group made a payment to Alfa Lula Alto S.à.r.l. amounting to US$7,399 through an equity contribution and a loan amounting to US$2,664 and US$4,735, respectively, in connection with the fifth milestone of the FPSO Cidade de Maricá construction contract.

Urca Drilling B.V. equity contribution

On April 24, 2014 the Group made an equity contribution to Urca Drilling B.V. amounting to US$2,734, in connection with the Urca semi-submersible drilling rig construction contract.

Group's working capital credit line

On May 9, 2014, the Group signed a working capital credit line agreement with Bradesco, which amounts to US$150 million, with a 3-year term bearing interest rate at LIBOR plus 3.05% p.a.. The Company will also incur in a commitment fee of 0.92% p.a. over the amounts of credit line not used. Until the present date the Company did not use this credit line.

Brava Star drillship

On May 26, 2014, the Group signed a three-year contract to charter and render the operating services within the pre-salt area offshore Brazil, using the Brava Star drillship to the consortium BM-S-11, which is comprised by Petrobras (operator), BG E&P Brasil Ltda. and Petrogal. The start of operations is expected to occur by March 2015.

28. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved by the Company's management and authorized for issue on May 26, 2014.