

QGOG Constellation S.A.

Unaudited Condensed Consolidated Interim
Financial Statements as of June 30, 2017 and for
the Three and Six-month Periods Then Ended and
Report on Review of Interim Financial Statements

Deloitte Touche Tohmatsu Auditores Independentes

Atendimento Prisma

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying consolidated balance sheet of QGOG Constellation S.A. (the "Company") as of June 30, 2017 and the related consolidated statements of income and comprehensive income for the three and six-month periods then ended and the consolidated statements of changes in shareholders' equity and of cash flows for the six-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 Standard 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

Except for the matter described in the "Basis for Qualified Conclusion" section of our report, 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.

Basis for Qualified Conclusion

Partnership with Sete Brasil Participações S.A. and its subsidiaries - investments in associates

The Company is a minority shareholder in the associate entities Urca Drilling B.V., Bracuhy Drilling B.V. and Mangaratiba Drilling B.V. (all together denominated "Investees"). The majority shareholder of these Investees is Sete International One GmbH ("Sete International"), a subsidiary of Sete Brasil Participações S.A. ("Sete Brasil"). As of June 30, 2017, the Company's 15% (fifteen percent) equity participation in the Investees is US\$0 thousand (US\$0 thousand as of December 31, 2016).

As disclosed in Note 9 to the condensed consolidated interim financial information, as of June 30, 2017, the Investees presents shareholders' equity deficiency in the aggregate amount of US\$1,297,912 thousand (shareholders' equity deficiency in the aggregate amount of US\$1,254,936 thousand as of December 31, 2016) and total comprehensive losses in the aggregate amount of US\$15,092 thousand and US\$42,950 thousand for the three and six-month periods then ended, respectively (total comprehensive losses in the aggregate amount of US\$8,872 thousand and US\$42,292 thousand for the three and six-month periods ended June 30, 2016, respectively). Such balances have not been audited and/or reviewed by any independent auditors.

Sete Brasil is facing funding and liquidity difficulties to meet its operational and financing commitments in order to complete the construction of its semi-submersible offshore drilling rigs (including those related to the aforementioned Investees), and thus on April 29, 2016, it decided to file for a judicial recovery request. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Investees' ability to continue as a going concern.

Until the date of this report, we were unable to obtain sufficient appropriate review evidence about the Company's investment amounts in the Investees as of June 30, 2017, the Company's share of results on the Investees for the three and six-month periods then ended and related disclosure in Note 9 to the condensed consolidated interim financial information. Consequently, we were unable to determine whether any adjustments or additional disclosures to the accompanying notes of the Investees balances as of June 30, 2017 and for the three and six-month periods then ended were due necessary.

Qualified Conclusion

Based on our review, except for the possible effects, if any, of the matter described in the "Basis for Qualified Conclusion" section of our report, 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 consolidated financial position of the Company as of June 30, 2017, and its financial performance for the three and six-month periods then ended and its consolidated cash flows for the six-month period then ended, in accordance with IAS 34, as issued by the IASB.

Emphasis of Matter

Partnership with SBM Offshore N.V. and its subsidiaries - contingent liability

We draw attention to Note 9 to the condensed consolidated interim financial information, which discloses 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 Offshore N.V. and its subsidiaries, related to operations in Brazil. Our conclusion is not qualified in respect of this matter.

August 24, 2017


DELOITTE TOUCHE TOHMATSU
Auditores Independentes
Rio de Janeiro, Brazil

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2017
(Amounts expressed in thousands of U.S. dollars - US\$'000)

<u>ASSETS</u>	<u>Note</u>	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
CURRENT ASSETS			
Cash and cash equivalents	3	208,918	293,189
Short-term investments	4	173,712	113,866
Restricted cash	5	37,749	43,222
Trade and other receivables	6	66,601	81,050
Inventories	7	185,652	184,691
Recoverable taxes	20.a	7,072	4,005
Deferred mobilization costs		9,287	10,999
Receivables from related parties	8	1,153	3,034
Other current assets		<u>23,000</u>	<u>10,226</u>
Total current assets		<u>713,144</u>	<u>744,282</u>
NON-CURRENT ASSETS			
Receivables from related parties	8	353,340	339,096
Derivatives	14	297	946
Other non-current assets		1,100	999
Deferred mobilization costs		2,279	6,584
Recoverable taxes	20.a	6,939	5,840
Deferred tax assets	20.c	8,904	7,505
Investments	9	252,169	253,268
Property, plant and equipment, net	10	<u>3,838,914</u>	<u>3,921,943</u>
Total non-current assets		<u>4,463,942</u>	<u>4,536,181</u>
TOTAL ASSETS		<u>5,177,086</u>	<u>5,280,463</u>

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

Atendimento Prisma

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2017
(Amounts expressed in thousands of U.S. dollars - US\$'000)

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>Note</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>
CURRENT LIABILITIES			
Loans and financings	11	460,334	674,085
Payroll and related charges		25,500	31,046
Derivatives	14	7,178	12,784
Trade and other payables		30,230	29,488
Payables to related parties	8	786	2,049
Taxes payables	20.b	1,812	2,317
Provisions	12	1,212	1,230
Deferred revenues		54,032	62,741
Other current liabilities		69,919	65,251
Total current liabilities		<u>651,003</u>	<u>880,991</u>
NON-CURRENT LIABILITIES			
Loans and financings	11	1,481,745	1,521,604
Payables to related parties	8	320,289	309,871
Derivatives	14	1,541	3,853
Deferred revenues		10,794	34,397
Other non-current liabilities		1,439	1,604
Total non-current liabilities		<u>1,815,808</u>	<u>1,871,329</u>
TOTAL LIABILITIES		<u>2,466,811</u>	<u>2,752,320</u>
SHAREHOLDERS' EQUITY			
Share capital	15.a	63,200	63,200
Share premium	15.a	766,561	766,561
Transaction costs on issuance of shares		(9,721)	(9,721)
Reserves	15.b/d	(19,221)	(18,352)
Retained earnings		1,854,151	1,678,422
Equity attributable to the owners of the Group		2,654,970	2,480,110
Equity attributable to non-controlling interests	15.e	55,305	48,033
TOTAL SHAREHOLDERS' EQUITY		<u>2,710,275</u>	<u>2,528,143</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>5,177,086</u>	<u>5,280,463</u>

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

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF OPERATIONS
 FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2017
 (Amounts expressed in thousands of U.S. dollars - US\$'000, except per share amounts)

	Note	Three-month period ended June 30,		Six-month period ended June 30,	
		2017	2016	2017	2016
NET OPERATING REVENUE	16	249,423	289,047	507,221	567,953
COST OF SERVICES	17	(133,135)	(137,937)	(264,308)	(266,541)
GROSS PROFIT		116,288	151,110	242,913	301,412
General and administrative expenses	17	(7,869)	(11,509)	(15,718)	(21,223)
Other income	18	453	9,255	924	9,333
Other expenses	18	(2,313)	(12)	(2,313)	(18)
OPERATING PROFIT		106,559	148,844	225,806	289,504
Financial income	19	4,136	3,204	7,914	6,767
Financial expenses	19	(31,466)	(33,683)	(62,270)	(68,147)
Foreign exchange variation loss, net	19	(36)	(234)	(102)	(245)
FINANCIAL EXPENSES, NET		(27,366)	(30,713)	(54,458)	(61,625)
Share of results of investments	9	10,340	3,043	12,926	(6,138)
PROFIT BEFORE TAXES		89,533	121,174	184,274	221,741
Taxes	20.d	62	1	(2,025)	(8,234)
PROFIT FOR THE PERIOD		89,595	121,175	182,249	213,507
Profit attributable to:					
Owners of the Group		83,075	114,130	175,729	199,937
Non-controlling interests		6,520	7,045	6,520	13,570
Profit per share (in U.S. dollars - US\$)					
Basic	15.f	0.44	0.60	0.93	1.06
Diluted	15.f	0.44	0.60	0.93	1.06

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

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE
 INCOME FOR THE THREE AND SIX-MONTH PERIOD ENDED JUNE 30, 2017
 (Amounts expressed in thousands of U.S. dollars - US\$'000)

	Note	Three-month period ended June 30,		Six-month period ended June 30,	
		2017	2016	2017	2016
PROFIT FOR THE PERIOD		89,595	121,175	182,249	213,507
OTHER COMPREHENSIVE INCOME/(LOSS)					
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges fair value adjustments	14/15.d	(530)	(3,097)	1,811	(14,881)
Share of investments' other comprehensive income	9/15.d	(785)	(5,901)	230	(16,429)
Foreign currency translation adjustments	15.d	(3,537)	7,480	(2,158)	13,174
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>84,743</u>	<u>119,657</u>	<u>182,132</u>	<u>195,371</u>
Comprehensive income attributable to:					
Owners of the Group		82,454	113,185	174,860	184,643
Non-controlling interests		2,289	6,472	7,272	10,728

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

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OGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
 FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017
 (Amounts expressed in thousands of U.S. dollars - US\$'000)

	Note	Reserves							Equity attributable to				
		Share capital	Share premium	Transaction costs on issuance of shares	Legal	Cash flow hedges fair value adjustments	Share of investments' other comprehensive loss	Foreign currency translation adjustments	Total reserves	Retained earnings	Owners of the Group	Non-controlling interests	Total shareholders' equity
BALANCE AS OF DECEMBER 31, 2015		63,200	766,561	(9,721)	5,683	(6,042)	(13,872)	(18,851)	(33,082)	1,634,115	2,421,073	27,345	2,448,418
Profit for the period		-	-	-	-	-	-	-	-	199,937	199,937	13,570	213,507
Payment of dividends	15.c	-	-	-	-	-	-	-	-	(94,416)	(94,416)	-	(94,416)
Other comprehensive loss for the period	15.d	-	-	-	-	(12,039)	(16,429)	13,174	(15,294)	-	(15,294)	(2,842)	(18,136)
Total comprehensive income for the period		-	-	-	-	(12,039)	(16,429)	13,174	(15,294)	105,521	90,227	10,728	100,955
BALANCE AS OF JUNE 30, 2016		<u>63,200</u>	<u>766,561</u>	<u>(9,721)</u>	<u>5,683</u>	<u>(18,081)</u>	<u>(30,301)</u>	<u>(5,677)</u>	<u>(48,376)</u>	<u>1,739,636</u>	<u>2,511,300</u>	<u>38,073</u>	<u>2,549,373</u>
BALANCE AS OF DECEMBER 31, 2016		63,200	766,561	(9,721)	5,683	(3,749)	(12,156)	(8,130)	(18,352)	1,678,422	2,480,110	48,033	2,528,143
Profit for the period		-	-	-	-	-	-	-	-	175,729	175,729	6,520	182,249
Other comprehensive income for the period	15.d	-	-	-	-	1,059	230	(2,158)	(869)	-	(869)	752	(117)
Total comprehensive income for the period		-	-	-	-	1,059	230	(2,158)	(869)	175,729	174,860	7,272	182,132
BALANCE AS OF JUNE 30, 2017		<u>63,200</u>	<u>766,561</u>	<u>(9,721)</u>	<u>5,683</u>	<u>(2,690)</u>	<u>(11,926)</u>	<u>(10,288)</u>	<u>(19,221)</u>	<u>1,854,151</u>	<u>2,654,970</u>	<u>55,305</u>	<u>2,710,275</u>

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

OGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

(Amounts expressed in thousands of U.S. dollars - US\$'000)

	Note	Six-month period ended June 30,	
		2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		182,249	213,507
Adjustments to reconcile profit for the period to net cash provided by operating activities:			
Depreciation of property, plant and equipment	10/17	114,794	118,139
Gain on sales of property, plant and equipment, net	18	(17)	(58)
Share of results of investments	9	(12,926)	6,138
Recognition of deferred mobilization costs		6,051	6,335
Recognition of deferred revenues, net of taxes levied		(33,972)	(30,067)
Financial expenses on loans and financings	11.a/19	55,590	58,470
Financial income from related parties, net	8/19	(3,070)	(2,725)
Fair value loss on derivatives	14/19	2,528	5,192
Provision for employee profit sharing plan		4,543	11,609
Other financial expenses, net	19	(590)	688
Taxes	20.d	2,025	8,234
Changes in working capital:			
Increase in short-term investments		(60,432)	123,410
Decrease in trade and other receivables		14,293	8,497
Decrease/(increase) in receivables from related parties		1,872	(1,906)
Increase in inventories		(1,791)	(5,611)
Decrease/(increase) in recoverable taxes		(427)	4,113
Decrease/(increase) in deferred taxes		(115)	260
Increase in deferred mobilization costs		(35)	(30)
Decrease/(increase) in other assets		(8,985)	12,700
Decrease in payroll and related charges		(9,834)	(23,122)
Increase in trade and other payables		842	1,194
Increase in payables to related parties		-	8
Decrease in taxes payables		(456)	(732)
Increase in deferred revenues		1,670	20,820
Increase/(decrease) in provisions		-	(2,264)
Increase/(decrease) in other liabilities		8,011	(10,513)
Cash provided by operating activities		261,818	522,286
Income tax and social contribution paid		(7,577)	(17,696)
Net cash provided by operating activities		254,241	504,590
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received	9	6,600	-
Capital decrease in investments	9	1,075	7,798
Capital contributions in investments	9	-	(7,426)
Acquisition of property, plant and equipment	10	(32,059)	(46,439)
Proceeds from sales of property, plant and equipment	18	20	76
Net cash used in investing activities		(24,364)	(45,991)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments to related parties		(2,009)	-
Dividends paid	15.c	-	(94,416)
Interest paid on loans and financings	11.a	(52,412)	(53,454)
Cash payments on derivatives	14	(7,986)	(13,881)
Restricted cash	5	5,473	(20,983)
Repayment of principal on loans and financings	11.a	(256,788)	(218,870)
Net cash used in financing activities		(313,722)	(401,604)
Increase/(decrease) in cash and cash equivalents		(83,845)	56,995
Cash and cash equivalents at the beginning of the period	3	293,189	154,810
Effects of exchange rate changes on the balance of cash held in foreign currencies		(426)	345
Cash and cash equivalents at the end of the period	3	208,918	212,150

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

QGOG CONSTELLATION S.A.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS AS OF JUNE 30, 2017 AND FOR THE
THREE AND SIX-MONTH PERIODS THEN ENDED
(Amounts expressed in thousands of U.S. dollars - US\$ '000, unless otherwise stated)

1. GENERAL INFORMATION

QGOG Constellation S.A. (the “Company”, or together with its subsidiaries, the “Group”) was incorporated in Luxembourg on August 30, 2011, as a “*société anonyme*” (i.e., public company limited by shares) and is indirectly controlled by members of the Queiroz Galvão family. The Company has its registered address at 8-10, Avenue de la Gare, L-1610 Luxembourg.

The Company’s objectives are: (i) to hold investments in Luxembourg or foreign countries; (ii) 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 deemed necessary, and generally to hold, manage, develop, sell or dispose of the same, in whole or in part, for such consideration as deemed necessary, and in particular for shares or securities of any entity purchasing the same; (iii) 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; (iv) to borrow and raise funds in any manner and to secure the repayment of any funds borrowed; and (v) to perform any operation that is directly or indirectly related to its purpose. The Company’s fiscal year is from January 1 to December 31.

The Company holds investments in subsidiaries that own, charter and operate onshore and offshore drilling rigs and drillships for exploration and production entities operating mainly in Brazil. The Group currently charters its onshore and offshore drilling rigs and drillships mainly to *Petróleo Brasileiro S.A. – Petrobras*, which is an independent third party of the Group and has valid charter and service-rendering agreements until 2018. As disclosed in Note 9, the Group, through certain of its associate and joint venture entities, also has valid agreements with *Petrobras* until 2036.

The Group is currently pursuing opportunities to expand and diversify its client portfolio, including in new locations. Accordingly, subsidiaries/offices have already been established in important international markets such as London (UK) and Houston (USA), specifically focusing on strategic markets such as India, West Africa and the Gulf of Mexico.

Also, the Group is prepared to take advantage of the opportunities that will arise in the Brazilian market as a result of the recent changes in Brazil’s oil and gas regulation issued by National Petroleum Agency (“*Agência Nacional do Petróleo - ANP*”).

Management believes that the aforementioned strategies, combined with cost containment measures, capital expenditures discipline and its strong operational track record, will position the Group to benefit from the expected recovery in the oil and gas industry.

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

a) Fleet of drilling rigs and drillships

Offshore drilling units

Drilling units	Type	Start of operations	Contract expiration date (current or previous)	Customer (current or previous)
Atlantic Star	Semi-submersible	1997	July 2018	Petrobras
Olinda Star	Semi-submersible	2009	August 2017 (Note 1.b)	Karoon Petróleo e Gás Ltda.
Gold Star	Semi-submersible	2010	February 2018	Petrobras
Lone Star	Semi-submersible	2011	March 2018	Petrobras
Alpha Star	Semi-submersible	2011	July 2017	Petrobras
Amaralina Star	Drillship	2012	September 2018	Petrobras
Laguna Star	Drillship	2012	November 2018	Petrobras
Brava Star	Drillship	2015	August 2018	Petrobras

Onshore drilling units

Drilling units	Type	Start of operations	Contract expiration date (current or previous)	Customer (current or previous)
QG-I (*)	Onshore drilling rig	1981	June 2016	Amerisur Resources PLC and Amerisur S.A.
QG-II (*)	Onshore drilling rig	1981	November 2015	Petrobras
QG-III (*)	Onshore drilling rig	1987	April 2016	Petrobras
QG-IV (*)	Onshore drilling rig	1996	June 2015	Petrobras
QG-V (*)	Onshore drilling rig	2011	April 2015	Petrobras
QG-VI (*)	Onshore drilling rig	2008	May 2016	Petrobras
QG-VII (*)	Onshore drilling rig	2008	July 2015	Petrobras
QG-VIII (*)	Onshore drilling rig	2011	June 2017 (Note 1.e)	Rosneft Brasil E&P Ltda. HRT O&G Exploração e Produção de Petróleo Ltda.
QG-IX (*)	Onshore drilling rig	2011	June 2014	

(*) As of June 30, 2017, these onshore drilling rigs were not hired under charter and service-rendering agreements. The Group is continuously seeking for new customers.

b) Olinda Star offshore drilling rig charter and service-rendering agreements

On December 21, 2015, the Group signed an agreement with Karoon Petróleo e Gás Ltda. ("Karoon") to charter and render drilling services in two oil wells, with an extension option for two additional oil wells, which expires on August 2017. On April 25, 2017, the Group announced that Olinda Star has been awarded a three-year contract with Oil and Natural Gas Corporation ("ONGC"), an Indian oil and gas exploration and production state-owned company, for operations within an offshore area in India. The contract is expected to be signed in September 2017, pending agreement on certain conditions, and commence by October 2017.

c) Lone Star offshore drilling rig scheduled 5-year survey

On March 20, 2016, the Lone Star offshore drilling rig started its 5-year survey and on April 26, 2016, it returned to operate under the current charter and service-rendering agreements with Petrobras, which expires in March 2018.

d) Alpha Star offshore drilling rig charter, drilling services and project financing agreements

On July 11, 2011, the Group started the operations of the Alpha Star offshore drilling rig under a 6-year term charter and service-rendering agreements with Petrobras. On October 20, 2016, the Alpha Star offshore drilling rig started its scheduled 5-year survey and on November 24, 2016, it returned to operate under the current charter and service-rendering agreements with Petrobras, which expired on July 8, 2017 and thus the Group is currently seeking for new customers. Alpha Star offshore drilling rig is currently under preservation at Rio de Janeiro, Brazil.

On July 31, 2017, Alpha Star's construction project financing (Note 11) was fully paid in the outstanding principal and interest amounts of US\$128,171 and US\$412, respectively.

e) Onshore drilling rig QG-VIII charter and drilling services agreements

On October 3, 2016, the Group signed agreements to charter the onshore drilling rig QG-VIII and render drilling services for Rosneft Brasil E&P Ltda. ("Rosneft"). The purpose of the agreements is to drill one oil well in the Solimões Basin (Brazil), under a 170-days minimum term counting from January 9, 2017, the beginning of the mobilization. The charter and drilling services agreements expired on June 28, 2017 and thus the Group is currently seeking for new customer.

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 and critical accounting estimates disclosed in Notes 3 and 4, respectively, to the annual consolidated financial statements as of December 31, 2016 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 assets and liabilities that are measured at fair value (Note 21.a).

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 related to the year ended December 31, 2016, 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, 2016 and June 30, 2017.

The consolidated financial statements incorporate the Company and its subsidiaries. There were no changes in the consolidated entities and investments disclosed in Note 5 to the annual consolidated financial statements as of December 31, 2016 and for the year then ended.

2.1. Application of new and revised International Financial Reporting Standards (IFRS)

2.1.1. Amendments to IFRS adopted in 2017

The Group has applied a number of amendments to standards or interpretations issued by the International Accounting Standards Board (IASB), which are mandatorily effective for an accounting period that begins on or after January 1, 2017. The following amendments have been applied by the Group, but had no significant impact on its unaudited condensed consolidated interim financial statements:

Standard	Description	Effective date
IAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
IAS 7 (Amendments)	Disclosure Initiative	January 1, 2017
IFRS 12 (Amendments)	Annual Improvements to IFRSs 2014-2016 Cycle	January 1, 2017

2.1.2. New or revised standards and interpretations

The following new or revised and amended IFRS will be effective on January 1, 2018 and 2019. The Company does not expect any impact on its consolidated financial statements from the adoption of these new or revised standards and interpretations.

New or revised standards and interpretations

Standard or interpretation	Description	Effective date for annual period beginning on or after
IFRS 9 <i>Financial Instruments</i> (2014)	A finalized version of IFRS 9, which contains accounting requirements for financial instruments, replacing IAS 39 <i>Financial Instruments: Recognition and Measurement</i> . The standard contains requirements in the following areas: classification and measurement, impairment, hedge accounting and derecognition.	January 1, 2018
IFRS 15 <i>Revenue from Contracts with Customers</i>	IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The 5-steps in the model are as follows: <ul style="list-style-type: none"> ✓ Identify the contract with the customer; ✓ Identify the performance obligations in the contract; ✓ Determine the transaction price; ✓ Allocate the transaction price to the performance obligations in the contracts; and ✓ Recognize revenue when (or as) the entity satisfies a performance obligation. 	January 1, 2018
IFRIC 22 <i>Foreign Currency Transactions and Advance Considerations</i>	IFRIC 22 addresses foreign currency transactions or parts of transactions where: <ul style="list-style-type: none"> ✓ there is consideration that is denominated or priced in a foreign currency; ✓ the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and ✓ the prepayment asset or deferred income liability is non-monetary. 	January 1, 2018

IFRS 16 <i>Leases</i>	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	January 1, 2019
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Amendments

Standard	Description	Effective date for annual period beginning on or after
<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> (Amendments to IFRS 10 and IAS 28)	Amends IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) to clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows: <ul style="list-style-type: none"> ✓ Require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations); and ✓ Require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognized only to the extent of the unrelated investors' interests in that associate or joint venture. 	Effective date deferred indefinitely.
Clarifications to IFRS 15 "Revenue from Contracts with Customers"	Amends IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	January 1, 2018
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	Amends IFRS 2 Share-based Payment to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.	January 1, 2018
Annual Improvements to IFRSs 2014-2016 Cycle	Makes amendments to the following standards: <ul style="list-style-type: none"> ✓ IFRS 1: Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose; and ✓ IAS 28: Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. 	January 1, 2018

Editorial Corrections (various)	The IASB periodically issues Editorial Corrections and changes to IFRSs and other pronouncements. Since the beginning of calendar 2013, such corrections have been made in March 2013, September 2013, November 2013, March 2014, September 2014, December 2014, March 2015, April 2015, September 2015, December 2015, March 2016, May 2016, September 2016, and December 2016.	As minor editorial corrections, these changes are effectively immediately applicable under IFRS
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3. CASH AND CASH EQUIVALENTS

	June 30, 2017	December 31, 2016
Cash and bank deposits	71,786	72,197
Cash equivalents (*)	<u>137,132</u>	<u>220,992</u>
Total	<u>208,918</u>	<u>293,189</u>

(*) Refer to time deposits with original maturities of three months or less, which are highly liquid and can be readily converted into known cash amounts, subject to a minimum risk of changes in value.

Cash equivalents are comprised by the following time deposits:

Financial institution	Average interest rate (per annum)	June 30, 2017	December 31, 2016
Itaú BBA Nassau	0.52%	47,926	121,229
Citibank	0.42%	62,967	85,047
Bradesco S.A.	0.20%	203	95
Bradesco Grand Cayman	1.30%	25,001	-
ING Bank	0.91%	<u>1,035</u>	<u>14,621</u>
Total		<u>137,132</u>	<u>220,992</u>

4. SHORT-TERM INVESTMENTS

Short-term investments	Financial institution	Currency	Average interest rate (per annum)	June 30, 2017	December 31, 2016
Time deposits ⁽ⁱ⁾	Itaú BBA Nassau	U.S. dollar	2.50%	80,856	40,139
	Bradesco Grand				
Time deposits ⁽ⁱ⁾	Cayman	U.S. dollar	1.78%	20,001	50,144
Time deposits ⁽ⁱ⁾	Lafise	U.S. dollar	2.75%	46	45
Time deposits ⁽ⁱ⁾	Deutsche Bank	U.S. dollar	1.20%	43,948	-
Repurchase agreements ⁽ⁱⁱⁱ⁾	Bradesco S.A.	Brazilian real	98.20% of CDI ⁽ⁱⁱ⁾	<u>28,861</u>	<u>23,538</u>
Total				<u>173,712</u>	<u>113,866</u>

(i) These investments have original maturities of more than three months, or with no fixed time for redemption.

(ii) Brazilian Interbank Deposit Certificate (*Certificado de Depósito Interbancário - CDI*), which average remuneration during the six-month period ended June 30, 2017 was 11.81% p.a. (13.63% during the year ended December 31, 2016).

(iii) Refers to agreements in which the financial institution commits to repurchase the asset back from the Group in the short-term (i.e., less than twelve months).

5. RESTRICTED CASH

Under certain of the Group's project finance arrangements (Note 11), surplus cash from operations is held in designated reserve accounts, up to a level determined in relation to the future debt servicing requirements of the project finance arrangements.

These accounts, which have original maturity of less than 12 (twelve) months, currently refer to the financing agreements related to the construction of the Alpha Star and Brava Star offshore drilling rigs (Note 11).

The amounts in these accounts are comprised by bank deposits with non-financial remuneration, as follows:

Restricted cash	Financial institution	June 30, 2017	December 31, 2016
Time deposit	Citibank N.A.	30,651	-
Bank deposits	Citibank N.A.	-	31,265
Bank deposits	ING Bank	-	11,957
Bank deposits	HSBC Londres	4,999	-
Bank deposits	Citibank N.A.	<u>2,099</u>	<u>-</u>
Total		<u>37,749</u>	<u>43,222</u>

6. TRADE AND OTHER RECEIVABLES

Trade receivables are mainly related to receivables from Petrobras for charter and service-rendering agreements relating to the drilling rigs and drillships used in the exploration of oil and gas in Brazil. Historically, there have been no defaults on receivables or delays in collections and, consequently, the Group has not recorded a provision for impairment of trade and other receivables for the periods presented. The average collection period is of approximately 30 days. Details of financial risk management related to credit risk are disclosed in Note 21.b.

7. INVENTORIES

Inventories refer to materials to be used in the onshore and offshore drilling rigs and drillships operations. The amounts recognized in the consolidated statement of operations are accounted for as Cost of Services in the sub-account "Materials" (Note 17).

8. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are part of the Group, have been eliminated for consolidation purposes and are not disclosed in the table below.

The consolidated intercompany balances as of June 30, 2017 and December 31, 2016, and transactions for the three and six-month periods ended June 30, 2017 and 2016 are as follows:

	June 30, 2017		December 31, 2016		Three-month period ended June 30,		Six-month period ended June 30,	
	Assets	Liabilities	Assets	Liabilities	2017	2016	2017	2016
					Income/ (expenses)	Income/ (expenses)	Income/ (expenses)	Income/ (expenses)
Alperton Capital Ltd. ^(a)	352,239	320,289	338,004	309,871	1,953	1,705	3,816	3,265
Queiroz Galvão S.A. ^(b)	-	746	-	2,008	(369)	(353)	(747)	(667)
FPSO Capixaba Venture S.A. ^(c)	921	-	921	-	(4)	3	-	6
SBM Espírito do Mar Inc. ^(d)	-	-	-	-	-	61	-	121
Tupi Nordeste Operações Marítimas Ltda. ^(e)	245	-	800	-	426	384	827	668
Guará Norte Operações Marítimas Ltda. ^(e)	279	-	577	-	340	359	641	591
Alfa Lula Alto Operações Marítimas Ltda. ^(e)	257	-	301	-	316	376	613	555
Guará Norte Holding Ltd. ^(f)	125	-	1,056	-	125	792	250	792
Alfa Lula Alto Holding Ltd. ^(f)	-	-	100	-	150	250	300	250
Beta Lula Central Holding Ltd. ^(f)	150	-	100	-	150	-	300	-
SBM Holding Luxembourg S.à.r.l. ^(g)	-	-	-	-	-	8,150	-	8,150
Others	277	40	271	41	5	6	16	13
Total	<u>354,493</u>	<u>321,075</u>	<u>342,130</u>	<u>311,920</u>	<u>3,092</u>	<u>11,733</u>	<u>6,016</u>	<u>13,744</u>
Current	1,153	786	3,034	2,049				
Non-current	353,340	320,289	339,096	309,871				

- (a) In 2010, the Group and Alperon Capital Ltd. (“Alperon”) signed shareholders’ and loan agreements in order to construct, charter and operate two drillships for Petrobras, the Amaralina Star and the Laguna Star drillships, through the Group’s 55% interest in each of Amaralina Star Ltd. (“Amaralina”) and Laguna Star Ltd. (“Laguna”), the remaining 45% of these entities shares being held by Alperon.

Under these agreements, the Group has committed to finance Alperon’s 45% capital expenditures share on these projects

The receivables from Alperon refer to the loans receivable bearing interest at 12% p.a., annually compounded, up to the sixth anniversary of the sub-charter agreement with Petrobras. Thereafter, the loans receivable will bear interest at 13% p.a., annually compounded. Repayment of interest and principal is scheduled to occur on a quarterly basis as from one year after the “Date of Acceptance” of the drillships by Petrobras, with the principal being repayable in quarterly installments over the 6-year term of the Petrobras charter agreement, starting from the “Date of Acceptance”, provided that Amaralina and Laguna comply with the financing agreement conditions to pay dividends.

The payable amounts refer to intercompany loans provided by Alperon to Amaralina and Laguna with the same terms and conditions of the Group’s receivable amounts from Alperon.

The income for the six-month periods ended June 30, 2017 and 2016, in the amounts of US\$3,816 and US\$3,265, respectively, are presented net of expenses. The income for the six-month periods ended June 30, 2017 and 2016, in the amounts of US\$19,508 and US\$18,220, respectively, refer to interest charged on the receivables by Constellation Overseas from Alperon; while the expenses for the six-month periods ended June 30, 2017 and 2016, in the amounts of US\$15,692 and US\$14,955, respectively, refer to interest charged on the payables due by Amaralina and Laguna to Alperon (Note 19 – Financial income from related parties).

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

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

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

The Group charges a fee to Alperon 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 (Regime Aduaneiro Especial de Importação e Exportação de Bens Destinados à Pesquisa e Lavra de Petróleo e Gás - REPETRO). For the six-month periods ended June 30, 2017 and 2016, the fees charged to Alperon totaled US\$3,816 and US\$3,265, respectively.

Non-compliance with the agreements between the Group and Alperon could result in penalties to either parties. As of June 30, 2017, the Group was compliant with the requirements of the respective agreements.

- (b) The payable amount refers to the fee charged by QG S.A. for being the guarantor for importations under the REPETRO.
- (c) Loans bearing interest at LIBOR plus 0.5% p.a., with maturity at the end of the charter agreement period between SBM Espírito do Mar B.V. and Petrobras (2022).
- (d) The loan receivable from SBM Espírito do Mar Inc. bears an effective interest rate of 5.56% p.a., with maturity at the end of the charter agreement period between SBM Espírito do Mar B.V. and Petrobras (2022). In December 2016, such receivable was settled through the receipt of US\$6,267.
- (e) As of June 30, 2017 and December 31, 2016, the receivable amounts and the income from Tupi Nordeste Operações Marítimas Ltda. and Guar Norte Operações Marítimas Ltda. relates to labor costs reimbursement regarding the operation of the FPSO Cidade de Paraty and FPSO Cidade de Ilhabela, respectively. As of June 30, 2017, the receivable amount and the income for the six-month period then ended from Alfa Lula Alto Operações Marítimas Ltda. are related to labor costs reimbursement regarding the operation of the FPSO Cidade de Maric.
- (f) As of June 30, 2017, the receivable amount and the income for the six-month period then ended from Guar Norte Holding Ltd., Alfa Lula Alto Holding Ltd. and Beta Lula Central Holding Ltd. relates to a management fee charged by the Group in respect of the operating services rendered to the FPSO Cidade de Ilhabela, FPSO Cidade de Maric and FPSO Cidade de Saquarema, respectively.
- (g) Refers to a payment made by SBM Lux to the Group, in connection with the terms that regulates the relationship of these entities as shareholders of Alfa Lula Alto S..r.l. and Alfa Lula Alto Holding Ltd. Such payment is related to the first oil achievement by the FPSO Cidade de Maric (Notes 9 and 18).

Key management personnel ⁽ⁱ⁾ remuneration for the three and six-month periods ended June 30, 2017 and 2016, is as follows:

	Three-month period		Six-month period	
	ended June 30,		ended June 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Short-term benefits ⁽ⁱⁱ⁾	1,678	2,015	3,231	4,681

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

(ii) Short-term benefits mainly refers to salaries, social security contributions, annual leave and profit sharing (payable within twelve months from the year-end date).

The compensation paid to key management personnel is evaluated on an annual basis, considering the following main factors: individual performance during prior year, market rates and movements and the individual's anticipated contribution to the Group's growth. Members of key management are also eligible to participate in the Group's retirement benefit plans (Note 23).

9. INVESTMENTS

	June 30, 2017							
	Number of shares (thousands)	Ownership interest (%)	Authorized share capital	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Shareholders' equity (deficiency)
<u>Associates:</u>								
FPSO Capixaba Venture S.A.	100	20.00%	82	17,151	25,878	62,643	94,972	(114,586)
SBM Espírito do Mar Inc.	100	20.00%	88	6,610	241,926	17,458	69,502	161,576
Urca Drilling B.V. ⁽³⁾	90	15.00%	€90k	139	23,007	466,707	261,646	(705,207)
Bracuhy Drilling B.V. ⁽³⁾	90	15.00%	€90k	1,473	7,603	177,535	274,294	(442,753)
Mangaratiba Drilling B.V. ⁽³⁾	90	15.00%	€90k	12	1	39,325	110,640	(149,952)
<u>Joint Ventures:</u>								
Tupi Nordeste S.à.r.l.	20	20.00%	20	148,976	1,089,050	107,938	614,051	516,037
Tupi Nordeste Holding Ltd.	12	20.00%	12	7,254	-	(6,735)	30,723	(16,734)
Guará Norte S.à.r.l. ⁽⁴⁾	50,200	12.75%	50,200	113,704	1,534,700	122,751	869,859	655,794
Guará Norte Holding Ltd. ⁽⁴⁾	12	12.75%	12	18,182	-	7,590	3,217	7,375
Alfa Lula Alto S.à.r.l. ⁽⁴⁾	65,200	5.00%	65,200	123,242	1,661,605	89,342	1,348,080	347,425
Alfa Lula Alto Holding Ltd. ⁽⁴⁾	5	5.00%	12	5,368	-	15,808	-	(10,440)
Beta Lula Central S.à.r.l. ⁽⁴⁾	65,200	5.00%	65,200	81,092	1,647,775	81,466	1,352,986	294,415
Beta Lula Central Holding Ltd. ⁽⁴⁾	5	5.00%	12	4,811	244	9,253	-	(4,198)
	December 31, 2016							
	Number of shares (thousands)	Ownership interest (%)	Authorized share capital	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Shareholders' equity (deficiency)
<u>Associates:</u>								
FPSO Capixaba Venture S.A.	100	20.00%	82	1,270	14,913	62,213	58,945	(104,975)
SBM Espírito do Mar Inc.	100	20.00%	88	7,970	222,732	34	38,754	191,914
Urca Drilling B.V. ⁽³⁾	90	15.00%	€90k	162	23,007	449,880	252,334	(679,045)
Bracuhy Drilling B.V. ⁽³⁾	90	15.00%	€90k	1,490	8,670	173,778	265,678	(429,296)
Mangaratiba Drilling B.V. ⁽³⁾	90	15.00%	€90k	24	1	39,308	107,312	(146,595)
<u>Joint Ventures:</u>								
Tupi Nordeste S.à.r.l.	20	20.00%	20	154,297	1,103,025	105,001	646,163	506,158
Tupi Nordeste Holding Ltd.	12	20.00%	12	1,328	-	21,190	24,999	(44,861)
Guará Norte S.à.r.l. ⁽⁴⁾	50,200	12.75%	50,200	135,987	1,556,929	126,878	906,023	660,015
Guará Norte Holding Ltd. ⁽⁴⁾	12	12.75%	12	5,332	-	20,411	8,839	(23,918)
Alfa Lula Alto S.à.r.l. ⁽⁴⁾	65,200	5.00%	65,200	107,748	1,688,368	112,784	1,372,821	310,511
Alfa Lula Alto Holding Ltd. ⁽⁴⁾	5	5.00%	12	5,505	-	15,670	-	(10,165)
Beta Lula Central S.à.r.l. ⁽⁴⁾	65,200	5.00%	65,200	73,373	1,668,085	86,804	1,375,132	279,522
Beta Lula Central Holding Ltd. ⁽⁴⁾	5	5.00%	12	1,605	1,380	3,983	-	(998)

The amounts presented in the tables above correspond to the investee's accounting balances before applying the Group's equity participation.

	Investees' comprehensive income/(loss) for the three-month period ended June 30,					
	2017			2016		
	Net income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)	Net income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
<u>Associates:</u>						
FPSO Capixaba Venture S.A.	1,757	1,479	3,236	5,361	(1,768)	3,593
SBM Espírito do Mar Inc.	1,003	-	1,003	(2,605)	-	(2,605)
Urca Drilling B.V. ⁽³⁾	(7,471)	-	(7,471)	(1,023)	(140)	(1,163)
Bracuhy Drilling B.V. ⁽³⁾	(6,025)	-	(6,025)	(6,048)	(29)	(6,077)
Mangaratiba Drilling B.V. ⁽³⁾	(1,596)	-	(1,596)	(1,615)	(17)	(1,632)
<u>Joint Ventures:</u>						
Tupi Nordeste S.à.r.l.	30,685	(595)	30,090	12,968	(4,581)	8,387
Tupi Nordeste Holding Ltd.	(156)	1,455	1,299	(6,226)	(2,447)	(8,673)
Guará Norte S.à.r.l. ⁽⁴⁾	16,625	(4,300)	12,325	10,921	(8,994)	1,927
Guará Norte Holding Ltd. ⁽⁴⁾	1,261	641	1,902	(3,973)	(913)	(4,886)
Alfa Lula Alto S.à.r.l. ⁽⁴⁾	12,994	(4,553)	8,441	8,126	(22,618)	(14,492)
Alfa Lula Alto Holding Ltd. ⁽⁴⁾	3,737	139	3,876	(3,240)	(140)	(3,380)
Beta Lula Central S.à.r.l. ⁽⁴⁾	13,034	(11,375)	1,659	(62)	(34,824)	(34,886)
Beta Lula Central Holding Ltd. ⁽⁴⁾	(1,709)	60	(1,649)	(302)	-	(302)

	Investees' comprehensive income/(loss) for the six-month period ended June 30,					
	2017			2016		
	Net income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)	Net income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
<u>Associates:</u>						
FPSO Capixaba Venture S.A.	(10,271)	660	(9,611)	953	(3,079)	(2,126)
SBM Espírito do Mar Inc.	2,662	-	2,662	(10,809)	-	(10,809)
Urca Drilling B.V. ⁽³⁾	(26,153)	-	(26,153)	(22,830)	(1,147)	(23,977)
Bracuhy Drilling B.V. ⁽³⁾	(13,449)	-	(13,449)	(14,030)	(233)	(14,263)
Mangaratiba Drilling B.V. ⁽³⁾	(3,348)	-	(3,348)	(3,914)	(138)	(4,052)
<u>Joint Ventures:</u>						
Tupi Nordeste S.à.r.l.	7,024	2,855	9,879	24,961	(16,542)	8,419
Tupi Nordeste Holding Ltd.	27,525	604	28,129	(12,456)	(4,098)	(16,554)
Guará Norte S.à.r.l. ⁽⁴⁾	(2,306)	(1,916)	(4,222)	27,752	(29,775)	(2,023)
Guará Norte Holding Ltd. ⁽⁴⁾	30,996	295	31,291	(6,757)	(1,345)	(8,102)
Alfa Lula Alto S.à.r.l. ⁽⁴⁾	53,927	(13)	53,914	73,111	(65,331)	7,780
Alfa Lula Alto Holding Ltd. ⁽⁴⁾	(247)	(39)	(286)	(2,693)	(156)	(2,849)
Beta Lula Central S.à.r.l. ⁽⁴⁾	27,180	(7,787)	19,393	(100)	(91,327)	(91,427)
Beta Lula Central Holding Ltd. ⁽⁴⁾	(3,258)	60	(3,198)	(301)	-	(301)

The amounts presented in the table above correspond to the investee's results and comprehensive income/(loss) before applying the Group's equity participation.

Changes in investments

	December 31, 2016	Capital decrease ⁽⁵⁾	Dividends received ⁽⁷⁾	Share of results	Share of comprehensive income/ (loss)	June 30, 2017
<u>Associates:</u>						
FPSO Capixaba Venture S.A.	(20,995)	-	-	(2,054)	132	(22,917)
SBM Espírito do Mar Inc.	38,383	-	(6,600)	532	-	32,315
<u>Joint ventures:</u>						
Tupi Nordeste S.à.r.l.	101,232	-	-	1,405	571	103,208
Tupi Nordeste Holding Ltd.	(8,972)	-	-	5,505	121	(3,346)
Guará Norte S.à.r.l. ⁽⁴⁾	84,152	-	-	(294)	(244)	83,614
Guará Norte Holding Ltd. ⁽⁴⁾	(3,050)	-	-	3,952	38	940
Alfa Lula Alto S.à.r.l. ⁽⁴⁾	15,525	(850)	-	2,696	-	17,371
Alfa Lula Alto Holding Ltd. ⁽⁴⁾	(508)	-	-	(12)	(2)	(522)
Beta Lula Central S.à.r.l. ⁽⁴⁾	13,976	(225)	-	1,359	(389)	14,721
Beta Lula Central Holding Ltd. ⁽⁴⁾	(50)	-	-	(163)	3	(210)
Total	<u>219,693</u>	<u>(1,075)</u>	<u>(6,600)</u>	<u>12,926</u>	<u>230</u>	<u>225,174</u>
Total assets (investments)	253,268					252,169
Total liabilities (accumulated deficit in investments) ⁽¹⁾	(33,575)					(26,995)

	December 31, 2015	Capital contributions ⁽²⁾	Capital decrease ⁽⁵⁾	Share of results	Share of comprehensive income (loss)	June 30, 2016
<u>Associates</u>						
FPSO Capixaba Venture S.A.	(19,074)	-	-	191	(616)	(19,499)
SBM Espírito do Mar Inc.	41,816	-	-	(2,162)	-	39,654
Urca Drilling B.V. ⁽³⁾	11,343	-	-	(11,441)	98	-
Bracuhy Drilling B.V. ⁽³⁾	363	-	-	(380)	17	-
Mangaratiba Drilling B.V. ⁽³⁾	1,017	-	-	(1,025)	8	-
<u>Joint ventures</u>						
Tupi Nordeste S.à.r.l.	89,114	-	-	4,992	(3,308)	90,798
Tupi Nordeste Holding Ltd.	(3,035)	-	-	(2,491)	(820)	(6,346)
Guará Norte S.à.r.l. ⁽⁴⁾	73,756	-	-	3,538	(3,796)	73,498
Guará Norte Holding Ltd. ⁽⁴⁾	(718)	-	-	(861)	(171)	(1,750)
Alfa Lula Alto S.à.r.l. ⁽⁴⁾	13,055	4,988	(7,798)	3,656 ⁽⁶⁾	(3,267)	10,634
Alfa Lula Alto Holding Ltd. ⁽⁴⁾	15	-	-	(135)	(8)	(128)
Beta Lula Central S.à.r.l. ⁽⁴⁾	14,814	2,438	-	(5)	(4,566)	12,681
Beta Lula Central Holding Ltd. ⁽⁴⁾	13	-	-	(15)	-	(2)
Total	<u>222,479</u>	<u>7,426</u>	<u>(7,798)</u>	<u>(6,138)</u>	<u>(16,429)</u>	<u>199,540</u>
Total assets (investments)	245,306					227,265
Total liabilities (accumulated deficit in investments) ⁽¹⁾	(22,827)					(27,725)

- (1) The liability to fund the deficit in FPSO Capixaba Venture S.A., Tupi Nordeste Holding Ltd. and Alfa Lula Alto Holding Ltd. is recognized in “Other current liabilities”.
- (2) Capital contributions have been made considering the Group’s equity participation in each partnership. Therefore, there have been no interest changes in these investees.
- (3) During the year-ended December 31, 2016, the Company’s 15% equity participation in the associate entities Urca, Bracuhy and Mangaratiba was reduced to zero, following management’s understanding of the Group’s legal and statutory obligations in respect of such associate entities. Once the investments are reduced to zero, no additional losses will be provided for and no liabilities will be recognized whereas Angra Participações B.V. had not incurred legal or constructive obligations or made payments on behalf of such associates.

- (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 major financial and operational decisions require the unanimous approval of the Directors and Managers representatives of all the shareholders of these entities. The Group has the right to appoint 1 (one) of 5 (five) Managers in Luxembourg entities and 1 (one) of 4 (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 1 (one) Manager or 1 (one) Director appointed by each shareholder, which means that the Manager or the Director appointed by Arazi and or Lancaster Projects Corp. must be present. The Group participates actively in the organization and execution of the operations by seconding personnel to the operating management team in agreed positions.
- (5) In March 2016, the Group received the amount of US\$397 from Alfa Lula Alto S.à.r.l., in connection with the final tranche disbursement of the FPSO Cidade de Maricá loan facility. In April 2016, the Group received the amount of US\$7,401 from Alfa Lula Alto S.à.r.l., in connection with the payment made by Petrobras related to the acceptance of the FPSO Cidade de Maricá. In June 2017, the Group received the amounts of US\$850 and US\$225 from Alfa Lula Alto S.à.r.l. and Beta Lula Central S.à.r.l., respectively.
- (6) FPSO Cidade de Maricá started its operations on February 7, 2016. Alfa Lula Alto S.à.r.l. classified its charter agreement with Petrobras as a financial lease agreement. Included in the share of results during the six-month period ended June 30, 2016 there is a gain of US\$2,688 corresponding to the share of the difference between the recognition of the present value of the minimum lease payments as revenues at the lease date of inception, and the corresponding recognition of the equipment cost in profit or loss.
- (7) In June 2017, the Group received dividends from SBM Espírito do Mar Inc. in the amount of US\$6,600. The taxes levied on such dividends amounted to US\$2,310 (Note 18).

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

FPSO Capixaba

- ✓ FPSO Capixaba Venture S.A. ("Capixaba")'s core business is to support operations for agreements in the oil and gas industry. Since March 16, 2007, Capixaba is a shareholder of a Brazilian entity, SBM Capixaba Operações Marítimas Ltda., 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 agreements in the oil and gas industry.

Urca, Bracuhy and Mangaratiba offshore drilling rigs (Partnership with Sete Brasil)

- ✓ Urca Drilling B.V. owns the Urca semi-submersible drilling rig, which is under construction to operate in pre-salt water depths. According to the charter and service-rendering agreements currently in place, upon its construction completion and acceptance by Petrobras, Urca should be chartered to Petrobras until 2031 and QGOG should be its sole operator.
- ✓ Bracuhy Drilling B.V. owns the Bracuhy semi-submersible drilling rig, which is under construction to operate in pre-salt water depths. According to the charter and service-rendering agreements currently in place, upon its construction completion and acceptance by Petrobras, Bracuhy should be chartered to Petrobras until 2033 and QGOG should be its sole operator.
- ✓ Mangaratiba Drilling B.V. owns the Mangaratiba semi-submersible drilling rig, which is under construction to operate in pre-salt water depths. According to the charter and service-rendering agreements currently in place, upon its construction completion and acceptance by Petrobras, Mangaratiba should be chartered to Petrobras until 2034 and QGOG should be its sole operator.

The Company, through its subsidiary Angra Participações B.V. (“Angra”), is a minority shareholder in the following associate entities with Sete Brasil’s subsidiaries: Urca Drilling B.V. (“Urca”), Bracuhy Drilling B.V. (“Bracuhy”) and Mangaratiba Drilling B.V. (“Mangaratiba”). The majority shareholder is Sete International One GmbH (“Sete International”), a second tier subsidiary of Sete Brasil.

On December 17, 2015, Angra exercised a put option whereby it has formalized its intention to cease its equity interest in the aforementioned associate entities, by transferring its shares to Sete International in accordance to the Shareholders’ Agreement. Such transfer of shares has not occurred to date and on March 23, 2016, Angra called a binding arbitration in order to settle this issue, which is still in progress.

On April 20, 2016, the Group was informed that Sete Brasil’s Extraordinary General Meeting held at that date approved Sete Brasil’s petition for judicial recovery.

The unaudited interim financial statements of Urca, Bracuhy and Mangaratiba for the six-month periods ended June 30, 2017 and 2016 and the audited financial statements for the year ended December 31, 2016 have not been issued to date.

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

FPSO Cidade de Paraty

- ✓ Tupi Nordeste S.à.r.l.’s main activity is to act as a sub-charter party for agreements in the 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 agreements in the oil and gas industry. This entity is a shareholder of a Brazilian entity, Tupi Nordeste Operações Marítimas Ltda., which operates the FPSO Cidade de Paraty to Petrobras until 2033.

FPSO Cidade de Ilhabela

- ✓ Guar Norte S..r.l.'s main activity is to act as a sub-charter party for agreements in the oil and gas industry. The entity charters the FPSO Cidade de Ilhabela to Petrobras until 2034, which is currently located off the Brazilian coast. Operations started in November 2014.
- ✓ Guar Norte Holding Ltd.'s main activity is to support operations for agreements in the oil and gas industry. This entity is a shareholder of a Brazilian entity, Guar Norte Operaes Martimas Ltda., which operates the FPSO Cidade de Ilhabela to Petrobras until 2034.

FPSO Cidade de Maric

- ✓ Alfa Lula Alto S..r.l. owns the FPSO Cidade de Maric, which started its operations on February 7, 2016 after achieving first oil and completing a 72-hour continuous production test (Final Acceptance). On July 12, 2013, the Group entered into a 20-year agreement to charter the FPSO Cidade de Maric to the Consortium BM-S-11.
- ✓ Alfa Lula Alto Holding Ltd.'s main activity will be to support operations for agreements in the oil and gas industry. This entity is a shareholder of a Brazilian entity, Alfa Lula Alto Operaes Martimas Ltda., which will operate the FPSO Cidade de Maric to Petrobras until 2036.

FPSO Cidade de Saquarema

- ✓ Beta Lula Central S..r.l. owns the FPSO Cidade de Saquarema, which started its operations on July 8, 2016 after achieving first oil and completing a 72-hour continuous production test (Final Acceptance). On July 12, 2013, the Group entered into a 20-year agreement to charter the FPSO Cidade de Saquarema to the Consortium BM-S-11.
- ✓ Beta Lula Central Holding Ltd.'s main activity will be to support operations for agreements in the oil and gas industry. This entity is a shareholder of a Brazilian entity, Beta Lula Central Operaes Martimas Ltda., which will operate the FPSO Cidade de Saquarema to Petrobras until 2036.

Other matters regarding the Group's investments

Partnership with SBM Offshore N.V. - Contingent Liability

The Company, through its subsidiaries, is a minority shareholder in the following associate and joint venture entities with SBM Offshore N.V. ("SBM Offshore") and its subsidiaries: FPSO Capixaba Venture S.A., SBM Espírito do Mar Inc., Tupi Nordeste S.à.r.l., Tupi Nordeste Holding Ltd., Guarà Norte S.à.r.l, Guarà Norte Holding Ltd., Alfa Lula Alto S.à.r.l., Alfa Lula Alto Holding Ltd., Beta Lula Central S.à.r.l. and Beta Lula Central Holding Ltd.. The majority shareholder is SBM Offshore.

In November 2014, SBM Offshore announced that it had reached an out-of-court settlement agreement with the Dutch Public Prosecutor's Office (*Openbaar Ministerie*) over the inquiry into alleged improper payments to sales agents in Equatorial Guinea, Angola and Brazil in the period from 2007 through 2011, which consisted of a payment by SBM Offshore to the *Openbaar Ministerie* of US\$240 million.

In February 2016, SBM Offshore announced that the United States Department of Justice ("U.S. DoJ") had re-opened its past inquiry of SBM Offshore and had made information requests in connection with that inquiry. In February 2017, SBM Offshore announced that it continues to cooperate with the U.S. DoJ following the reopening of the investigation. In May 2017, SBM Offshore announced that the discussions with the U.S. DoJ are advancing.

In July 2016, SBM Offshore announced that it had signed a settlement agreement ("Leniency Agreement") in Brazil with the Ministry of Transparency, Oversight and Control (*Ministério da Transparência, Fiscalização e Controle* - MTFC), the Federal Public Prosecutor's Office (*Ministério Público Federal* - MPF), the Attorney General's Office (*Advocacia Geral da União* - AGU) and Petrobras, which closes out the inquiries of the MPF, the MTFC and Petrobras into the payment of undue advantages to employees of Petrobras. The terms for final settlement negotiated between the Parties are made up as follows:

- ✓ A cash payment by SBM Offshore totaling US\$162.8 million, to be paid in three installments; and
- ✓ A reduction of 95% in future performance bonus payments related to FPSOs Cidade de Anchieta and Capixaba lease and operate agreements, representing a nominal value of approximately US\$179 million over the period from 2016 through 2030, or a present value for SBM Offshore of approximately US\$112 million.

SBM Offshore also informed that the MPF should submit the Leniency Agreement for approval of the Brazilian Fifth Chamber for Coordination and Review and Anti-corruption of the Federal Prosecutor Service ("Fifth Chamber" - *5ª Câmara de Coordenação e Revisão do Ministério Público Federal*), to the extent it is concerned. The MTFC would additionally send the Leniency Agreement for the Federal Court of Accounts (*Tribunal de Contas da União* - TCU).

In November 2016, SBM Offshore announced that the Fifth Chamber upheld its decision of September 1, 2016, in which the Leniency Agreement, as per the current terms, was not approved, and referred the matter, including review of the appeals filed by the AGU and the MPF, to the Higher Council of the MPF (*Conselho Institucional*) for further consideration and

decision. SBM Offshore also announced that it is not under any obligation to make payments under the Leniency Agreement until it is binding upon all parties. Finally, SBM Offshore informed that it is currently not possible to predict the timing or final outcome of these developments and will update the market accordingly.

In December 2016, SBM Offshore announced that the Higher Council of the MPF upheld the decision by the Fifth Chamber. SBM Offshore also informed that the Higher Council decided not to accept the appeals filed by the MPF and the AGU and referred the case back to the Fifth Chamber and the prosecutor handling the case for further review and next steps.

In February 2017, SBM Offshore announced that it remains committed to engage with all relevant authorities until the Leniency Agreement is approved by the Fifth Chamber and SBM Offshore has been notified thereof and, until then, that it is not under any obligation to make payments under the Leniency Agreement.

In May 2017, SBM Offshore announced that the discussions regarding the Leniency Agreement with the Brazilian authorities and Petrobras are ongoing.

The Company's management does not expect to incur in any losses or future income reduction on the associates and joint ventures' equity participation as a result of the resolution of this matter by SBM Offshore.

Atendimento Prisma

10. PROPERTY, PLANT AND EQUIPMENT

	Drillships			Offshore drilling rigs						Onshore drilling rigs, equipment and bases	Corporate	Total
	Brava Star	Amaralina Star	Laguna Star	Alaskan Star	Atlantic Star	Alpha Star	Gold Star	Lone Star	Olinda Star	(b)		
Cost												
Balance as of December 31, 2015	691,780	652,721	657,052	379,951	346,665	722,622	586,407	673,397	558,009	150,953	24,779	5,444,336
Additions	1,349	3,618	2,491	915	1,355	5,577	2,801	26,013	1,536	263	521	46,439
Disposals	-	-	-	-	-	-	-	-	-	(9)	(85)	(94)
Currency translation adjustments	-	-	-	-	-	-	-	-	-	12,670	2,212	14,882
Balance as of June 30, 2016	<u>693,129</u>	<u>656,339</u>	<u>659,543</u>	<u>380,866</u>	<u>348,020</u>	<u>728,199</u>	<u>589,208</u>	<u>699,410</u>	<u>559,545</u>	<u>163,877</u>	<u>27,427</u>	<u>5,505,563</u>
Balance as of December 31, 2016	695,866	661,323	662,166	-	351,287	742,274	590,059	710,048	561,178	162,654	27,219	5,164,074
Additions	2,765	10,751	9,737	-	575	1,648	689	1,897	804	2,842	351	32,059
Disposals	-	-	-	-	-	-	-	-	-	-	(91)	(91)
Currency translation adjustments	-	-	-	-	-	-	-	-	-	(1,301)	(692)	(1,993)
Balance as of June 30, 2017	<u>698,631</u>	<u>672,074</u>	<u>671,903</u>	<u>-</u>	<u>351,862</u>	<u>743,922</u>	<u>590,748</u>	<u>711,945</u>	<u>561,982</u>	<u>164,195</u>	<u>26,787</u>	<u>5,194,049</u>
Accumulated depreciation and impairment												
Balance as of December 31, 2015	(10,418)	(84,953)	(81,079)	(116,781)	(121,038)	(127,104)	(131,638)	(135,062)	(196,096)	(93,972)	(18,172)	(1,116,313)
Depreciation	(15,705)	(13,425)	(13,488)	(8,101)	(7,533)	(12,944)	(13,497)	(14,941)	(12,298)	(4,022)	(2,185)	(118,139)
Disposals	-	-	-	-	-	-	-	-	-	9	67	76
Currency translation adjustments	-	-	-	-	-	-	-	-	-	(8,646)	(1,241)	(9,887)
Balance as of June 30, 2016	<u>(26,123)</u>	<u>(98,378)</u>	<u>(94,567)</u>	<u>(124,882)</u>	<u>(128,571)</u>	<u>(140,048)</u>	<u>(145,135)</u>	<u>(150,003)</u>	<u>(208,394)</u>	<u>(106,631)</u>	<u>(21,531)</u>	<u>(1,244,263)</u>
Balance as of December 31, 2016	(41,877)	(111,996)	(108,247)	-	(136,154)	(172,438)	(159,174)	(167,114)	(220,750)	(102,108)	(22,273)	(1,242,131)
Depreciation	(15,937)	(13,996)	(13,758)	-	(7,672)	(14,475)	(13,989)	(17,973)	(12,329)	(4,094)	(571)	(114,794)
Disposals	-	-	-	-	-	-	-	-	-	-	88	88
Currency translation adjustments	-	-	-	-	-	-	-	-	-	1,083	619	1,702
Balance as of June 30, 2017	<u>(57,814)</u>	<u>(125,992)</u>	<u>(122,005)</u>	<u>-</u>	<u>(143,826)</u>	<u>(186,913)</u>	<u>(173,163)</u>	<u>(185,087)</u>	<u>(233,079)</u>	<u>(105,119)</u>	<u>(22,137)</u>	<u>(1,355,135)</u>
Property, plant and equipment, net ^(a)												
December 31, 2016	653,989	549,327	553,919	-	215,133	569,836	430,885	542,934	340,428	60,546	4,946	3,921,943
June 30, 2017	640,817	546,082	549,898	-	208,036	557,009	417,585	526,858	328,903	59,076	4,650	3,838,914
Useful life range (years)	5 – 35	5 – 35	5 - 35	5 – 35	5 – 35	5 – 35	5 – 35	5 – 35	5 - 35	5 – 25	5 - 25	

- (a) The Group's assets that are pledged as security for financing agreements are disclosed in Note 11.
- (b) As of June 30, 2017, the amount of US\$47,118 (US\$50,952 as of December 31, 2016) refers to the onshore drilling rigs.

During the year ended December 31, 2016, mainly due to the changes of the market fundamentals in the oil and gas industry, including the decline in oil prices and cutbacks in oil entities' capital expenditure plans, the Group evaluated its fleet of drilling units.

Onshore drilling rigs

The Group estimated the fair value of its onshore drilling rigs using the market approach, which estimates the amount that would be received for each drilling unit in the principal or most advantageous market for each drilling unit in an orderly transaction between market participants. On December 31, 2016, the Group recognized a net impairment reversal related to the aggregated result of the seven onshore drilling rigs in the amount of US\$7,260.

Offshore drilling rigs and drillships

On November 13, 2016, the Alaskan Star offshore drilling charter and service-rendering agreements with Petrobras expired. Due to the absence of a new contract in the near future and low demand expectations for this drilling rig, the Group reassessed the viability of new capital investments in the Alaskan Star offshore drilling rig, a midwater rig.

During the last quarter of 2016, the Group received purchase offers to this drilling rig and ended up selling it on December 30, 2016, for US\$680. The sale transaction resulted in an impairment loss on disposal of this asset in the amount of US\$249,907, which has been included in "Other expenses, net".

As of June 30, 2017, the Group did not identify events or changes in circumstances that would require an additional impairment test for the six-month period then ended.

11. LOANS AND FINANCINGS

Financial institution	Funding type	Objective	Beginning period	Maturity	Contractual interest rate	Effective interest rate	Currency	June 30, 2017	December 31, 2016
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	116,333	144,286
HSBC, BAML and Citibank (joint bookrunners)	Senior Unsecured Notes ("Corporate Bond")	Prepay working capital loans	Nov/2012	Nov/2019	6.25%p.a.	6.86%p.a.	U.S. dollar	<u>699,752</u>	<u>698,388</u>
							Subtotal - fixed interest rate	<u>816,085</u>	<u>842,674</u>
Bradesco	Loan	Working capital	Sep/2014	Jul/2018	Libor+6.80%p.a.	7.98%p.a.	U.S. dollar	101,175	152,622
Bradesco	Loan	Working capital	Jan/2015	Jul/2018	Libor+6.50%p.a.	7.86%p.a.	U.S. dollar	<u>77,473</u>	<u>76,827</u>
							Subtotal - variable interest rate loans	<u>178,648</u>	<u>229,449</u>
ING (leader arranger)	Financing	Gold Star rig construction ⁽¹⁾	Jul/2007	Dec/2017	Libor+1.15%p.a. to Libor+1.35%p.a.	1.77%p.a.	U.S. dollar	-	47,515
Citibank and Santander (joint leader arrangers)	Financing	Alpha Star rig construction	Apr/2011	Jul/2017	Libor+2.50%p.a.	3.55%p.a.	U.S. dollar	128,099	174,860
BNP, Citi and ING (leader arrangers) and The Norwegian Ministry of Trade and Industry ("MTI")	Financing	Amaralina Star drillship construction	May/2012	Sep/2018 ⁽²⁾	Libor+2.75%	3.86%p.a.	U.S. dollar	210,831	241,780
BNP, Citi and ING (leader arrangers) and The Norwegian Ministry of Trade and Industry ("MTI")	Financing	Laguna Star drillship construction	May/2012	Nov/2018 ⁽²⁾	Libor+2.75%	4.05%p.a.	U.S. dollar	221,794	249,793
BNP, Citi, ING and DNB and Eksportkreditt Norge ("EKN")	Financing	Brava Star drillship construction	May/2015	Sep/2020 ⁽³⁾	Libor+2.00%	3.73%p.a.	U.S. dollar	<u>386,622</u>	<u>409,618</u>
							Subtotal - variable interest rate financings	<u>947,346</u>	<u>1,123,566</u>
							Total	<u>1,942,079</u>	<u>2,195,689</u>
							Current	460,334	674,085
							Non-current	1,481,745	1,521,604

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

(2) The maturity dates for MTI tranches for Amaralina Star and Laguna Star project financings are December 2020 and January 2021, respectively. Such maturity dates would be anticipated for September 2018 and November 2018, respectively, if the leader arrangers' tranche is not extended or refinanced.

(3) The maturity date for EKN tranche of Brava Star project financing is September 2025. Such maturity date would be anticipated for September 2020, if the leader arrangers' tranche is not extended or refinanced.

a) Changes in loans and financings

	Six-month period ended June 30,	
	<u>2017</u>	<u>2016</u>
Balance as of January 1	2,195,689	2,621,350
Principal repayment	(256,788)	(218,870)
Interest payment	<u>(52,412)</u>	<u>(53,454)</u>
Total payments	<u>(309,200)</u>	<u>(272,324)</u>
Interest charged through profit and loss	51,224	53,522
Transaction cost charged through profit and loss	3,556	4,047
Debt discounts charged through profit and loss	<u>810</u>	<u>901</u>
Financial expenses on loans and financings	<u>55,590</u>	<u>58,470</u>
Balance as of June 30,	<u>1,942,079</u>	<u>2,407,496</u>

In January 2015, the Group used the remaining balance of the credit line with Bradesco amounting to US\$95 million and signed an additional working capital credit line agreement, with the same financial institution, in the amount of US\$75 million, with a 2-year term bearing interest rate at LIBOR plus 4.80% p.a. The Group fully used this additional credit line. Both credit lines were originally due in January 2017.

On January 2, 2017, the Group signed amendments to the working capital credit loan agreements with Bradesco in the amounts of US\$150,000 and US\$75,000, bearing interest rates at LIBOR plus 6.80% p.a. and LIBOR plus 6.50% p.a., respectively, aiming the postponement of the maturity dates from January to July 2018.

On March 30, 2017, the Group prepaid the Lone Star facility; which outstanding balance as of December 31, 2016 amounted to US\$47,515.

On July 31, 2017, the Group fully paid Alpha Star's construction project financing (Note 25) in the outstanding principal and interest amounts of US\$128,171 and US\$412, respectively.

Corporate Bond Exchange Offer

On July 27, 2017, the Company issued Senior Secured Notes (the "New Notes") bearing interest rates at 9.00% p.a. semiannually paid with an additional capitalized interest at 0.50% p.a. to be repaid until 2024 in exchange for an equal aggregate principal amount of its outstanding 6.25% p.a. Senior Notes due in 2019.

b) Loans and financings long term amortization schedule

Year ending December 31,	Gross amount	Transaction costs	Debt discounts	Net amount
2018	469,987	(4,422)	(1,393)	464,172
2019	747,486	(2,066)	(497)	744,923
2020	<u>273,046</u>	<u>(396)</u>	<u>-</u>	<u>272,650</u>
Total	<u>1,490,519</u>	<u>(6,884)</u>	<u>(1,890)</u>	<u>1,481,745</u>

c) Covenants

The financing agreements contains financial covenants and securities provided to lenders. Noncompliance with such financial covenants could constitute a Restricted Payment Trigger Event, which would lead in the borrower entity of the Group not being allowed to pay dividends, purchase, retire or otherwise distribute capital stock or make certain payments to related parties.

The financial covenants related to the financing agreements (“project financing”) of Amaralina Star, Laguna Star, Brava Star and the Project Bond as of June 30, 2017, consist of Debt Service Coverage Ratio, which requires a minimum ratio of Net Operating Cash Flow to Debt Service.

The Debt Service Coverage Ratio is assessed quarterly for dividends distribution intention and semi-annually for compliance with such financial covenants in case. Such covenant is assessed for dividend distribution purposes and as of June 30, 2017, the Group complied with such restrictive clauses.

The indenture governing the Corporate Bond as of June 30, 2017 contains certain financial covenants that limited the Group’s ability to incur in additional indebtedness at that date. The financial covenants was measured on the four most recent fiscal quarters for which financial statements was available and consisted of: (i) Unconsolidated Interest Coverage Ratio; and (ii) Consolidated Net Leverage Ratio. These financial covenants were not required to be measured on a regular basis and should be assessed whenever additional indebtedness was envisaged to be incurred by the Group, as required under the indenture.

The New Notes have a restrictive covenant package, including a restriction on dividend payments and additional limitations on the incurrence of indebtedness and liens. On or after January 1, 2022, the indenture governing the New Notes will allow the Company and any of its restricted subsidiaries to incur additional indebtedness if the Company’s consolidated net leverage ratio is equal to or less than 3.00 to 1.00. This financial ratio is not required to be measured on a periodic basis and shall only be calculated upon the incurrence of additional indebtedness in accordance with the terms of the indenture. Furthermore, the Company will always be allowed to incur certain permitted indebtedness in accordance with the terms of the indenture.

In connection with the Exchange Offer and Consent Solicitation, the company executed on July 25, 2017 a Supplemental Indenture for its outstanding 6.25% p.a. Senior Notes due in 2019 to amend and remove certain of its covenants and events of default.

d) Guarantees

The financings obtained by the Group in order to finance the construction of the drilling rigs, drillships and for other corporate purposes are usually structured as Project Finance/Project Bond; therefore benefiting from a customary security package that includes guarantees such as assignment of the charter receivables, mortgages over the drilling rigs and drillships, pledges over the shares of the drilling rigs and drillships owners, charges over the relevant bank accounts held at the facility agents, including accounts into which the amounts payable under charter agreements 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 restricts the ability of project subsidiaries to pay dividends, incur additional debt, grant additional liens, sell or dispose assets and enter into certain acquisitions, mergers and consolidations, except as already established in such financing debt instruments.

The aforementioned conditions applies to Atlantic Star offshore drilling rig Project Bond and the Project Financing related to Amaralina Star, Laguna Star and Brava Star drillships.

In December 2016, the subsidiaries Alaskan and its offshore drilling rig (Alaskan Star) were released from the guarantee package related to the Project Bond, according to the provisions of the agreements that sets forth the terms of the related Senior Notes, in which such guarantees were in connection with Alaskan's agreement with Petrobras that expired on November 13, 2016.

The Corporate Bond issued on November 9, 2012, is guaranteed by the Group on a senior unsecured basis. In addition, the Group has 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. On June 26, 2015, the Group released the letters of credit related to such interest reserve account, in compliance with the Corporate Bond documentation and considering the Group's consistent deleveraging since the Corporate Bond's issuance.

The New Notes are guaranteed on a senior secured basis by certain subsidiaries of the Company, including but not limited to the guarantor of the Existing Notes, Constellation Overseas, and the entities that own the Unencumbered Rigs. The New Notes will also be guaranteed on a subordinated basis by Star International Drilling Ltd., subject to the terms and conditions of the New Notes.

The New Notes are secured by certain assets of the Company, including but not limited to, the Company's current unencumbered offshore rigs Olinda Star, Lone Star and Gold Star (the "Unencumbered Drilling Rigs") and the insurance receivables and charter receivables related thereto, subject to the terms and conditions of the New Notes. The New Notes also have a springing collateral package that could consist of additional offshore rigs and drilling vessels as well as their related insurance receivables and charter receivables, subject to the terms and conditions of the New Notes.

12. PROVISIONS

In the normal course of its business activities, the Group engages in agreements with third parties that convey contractual obligations. The Group recognizes provisions for contractual penalties (delay in beginning of operations) that are more likely than not to be payable with respect to certain of its agreements, for which the Group's Management does not expect the payable amount to materially differ from the estimated amount.

	Six-month period ended June 30,	
	<u>2017</u>	<u>2016</u>
Balance as of January 1	1,230	4,570
Brava Star penalty payment	-	(2,264)
Foreign exchange rate variations	<u>(18)</u>	<u>223</u>
Balance as of June 30	<u>1,212</u>	<u>2,529</u>

13. PROVISION FOR CONTINGENCIES

a) Contingent assets

The Group has not recognized contingent assets.

b) Contingent liabilities assessed as probable losses

During the normal course of its business activities, the Group is exposed to labor, civil and tax claims. Regarding each claim or exposure, Management has assessed the probability that the matter resolution would ultimately result in a financial loss for the Group. As of June 30, 2017, provisions to cover probable losses included in "other non-current liabilities" are mainly related to labor claims (hardship and retirement).

Changes in loss provision for labor and civil claims are as follows:

	Six-month period ended June 30,	
	<u>2017</u>	<u>2016</u>
Balance as of January 1	1,544	1,504
Additions	247	335
Reversals	(19)	(795)
Foreign exchange rate variations	<u>(32)</u>	<u>254</u>
Balance as of June 30	<u>1,740</u>	<u>1,298</u>

c) Contingent liabilities assessed as possible losses

Based on the Group's in-house legal counsel and external legal advisors' opinions, these claims are not accrued in the consolidated financial statements and consist of labor lawsuits (mainly comprised by compensation due to work related accidents and occupational diseases) in the amount as of June 30, 2017 US\$27,824 (US\$21,650 as of December 31, 2016), tax lawsuits in the amount as of June 30, 2017 US\$26,728 (US\$26,246 as of December 31, 2016) and civil lawsuits in the amount as of June 30, 2017 US\$15 (US\$15 as of December 31, 2016).

The main tax lawsuits assessed as possible losses are as follows:

- i. On September 15, 2010, QGOG received a Notice of Violation issued by the tax authorities due to the nonpayment of Services Tax (“ISS”) in the city of Rio de Janeiro. QGOG argues, on appeal, that the operations were carried out in other municipalities and the taxes were collected under their tax jurisdictions (ISS due to the site of the service provider). As of June 30, 2017, the estimated amount involved is US\$6,329 (US\$5,062 as of December 31, 2016).

On January 22, 2015, QGOG received a Notice of Violation issued by the Brazilian Internal Revenue Service (*Receita Federal do Brasil* - RFB) related to Social Integration Program (“PIS”) and Social Investment Program (“COFINS”) collected in the years 2010 and 2011. The RFB initiated a Tax Administrative Process, whereby it requires QGOG to make tax payments, due to the fact that the RFB considered that QGOG made use of improper tax credits aiming to reduce its PIS and COFINS obligations. On February 23, 2015, QGOG argued, on appeal, in order to contest RFB’s tax assessment. As of June 30, 2017, the estimated amount involved is US\$19,677 (US\$19,973 as of December 31, 2016).

- d) Tax, labor and social security matters

The Group enters into transactions and operations that may be interpreted by third parties subjectively and/or as opposed to the Group’s position. Nevertheless, the Group’s actions are supported by its external legal advisors’ opinion

- e) Other matters

Petrobras withholding taxes

In July 2014, the Group received letters from Petrobras informing that the RFB issued Notices of Violation against Petrobras regarding the absence of withholding income taxes from charter agreements remittances in 2008 and 2009, related to the Atlantic Star and Alaskan Star offshore drilling rigs. Petrobras indicated that is currently contesting such Notices of Violation, but if the losses on ongoing appeals are confirmed, Petrobras will seek the recoverability of such losses from its contractors, including the Group, and any penalties, interest and fees that would be required to settle the debt with the RFB. Petrobras has informed that the amount involved related to the work performed by the Group amounts to R\$152 million (US\$67 million), excluding penalties, interest and fees. The Group has contested Petrobras’ allegations in a response letter stating that Petrobras “has no legal or commercial grounds to seek recoverability of such losses from the Group” and that “will not accept any withholding or deduction of the amounts to be received under the charter agreements”. Should Petrobras fail on its appeals and, consequently, the Group receives any future charges aiming the reimbursement of Petrobras’ losses, the Group will contest such charges.

14. DERIVATIVES

Under the terms of the Project Finance arrangements (Note 11), the Group is contractually required to manage its risk on variable interest rates by eliminating variable-to-fixed interest rate swaps on its long-term variable rate loans. Accordingly, in order to protect the Group from fluctuations in interest rates, interest rate swaps are used to convert the variable component of interest rates to fixed rates ranging from 1.79% p.a. to 2.90% p.a.. The floating component of interest rate of all derivatives agreements is the US\$ LIBOR interest rate.

As of June 30, 2017, the Group has interest rate swaps related to the loans funding the Alpha Star offshore drilling rig and the Amaralina Star, Laguna Star and Brava Star drillships. The swap agreements cover the expected periods of the loans and terminate between 2017 and 2020.

Information on derivative agreements

Financial institution	Loans and financings objective	Payable leg interest rate (per annum)	Maturity	Interest rate swaps US\$ LIBOR/Pre-fixed rate		Fair value	
				Notional amount		Jun.30,	Dec. 31,
				Jun. 30, 2017	Dec. 31, 2016	2017	2016
ING (leader arranger)	Gold Star construction	5.16%	Jul/2017	-	42,421	-	857
Citibank and Santander (joint leader arranger)	Alpha Star construction	1.93%	Jul/2017				
						<u>90</u>	<u>1,107</u>
	Non-designated to hedge accounting			<u>151,532</u>	<u>231,979</u>	<u>90</u>	<u>1,964</u>
BNP, Citibank and ING (joint leader arranger) (*)	Amaralina Star construction	2.81%	Oct/2018	218,520	249,688	3,288	5,825
BNP, Citibank and ING (joint leader arranger) (*)	Laguna Star construction	2.90%	Dec/2018	229,854	258,350	3,985	6,704
BNP, Citi, ING and DNB (mandated leader arranger) (*)	Brava Star construction	1.79%	Sep/2020	176,864	187,583	413	457
BNP and ING (mandated leader arranger) (*)	Brava Star construction	1.84%	Sep/2020				
						<u>175,824</u>	<u>186,480</u>
	Designated to hedge accounting			<u>801,062</u>	<u>882,101</u>	<u>8,332</u>	<u>13,727</u>
	Total amount			<u>952,594</u>	<u>1,114,080</u>	<u>8,422</u>	<u>15,691</u>
	Non-current assets					297	946
	Current liabilities					7,178	12,784
	Non-current liabilities					1,541	3,853

Changes in fair values are as follows:

	Six-month period ended June 30,	
	2017	2016
Balance as of March 31,	15,691	34,679
Fair value adjustments through profit and loss	2,528	5,192
Fair value adjustments through other comprehensive income/(loss) (*)	(1,811)	14,881
Cash payments on derivatives	<u>(7,986)</u>	<u>(13,881)</u>
Balance as of June 30,	<u>8,422</u>	<u>40,871</u>

(*) The Group has adopted the hedge accounting as from July 15, 2011, using derivative agreements related to Amaralina Star and Laguna Star drillships construction. The Group has adopted the hedge accounting using the derivative agreement related to Brava Star drillship construction as from June 4, 2015. Accordingly, the effect of the changes in the fair value of the derivative agreements designated to hedge accounting are recorded in "Other Comprehensive Income/ (Loss)".

Interest rate swap agreements exchanging variable to 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 agreements designated as cash flow hedges

Under interest rate swap agreements, the Group agrees to exchange the differences between fixed and variable rate interest amounts calculated on agreed notional principal amounts. Such agreements 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 financings (Note 11) for the construction of Amaralina Star, Laguna Star and Brava Star drillships, the Group has a contractual commitment with the same financial institutions to contract derivatives as hedging instruments of the debt in relation to changes in LIBOR. Accordingly, the Group has swap agreements in connection with the rates, spreads, notional, terms and debt cash flows. The swap agreements were contracted in July 2011 and June 2015 and follows the related project financings terms.

15. SHAREHOLDERS' EQUITY

a) Share capital

As of June 30, 2017 and December 31, 2016, the Company's share capital amounts to US\$63,200, comprised by 189,227,364 ordinary shares, with no par value, as follows:

	June 30, 2017						
	Shares				Rights over the amounts		
	Class A	%	Class B	%	Share capital	Share premium	Total
Queiroz International	140,293,142	75.10%	-	-	46,857	568,328	615,185
Constellation Holdings S.à.r.l.	16,862,219	9.03%	876,880	36.25%	5,925	71,861	77,786
Constellation Coinvestment S.à.r.l.	14,800,460	7.92%	769,663	31.82%	5,200	63,075	68,275
CIPEF VI QGOG S.à.r.l.	14,564,483	7.80%	757,392	31.31%	5,117	62,069	67,186
CGPE VI, L.P.	288,141	0.15%	14,984	0.62%	101	1,228	1,329
Total shares per class	<u>186,808,445</u>	<u>100.00%</u>	<u>2,418,919</u>	<u>100.00%</u>	<u>63,200</u>	<u>766,561</u>	<u>829,761</u>
Total shares			<u>189,227,364</u>				

Shareholders	December 31, 2016			
	Ordinary shares	Share capital	Share premium	Total
QGOG International	140,293,142	46,857	568,328	615,185
Constellation Holdings S.à.r.l.	17,739,099	5,925	71,861	77,786
Constellation Coinvestment S.à.r.l.	15,570,123	5,200	63,075	68,275
CIPEF VI QGOG S.à.r.l.	15,321,875	5,117	62,069	67,186
CGPE VI L.P.	<u>303,125</u>	<u>101</u>	<u>1,228</u>	<u>1,329</u>
Total	<u>189,227,364</u>	<u>63,200</u>	<u>766,561</u>	<u>829,761</u>

On March 13, 2017, the Extraordinary General Meeting of the shareholders of the Company was held, whereby the shareholders resolved (i) to create 2 (two) classes of shares, one with voting rights (Class A) and the other with no voting rights (Class B); (ii) conversion by the shareholders of their shares into Class A and Class B shares; and (iii) specific amendments to the Company's articles of association.

The Company's ultimate controlling party is the Queiroz Galvão family.

b) 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 stand-alone financial information, after deduction of any losses brought forward from previous years, to the minimum legal reserve. Such allocation must consider the Company's stand-alone statutory financial statements prepared in accordance with Luxembourg Generally Accepted Accounting Principles ("Lux GAAP"), which differs in certain aspects from IFRS/IASB.

The aforementioned 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.

For the year ended December 31, 2016, the Company did not constitute legal reserve due to the fact that it has no statutory profits for the years then ended in the financial statements prepared in accordance with Lux GAAP.

c) Shareholders distribution policy

The form of distribution to shareholders, whether as dividends, repayment of share premium or repurchase of own shares is based upon the Company's stand-alone statutory financial statements prepared in accordance with Lux GAAP, which must comply with Luxembourg laws and regulations. Additionally, any distribution of statutory profits to the shareholders will be subject to a Luxembourg withholding tax 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.

Following the Company's articles of association, the share premium account balance presented in the Lux GAAP stand-alone statutory accounts may, for example, be used to provide for the payment of any shares which the Company may redeem from its shareholders, to offset any net realized losses or to make distributions to the shareholders, such list being a non-exhaustive list of the purposes for which the amount of the share premium account may be used.

For the six-month period ended June 30, 2017, the Company did not pay dividends.

On June 27, 2016 as approved by extraordinary general meetings of shareholders, the Company fully paid the amount of US\$94,416 as partial repayment of the share premium account in the Company's stand-alone statutory financial statements prepared in accordance with Lux GAAP. In accordance with Luxembourg tax law, the repayments of share premium were not subject to withholding tax.

For the purposes of the Company's consolidated financial statements prepared in accordance with IFRS/IASB, such payments were disclosed as "payment of dividends" and are compliant with the financial covenants under the Group's existing financing agreements (Note 11).

d) Other Comprehensive Items (OCI)

Cash flow hedging reserve

The cash flow hedging reserve consists of the effective portion of cash flow hedging instruments related to hedged financing transactions (Note 14).

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.

Atendimento Prisma

Changes in Other Comprehensive Items

Changes in comprehensive income for the three-month periods ended June 30, 2017 and 2016 are as follows:

	<u>Cash flow hedge fair value adjustments attributable to</u>			Share of investments other comprehensive loss	Foreign currency translation adjustments	<u>Total</u>
	<u>Owners of the Group</u>	<u>Non-controlling interests</u>	<u>Total</u>			
Balance as of March 31, 2016	(15,557)	(4,166)	(19,723)	(24,400)	(13,157)	(57,280)
Fair value adjustment on:						
Derivative agreements (Note 14)	(2,524)	(573)	(3,097)	-	-	(3,097)
Joint ventures' derivative agreements	-	-	-	(4,934)	-	(4,934)
Exchange differences:						
On investments arising during the period	-	-	-	(967)	-	(967)
Arising during the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,480</u>	<u>7,480</u>
Balance as of June 30, 2016	<u>(18,081)</u>	<u>(4,739)</u>	<u>(22,820)</u>	<u>(30,301)</u>	<u>(5,677)</u>	<u>(58,798)</u>
Balance as of March 31, 2017	(2,006)	(1,489)	(3,495)	(11,141)	(6,751)	(21,387)
Fair value adjustment on:						
Derivative agreements (Note 14)	(684)	154	(530)	-	-	(530)
Joint ventures' derivative agreements	-	-	-	(1,463)	-	(1,463)
Exchange differences:						
On investments arising during the period	-	-	-	678	-	678
Arising during the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,537)</u>	<u>(3,537)</u>
Balance as of June 30, 2017	<u>(2,690)</u>	<u>(1,335)</u>	<u>(4,025)</u>	<u>(11,926)</u>	<u>(10,288)</u>	<u>(26,239)</u>

Changes in comprehensive income for the six-month periods ended June 30, 2017 and 2016 are as follows:

	<u>Cash flow hedge fair value adjustments attributable to</u>			Share of investments' other comprehensive loss	Foreign currency translation adjustments	Total
	Owners of the Group	Non-controlling interests	Total			
Balance as of December 31, 2015	(6,042)	(1,897)	(7,939)	(13,872)	(18,851)	(40,662)
Fair value adjustments on:						
Derivative agreements	(12,039)	(2,842)	(14,881)	-	-	(14,881)
Joint ventures' derivative agreements	-	-	-	(14,937)	-	(14,937)
Associates' financial assets	-	-	-	123	-	123
Exchange differences:						
On investments arising during the period	-	-	-	(1,615)	-	(1,615)
Arising during the period	-	-	-	-	13,174	13,174
Balance as of June 30, 2016	<u>(18,081)</u>	<u>(4,739)</u>	<u>(22,820)</u>	<u>(30,301)</u>	<u>(5,677)</u>	<u>(58,798)</u>
Balance as of December 31, 2016	(3,749)	(2,087)	(5,836)	(12,156)	(8,130)	(26,122)
Fair value adjustments on:						
Derivative agreements	1,059	752	1,811	-	-	1,811
Joint ventures' derivative agreements	-	-	-	(62)	-	(62)
Associates' financial assets	-	-	-	-	-	-
Exchange differences:						
On investments arising during the period	-	-	-	292	-	292
Arising during the period	-	-	-	-	(2,158)	(2,158)
Balance as of June 30, 2017	<u>(2,690)</u>	<u>(1,335)</u>	<u>(4,025)</u>	<u>(11,926)</u>	<u>(10,288)</u>	<u>(26,239)</u>

e) Non-controlling interests

The Group's consolidated financial statements include Amaralina Cooperatief U.A., Amaralina Star Ltd., Laguna Cooperatief U.A., Laguna Star Ltd., Manisa Serviços de Petróleo Ltda., Palase C.V., Podocarpus C.V. and Tarsus Serviços de Petróleo Ltda., whose share capital is 55% owned by the Group. The portion of such entities total shareholders' equity not attributable to the Group is included in non-controlling interests.

f) 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 June 30,		Six-month period ended June 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Profit attributable to the owners of the Group	83,075	114,130	175,729	199,937
Weighted average number of ordinary shares for calculation purposes (thousands of shares) (*)	<u>189,227</u>	<u>189,227</u>	<u>189,227</u>	<u>189,227</u>
Basic and diluted profit per share (in U.S. dollars – US\$)	<u>0.44</u>	<u>0.60</u>	<u>0.93</u>	<u>1.06</u>

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

16. NET OPERATING REVENUE

The Group's operating revenue is mainly derived from charter and service-rendering agreements. As of June 30, 2017 and 2016, Petrobras has accounted for the totality of revenues.

Net operating revenue is presented after the following items:

	Three-month period ended June 30,		Six-month period ended June 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Gross operating revenue	255,841	295,774	520,615	581,505
Taxes levied on revenue:				
Social Integration Program (PIS) (*)	(816)	(836)	(1,716)	(1,654)
Social Investment Program (COFINS) (*)	(3,758)	(3,852)	(7,904)	(7,646)
Services Tax (ISS) (*)	(1,104)	(1,096)	(2,297)	(2,049)
Withholding Income tax (IRRF)	<u>(740)</u>	<u>(943)</u>	<u>(1,477)</u>	<u>(2,203)</u>
Net operating revenue	<u>249,423</u>	<u>289,047</u>	<u>507,221</u>	<u>567,953</u>

(*) - Taxes levied on revenues are applicable only to the revenues generated by QGOG.

17. COST OF SERVICES AND OPERATING EXPENSES

Costs and expenses by nature	Three-month period ended June 30,					
	2017			2016		
	Cost of services	General and administrative expenses	Total	Cost of services	General and administrative expenses	Total
Payroll, charges and benefits	(37,466)	(4,656)	(42,122)	(41,083)	(6,230)	(47,313)
Depreciation	(57,253)	(170)	(57,423)	(59,463)	(185)	(59,648)
Materials	(14,431)	-	(14,431)	(13,128)	-	(13,128)
Maintenance	(15,387)	-	(15,387)	(15,349)	-	(15,349)
Insurance	(3,508)	-	(3,508)	(4,569)	-	(4,569)
Other ^{(1)/(2)}	<u>(5,090)</u>	<u>(3,043)</u>	<u>(8,133)</u>	<u>(4,345)</u>	<u>(5,094)</u>	<u>(9,439)</u>
	<u>(133,135)</u>	<u>(7,869)</u>	<u>(141,004)</u>	<u>(137,937)</u>	<u>(11,509)</u>	<u>(149,446)</u>

Costs and expenses by nature	Six-month period ended June 30,					
	2017			2016		
	Cost of services	General and administrative expenses	Total	Cost of services	General and administrative expenses	Total
Payroll, charges and benefits	(75,254)	(9,547)	(84,801)	(77,793)	(13,006)	(90,799)
Depreciation	(114,437)	(357)	(114,794)	(117,790)	(349)	(118,139)
Materials	(27,190)	-	(27,190)	(26,431)	-	(26,431)
Maintenance	(31,579)	-	(31,579)	(27,619)	-	(27,619)
Insurance	(6,611)	-	(6,611)	(8,661)	-	(8,661)
Other ^{(1)/(2)}	<u>(9,237)</u>	<u>(5,814)</u>	<u>(15,051)</u>	<u>(8,247)</u>	<u>(7,868)</u>	<u>(16,115)</u>
	<u>(264,308)</u>	<u>(15,718)</u>	<u>(280,026)</u>	<u>(266,541)</u>	<u>(21,223)</u>	<u>(287,764)</u>

- (1) Other cost of services: mainly comprised by rig boarding transportation; lodging and meals; data transmission; among others.
- (2) Other general and administrative expenses: mainly comprised by transportation; information technology services; external legal advisors fees; independent auditors fees; advisory services fees; among others.

18. OTHER INCOME (EXPENSES), NET

	Three-month period ended June 30,		Six-month period ended June 30,	
	2017	2016	2017	2016
Contractual fee	425	9,192	850	9,192
Revenue from sales of PP&E	2	33	20	76
Property rental	20	-	40	-
Other	<u>6</u>	<u>30</u>	<u>14</u>	<u>65</u>
Other income	<u>453</u>	<u>9,255</u>	<u>924</u>	<u>9,333</u>
Other taxes ^(*)	<u>(2,310)</u>	-	<u>(2,310)</u>	-
Cost of PP&E sold	<u>(3)</u>	<u>(12)</u>	<u>(3)</u>	<u>(18)</u>
Other expenses	<u>(2,313)</u>	<u>(12)</u>	<u>(2,313)</u>	<u>(18)</u>
Total other income, net	<u>(1,860)</u>	<u>9,243</u>	<u>(1,389)</u>	<u>9,315</u>

(*) Tax levied on dividends received from SBM Espírito do Mar Inc. (Note 9).

19. FINANCIAL EXPENSES, NET

	Three-month period ended June 30,		Six-month period ended June 30,	
	2017	2016	2017	2016
Interest on short-term investments	1,738	1,227	3,415	2,561
Financial income from related parties	1,949	1,769	3,816	3,392
Other financial income	449	208	683	814
Financial income	<u>4,136</u>	<u>3,204</u>	<u>7,914</u>	<u>6,767</u>
Financial expenses on loans and financings (Note 11.a)	(27,633)	(28,882)	(55,590)	(58,470)
Derivative expenses (Note 14)	(1,124)	(2,240)	(2,528)	(5,192)
Financial expenses from related parties	(368)	(353)	(746)	(667)
Other financial expenses	(2,341)	(2,208)	(3,406)	(3,818)
Financial expenses	<u>(31,466)</u>	<u>(33,683)</u>	<u>(62,270)</u>	<u>(68,147)</u>
Foreign exchange variation gain/(loss), net	(36)	(234)	(102)	(245)
Financial expenses, net	<u>(27,366)</u>	<u>(30,713)</u>	<u>(54,458)</u>	<u>(61,625)</u>

20. TAXES

Most of the Group's entities are located in jurisdictions that do not charge corporate income tax. Additionally, certain of the Company's subsidiaries operates in the Netherlands, Switzerland and Luxembourg, but none of these reported taxable income for the years presented.

QGOG, one of the Company's subsidiaries, operates in Brazil, and the related taxes and contributions are as follows:

a) Recoverable taxes

	June 30, 2017	December 31, 2016
Social Security Contribution (INSS) (*)	8,780	8,486
Income tax (IRPJ) and social contribution (CSLL)	5,221	1,339
Other	<u>10</u>	<u>20</u>
Total	<u>14,011</u>	<u>9,845</u>
Current	7,072	4,005
Non-current	6,939	5,840

(*) Maintenance revenues generated by QGOG are subjected to Social Security Contribution over Gross Revenue (Contribuição Previdenciária sobre a Receita Bruta - CPRB), instead of QGOG being charged of Social Contribution over payroll (INSS).

b) Taxes payables

	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Services Tax (ISS)	1,499	1,813
Income tax (IRPJ) and social contribution (CSLL)	270	307
Social Integration Program (PIS) and Social Investment Program (COFINS)	<u>43</u>	<u>197</u>
Total	<u>1,812</u>	<u>2,317</u>

c) Deferred tax assets

	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Income tax (IRPJ) and social contribution (CSLL) (*)	8,904	7,505
Total	<u>8,904</u>	<u>7,505</u>
Non-current	<u>8,904</u>	<u>7,505</u>

(*) Mainly refers to deferred income arising from provisions for contingencies and impairment losses on PP&E, which are derived from QGOG's operations aiming future compensation based on reliable taxable profit estimates.

d) Effect of income tax results

The tax rate used for the three and six-month periods ended June 30, 2017 and 2016 reconciliations below refers to the corporate nominal tax rate of 34% in accordance with Brazilian tax legislation, jurisdiction in which QGOG (Brazilian subsidiary) operates. For the three and six-month period ended June 30, 2017 reconciliations below also consider the corporate nominal tax rate of 20% in accordance with British tax legislation, jurisdiction in which QGOG Constellation UK Ltd. 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:

	<u>Three-month period</u> <u>ended June 30,</u>		<u>Six-month period</u> <u>ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Profit before taxes	89,533	121,174	184,274	221,741
Income tax and social contribution at nominal rate (*)	(29)	129	(2,160)	(8,218)
Adjustments to derive effective tax rate:				
Non-deductible expenses	(125)	(334)	(92)	(425)
Other	<u>216</u>	<u>206</u>	<u>227</u>	<u>409</u>
Income tax expense recognized in profit or loss	<u>62</u>	<u>1</u>	<u>(2,025)</u>	<u>(8,234)</u>
Current taxes	(3,119)	(854)	(3,482)	(9,851)
Deferred taxes	3,181	855	1,457	1,617

(*) Nominal tax rate applied on profits before tax related to QGOG and QGOG Constellation UK Ltd..

21. FINANCIAL INSTRUMENTS

a) General considerations

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

The Group's main financial instruments are cash and cash equivalents, short-term investments, restricted cash, trade and other receivables and payables, receivables from (payables to) related parties, loans and financings and derivatives, as follows:

Category	June 30, 2017		December 31, 2016		
	Carrying amount	Fair value	Carrying amount	Fair value	
<u>Financial assets</u>					
Cash and cash equivalents	Loans and receivables	208,918	208,918	293,189	293,189
Short-term investments	Fair value through profit or loss	173,712	173,712	113,866	113,866
Restricted cash	Fair value through profit or loss	37,749	37,749	43,222	43,222
Trade and other receivables	Loans and receivables	66,601	66,601	81,050	81,050
Receivables from related parties	Loans and receivables	354,493	354,493	342,130	342,130
Derivatives	Fair value through profit or loss	297	297	946	946
<u>Financial liabilities</u>					
Loans and financings	Other financial liabilities	1,942,079	1,748,293	2,195,689	1,952,855
Trade and other payables	Other financial liabilities	30,230	30,230	29,488	29,488
Payables to related parties	Other financial liabilities	321,075	321,075	311,920	311,920
Derivatives	Fair value through profit or loss	8,719	8,719	16,637	16,637

The Group has no forward agreements, 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 of its charter agreements considering that the majority of the Group's agreements are long-term (expiring in 2018).

Except for loans and financings, Management also believes that the carrying amounts of the remaining financial instruments do not significantly differ from their fair value as it considers that interest rates on such instruments are not significantly different from market rates. Interest rates that are currently available to the Group for issuance of debt with similar terms and maturities were applied to estimate the fair value of loans and financings.

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

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 3-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 3 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 short-term investments, restricted cash and derivative financial instruments at fair value through profit or loss. Short-term investments and restricted cash are classified as Level 1, due to the fact that they are measured using market prices for identical instruments. Loans and financings and derivative financial instruments are classified as Level 2, due to the fact that 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 necessarily indicate the amounts that may be 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/ 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 agreements 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 determining the fair value of assets and liabilities measured at amortized cost method, it was not considered the applicability of this evaluation to trade and other receivables and payables due to its very short-term of maturity.

b) Financial risk management

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

Liquidity risk

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 maintains relationships with specific lenders and constantly monitors its funding needs together with such lenders. The Group manages the majority of its long-term financings on a project-by-project basis. Such financings are arranged as required to support the Group's operations and growth plans.

As of June 30, 2017, the Group presents a positive net working capital in the amount of US\$62,141 (net working capital deficiency in the amount of US\$136,709 as of December 31, 2016) as a result of the cash flow generation of the Group's existing charter and service-rendering agreements together with the amendments to the working capital credit loan agreements with Bradesco signed in January 2017, which postponed the maturity dates of these agreements to July 2018. Management continue to pursue other opportunities to obtain additional long-term loans and financings in order to improve its current liquidity position.

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 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:

June 30, 2017

Period	Trade payables	Loans and financings	Derivatives	Payables to related parties	Total
2017	30,230	383,416	4,635	2,746	420,757
2018	-	660,245	4,474	5,980	670,699
2019	-	803,981	(222)	79,798	883,557
2020	-	281,659	(339)	91,579	372,899
2021	-	-	-	102,288	102,288
After 2021	-	-	-	210,521	210,521
Total	<u>30,230</u>	<u>2,129,301</u>	<u>8,548</u>	<u>492,642</u>	<u>2,660,721</u>

December 31, 2016

Period	Trade payables	Loans and financings	Derivatives	Payables to related parties	Total
2017	29,488	771,161	12,341	3,924	816,914
2018	-	586,931	4,613	6,635	598,179
2019	-	803,982	(222)	88,534	892,294
2020	-	281,658	(339)	101,604	382,923
2021	-	-	-	113,485	113,485
After 2021	-	-	-	220,996	220,996
Total	<u>29,488</u>	<u>2,443,732</u>	<u>16,393</u>	<u>535,178</u>	<u>3,024,791</u>

Credit risk

Credit risk refers to the risk that counter-party will default on its contractual obligations resulting in financial losses 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. The maximum exposure amounts of such financial instruments are those disclosed in Notes 3, 6 and 8, respectively.

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 six-month periods ended June 30, 2017 and 2016, Petrobras has accounted for the totality of revenues (Note 16). 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.

Market Risk (interest rate risk)

The Group is exposed to interest rate risk due to the fact that Group entities borrow funds at both fixed and variable interest rates. The Group manages such risk by maintaining an appropriate mix between fixed and variable rate borrowings and by using interest rate swap instruments. The Group is exposed to fluctuations in US\$ LIBOR interest rates charged on its loans and financings (Note 11). The Group manages the interest rate risk related to the project financing agreements by eliminating variable-to-fixed interest rate swaps (Note 14).

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 interest rates is in respect of changes in fair values of the respective interest rate swaps. These interest rate swaps are held at fair value in the consolidated statement of financial position (Note 14). 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 consolidated statement of operations and consolidated statement of comprehensive income unless such changes are capitalized.

Interest rate sensitivity analysis

The sensitivity analysis below has 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 consolidated financial statements. For variable 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 comprehensive income would be impacted as follows:

Risk: interest rate variation	June 30, 2017	Scenario I ⁽ⁱ⁾	Scenario II ⁽ⁱⁱ⁾
		Increase/ (decrease) in P&L	
Variable interest rate loans (Note 11)	178,648	(179)	179
Variable interest rate financings (Note 11)	947,346	(947)	947
Derivatives (Note 14)	<u>(952,594)</u>	<u>952</u>	<u>(952)</u>
Total	<u>(5,248)</u>	<u>5</u>	<u>(5)</u>
		Increase/ (decrease) in OCI	
Hedge derivatives (Note 14)	(801,062)	801	(801)

- (i) Increase of 0.1% in interest rate.
(ii) Decrease of 0.1% in interest rate.

c) 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:

	June 30, 2017	December 31, 2016
Loans and financings ^(a)	1,942,079	2,195,689
Cash transactions ^(b)	<u>(420,379)</u>	<u>(450,277)</u>
Net debt ^(c)	1,521,700	<u>1,745,412</u>
Shareholders' equity ^(d)	<u>2,710,275</u>	2,528,143
Net debt on shareholders' equity plus net debt ^{[(c)] ÷ [(c) + (d)]}	<u>36%</u>	<u>41%</u>

(a) Consider all loans and financings balances.

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

(c) Includes all shareholders' equity accounts.

22. INSURANCE

As of June 30, 2017 and December 31, 2016, major assets or interests covered by insurance policies and their respective coverage amounts are summarized below:

	June 30, 2017	December 31, 2016
Civil liability	2,373,000	2,523,000
Operating risks	3,844,702	5,449,180
Operational headquarter and others	<u>22,855</u>	<u>24,184</u>
Total	<u>6,240,557</u>	<u>7,996,364</u>

The Group's practice in relation to its insurance policies is to hire solid insurance companies with high reputation in the insurance market.

23. PENSION PLAN

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

For the six-month periods ended June 30, 2017 and 2016, contributions payable by QGOG at rates specified by the plan rules amounts to US\$96 and US\$1,064, respectively.

24. SEASONALITY

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

25. SUBSEQUENT EVENTS

Alpha Star offshore drilling rig charter, service-rendering and project financing agreements

On July 8, 2017, the Alpha Star offshore drilling rig charter and service-rendering agreements with Petrobras (Note 1.d) expired and thus the Group is currently seeking for new customers. Alpha Star offshore drilling rig is currently under preservation at Rio de Janeiro, Brazil.

On July 31, 2017, the Group fully paid Alpha Star's construction project financing (Note 11) in the outstanding principal and interest amounts of US\$128,171 and US\$412, respectively.

Corporate Bond Exchange Offer

On July 27, 2017, the Company issued Senior Secured Notes with an aggregate principal amount of US\$604.6 million, bearing interest rates at 9.00% p.a. semiannually paid with an additional capitalized interest at 0.50% p.a. to be repaid until 2024 in exchange for an equal aggregate principal amount of its outstanding 6.25% p.a. Senior Notes due in 2019 (Note 11).

The New Notes are secured by certain assets of the Company, including but not limited to, the Company's current unencumbered offshore rigs Olinda Star, Lone Star and Gold Star (the "Unencumbered Drilling Rigs") and the insurance receivables and charter receivables related thereto, subject to the terms and conditions of the New Notes. The New Notes also have a springing collateral package that could consist of additional offshore rigs and drilling vessels as well as their related insurance receivables and charter receivables, subject to the terms and conditions of the New Notes.

The New Notes are guaranteed on a senior secured basis by certain subsidiaries of the Company, including but not limited to the guarantor of the Existing Notes, Constellation Overseas, and the entities that own the Unencumbered Rigs. The New Notes will also be guaranteed on a subordinated basis by Star International Drilling Ltd., subject to the terms and conditions of the New Notes.

The New Notes have a restrictive covenant package, including a restriction on dividend payments and additional limitations on the incurrence of indebtedness and liens. On or after January 1, 2022, the indenture governing the New Notes will allow the Company and any of its restricted subsidiaries to incur additional indebtedness if the Company's consolidated net leverage ratio is equal to or less than 3.00 to 1.00. This financial ratio is not required to be measured on a periodic basis and shall only be calculated upon the incurrence of additional indebtedness in accordance with the terms of the indenture. Furthermore, the Company will always be allowed to incur certain permitted indebtedness in accordance with the terms of the indenture.

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In connection with the Exchange Offer and Consent Solicitation, the company executed on July 25, 2017 a Supplemental Indenture for its outstanding 6.25% p.a. Senior Notes due in 2019 to amend and remove certain of its covenants and events of default.

26. APPROVAL OF 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 August 17, 2017.

Atendimento Prisma