QGOG Constellation S.A.

Consolidated Financial Statements
as of December 31, 2016
and for the Year Then Ended and
Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of QGOG Constellation S.A. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects, if any, of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

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Basis for Qualified Opinion

Partnership with Sete Brasil Participações S.A. and its subsidiaries - Investments in associate entities

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"). The Company's 15% (fifteen percent) equity participation in the Investees was reduced to zero in the year ended December 31, 2016 (US$12,723 thousand equity participation as at December 31, 2015).

As disclosed in Note 12 to the consolidated financial statements, as at December 31, 2016, the Investees presents shareholders' equity deficiency in the aggregate amount of US$1,254,936 thousand (shareholders' equity in the aggregate amount of US$99,011 thousand as at December 31, 2015) and total comprehensive loss in the aggregate amount of US$115,365 thousand for the year then ended (total comprehensive loss in the aggregate amount of US$10,589 thousand for the year ended December 31, 2015). Such balances have not been audited by us or any other independent auditor.

Sete Brasil has been facing funding and liquidity difficulties to meet its operational and financial 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, Sete Brasil has decided to file for a judicial recovery request. These conditions indicates the existence of a material uncertainty that may cast significant doubt about the Investees' ability to continue as a going concern.

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Until the date of this report, we were unable to obtain sufficient appropriate audit evidence about the Company's investment amounts in the Investees as at December 31, 2016, the Company's share of results on the Investees for the year then ended and related disclosures in Note 12 to the consolidated financial statements. Consequently, we were unable to determine whether any adjustments to the Investees balances as at December 31, 2016 and for the year then ended or additional disclosures to Note 12 to the consolidated financial statements were due necessary.

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter

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

We draw attention to Note 12 to the consolidated financial statements, which discloses the uncertainty related to the outcome of the contingent liability of the Company's investments in associate and joint venture entities held with its partner, SBM Offshore N.V. and its subsidiaries, related to operations in Brazil. Our opinion is not qualified in respect of this matter.

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Other Information

Management is responsible for the other information, which comprises the information included in the consolidated management report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS, as issued by IASB, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercised professional judgment and maintained professional skepticism throughout the audit. We also:

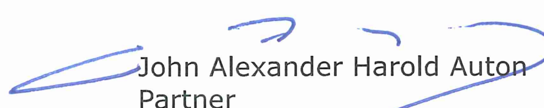
- ✓ Identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that was sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- ✓ Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ✓ Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ✓ Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ✓ Evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ✓ Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Company's audit. We remain solely responsible for our audit opinion.

We communicated with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Rio de Janeiro, Brazil

March 31, 2017

DELOITTE TOUCHE TOHMATSU
Auditores Independentes



John Alexander Harold Auton
Partner

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QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2016
(Amounts expressed in thousands of U.S. dollars - US$'000)

ASSETS	Note	December 31, 2016	December 31, 2015
CURRENT ASSETS			
Cash and cash equivalents	6	293,189	154,810
Short-term investments	7	113,866	246,871
Restricted cash	8	43,222	21,744
Trade and other receivables	9	81,050	109,455
Inventories	10	184,691	179,230
Recoverable taxes	23.a	4,005	10,742
Deferred mobilization costs		10,999	12,385
Deferred tax assets	23.c	-	200
Receivables from related parties	11	3,034	1,417
Other current assets		10,226	21,930
Total current assets		744,282	758,784
NON-CURRENT ASSETS			
Receivables from related parties	11	339,096	315,380
Derivatives	17	946	896
Other non-current assets		999	3,819
Investments	12	253,268	245,306
Deferred mobilization costs		6,584	17,583
Recoverable taxes	23.a	5,840	-
Deferred tax assets	23.c	7,505	2,378
Property, plant and equipment, net	13	3,921,943	4,328,023
Total non-current assets		4,536,181	4,913,385
TOTAL ASSETS		5,280,463	5,672,169

(continues)

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2016
(Amounts expressed in thousands of U.S. dollars - US$'000)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	December 31, 2016	December 31, 2015
CURRENT LIABILITIES			
Loans and financings	14	674,085	390,075
Payroll and related charges		31,046	36,295
Derivatives	17	12,784	24,377
Trade and other payables		29,488	26,566
Payables to related parties	11	2,049	623
Taxes payables	23.b	2,317	9,559
Provisions	15	1,230	4,570
Deferred revenues		62,741	56,343
Other current liabilities		65,251	59,655
Total current liabilities		880,991	608,063
NON-CURRENT LIABILITIES			
Loans and financings	14	1,521,604	2,231,275
Payables to related parties	11	309,871	288,694
Derivatives	17	3,853	11,198
Deferred revenues		34,397	82,966
Other non-current liabilities		1,604	1,555
Total non-current liabilities		1,871,329	2,615,688
TOTAL LIABILITIES		2,752,320	3,223,751
SHAREHOLDERS' EQUITY			
Share capital	18.a	63,200	63,200
Share premium	18.a	766,561	766,561
Transaction costs on issuance of shares		(9,721)	(9,721)
Reserves	18.b/d	(18,352)	(33,082)
Retained earnings		1,678,422	1,634,115
Equity attributable to the owners of the Group		2,480,110	2,421,073
Non-controlling interests	18.e	48,033	27,345
TOTAL SHAREHOLDERS' EQUITY		2,528,143	2,448,418
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		5,280,463	5,672,169

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

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QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2016
(Amounts expressed in thousands of U.S. dollars - US$'000, except per share amounts)

	Note	Year-ended December 31, 2016	2015
NET OPERATING REVENUE	19	1,119,656	1,057,594
COST OF SERVICES	20	(538,264)	(535,700)
GROSS PROFIT		581,392	521,894
General and administrative expenses	20	(44,153)	(43,902)
Other income	21	18,899	13,991
Other expenses	21	(268,551)	(66,327)
OPERATING PROFIT		287,587	425,656
Financial income	22	15,317	11,338
Financial expenses	22	(133,344)	(119,694)
Foreign exchange variation gain/(loss), net	22	(721)	218
FINANCIAL EXPENSES, NET		(118,748)	(108,138)
Share of results of investments	12	3,365	23,637
PROFIT BEFORE TAXES		172,204	341,155
Taxes	23.d	(12,603)	(24,247)
PROFIT FOR THE YEAR		159,601	316,908
Profit attributable to:			
Owners of the Group		138,723	294,403
Non-controlling interests		20,878	22,505
Profit per share (in U.S. dollars - US$)			
Basic	18.f	0.73	1.56
Diluted	18.f	0.73	1.56

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

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QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2016
(Amounts expressed in thousands of U.S. dollars - US$'000)

	Note	Year-ended December 31, 2016	2015
PROFIT FOR THE YEAR		159,601	316,908
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges fair value adjustments	17/18.d	2,103	(10,137)
Share of investments' other comprehensive income	12/18.d	1,716	1,458
Foreign currency translation adjustments	18.d	10,721	(21,883)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		174,141	286,346
Comprehensive income attributable to:			
Owners of the Group		153,453	266,728
Non-controlling interests		20,688	19,618

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

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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016
(Amounts expressed in thousands of U.S. dollars - US$'000)

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					Reserves						Equity attributable to		
	Note	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, 2014		63,200	766,561	(9,721)	5,683	1,208	(15,330)	3,032	(5,407)	1,405,712	2,220,345	7,727	2,228,072
Profit for the year		-	-	-	-	-	-	-	-	294,403	294,403	22,505	316,908
Other comprehensive loss for the year	18.d	-	-	-	-	(7,250)	1,458	(21,883)	(27,675)	-	(27,675)	(2,887)	(30,562)
Total comprehensive income for the year		-	-	-	-	(7,250)	1,458	(21,883)	(27,675)	294,403	266,728	19,618	286,346
Payment of dividends	18.c	-	-	-	-	-	-	-	-	(66,000)	(66,000)	-	(66,000)
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 year		-	-	-	-	-	-	-	-	138,723	138,723	20,878	159,601
Other comprehensive income for the year	18.d	-	-	-	-	2,293	1,716	10,721	14,730	-	14,730	(190)	14,540
Total comprehensive income for the year		-	-	-	-	2,293	1,716	10,721	14,730	138,723	153,453	20,688	174,141
Payment of dividends	18.c	-	-	-	-	-	-	-	-	(94,416)	(94,416)	-	(94,416)
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

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

QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016
(Amounts expressed in thousands of U.S. dollars - US$'000)

	Note	Year-ended December 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		159,601	316,908
Adjustments to reconcile profit for the year to net cash provided by operating activities:			
Depreciation of property, plant and equipment	13/20	233,836	207,256
Loss/(gain) on disposal of property, plant and equipment, net	21	157	(266)
Impairment loss recognised on property, plant and equipment	13/21	261,802	63,112
Inventory write-down	21	6,055	-
Share of results of investments	12	(3,365)	(23,637)
Recognition of deferred mobilization costs		12,413	12,561
Recognition of deferred revenues, net of taxes levied		(63,086)	(25,647)
Financial expenses on loans and financings	13.a/22	114,029	104,456
Financial income from related parties, net	11/22	(7,358)	(5,565)
Fair value loss on derivatives	17/22	8,561	6,827
Provision for employee profit sharing plan		15,642	18,115
Other financial expenses, net	22	3,516	2,420
Provisions (reversal of provisions)	15/21	(352)	3,318
Taxes	23.d	12,603	24,247
Changes in working capital:			
Decrease/(increase) in short-term investments		136,190	(172,106)
Decrease/(increase) in trade and other receivables		33,251	(16,278)
Decrease/(increase) in receivables from related parties		(1,646)	4,352
Increase in inventories		(3,132)	(34,724)
Decrease/(increase) in recoverable taxes		4,002	(12,590)
Decrease in deferred taxes		379	1,178
Decrease/(increase) in deferred mobilization costs		3	(8,102)
Decrease in other assets		22,344	4,314
Decrease in payroll and related charges		(26,889)	(20,209)
Increase in trade and other payables		771	649
Increase/(decrease) in payables to related parties		8	(1,355)
Increase/(decrease) in taxes payables		(969)	435
Increase in deferred revenues		20,770	67,918
Decrease in provisions		(3,191)	(122)
Increase/(decrease) in other liabilities		(19,408)	2,468
Cash provided by operating activities		916,537	519,933
Income tax and social contribution paid		(25,666)	(12,386)
Net cash provided by operating activities		890,871	507,547

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QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016
(Amounts expressed in thousands of U.S. dollars - US$'000)

	Note	Year-ended December 31, 2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from related parties	11.f	6,267	43,774
Capital decrease in investments	12	16,183	26,787
Capital contributions in investments	12/27	(8,316)	(14,529)
Acquisition of property, plant and equipment	13/27	(86,161)	(540,213)
Proceeds from sales of property, plant and equipment	21	171	367
Net cash used in investing activities		(71,856)	(483,814)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments to related parties		-	(2,430)
Dividends paid	18.c	(94,416)	(66,000)
Proceeds from loans and financings, net of transaction costs	14.a	-	636,410
Interest paid on loans and financings	14.a	(104,346)	(104,286)
Cash payments on derivatives	17	(25,446)	(33,847)
Restricted cash	8	(21,478)	16,098
Repayment of principal on loans and financings	14.a	(435,344)	(462,478)
Net cash used in financing activities		(681,030)	(16,533)
Increase in cash and cash equivalents		137,985	7,200
Cash and cash equivalents at the beginning of the year	6	154,810	147,079
Effects of exchange rate changes on the balance of cash held in foreign currencies		394	531
Cash and cash equivalents at the end of the year	6	293,189	154,810

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

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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 12, 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 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.

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a) Fleet of drilling rigs and drillships

Offshore drilling units

Drilling units	Type	Start of operations	Contract expiration date (current)	Customer (current)
Atlantic Star	Semi-submersible	1997	July 2018	Petrobras
Olinda Star	Semi-submersible	2009	August 2017	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	See Note 1.f	Rosneft Brasil E&P Ltda.
QG-IX (*)	Onshore drilling rig	2011	June 2014	HRT O&G Exploração e Produção de Petróleo Ltda.

(*) As of December 31, 2016, 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 and scheduled 5-year survey

On May 29, 2015, the Olinda Star offshore drilling rig started its scheduled 5-year survey and on August 2, 2015, it returned to operate under the charter and service-rendering agreements with Petrobras, which expired on December 28, 2015.

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. The Company is currently waiting for Karoon's commencement date notice to start the operations.

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

On March 20, 2015, the Gold Star offshore drilling rig started its scheduled 5-year survey and on May 8, 2015, it returned to operate under the current charter and service-rendering agreements with Petrobras, which expires in February 2018.

d) 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.

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e) Alpha Star offshore drilling rig scheduled 5-year survey

On October 20, 2016, the Alpha Star offshore drilling rig started its 5-year survey and on November 24, 2016, it returned to operate under the current charter and service-rendering agreements with Petrobras, which expires in July 2017.

f) 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"), and thus the mobilization started on January 9, 2017. The purpose of the agreements is to drill one oil well in the Solimões Basin (Brazil), under a 170-days minimum term as from February 12, 2017, the commencement day. The agreements can be extended by two periods of one year by mutual agreement between the parties.

g) Notices received by QGOG from Petrobras

On December 29, 2014, Queiroz Galvão Óleo Gás S.A. ("QGOG"), one of the Company's subsidiaries, received a notice from Petrobras temporarily suspending QGOG from entering into direct contracts and participating in bids for new contracts.

On March 10, 2015, QGOG received a notice from Petrobras regarding the transfer to the Brazilian Comptroller General's Office (Controladoria Geral da União - CGU) of the administrative procedure.

On November 20, 2015, the CGU excluded QGOG from the administrative procedure and, subsequently on January 28, 2016, Petrobras reversed the aforementioned temporary suspension and also closed the administrative procedure against QGOG.

h) Liquidity risk management

As of December 31, 2016, the Group presents working capital deficiency in the amount of US$136,709, mainly due to working capital loans maturing in January and May of 2017 and the current portion of its long-term loans and financings (Note 14). Management considers that the working capital deficiency is supported by the cash flow generation of the Group's existing charter and service-rendering agreements in the regular course of business. Management is also exploring other opportunities to obtain additional long-term loans and financings in order to improve its current liquidity position. In January 2017, the Group renewed its working capital credit line with Bradesco, which would become due in January and May 2017, with an aggregate outstanding amount of US$225 million. The final maturity dates of both unsecured facilities were extended to July 2018 with amortization commencing in May 2017 (Note 28).

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.

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2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

2.1 Amendments to IFRS adopted in 2016

During the year-ended December 31, 2016, 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, 2016. The following amendments have been applied by the Group, but had no significant impact on its consolidated financial statements, except for additional disclosure requirements:

Standard or interpretation	Description	Effective date
IFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016
IAS 16 and IAS 38 (Amendments)	Property, Plant and Equipment; and Intangible	January 1, 2016
IAS 27 (Amendments)	Separate Financial Statements	January 1, 2016
2012-2014 Cycle	Annual Improvements	January 1, 2016
IAS 1 (Amendments)	Presentation of Financial Statements	January 1, 2016

2.2 New or revised IFRS in issue but not yet effective

The following new or revised and amended IFRS will be effective on January 1, 2017, 2018 and 2019 and their adoption, when applicable, will not have significant impact on the Company's consolidated financial statements:

New or revised standards and interpretations

Standard or interpretation	Description	Effective date for annual period beginning on or after
IFRS 9 *Financial Instruments* (2014)	A finalised version of IFRS 9, which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas: classification and measurement, impairment, hedge accounting and derecognition.	January 1, 2018
IFRS 15 *Revenue from Contracts with Customers*	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: ✓ 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 ✓ Recognise revenue when (or as) the entity satisfies a performance obligation.	January 1, 2018

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IFRIC 22 *Foreign Currency Transactions and Advance Considerations*	IFRIC 22 addresses foreign currency transactions or parts of transactions where: ✓ there is consideration that is denominated or priced in a foreign currency; ✓ the entity recognises 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 *Leases*	IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise 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

Amendments

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Standard	Description	Effective date for annual period beginning on or after
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (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: ✓ 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.
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	Amends IAS 12 *Income Taxes* to clarify the following aspects: ✓ Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; ✓ The carrying amount of an asset does not limit the estimation of probable future taxable profits; ✓ Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences; and ✓ An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.	January 1, 2017

Disclosure Initiative (Amendments to IAS 7)	Amends IAS 7 Statement of Cash Flows to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	January 1, 2017
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: ✓ IFRS 1: Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose; ✓ IFRS 12: Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations; ✓ 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 organisation, 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, 2017 (IFRS 12) January 1, 2018 (IFRS 1/IAS 28)
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 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the consolidated financial statements are described below. These policies have been applied consistently for all reporting periods.

3.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

3.2 Basis of preparation and consolidation

Preparation

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting practices below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods or services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group considers the characteristics of the asset or liability, and if market participants would consider those characteristics when pricing the asset or liability at the measurement date.

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Consolidation

The consolidated financial statements incorporate the Company and its subsidiaries.

All intra-group transactions, balances, income and expenses are eliminated for consolidation purposes.

The consolidated financial statements also consider the consolidation of QGOG without the consideration of non-controlling interests, based on the fact that in September 2011, the Group entered into a Share Purchase Agreement ("SPA") with Queiroz Galvão S.A. ("QG S.A."), pursuant to which it purchased 49% of the outstanding common shares and 100% of the outstanding preferred shares of QGOG for R$53,154 thousand (US$32,768). In connection with the SPA, the Group also entered into a call option agreement with QG S.A. to have the right to purchase the remaining 51% of QGOG's common shares for R$17,836 thousand (US$10,563). The Group advanced R$17,835 thousand (US$10,563) of this amount to QG S.A., with R$1 thousand remaining unpaid and due upon the exercise of the call option. The call option was exercisable at any time in the sole discretion of the Group and, therefore, the Group effectively controlled QGOG. In November 2016, the Group exercised the aforementioned call option and carried out the transfer of the common shares.

The significant accounting policies are set out below:

3.3 Functional currency and foreign currencies

The financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the respective entity operates (i.e., the "functional currency"). The Company's functional currency and most part of its subsidiaries is the U.S. dollar, since majority of the revenues and costs, debt and capital expenditures are denominated in this currency. The consolidated financial statements are presented in thousands of U.S. dollars, which is the reporting currency of the Group.

Additionally, the Group has determined that the Brazilian real is the functional currency of QGOG, QGOG Participações S.A., Tarsus Serviços de Petróleo Ltda. and Manisa Serviços de Petróleo Ltda., since these subsidiaries' operations are located in Brazil and the majority of its revenues and costs are denominated in Brazilian reais. Consequently, in preparing these consolidated financial statements, Management has translated the financial statements of these subsidiaries into U.S. dollars as follows:

- ✓ The assets and liabilities for each balance sheet presented are translated at the closing rate on the respective balance sheet date;
- ✓ Income and expenses for each statement of operations are translated at exchange rates at the dates of the transactions; for this purpose, average monthly exchange rates are used as they approximate to the exchange rates in force on the transaction dates; and
- ✓ Shareholders' equity accounts are translated using historical exchange rates.

All resulting exchange differences on currency translation adjustments are recognised as a separate component of other comprehensive income (Note 18.d).

In preparing the consolidated financial statements, transactions in currencies other than the respective entity's functional currency (i.e., foreign currencies) are recognised at the exchange rates prevailing at the transaction dates. At the end of each reporting period, monetary and non-monetary items denominated in foreign currencies are retranslated at the exchange rates prevailing at that date. Currency translation adjustments of monetary items are recognised in profit or loss in the period in which they arise.

3.4 Current and non-current assets and liabilities

Current and non-current assets and liabilities are stated at net realizable value and settlement amounts, respectively, and include inflation adjustments or exchange rate variations, and income earned and expenses incurred, when applicable, recognised on a pro-rata basis through the balance sheet date.

3.5 Inventories

Inventories refer to materials to be used in the drilling rigs and drillships operations and are recorded at the lower of cost and net realizable value. Inventories' costs are determined by using the average cost method of accounting.

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3.6 Trade and other receivables

Trade and other receivables are initially measured at the fair value of the consideration to be received and, subsequently, at amortized cost and adjusted for allowances for credit losses and impairment, when due necessary.

3.7 Property, plant and equipment ("PP&E")

All PP&E is carried at cost less accumulated depreciation and impairment, when applicable. PP&E consists primarily of onshore and offshore drilling rigs, drillships and its related equipment.

Costs related to equipment under construction are recognised as PP&E cost, in accordance with the actual construction costs. A provision for corresponding unbilled costs from suppliers is recorded as an accrued liability.

Borrowing costs (including interest and fair value adjustments) are capitalized on equipment under construction.

Repair and maintenance costs related to periodic overhauls of the drilling rigs and drillships are capitalized, when the economic benefits associated with the item inflows to the Group and the costs can be reliable measured. These costs are depreciated over the period extending to the next periodic overhaul. Related costs are mainly comprised by shipyard costs and the costs of employees directly involved in the related project. All other repair and maintenance costs are charged to profit or loss in the period in which they are incurred.

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The carrying amounts of these assets are based on estimates, assumptions and judgments relating to capitalized costs, useful lives and residual values of the drilling rigs and drillships. These estimates, assumptions and judgments reflect both historical experience and expectations regarding future oil and gas industry conditions and operations. The Group computes depreciation using the straight-line method, considering the respective residual value of the related assets. When significant components of a PP&E item have different useful lives, those components are accounted for as separate PP&E items. Estimated useful lives of PP&E range from 5 (five) to 35 (thirty-five) years. At the end of each year, the Group reviews the estimated useful lives and residual values of PP&E.

3.8 Impairment of long-lived assets

Assets that are subject to depreciation and amortization are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (i.e., cash generating units). Non-financial assets that have been impaired are reviewed for possible impairment reversal at each balance sheet date.

Recoverable amounts are determined based on discounted cash flows calculations and asset price evaluation, both requiring the use of estimates (Note 4.5).

During the years ended December 31, 2016 and 2015, the Group recognized impairment losses on long-lived assets (Notes 13 and 21).

3.9 Cash and cash equivalents

Consists primarily of cash balances and cash investments measured at fair value through profit and loss. These cash investments have original maturities of three months or less with immediate liquidity, and are subject to a minimum risk of changes in value.

3.10 Short-term investments

Consists primarily of short-term investments measured at fair value through profit and loss. These investments have maturities of more than three months or with no fixed time for redemption.

3.11 Investments in associates and joint ventures

For investments in associates and joint ventures, the Group applies the equity method of accounting. Under such method, an investment is initially recognised at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income or loss of the investees. When the Group's share of losses of an investee exceeds its interest in that investee (which includes any long-term interests that, in essence, form part of the Group's net investment), the Group discontinues recognizing its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

The requirements of IAS 36 - *Impairment of Assets* are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investees. When deemed necessary, the entire carrying amount of the investee is tested for impairment in accordance with IAS 36, as a single asset by comparing its recoverable amount (higher of value in use, measured by the discounted cash flows, and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investee. The reversal of an impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investee subsequently increases, other than where that impairment loss relates to goodwill.

When a Group entity transacts with an investee, profit and loss resulting from such transactions are recognised in the Company's consolidated financial statements only to the extent of interests in the investees that are non related to the Group.

3.12 Provisions

Provisions are recognised when (i) the Group has a present obligation (legal or constructive) as a result of a past event; (ii) it is probable that the Group will be required to settle the obligation; and (iii) a reliable estimate of the obligation amount can be made. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, considering the risks and uncertainties surrounding the obligation. Contingent risks assessed as "possible loss" are disclosed in these consolidated financial statements, but not recorded in a specific liability account.

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3.13 Revenue recognition

The charter and service-rendering revenues are recognised when the respective services are rendered based on the contracted day rates and the number of operating days during the period. Some of the charter and service-rendering agreements include uptime bonus payments depending on performance criteria established in the respective agreements. The Group recognizes bonus revenues in the same period that it meets the contractual criteria, renders the related services for which the specific performance criteria is met, and is preapproved by the customer. The Group may also earn revenues for the preparation and mobilization of equipment (drilling units) and personnel.

Mobilization revenues and costs are deferred and recognised on a straight-line basis over the period that the related charter and drilling services are rendered, which is consistent with the general pace of activity, level of services being provided and day rates being earned over the term of the related agreement.

Revenue is presented net of the related sales taxes after eliminating intercompany sales, when applicable.

3.14 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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3.15 Current and deferred income tax and social contribution

The provision for income tax and social contribution is based on taxable profit for the year. The taxable profit differs from profit before taxes presented in the statement of operations because it excludes revenues or expenses taxable or deductible in subsequent years, and excludes non-taxable or non-deductible items. The provision for income tax and social contribution is calculated for each individual entity of the Group, based on the rates prevailing at year-end according to the respective tax regulation in each jurisdiction.

Deferred taxes are recognised for temporary differences and tax loss carryforwards, when applicable. Deferred income tax and social contribution are recognised up to the amounts for which recovery is considered probable.

3.16 Financial instruments

Financial assets and liabilities

Financial assets and liabilities are initially recognised at fair value plus the costs directly attributable to their purchase or issue. Subsequent to initial recognition, the financial non-derivative assets and liabilities are measured as of each balance sheet date accordingly to their classification, which is defined upon initial recognition based on the purposes for which they were acquired or issued, as described below:

i. Financial assets measured at fair value through profit or loss: these include financial assets acquired for sale (acquired primarily to be sold in the short-term or settled against to loans or financings), or designated upon initial recognition at fair value through profit and loss. Interest, monetary and exchange variations and variations arising from fair value measurement are recognised in profit or loss as financial revenues or expenses, when incurred. For the years presented, the Group has short-term investments and restricted cash in this category (Note 24.a).

ii. Financial assets held to maturity: these include non-derivative financial instruments with fixed or determinable payments with defined maturities, for which the Group has the intention and capacity to hold to maturity. After the initial recognition, they are measured at the amortised cost based on the effective interest rate method less losses in recoverable amount, when applicable, and the variations are recognised in profit or loss as financial revenues or expenses, when incurred. For the years presented, the Group has no financial assets in this category.

iii. Loans and receivables: these include non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, which after initial recognition are measured based on the amortised cost under the effective interest rate method. The interest, monetary and exchange variations, less losses in recoverable amount, when applicable, are recognised in profit or loss as financial revenues or expenses, when incurred. For the years presented, the Group has cash and cash equivalents, trade and other receivables, and receivables from related parties in this category (Note 24.a).

iv. Available for sale: these include non-derivative financial assets that do not match the above categories, measured at their fair value. After initial recognition, available for sale financial assets are measured at fair value, with gains or losses recognised in other comprehensive income in the shareholders' equity until the investment is sold and the cumulative gain or loss previously reported is recognised in profit or loss. For the years presented, the Group has no financial assets in this category.

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Financial liabilities are classified according to the following categories based on the nature of the financial instruments contracted or issued:

i. Financial liabilities measured at fair value through profit and loss: these include financial liabilities normally traded prior to maturity, liabilities designated upon initial recognition at fair value, except those designated as hedge instruments. They are remarked to fair value at each balance sheet date. The interest, monetary and exchange variations and variations resulting from the fair value, when applicable, are recognised in profit or loss, when incurred. For the years presented, the Group has derivative financial instruments in this category (Notes 17 and 24.a).

ii. Financial liabilities not measured at fair value: non-derivative financial liabilities that are not normally traded prior to maturity. After initial recognition they are measured on the amortised cost based on the effective interest rate method. The interest, monetary and exchange variations, when applicable, are recognised in profit or loss when incurred. For the years presented, the Group has loans and financings, trade and other payables, and payables to related parties in this category (Note 24.a).

Impairment of financial assets

Financial assets, other than those measured at fair value through profit or loss are assessed for impairment indicators at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. The Group has not recognised impairment losses on financial assets.

Derivative financial instruments

The Group enters into derivative financial instruments, including interest rate swaps, to manage its exposure to interest rate risk. These derivatives are measured at fair value at inception and at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is higher than 12 (twelve) months and it is not expected to be realised or settled within 12 (twelve) months.

Further details on derivative financial instruments are disclosed in Note 17.

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Hedge accounting

The Group designates certain derivative instruments, used to protect it against interest rate risks, as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking the hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the financial income/ (expense) line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of operations as the recognised hedged item. However, when the hedged transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the transaction is ultimately recognised in profit or loss.

Derecognition of financial assets and financial liabilities

Financial assets are derecognised when the rights to receive cash flows from the asset have expired or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. Financial liabilities are derecognised when the associated obligation has been discharged, cancelled or expired.

3.17 Cash flow statement

The cash flow statement is prepared using the indirect method, which separates cash flows from operating activities, investing activities and financing activities and reconciles profit for the year to net cash flows to the change in cash and cash equivalents. Changes in balance sheet items that have not resulted in cash flows such as currency translation differences, fair value changes and other non-cash items have been eliminated for the purpose of preparing this statement. Dividends paid to ordinary shareholders are included in financing activities, while dividends received are classified as investing activities. Interest paid is also presented as financing activities in the statement of cash flows.

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4 CRITICAL ACCOUNTING ESTIMATES

In applying the significant accounting policies described in Note 3, Management must use judgement and develop estimates for the carrying amounts of assets and liabilities, which are not easily obtainable from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Therefore, future results could differ from those estimates.

The estimates and underlying assumptions are reviewed continuously. The effects of revisions to accounting estimates are recognised prospectively.

Management has concluded that the most significant judgments and estimates considered during the preparation of these consolidated financial statements are the following:

4.1 Measurement of financial instruments

The Group uses valuation techniques that include the use of inputs that are (or not) based on observable market data to estimate the fair values of certain types of financial instruments. Details of the main assumptions used to measure the fair values of financial instruments are disclosed in Note 24 (fair value hierarchy).

Management believes that the selected valuation techniques and the assumptions used are appropriate to measure the fair values of its financial instruments.

4.2 Provision for impairment of trade and other receivables

The Group recognises a provision for impairment on trade and other receivables when there is objective evidence that a loss event occurred after the initial recognition of the receivable and has an impact on the estimated future cash flows, which can be reliably estimated. Such evidence includes insolvency, defaults or a significant probability of a debtor filing for bankruptcy. As of December 31, 2016 and 2015, no provision for impairment on trade and other receivables was required (Note 9).

4.3 Provisions for claims and other obligations

Claims against the Group, including unasserted claims or assessments are recognised as a liability and/or are disclosed in Notes 3.12, 15 and 16, unless the loss probability is considered to be remote. A provision for claim and other obligation is recorded when the loss is probable and the amount can be reliably estimated. Claims and other similar obligations will be settled when one or more future events occur. Normally, the occurrence of such events is not within the Group's control and, therefore, the assessment of these liabilities is subject to varying degrees of legal uncertainty and interpretation, and requires significant estimates and judgments to be made by Management.

Certain conditions may exist as of the date of the consolidated financial statements are issued, which may result in a loss to the Group, but which will only be resolved when one or more future events occur or fail to occur. The Group's management and its in-house legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Group or unasserted claims that may result in such proceedings, the Group's legal counsels evaluate the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the liability amount can be estimated, then the estimated liability is accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, then the nature of the contingent liability is disclosed.

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4.4 Useful lives of PP&E

The carrying amounts of PP&E assets are based on estimates, assumptions and judgments related to capitalized costs and useful lives of the drilling rigs, drillships and related equipment. These estimates, assumptions and judgments reflect both historical experience and expectations regarding future oil and gas industry conditions and operations. The Group calculates depreciation using the straight-line method.

As described in Note 3.7, at the end of each year, the Group reviews the estimated useful lives of PP&E.

4.5 Impairment of long-lived assets

The Group evaluates PP&E for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Group uses either a discounted cash flow (value in use) or fair value less cost of disposal analysis in testing an asset for potential impairment.

When calculating the value in use, the Group's assumptions and estimates underlying this analysis include the following, by drilling unit (i.e., cash generating units): dayrate, occupation rate, daily operating cost, and estimated proceeds that may be received on disposition.

The underlying assumptions are developed based on the historical data for each drilling unit, which considers rated water depth and other attributes and then assesses its future marketability according to the current and projected market environment at the time of assessment. Other assumptions, such as operating costs, are estimated using historical data adjusted for known developments and future events.

Based on these assumptions, the Group prepares a probable scenario for each drilling unit, which results in a projected cash flow for each drilling unit based on the expected utilization and dayrate for the asset and compare such amount to its carrying amount.

Management's assumptions are necessarily subjective and are an inherent part of the Group's asset impairment evaluation, and the use of different assumptions could produce results that differ from those disclosed. The Group's methodology generally involves the use of significant unobservable inputs, representative of a Level 3 fair value measurement, which may include assumptions related to future dayrate revenue, costs and drilling unit utilization, the long-term future performance of the Group's drilling units and future market conditions. Management's assumptions involve uncertainties about future demand for the Group's services, dayrates, expenses and other future events, and Management's expectations may not be indicative of future outcomes. Significant unanticipated changes to these assumptions could materially alter the Group analysis in testing an asset for potential impairment.

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Other events or circumstances that could affect the Group's assumptions may include, but are not limited to, a further sustained decline in oil and gas prices, cancelations of the Group's charter and service-rendering contracts or contracts of the Group's competitors, contract modifications, costs to comply with new governmental regulations, growth in the global oversupply of oil and geopolitical events, such as lifting sanctions on oil-producing nations. Should actual market conditions in the future vary significantly from market conditions used in the Group's projections, the Group's impairment assessment would likely be different.

During the years ended December 31, 2016 and 2015, impairment losses on long-lived assets were recognized by the Group (Notes 13 and 21).

4.6 Provision for employee profit sharing plan

The profit sharing paid to employees (including key management personnel) is based on the achievement of quality and financial performance metrics, as well as the individual objectives of employees, which are determined annually. This provision is set on a monthly basis and is recalculated at the year-end based on the best estimate of the achieved objectives as set out in the annual budget process.

4.7 Recoverable taxes and deferred tax assets

The Group recognizes deferred tax assets arising from temporary differences between accounting and taxable profits. Deferred tax assets are recognized to the extent that the Group expects to generate sufficient future taxable income based on projections and forecasts made by management. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and, if applicable, reduced to the extent that is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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5 CONSOLIDATED ENTITIES AND INVESTMENTS

		Ownership interest (%)			
		December 31,			
		2016		2015	
Consolidated entities	Country of incorporation	Direct	Indirect	Direct	Indirect
Alaskan & Atlantic Cooperatief U.A.	Netherlands	-	100.00	-	100.00
Alaskan & Atlantic Rigs B.V.	Netherlands	-	100.00	-	100.00
Alaskan Star Ltd. ("Alaskan")	British Virgin Islands	-	100.00	-	100.00
Alpha Star Equities Ltd. ("Alpha")	British Virgin Islands	-	100.00	-	100.00
Amaralina Cooperatief U.A.	Netherlands	-	55.00	-	55.00
Amaralina Star Ltd. ("Amaralina")	British Virgin Islands	-	55.00	-	55.00
Angra Participações B.V. ("Angra")	Netherlands	100.00	-	100.00	-
Arazi S.à.r.l. ("Arazi")	Luxembourg	100.00	-	100.00	-
Atlantic & Alaskan Rigs Ltd.	British Virgin Islands	-	100.00	-	100.00
Becrux B.V.	Netherlands	-	100.00	-	100.00
Belcher Group Inc.	British Virgin Islands	-	100.00	-	100.00
Bonvie Investments Inc.	British Virgin Islands	-	100.00	-	100.00
Brava Drilling B.V.	Netherlands	-	100.00	-	100.00
Brava Star Ltd.	British Virgin Islands	-	100.00	-	100.00
Centaurus S.à.r.l. ("Centaurus")	Luxembourg	100.00	-	100.00	-
Constellation Africa Inc.	British Virgin Islands	-	100.00	-	-
Constellation Netherlands B.V.	Netherlands	100.00	-	100.00	-
Constellation Overseas Ltd. ("Constellation Overseas")	British Virgin Islands	-	100.00	-	100.00
Constellation Panamá Corp.	Panamá	-	100.00	-	100.00
Constellation Services Ltd. ("Constellation Services")	British Virgin Islands	-	100.00	-	100.00
Domenica S.A. ("Domenica")	Paraguay	-	100.00	-	100.00

Consolidated entities	Country of incorporation	Ownership interest (%) December 31, 2016 Direct	2016 Indirect	2015 Direct	2015 Indirect
Domenica Argentina S.A.	Argentina	-	100.00	-	100.00
Dorghaly Technologies Inc.	British Virgin Islands	-	100.00	-	100.00
Eiffel Ridge Group C.V.	Netherlands	-	100.00	-	100.00
Gold Star Equities Ltd. (“Gold”)	British Virgin Islands	-	100.00	-	100.00
Hopelake Services Ltd.	British Virgin Islands	-	100.00	-	100.00
Keam Holdings C.V.	Netherlands	-	100.00	-	100.00
Laguna Cooperatief U.A.	Netherlands	-	55.00	-	55.00
Laguna Star Ltd. (“Laguna”)	British Virgin Islands	-	55.00	-	55.00
Lancaster Projects Corp. (“Lancaster”)	British Virgin Islands	-	100.00	-	100.00
London Tower International Drilling C.V.	Netherlands	-	100.00	-	100.00
London Tower Management B.V.	Netherlands	-	100.00	-	100.00
Lone Star Offshore Ltd. (“Lone”)	British Virgin Islands	-	100.00	-	100.00
Manisa Serviços de Petróleo Ltda.	Brazil	-	55.00	-	55.00
Melbhouse Park Ltd.	British Virgin Islands	-	100.00	-	100.00
New Canyon City Inc.	British Virgin Islands	-	100.00	-	100.00
Olinda Star Ltd. (“Olinda”)	British Virgin Islands	-	100.00	-	100.00
Palase C.V.	Netherlands	-	55.00	-	55.00
Palase Management B.V.	Netherlands	-	100.00	-	100.00
Podocarpus C.V.	Netherlands	-	55.00	-	55.00
Podocarpus Management B.V.	Netherlands	-	100.00	-	100.00
Positive Investments Management B.V.	Netherlands	100.00	-	100.00	-
Positives Investments C.V.	Netherlands	-	100.00	-	100.00
QGOG Atlantic / Alaskan Rigs Ltd.	British Virgin Islands	-	100.00	-	100.00
QGOG Constellation US LLC.	United States of America	-	100.00	-	-
QGOG Constellation UK Ltd.	England	100.00	-	-	-
QGOG Participações S.A.	Brazil	-	100.00	-	100.00
QGOG Perforaciones S.A.C.	Peru	-	100.00	-	100.00
QGOG Star GmbH	Switzerland	100.00	-	100.00	-
Queiroz Galvão Óleo e Gás S.A. (“QGOG”)	Brazil		100.00		74.50
Snover International Inc.	British Virgin Islands	-	100.00	-	100.00
Star International Drilling Ltd. (“Star”)	Cayman Island	-	100.00	-	100.00
Tarsus Serviços de Petróleo Ltda.	Brazil	-	55.00	-	55.00

Investments accounted for by the equity method

Entities	Country of incorporation	Ownership interest (%) December 31, 2016 Direct	2016 Indirect	2015 Direct	2015 Indirect
Associates					
FPSO Capixaba Venture S.A. (“Capixaba”) (1)	Switzerland	-	20.0	-	20.0
SBM Espírito do Mar Inc. (“Espírito do Mar”) (1)	Switzerland	-	20.0	-	20.0
Urca Drilling B.V.	Netherlands	-	15.0	-	15.0
Bracuhy Drilling B.V.	Netherlands	-	15.0	-	15.0
Mangaratiba Drilling B.V.	Netherlands	-	15.0	-	15.0
Joint Ventures					
Tupi Nordeste Ltd. (2)	Bermuda	-	20.0	-	20.0
Tupi Nordeste S.à.r.l. (2)	Luxembourg	-	20.0	-	20.0
Guará Norte S.à.r.l (3)	Luxembourg	-	12.75	-	12.75
Guará Norte Holding Ltd. (3)	Bermuda	-	12.75	-	12.75
Alfa Lula Alto S.à.r.l. (4)	Luxembourg	-	5.00	-	5.00
Alfa Lula Alto Holding Ltd. (4)	Bermuda	-	5.00	-	5.00
Beta Lula Central S.à.r.l. (5)	Luxembourg	-	5.00	-	5.00
Beta Lula Central Holding Ltd. (5)	Bermuda	-	5.00	-	5.00

(1) These entities refer to the FPSO Capixaba’s structure (Note 12).
(2) These entities refer to the FPSO Cidade de Paraty’s structure (Note 12).
(3) These entities refer to the FPSO Cidade de Ilhabela’s structure (Note 12).
(4) These entities refer to the FPSO Cidade de Maricá’s structure (Note 12).
(5) These entities refer to the FPSO Cidade de Saquarema’s structure (Note 12).

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The Group's investments in associate and joint venture entities are accounted for by the equity method of accounting in these consolidated financial statements (Note 12).

6 CASH AND CASH EQUIVALENTS

	December 31,	
	2016	2015
Cash and bank deposits	72,197	42,772
Cash equivalents (*)	220,992	112,038
Total	293,189	154,810

(*) 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:

			December 31,	
Financial institution	Currency	Average interest rate (per annum)	2016	2015
Itaú BBA Nassau	U.S. dollar	0.45%	121,229	44,417
Citibank	U.S. dollar	0.74%	85,047	56,092
Bradesco Grand Cayman	U.S. dollar	0.20%	95	11,529
ING Bank	U.S. dollar	0.65%	14,621	-
Total			220,992	112,038

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7 SHORT-TERM INVESTMENTS

				December 31,	
Type	Financial institution	Currency	Average interest rate (per annum)	2016	2015
Time deposits (i)	HSBC Bank	U.S. dollar	0.06%	-	9,500
Time deposits (i)	Citibank	U.S. dollar	0.30%	-	8,349
Time deposits (i)	Itaú BBA Nassau	U.S. dollar	1.95%	40,139	91,439
Time deposits (i)	ING Bank	U.S. dollar	0.20%	-	12,477
Time deposits (i)	Bradesco Grand Cayman	U.S. dollar	1.70%	50,144	103,340
Time deposits (i)	Banco do Brasil S.A.	U.S. dollar	0.95%	-	8,058
Time deposits (i)	Lafise	U.S. dollar	2.75%	45	-
Repurchase agreements (iii)	HSBC Bank	Brazilian real	100% of CDI(ii)	-	1,279
Repurchase agreements (iii)	Bradesco S.A.	Brazilian real	99.33% of CDI(ii)	23,538	12,429
Total				113,866	246,871

(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 in 2016 was 13.63% p.a. (2015 – 14.14% p.a.).

(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 then twelve months).

8 RESTRICTED CASH

Under certain of the Group's project finance arrangements (Note 14), 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 Gold Star, Alpha Star and Brava Star offshore drilling rigs (Note 14).

The restricted cash guarantee related to the Alpha Star financing was previously covered by letters of credit hired by the Group. However, the Group discontinued hiring letters of credit, and thus in April 2016, the Group made a deposit of approximately US$21 million into a reserve account.

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

Restricted cash	Financial institution	December 31, 2016	December 31, 2015
Bank deposits	Citibank	31,265	9,800
Bank deposits	ING Bank	11,957	11,944
Total		43,222	21,744

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9 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. Except for the settled litigation with HRT O&G Exploração e Produção de Petróleo Ltda. ("HRT") disclosed in Note 16.b, 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 years presented. The average collection period is of approximately 30 days. Details of financial risk management related to credit risk are disclosed in Note 24.b.

10 INVENTORIES

Inventories refer basically to materials to be used in the onshore and offshore drilling rigs and drillships operations. The amounts recognised in the consolidated statement of operations are accounted for as Cost of Services in the sub-account "Materials" (Note 20).

Due to the Alaskan Star offshore drilling rig impairment loss recognition (Note 13.c), the Group wrote-down part of the inventory related to the Alaskan Star offshore drilling rig, resulting in a loss recognition of US$6,055 (Note 21), while US$3,728 were transferred to the inventory of the Atlantic Star offshore drilling rig.

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11 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 December 31, 2016 and 2015, and transactions for the years then ended are as follows:

	December 31,				Year-ended December 31,	
	2016		2015		2016	2015
	Assets	Liabilities	Assets	Liabilities	Income/ (expenses)	Income/ (expenses)
Alperton Capital Ltd. [(a)]	338,004	309,871	309,901	288,694	6,926	6,235
Queiroz Galvão S.A. [(b)]	-	2,008	-	590	(1,419)	(1,689)
FPSO Capixaba Venture S.A. [(c)]	921	-	908	-	13	9
SBM Espírito do Mar Inc. [(d)]	-	-	4,429	-	1,838	233
Sete Brasil Participações S.A. [(e)]	-	-	-	-	-	(317)
Tupi Nordeste Operações Marítimas Ltda. [(f)]	800	-	1,059	-	1,466	1,529
Guará Norte Operações Marítimas Ltda. [(f)]	577	-	276	-	1,166	1,092
Alfa Lula Alto Operações Marítimas Ltda. [(f)]	301	-	-	-	1,152	52
Guará Norte Holding Ltd.[(g)]	1,056	-	-	-	1,056	-
Alfa Lula Alto Holding Ltd. [(g)]	100	-	-	-	550	-
Beta Lula Central Holding Ltd.[(g)]	100	-	-	-	300	-
SBM Holding Luxembourg S.à.r.l. [(h)]	-	-	-	-	16,000	-
BW NISA Ltd. [(i)]	-	-	-	-	-	3,028
Others	271	41	224	33	101	804
Total	342,130	311,920	316,797	289,317	29,149	10,976
Current	3,034	2,049	1,417	623		
Non-current	339,096	309,871	315,380	288,694		

(a) In 2010, the Group and Alperton Capital Ltd. ("Alperton") 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 Alperton.

Under these agreements, the Group has committed to finance Alperton's 45% capital expenditures share on these projects.

The receivables from Alperton 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 Alperton to Amaralina and Laguna with the same terms and conditions of the Group's receivable amounts from Alperton.

The interest income for the year-ended December 31, 2016, in the amount of US$38,032 (US$35,715 in 2015), related to receivables from Alperton is presented net of interest expenses for the year-ended December 31, 2016, in the amount of US$31,106 (US$29,482 in 2015), related to payables due by Amaralina and Laguna (Note 22 – Financial income from related parties).

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

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

Any cash available in Amaralina and Laguna for dividends payment will be used to repay the intercompany loans to Alperton. Amaralina and Laguna may not pay any dividends or other payables to Alperton, 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 Alperton 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 years ended December 31, 2016 and 2015, the fees charged to Alperton totaled US$6,926 and US$6,235, respectively.

Non-compliance with the agreements between the Group and Alperton could result in penalties to either parties. As of December 31, 2016, the Group was in compliance with the requirements of the respective agreements.

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(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) On August 3, 2012, Angra Participações B.V. ("Angra") signed three shareholders' agreements in which the Group acquired a 15% equity participation in three special purpose entities ("SPEs"), each one owning an ultra-deepwater semi-submersible rig (Urca, Bracuhy and Mangaratiba offshore drilling rigs) in partnership with Sete Brasil Participações S.A. ("Sete Brasil"). In the same day, the partnership signed charter agreements of these offshore drilling rigs with Petrobras. The income for the year ended December 31, 2015 refers to a fee charged by the Group related to the drilling rigs' project management. On December 31, 2015, the Group fully recognised an allowance for doubtful accounts for the receivables in the amount of US$3,260, due to the delay in collecting such receivables. Such allowance for doubtful accounts was increased by US$140 due to interest charged until February 29, 2016. Since March 2016, the Group ceased to charge such fee in accordance to the interruption of the drilling rigs' project management service rendering (Note 12).

(f) As of December 31, 2016 and 2015, the receivable amounts and the income for the years then ended, from Tupi Nordeste Operações Marítimas Ltda. and Guará 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 December 31, 2016, the receivable amount and the income for the year then ended from Alfa Lula Alto Operações Marítimas Ltda. are related to labor costs reimbursement regarding the operation of the FPSO Cidade de Maricá.

(g) As of December 31, 2016, the receivable amount and the income for the year then ended from Guará 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 Maricá and FPSO Cidade de Saquarema, respectively.

(h) Refers to a payment made by SBM Lux to the Group, in connection with the terms that regulates the relationship of these parties as shareholders of 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.. Such payments, amounting to US$8,150 and US$7,850, are related to the first oil achievement by the FPSO Cidade de Maricá and the FPSO Cidade de Saquarema, respectively (Notes 12 and 21).

(i) The income for the year ended December 31, 2015, refers to a compensation received from BW NISA Ltd. in June 2015, related to the FPSO P-63 general operating costs incurred by the Group.

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Key management personnel[i] remuneration for the years ended December 31, 2016 and 2015, is as follows:

	Year-ended December 31,	
	2016	2015
Short-term benefits [ii]	8,246	7,754

(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 26).

12 INVESTMENTS

	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)
Associates:								
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)
Joint Ventures:								
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)

	December 31, 2015							
	Number of shares (thousands)	Ownership interest (%)	Authorized share capital	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Shareholders' equity (deficiency)
Associates:								
FPSO Capixaba Venture S.A.	100	20.00%	82	3,498	-	63,929	34,938	(95,369)
SBM Espírito do Mar Inc.	100	20.00%	88	988	267,772	64,873	(5,194)	209,081
Urca Drilling B.V. [3]	90	15.00%	€90k	383	696,621	385,380	234,350	77,274
Bracuhy Drilling B.V. [3]	90	15.00%	€90k	1,596	406,680	144,624	248,698	14,954
Mangaratiba Drilling B.V. [3]	90	15.00%	€90k	95	109,330	5,199	97,443	6,783
Joint Ventures:								
Tupi Nordeste S.à.r.l.	20	20.00%	20	167,274	1,130,031	103,330	748,403	445,572
Tupi Nordeste Holding Ltd.	12	20.00%	12	12,035	2,434	29,644	-	(15,175)
Guará Norte S.à.r.l. [4]	50,200	12.75%	50,200	115,287	1,599,079	122,408	1,013,479	578,479
Guará Norte Holding Ltd. [4]	12	12.75%	12	15,590	296	21,515	-	(5,629)
Alfa Lula Alto S.à.r.l. [4]	65,200	5.00%	65,200	822	1,779,079	106,340	1,412,466	261,095
Alfa Lula Alto Holding Ltd. [4]	5	5.00%	12	30	304	-	34	300
Beta Lula Central S.à.r.l. [4]	65,200	5.00%	65,200	1,995	1,497,854	1,800	1,201,771	296,278
Beta Lula Central Holding Ltd. [4]	5	5.00%	12	30	251	-	30	251

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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 year ended December 31,					
	2016			2015		
	Net income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)	Net income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Associates:						
FPSO Capixaba Venture S.A.	(6,718)	(2,887)	(9,605)	(30,724)	3,100	(27,624)
SBM Espírito do Mar Inc.	(17,166)	-	(17,166)	38,116	-	38,116
Urca Drilling B.V. (3)	(72,597)	(1,147)	(73,744)	(4,577)	(525)	(5,102)
Bracuhy Drilling B.V. (3)	(30,584)	(233)	(30,817)	(5,240)	(107)	(5,347)
Mangaratiba Drilling B.V. (3)	(10,666)	(138)	(10,804)	(76)	(64)	(140)
Joint Ventures:						
Tupi Nordeste S.à.r.l.	51,007	9,579	60,586	72,927	12,310	85,237
Tupi Nordeste Holding Ltd.	(25,931)	(3,759)	(29,690)	(8,801)	5,023	(3,778)
Guará Norte S.à.r.l. (4)	81,922	(384)	81,538	92,056	(978)	91,078
Guará Norte Holding Ltd. (4)	(16,960)	(1,323)	(18,283)	(7,243)	819	(6,424)
Alfa Lula Alto S.à.r.l. (4)	96,079	9,531	105,610	111	(26,432)	(26,321)
Alfa Lula Alto Holding Ltd. (4)	(10,254)	(180)	(10,434)	22	-	22
Beta Lula Central S.à.r.l. (4)	69,260	(5,277)	63,983	(44)	(23,623)	(23,667)
Beta Lula Central Holding Ltd. (4)	(1,242)	-	(1,242)	(27)	-	(27)

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

Atendimento Prisma

Changes in investments

	Asset (liability) balance as of December 31, 2015	Capital contributions (2)	Capital decrease (5)	Share of results	Share of comprehensive income/ (loss)	Asset (liability) balance as of December 31, 2016
Associates:						
FPSO Capixaba Venture S.A.	(19,074)	-	-	(1,344)	(577)	(20,995)
SBM Espírito do Mar Inc.	41,816	-	-	(3,433)	-	38,383
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	-
Joint ventures:						
Tupi Nordeste S.à.r.l.	89,114	-	-	10,202	1,916	101,232
Tupi Nordeste Holding Ltd.	(3,035)	-	-	(5,186)	(751)	(8,972)
Guará Norte S.à.r.l. (4)	73,756	-	(1,020)	10,445	971	84,152
Guará Norte Holding Ltd. (4)	(718)	-	-	(2,162)	(170)	(3,050)
Alfa Lula Alto S.à.r.l. (4)	13,055	4,988	(7,798)	4,804	476	15,525
Alfa Lula Alto Holding Ltd. (4)	15	-	-	(515)	(8)	(508)
Beta Lula Central S.à.r.l. (4)	14,814	3,328	(7,365)	3,463	(264)	13,976
Beta Lula Central Holding Ltd. (4)	13	-	-	(63)	-	(50)
Total	222,479	8,316	(16,183)	3,365	1,716	219,693
Total assets (investments)	245,306					253,268
Total liabilities (accumulated deficit in investments) (1)	(22,827)					(33,575)

	Asset (liability) balance as of December 31, 2014	Capital contributions [2]	Capital decrease [6]	Share of results	Share of comprehensive income (loss)	Asset (liability) balance as of December 31, 2015
Associates						
FPSO Capixaba Venture S.A.	(13,549)	-	-	(6,145)	620	(19,074)
SBM Espírito do Mar Inc.	34,193	-	-	7,623	-	41,816
Urca Drilling B.V. [3]	11,965	144	-	(687)	(79)	11,343
Bracuhy Drilling B.V. [3]	1,165	-	-	(786)	(16)	363
Mangaratiba Drilling B.V. [3]	1,038	-	-	(11)	(10)	1,107
Joint ventures		-				
Tupi Nordeste S.à.r.l.	74,067	-	(2,000)	14,585	2,462	89,114
Tupi Nordeste Holding Ltd.	(2,280)	-	-	(1,760)	1,005	(3,035)
Guará Norte S.à.r.l. [4]	79,981	-	(17,837)	11,737	(125)	73,756
Guará Norte Holding Ltd. [4]	101	-	-	(923)	104	(718)
Alfa Lula Alto S.à.r.l. [4]	1,929	12,442	-	6	(1,322)	13,055
Alfa Lula Alto Holding Ltd. [4]	14	-	-	1	-	15
Beta Lula Central S.à.r.l. [4]	18,383	4,564	(6,950)	(2)	(1,181)	14.814
Beta Lula Central Holding Ltd. [4]	14	-	-	(1)	-	13
Total	207,021	17,150	(26,787)	23,637	(1,458)	224,479
Total assets (investments)	222,850					245,306
Total liabilities (accumulated deficit in investments) [1]	(15,829)					(22,827)

(1) The liability to fund the deficit in FPSO Capixaba Venture S.A., Tupi Nordeste Holding Ltd., Guará Norte Holding Ltd. and Alfa Lula Alto Holding Ltd. is recognised 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 recognised 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 September 2016, the Group received the amount of US$6,990 from Beta Lula Central S.à.r.l., in connection with the payment made by Petrobras related to the acceptance of the FPSO Cidade de Saquarema. In December 2016, the Group received the amounts of US$375 and US$1,020 from Beta Lula Central S.à.r.l. and Guará Norte S.à.r.l., respectively.

(6) On January 19, 2015, the Group received the amount of US$13,375 from Guará Norte S.à.r.l., in connection with the payment made by Petrobras related to the acceptance of the FPSO Cidade de Ilhabela. On August 14, 2015, the Group also received the amount of US$1,275 from Guará Norte S.à.r.l.. On August 27, 2015, the Group received the amount of US$6,950 from Beta Lula Central S.à.r.l., in connection with the disbursement of the first tranche of the FPSO Cidade de Saquarema loan facility (Note 1). On December 16, 2015, the Group also received the amount of US$3,188 from Guará Norte S.à.r.l.. On December 16, 2015, the Group also received the amount of US$2,000 from Tupi Nordeste S.à.r.l..

(7) 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 year ended December 31, 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.

(8) FPSO Cidade de Saquarema started its operations on July 8, 2016. Beta Lula Central S.à.r.l. classified its charter agreement with Petrobras as a financial lease agreement. Included in the share of results during the year ended December 31, 2016, there is a gain of US$2,041 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.

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.

Atendimento Prisma

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 audited financial statements of Urca, Bracuhy and Mangaratiba for the years ended December 31, 2016 and 2015 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

- ✓ Guará Norte 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 Ilhabela to Petrobras until 2034, which is currently located off the Brazilian coast. Operations started in November 2014.

- ✓ Guará 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, Guará Norte Operações Marítimas Ltda., which operates the FPSO Cidade de Ilhabela to Petrobras until 2034.

FPSO Cidade de Maricá

- ✓ Alfa Lula Alto S.à.r.l. owns the FPSO Cidade de Maricá, 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 Maricá to the Consortium BM-S-11.

  On July 28, 2014, the Group and its partners SBM Holding Luxembourg S.à.r.l. ("SBM Lux"), Mitsubishi Corporation ("Mitsubishi") and Nippon Yusen Kabushiki Kaisha ("NYK Line"), through the joint venture Alfa Lula Alto S.à.r.l., signed a loan agreement with a pool of international commercial banks amounting to US$1.45 billion, which has been fully disbursed, in order to finance the construction of the FPSO Cidade de Maricá. The loan agreement was structured as a Limited Recourse Project Finance and will be repaid on a quarterly basis as from April 2016 over a period ending December 2029.

  The aforementioned Project Finance benefits from a customary security package and, exclusively during the pre-completion period, corporate guarantees that are provided by the sponsors of the project loan, up to the limit of its participation in Alfa Lula Alto S.à.r.l..

Atendimento Prisma

During the pre-completion period, the Project Finance was subject to financial covenants. Since the delivery of the FPSO Cidade de Maricá, as provided for by the loan agreement, Alfa Lula Alto S.à.r.l. has been working on fulfilling the precedent conditions and providing the necessary documentation in order to be released from such financial covenants, which effectively occurred in November 18, 2016.

- ✓ 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 Operações Marítimas Ltda., which will operate the FPSO Cidade de Maricá to Petrobras until 2036.

<u>FPSO Cidade de Saquarema</u>

- ✓ Beta Lula Central S.à.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.

  On July 27, 2015, the Group and its partners SBM Lux, Mitsubishi and NYK Line, through the joint venture Beta Lula Central S.à.r.l., signed a loan facility with a pool of international commercial banks and export credit agencies amounting to US$1.55 billion, in order to finance the construction of the FPSO Cidade de Saquarema. The loan agreement was structured as a Limited Recourse Project Finance and will be repaid on a quarterly basis as from September 2016 over a period ending June 2030. Until December 31, 2016, Beta Lula Central S.á.r.l. disbursed US$1.54 billion. Additional disbursements are no longer available under the facility.

  The aforementioned Project Finance benefits from a customary security package and, exclusively during the pre-completion period, corporate guarantees that are provided by the sponsors of the project loan, up to the limit of its participation in Beta Lula Central S.à.r.l..

  During the pre-completion period, the Project Finance was subject to financial covenants. Since the delivery of the FPSO Cidade de Saquarema, as provided for by the loan agreement, Beta Lula Central S.à.r.l. has been working on fulfilling the precedent conditions and providing the necessary documentation in order to be released from such financial covenants, which effectively occurred in January 12, 2017.

- ✓ 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 Operações Marítimas Ltda., which will operate the FPSO Cidade de Maricá to Petrobras until 2036.

  Additionally, the Group had the right to acquire from SBM Lux an additional participation of 5% in 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. within 15 (fifteen) days of the FPSOs final acceptance, based on the capital invested by SBM Lux plus interest of 8% p.a. The Group did not exercise such right in relation to FPSO Cidade de Maricá and FPSO Cidade de Saquarema during 2016.

Atendimento Prisma

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., Guará Norte S.à.r.l, Guará Norte Holding Ltd., Alfa Lula Alto S.à.r.l., Alfa Lula Alto Holding Ltd., Beta Lula Central S.à.r.l. 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 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 Camber" - *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).

Atendimento Prisma

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 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.

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

13 PROPERTY, PLANT AND EQUIPMENT

	Drillship under construction [a]	Drilling rigs and drillships [b]											
		Drillships			Offshore drilling rigs						Onshore drilling rigs, equipment and bases [c]		
		Brava Star	Amaralina Star	Laguna Star	Alaskan Star	Atlantic Star	Alpha Star	Gold Star	Lone Star	Olinda Star		Corporate	Total
Cost													
Balance as of December 31, 2014	631,712	-	645,409	650,567	379,191	344,814	721,906	542,916	648,264	542,886	176,665	29,046	5,313,376
Additions	56,881	3,187	7,312	6,485	760	1,851	716	43,491	25,133	15,123	1,807	660	163,406
Disposals	-	-	-	-	-	-	-	-	-	-	(41)	(316)	(357)
Transfers	(688,593)	688,593	-	-	-	-	-	-	-	-	-	-	-
Currency translation adjustments	-	-	-	-	-	-	-	-	-	-	(27,478)	(4,611)	(32,089)
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	-	4,086	8,602	5,114	1,764	2,429	19,652	3,652	36,651	3,169	36	1,006	86,161
Disposals	-	-	-	-	(379,522)	-	-	-	-	-	(10)	(551)	(380,083)
Transfer	-	-	-	-	(2,193)	2,193	-	-	-	-	-	-	-
Currency translation adjustments	-	-	-	-	-	-	-	-	-	-	11,675	1,985	13,660
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
Accumulated depreciation and impairment													
Balance as of December 31, 2014	-	-	(58,692)	(54,699)	(100,477)	(106,244)	(101,239)	(108,957)	(108,395)	(126,936)	(81,069)	(17,800)	(864,508)
Depreciation	-	(10,418)	(26,261)	(26,380)	(16,304)	(14,794)	(25,865)	(22,681)	(26,667)	(24,575)	(10,448)	(2,863)	(207,256)
Disposals	-	-	-	-	-	-	-	-	-	-	41	215	256
Impairment losses recognised in profit or loss [d]	-	-	-	-	-	-	-	-	-	(44,585)	(18,527)		(63,112)
Currency translation adjustments	-	-	-	-	-	-	-	-	-	-	16,031	2,276	18,307
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	-	(31,459)	(27,043)	(27,168)	(12,154)	(15,116)	(26,179)	(27,536)	(32,052)	(24,654)	(7,271)	(3,204)	(233,836)
Disposals	-	-	-	-	378,842	-	-	-	-	-	-	233	379,075
Impairment losses or reversals recognised in profit or loss [d]	-	-	-	-	(249,907)	-	(19,155)	-	-	-	7,260	-	(261,802)
Currency translation adjustments	-	-	-	-	-	-	-	-	-	-	(8,125)	(1,130)	(9,255)
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)
Property, plant and equipment, net													
December 31, 2015	-	681,362	567,768	575,973	263,170	225,627	595,518	454,769	538,335	361,913	56,981	6,607	4,328,023
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
Estimated useful life range (years)		5 to 35	5 to 35	5 to 35	5 to 35	5 to 35	5 to 35	5 to 35	5 to 35	5 to 35	5 to 25	5 to 25	

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(a) The balance of drillship under construction refers to the costs incurred in the Brava Star drillship construction. Borrowing costs were capitalized based on the effective interest rates of each financing agreement. For the year ended December 31, 2015, interest and fair value adjustments capitalized in PP&E totaled US$13,890 and US$13,709, respectively (Notes 14, 17 and 27).

(b) The Group's assets that are pledged as security for financing agreements are disclosed in Note 14.

(c) As of December 31, 2016, the amount of US$50,592 (US$47,514 as of December 31, 2015) refers to onshore drilling rigs.

(d) During the years ended December 31, 2016 and 2015, 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 utilizing 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. In calculating the fair value less costs of disposal of these drilling units as of December 31, 2016, the Group recognized a net impairment reversal related to the aggregated result of seven onshore drilling rigs in the amount of US$7,260. As of December 31, 2015, the Group recognized impairment losses related to seven onshore drilling rigs amounting to US$18,527.

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" (Note 21).

Except for the Alaskan Star offshore drilling case described above, the Group estimated the fair value of each one of its offshore drilling units using the income approach method (i.e., value in use), by a discounted projected net cash flow analysis over the remaining economic useful life of each drilling unit, which utilized significant unobservable inputs (Notes 3.8 and 4.5). As of December 31, 2016, the Group recognized impairment losses related to the Alpha Star offshore drilling rig, an ultra-deepwater rig, amounting to US$19,155. As of December 31, 2015, the Company recognized an impairment loss related to the Olinda Star offshore drilling rig, a deepwater rig, in the amount of US$44,585.

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14 LOANS AND FINANCINGS

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Financial institution	Funding type	Objective	Beginning period	Maturity	Contractual interest rate	Effective interest rate	Currency	December 31, 2016	December 31, 2015
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	144,286	259,247
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	698,388	695,653
							Subtotal - fixed interest rate	842,674	954,900
Bradesco (Notes 14.e. and 28)	Loan	Working capital	Sep/2014	May/2017	Libor+3.05%p.a.	3.05%p.a.	U.S. dollar	152,622	152,197
Bradesco (Notes 14.e. and 28)	Loan	Working capital	Jan/2015	Jan/2017	Libor+4.80%p.a.	5.16%p.a.	U.S. dollar	76,827	76,681
							Subtotal - variable interest rate loans	229,449	228,878
ING (leader arranger)	Financing	Gold Star rig construction[1]	Jul/2007	Dec/2017	Libor+1.15%p.a. to Libor+1.35%p.a.	2.04%p.a.	U.S. dollar	47,515	122,171
Citibank and Santander (joint leader arrangers)	Financing	Alpha Star rig construction	Apr/2011	Jul/2017	Libor+2.50%p.a.	3.54%p.a.	U.S. dollar	174,860	260,323
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%	3.89%p.a.	U.S. dollar	241,780	296,185
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	249,793	303,407
BNP, Citi, ING and DNB (leader arrangers) and Eksportkreditt Norge ("EKN")	Financing	Brava Star drillship construction	May/2015	Sep/2020[3]	Libor+2.00%	3.74%p.a.	U.S. dollar	409,618	455,486
							Subtotal - variable interest rate financings	1,123,566	1,437,572
							Total	2,195,689	2,621,350
							Current	674,085	390,075
							Non-current	1,521,604	2,231,275

(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

	Year-ended December 31,	
	2016	2015
Balance as of January 1	2,621,350	2,434,727
Additions (*)	-	644,863
Transaction costs (*)	-	(8,453)
Proceeds from loans and financings, net of transaction costs	-	636,410
Principal repayment	(435,344)	(462,478)
Interest payment	(104,346)	(104,286)
Interest capitalized	-	12,521
Subtotal	2,081,660	2,516,894
Interest charged through profit and loss	104,366	94,830
Transaction cost amortized through profit and loss	7,912	7,679
Debt discounts amortized through profit and loss	1,751	1,947
Financial expenses on loans and financings	114,029	104,456
Balance as of December 31,	2,195,689	2,621,350

(*) The additions and transaction costs for the year ended December 31, 2015, are related to working capital credit lines and the loan agreement related to the Brava Star drillship construction.

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Bradesco credit lines

In January 2015, the Group used the remaining balance of the credit line with Bradesco amounting to US$95 million and signed another 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. The credit lines were 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 postponement of the maturity dates to July 2018.

Brava Star Ltd. loan agreement

On November 21, 2014, the Company, through its subsidiary Brava Star Ltd., signed a loan agreement amounting to approximately US$475 million with a pool of international commercial banks and export credit agencies in order to finance the construction of the Brava Star drillship. The loan agreement was structured as a Limited Recourse Project Finance to be repaid over a 5-year period bearing interest rate at LIBOR plus 2% p.a. Of such loan facility, US$464,396 (US$458,105, net of transaction costs) was disbursed in May 2015, in connection to milestone payments based upon the drillship delivery by Samsung, and the remaining amount of US$10,467 was disbursed in November 2015.

b) Loans and financings long term amortization schedule

Year ending December 31,	Gross amount	Transaction costs	Debt discounts	Net amount
2018	513,311	(5,675)	(1,455)	506,181
2019	747,486	(2,734)	(1,191)	743,561
2020	273,047	(1,185)	-	271,862
Total	1,533,844	(9,594)	(2,646)	1,521,604

c) Covenants

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

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

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The aforementioned financial covenants are assessed semi-annually based on the consolidated financial statements as of December 31 and June 30 of each year. As of December 31, 2016, the Group was in compliance with such restrictive clauses.

The financial covenants related to the financing agreements of Alpha Star, Amaralina Star, Laguna Star, Brava Star and the Project Bond 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 and semi-annually for compliance with such financial covenants. As of December 31, 2016, the Group was in compliance with such restrictive clauses.

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

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 the following offshore drilling rigs financings: Gold Star, Alpha Star and Atlantic Star; and the Project Financing of 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 decided to release 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.

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15 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.

	Year-ended December 31,	
	2016	2015
Balance as of January 1	4,570	1,551
Brava Star penalty provision/(reversal)	(352)	3,318
Brava Star penalty payment	(3,191)	-
Foreign exchange rate variations	203	(299)
Balance as of December 31	1,230	4,570

16 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 December 31, 2016, 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:

	Year-ended December 31,	
	2016	2015
Balance as of January 1	1,504	1,355
Additions	729	1,068
Reversals	(969)	(386)
Foreign exchange rate variations	280	(533)
Balance as of December 31	1,544	1,504

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Civil litigation with HRT

In connection with the early termination of the onshore drilling rigs QG-VIII and QG-IX charter and service-rendering agreements, there was a delay in collecting the receivables due by HRT related to such onshore drilling rigs operations performed between April and June 2014. HRT contested some of the charter and service-rendering agreements' terms and decided for the non-payment. On June 30, 2014, the Group decided to terminate the agreements in accordance with its terms and conditions, with the interruption of the charter and service-rendering and then entered into a legal dispute. In such civil litigation, the Group pursued the collection of the invoices related to April, May and June 2014, and payment of loss and damages, while HRT pursued the repayment of the amounts previously advanced to the Group. On October 20, 2015, the Rio de Janeiro Court (*Tribunal de Justiça do Rio de Janeiro*) demanded QGOG to make a judicial deposit in the amount of R$13.2 million (corresponding to approximately US$3.3 million) related to the advance received from HRT. QGOG proceeded with the deposit.

QGOG and HRT entered into a court settlement agreement to terminate these legal disputes and on February 17, 2016, the Rio de Janeiro Court accepted the agreement in which HRT would receive R$2.3 million (US$601) from the above mentioned judicial deposit and the remaining amount would be returned to QGOG. As a result, the amount of US$601 was recorded as a loss provision as of December 31, 2015, and during the first quarter of 2016 it was paid.

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 of US$21,650 (US$11,588 as of December 31, 2015), tax lawsuits in the amount of US$26,246 (US$21,061 as of December 31, 2015) and civil lawsuits in the amount of US$15 (US$26 as of December 31, 2015).

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 December 31, 2016 the estimated amount involved is US$5,062 (US$3,526 as of December 31, 2015).

ii. 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 December 31, 2016, the estimated amount involved is US$19,973 (US$16,671 as of December 31, 2015).

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.

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e) 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.

17 DERIVATIVES

Under the terms of the Project Finance arrangements (Note 14), 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 5.16% p.a.. The floating component of interest rate of all derivatives agreements is the US$ LIBOR interest rate.

As of December 31, 2016, the Group has interest rate swaps related to the loans funding Gold Star and Alpha Star offshore drilling rigs, and 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

Interest rate swaps: US$ LIBOR/Pre-fixed rate

Financial institution	Loans and financings objective	Payable leg interest rate (per annum)	Maturity	Notional amount Dec. 31, 2016	Notional amount Dec. 31, 2015	Fair value Dec.31, 2016	Fair value Dec. 31, 2015
ING (leader arranger)	Gold Star construction	5.16%	Jul/2017	42,421	100,640	857	4,435
Citibank and Santander (joint leader arranger)	Alpha Star construction	1.93%	Jul/2017	189,558	262,852	1,107	3,611
	Non-designated to hedge accounting			231,979	363,492	1,964	8,046
BNP, Citibank and ING (joint leader arranger) (*)	Amaralina Star construction	2.81%	Oct/2018	249,688	305,282	5,825	10,845
BNP, Citibank and ING (joint leader arranger) (*)	Laguna Star construction	2.90%	Dec/2018	258,350	313,249	6,704	12,065
BNP, Citi, ING and DNB (mandated leader arranger) (*)	Brava Star construction	1.79%	Sep/2020	187,583	209,021	457	1,693
BNP and ING (mandated leader arranger) (*)	Brava Star construction	1.84%	Sep/2020	186,480	207,792	741	2,030
	Designated to hedge accounting			882,101	1,035,344	13,727	26,633
			Total amount	1,114,080	1,398,836	15,691	34,679
			Non-current assets			946	896
			Current liabilities			12,784	24,377
			Non-current liabilities			3,853	11,198

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Changes in fair values are as follows:

	Year-ended December 31, 2016	Year-ended December 31, 2015
Balance as of January 1,	34,679	50,193
Fair value adjustments capitalized	-	1,369
Fair value adjustments through profit and loss	8,561	6,827
Fair value adjustments through other comprehensive income/(loss)(*)	(2,103)	10,137
Cash payments	(25,446)	(33,847)
Balance as of December 31,	15,691	34,679

(*) 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 years 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 14) 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.

18 SHAREHOLDERS' EQUITY

a. Share capital

As of December 31, 2016 and 2015, the Company's share capital amounts to US$63,200 comprised by 189,227,364 ordinary shares, with no par value, as follows:

		December 31, 2016 and 2015			
			Rights over the amounts		
Shareholders	Ownership interest (%)	Ordinary shares	Share capital	Share premium	Total
Queiroz Galvão Oil & Gas International S.à.r.l.	74.14	140,293,142	46,857	568,328	615,185
Constellation Holdings S.à.r.l.	9.37	17,739,099	5,925	71,861	77,786
Constellation Coinvestment S.à.r.l.	8.23	15,570,123	5,200	63,075	68,275
CIPEF VI QGOG S.à.r.l.	8.10	15,321,875	5,117	62,069	67,186
CGPE VI, L.P.	0.16	303,125	101	1,228	1,329
Total		189,227,364	63,200	766,561	829,761

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

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For the years ended December 31, 2016 and 2015, 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 realised 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.

On June 27, 2016 and December 21, 2015, as approved by extraordinary general meetings of shareholders, the Company fully paid the amounts of US$94,416 and US$66,000, respectively, as partial repayments 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 14).

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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 17).

Foreign currency translation adjustments reserve

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

Changes in Other Comprehensive Items

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Changes in comprehensive income for the years ended December 31, 2016 and 2015 are as follows:

	Cash flow hedge fair value adjustments attributable to					
	Owners of the Group	Non-controlling interests	Total	Share of investments' other comprehensive loss	Foreign currency translation adjustments	Total
Balance as of December 31, 2014	1,208	990	2,198	(15,330)	3,032	(10,100)
Fair value adjustments on:						
Derivative agreements (Note 17)	(7,250)	(2,887)	(10,137)	-	-	(10,137)
Joint ventures' derivative agreements	-	-	-	(166)	-	(166)
Associates' financial assets	-	-	-	(105)	-	(105)
Exchange differences:						
On investments arising during the year	-	-	-	1,729	-	1,729
Arising during the year	-	-	-	-	(21,883)	(21,883)
Balance as of December 31, 2015	(6,042)	(1,897)	(7,939)	(13,872)	(18,851)	(40,662)
Fair value adjustments on:						
Derivative agreements (Note 17)	2,293	(190)	2,103	-	-	2,103
Joint ventures' derivative agreements	-	-	-	3,099	-	3,099
Associates' financial assets	-	-	-	123	-	123
Exchange differences:						
On investments arising during the year	-	-	-	(1,506)	-	(1,506)
Arising during the year	-	-	-	-	10,721	10,721
Balance as of December 31, 2016	(3,749)	(2,087)	(5,836)	(12,156)	(8,130)	(26,122)

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 year, 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 year.

	Year-ended December 31,	
	2016	2015
Profit attributable to the owners of the Group	138,723	294,403
Weighted average number of ordinary shares for calculation purposes (thousands of shares) (*)	189,227	189,227
Basic and diluted profit per share (in U.S. dollars – US$)	0.73	1.56

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

19 NET OPERATING REVENUE

The Group's operating revenue is mainly derived from charter and service-rendering agreements. During the years ended December 31, 2016 and 2015, Petrobras has accounted for 99% and 96%, respectively, of total revenues.

Net operating revenue is presented after the following items:

	Year-ended December 31,	
	2016	2015
Gross operating revenue	1,146,489	1,087,038
Taxes levied on revenue:		
Social Integration Program (PIS) (*)	(3,389)	(3,510)
Social Investment Program (COFINS) (*)	(15,638)	(16,177)
Services Tax (ISS) (*)	(4,151)	(4,143)
Withholding Income tax (IRRF)	(3,655)	(5,614)
Net operating revenue	1,119,656	1,057,594

(*) – Taxes levies on revenues are applicable only to the revenues generated by QGOG.

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20 COST OF SERVICES AND OPERATING EXPENSES

	Year-ended December 31,					
	2016			2015		
Costs and expenses by nature	Cost of services	General and administrative expenses	Total	Cost of services	General and administrative expenses	Total
Payroll, charges and benefits	(154,682)	(24,300)	(178,982)	(169,198)	(22,108)	(191,216)
Depreciation	(233,099)	(737)	(233,836)	(206,455)	(801)	(207,256)
Materials	(54,471)	-	(54,471)	(61,694)	-	(61,694)
Maintenance	(58,087)	-	(58,087)	(57,011)	-	(57,011)
Insurance	(16,979)	-	(16,979)	(18,323)	-	(18,323)
Other [(i)/(ii)]	(20,946)	(19,116)	(40,062)	(23,019)	(21,083)	(44,102)
	(538,264)	(44,153)	(582,417)	(535,700)	(43,902)	(579,602)

(i) Other cost of services: mainly comprised by rig boarding transportation; lodging and meals; data transmission; among others.

(ii) Other general and administrative expenses: mainly comprised by transportation; information technology services; external legal advisors fees; independent auditors fees; advisory service fees; among others.

21 OTHER EXPENSES, NET

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	Year-ended December 31,	
	2016	2015
Contractual fee [(i)]	17,905	-
Recovered taxes [(ii)]	-	13,434
Revenue from sales of PP&E	851	367
Other	143	190
Other income	18,899	13,991
Impairment provision, net (Note 13)	(261,802)	(63,112)
Inventory write-down (Note 10)	(6,055)	-
Penalties (Note 15)	352	(3,318)
Reversal of transaction costs	-	204
Cost of PP&E sold	(1,008)	(101)
Other	(38)	-
Other expenses	(268,551)	(66,327)
Total expenses, net	(249,652)	(52,336)

(i) Mainly refers to a contractual fee payment in connection with the first oil achievement by the FPSO Cidade de Maricá and FPSO Cidade de Saquarema (Notes 11.h and 12).

(ii) Refers to (i) tax reimbursement in the amount of US$2,186, received from the Swiss Tax Authority related to withholding income tax levied on dividends received from SBM Espírito do Mar Inc. during 2013; and (ii) net effect of Social Security Contribution over Gross Revenue (*Contribuição Previdenciária sobre a Receita Bruta* - CPRB) expense and recovered Social Contribution over payroll (INSS), in the amount of US$ 11,248 (Note 23.a).

22 FINANCIAL EXPENSES, NET

	Year-ended December 31,	
	2016	2015
Interest on short-term investments	5,295	3,926
Financial income from related parties	8,777	7,254
Other financial income	1,245	158
Financial income	15,317	11,338
Financial expenses on loans and financings (Note 14.a)	(114,029)	(104,456)
Derivative expenses (Note 17)	(8,561)	(6,827)
Financial expenses from related parties	(1,419)	(1,689)
Other financial expenses	(9,335)	(6,722)
Financial expenses	(133,344)	(119,694)
Foreign exchange variation gain/(loss), net	(721)	218
Financial expenses, net	(118,748)	(108,138)

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23 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

	December 31,	
	2016	2015
Social Security Contribution (INSS) (*)	8,486	10,742
Income tax (IRPJ) and social contribution (CSLL)	1,339	-
Other	20	-
Total	9,845	10,742
Current	4,005	10,742
Non-current	5,840	-

(*) Maintenance revenues generated by QGOG are subjected to Social Security Contribution over Gross Revenue (CPRB), instead of QGOG being charged of Social Contribution over payroll (INSS). Based on that, the Group recalculated the amounts of CPRB payable and INSS recoverable and in December 2015, recognized the applicable INSS credits, net of the applicable CPRB debts (Note 21).

b) Taxes payables

	December 31,	
	2016	2015
Services Tax (ISS)	1,813	1,873
Income tax (IRPJ) and social contribution (CSLL)	307	6,999
Social Integration Program (PIS) and Social Investment Program (COFINS)	197	687
Total	2,317	9,559

c) Deferred tax assets

	December 31,	
	2016	2015
Income tax (IRPJ) and social contribution (CSLL) (*)	7,505	2,378
Taxes levied on revenue (PIS/COFINS/ISS)	-	200
Total	7,505	2,578
Current	-	200
Non-current	7,505	2,378

(*) Mainly refers to deferred income arising from contracts with government entities, provision for contingencies, and provision for impairment losses on PP&E, among others, 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 years ended December 31, 2016 and 2015 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 year ended December 31, 2016 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:

	Year-ended December 31,	
	2016	2015
Profit before taxes	172,204	341,155
Income tax and social contribution at nominal rate (*)	(11,744)	(24,589)
Adjustments to derive effective tax rate:		
Non-deductible expenses	(613)	(130)
Other	(246)	472
Income tax expense recognised in profit or loss	(12,603)	(24,247)
Current taxes	(17,031)	(26,006)
Deferred taxes	4,428	1,759

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

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24 FINANCIAL INSTRUMENTS

a) General considerations

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns 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:

		December 31,			
		2016		2015	
	Category	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Cash and cash equivalents	Loans and receivables	293,189	293,189	154,810	154,810
Short-term investments	Fair value through profit or loss	113,866	113,866	246,871	246,871
Restricted cash	Fair value through profit or loss	43,222	43,222	21,744	21,744
Trade and other receivables	Loans and receivables	81,050	81,050	109,455	109,455
Receivables from related parties	Loans and receivables	342,130	342,130	316,797	316,797
Derivatives	Fair value through profit or loss	946	946	896	896
Financial liabilities					
Loans and financings	Other financial liabilities	2,195,689	1,952,855	2,621,350	2,183,821
Trade and other payables	Other financial liabilities	29,488	29,488	26,566	26,566
Payables to related parties	Other financial liabilities	311,920	311,920	289,317	289,317
Derivatives	Fair value through profit or loss	16,637	16,637	35,575	35,575

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.

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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.

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

✓ Trade and other receivables and payables: very short-term of maturity.

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 14) 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 December 31, 2016, the Group presents working capital deficiency in the amount of US$136,709 due to working capital loans maturing in January and May of 2017 and the current portion of its loans and financings (Note 14). Management considers that the working capital deficiency is supported by the cash flow generation of the Group's existing charter and service-rendering agreements in the regular course of business. Management is also exploring other opportunities to obtain additional long-term loans and financings in order to improve its current liquidity position (Note 28).

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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:

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	29,488	2,443,732	16,393	535,178	3,024,791

December 31, 2015

Period	Trade payables	Loans and financings	Derivatives	Payables to related parties	Total
2016	26,566	496,046	22,806	7,107	552,525
2017	-	806,880	10,044	1,690	818,614
2018	-	588,306	3,236	5,390	596,932
2019	-	803,375	(226)	64,828	867,977
2020	-	281,368	(547)	405,260	686,081
Total	26,566	2,975,975	35,313	484,275	3,522,129

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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 6, 9 and 11, 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 years ended December 31, 2016 and 2015, Petrobras has accounted for 99% and 96%, respectively, of total revenues (Note 19). 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 14). The Group manages the interest rate risk related to the project financing agreements by eliminating variable-to-fixed interest rate swaps (Note 17).

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 17). 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	December 31, 2016	Scenario I [i]	Scenario II [ii]
		Increase/ (decrease) in P&L	
Variable interest rate loans (Note 14)	229,449	(229)	229
Variable interest rate financings (Note 14)	1,123,566	(1,124)	1,124
Derivatives (Note 17)	(1,114,080)	1,114	(1,114)
Total	9,486	(10)	10
		Increase/ (decrease) in OCI	
Hedge derivatives (Note 17)	(882,101)	882	(882)

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

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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:

	December 31,	
	2016	2015
Loans and financings [a]	2,195,689	2,621,350
Cash transactions [b]	(450,277)	(423,425)
Net debt [c]	1,745,412	2,197,925
Shareholders' equity [d]	2,528,143	2,448,418
Net debt on shareholders' equity plus net debt [(c)] ÷ [(c) + (d)]	41%	47%

(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.

25 INSURANCE

As of December 31, 2016 and 2015, major assets or interests covered by insurance policies and their respective coverage amounts are summarized below:

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	December 31,	
	2016	2015
Civil liability	2,523,000	2,542,958
Operating risks	5,449,180	5,358,127
Operational headquarter and others	24,184	13,426
Total	7,996,364	7,914,511

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

26 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 years ended December 31, 2016 and 2015, contributions payable by QGOG at rates specified by the plan rules amounts to US$1,625 and US$1,269, respectively.

27 ADDITIONAL INFORMATION ON CASH FLOWS

	Year-ended December 31,	
	2016	2015
Non-cash investing activities:		
Income from Alaskan Star offshore drilling disposal	680	-
Derecognition of accrued costs of the drillship under mobilization	-	(390,697)
Borrowing costs capitalized, net of hedging adjustments (Notes 13, 14 and 17)	-	13,890
Intercompany loans to Beta Lula Central S.à.r.l.	-	4,660
Capital increase in Beta Lula Central S.à.r.l.	-	2,621
	680	(369,526)

28 SUBSEQUENT EVENTS

Working capital credit loans

Following the Group's strategy of improving its liquidity position, 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, aiming to postpone the maturity dates. Detailed information related to such amendments, including maturity dates and interest rates are described in Note 14.

Onshore drilling rig QG-VIII charter and service-rendering agreements

On October 3, 2016, the Group signed agreements to charter the onshore drilling rig QG-VIII and render drilling services for Rosneft, and thus the mobilization started on January 9, 2017. The purpose of the agreements is to drill one oil well in the Solimões Basin (Brazil), under a 170-days minimum term as from February 12, 2017, the commencement day. The agreements can be extended by two periods of one year by mutual agreement between the parties.

Extraordinary General Meeting of Shareholders

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.

Based on the provisions contained in the aforementioned Extraordinary General Meeting, the Company's share capital will be composed as follows:

	Shares			
Shareholders	Class A	%	Class B	%
Queiroz Galvão Oil & Gas International S.à.r.l.	140,293,142	75.10%	-	-
Constellation Holdings S.à.r.l.	16,862,219	9.03%	876,880	36.25%
Constellation Coinvestment S.à.r.l.	14,800,460	7.92%	769,663	31.82%
CIPEF VI QGOG S.à.r.l.	14,564,483	7.80%	757,392	31.31%
CGPE VI, L.P.	288,141	0.15%	14,984	0.62%
Total shares per class	186,808,445	100.00%	2,418,919	100.00%
Total shares	189,227,364			

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29 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's Board of Directors and authorized for issue on March 16, 2017.

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