QGOG Constellation S.A.

Consolidated Financial Statements as of December 31, 2013 and 2012 and for the Years 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.
Luxembourg

We have audited the accompanying 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, 2013, 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 a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the QGOG Constellation S.A. and its subsidiaries as at December 31, 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Partnership with SBM Holding Inc. - contingent liability

Without qualifying our opinion, we draw attention to Note 12 to the consolidated financial statements which describe the uncertainty related to the outcome of the contingent liability of the Company's investments in associates and joint ventures held with its partner, SBM Holding Inc. and its subsidiaries.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU
Auditores Independentes
Rio de Janeiro, Brazil
April 15, 2014

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QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2013 AND 2012
(Amounts expressed in thousands of U.S. dollars - US$)

ASSETS	Note	December 31, 2013	December 31, 2012
CURRENT ASSETS			
Cash and cash equivalents	6	217,530	219,613
Short-term investments	7	283,399	213,178
Restricted cash	8	38,674	25,483
Trade and other receivables	9	90,941	129,330
Inventories	10	153,190	112,233
Recoverable taxes	24.a	1,979	170
Deferred mobilization costs		14,116	12,675
Deferred tax assets	24.c	153	153
Receivables from related parties	11	8,011	195
Other current assets		14,898	17,486
		822,891	730,516
NON-CURRENT ASSETS			
Receivables from related parties	11	237,496	247,636
Other non-current assets		487	568
Investments	12	200,850	71,713
Deferred mobilization costs		33,740	44,978
Deferred tax assets	24.c	58	212
Property, plant and equipment, net	13	4,201,634	4,213,595
		4,674,265	4,578,702
TOTAL ASSETS		5,497,156	5,309,218

(continues)

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QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2013 AND 2012
(Amounts expressed in thousands of U.S. dollars - US$)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	December 31, 2013	December 31, 2012
CURRENT LIABILITIES			
Loans and financings	14	609,896	567,847
Accrued liabilities	15	42,920	-
Payroll and related charges		60,554	52,299
Derivatives	18	40,810	56,126
Trade and other payables		27,238	25,004
Payables to related parties	11	10,302	12,007
Taxes payables	24.b	5,051	4,383
Provisions	16	7,525	7,525
Deferred mobilization revenue		25,386	22,902
Other current liabilities		34,100	27,938
		863,782	776,031
NON-CURRENT LIABILITIES			
Loans and financings	14	2,393,362	2,847,700
Payables to related parties	11	223,013	210,793
Derivatives	18	37,579	92,234
Deferred tax liabilities	24.d	5,136	7,265
Deferred mobilization revenue		63,190	81,143
Other non-current liabilities		6,241	11,311
		2,728,521	3,250,446
TOTAL LIABILITIES		3,592,303	4,026,477
SHAREHOLDERS' EQUITY			
Capital	19	63,200	55,632
Share premium	19	766,561	479,812
Transaction costs on issuance of shares	19	(9,721)	(9,325)
Reserves	19	16,464	(1,484)
Retained earnings		1,065,781	759,462
Equity attributable to the owners of the Group		1,902,285	1,284,097
Non-controlling interests	19	2,568	(1,356)
TOTAL SHAREHOLDERS’ EQUITY		1,904,853	1,282,741
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY		5,497,156	5,309,218

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 YEARS ENDED DECEMBER 31, 2013 AND 2012
(Amounts expressed in thousands of U.S. dollars - US$, except per share amounts)

	Note	2013	2012
NET OPERATING REVENUE	20	1,079,266	806,695
COSTS OF SERVICES	21	(623,907)	(490,036)
GROSS PROFIT		455,359	316,659
General and administrative expenses	21	(52,200)	(49,664)
Other income	22	4,340	6,686
Other expenses	22	(4,058)	(4,159)
OPERATING PROFIT		403,441	269,522
Financial income	23	9,539	10,420
Financial expenses	23	(130,453)	(144,764)
Net foreign exchange loss	23	(4,913)	(1,624)
FINANCIAL EXPENSES, NET		(125,827)	(135,968)
Shares of results of investments	12	41,962	3,825
PROFIT BEFORE TAXES		319,576	137,379
Taxes	24.e	(11,099)	(6,145)
PROFIT FOR THE YEAR		308,477	131,234
Profit attributable to the owners of the Group		306,319	131,558
Profit (loss) attributable to non-controlling interests		2,158	(324)
Profit per share			
Basic	19	1.74	0.77
Diluted	19	1.74	0.77

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 YEARS ENDED DECEMBER 31, 2013 AND 2012
(Amounts expressed in thousands of U.S. dollars - US$)

	Note	2013	2012
PROFIT FOR THE YEAR		308,477	131,234
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Attributable to owners of the Group	19	2,158	30,849
Attributable to non-controlling interests	19	1,766	25,241
Cash flow hedges fair value adjustments	18/19	3,924	56,090
Shares of cash flow hedges adjustments of investments	12/19	16,302	(23,311)
Items that will not be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments	19	(6,195)	(3,700)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		322,508	160,313
Comprehensive income attributable to the owners of the Group		318,584	135,396
Comprehensive income attributable to non-controlling interests		3,924	24,917

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

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QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Amounts expressed in thousands of U.S. dollars - US$)

		Capital					Reserves							
	Note	Constellation Oveseas Ltd.	QGOG Constellation S.A.	Total	Share premium	Transaction costs	Legal	Cash flow hedges fair value adjustments	Shares of cash flow hedges adjustements of investments	Foreign currency translation adjustments	Retained earnings	Equity attributable to the owners of the Group	Equity attributable to non-controlling interests	Total shareholders' equity
BALANCE AS OF DECEMBER 31, 2011		130,987	58	131,045	404,407	(9,325)	-	(27,454)	-	22,132	627,904	1,148,709	(26,273)	1,122,436
Profit for the year		-	-	-	-	-	-	-	-	-	131,558	131,558	(324)	131,234
Other comprehensive income for the year		-	-	-	-	-	-	30,849	(23,311)	(3,700)	-	3,838	25,241	29,079
Total comprehensive income for the year		-	-	-	-	-	-	30,849	(23,311)	(3,700)	131,558	135,396	24,917	160,313
Capital reduction		-	(8)	(8)	-	-	-	-	-	-	-	(8)	-	(8)
Capital exchange		(130,987)	55,582	(75,405)	75,405	-	-	-	-	-	-	-	-	-
BALANCE AS OF DECEMBER 31, 2012		-	55,632	55,632	479,812	(9,325)	-	3,395	(23,311)	18,432	759,462	1,284,097	(1,356)	1,282,741
Profit for the year		-	-	-	-	-	-	-	-	-	306,319	306,319	2,158	308,477
Other comprehensive income for the year	19	-	-	-	-	-	-	2,158	16,302	(6,195)	-	12,265	1,766	14,031
Total comprehensive income for the year		-	-	-	-	-	-	2,158	16,302	(6,195)	306,319	318,584	3,924	322,508
Legal reserve	19	-	-	-	(5,683)	-	5,683	-	-	-	-	-	-	-
Share dividend	19	-	1,193	1,193	(1,193)	-	-	-	-	-	-	-	-	-
Capital increase	19	-	6,375	6,375	293,625	-	-	-	-	-	-	300,000	-	300,000
Transaction costs on issuance of shares	19	-	-	-	-	(396)	-	-	-	-	-	(396)	-	(396)
BALANCE AS OF DECEMBER 31, 2013		-	63,200	63,200	766,561	(9,721)	5,683	5,553	(7,009)	12,237	1,065,781	1,902,285	2,568	1,904,853

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

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QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Amounts expressed in thousands of U.S. dollars - US$)

	Note	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		308,477	131,234
Adjustments to reconcile profit to net cash provided by operating activities:			
Depreciation of property, plant and equipment	13/21	191,617	168,272
Gain on disposals of property, plant and equipment	22	(742)	(263)
Shares of results of investments	12	(41,962)	(3,825)
Recognition of mobilization costs		13,858	8,877
Recognition of mobilization revenues, net of taxes		(25,048)	(15,466)
Financial charges on loans and financings	14/23	126,425	94,629
Financial expenses from related parties, net	11/23	273	632
Fair value loss (gain) on derivatives	18/23	(7,234)	35,732
Provision for employee profit sharing		33,290	-
Other financial expenses, net	23	6,363	3,352
Taxes	24.e	11,099	6,145
Reversal of penalties		-	(943)
Changes in working capital:			
Increase in short-term investments		(73,365)	(75,862)
Decrease in restricted cash		-	14,242
(Increase)/decrease in trade and other receivables		34,987	(73,570)
(Increase)/decrease in receivables from related parties		(1,015)	190
Increase in inventories		(46,340)	(44,890)
(Increase)/decrease in recoverable taxes		(1,988)	891
Increase in deferred mobilization costs		(4,179)	(28,656)
Decrease in other assets		8,962	10,668
Increase/(decrease) in payroll and related charges		(17,077)	20,032
Increase/(decrease) in trade and other payables		3,665	(2,073)
Decrease in payables to related parties		(579)	(6)
Decrease in taxes payables		(11,188)	(5,951)
Increase in deferred mobilization revenue		10,371	56,001
Increase/(Decrease) in other liabilities		(8,933)	3,792
Net cash provided by operating activities		509,737	303,184
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans to related parties	11	-	(143,658)
Proceeds from related parties	11	-	91,536
Payments to related parties	11	(9,751)	-
Acquisition of property, plant and equipment	13/28	(139,915)	(956,053)
Advance to suppliers relating to equipment under construction	13	-	(61,283)
Capital contributions in investments	12	(73,329)	(6,059)
Capital contribution		-	(61,143)
Dividends received from associates	12	6,148	-
Proceeds from sales of property, plant and equipment	22	890	322
Net cash used in investing activities		(215,957)	(1,136,338)
CASH FLOW FROM FINANCING ACTIVITIES			
Payments to related parties		(13,838)	(91,536)
Proceeds from related parties		37,749	153,103
Proceeds from loans and financing, net of transactions costs	14	148,679	1,861,314
Interest paid on loans and financings	14	(124,666)	(98,315)
Cash payments on derivatives	18	(58,813)	(48,880)
Restricted cash	8	(13,191)	(13,400)
Capital increase, net of transaction costs	19	299,604	-
Repayment of principal on loans and financings	14	(569,505)	(898,286)
Net cash provided by (used in) financing activities		(293,981)	864,000
Increase/(decrease) in cash and cash equivalents		(201)	30,846
Cash and cash equivalents at the beginning of the year		219,613	188,938
Effects of exchange rate changes on the balance of cash held in foreign currencies		(1,882)	(171)
Cash and cash equivalents at the end of the year		217,530	219,613

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

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1. GENERAL INFORMATION

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

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

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

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On May 2, 2012, in connection with the corporate reorganization, QGOG Constellation changed its share capital from €40 thousand represented by 1,200,000 ordinary shares to US$50 represented by 150,000 ordinary shares. On the same date, in exchange for the contribution of Constellation Overseas Ltd. ("Constellation"), QGOG Constellation issued 166,747,338 ordinary shares with a nominal value of US$0.33 per share, representing an exchange ratio of one ordinary share of QGOG Constellation for each share of Constellation. As a result, QGOG Constellation indirectly owns Constellation and all of the charter and drilling services operations through five wholly-owned sub-holdings. Since QGOG Constellation and Constellation are under common control, this transaction was recorded using the historical book value of Constellation's assets and liabilities. Additionally, since QGOG Constellation and Constellation were under common control for the years presented prior to the corporate reorganization, the Company's financial statements reflect the combined operations of QGOG Constellation and Constellation for the years prior to the corporate reorganization.

QGOG Constellation has completed its corporate reorganization which was related to its directly wholly-owned subsidiaries. This restructuring did not result in any impact on the Company's consolidated financial statements. Following is a description of the Company's directly wholly-owned sub holdings:

- QGOG Star GmbH, an entity organized under the laws of Switzerland on May 2, 2012, which wholly-owns Constellation. Constellation continues to wholly-own, directly and indirectly, the entities which own the drilling rigs.

- Arazi S.à.r.l. ("Arazi"), an entity organized under the laws of Luxembourg on May 12, 2011, which holds investments in the following Floating, Production, Storage and Offloading - FPSO vessels: FPSO Capixaba, FPSO Cidade de Paraty, FPSO Cidade de Ilhabela, FPSO Cidade de Maricá and FPSO Cidade de Saquarema. Prior to the corporate reorganization, Arazi was a wholly-owned subsidiary of Constellation.

- Constellation Netherlands B.V., an entity organized under the laws of the Netherlands on April 3, 2012, which indirectly wholly-owns certain entities that are party to Constellation's offshore charter agreements with Petróleo Brasileiro S.A. ("Petrobras").

- Centaurus S.à.r.l., an entity organized under the laws of Luxembourg on July 27, 2007, which directly wholly-owns Eiffel Ridge C.V., an entity that is party to Constellation's offshore charter agreements with Petrobras related to Lone Star and Gold Star offshore drilling rigs.

- Angra Participações B.V. ("Angra"), an entity organized under the laws of Netherlands on May 11, 2012, which holds a 15% equity interest in three Special Purpose Entities ("SPEs"), each one with an ultra-deepwater semi-submersible rig (Urca, Bracuhy and Mangaratiba) in partnership with Sete Brasil S.A. ("Sete Brasil").

The corporate reorganization aimed an improvement in QGOG Constellation's corporate governance structure and tax efficiency.

QGOG Constellation holds investments in subsidiaries that charter and operate onshore and offshore drilling rigs and drillships for exploration and production companies operating in Brazil. The Group currently charters rigs mainly to Petrobras, but also to HRT O&G Exploração e Produção de Petróleo Ltda. ("HRT") and lately to President Energy PLC (Note 29).

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

Equipment	Type	Start of operations
QG-I	Onshore drilling rig	1981
QG-II	Onshore drilling rig	1981
QG-III	Onshore drilling rig	1987
QG-IV	Onshore drilling rig	1996
QG-V	Onshore drilling rig	2011
QG-VI	Onshore drilling rig	2008
QG-VII	Onshore drilling rig	2008
QG-VIII	Onshore drilling rig	2011
QG-IX	Onshore drilling rig	2011
Alaskan Star	Offshore drilling rig	1994
Atlantic Star	Offshore drilling rig	1997
Olinda Star	Offshore drilling rig	2009
Gold Star	Offshore drilling rig	2010
Lone Star	Offshore drilling rig	2011
Alpha Star	Offshore drilling rig	2011
Amaralina Star (1)	Drillship	2012
Laguna Star (2)	Drillship	2012
Brava Star (3)	Drillship	Under construction

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(1) The construction of Amaralina Star was concluded in July 2012 in partnership with Alperton Capital Limited ("Delba") as described in Note 13. The operations started in September 2012.

(2) The construction of Laguna Star was concluded in September 2012 in partnership with Delba as described in Note 13. The operations started in November 2012.

(3) The equipment is currently under construction and its delivery is expected to occur in December 2014.

As of December 31, 2013, the Group presents working capital deficiency in the amount of US$40,891 (US$45,515 as of December 31, 2012), mainly as result of the current investments. As of December 31, 2013 the working capital deficiency is mainly related to the Brava Star offshore drilling rig construction costs amounting to US$42,920 (Notes 13 and 15). Management understands that the working capital deficiency is supported by the cash flow generation of the Group's existing long-term contracts in the regular course of business. Management is also exploring other opportunities to obtain additional long-term financing.

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

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FPSO Cidade de Ilhabela

On March 20, 2012, Arazi and Lancaster Projects Corp., QGOG Constellation's subsidiaries, signed a shareholders' agreement with SBM Holding Inc. ("SBM") and Mitsubishi Corporation ("Mitsubishi"), in order to regulate their relationship as shareholders of Guará Norte S.à.r.l. ("Guará Norte"), Guará Norte Holding Ltd. ("Guará Norte Holding") and Guará Norte Operações Marítimas Limitada ("Guará Norte Operações Marítimas"). These entities will respectively charter and operate the FPSO Cidade de Ilhabela for Petrobras for a 20 year period. The beginning of operations is expected to occur at the end of the third quarter or early fourth quarter of 2014.

The Group has a participation of 12.75% in these entities and has the right to acquire an additional participation of 12.75% from SBM within fifteen days of the final acceptance of the FPSO, based on the capital invested by SBM plus interest of 8% p.a.. The Group's participation in the entities under the FPSO Cidade de Ilhabela's structure is accounted by the equity method in these consolidated financial statements (Note 12).

Partnership with Petrobras and Sete Brasil

On August 3, 2012, Angra signed three shareholders agreements in which the Company acquired a 15% equity interest in three SPEs, each one owning an ultra-deepwater semi-submersible rig (Urca, Bracuhy and Mangaratiba) in partnership with Sete Brasil. In the same day, the partnership signed charter agreements of these equipment with Petrobras. The ultra-deepwater semi-submersible offshore rigs are expected to be delivered in 2015, 2018 and 2019, respectively. Queiroz Galvão Óleo e Gás S.A. ("QGOG") will be the sole operator of these rigs. The Group's participation in the entities under the partnership with Sete Brasil is accounted by the equity method in these consolidated financial statements.

Samsung Construction Contract

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

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

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

Since January 16, 2013, the Company, through one of its subsidiaries, has been executing certain amendments to the LOI, which extended its right to enter in the second EPCI until March 10, 2014. If the Company elects to enter in the second EPCI, the drillship is expected to be delivered by May 2016 and the total project cost shall be consistent with Brava Star's project cost (approximately US$660 million).

Initial Public Offering ("IPO")

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

Concurrent Private Placement

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

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

Share Split

On January 29, 2013, the Company performed a one-for-three forward share split of its common shares. All references to common share values in these consolidated financial statements have been retroactively adjusted to reflect this forward split.

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Share Dividend

On January 29, 2013, the Company's shareholders approved a share dividend of 3,580,026 common shares. The shares were issued pro-rata to the Company's existing shareholders. All references to common share values in these consolidated financial statements have been retroactively adjusted to reflect this share dividend.

FPSO Cidade de Maricá and FPSO Cidade de Saquarema

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

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

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

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

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FPSO P-63 Operation

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

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

2.1. New and amended IFRS adopted in 2013

In the current year, the Group has applied a number of new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2013. The following new standards and amendments have been adopted by the Group but had no impact on the consolidated financial statements, except for additional disclosure requirements:

- ✓ IFRS 1 Government Loans (amendment) addressed how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS.

- ✓ IFRS 7 Financial Instruments: Enhanced disclosure requirements related to offsetting of financial assets and financial liabilities.

- ✓ IFRS 10 Consolidated Financial Statements established principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The standard provided additional guidance on the process of determining possible control of an entity.

- ✓ IFRS 11 Joint Arrangements introduced core principles for determining the type of joint arrangement in which the party to the joint arrangement is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. The adoption of IFRS 11 did not result in any changes in the Company's accounting policies. Therefore, the Company's consolidated financial statements do not present any adjustment at the opening balance of the most recent comparative financial statements, or a third column at the financial position.

- ✓ IFRS 12 Disclosure of Interests in Other Entities required the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities as well as the effects of the interests on the financial position, performance and cash flow of the entity.

- ✓ IFRS 13 Fair Value Measurement: The fair value measurement requirements of IFRS 13 applied to both financial instrument items and non-financial instrument items for which other IFRS require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions within the scope of IFRS 2 and leases within the scope of IAS 17.

- ✓ IAS 19 Employee Benefits (amendment) eliminated the 'corridor method', streamlined the presentation of changes in assets and liabilities arising from defined benefit plans and enhanced the disclosure requirements arising from the standard.

- ✓ IAS 27 Consolidated and Separate Financial Statements was reissued and consolidation requirements previously stated in IAS 27 Consolidated and Separate Financial Statements have been revised and stated in IFRS 10 Consolidated Financial Statements.

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- ✓ IAS 28 Investments in Associates and Joint Ventures superseded IAS 28 Investments in Associates and provided consequential amendments to the standard in response to a new standard IFRS 11 Joint Arrangements.

- ✓ IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine introduced accounting treatment for stripping costs arising in the mining industry.

2.2. New and revised IFRS in issue but not yet effective

The Group has not applied the following new and revised standards and interpretations that have been issued but are not yet effective:

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

IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. This standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. A revised version of IFRS 9 established reviewed requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement. The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss - in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

The amendments to IAS 32 clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas: the meaning of 'currently has a legally enforceable right of set-off', the application of simultaneous realization and settlement, the offsetting of collateral amounts, the unit of account for applying the offsetting requirements.

IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies: (1) the liability is recognised progressively if the obligating event occurs over a period of time; and (2) if an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

The Group's management is in stage of evaluating the potential effects of these pronouncements and interpretations on its consolidated financial statements. However, based on the evaluations performed so far, management does not expect significant effects arising from the adoption of new accounting pronouncements and interpretations.

Atendimento Prisma

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 ("IFRSs"), as issued by the International Accounting Standards Board ("IASB").

3.2. Basis of preparation of combination and consolidation

Preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or 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 takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The principal accounting policies are set out below:

Combination

As described in Note 1, in May 2012, the Company's controlling shareholders completed a corporate restructuring resulting in Constellation becoming a wholly owned indirect subsidiary of QGOG Constellation. This corporate restructuring was accounted for at historical cost as QGOG Constellation and Constellation were under common management and control. For the years prior to the corporate reorganization, including the year ended December 31, 2012, the financial statements have been prepared by combining the historical financial statements of QGOG Constellation and the consolidated financial statements of Constellation and its subsidiaries.

Consolidation

The consolidated financial statements incorporate QGOG Constellation and the operations of Constellation Overseas and its subsidiaries.

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

Atendimento Prisma

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., functional currency). The functional currency of QGOG Constellation and the majority 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 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 companies' operations are located in Brazil and the majority of the operations are denominated in Brazilian reais. Consequently, in preparing these consolidated financial statements, Management has translated the financial statements of these companies 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.

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In preparing the consolidated financial statements, transactions in currencies other than the respective entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary and non-monetary items denominated in foreign currencies are retranslated at the 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. Reportable segments

Management has concluded that the Group operates in a single segment, the oil and gas drilling services segment. The Group operates in one geographical area, Brazil. Additionally, net revenue is mainly derived from transactions with one customer, Petrobras.

3.5. Current and non-current assets and liabilities

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

3.6. Inventories

Inventories refer basically to materials to be used in the rigs operations and are recorded at the lower of cost and net realizable value. Costs of inventories are determined by using the average cost.

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

All PP&E is carried at cost less accumulated depreciation. PP&E consists primarily of offshore and onshore drilling rigs and related equipment.

The equipment under construction is constructed by a third party shipyard and the related cost is recognised as PP&E cost, in accordance with the actual construction costs. A provision for corresponding unbilled costs from the shipyard and suppliers is recorded as an accrued liability.

Borrowing costs are capitalized on equipment under construction.

Repair and maintenance costs related to periodic overhauls of drilling units are capitalized, when the economic benefits associate with the item inflow to the Group and the cost can be reliable measured. These costs are depreciated over the period extending to the next overhaul. Related costs are comprised mainly of shipyard costs and the costs of employees directly involved in the related project. All other repairs and maintenance are charged to the statement of operations during the period in which they are incurred.

The carrying values of these assets are based on estimates, assumptions and judgments relating to capitalized costs, useful lives and residual values of the rigs. These estimates, assumptions and judgments reflect both historical experience and expectations regarding future industry conditions and operations. The Group computes depreciation using the straight-line method, taking into account the respective residual values of the related assets. When significant parts of an item of PP&E have different useful lives, those components are accounted for as separate items of PP&E. At the end of each year, the Group reviews the estimated useful lives and residual values of the PP&E.

Atendimento Prisma

3.8. Impairment of long-lived assets

Assets that are subject to depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount 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 reversal of the impairment at each balance sheet date.

Recoverable amounts are determined based on discounted cash flows calculations. These calculations require the use of estimates.

No impairment losses on long-lived assets have been recognised by the Group for the years presented.

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 an insignificant risk of changes in value.

3.10. Short-term investments

Consists primarily of short-term investments classified 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 the equity method of accounting, 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 (loss) of these investees. When the Group's share of losses of an investee exceeds the Group's interest in that investee (which includes any long-term interests that, in substance, 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 flow, 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. No impairment losses have been recognised on the Group's investments.

When a Group entity transacts with an investee, profit and losses resulting from the transactions with the investees are recognised in the QGOG Constellation's consolidated financial statements only to the extent of interests in the investees that are not related to the Group.

3.12. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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, taking into account the risks and uncertainties surrounding the obligation. Contingent risks assessed as "possible loss" are disclosed by Management but not recorded in a specific account.

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3.13. Revenue recognition

The charter and operation 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 drilling agreements include uptime bonus payments depending on performance criteria established in the respective agreements. The Company recognizes the bonus revenues in the same period in which 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 and personnel.

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

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

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.

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 in the income statement because it excludes revenues or expenses taxable or deductible in other years, and excludes non-taxable or non-deductible items. The provision for income tax and social contribution is calculated for each company 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 as probable.

3.16. Financial instruments

Financial assets and liabilities

The financial assets and liabilities are initially recognised at their 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 according to their classification, which is defined upon initial recognition based on the purposes for which they were acquired or issued, as described below:

Atendimento Prisma

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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 loan or financing), or designated upon initial recognition at fair value through profit and loss. Interest, monetary and exchange variation 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 cash equivalents, short-term investments and restricted cash in this category.

ii. Financial assets held to maturity: these include non-derivative financial instruments with fixed or determinable payments with defined maturities, for which the Group have 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 value, when applicable, and the variations are recognised in profit or loss as financial revenues or expenses, when incurred. 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 their amortised cost under the effective interest rate method. The interest, monetary and exchange variation, less losses in recoverable value, when applicable, are recognised in profit or loss as financial revenues or expenses, when incurred. For the years presented, the Group has bank deposits, trade receivables, receivables from related parties and other assets in this category.

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. 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. The Group has derivative financial instruments in this category.

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 variation, when applicable, are recognised in profit or loss when incurred. The Group has loans and financings, trade accounts payable, payables to related parties and other liabilities, which are classified in this category.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss are assessed for indicators of impairment 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 more than 12 months and it is not expected to be realized or settled within 12 months.

Further details on derivative financial instruments are disclosed in Note 18.

Hedge accounting

The Group designates certain derivative instruments used to protect against interest 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 loss. The gain or loss relating to the ineffective portion is recognised immediately in the statement of operations, and is included in the financial income/(expense) line item.

Amounts previously recognised in other comprehensive loss 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 combined 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 loss 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.

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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 loss 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 has expired.

4. CRITICAL ACCOUNTING ESTIMATES

In applying the accounting policies described in Note 3, Management must use judgement and develop estimates for the carrying values of assets and liabilities which are not easily obtainable from other sources. The estimates and associated assumptions are based on historical experience and other factors considered relevant. 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. Note 25 contain details of the main assumptions used to measure the fair values of financial instruments.

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

4.2. 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, 16 and 17, unless the loss probability is considered to be remote. A provision for claims and other obligations 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 these events is not within control of the Group 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.

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Certain conditions may exist as of the date the consolidated financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsels 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 Company or unasserted claims that may result in such proceedings, the Company'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 amount of the liability 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.

4.3. Useful lives of PP&E

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

A described in Note 3.7, at the end of each year, the Group reviews the estimated useful lives of PP&E and no significant changes on the consolidated financial statements were identified.

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4.4. Impairment of Long Lived Assets

Determining whether PP&E is impaired requires an estimation of the value in use of the related asset or cash-generating unit. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the related asset or cash-generating unit, a suitable discount rate in order to calculate present value and some other business and economic assumptions. No impairment losses on long-lived assets have been recognised by the Group.

4.5. Provision for employee profit sharing plan

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

4.6. Outcome of contract negotiations

In the normal course of business the Group engages in contracts with third parties which convey contractual obligations upon the Group. In the event of a contractual dispute, Management is required to exercise judgment in considering uncertainty in the outcome of negotiations, which may have a material impact on the assets and liabilities of the Group. Such circumstances are discussed in Note 16.

5. CONSOLIDATED ENTITIES AND INVESTMENTS

		Percentage of interest (%)			
		December 31,			
		2013		2012	
Consolidated entities	Place 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
Centaurus S.à.r.l. (“Centaurus”)	Luxembourg	100.00	-	100.00	-
Constellation Netherlands B.V.	Netherlands	100.00	-	100.00	-
Constellation Services Ltd. (“Constellation Services”)	British Virgin Islands	-	100.00	-	100.00
Constellation Overseas Ltd. (“Constellation Overseas”)	British Virgin Islands	-	100.00	-	100.00
Domenica S.A. (“Domenica”)	Paraguay	-	100.00	-	-
Dorgaly 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 C.V.	Netherlands	-	100.00	-	100.00
Positive Investments Management B.V.	Netherlands	100.00	-	100.00	-
QGOG Atlantic / Alaskan Rigs Ltd.	British Virgin Islands	-	100.00	-	100.00
QGOG Participações S.A.	Brazil	-	100.00	-	100.00
QGOG Star GmbH	Switzerland	100.00	-	100.00	-
Queiroz Galvão Óleo e Gás S.A. (“QGOG”)	Brazil		74.50		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
Tenfield Management Corp.	British Virgin Islands	-	100.00	-	100.00

Atendimento Prisma

Investments (equity accounted investees)

Entities	Place of incorporation	Percentage of interest (%) December 31, 2013 Direct	2013 Indirect	2012 Direct	2012 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 FPSO Capixaba's structure as detailed in Notes 11 and 12.
(2) These entities refer to FPSO Cidade de Paraty's structure as detailed in Notes 11 and 12.
(3) These entities refer to FPSO Cidade de Ilhabela's structure as detailed in Notes 1 and 12.
(4) These entities refer to FPSO Cidade de Maricá's structure as detailed in Note 1 and 12.
(5) These entities refer to FPSO Cidade de Saquarema's structure as detailed in Note 1 and 12.

The Group's investments in associates and joint ventures are accounted by the equity method in these consolidated financial statements (Note 12).

Atendimento Prisma

6. CASH AND CASH EQUIVALENTS

	December 31, 2013	2012
Cash and bank deposits	48,896	58,606
Cash equivalents	168,634	161,007
Total	217,530	219,613

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

The amounts of cash equivalents are presented below:

Cash equivalents	Financial Institution	Average interest rate (per annum)	December 31, 2013	2012
Time deposits	Itaú BBA Nassau	0.34%	89,967	127,567
Time deposits	Bradesco S.A. Grand Cayman	0.18%	78,667	32,500
Time deposits	Citibank	0.08%	-	940
Total			168,634	161,007

7. SHORT-TERM INVESTMENTS

	December 31, 2013	December 31, 2012
Time deposits	257,658	195,460
Bank deposits certificates	10,309	11,952
Repurchase agreements	15,432	5,766
Total	283,399	213,178

Short-term investments	Financial institution	Average interest rate (per annum)	December 31, 2013	December 31, 2012
Time deposits	HSBC Bank	0.04%	9,048	30,563
Time deposits	Citibank	0.03%	942	-
Time deposits	Itaú BBA Nassau	1.44%	94,336	123,600
Time deposits	ING Bank	0.10%	54,913	41,297
Time deposits	Bradesco Grand Cayman	0.88%	54,253	-
Time deposit	Banco do Brasil	1.20%	44,166	-
Bank deposit certificates	Banco do Nordeste - BNB	100% of CDI (*)	9,543	4,417
Bank deposit certificates	Banco do Brasil S.A.	98% of CDI (*)	766	4,428
Bank deposit certificates	Itaú S.A.	98% of CDI (*)	-	3,107
Repurchase agreements (**)	Itaú S.A.	100.5% of CDI (*)	-	1,339
Repurchase agreements (**)	Bradesco S.A.	99.88 % of CDI (*)	15,432	4,427
Total			283,399	213,178

(*) CDI - Interbank deposit certificate.

(**) Repurchase agreements are contracts in which the bank has a commitment to repurchase the asset back from the Group within a specified time limit.

Atendimento Prisma

8. RESTRICTED CASH

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

Since July 2012, cash added in these accounts is exclusively designated for debt payment and therefore, is presented as financing activity in the statement of cash flows (before that date, such amounts were used for operating expenditures payments and were presented as operating activity in the statement of cash flows). Cash generated from operations in excess of the required amount of the reserve account is free from use restrictions and is presented as cash and cash equivalents or short-term investments.

These accounts refer to the financing agreements related to the construction of Lone Star, Gold Star and Olinda Star offshore drilling rigs, as described in Note 14, with original maturity of less than one year.

The amounts in these accounts are presented below:

Restricted cash	Financial institution	Average interest rate (per annum)	December 31, 2013	2012
Time deposits	ING Bank	0.17%	38,674	25,483
Total			38,674	25,483

9. TRADE AND OTHER RECEIVABLES

	December 31, 2013	2012
Trade receivables	90,941	129,330
Total	90,941	129,330

Trade receivables are mainly related to receivables from Petrobras for charter and services relating to onshore and offshore drilling rigs and drillships used in the exploration of oil and natural gas in Brazil. Historically, there have been no defaults on receivables or delays in collections and consequently, the Group has not recorded an allowance for doubtful accounts for the periods presented. The average collection period is of approximately 30 days. See credit risks in Note 25.

The decrease in trade receivables is mainly represented by the reimbursement in 2013 of State Value-Added Tax ("State VAT" - ICMS) charged in 2012 on the importation of Amaralina and Laguna drillships, in the amounts of US$18,551 and US$18,357, respectively.

Atendimento Prisma

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 statement of operations are accounted as costs of services in the account "Materials", as disclosed in Note 21.

Atendimento Prisma

11. RELATED PARTY TRANSACTIONS

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

The consolidated related party balances as of December 31, 2013 and 2012 and transactions for the years then ended are as follows:

	2013			2012		
	Assets	Liabilities	Income/ (expenses)	Assets	Liabilities	Income/ (expenses)
Delba [a]	235,914	229,833	3,937	212,366	210,222	2,144
FPSO Cidade de Paraty [b]	3,336	-	891	30,443	-	4,750
QG S.A. [c]	-	3,426	(5,321)	-	11,943	(7,735)
FPSO Capixaba [d]	890	-	10	880	-	11
Espírito do Mar [e]	3,975	-	210	3,765	-	198
Sete Brasil [f]	1,053	-	8,807	-	571	1,553
SBM Holding Inc. [g]	-	-	1,196	-	-	4,176
Others	339	56	353	377	64	485
Total	245,507	233,315	10,083	247,831	222,800	5,582
Total current	8,011	10,302		195	12,007	
Total non-current	237,496	223,013		247,636	210,793	

Atendimento Prisma

(a) In 2010, Constellation and Delba signed shareholders and loan agreements in order to construct, charter and operate two drillships for Petrobras, the Amaralina Star and the Laguna Star, through Constellation's 55% interest in each of Amaralina Star Ltd. ("Amaralina" - former Bulzow Capital Inc.) and Laguna Star Ltd. ("Laguna" - former Guildford Projects Corp.), the remaining 45% of these companies shares being held by Delba.

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

The receivables from Delba refer to the loans receivable which bear interest at 12% p.a., annually compounded, up to the sixth anniversary of the sub-charter contract with Petrobras. Thereafter, the loans receivable will bear interest at 13% p.a., annually compounded. Repayment of interest and principal is scheduled to occur quarterly as from 1 year after the "Date of Acceptance" of the drillships by Petrobras, with the principal being repayable in equal quarterly installments over the six-year term of the Petrobras charter contract, starting from the "Date of Acceptance", since Amaralina and Laguna comply with the financing agreement conditions to pay dividends. The amounts payables refer to intercompany loans provided by Delba to Amaralina and Laguna with the same terms and conditions of Constellation's receivable amounts from Delba.

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

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

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

The Group charges Delba a fee for being the guarantor of Amaralina Star and Laguna Star project financings and a fee for being the guarantor for importations under the Special Regime of Temporary Admission ("REPETRO"). For the year ended December 31, 2013, the fees charged to Delba totaled US$3,937.

Non-compliance with the contracts between Delba and Constellation could result in penalties to either entity. As of December 31, 2013, the Group was in compliance with the requirements of the respective contracts.

(b) The Group signed a shareholders' agreement with its partners to regulate their relation in the companies that will construct, charter and operate the FPSO Cidade de Paraty for Petrobras. As of December 31, 2013 loans receivable amounting to US$3,336 (US$30,443 as of December 31, 2012) refer to milestone payments made by Constellation in proportion to its participation in the referred FPSO.

During 2013, the Company received the amount of US$27,993 in connection with the payment made by Petrobras and with the final drawdown of the financing contracted to fund the equipment construction. The loan bears interest rate at LIBOR plus 3% p.a., with no maturity date.

(c) The payable amount of US$3,426 is related to the fee charged by QG S.A., an entity under common control with the Group, for being the guarantor for importations under the REPETRO. The amount of US$11,943 as of December 31, 2012 was comprised by US$5,578 related to the fee charged by QG S.A. for being the guarantor for importations under the REPETRO and US$6,365 which refers to the fee charged by QG S.A. for being guarantor of part of the Company's subsidiaries' loans and financings (such guarantees ceased in 2012).

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

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

(f) On August 3, 2012, Angra signed three shareholders' agreements in which the Company acquired a 15% equity interest in three SPEs, each one owning an ultra-deepwater semi-submersible rig (Urca, Bracuhy and Mangaratiba) in partnership with Sete Brasil. In the same day, the partnership signed charter agreements of these assets with Petrobras. The receivable amount of US$1,053 and the income of US$8,807 refer to the fee charged by the Company related to the equipment's project management.

(g) Refers to the payment made by SBM to Arazi, a wholly-owned subsidiary of the Company, in connection with the terms which regulates the relationship of these entities as shareholders of SBM Espírito do Mar Inc. and Capixaba Venture S.A..

Key management personnel remuneration is presented below:

	2013	2012
Key management personnel compensation [1]	10,704	11,573

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

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

The cash compensation for each member of senior management is mainly comprised of base salary and bonus. The compensation that is paid to senior management is evaluated on an annual basis considering the following primary factors: individual performance during the prior year, market rates and movements and the individual's anticipated contribution to the Group growth. Members of senior management are also eligible to participate in the Group's retirement savings plans (Note 27).

Atendimento Prisma

12. INVESTMENTS

Atendimento Prisma

December 31, 2013

	Associates					Joint Ventures					
	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Urca Drilling B.V. (4)	Bracuhy Drilling B.V. (4)	Mangaratiba Drilling B.V. (4)	Tupi Nordeste S.à.r.l.	Tupi Nordeste Ltd.	Guará Norte S.à.r.l. (5)	Guará Norte Ltd. (5)	Alfa Lula Alto S.à.r.l. (5)	Beta Lula Central S.à.r.l. (5)
Number of shares (thousands)	100	100	90	90	90	20	12	50,200	12	65,200	65,200
Ownership interest (%)	20.00%	20.00%	15.00%	15.00%	15.00%	20.00%	20.00%	12.75%	12.75%	5.00%	5.00%
Authorized share capital	82	88	€90k	€90k	€90k	16,020	12	50,200	12	65,200	65,200
Current assets	1,334	(312)	91,758	816	416	241,145	7,037	30,627	296	90	87
Non-current assets	2,420	287,523	458,191	101,808	90,996	1,148,299	3,361	1,448,943	-	591,835	437,557
Current liabilities	16,613	71,605	402,859	32,136	493	156,326	11,280	12,829	-	-	-
Non-current liabilities	12,311	77,392	93,903	63,766	83,903	932,148	1,854	1,004,337	266	147,900	109
Shareholders' equity (deficit)	(25,170)	138,214	53,187	6,722	7,016	300,970	(2,736)	462,404	30	444,025	437,535

December 31, 2012

	Associates					Joint Ventures	
	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Urca Drilling B.V. (4)	Bracuhy Drilling B.V. (4)	Mangaratiba Drilling B.V. (4)	Tupi Nordeste S.à.r.l.	Guará Norte S.à.r.l. (5)
Number of shares (thousands)	100	100	90	90	90	20	50,200
Ownership interest (%)	20.00%	20.00%	15.00%	15.00%	15.00%	20.00%	12.75%
Authorized share capital	82	88	€90k	€90k	€90k	16,020	50,200
Current assets	340	29,090	1,129	626	647	209	657
Non-current assets	9,150	324,057	249,108	34,001	33,980	1,195,867	652,583
Current liabilities	7,543	65,047	85,459	31	31	133,982	27,030
Non-current liabilities	11,395	148,567	136,671	28,666	28,663	1,007,307	415,605
Shareholders' equity (deficit)	(9,448)	139,533	28,107	5,930	5,933	54,787	210,605

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

Investees comprehensive income (loss) for the year ended December 31, 2013

	Associates					Joint Ventures					
	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Urca Drilling B.V. (4)	Bracuhy Drilling B.V. (4)	Mangaratiba Drilling B.V. (4)	Tupi Nordeste S.à.r.l.	Tupi Nordeste Ltd.	Guará Norte S.à.r.l. (5)	Guará Norte Ltd. (5)	Alfa Lula Alto S.à.r.l. (5)	Beta Lula Central S.à.r.l. (5)
Net income (loss)	(15,720)	29,427	170	518	530	197,926	(2,727)	-	23		
Other comprehensive income	-	-	-	-	-	48,257	-	52,157	-		
Total comprehensive income (loss)	(15,720)	29,427	170	518	530	246,183	(2,727)	52,157	23		

Investees comprehensive income (loss) for the year ended December 31, 2012

	Associates					Joint Ventures			
	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Urca Drilling B.V. (4)	Bracuhy Drilling B.V. (4)	Mangaratiba Drilling B.V. (4)	Tupi Nordeste S.à.r.l.	Tupi Nordeste Ltd.	Guará Norte S.à.r.l. (5)	Guará Norte Ltd. (5)
Net income (loss)	(2,223)	24,628	(2,950)	(639)	(636)	(74)	-	(56)	-
Other comprehensive loss	-	-	-	-	-	(102,659)	-	(21,797)	-
Total comprehensive income (loss)	(2,223)	24,628	(2,950)	(639)	(636)	(102,733)	-	(21,853)	-

Atendimento Prisma

Changes in investments

	Asset (liability) balance as of December 31, 2012	Capital contributions (2)	Dividends received	Share of results	Share of comprehensive income	Asset (liability) balance as of December 31, 2013
Associates						
FPSO Capixaba Venture S.A.	(1,891)	-	-	(3,144)	-	(5,035)
SBM Espírito do Mar Inc.	27,906	-	(6,148)	5,885	-	27,643
Urca Drilling B.V. (4)	4,216	3,736	-	26	-	7,978
Bracuhy Drilling B.V. (4)	890	40	-	78	-	1,008
Mangaratiba Drilling B.V. (4)	890	82	-	80	-	1,052
Joint ventures						
Tupi Nordeste S.à.r.l. (3)	10,957	-	-	39,585	9,652	60,194
Tupi Nordeste Ltd.	-	3	-	(550)	-	(547)
Guará Norte S.à.r.l. (5)	26,854	25,454	-	-	6,650	58,958
Guará Norte Ltd. (5)	-	2	-	2	-	4
Alfa Lula Alto S.à.r.l. (5)	-	22,168	-	-	-	22,168
Beta Lula Central S.à.r.l. (5)	-	21,844	-	-	-	21,844
Total	69,822	73,329	(6,148)	41,962	16,302	195,267
Total assets (investments)	71,713					200,850
Total liabilities (accumulated deficit in investments) (1)	(1,891)					(5,582)

	Asset (liability) balance as of December 31, 2011	Capital contributions (2)	Share of results	Share of comprehensive income	Asset (liability) balance as of December 31, 2012
Associates					
FPSO Capixaba Venture S.A.	(1,446)	-	(445)	-	(1,891)
SBM Espírito do Mar Inc.	22,981	-	4,925	-	27,906
Urca Drilling B.V. (4)	-	4,659	(443)	-	4,216
Bracuhy Drilling B.V. (4)	-	985	(95)	-	890
Mangaratiba Drilling B.V. (4)	-	985	(95)	-	890
Joint ventures					
Tupi Nordeste S.à.r.l.	-	31,504	(15)	(20,532)	10,957
Guará Norte S.à.r.l. (5)	-	29,640	(7)	(2,779)	26,854
Total	21,535	67,773	3,825	(23,311)	69,822
Total assets (investments)	22,981				71,713
Total liabilities (accumulated deficit in investments) (1)	(1,446)				(1,891)

Atendimento Prisma

(1) The liability to fund deficit in FPSO Capixaba Venture S.A. and Tupi Nordeste Ltd. are recognised in "Other current liabilities".

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

(3) FPSO Cidade de Paraty started its operations in June 2013. Tupi Nordeste S.à.r.l. classified its charter agreement with Petrobras as a financial lease agreement. Included in the amount of US$39,585 there is a gain of US$32,571 that corresponds 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 the statement of operations.

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

(5) The Group jointly controls the entities of the FPSOs Cidade de Ilhabela, Cidade de Maricá and Cidade de Saquarema structures with its partners since all the major financial and operational decisions require the unanimous approval of the Directors and Managers, and or the shareholders of these entities. The Group has the right to appoint one of five Managers in Luxembourg entities and one of four Directors in Bermuda entities. According to the shareholders agreement, the meetings of the Board of Managers and Board of Directors of Luxembourg and Bermuda entities, respectively, must have a quorum comprised by at least one Manager or one Director appointed by each shareholder, which means that the Manager or Director appointed by Arazi and or Lancaster must be present. The Group participates actively in the operation's organization and execution by seconding personnel to the operating management team in agreed positions.

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

- Capixaba's core business is to support operations for contracts in the offshore oil and gas industry. Since March 16, 2007, this company is a shareholder of a Brazilian company which operates the FPSO Capixaba unit, currently located off the Brazilian coast and chartered to Petrobras until 2022.
- Espírito do Mar owns the FPSO Capixaba and its main activity is to support charter contracts in the offshore oil and gas industry.
- Urca Drilling B.V. owns the Urca semi-submersible drilling rig, which operation is expected to commence in 2016. This drilling rig will be equipped to operate in pre-salt water depths. Upon its construction completion and acceptance by Petrobras, Urca will be chartered to Petrobras until 2031. QGOG will be the sole operator of this offshore drilling rig. As of December 31, 2013 the Group's main capital commitments for the conclusion of Urca drilling rig construction amounts to US$21 million, corresponding to the ownership interest percentage in this associate.
- Bracuhy Drilling B.V. owns the Bracuhy semi-submersible drilling rig, which operation is expected to commence in 2018. This drilling rig will be equipped to operate in pre-salt water depths. Upon its construction completion and acceptance by Petrobras, Bracuhy will be chartered to Petrobras until 2033. QGOG will be the sole operator of this offshore drilling rig. As of December 31, 2013 the Group's main capital commitments for the conclusion of Bracuhy drilling rig construction amounts to US$28 million, corresponding to the ownership interest percentage in this associate.
- Mangaratiba Drilling B.V. owns the Mangaratiba semi-submersible drilling rig, which operation is expected to commence in 2019. This drilling rig will be equipped to operate in pre-salt water depths. Upon its construction completion and acceptance by Petrobras, Mangaratiba will be chartered to Petrobras until 2034. QGOG will be the sole operator of this offshore drilling rig. As of December 31, 2013 the Group's main capital commitments for the conclusion of Mangaratiba drilling rig construction amounts to US$28 million, corresponding to the ownership interest percentage in this associate.

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

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

- Guará Norte S.à.r.l.'s main activity is to act as a sub-charter party in the contracts in the offshore oil and gas industry. The Company owns the FPSO Cidade de Ilhabela, which will operate off the Brazilian coast being chartered to Petrobras for 20 years. The expected date for the start of the operations is in late third quarter or early fourth quarter of 2014. As of December 31, 2013 the Group's main capital commitments for the conclusion of the construction of the FPSO Cidade Ilhabela, is in the amount of US$13 million, corresponding to the ownership interest percentage in this joint venture.
- Guará Norte Ltd.'s core business is to support operations for contracts in the offshore oil and gas industry. This company is a shareholder of a Brazilian company which will operate the FPSO Cidade de Ilhabela unit to Petrobras for 20 years.

  Additionally, the Group has a participation of 12.75% in Guará Norte S.à.r.l. and Guará Norte Ltd. and has the right to acquire an additional participation of 12.75% in both entities from SBM within fifteen days of the FPSO final acceptance, based on the capital invested by SBM plus interest of 8% p.a.
- Alfa Lula owns the FPSO Cidade de Maricá, which is expected to be delivered and start its operations in the fourth quarter of 2015. On July 12, 2013, the Company entered into a 20-year contract to charter the FPSO Cidade de Maricá with the Consortium BM-S-11. As of December 31, 2013, the Group's main capital commitment for the conclusion of the FPSO Cidade de Maricá construction amounts to US$12 million, corresponding to the ownership interest percentage in the partnership.
- Beta Lula owns the FPSO Cidade de Saquarema, which is expected to be delivered in the fourth quarter of 2015 and start its operations in the first quarter of 2016. On July 12, 2013, the Company entered into a 20-year contract to charter the FPSO Cidade de Saquarema with the Consortium BM-S-11. As of December 31, 2013, the Group's main capital commitment for the conclusion of the FPSO Cidade de Saquarema construction amounts to US$11 million, corresponding to the ownership interest percentage in the partnership.

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

Partnership with SBM Holdings Inc. – Contingent Liability

SBM Offshore N.V. ("SBM Offshore"), the parent company of SBM Holding Inc. ("SBM"), one of QGOG Constellation's partners in associates and joint ventures investments[(1)], announced through a press release on April 10, 2012 that it had become aware of certain sales practices involving third parties which may have been improper. An internal investigation had been carried out since 2012 by outside legal counsel and forensic accountants. The internal investigation was focused on the use of agents over the period 2007 through 2011. On April 2, 2014, SBM Offshore announced that such investigation was completed. The announcement confirms that there were commissions payments to an agent in Brazil amounting to US$139.1 million and certain red flags, but the investigations did not find any credible evidence that the agent made improper payments to government officials (including state company employees) in Brazil. Furthermore, the internal investigation found evidence that the agent provided substantial and legitimate services to SBM Offshore. SBM Offshore also informed that has reported this investigation to the Dutch Openbaar Ministerie and the U.S. Department of Justice.

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

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

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

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13. PROPERTY, PLANT AND EQUIPMENT

	Equipment under construction	Equipment in operation										
		Amaralina Star drillship	Laguna Star drillship	Alaskan Star Rig	Atlantic Star Rig	Alpha Star Rig	Gold Star Rig	Lone Star Rig	Olinda Star Rig	Onshore drilling rigs, equipment and bases	Corporate	Total
Cost												
Balance as of December 31, 2011	966,846	-	-	378,708	334,568	718,636	536,701	639,844	531,137	170,837	29,511	4,306,788
Additions	260,276	10,085	49,988	556	569	2,571	439	577	516	6,614	1,706	333,897
Advances to suppliers	61,283	-	-	-	-	-	-	-	-	-	-	61,283
Disposals	-	-	-	(1,052)	(49)	-	-	-	(64)	-	(309)	(1,474)
Transfers	(1,227,122)	630,026	597,096	-	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	-	-	-	-	(7,689)	(1,282)	(8,971)
Balance as of December 31, 2012	61,283	640,111	647,084	378,212	335,088	721,207	537,140	640,421	531,589	169,762	29,626	4,691,523
Additions	175,773	911	3,009	268	154	27	809	75	730	5,966	1,891	189,613
Disposals	-	(1,587)	(1,835)		(50)	(20)	-	(19)		-	(682)	(4,193)
Currency translation differences	-	-	-	-	-	-	-	-	-	(11,626)	(2,004)	(13,630)
Balance as of December 31, 2013	237,056	639,435	648,258	378,480	335,192	721,214	537,949	640,477	532,319	164,102	28,831	4,863,313
Accumulated depreciation												
Balance as of December 31, 2011	-	-	-	(50,782)	(51,929)	(16,271)	(45,758)	(24,894)	(59,019)	(51,019)	(14,515)	(314,187)
Depreciation	-	(6,535)	(2,219)	(16,731)	(15,450)	(33,232)	(22,881)	(32,907)	(22,816)	(12,983)	(2,518)	(168,272)
Disposals	-	-	-	-	-	-	-	-	-	-	217	217
Currency translation differences	-	-	-	-	-	-	-	-	-	3,865	449	4,314
Balance as of December 31, 2012	-	(6,535)	(2,219)	(67,513)	(67,379)	(49,503)	(68,639)	(57,801)	(81,835)	(60,137)	(16,367)	(477,928)
Depreciation	-	(26,018)	(26,193)	(16,561)	(14,953)	(25,926)	(20,122)	(25,033)	(22,532)	(12,394)	(1,885)	(191,617)
Disposals	-	-	-	-	-	-	-	-	-	-	534	534
Currency translation differences	-	-	-	-	-	-	-	-	-	6,523	809	7,332
Balance as of December 31, 2013	-	(32,553)	(28,412)	(84,074)	(82,332)	(75,429)	(88,761)	(82,834)	(104,367)	(66,008)	(16,909)	(661,679)
Property, plant and equipment, net												
December 31, 2012	61,283	633,576	644,865	310,699	267,709	671,704	468,501	582,620	449,754	109,625	13,259	4,213,595
December 31, 2013	237,056	606,882	619,846	294,406	252,860	645,785	449,188	557,643	427,952	98,094	11,922	4,201,634
Average useful life (years)		25	25	23	22	28	27	26	24	15	15	

The detailed cost of equipment under construction is as follows:

	Equipment under construction (Drillships)
Cost	
Balance as of December 31, 2011	966,846
Additions	260,276
Advances to suppliers	61,283
Transfers (*)	(1,227,122)
Balance as of December 31, 2012	61,283
Additions	175,773
Balance as of December 31, 2013	237,056

(*) The construction of Amaralina Star and Laguna Star was concluded on July and September 2012, respectively. Amaralina Star and Laguna Star started their operations in September and November 2012, respectively.

As of December 31, 2013 the balance of equipment under construction refers to the costs incurred in the Brava Star construction, which total construction project cost (without an estimate of capitalized interest) is of approximately US$660 million, as described in Note 1. As of December 31, 2013 the unbilled costs by the shipyard and other suppliers amounts to US$42,920. The Company recognised these costs in PP&E against a provision recognized in accrued liabilities (Note 15).

Borrowing costs capitalized in PP&E for the years ended December 31, 2013 and 2012 amounted to US$6,778 and US$100,380, respectively (Note 28).

Borrowing costs are capitalized using the effective interest rates of each financing agreement described in Note 14.

The Group’s assets which are pledged as security for financing are also described in Note 14.

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14. LOANS AND FINANCINGS

Financial institution	Funding type	Objective	Beginning period	Maturity	Contractual interest rate	Effective interest rate	Currency	December 31, 2013	December 31, 2012
Banco do Brasil	Loan	Working capital	Sept, 2012	Aug, 2013	2.75%p.a.	2.75%p.a.	U.S. dollar	-	124,089
Bradesco	Loan	Working capital	Aug, 2013	Aug, 2014	2.52%p.a.	2.52%p.a.	U.S. dollar	124,066	-
ING (leader arranger)	Financing	Gold Star rig construction[1]	Jul,2007	Dec,2017	Libor+1.15%p.a. to Libor+1.35%p.a.[2]	1.42%p.a.	U.S. dollar	244,707	278,489
ING (leader arranger)	Financing	Lone Star rig construction[3]	Jul,2007	Jan,2015	Libor+1.15%p.a.	1.42%p.a.	U.S. dollar	193,429	281,621
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	472,591	569,287
ING (leader arranger)	Financing	Olinda Star rig construction	Feb,2008	Jul,2014	Libor+1.40%p.a.	1.67%p.a.	U.S. dollar	93,616	151,276
Citibank and Santander (joint leader arrangers)	Financing	Alpha Star rig construction	Apr,2011	Jul,2017	Libor+2.50%p.a.	3.51%p.a.	U.S. dollar	393,741	454,178
BNP, Citi and ING (leader arrangers) and The Norwegian Ministry of Trade and Industry ("MTI")	Financing	Amaralina Star drillship construction	May,2012	Oct,2018[4]	Libor+2.75%	4.46%p.a.	U.S. dollar	392,702	419,222
BNP, Citi and ING (leader arrangers) and The Norwegian Ministry of Trade and Industry ("MTI")	Financing	Laguna Star drillship construction	May,2012	Dec,2018[4]	Libor+2.75%	4.66%p.a.	U.S. dollar	398,221	449,474
HSBC, BAML and Citibank (joint bookrunners)	Senior Unsecured Notes ("Corporate Bond")	Prepay working capital loans	Nov, 2012	Nov, 2019	6.25%p.a.	6.68%p.a.	U.S. dollar	690,185	687,911
						Total		3,003,258	3,415,547
						Current		609,896	567,847
						Non-current		2,393,362	2,847,700

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

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

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

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

Changes in loans and financings

	2013	2012
Balance as of January 1,	3,415,547	2,440,522
Additions	148,679	1,900,261
Repayment of principal	(569,505)	(898,286)
Transaction cost	-	(29,231)
Debt discount	-	(9,716)
Interest capitalized	6,778	15,683
Interest charged through profit and loss	115,576	88,236
Payment of interest	(124,666)	(98,315)
Transaction cost charged through profit and loss	8,542	5,114
Debt discounts charged through profit and loss	2,307	1,279
Balance as of December 31,	3,003,258	3,415,547

Loans and financings long term amortization schedule

For the years ending December 31,	Loans and financing	Transaction costs	Debt discounts	Net amount
2015	422,246	(7,095)	(1,947)	413,204
2016	340,728	(6,329)	(1,751)	332,648
2017	494,581	(5,008)	(1,596)	487,977
2018	467,434	(3,431)	(1,455)	462,548
2019	700,000	(1,824)	(1,191)	696,985
Total	2,424,989	(23,687)	(7,940)	2,393,362

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Covenants

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

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

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

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

Guarantees

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

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

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

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15. ACCRUED LIABILITIES

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

	December 31, 2013
Equipment under construction:	
Brava Star drillship	42,920
Total	42,920

16. PROVISIONS

In the normal course of its business the Group engages in contracts with third parties which convey contractual obligations. The Group recognises provisions for contractual penalties which are more likely than not to be payable with respect to certain of its contracts. As of December 31, 2013 and 2012 the amount of US$7,525 corresponds to the contractual penalties of Amaralina Star and Laguna Star, for which management does not expect the payable amount materially differ from the estimate.

17. PROVISION FOR CONTINGENCIES

Labor, civil and tax claims

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

During the normal course of its business activities, the Company has received labor and tax claims. Regarding each claim or exposure, Management has made an assessment of the probability that the matter resolution would ultimately result in a loss. Therefore, based on such assessment a provision to cover the probable losses arising from labor claims was recorded. As of December 31, 2013 and 2012 the provisions for labor lawsuits included in "other non-current liabilities" are mainly related to hardship and retirement.

Changes in the loss provision for labor claims are as follows:

	2013	2012
Balance as of January 1,	935	152
Additions	126	908
Reversals	(8)	(175)
Currency translation differences	(129)	50
Balance as of December 31,	924	935

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b) Claims assessed as possible losses by Management

Based on the in-house counsel and external legal advisors' opinions, these claims are not accrued in the consolidated financial statements and consist of labor lawsuits (comprised mainly by compensation due to work related accidents and occupational diseases) in the amount of US$15,268 (US$8,392 as of December 31, 2012) and tax lawsuits in the amount of US$5,378 (US$22,511 as of December 31, 2012).

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

1) QGOG received a Notice of Violation issued by the Brazilian tax authorities related to the importation of the Atlantic Star offshore drilling rig consisting of: (i) the lack of an appropriate importation license of the related offshore drilling rig under the REPETRO and (ii) error in filling out the import documents. As of December 31, 2012, the estimated amount involved was US$19,161.

On April 25, 2013, QGOG was notified of the decision in second administrative instance regarding this Notice of Violation. The decision was as follows: (i) exclude the fine in the percentage of 30% of the total amount of the Atlantic Star offshore drilling rig related to the lack of an appropriate importation license under the REPETRO; and (ii) uphold the fine in the percentage of 1% of the total amount of the Atlantic Star offshore drilling rig related to an error in filling out the import documents.

The Brazilian tax authorities did not appeal on the decision and, therefore, on May 29, 2013 the Company paid the amount of US$628 to settle the debt.

2) QGOG received a Notice of Violation issued by the Rio de Janeiro tax authorities due to nonpayment of ISS in the city of Rio de Janeiro. QGOG argues, on appeal, that the operations tax jurisdiction was carried out in other places and in these collected taxes (ISS due to the site of the service provider). As of December 31, 2013, the estimated involved amount is US$4,553 (US$2,909 in December 31, 2012).

c) Tax, labor and social security matters

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

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18. DERIVATIVES

Under the terms of the Project Finance arrangements (Note 14), the Group is contractually required to manage its risk on floating interest rates by taking out variable-to-fixed interest rate swaps on its long term variable rate loans. Accordingly, the interest rate swaps contracted by Management convert the variable component of interest rates to fixed rates ranging from 1.930% to 5.165% to mitigate such risk. The floating component of interest rate of all derivatives contracts is US$ LIBOR.

These swaps protect the Group from fluctuations in interest rates. As of December 31, 2013, the Group has interest rate swaps related to the loans funding Olinda Star, Gold Star, Lone Star, and Alpha Star offshore rigs, and Amaralina Star and Laguna Star drillships. The swap contracts cover the expected periods of the loans and terminate between 2013 and 2018.

<u>Information on derivative contracts</u>

Interest rate swaps US$ LIBOR/Pre-fixed rate

Financial institution	Loans and financings objective	Payable leg interest rate	Maturity	Notional amount Dec 31, 2013	Notional amount Dec 31, 2012	Fair value Dec 31, 2013	Fair value Dec 31, 2012
ING financing (leader arranger)	Gold Star rig construction	5.165% p.a.	Jul, 2017	203,218	248,660	19,072	30,452
ING financing (leader arranger) (*)	Lone Star rig construction	5.165% p.a.	Jan, 2015	184,061	267,499	5,600	15,497
ING financing (leader arranger)	Olinda Star rig construction	3.973% p.a.	Dec, 2013	-	118,422	-	3,935
Citibank and Santander financing (joint leader arranger) (*)	Alpha Star rig construction	1.930% p.a.	Jul, 2017	397,919	459,866	10,588	19,263
BNP, Citibank and ING financing (joint leader arranger) (**)	Amaralina Star drillship construction	2.815% p.a.	Oct, 2018	403,556	472,711	20,863	36,851
BNP, Citibank and ING financing (joint leader arranger) (**)	Laguna Star drillship construction	2.900% p.a.	Dec, 2018	409,644	471,152	22,266	42,362
					Total amount	78,389	148,360
					Current liabilities	40,810	56,126
					Non-current liabilities	37,579	92,234

	2013	2012
Balance as of January 1,	148,360	133,710
Fair value adjustments through profit and loss	(7,234)	35,732
Fair value adjustments through other comprehensive income (loss)(*)	(3,924)	28,607
Settlements	(58,813)	(49,689)
Balance as of December 31,	78,389	148,360

(*) The Group has adopted the hedge accounting as from July 15, 2011, using derivative contracts related to Amaralina Star and Laguna Star drillships construction. Additional information on these instruments is included in Note 25. Accordingly, the effect of the changes in the fair value of these derivative contracts were recorded in "Other Comprehensive Income/(Loss)" until the completion of its construction and the disbursement of the Project Financing (Note 14). At the completion date of construction of each equipment, the fair value adjustments balance recognised in "Other Comprehensive Income/(Loss)" were capitalized.

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

Derivative contracts designated as cash flow hedges

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

In connection with the Project Financing (Note 14) for the construction of Amaralina Star and Laguna Star drillships, the Group has a contractual commitment with the same financial institutions to contract derivatives as hedging instrument of the debt in relation to changes in LIBOR. Accordingly, the Group has swap contracts in connection with the rates, spreads, notional, terms and debt cash flows. The swap contracts were contracted on July 2011 and follow the Project Financing terms.

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

Interest rate swaps US$ LIBOR/Pre-fixed rate

				Notional amount		Fair value	
Financial institution	Loans and financings objective	Payable leg interest rate	Maturity	Dec 31, 2013	Dec 31, 2012	Dec 31, 2013	Dec 31, 2012
BNP, Citibank and ING financing (joint leader arrangers)	Amaralina Star drillship construction	2.815%p.a.	Oct, 2018	403,556	472,711	20,863	36,851
BNP, Citibank and ING financing (joint leader arrangers)	Laguna Star drillship construction	2.900%p.a.	Dec, 2018	409,644	471,152	22,266	42,362

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19. SHAREHOLDERS’ EQUITY

Share capital

The Company’s original share capital was US$58 (equivalent to historical value of €40 thousand) represented by 1,200,000 ordinary shares with a par value of €0.03 each, subscribed by Orangefield Trust (Luxembourg) S.A.. As of August 30, 2011, 1,200,000 shares were issued and fully paid.

In May 2012, in connection with the corporate reorganization, QGOG Constellation changed its share capital from €40 thousand represented by 1,200,000 ordinary shares, to US$50 represented by 150,000 ordinary shares. On the same date, in exchange for the contribution of Constellation in the amount of US$130,987, QGOG Constellation issued 166,747,338 ordinary shares with a nominal per share value of US$0.33, representing an exchange ratio of one ordinary share of QGOG Constellation for each share of Constellation. The remaining amount of the Constellation’s contribution, US$75,405, was recorded as share premium.

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

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

Members of the Queiroz Galvão family continue to be the indirect controlling shareholders of the Company through QGOG International.

		Rights over the amounts [2]		
Shareholders	Ordinary shares [1]	Capital	Share premium	Total
Queiroz Galvão Oil & Gas International S.à.r.l	140,293,142	46,857	568,328	615,185
Constellation Coinvestment S.à.r.l.	15,570,123	5,200	63,075	68,275
Constellation Holding S.à.r.l.	17,739,099	5,925	71,861	77,786
CGPE VI L.P.	303,125	101	1,228	1,329
CIPEF VI QGOG S.à.r.l.	15,321,875	5,117	62,069	67,186
Total as of December 31, 2013	189,227,364	63,200	766,561	829,761

(1) Considers the one-for-three forward share split and share dividend approved in the Company’s general shareholders meeting on January 29, 2013.

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

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

The Company's ultimate controlling party is the Queiroz Galvão family, who controls the direct parent company QGOG International.

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

Share Split

On January 29, 2013, the Company's shareholders approved a one-for-three forward share split of QGOG Constellation's common shares, immediately converting all of the Company's shares to shares with no par value. All references to common share values in these consolidated financial statements have been retroactively adjusted to reflect this forward split.

Share Dividend

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

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Legal reserve

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

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

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

For the year ended December 31, 2013 the Company's individual accounts presents loss and, therefore, the Company has not allocated legal reserve.

Dividends policy

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

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

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

Other Comprehensive Items (OCI)

Cash flow hedging reserve

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

Foreign currency translation adjustments reserve

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

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Changes in Other Comprehensive Items

Changes in comprehensive income for the years ended December 31, 2013 and 2012 are as follows:

	Cash flow hedges fair value adjustments					
	Attributable to owners of the Group	Attributable to non-controlling interests	Total cash flow hedges fair value adjustments	Share of cash flow hedges adjustments of investments	Foreign currency translation adjustments	Total
Balances as of December 31, 2011	(27,454)	(22,462)	(49,916)	-	22,132	(27,784)
Fair value adjustment on derivative contracts	(15,734)	(12,873)	(28,607)	-	-	(28,607)
Amounts transferred to PP&E	46,583	38,114	84,697	-	-	84,697
Fair value adjustment on joint ventures' derivative contracts	-	-	-	(23,311)	-	(23,311)
Exchange differences arising during the year	-	-	-	-	(3,700)	(3,700)
Balances as of December 31, 2012	3,395	2,779	6,174	(23,311)	18,432	1,295
Fair value adjustment on derivative contracts	2,158	1,766	3,924	-	-	3,924
Fair value adjustment on joint ventures' derivative contracts	-	-	-	16,302	-	16,302
Exchange differences arising during the year	-	-	-	-	(6,195)	(6,195)
Balances as of December 31, 2013	5,553	4,545	10,098	(7,009)	12,237	15,326

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Non-controlling interests

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

Profit per share

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

	2013	2012
Profit attributable to the owners of the Company	306,319	131,558
Weighted average number of ordinary shares for calculation purposes (thousands of shares) (*)	176,539	170,477
Basic and diluted profit per share	1.74	0.77

(*) Considers the one-for-three forward share split and share dividend approved in the Company's general shareholders meeting on January 29, 2013.

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

20. NET OPERATING REVENUE

The Group's operating revenue is mainly derived from charter agreements and related drilling services. As of December 31, 2013 and 2012, of the total revenues, 96% and 94%, respectively, are derived from one client, Petrobras.

Net operating revenue is stated after the following items:

	2013	2012
Operating revenue	1,109,344	834,725
Taxes levied on revenue:		
Social Integration Program (PIS)	(4,300)	(4,016)
Social Investment Program (COFINS)	(19,818)	(18,498)
Services Tax (ISS)	(5,950)	(5,516)
Net operating revenue	1,079,266	806,695

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21. COSTS OF SERVICES AND OPERATING EXPENSES

	For the years ended December 31,					
	2013			2012		
Costs and expenses by nature	Costs of services	General and administrative expenses	Total	Costs of services	General and administrative expenses	Total
Payroll, charges and benefits	(235,729)	(30,111)	(265,840)	(183,018)	(28,310)	(211,328)
Depreciation	(190,548)	(1,069)	(191,617)	(167,135)	(1,137)	(168,272)
Materials	(72,865)	-	(72,865)	(45,565)	-	(45,565)
Maintenance	(54,548)	-	(54,548)	(37,225)	-	(37,225)
Insurance	(20,374)	-	(20,374)	(14,102)	-	(14,102)
Other [1]	(49,843)	(21,020)	(70,863)	(42,991)	(20,217)	(63,208)
	(623,907)	(52,200)	(676,107)	(490,036)	(49,664)	(539,700)

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

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

22. OTHER INCOME (EXPENSES), NET

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	2013	2012
Gain on tax lawsuits (Note 24.a)	1,830	-
Revenue from sales of PP&E	890	1,520
Contractual fee	1,196	4,964
Other	424	202
Other income	4,340	6,686
Other taxes	(2,152)	-
Reversal of penalties	-	943
Cost of PP&E sold	(148)	(1,257)
Transaction costs (*)	(1,758)	(3,845)
Other expenses	(4,058)	(4,159)
Total income, net	282	2,527

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

23. FINANCIAL EXPENSES, NET

	2013	2012
Interest on cash investments	4,288	3,205
Financial income from related parties	5,048	7,103
Other financial income	203	112
Financial income	9,539	10,420
Financial charges on loans and financings	(126,425)	(94,629)
Derivative income (expenses)	7,234	(35,732)
Financial expenses from related parties	(5,321)	(7,735)
Other financial expenses	(5,941)	(6,668)
Financial expenses	(130,453)	(144,764)
Exchange rate variations, net	(4,913)	(1,624)
Financial expenses, net	(125,827)	(135,968)

24. TAXES

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

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

a) Recoverable taxes

	December 31,	
	2013	2012
PIS and COFINS [1]	1,832	-
Income tax (IRPJ) and social contribution (CSLL) [2]	147	170
Total	1,979	170

(1) Refers to gains on tax lawsuits in which the Group has claimed the recoverability of PIS and COFINS levied on financial revenues.

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

b) Taxes payables

	December 31,	
	2013	2012
Taxes on revenue (PIS and COFINS)	424	2,579
Income tax (IRPJ) and social contribution (CSLL)	3,349	365
Services Tax (ISS)	952	1,234
State VAT (ICMS)	135	203
Others	191	2
Total	5,051	4,383

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c) Deferred tax assets

	December 31,	
	2013	2012
Taxes on revenue (PIS/COFINS)	211	365
Total	211	365
Current	153	153
Non-current	58	212

d) Deferred tax liabilities

	December 31,	
	2013	2012
Income tax (IRPJ) and social contribution (CSLL) (*)	5,136	7,265
Total	5,136	7,265

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

e) Effect of income tax results

The tax rate used for the years ended December 31, 2013 and 2012 reconciliations below is the corporate nominal tax rate of 34% in accordance with the Brazilian tax law, jurisdiction in which QGOG 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:

	2013	2012
Profit before taxes	319,576	137,379
Income tax and social contribution at nominal rate	(12,046)	(6,265)
Adjustments to derive effective tax rate:		
Non-deductible expenses	(5,151)	(3,316)
Tax loss carryforwards utilized (not recognized) (i)	5,548	3,316
Other	550	120
Taxes	(11,099)	(6,145)
Effective tax rate	3%	4%

(i) As of December 31, 2013 and 2012, QGOG has tax loss carryforwards in the amounts of US$1,330 and US$8,392, respectively, for which no deferred tax assets are recorded since the Group does not expect that QGOG's operations will generate taxable income in the foreseeable future.

Transitional Tax System (RTT)

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

On November 11, 2013, the MP 627/13 was issued to cease the applicability of RTT. The main objective of such MP is to establish the IFRS also as basis for the tax adjustments for income tax and social contribution calculation. Considering that the MP can change through its proposed amendments, the Group's management is still waiting for its conversion into Law for a conclusive analysis. However, according to preliminary studies, the Group's management does not expect any material impact on the consolidated financial statements.

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25. FINANCIAL INSTRUMENTS

a) General considerations

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

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

		December 31,			
		2013		2012	
	Category	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Cash and bank deposits	Loans and receivables	48,896	48,896	58,606	58,606
Cash equivalents	Fair value through profit or loss	168,634	168,634	161,007	161,007
Short-term investments	Fair value through profit or loss	283,399	283,399	213,178	213,178
Restricted cash	Fair value through profit or loss	38,674	38,674	25,483	25,483
Trade and other receivables	Loans and receivables	90,941	90,941	129,330	129,330
Receivables from related parties	Loans and receivables	245,507	245,507	247,831	247,831
Financial liabilities					
Loans and financings	Other financial liabilities	3,003,258	3,003,713	3,415,547	3,495,727
Trade and other payables	Other financial liabilities	27,238	27,238	25,004	25,004
Payables to related parties	Other financial liabilities	233,315	233,315	222,800	222,800
Derivatives	Fair value through profit or loss	78,389	78,389	148,360	148,360

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

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

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

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

b) Fair value hierarchy

IFRS 7 - *Financial Instruments: Disclosures* defines fair value as the value or price that would be received to sell an asset or paid to transfer a liability in a transaction between participants in an ordinary market on the measurement date. The standard 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 used to develop those assumptions.

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

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

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

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

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The tables below present the Group's assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 and 2012:

	December 31, 2013		
	Fair value	Quoted prices for identical assets or liabilities (Level 1)	Other observable inputs for assets and liabilities (Level 2)
Financial assets			
Cash equivalents	168,634	168,634	-
Short-term investments	283,399	283,399	-
Restricted cash	38,674	38,674	-
Financial liabilities			
Derivatives	78,389	-	78,389

	December 31, 2012		
	Fair value	Quoted prices for identical assets or liabilities (Level 1)	Other observable inputs for assets and liabilities (Level 2)
Financial assets			
Cash equivalents	161,007	161,007	-
Short-term investments	213,178	213,178	-
Restricted cash	25,483	25,483	-
Financial liabilities			
Derivatives	148,360	-	148,360

Financial instruments fair value measurement

The Group assessed the evaluation of financial assets and liabilities in relation to its market values or its effective recoverable amount, using available information and best practices and methodologies of market valuations for each situation. Market data information interpretation about methodologies choice requires a higher level of judgment and establishment of reasonable estimate to achieve the fair value. Consequently, the estimate presented may not indicate, necessarily, the amounts that maybe obtained in current market. The use of different hypothesis to fair values calculation can result in significant effect in obtained values.

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

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

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

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

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

c) Financial risk management

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

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

As of December 31, 2013, the Group presents working capital deficiency in the amount of US$40,891 (US$45,515 as of December 31, 2012), mainly as a result of the current investments. The Group strategy in relation to this working capital deficiency is described in Note 1.

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

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

Period	Loans and financings	Derivatives	Trade payables	Related parties	Total
2014	718,391	40,882	27,238	10,302	796,813
2015	520,445	26,195	-	7,756	554,396
2016	435,128	12,063	-	7,718	454,909
2017	579,981	1,124	-	2,659	583,764
2018	534,268	(1,843)	-	9,499	541,924
After 2018	743,750	-	-	359,970	1,103,720
Total	3,531,963	78,421	27,238	397,904	4,035,526

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Credit risk

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

During the year ended December 31, 2013 Petrobras has accounted for 96% of total revenues. Therefore, management considers that the credit risk arising from this concentration is minimal considering that Petrobras is a government controlled entity with a history of full payment, and of being respectful of contractual rights.

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

Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts. The Group is exposed to fluctuations in US$ LIBOR interest rates charged on its loans and financings as reported in Note 14. As discussed in Note 18, the Group manages this interest rate risk by taking out variable-to-fixed interest rate swaps. As a result of the swaps in place at the balance sheet date, the Group's exposure to changes in interest rate expense as a result of fluctuations in US$ LIBOR is in respect of changes in fair values of the respective interest rate swaps. As discussed in Note 18, these interest rates swaps are held at fair value in the statement of the financial position. The fair value of these instruments is affected by factors including market expectations for future changes to US$ LIBOR. Changes to these expectations affect the value of the swaps of the Group and its subsidiaries, producing effects in the statement of operations unless such changes are capitalized.

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Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives 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 financing 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 floating rate liabilities (US$ LIBOR plus spread), the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole period. A 0.1 percent increase or decrease in US$ LIBOR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

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

- ✓ Profit for the years ended December 31, 2013 and 2012 would increase/(decrease) by US$77 and US$964, respectively. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings (US$ LIBOR plus spread); and
- ✓ Other comprehensive income for the years ended December 31, 2013 and 2012 would decrease/increase by US$813 and US$944, respectively. This is mainly due as a result of the changes in the fair value of the cash flow hedges.

d) Capital management

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

	December 31, 2013	December 31, 2012
Loans and financings [(a)]	3,003,258	3,415,547
Cash transactions [(b)]	(539,603)	(458,274)
Net debt	2,463,655	2,957,273
Shareholders' equity [(c)]	1,904,853	1,282,741
Net debt ratio [(a) + (b)] ÷ [(a) + (b) + (c)]	56%	70%

(a) Consider all loans and financings.

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

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

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26. INSURANCE

As of December 31, 2013 and 2012, major assets or interests covered by insurance policies and respective amounts are summarized below:

	December 31, 2013	December 31, 2012
Civil liability	2,125,044	2,175,438
Operating risks	5,631,040	5,586,986
Operational headquarter and others	12,328	9,612
Total	7,768,412	7,772,036

27. PENSION PLAN

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

For the years ended December 31, 2013 and 2012, contributions payable by QGOG at rates specified by the plan rules amounted to US$2,123 and US$1,568, respectively.

28. ADDITIONAL INFORMATION ON CASH FLOWS

	December 31,	
	2013	2012
Non-cash investing activities:		
Recognition of accrued costs of drilling rigs and drillships under construction	42,920	-
Borrowing costs capitalized, net of hedging adjustments	6,778	100,380
Capital increase ("share dividend")	1,193	-
	50,891	100,380

29. SUBSEQUENT EVENTS

Onshore drilling rig QG-I charter and drilling service agreements

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

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

FPSOs Cidade de Maricá and Cidade de Saquarema milestone payments

On January 22, 2014 the Group made a loan to Alfa Lula Alto S.à.r.l. amounting to US$7,391, in connection with the fourth milestone of the FPSO Cidade de Maricá construction contract.

On February 20, 2014 the Group made a loan to Beta Lula Central S.à.r.l. amounting to US$7,293, in connection with the fourth milestone of the FPSO Cidade de Saquarema construction contract.

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Incorporation of new entity

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

30. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Company's Board of Directors and authorized for issue on April 10, 2014.

Atendimento Prisma