QGOG Constellation S.A.

Unaudited Condensed Consolidated Interim Financial Statements as of September 30, 2016 and for the Three and Nine-month Periods Then Ended and Report on Review of Interim Financial Statements

Deloitte Touche Tohmatsu Auditores Independentes

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of QGOG Constellation S.A. and its subsidiaries (the "Company") as of September 30, 2016, the related condensed consolidated interim statement of operations and statement of comprehensive income for the three and nine months periods then ended and the condensed consolidated statement of changes in shareholder's equity and statement of cash flows for the nine months period then ended, and other explanatory notes.

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

Scope of Review

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

Basis for Qualified Conclusion

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

The Company is a minority shareholder in the associate entities Urca Drilling B.V., Bracuhy Drilling B.V. and Mangaratiba Drilling B.V. (all together denominated "Investees"). The majority shareholder of these Investees is Sete International One GmbH ("Sete International"), a subsidiary of Sete Brasil Participações S.A. ("Sete Brasil"). As of September 30, 2016, QGOG Constellation S.A. reduced its 15% (fifteen percent) equity participation in the Investees to US$0 thousand (US$12,723 thousand as of December 31, 2015).

As disclosed in Note 9, as of September 30, 2016, the Investees presents shareholders' equity deficiency in the aggregate amount of US$1,229,756 thousand (shareholders' equity in the aggregate amount of US$99,011 thousand as of December 31, 2015) and total comprehensive losses in the aggregate amounts of US$46,883 thousand and US$89,175 thousand for the three and nine months periods then ended, respectively (total comprehensive losses in the aggregate amounts of US$1,658 thousand and US$8,476 thousand for the three and nine months periods ended September 30, 2015, respectively). Such balances have not been audited and/or reviewed by independent auditors.

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

Until the date of this report, we were unable to obtain sufficient appropriate audit evidence about the Company's investment amounts in the Investees as at September 30, 2016, the Company's share of results on the Investees for the three and nine months periods then ended and related disclosure in Note 9. Consequently, we were unable to determine whether any adjustments or additional disclosures to the accompanying notes of the Investees balances as at September 30, 2016 and for the three and nine months periods then ended were due necessary.

Qualified Conclusion

Based on our review, except for the possible effects, if any, of the matter described in the "Basis for Qualified Conclusion" paragraph, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information does not present fairly, in all material respects, the consolidated financial position of the Company as of September 30, 2016, and of its consolidated financial performance for the three and nine months periods then ended and its consolidated cash flows for the nine months period then ended in accordance with IAS 34, as issued by the IASB.

Emphasis of matter

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

We draw attention to Note 9 to the consolidated financial statements, which discloses the uncertainty related to the outcome of the contingent liability of the Company's investments in associates and joint ventures held with its partner, SBM Offshore N.V. and its subsidiaries, related to operations in Brazil. Our conclusion is not qualified in respect of this matter.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU
Auditores Independentes
Rio de Janeiro, Brazil
November 25, 2016

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2016
(Amounts expressed in thousands of U.S. dollars - US$)

ASSETS	Note	September 30, 2016	December 31, 2015
CURRENT ASSETS			
Cash and cash equivalents	3	380,573	154,810
Short-term investments	4	47,535	246,871
Restricted cash	5	42,742	21,744
Trade and other receivables	6	98,124	109,455
Inventories	7	180,041	179,230
Recoverable taxes	20.a	2,390	10,742
Deferred mobilization costs		11,570	12,385
Deferred tax assets	20.c	-	200
Receivables from related parties	8	2,734	1,417
Other current assets		15,012	21,930
Total current assets		780,721	758,784
NON-CURRENT ASSETS			
Receivables from related parties	8	333,507	315,380
Derivatives	14	-	896
Other non-current assets		771	3,819
Investments	9	233,055	245,306
Deferred mobilization costs		9,058	17,583
Recoverable taxes	20.a	7,533	-
Deferred tax assets	20.c	5,093	2,378
Property, plant and equipment, net	10	3,980,283	4,328,023
Total non-current assets		4,569,300	4,913,385
TOTAL ASSETS		5,350,021	5,672,169

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QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2016
(Amounts expressed in thousands of U.S. dollars - US$)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	September 30, 2016	December 31, 2015
CURRENT LIABILITIES			
Loans and financings	11	728,611	390,075
Payroll and related charges		36,277	36,295
Derivatives	14	16,630	24,377
Trade and other payables		24,167	26,566
Payables to related parties	8	1,676	623
Taxes payables	20.b	2,634	9,559
Provisions	12	1,235	4,570
Deferred revenues		64,121	56,343
Other current liabilities		63,566	59,655
Total current liabilities		938,917	608,063
NON-CURRENT LIABILITIES			
Loans and financings	11	1,616,853	2,231,275
Payables to related parties	8	301,501	288,694
Derivatives	14	14,085	11,198
Deferred revenues		49,493	82,966
Other non-current liabilities		1,576	1,555
Total non-current liabilities		1,983,508	2,615,688
TOTAL LIABILITIES		2,922,425	3,223,751
SHAREHOLDERS' EQUITY			
Share capital	15.a	63,200	63,200
Share premium	15.a	766,561	766,561
Transaction costs on issuance of shares		(9,721)	(9,721)
Reserves	15.b/d	(40,757)	(33,082)
Retained earnings		1,604,268	1,634,115
Equity attributable to the owners of the Group		2,383,551	2,421,073
Non-controlling interests	15.e	44,045	27,345
TOTAL SHAREHOLDERS' EQUITY		2,427,596	2,448,418
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		5,350,021	5,672,169

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

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF OPERATIONS
FOR THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2016
(Amounts expressed in thousands of U.S. dollars - US$, except per share amounts)

	Note	Three-month period ended September 30, 2016	Three-month period ended September 30, 2015	Nine-month period ended June 30, 2016	Nine-month period ended June 30, 2015
NET OPERATING REVENUE	16	291,923	263,129	859,876	771,744
COST OF SERVICES	17	(143,748)	(131,541)	(410,289)	(402,638)
GROSS PROFIT		148,175	131,588	449,587	369,106
General and administrative expenses	17	(11,315)	(8,500)	(32,538)	(27,236)
Other income	18	8,395	135	17,728	2,707
Other expenses	18	(247,014)	(367)	(247,032)	(3,368)
OPERATING PROFIT/(LOSS)		(101,759)	122,856	187,745	341,209
Financial income	19	3,597	3,045	10,364	8,620
Financial expenses	19	(33,280)	(32,458)	(101,427)	(87,155)
Foreign exchange variation gain/(loss), net	19	(274)	140	(519)	349
FINANCIAL EXPENSES, NET		(29,957)	(29,273)	(91,582)	(78,186)
Share of results of investments	9	4,703	5,212	(1,435)	18,046
PROFIT/(LOSS) BEFORE TAXES		(127,013)	98,795	94,728	281,069
Taxes	20.d	(3,395)	(3,289)	(11,629)	(15,763)
PROFIT/(LOSS) FOR THE PERIOD		(130,408)	95,506	83,099	265,306
Profit/(loss) attributable to:					
Owners of the Group		(135,368)	91,228	64,569	248,462
Non-controlling interests		4,960	4,278	18,530	16,844
Profit/(loss) per share (in U.S. dollars - US$)					
Basic	15.f	(0.72)	0.48	0.34	1.31
Diluted	15.f	(0.72)	0.48	0.34	1.31

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

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME/(LOSS) FOR THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2016
(Amounts expressed in thousands of U.S. dollars - US$)

	Note	Three-month period ended September 30, 2016	Three-month period ended September 30, 2015	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
PROFIT/(LOSS) FOR THE PERIOD		(130,408)	95,506	83,099	265,306
OTHER COMPREHENSIVE INCOME/(LOSS)					
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges fair value adjustments	14/15.d	5,623	(10,365)	(9,258)	(18,910)
		5,623	(10,365)	(9,258)	(18,910)
Share of investments' other comprehensive income/(loss)	9/15.d	4,034	(5,266)	(12,395)	(2,998)
Foreign currency translation adjustments	15.d	(1,026)	(12,113)	12,148	(22,103)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		(121,777)	67,762	73,594	221,295
Comprehensive income/(loss) attributable to:					
Owners of the Group		(127,749)	65,594	56,894	209,115
Non-controlling interests		5,972	2,168	16,700	12,180

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

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2016
(Amounts expressed in thousands of U.S. dollars - US$)

					Reserves						Equity attributable to		
	Note	Share capital	Share premium	Transaction costs on issuance of shares	Legal	Cash flow hedges fair value adjustments	Share of investments' other comprehensive loss	Foreign currency translation adjustments	Total reserves	Retained earnings	Owners of the Group	Non-controlling interests	Total shareholders' equity
BALANCE AS OF DECEMBER 31, 2014		63,200	766,561	(9,721)	5,683	1,208	(15,330)	3,032	(5,407)	1,405,712	2,220,345	7,727	2,228,072
Profit for the period		-	-	-	-	-	-	-	-	248,462	248,462	16,844	265,306
Other comprehensive loss for the period	15.d	-	-	-	-	(14,246)	(2,998)	(22,103)	(39,347)	-	(39,347)	(4,664)	(44,011)
Total comprehensive income for the period		-	-	-	-	(14,246)	(2,998)	(22,103)	(39,347)	248,462	209,115	12,180	221,295
BALANCE AS OF SEPTEMBER 30, 2015		63,200	766,561	(9,721)	5,683	(13,038)	(18,328)	(19,071)	(44,754)	1,654,174	2,429,460	19,907	2,449,367
BALANCE AS OF DECEMBER 31, 2015		63,200	766,561	(9,721)	5,683	(6,042)	(13,872)	(18,851)	(33,082)	1,634,115	2,421,073	27,345	2,448,418
Profit for the period		-	-	-	-	-	-	-	-	64,569	64,569	18,530	83,099
Other comprehensive for the period	15.d	-	-	-	-	(7,428)	(12,395)	12,148	(7,675)	-	(7,675)	(1,830)	(9,505)
Total comprehensive income for the period		-	-	-	-	(7,428)	(12,395)	12,148	(7,675)	64,569	56,894	16,700	73,594
Payment of dividends	15.c	-	-	-	-	-	-	-	-	(94,416)	(94,416)	-	(94,416)
BALANCE AS OF SEPTEMBER 30, 2016		63,200	766,561	(9,721)	5,683	(13,470)	(26,267)	(6,703)	(40,757)	1,604,268	2,383,551	44,045	2,427,596

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

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2016
(Amounts expressed in thousands of U.S. dollars - US$)

	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		83,099	265,306
Adjustments to reconcile profit for the period to net cash provided by operating activities:			
Depreciation of property, plant and equipment	10/17	177,935	148,122
Loss/(gain) on disposal of property, plant and equipment, net	18	170	(253)
Impairment loss recognised on property, plant and equipment	10/18	237,234	-
Inventory write-down	18	9,846	-
Share of results of investments	9	1,435	(18,046)
Recognition of deferred mobilization costs		9,376	8,137
Recognition of deferred revenues, net of taxes levied		(46,610)	(17,293)
Financial expenses on loans and financings	11.a/19	86,465	74,806
Financial income from related parties, net	8/19	(4,231)	(4,307)
Fair value loss on derivatives	14/19	6,841	5,791
Provision for employee profit sharing plan		16,515	18,211
Other financial expenses, net	19	2,507	1,896
Provisions (reversal of provisions)	12/18	(352)	3,318
Taxes	20.d	11,629	15,763
Changes in working capital:			
Decrease/(increase) in short-term investments		203,557	(224,297)
Decrease/(increase) in trade and other receivables		15,466	(5,767)
Increase in receivables from related parties		(1,362)	(769)
Increase in inventories		(2,200)	(46,623)
Decrease in recoverable taxes		3,912	2,759
Decrease in deferred taxes		238	842
Increase in deferred mobilization costs		(8)	(6,791)
Decrease/(increase) in other assets		16,276	(4,485)
Decrease in payroll and related charges		(22,892)	(13,589)
Decrease in trade and other payables		(4,469)	(355)
Increase/(decrease) in payables to related parties		8	(16)
Decrease in taxes payables		(550)	(272)
Increase in deferred revenues		20,787	64,041
Decrease in provisions		(3,191)	(58)
Increase/(decrease) in other liabilities		(16,062)	10,068
Cash provided by operating activities		801,369	276,139
Income tax and social contribution paid		(22,403)	(14,055)
Net cash provided by operating activities		778,966	262,084
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from related parties	8.f	-	43,774
Capital decrease in investments	9	14,788	21,600
Capital contributions in investments	9/24	(8,316)	(11,595)
Acquisition of property, plant and equipment	10/24	(62,829)	(492,745)
Proceeds from sales of property, plant and equipment	18	134	303
Net cash used in investing activities		(56,223)	(438,663)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments to related parties		-	(2,430)
Dividends paid	15.c	(94,416)	-
Proceeds from loans and financings, net of transaction costs	11.a	-	625,943
Interest paid on loans and financings	11.a	(67,994)	(63,467)
Cash payments on derivatives	14	(20,063)	(23,564)
Restricted cash	5	(20,998)	16,105
Repayment of principal on loans and financings	11.a	(294,357)	(332,363)
Net cash provided by/(used in) financing activities		(497,828)	220,224
Increase in cash and cash equivalents		224,915	43,645
Cash and cash equivalents at the beginning of the period	3	154,810	147,079
Effects of exchange rate changes on the balance of cash held in foreign currencies		848	(1,360)
Cash and cash equivalents at the end of the period	3	380,573	189,364

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

(Amounts expressed in thousands of U.S. dollars - US$, unless otherwise stated)

1. GENERAL INFORMATION

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

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

The Company holds investments in subsidiaries that charter and operate onshore and offshore drilling rigs and drillships for exploration and production entities operating mainly in Brazil. The Group currently charters onshore and offshore drilling rigs and drillships mainly to Petróleo Brasileiro S.A. ("Petrobras").

The Group's fleet is currently comprised by the following drilling rigs and drillships:

Offshore drilling units

Drilling units	Type	Start of operations	Contract expiration date (current or previous)	Customer (current or previous)
Alaskan Star	Semi-submersible	1994	November 2016	Petrobras
Atlantic Star	Semi-submersible	1997	July 2018	Petrobras
Olinda Star	Semi-submersible	2009	August 2017	Karoon Petróleo e Gás Ltda.
Gold Star	Semi-submersible	2010	February 2018	Petrobras
Lone Star	Semi-submersible	2011	March 2018	Petrobras
Alpha Star	Semi-submersible	2011	July 2017	Petrobras
Amaralina Star	Drillship	2012	September 2018	Petrobras
Laguna Star	Drillship	2012	November 2018	Petrobras
Brava Star	Drillship	2015	August 2018	Petrobras

Onshore drilling units

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

(*) As of September 30, 2016, these onshore drilling rigs were not hired under charter and service-rendering agreements. The Group is seeking for new customers.

Olinda Star offshore drilling rig charter and service-rendering agreements and scheduled 5-year survey

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

On December 21, 2015, the Group signed an agreement with Karoon Petróleo e Gás Ltda. ("Karoon") to charter and render drilling services in two oil wells, with an extension option for two additional oil wells. The operations are expected to start in the first half of 2017.

Gold Star offshore drilling rig scheduled 5-year survey

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

Lone Star offshore drilling rig scheduled 5-year survey

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

Alpha Star offshore drilling rig scheduled 5-year survey

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

Notices received by QGOG from Petrobras

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

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

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

Liquidity risk management

As of September 30, 2016, the Group presents working capital deficiency in the amount of US$158,196 due to working capital loans maturing in January and May of 2017 and the current portion of its long-term loans and financings (Note 11). Management considers that the working capital deficiency is supported by the cash flow generation of the Group's existing long-term agreements in the regular course of business. Management is also exploring other opportunities to obtain additional long-term financing.

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34 *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"), on a basis consistent with the significant accounting policies and critical accounting estimates disclosed in Notes 3 and 4, respectively, to the consolidated financial statements as of December 31, 2015 and for the year then ended.

IAS 34 requires the use of certain accounting estimates by the Company's Management. These unaudited condensed consolidated interim financial statements were prepared based on historical cost, except for certain financial assets and liabilities that are measured at fair value (Note 21.a).

These unaudited condensed consolidated interim financial statements do not include all the information and disclosure items required in the year-end consolidated financial statements. Therefore, they must be read in conjunction with the Company's consolidated financial statements as of December 31, 2015 and for the year then ended, which were prepared according to accounting policies, as described above. There have been no changes in the accounting policies and critical accounting estimates adopted on December 31, 2015 and September 30, 2016.

These unaudited condensed consolidated interim financial statements incorporate the Company and its subsidiaries. Except for the establishment of QGOG Constellation UK Ltd., Constellation Africa Inc. and QGOG Constellation USA LLC. on January 8, August 12 and October 20, 2016, respectively, there have been no changes in the consolidated entities and investments disclosed in Note 5 to the consolidated financial statements as of December 31, 2015 and for the year then ended.

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

The following new or revised and amended IFRS have been effective since January 1, 2016 or will be effective on January 1, 2017, 2018 and 2019 and their adoption, where applicable, did not or will not have significant effect on the Company’s unaudited condensed consolidated interim financial statements:

New or revised standards

Standard	Description	Effective date for annual period beginning on or after
IFRS 9 *Financial Instruments* (2014)	A finalised version of IFRS 9, which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas: classification and measurement, impairment, hedge accounting and derecognition.	January 1, 2018
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The 5-steps in the model are as follows: ✓ Identify the contract with the customer; ✓ Identify the performance obligations in the contract; ✓ Determine the transaction price; ✓ Allocate the transaction price to the performance obligations in the contracts; and ✓ Recognise revenue when (or as) the entity satisfies a performance obligation.	January 1, 2018
IFRS 16 *Leases*	IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	January 1, 2019

Amendments

Standard	Description	Effective date for annual period beginning on or after
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	Amends IFRS 11 Joint Arrangements to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to: ✓ Apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11; and ✓ Disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured).	January 1, 2016
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	Amends IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets to: ✓ Clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment; ✓ Introduce a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated; and ✓ Add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.	January 1, 2016
Equity Method in Separate Financial Statements (Amendments to IAS 27)	Amends IAS 27 Separate Financial Statements to permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements	January 1, 2016
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Amends IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) to clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows: ✓ Require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations); and ✓ Require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognized only to the extent of the unrelated investors' interests in that associate or joint venture.	Effective date deferred indefinitely.

Standard	Description	Effective date for annual period beginning on or after
Annual Improvements to IFRSs 2012-2014 Cycle	Makes amendments to the following standards: ✓ IFRS 5: Adds specific guidance for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued; ✓ IFRS 7: Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements; ✓ IAS 9: Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid; and ✓ IAS 34: Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.	January 1, 2016
Disclosure Initiative (Amendments to IAS 1)	Amends IAS 1 Presentation of Financial Statements to address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes: ✓ Clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply; ✓ Clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarification that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; ✓ Additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.	January 1, 2016
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	Amends IAS 12 *Income Taxes* to clarify the following aspects: ✓ Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; ✓ The carrying amount of an asset does not limit the estimation of probable future taxable profits; ✓ Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences; and ✓ An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.	January 1, 2017

Standard	Description	Effective date for annual period beginning on or after
Disclosure Initiative (Amendments to IAS 7)	Amends IAS 7 Statement of Cash Flows to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	January 1, 2017
Clarifications to IFRS 15 "Revenue from Contracts with Customers"	Amends IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	January 1, 2018
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	Amends IFRS 2 Share-based Payment to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.	January 1, 2018
Editorial Corrections (various)	The IASB periodically issues Editorial Corrections and changes to IFRSs and other pronouncements. Since the beginning of calendar 2013, such corrections have been made in March 2013, September 2013, November 2013, March 2014, September 2014, December 2014, March 2015, April 2015, September 2015, and December 2015.	As minor editorial corrections, these changes are effectively immediately applicable under IFRS

3. CASH AND CASH EQUIVALENTS

	September 30, 2016	December 31, 2015
Cash and bank deposits	128,567	42,772
Cash equivalents (*)	252,006	112,038
Total	380,573	154,810

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

Cash equivalents are comprised by the following time deposits:

Financial institution	Currency	Average interest rate (per annum)	September 30, 2016	December 31, 2015
Itaú BBA Nassau	U.S. dollar	0.45%	101,619	44,417
Citibank	U.S. dollar	0.49%	102,905	56,092
Bradesco Grand Cayman	U.S. dollar	0.30%	47,437	11,529
Banco Lafise Panamá S.A.	U.S. dollar	2.75%	45	-
Total			252,006	112,038

4. SHORT-TERM INVESTMENTS

Type	Financial institution	Currency	Average interest rate (per annum)	September 30, 2016	December 31, 2015
Time deposits (i)	HSBC Bank	U.S. dollar	0.06%	-	9,500
Time deposits (i)	Citibank	U.S. dollar	0.30%	-	8,349
Time deposits (i)	Itaú BBA Nassau	U.S. dollar	1.17%	-	91,439
Time deposits (i)	ING Bank	U.S. dollar	0.20%	-	12,477
Time deposits (i)	Bradesco Grand Cayman	U.S. dollar	1.27%	-	103,340
Time deposits (i)	Banco do Brasil S.A.	U.S. dollar	0.95%	-	8,058
Time deposits (i)	Deutsche Bank	U.S. dollar	0.53%	14,464	-
Repurchase agreements (iii)	HSBC Bank	Brazilian real	100% of CDI(ii)	1,699	1,279
Repurchase agreements (iii)	Bradesco S.A.	Brazilian real	99.40% of CDI(ii)	31,372	12,429
Total				47,535	246,871

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

(ii) Brazilian Interbank Deposit Certificate (Certificado de Depósito Interbancário - CDI).

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

5. RESTRICTED CASH

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

These accounts, which have original maturity of less than 12 (twelve) months, refer to the financing agreements related to the construction of the Gold Star, Lone Star, Alpha Star and Brava Star offshore drilling rigs (Note 11). Since the financing related to the construction of the Lone Star offshore drilling rig was fully paid in January 2015, the restricted cash account currently refers to the financing agreements related to the construction of the Gold Star, Alpha Star and Brava Star offshore drilling rigs.

The restricted cash guarantee related to the Alpha Star financing was previously covered by letters of credit hired by the Group. However, the Group chose not to hire letters of credit anymore, and thus in April 2016, the Group made a deposit into a reserve account in the total approximate amount of US$21 million.

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

Restricted cash	Financial institution	September 30, 2016	December 31, 2015
Bank deposits	Citibank	30,785	9,800
Bank deposits	ING Bank	11,957	11,944
Total		42,742	21,744

6. TRADE AND OTHER RECEIVABLES

Trade receivables are mainly related to receivables from Petrobras for charter and service-rendering agreements relating to the drilling rigs and drillships used in the exploration of oil and gas in Brazil. Except for the settled litigation with HRT O&G Exploração e Produção de Petróleo Ltda. ("HRT") disclosed in Note 13.b, 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. Details of financial risk management related to credit risk are disclosed in Note 21.b.

7. INVENTORIES

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

Based on the Alaskan Star offshore drilling rig impairment loss recognition (Note 10.d), the Group wrote-down all inventory related to the Alaskan Star offshore drilling rig, resulting in a loss recognition of US$9,846 (Note 18).

8. RELATED PARTY TRANSACTIONS

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

The consolidated intercompany balances as of September 30, 2016 and December 31, 2015, and transactions for the three and nine-month periods ended September 30, 2016 and 2015 are as follows:

	September 30, 2016		December 31, 2015		Three-month period ended September 30,		Nine-month period ended September 30,	
					2016	2015	2016	2015
	Assets	Liabilities	Assets	Liabilities	Income/ (expenses)	Income/ (expenses)	Income/ (expenses)	Income/ (expenses)
Alperton Capital Ltd. [(a)]	327,791	301,501	309,901	288,694	1,819	1,550	5,084	4,691
Queiroz Galvão S.A. [(b)]	-	1,635	-	590	(378)	(380)	(1,045)	(1,341)
FPSO Capixaba Venture S.A. [(c)]	917	-	908	-	3	2	9	6
SBM Espírito do Mar Inc. [(d)]	4,612	-	4,429	-	62	59	183	174
Sete Brasil Participações S.A. [(e)]	-	-	-	-	-	510	-	2,765
Tupi Nordeste Operações Marítimas Ltda. [(f)]	444	-	1,059	-	444	368	1,112	1,226
Guará Norte Operações Marítimas Ltda. [(f)]	383	-	276	-	288	248	879	857
Alfa Lula Alto Operações Marítimas Ltda. [(f)]	326	-	-	-	304	-	859	-
Guará Norte Holding Ltd.[(g)]	931	-	-	-	139	-	931	-
Alfa Lula Alto Holding Ltd. [(g)]	400	-	-	-	150	-	400	-
Beta Lula Central Holding Ltd.[(g)]	150	-	-	-	150	-	150	-
SBM Holding Luxembourg S.à.r.l. [(h)]	-	-	-	-	7,850	-	16,000	-
BW NISA Ltd. [(i)]	-	-	-	-	-	-	-	3,028
Others	287	41	224	33	59	223	72	843
Total	336,241	303,177	316,797	289,317	10,890	2,580	24,634	12,249
Current	2,734	1,676	1,417	623				
Non-current	333,507	301,501	315,380	288,694				

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

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

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

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

The interest income related to the receivables from Alperton are presented net of the interest expenses related to the amounts payable by Amaralina and Laguna.

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

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

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

The Group charges a fee to Alperton for being the guarantor of Amaralina Star and Laguna Star drillships project financings and a fee for being the guarantor for importations under the Special Regime of Temporary Admission (*Regime Aduaneiro Especial de Importação e Exportação de Bens Destinados à Pesquisa e Lavra de Petróleo e Gás* - REPETRO). For the nine-month periods ended September 30, 2016 and 2015, the fees charged to Alperton totaled US$5,084 and US$4,691, respectively.

Non-compliance with the agreements between the Group and Alperton could result in penalties to either entities. As of September 30, 2016, the Group was in compliance with the requirements of the respective agreements.

(b) The payable amount refers to the fee charged by Queiroz Galvão S.A. for being the guarantor for importations under the REPETRO.

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

(d) The loan receivable from SBM Espírito do Mar Inc. bears an effective interest rate of 5.56% p.a., with maturity at the end of the charter agreement period between SBM Espírito do Mar B.V. and Petrobras (2022).

(e) On August 3, 2012, Angra Participações B.V. ("Angra") signed three shareholders' agreements in which the Group acquired a 15% equity interest in three special purpose entities ("SPEs"), each one owning an ultra-deepwater semi-submersible rig (Urca, Bracuhy and Mangaratiba offshore drilling rigs) in partnership with Sete Brasil Participações S.A. ("Sete Brasil"). In the same day, the partnership signed charter agreements of these offshore drilling rigs with Petrobras. The income for the nine-month period ended September 30, 2015 refers to a fee charged by the Group related to the drilling rigs' project management. On December 31, 2015, the Group fully recognised an allowance for doubtful accounts for the receivables in the amount of US$3,260, due to the delay in collecting such receivables. Such allowance for doubtful accounts was increased by US$279 due to interest charged until February 29, 2016. Since March 2016, the Group ceased to charge such fee in accordance to the interruption of the drilling rigs' project management service rendering (Note 9).

(f) As of September 30, 2016 and December 31, 2015, the receivable amounts and the income for the nine-month periods ended September 30, 2016 and 2015, from Tupi Nordeste Operações Marítimas Ltda. and Guará Norte Operações Marítimas Ltda. are related to labor costs reimbursement regarding the operation of the FPSO Cidade de Paraty and FPSO Cidade de Ilhabela, respectively. As of September 30, 2016, the receivable amount and the income for the nine-month period ended September 30, 2016 from Alfa Lula Alto Operações Marítimas Ltda. are related to labor costs reimbursement regarding the operation of the FPSO Cidade de Maricá.

(g) As of September 30, 2016, the receivable amount and the income for the nine-month period then ended from Guará Norte Holding Ltd., Alfa Lula Alto Holding Ltd. and Beta Lula Central Holding Ltd. are related to management fee charged by the Group in respect of the operating services rendered to the FPSO Cidade de Ilhabela, FPSO Cidade de Maricá and FPSO Cidade de Saquarema, respectively.

(h) Refers to a payment made by SBM Lux to the Group, in connection with the terms that regulates the relationship of these entities as shareholders of Alfa Lula Alto S.à.r.l., Alfa Lula Alto Holding Ltd., Beta Lula Central S.à.r.l. and Beta Lula Central Holding Ltd.. Such payments, amounting to US$8,150 and US$7,850, are related to the first oil achievement by the FPSO Cidade de Maricá and the FPSO Cidade de Saquarema, respectively (Notes 9 and 18).

(i) The income for the nine-month period ended September 30, 2015, refers to an indemnization received from BW NISA Ltd. in June 2015, related to the FPSO P-63 general operating costs incurred by the Group.

Key management personnel remuneration for the three and nine-month periods ended September 30, 2016 and 2015, is as follows:

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2016	2015	2016	2015
Key management personnel compensation (*)	2,380	1,796	7,061	6,930

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

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

The cash compensation for each member of key management is mainly comprised by base salary and bonus. The compensation that is paid to key management is evaluated on an annual basis considering the following primary factors: individual performance during prior year, market rates and movements and the individual's anticipated contribution to the Group's growth. Members of key management are also eligible to participate in the Group's retirement benefit plans (Note 23).

9. INVESTMENTS

	September 30, 2016							
	Number of shares (thousands)	Ownership interest (%)	Authorized share capital	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Shareholders' equity (deficiency)
Associates:								
FPSO Capixaba Venture S.A.	100	20.00%	82	3,795	7,931	52,884	62,491	(103,649)
SBM Espírito do Mar Inc.	100	20.00%	88	4,227	231,775	35,962	616	199,424
Urca Drilling B.V. [3]	90	15.00%	€90k	170	23,007	440,806	248,404	(666,033)
Bracuhy Drilling B.V. [3]	90	15.00%	€90k	1,496	9,204	171,829	261,109	(422,238)
Mangaratiba Drilling B.V. [3]	90	15.00%	€90k	31	1	39,313	102,204	(141,485)
Joint Ventures:								
Tupi Nordeste S.à.r.l.	20	20.00%	20	159,141	1,110,225	43,691	751,576	474,099
Tupi Nordeste Holding Ltd.	12	20.00%	12	4,762	-	44,961	-	(40,199)
Guará Norte S.à.r.l. [4]	50,200	12.75%	50,200	116,804	1,567,156	152,301	930,414	601,245
Guará Norte Holding Ltd. [4]	12	12.75%	12	4,715	-	18,873	-	(14,158)
Alfa Lula Alto S.à.r.l. [4]	65,200	5.00%	65,200	108,543	1,693,438	233,802	1,329,775	238,404
Alfa Lula Alto Holding Ltd. [4]	5	5.00%	12	4,872	1,337	11,676	-	(5,467)
Beta Lula Central S.à.r.l. [4]	65,200	5.00%	65,200	70,528	1,678,003	184,748	1,368,371	195,412
Beta Lula Central Holding Ltd. [4]	5	5.00%	12	3,340	1,782	5,713	-	(591)

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

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

	Investees' comprehensive income (loss) for the three-month period ended September 30,					
	2016			2015		
	Net income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)	Net income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Associates:						
FPSO Capixaba Venture S.A.	(6,353)	201	(6,152)	(6,762)	1,918	(4,844)
SBM Espírito do Mar Inc.	1,154	-	1,154	9,589	-	9,589
Urca Drilling B.V. (3)	(36,754)	1,009	(35,745)	(395)	(358)	(753)
Bracuhy Drilling B.V. (3)	(9,496)	-	(9,496)	(772)	(73)	(845)
Mangaratiba Drilling B.V. (3)	(1,642)	-	(1,642)	(17)	(43)	(60)
Joint Ventures:						
Tupi Nordeste S.à.r.l.	12,022	8,088	20,110	12,717	(2,280)	10,437
Tupi Nordeste Holding Ltd.	(8,754)	282	(8,472)	3,078	(550)	2,528
Guará Norte S.à.r.l. (4)	15,840	8,951	24,791	16,622	(14,894)	1,728
Guará Norte Holding Ltd. (4)	(519)	93	(426)	(3,548)	764	(2,784)
Alfa Lula Alto S.à.r.l. (4)	11,281	14,440	25,721	(15)	(31,136)	(31,151)
Alfa Lula Alto Holding Ltd. (4)	(2,943)	36	(2,907)	(8)	-	(8)
Beta Lula Central S.à.r.l. (4)	54,956	8,849	63,805	(10)	(33,047)	(33,057)
Beta Lula Central Holding Ltd. (4)	(580)	20	(560)	(8)	-	(8)

	Investees' comprehensive income (loss) for the nine-month period ended September 30,					
	2016			2015		
	Net income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)	Net income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Associates:						
FPSO Capixaba Venture S.A.	(5,400)	(2,878)	(8,278)	(19,056)	3,167	(15,889)
SBM Espírito do Mar Inc.	(9,655)	-	(9,655)	28,222	-	28,222
Urca Drilling B.V. (3)	(59,584)	(138)	(59,722)	(3,759)	(545)	(4,304)
Bracuhy Drilling B.V. (3)	(23,526)	(233)	(23,759)	(3,936)	(111)	(4,047)
Mangaratiba Drilling B.V. (3)	(5,556)	(138)	(5,694)	(59)	(66)	(125)
Joint Ventures:						
Tupi Nordeste S.à.r.l.	36,983	(8,454)	28,529	62,184	2,049	64,233
Tupi Nordeste Holding Ltd.	(21,210)	(3,816)	(25,026)	(4,715)	5,205	490
Guará Norte S.à.r.l. (4)	43,592	(20,824)	22,768	51,038	(13,156)	37,882
Guará Norte Holding Ltd. (4)	(7,276)	(1,252)	(8,528)	(4,858)	874	(3,984)
Alfa Lula Alto S.à.r.l. (4)	84,392	(50,891)	33,501	(44)	(35,087)	(35,131)
Alfa Lula Alto Holding Ltd. (4)	(5,636)	(120)	(5,756)	(17)	-	(17)
Beta Lula Central S.à.r.l. (4)	54,856	(82,478)	(27,622)	(37)	(33,047)	(33,084)
Beta Lula Central Holding Ltd. (4)	(881)	20	(861)	(13)	-	(13)

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

Changes in investments

	Asset (liability) balance as of December 31, 2015	Capital contributions (2)	Capital decrease (5)	Share of results	Share of comprehensive income/ (loss)	Asset (liability) balance as of September 30, 2016
Associates:						
FPSO Capixaba Venture S.A.	(19,074)	-	-	(1,080)	(576)	(20,730)
SBM Espírito do Mar Inc.	41,816	-	-	(1,931)	-	39,885
Urca Drilling B.V. (3)	11,343	-	-	(11,441)	98	-
Bracuhy Drilling B.V. (3)	363	-	-	(380)	17	-
Mangaratiba Drilling B.V. (3)	1,017	-	-	(1,025)	8	-

	Asset (liability) balance as of December 31, 2015	Capital contributions (2)	Capital decrease (5)	Share of results	Share of comprehensive income/ (loss)	Asset (liability) balance as of September 30, 2016
Joint ventures:						
Tupi Nordeste S.à.r.l.	89,114	-	-	7,397	(1,691)	94,820
Tupi Nordeste Holding Ltd.	(3,035)	-	-	(4,242)	(763)	(8,040)
Guará Norte S.à.r.l. (4)	73,756	-	-	5,558	(2,655)	76,659
Guará Norte Holding Ltd. (4)	(718)	-	-	(928)	(159)	(1,805)
Alfa Lula Alto S.à.r.l. (4)	13,055	4,988	(7,798)	4,220(7)	(2,545)	11,920
Alfa Lula Alto Holding Ltd. (4)	15	-	-	(282)	(6)	(273)
Beta Lula Central S.à.r.l. (4)	14,814	3,328	(6,990)	2,743 (8)	(4,124)	9,771
Beta Lula Central Holding Ltd. (4)	13	-	-	(44)	1	(30)
Total	222,479	8,316	(14,788)	(1,435)	(12,395)	202,177
Total assets (investments)	245,306					233,055
Total liabilities (accumulated deficit in investments) (1)	(22,827)					(30,878)

	Asset (liability) balance as of December 31, 2014	Capital contributions (2)	Capital decrease (6)	Share of results	Share of comprehensive income (loss)	Asset (liability) balance as of September 30, 2015
Associates						
FPSO Capixaba Venture S.A.	(13,549)	-	-	(3,811)	633	(16,727)
SBM Espírito do Mar Inc.	34,193	-	-	5,644	-	39,837
Urca Drilling B.V. (3)	11,965	144	-	(564)	(83)	11,462
Bracuhy Drilling B.V. (3)	1,165	-	-	(590)	(17)	558
Mangaratiba Drilling B.V. (3)	1,038	-	-	(8)	(10)	1,020
Joint ventures		-				
Tupi Nordeste S.à.r.l.	74,067	-	-	12,436	410	86,913
Tupi Nordeste Holding Ltd.	(2,280)	-	-	(943)	1,042	(2,181)
Guará Norte S.à.r.l. (4)	79,981	-	(14,650)	6,507	(1,677)	70,161
Guará Norte Holding Ltd. (4)	101	-	-	(619)	111	(407)
Alfa Lula Alto S.à.r.l. (4)	1,929	10,964	-	(2)	(1,754)	11,137
Alfa Lula Alto Holding Ltd. (4)	14	-	-	(1)	-	13
Beta Lula Central S.à.r.l. (4)	18,383	3,108	(6,950)	(2)	(1,653)	12,886
Beta Lula Central Holding Ltd. (4)	14	-	-	(1)	-	13
Total	207,021	14,216	(21,600)	18,046	(2,998)	214,685
Total assets (investments)	222,850					234,000
Total liabilities (accumulated deficit in investments) (1)	(15,829)					(19,315)

(1) The liability to fund the deficit in FPSO Capixaba Venture S.A., Tupi Nordeste Holding Ltd., Guará Norte Holding Ltd. and Alfa Lula Alto Holding Ltd. is recognised in "Other current liabilities".

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

(3) Despite of Urca, Bracuhy and Mangaratiba shareholders'deficiency as of September 30, 2016, the carrying amounts of the investments in those associates were reduced to zero, following management's understanding of the Group´s legal and statutory obligations. Once the investments are reduced to zero, no additional losses will be provided for and no liabilities will be recognised whereas Angra Participações B.V. had not incurred legal or constructive obligations or made payments on behalf of such associates.

(4) The Group jointly controls the entities within the FPSOs Cidade de Ilhabela, Cidade de Maricá and Cidade de Saquarema structures with its partners, since all major financial and operational decisions require the unanimous approval of the Directors and Managers representatives of all the shareholders of these entities. The Group has the right to appoint 1 (one) of 5 (five) Managers in Luxembourg entities and 1 (one) of 4 (four) Directors in Bermuda entities. According to the shareholders agreement, the meetings of the Board of Managers and Board of Directors of Luxembourg and Bermuda entities, respectively, must have a quorum comprised by at least 1 (one) Manager or 1 (one) Director appointed by each shareholder, which means that the Manager or the Director appointed by Arazi and or Lancaster Projects Corp. must be present. The Group participates actively in the organization and execution of the operations by seconding personnel to the operating management team in agreed positions.

(5) In March 2016, the Group received the amount of US$397 from Alfa Lula Alto S.à.r.l., in connection with the final tranche disbursement of the FPSO Cidade de Maricá loan facility. In April 2016, the Group received the amount of US$7,401 from Alfa Lula Alto S.à.r.l., in connection with the payment made by Petrobras related to the acceptance of the FPSO Cidade de Maricá. In September 2016, the Group received the amount of US$6,990 from Beta Lula Central S.à.r.l., in connection with the payment made by Petrobras related to the acceptance of the FPSO Cidade de Saquarema.

(6) In January 2015, the Group received the amount of US$13,375 from Guará Norte S.à.r.l., in connection with the payment made by Petrobras related to the acceptance of the FPSO Cidade de Ilhabela.

(7) FPSO Cidade de Maricá started its operations on February 7, 2016. Alfa Lula Alto S.à.r.l. classified its charter agreement with Petrobras as a financial lease agreement. Included in the share of results during the nine-month period ended September 30, 2016 there is a gain of US$2,688 corresponding to the share of the difference between the recognition of the present value of the minimum lease payments as revenues at the lease date of inception, and the corresponding recognition of the equipment cost in profit or loss.

(8) FPSO Cidade de Saquarema started its operations on July 8, 2016. Beta Lula Central S.à.r.l. classified its charter agreement with Petrobras as a financial lease agreement. Included in the share of results during the nine-month period ended September 30, 2016, there is a gain of US$2,041 corresponding to the share of the difference between the recognition of the present value of the minimum lease payments as revenues at the lease date of inception, and the corresponding recognition of the equipment cost in profit or loss.

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

FPSO Capixaba

✓ FPSO Capixaba Venture S.A. ("Capixaba")'s core business is to support operations for agreements in the offshore oil and gas industry. Since March 16, 2007, Capixaba is a shareholder of a Brazilian entity, SBM Capixaba Operações Marítimas Ltda., which operates the FPSO Capixaba, currently located off the Brazilian coast and chartered to Petrobras until 2022.

✓ SBM Espírito do Mar Inc. ("Espírito do Mar") owns the FPSO Capixaba and its main activity is to support charter agreements in the offshore oil and gas industry.

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

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

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

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

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

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

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

The audited financial statements for the year ended December 31, 2015 and the reviewed interim financial information for the nine-month period ended September 30, 2016, of Urca, Bracuhy and Mangaratiba have not been issued to date.

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

FPSO Cidade de Paraty

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

- ✓ Tupi Nordeste Holding Ltd.'s main activity is to support operations for agreements in the offshore oil and gas industry. This entity is a shareholder of a Brazilian entity, Tupi Nordeste Operações Marítimas Ltda., which operates the FPSO Cidade de Paraty to Petrobras until 2033.

FPSO Cidade de Ilhabela

- ✓ Guará Norte S.à.r.l.'s main activity is to act as a sub-charter party for agreements in the offshore oil and gas industry. The entity charters the FPSO Cidade de Ilhabela to Petrobras until 2034, which is currently located off the Brazilian coast. Operations started in November 2014.

- ✓ Guará Norte Holding Ltd.'s main activity is to support operations for agreements in the offshore oil and gas industry. This entity is a shareholder of a Brazilian entity, Guará Norte Operações Marítimas Ltda., which operates the FPSO Cidade de Ilhabela to Petrobras for a 20-year period.

FPSO Cidade de Maricá

- ✓ Alfa Lula Alto S.à.r.l. owns the FPSO Cidade de Maricá, which started its operations on February 7, 2016 after achieving first oil and completing a 72-hour continuous production test (Final Acceptance). On July 12, 2013, the Group entered into a 20-year agreement to charter the FPSO Cidade de Maricá to the Consortium BM-S-11. As of September 30, 2016, the Group has a capital commitment amounting to US$0.2 million related to the construction of the FPSO Cidade de Maricá.

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

The financing obtained by Alfa Lula Alto S.à.r.l. in order to finance the construction of the FPSO Cidade de Maricá was structured as a Project Finance, therefore benefiting from a customary security package and, exclusively during the pre-completion period, corporate guarantees that are provided by the sponsors of the project loan, up to the limit of its participation in Alfa Lula Alto S.à.r.l..

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

- ✓ Alfa Lula Alto Holding Ltd.'s main activity will be to support operations for agreements in the offshore oil and gas industry. This entity is a shareholder of a Brazilian entity, Alfa Lula Alto Operações Marítimas Ltda., which will operate the FPSO Cidade de Maricá to Petrobras for a 20-year period.

FPSO Cidade de Saquarema

- ✓ Beta Lula Central S.à.r.l. owns the FPSO Cidade de Saquarema, which started its operations on July 8, 2016 after achieving first oil and completing a 72-hour continuous production test (Final Acceptance). On July 12, 2013, the Group entered into a 20-year agreement to charter the FPSO Cidade de Saquarema to the Consortium BM-S-11.

On July 27, 2015, the Group and its partners SBM Holding Luxembourg S.à.r.l. ("SBM Lux"), Mitsubishi Corporation ("Mitsubishi") and Nippon Yusen Kabushiki Kaisha ("NYK Line"), through the joint venture Beta Lula Central S.à.r.l., signed a loan facility amounting to US$1.55 billion with a pool of international commercial banks and export credit agencies, in order to finance the construction of the FPSO Cidade de Saquarema. The loan agreement was structured as a Limited Recourse Project Finance and will be repaid on a quarterly basis as from September 2016 over a period ending June 2030. Until September 30, 2016, Beta Lula Central S.á.r.l. disbursed US$1.54 billion. Additional disbursements are no longer available under the facility.

The financing obtained by Beta Lula Central S.à.r.l. in order to finance the construction of the FPSO Cidade de Saquarema was structured as a Project Finance, therefore benefiting from a customary security package and, exclusively during the pre-completion period, corporate guarantees that are provided by the sponsors of the project loan, up to the limit of its participation in Beta Lula Central S.à.r.l..

During the pre-completion period, the financing obtained by Beta Lula Central S.à.r.l. is subject to financial covenants. Noncompliance with such financial covenants could constitute an event of default under the project loan, which would result in the acceleration of debt repayment and the borrower entity not being allowed to pay dividends, purchase, retire or otherwise distribute capital stock and make certain payments to related parties.

The financial covenants consist of: (i) a minimum requirement of Consolidated Tangible Net Worth; (ii) a minimum requirement of Consolidated Cash and Cash Equivalents and Marketable Securities; (iii) Interest Cover Ratio, which requires maintenance of a minimum Consolidated Adjusted EBITDA to Consolidated Net Interest Payable ratio; (iv) Leverage Ratio, which requires a maximum ratio of Consolidated Net Total Borrowings to Consolidated Adjusted EBITDA. 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 June 30, 2016 and December 31, 2015, the Group was in compliance with such restrictive clauses.

- ✓ Beta Lula Central Holding Ltd.'s main activity will be to support operations for agreements in the offshore oil and gas industry. This entity is a shareholder of a Brazilian entity, Beta Lula Central Operações Marítimas Ltda., which will operate the FPSO Cidade de Maricá to Petrobras for a 20-year period.

  Additionally, the Group has the right to acquire from SBM Lux an additional participation of 5% in Alfa Lula Alto S.à.r.l., Alfa Lula Alto Holding Ltd., Beta Lula Central S.à.r.l. and Beta Lula Central Holding Ltd. within fifteen days of the FPSOs final acceptance, based on the capital invested by SBM Lux plus interest of 8% p.a. The Group did not exercise such right in relation to FPSO Cidade de Maricá.

<u>Other matters regarding the Group's investments</u>

<u>Partnership with SBM Offshore N.V. - Contingent Liability</u>

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

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

In February 2016, SBM Offshore announced that the United States Department of Justice ("U.S. DoJ") had re-opened its past inquiry of SBM Offshore and had made information requests in connection with that inquiry. In May 2016, SBM Offshore announced that was cooperating with the U.S. DoJ in its enquiries.

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

- ✓ A cash payment by SBM Offshore totaling US$162.8 million, to be paid in three installments; and

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

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

In November 2016, SBM Offshore announced that the Fifth Chamber upheld its decision of September 1, 2016, in which the Leniency Agreement, as per the current terms, was not approved, and referred the matter, including review of the appeals filed by the AGU and the MPF, to the Higher Council of the MPF (*Conselho Institucional*) for further consideration and decision. SBM Offshore also announced that is not under any obligation to make payments under the Leniency Agreement until it is binding upon all parties. Finally, SBM Offshore informed that it is currently not possible to predict the timing or final outcome of these developments and will update the market accordingly.

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

10. PROPERTY, PLANT AND EQUIPMENT

	Drillship under construction [(a)]	Drilling rigs and drillships in operation [(b)] — Drillships: Brava Star	Drillships: Amaralina Star	Drillships: Laguna Star	Offshore drilling rigs: Alaskan Star	Offshore drilling rigs: Atlantic Star	Offshore drilling rigs: Alpha Star	Offshore drilling rigs: Gold Star	Offshore drilling rigs: Lone Star	Offshore drilling rigs: Olinda Star	Onshore drilling rigs, equipment and bases	Corporate	Total
Cost													
Balance as of December 31, 2014	631,712	-	645,409	650,567	379,191	344,814	721,906	542,916	648,264	542,886	176,665	29,046	5,313,376
Additions	56,881	-	2,633	4,175	281	1,105	582	29,011	7,968	13,531	(768)	539	115,938
Disposals	-	-	-	-	-	-	-	-	-	-	-	(245)	(245)
Transfers	(688,593)	688,593	-	-	-	-	-	-	-	-	-	-	-
Currency translation adjustments	-	-	-	-	-	-	-	-	-	-	(28,208)	(4,789)	(32,997)
Balance as of September 30, 2015	-	688,593	648,042	654,742	379,472	345,919	722,488	571,927	656,232	556,417	147,689	24,551	5,396,072
Balance as of December 31, 2015	-	691,780	652,721	657,052	379,951	346,665	722,622	586,407	673,397	558,009	150,953	24,779	5,444,336
Additions	-	2,971	4,357	4,530	1,216	1,628	7,629	3,277	31,023	2,299	3,393	506	62,829
Disposals	-	-	-	-	-	-	-	-	-	-	(10)	(166)	(176)
Currency translation adjustments	-	-	-	-	-	-	-	-	-	-	12,126	2,049	14,175
Balance as of September 30, 2016	-	694,751	657,078	661,582	381,167	348,293	730,251	589,684	704,420	560,308	166,462	27,168	5,521,164
Accumulated depreciation and impairment													
Balance as of December 31, 2014	-	-	(58,692)	(54,699)	(100,477)	(106,244)	(101,239)	(108,957)	(108,395)	(126,936)	(81,069)	(17,800)	(864,508)
Depreciation	-	(2,582)	(19,662)	(19,752)	(12,258)	(11,071)	(19,396)	(16,075)	(19,876)	(17,722)	(8,018)	(1,710)	(148,122)
Disposals	-	-	-	-	-	-	-	-	-	-	-	195	195
Currency translation adjustments	-	-	-	-	-	-	-	-	-	-	16,655	2,363	19,018
Balance as of September 30, 2015	-	(2,582)	(78,354)	(74,451)	(112,735)	(117,315)	(120,635)	(125,032)	(128,271)	(144,658)	(72,432)	(16,952)	(993,417)
Balance as of December 31, 2015 [(c)]	-	(10,418)	(84,953)	(81,079)	(116,781)	(121,038)	(127,104)	(131,638)	(135,062)	(196,096)	(93,972)	(18,172)	(1,116,313)
Depreciation	-	(23,574)	(20,233)	(20,308)	(12,152)	(11,324)	(19,403)	(20,513)	(23,442)	(18,481)	(5,766)	(2,739)	(177,935)
Disposals	-	-	-	-	-	-	-	-	-	-	(257)	129	(128)
Impairment losses recognised in profit or loss [(d)]	-	-	-	-	(237,234)	-	-	-	-	-	-	-	(237,234)
Currency translation adjustments	-	-	-	-	-	-	-	-	-	-	(8,109)	(1,162)	(9,271)
Balance as of September 30, 2016	-	(33,992)	(105,186)	(101,387)	(366,167)	(132,362)	(146,507)	(152,151)	(158,504)	(214,577)	(108,104)	(21,944)	(1,540,881)
Property, plant and equipment, net													
December 31, 2015 [(c)]	-	681,362	567,768	575,973	263,170	225,627	595,518	454,769	538,335	361,913	56,981	6,607	4,328,023
September 30, 2016	-	660,759	551,892	560,195	15,000	215,931	583,744	437,533	545,916	345,731	58,358	5,224	3,980,283
Average useful life (years)		23	25	25	23	23	28	27	26	24	17	15	

(a) As of September 30, 2015 and December 31, 2014, the balance of drillship under construction refers to the costs incurred in the Brava Star drillship construction. Borrowing costs were capitalized based on the effective interest rates of each financing agreement. For the nine-month period ended September 30, 2015, interest and fair value adjustments capitalized in PP&E totaled US$12,521 and US$1,369, respectively (Notes 11, 14 and 24).

(b) The Group's assets that are pledged as security for financing agreements are also disclosed in Note 11.

(c) On December 31, 2015, the Group conducted an impairment test for its onshore and offshore drilling rigs and drillships. The impairment test resulted in an impairment loss recognition in the amount of US$44,585 related to the Olinda Star offshore drilling rig and US$18,527 related to seven onshore drilling rigs. The impairment loss for the offshore drilling rig was based on future market expectations for day rates in the oil and gas industry. The estimated future cash flows are primarily based on expectations regarding day rates, drilling rigs and drillships utilization and operating costs. The cash flows are estimated over the remaining useful economic lives of the drilling rigs and drillships and discounted using the weighted average cost of capital ("WACC"). The assumptions used in the estimated future cash flows were derived from unobservable data and are based on Management's judgments and assumptions available at the time of performing the impairment test. The impairment loss for onshore drilling rigs was calculated by determining fair value less costs of disposal of these assets.

(d) On September 30, 2016, the Group conducted an impairment test for the Alaskan Star offshore drilling rig based on the charter and service-rendering agreements expiration by November 13, 2016 and the absence of a new contract in the near future. In addition, expectations of low market demand to this rig lead the Group to re-evaluate the viability of new capital investments in the Alaskan Star offshore drilling rig.

The impairment loss has been recognized for the amount by which the Alaskan Star offshore drilling rig's carrying amount exceeded its recoverable amount (i.e., fair value less costs of disposal of the asset). The impairment loss in the amount of US$237,234 has been included in "Other income/(expenses)" (Note 18).

Except for the Alaskan Star offshore drilling, as of September 30, 2016, the Group did not identify new events or changes in circumstances that would require an additional impairment analysis for the nine-month period then ended for the other drilling rigs and drillships.

11. LOANS AND FINANCINGS

Financial institution	Funding type	Objective	Beginning period	Maturity	Contractual interest rate	Effective interest rate	Currency	September 30, 2016	December 31, 2015
Santander, HSBC, Citibank (joint bookrunners)	Senior Notes ("Project Bond")	Refinance Alaskan Star and Atlantic Star rigs, and other corporate purposes	Jul/2011	Jul/2018	5.25%p.a.	5.55%p.a.	U.S. dollar	203,862	259,247
HSBC, BAML and Citibank (joint bookrunners)	Senior Unsecured Notes ("Corporate Bond")	Prepay working capital loans	Nov/2012	Nov/2019	6.25%p.a.	6.86%p.a.	U.S. dollar	708,638	695,653
							Subtotal - fixed interest rate	912,500	954,900
Bradesco	Loan	Working capital	Sep/2014	May/2017	Libor+3.05%p.a.	3.05%p.a.	U.S. dollar	151,054	152,197
Bradesco	Loan	Working capital	Jan/2015	Jan/2017	Libor+4.80%p.a.	5.16%p.a.	U.S. dollar	75,699	76,681
							Subtotal - variable interest rate loans	226,753	228,878
ING (leader arranger)	Financing	Gold Star rig construction[1]	Jul/2007	Dec/2017	Libor+1.15%p.a. to Libor+1.35%p.a.	1.90%p.a.	U.S. dollar	68,560	122,171
Citibank and Santander (joint leader arrangers)	Financing	Alpha Star rig construction	Apr/2011	Jul/2017	Libor+2.50%p.a.	3.53%p.a.	U.S. dollar	197,253	260,323
BNP, Citi and ING (leader arrangers) and The Norwegian Ministry of Trade and Industry ("MTI")	Financing	Amaralina Star drillship construction	May/2012	Oct/2018[2]	Libor+2.75%	3.87%p.a.	U.S. dollar	255,775	296,185
BNP, Citi and ING (leader arrangers) and The Norwegian Ministry of Trade and Industry ("MTI")	Financing	Laguna Star drillship construction	May/2012	Dec/2018[2]	Libor+2.75%	4.01%p.a.	U.S. dollar	263,566	303,407
BNP, Citi, ING and DNB (leader arrangers) and Eksportkreditt Norge ("EKN")	Financing	Brava Star drillship construction	May/2015	Sep/2020[3]	Libor+2.00%	3.54%p.a.	U.S. dollar	421,057	455,486
							Subtotal - variable interest rate financings	1,206,211	1,437,572
							Total	2,345,464	2,621,350
							Current	728,611	390,075
							Non-current	1,616,853	2,231,275

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

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

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

a) Changes in loans and financings

	Nine-month period ended September 30,	
	2016	2015
Balance as of January 1	2,621,350	2,434,727
Additions (*)	-	634,396
Transaction costs (*)	-	(8,453)
Proceeds from loans and financings, net of transaction costs	-	625,943
Principal repayment	(294,357)	(332,363)
Interest capitalized	-	12,521
Interest payment	(67,994)	(63,467)
Subtotal	2,258,999	2,677,361
Interest charged through profit and loss	79,111	67,767
Transaction cost charged through profit and loss	6,020	5,559
Debt discounts charged through profit and loss	1,334	1,480
Financial expenses on loans and financings	86,465	74,806
Balance as of September 30,	2,345,464	2,752,167

(*) The additions and transaction costs for the nine-month period ended September 30, 2015, are related to working capital credit lines and the loan agreement related to the Brava Star drillship construction.

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

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

b) Loans and financings long term amortization schedule

Year ending December 31,	Gross amount	Transaction costs	Debt discounts	Net amount
2017	97,090	(1,452)	(389)	95,249
2018	513,312	(5,676)	(1,455)	506,181
2019	747,486	(2,735)	(1,191)	743,560
2020	273,047	(1,184)	-	271,863
Total	1,630,935	(11,047)	(3,035)	1,616,853

c) Covenants

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

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

The aforementioned financial covenants related to the financing of the Gold Star offshore drilling rig construction are assessed semi-annually based on the consolidated financial statements as of December 31 and June 30 of each year. As of June 30, 2016 and December 31, 2015, the Group was in compliance with such restrictive clauses.

The financial covenants related to financings of Alpha Star, Alaskan Star, Atlantic Star, Amaralina Star, Laguna Star and Brava Star consist of Debt Service Coverage Ratio which requires a minimum ratio of Net Operating Cash Flow to Debt Service.

The Debt Service Coverage Ratio is assessed quarterly for dividends distribution and semi-annually for the compliance with such financial covenants. As of September 30, 2016 and December 31, 2015, the Group was in compliance with such restrictive clauses.

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

d) Guarantees

The financings obtained by the Group in order to finance the construction of the drilling rigs, drillships and for other corporate purposes are usually structured as Project Finance/Project Bond; therefore benefiting from a customary security package that includes guarantees such as assignment of the charter receivables, mortgages over the drilling rigs and drillships, pledges over the shares of the drilling rigs owners, charges over the relevant bank accounts held at the facility agents, including accounts into which the amounts payable under charter agreements are required to be paid, assignment of the relevant insurances along with corporate guarantees during pre-completion period.

In addition, the terms of some of these financing debt instruments restrict the ability of project subsidiaries to pay dividends, incur additional debt, grant additional liens, sell or dispose assets and enter into certain acquisitions, mergers and consolidations, except as already established in such financing debt instruments.

The aforementioned conditions are applied to the following offshore drilling rigs financings: Gold Star, Alpha Star, Alaskan Star and Atlantic Star; and the Project Financing of Amaralina Star, Laguna Star and Brava Star drillships.

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

12. PROVISIONS

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

	Nine-month period ended September 30,	
	2016	2015
Balance as of January 1	4,570	1,551
Brava Star penalty provision/(reversal)	(352)	3,318
Brava Star penalty payment	(3,191)	-
Foreign exchange rate variations	208	(317)
Balance as of September 30	1,235	4,552

13. PROVISION FOR CONTINGENCIES

a) Contingent assets

The Group has not recognised contingent assets.

b) Contingent liabilities assessed as probable losses

During the normal course of its business activities, the Group is exposed to labor, civil and tax claims. Regarding each claim or exposure, Management has assessed the probability that the matter resolution would ultimately result in a financial loss for the Group. Therefore, based on such assessment, as of December 31, 2015, provisions to cover probable losses included in "other non-current liabilities" are mainly related to labor claims (hardship and retirement) and a civil litigation with HRT regarding the early termination of the QG-VIII and QG-IX onshore drilling rigs agreements.

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

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

As of September 30, 2016, provisions to cover probable losses included in "other non-current liabilities" are mainly related to labor claims (hardship and retirement).

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

	Nine-month period ended September 30,	
	2016	2015
Balance as of January 1	1,504	1,355
Additions	682	343
Reversals	(949)	(353)
Foreign exchange rate variations	278	(446)
Balance as of September 30	1,515	899

c) Contingent liabilities assessed as possible losses

Based on the Group's in-house legal counsel and external legal advisors' opinions, these claims are not accrued in the consolidated financial statements and consist of labor lawsuits (mainly comprised by compensation due to work related accidents and occupational diseases) in the amount of US$18,399 (US$11,588 as of December 31, 2015), tax lawsuits in the amount of US$26,143 (US$21,061 as of December 31, 2015) and civil lawsuits in the amount of US$15 (US$26 as of December 31, 2015).

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

i. On September 15, 2010, QGOG received a Notice of Violation issued by the tax authorities due to nonpayment of Services Tax ("ISS") in the city of Rio de Janeiro. QGOG argues, on appeal, that the operations were carried out in other municipalities and the taxes were collected under their tax jurisdictions (ISS due to the site of the service provider). As of September 30, 2016 the estimated amount involved is US$4,922 (US$3,526 as of December 31, 2015).

ii. On January 22, 2015, QGOG received a Notice of Violation issued by the Brazilian Internal Revenue Service (*Receita Federal do Brasil - RFB*) related to Social Integration Program ("PIS") and Social Investment Program ("COFINS") collected in the years 2010 and 2011. The RFB initiated a Tax Administrative Process, whereby it requires QGOG to make tax payments, due to the fact that the RFB considered that QGOG made use of improper tax credits aiming to reduce its PIS and COFINS obligations. On February 23, 2015, QGOG argued on appeal in order to contest RFB's tax assessment. As of September 30, 2016 the estimated amount involved is US$20,053 (US$16,671 as of December 31, 2015).

d) Tax, labor and social security matters

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

e) Other matters

Petrobras withholding taxes

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

14. DERIVATIVES

Under the terms of the Project Finance arrangements (Note 11), the Group is contractually required to manage its risk on variable interest rates by eliminating variable-to-fixed interest rate swaps on its long-term variable rate loans. Accordingly, in order to mitigate such risk, interest rate swaps are used to convert the variable component of interest rates to fixed rates ranging from 1.79% p.a. to 5.16% p.a.. The floating component of interest rate of all derivatives agreements is US$ LIBOR.

These swaps protect the Group from fluctuations in interest rates. As of September 30, 2016, the Group has interest rate swaps related to the loans funding Gold Star and Alpha Star offshore drilling rigs, and Amaralina Star, Laguna Star and Brava Star drillships. The swap agreements cover the expected periods of the loans and terminate between 2017 and 2020.

Information on derivative agreements

Interest rate swaps US$ LIBOR/Pre-fixed rate

Financial institution	Loans and financings objective	Payable leg interest rate (per annum)	Maturity	Notional amount Sept. 30, 2016	Notional amount Dec. 31, 2015	Fair value Sept.30, 2016	Fair value Dec. 31, 2015
ING (leader arranger)	Gold Star construction	5.16%	Jul/2017	57,435	100,640	1,523	4,435
Citibank and Santander (joint leader arranger)	Alpha Star construction	1.93%	Jul/2017	208,131	262,852	1,937	3,611
	Non-designated to hedge accounting			265,566	363,492	3,460	8,046
BNP, Citibank and ING (joint leader arranger) (*)	Amaralina Star construction	2.81%	Oct/2018	263,983	305,282	8,551	10,845
BNP, Citibank and ING (joint leader arranger) (*)	Laguna Star construction	2.90%	Dec/2018	272,471	313,249	9,790	12,065
BNP, Citi, ING and DNB (mandated leader arranger) (*)	Brava Star construction	1.79%	Sep/2020	192,942	209,021	4,326	1,693
BNP and ING (mandated leader arranger) (*)	Brava Star construction	1.84%	Sep/2020	191,808	207,792	4,588	2,030
	Designated to hedge accounting			921,204	1,035,344	27,255	26,633
	Total amount			1,186,770	1,398,836	30,715	34,679
	Non-current assets					-	896
	Current liabilities					16,630	24,377
	Non-current liabilities					14,085	11,198

Changes in fair values are as follows:

	Three-month period ended September 30, 2016	Three-month period ended September 30, 2015
Balance as of July 1,	40,871	46,185
Fair value adjustments capitalized	-	955
Fair value adjustments through profit and loss	1,649	2,610
Fair value adjustments through other comprehensive income(*)	(5,623)	10,365
Cash payments	(6,182)	(7,416)
Balance as of September 30,	30,715	52,699

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
Balance as of January 1,	34,679	50,193
Fair value adjustments capitalized	-	1,369
Fair value adjustments through profit and loss	6,841	5,791
Fair value adjustments through other comprehensive income(*)	9,258	18,910
Cash payments	(20,063)	(23,564)
Balance as of September 30,	30,715	52,699

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

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

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

In connection with the project financings (Note 11) for the construction of Amaralina Star, Laguna Star and Brava Star drillships, the Group has a contractual commitment with the same financial institutions to contract derivatives as hedging instrument of the debt in relation to changes in LIBOR. Accordingly, the Group has swap agreements in connection with the rates, spreads, notional, terms and debt cash flows. The swap agreements were contracted in July 2011 and June 2015 and follow the related project financings terms.

15. SHAREHOLDERS' EQUITY

a. Share capital

As of September 30, 2016 and December 31, 2015, the Company's share capital amounts to US$63,200 comprised by 189,227,364 ordinary shares, with no par value, as follows:

		September 30, 2016 and December 31, 2015			
			Rights over the amounts		
Shareholders	Ownership interest (%)	Ordinary shares	Share capital	Share premium	Total
Queiroz Galvão Oil & Gas International S.à.r.l.	74.14	140,293,142	46,857	568,328	615,185
Constellation Holdings S.à.r.l.	9.37	17,739,099	5,925	71,861	77,786
Constellation Coinvestment S.à.r.l.	8.23	15,570,123	5,200	63,075	68,275
CIPEF VI QGOG S.à.r.l.	8.10	15,321,875	5,117	62,069	67,186
CGPE VI, L.P.	0.16	303,125	101	1,228	1,329
Total		189,227,364	63,200	766,561	829,761

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

b. Legal reserve

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

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

For the year ended December 31, 2015, the Company did not constitute legal reserve due to the fact that it has no retained earnings for the year then ended in accordance with LuxGAAP.

c. Shareholders distribution policy

The form of distribution to shareholders, whether as dividends, repayment of share premium or repurchase of own shares is based upon the Company's stand-alone statutory financial statements prepared in accordance with LuxGAAP, which must comply with Luxembourg laws and regulations. Additionally, any distribution of statutory profits to the shareholders will be subject to a Luxembourg withholding tax rate of 15% (17.65% if the dividend tax is not charged to the shareholder), subject to the exceptions provided by the Luxembourg tax law or by double tax treaties concluded by the Grand Duchy of Luxembourg and the country of the shareholders tax residency. The withholding tax must be withheld from the gross distribution and paid to the Luxembourg tax authorities.

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

On June 27, 2016 and December 21, 2015, as approved by extraordinary general meetings of shareholders, the Company fully paid the amounts of US$94,416 and US$66,000, respectively, as partial repayments of the share premium account in the Company's stand-alone statutory financial statements prepared in accordance with LUXGAAP. In accordance with Luxembourg tax law, the repayments of share premium were not subject to withholding tax.

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

d. Other Comprehensive Items (OCI)

Cash flow hedging reserve

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

Foreign currency translation adjustments reserve

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

Changes in Other Comprehensive Items

Changes in comprehensive income for the three-month periods ended September 30, 2016 and 2015 are as follows:

	Cash flow hedge fair value adjustments attributable to					
	Owners of the Group	Non-controlling interests	Total	Share of investments' other comprehensive loss	Foreign currency translation adjustments	Total
Balance as of July 1, 2016	(18,081)	(4,739)	(22,820)	(30,301)	(5,677)	(58,798)
Fair value adjustments on:						
Derivative agreements	4,611	1,012	5,623	-	-	5,623
Joint ventures' derivative agreements	-	-	-	3,922	-	3,922
Exchange differences:						
On investments arising during the period	-	-	-	112	-	112
Arising during the period	-	-	-	-	(1,026)	(1,026)
Balance as of September 30, 2016	(13,470)	(3,727)	(17,197)	(26,267)	(6,703)	(50,167)
Balance as of July 1, 2015	(4,783)	(1,564)	(6,347)	(13,062)	(6,958)	(26,367)
Fair value adjustments on:						
Derivative agreements	(8,255)	(2,110)	(10,365)	-	-	(10,365)
Joint ventures' derivative agreements	-	-	-	(5,564)	-	(5,564)
Associates' financial assets	-	-	-	(73)	-	(73)
Exchange differences:						
On investments arising during the period	-	-	-	371	-	371
Arising during the period	-	-	-	-	(12,113)	(12,113)
Balance as of September 30, 2015	(13,038)	(3,674)	(16,721)	(18,328)	(19,071)	(54,111)

Changes in Other Comprehensive Items

Changes in comprehensive income for the nine-month periods ended September 30, 2016 and 2015 are as follows:

	Cash flow hedge fair value adjustments attributable to					
	Owners of the Group	Non-controlling interests	Total	Share of investments' other comprehensive loss	Foreign currency translation adjustments	Total
Balance as of December 31, 2015	(6,042)	(1,897)	(7,939)	(13,872)	(18,851)	(40,662)
Fair value adjustments on:						
Derivative agreements	(7,428)	(1,830)	(9,258)	-	-	(9,258)
Joint ventures' derivative agreements	-	-	-	(11,015)	-	(11,015)
Associates' financial assets	-	-	-	123	-	123
Exchange differences:						
On investments arising during the period	-	-	-	(1,503)	-	(1,503)
Arising during the period	-	-	-	-	12,148	12,148
Balance as of September 30, 2016	(13,470)	(3,727)	(17,197)	(26,267)	(6,703)	(50,167)
Balance as of December 31, 2014	1,208	990	2,198	(15,330)	3,032	(10,100)
Fair value adjustments on:						
Derivative agreements	(14,246)	(4,664)	(18,910)	-	-	(18,910)
Joint ventures' derivative agreements	-	-	-	(4,674)	-	(4,674)
Associates' financial assets	-	-	-	(110)	-	(110)
Exchange differences:						
On investments arising during the period	-	-	-	1,786	-	1,786
Arising during the period	-	-	-	-	(22,103)	(22,103)
Balance as of September 30, 2015	(13,038)	(3,674)	(16,172)	(18,328)	(19,071)	(54,111)

e. Non-controlling interests

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

f. Profit/(loss) per share

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

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2016	2015	2016	2015
Profit/(loss) attributable to the owners of the Group	(135,368)	91,228	64,569	248,462
Weighted average number of ordinary shares for calculation purposes (thousands of shares) (*)	189,227	189,227	189,227	189,227
Basic and diluted profit/(loss) per share (in U.S. dollars)	(0.72)	0.48	0.34	1.31

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

16. NET OPERATING REVENUE

The Group's operating revenue is mainly derived from charter and service-rendering agreements. During the nine-month periods ended September 30, 2016 and 2015, Petrobras has accounted for 99% and 93%, respectively, of total revenues.

Net operating revenue is presented after the following items:

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2016	2015	2016	2015
Gross operating revenue	298,794	268,552	880,299	789,809
Taxes levied on revenue:				
Social Integration Program (PIS)	(893)	(804)	(2,547)	(2,658)
Social Investment Program (COFINS)	(4,113)	(3,699)	(11,759)	(12,249)
Services Tax (ISS)	(1,082)	(920)	(3,131)	(3,158)
Withholding Income tax (IRRF)	(783)	-	(2,986)	-
Net operating revenue	291,923	263,129	859,876	771,744

17. COST OF SERVICES AND OPERATING EXPENSES

Costs and expenses by nature	Three-month period ended September 30, 2016: Cost of services	2016: General and administrative expenses	2016: Total	2015: Cost of services	2015: General and administrative expenses	2015: Total
Payroll, charges and benefits	(40,342)	(6,614)	(46,956)	(39,069)	(5,127)	(44,196)
Depreciation	(59,600)	(196)	(59,796)	(52,114)	(187)	(52,301)
Materials	(19,514)	-	(19,514)	(14,601)	-	(14,601)
Maintenance	(14,086)	-	(14,086)	(12,740)	-	(12,740)
Insurance	(4,259)	-	(4,259)	(4,203)	-	(4,203)
Other (i)/(ii)	(5,947)	(4,505)	(10,452)	(8,814)	(3,186)	(12,000)
	(143,748)	(11,315)	(155,063)	(131,541)	(8,500)	(140,041)

Costs and expenses by nature	Nine-month period ended September 30, 2016: Cost of services	2016: General and administrative expenses	2016: Total	2015: Cost of services	2015: General and administrative expenses	2015: Total
Payroll, charges and benefits	(118,135)	(19,620)	(137,755)	(133,568)	(18,097)	(151,665)
Depreciation	(177,390)	(545)	(177,935)	(147,493)	(629)	(148,122)
Materials	(45,945)	-	(45,945)	(48,023)	-	(48,023)
Maintenance	(41,705)	-	(41,705)	(42,031)	-	(42,031)
Insurance	(12,920)	-	(12,920)	(13,949)	-	(13,949)
Other (i)/(ii)	(14,194)	(12,373)	(26,567)	(17,574)	(8,510)	(26,084)
	(410,289)	(32,538)	(442,827)	(402,638)	(27,236)	(429,874)

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

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

18. OTHER INCOME (EXPENSES), NET

	Three-month period ended September 30, 2016	2015	Nine-month period ended September 30, 2016	2015
Contractual fee (i)	8,289	-	17,481	-
Tax reimbursement (ii)	-	-	-	2,186
Revenue from sales of PP&E	58	101	134	303
Other	48	34	113	218
Other income	8,395	135	17,728	2,707
Provision of impairment (Note 10)	(237,234)	-	(237,234)	-
Inventory write-down (Note 7)	(9,846)	-	(9,846)	-
Penalties (Note 12)	352	(358)	352	(3,318)
Cost of PP&E sold	(286)	(9)	(304)	(50)
Other expenses	(247,014)	(367)	(247,032)	(3,368)
Total income (expenses), net	(238,619)	232	(229,304)	(661)

(i) Mainly refers to a contractual payment in connection with the first oil achievement by the FPSO Cidade de Maricá (Notes 8.h and 9).

(ii) Tax reimbursement received form the Swiss Tax Authority related to withholding income tax levied on dividends received form SBM Espírito do Mar Inc. in 2013.

19. FINANCIAL EXPENSES, NET

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2016	2015	2016	2015
Interest on short-term investments	1,219	1,222	3,780	2,848
Financial income from related parties	1,884	1,814	5,276	5,648
Other financial income	494	9	1,308	124
Financial income	3,597	3,045	10,364	8,620
Financial expenses on loans and financings	(27,995)	(26,725)	(86,465)	(74,806)
Derivative expenses	(1,649)	(2,610)	(6,841)	(5,791)
Financial expenses from related parties	(378)	(380)	(1,045)	(1,341)
Other financial expenses	(3,258)	(2,743)	(7,076)	(5,217)
Financial expenses	(33,280)	(32,458)	(101,427)	(87,155)
Foreign exchange variation gain/(loss), net	(274)	140	(519)	349
Financial expenses, net	(29,957)	(29,273)	(91,582)	(78,186)

20. TAXES

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

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

a) Recoverable taxes

	September 30, 2016	December 31, 2015
Social Security Contribution (INSS) (*)	8,638	10,742
Income tax (IRPJ) and social contribution (CSLL)	1,285	-
Total	9,923	10,742
Current	2,390	10,742
Non-current	7,533	-

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

b) Taxes payables

	September 30, 2016	December 31, 2015
Services Tax (ISS)	1,992	1,873
Income tax (IRPJ) and social contribution (CSLL)	157	6,999
Social Integration Program (PIS) and Social Investment Program (COFINS)	485	687
Total	2,634	9,559

c) Deferred tax assets

	September 30, 2016	December 31, 2015
Income tax (IRPJ) and social contribution (CSLL) (*)	5,093	2,378
Taxes levied on revenue (PIS/COFINS/ISS)	-	200
Total	5,093	2,578
Current	-	200
Non-current	5,093	2,378

(*) Refer to temporary differences and tax loss carryforwards from QGOG's operations aiming the compensation in the near future based on reliable taxable profits estimate.

d) Effect of income tax results

The tax rate used for the three and nine-month periods ended September 30, 2016 and 2015 reconciliations below refers to the corporate nominal tax rate of 34% in accordance with Brazilian tax legislation, jurisdiction in which QGOG (Brazilian subsidiary) operates.

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

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2016	2015	2016	2015
Profit before taxes	(127,013)	98,795	94,728	281,069
Income tax and social contribution at nominal rate (*)	(2,167)	(3,208)	(10,385)	(15,343)
Adjustments to derive effective tax rate:				
Non-deductible expenses	(959)	(43)	(1,384)	(1,375)
Deferred income tax on temporary differences	-	(276)	-	666
Other	(269)	238	140	289
Taxes	(3,395)	(3,289)	(11,629)	(15,763)
Current taxes	(3,835)	(3,013)	(13,686)	(16,429)
Deferred taxes	440	(276)	2,057	666

(*) Nominal tax rate applied on QGOG's profit before tax.

21. FINANCIAL INSTRUMENTS

a) General considerations

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

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

		September 30, 2016		December 31, 2015	
	Category	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Cash and bank deposits	Loans and receivables	128,567	128,567	42,772	42,772
Cash equivalents	Fair value through profit or loss	252,006	252,006	112,038	112,038
Short-term investments	Fair value through profit or loss	47,535	47,535	246,871	246,871
Restricted cash	Fair value through profit or loss	42,742	42,742	21,744	21,744
Trade and other receivables	Loans and receivables	98,124	98,124	109,455	109,455
Receivables from related parties	Loans and receivables	336,241	336,241	316,797	316,797
Financial liabilities					
Loans and financings	Other financial liabilities	2,345,464	1,926,523	2,621,350	2,183,821
Trade and other payables	Other financial liabilities	24,167	24,167	26,566	26,566
Payables to related parties	Other financial liabilities	303,177	303,177	289,317	289,317
Derivatives	Fair value through profit or loss	30,715	30,715	35,575	35,575

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

Management believes that there is no significant risk of short-term fluctuations in the day rates of its charter agreements considering that the majority agreements are long-term.

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

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

Fair value hierarchy

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

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

IFRS 7 also establishes a 3-levels hierarchy to be used in order to measure and disclose the fair value. A categorization tool in the fair value hierarchy is based on the lowest level of "input" significant for its measurement. A description of the 3 hierarchical levels is as follows:

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

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

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

According to IAS 39 - *Financial Instruments: Recognition and Measurement*, the Group measures its 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, due to the fact that they are measured using market prices for identical instruments. Derivative financial instruments are classified as Level 2, due to the fact that they are measured using similar financial instruments.

Financial instruments fair value measurement

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

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

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

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

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

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

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

b) Financial risk management

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

<u>Liquidity risk</u>

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

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

As of September 30, 2016, the Group presents working capital deficiency in the amount of US$158,196 due to working capital loans maturing in January and May of 2017 and the current portion of its loans and financings (Note 11). Management considers that the working capital deficiency is supported by the cash flow generation of the Group's existing long-term agreements in the regular course of business. Management is also exploring other opportunities to obtain additional long-term financings.

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

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

Period	Trade payables	Loans and financings	Derivatives	Payables to related parties	Total
2016	24,167	163,589	7,845	7,169	202,770
2017	-	767,159	14,219	1,690	783,068
2018	-	579,944	7,442	5,390	592,776
2019	-	801,377	1,441	64,828	867,646
2020	-	282,319	645	442,637	725,601
Total	24,167	2,594,388	31,592	521,714	3,171,861

Credit risk

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

For the nine-month periods ended September 30, 2016 and 2015, Petrobras has accounted for 99% and 93%, respectively, 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.

Petrobras is an independent third party of the Group and has valid agreements until 2036 (including the agreements entered into by the Group's associate and joint venture entities).

As disclosed in Note 1, following the press release issued by Petrobras on December 29, 2014, QGOG received a notice from Petrobras, temporarily suspending it from entering into direct contracts and participating in bids for new contracts. On November 20, 2015, the CGU excluded QGOG from the administrative procedure and, subsequently, on January 28, 2016, Petrobras reversed the aforementioned temporary suspension and also closed the administrative procedure against QGOG.

The majority of the Group's fleet is hired under long-term agreements. Moreover, the Group owns an offshore fleet that can operate globally and is seeking customer diversification and internationalization as part of its strategy, capitalizing on its strong operational track record.

Market Risk (interest rate risk)

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

As a result of the swaps in place at the balance sheet date, the Group's exposure to changes in interest rate expense as a result of fluctuations in US$ LIBOR is in respect of changes in fair values of the respective interest rate swaps. These interest rate swaps are held at fair value in the consolidated statement of financial position (Note 14). The fair value of these instruments is affected by factors including market expectations for future changes to US$ LIBOR. Changes to these expectations affect the value of the Group's swaps, producing effects in the consolidated statement of operations and consolidated statement of comprehensive income unless such changes are capitalized.

Interest rate sensitivity analysis

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

If the US$ LIBOR had been 0.1 percent higher/lower and all other variables were held constant, the Group's comprehensive income would be impacted as follows:

Risk: interest rate variation	September 30, 2016	Scenario I (i)	Scenario II (ii)
		Increase/ (decrease) in P&L	
Variable interest rate loans (Note 11)	226,753	(227)	227
Variable interest rate financings (Note 11)	1,206,211	(1,206)	1,206
Derivatives (Note 14)	(1,186,770)	1,187	(1,187)
Total	19,441	(19)	19
		Increase/ (decrease) in OCI	
Hedge derivatives (Note 14)	(921,204)	921	(921)

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

c) Capital management

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

	September 30, 2016	December 31, 2015
Loans and financings [(a)]	2,345,464	2,621,350
Cash transactions [(b)]	(470,850)	(423,425)
Net debt	1,874,614	2,197,925
Shareholders' equity [(c)]	2,427,596	2,448,418
Net debt ratio $[(a) + (b)] \div [(a) + (b) + (c)]$	44%	47%

(a) Consider all loans and financings.

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

(c) Includes all shareholders' equity accounts.

22. INSURANCE

As of September 30, 2016 and December 31, 2015, major assets or interests covered by insurance policies and their respective amounts are summarized below:

	September 30, 2016	December 31, 2015
Civil liability	2,523,000	2,542,958
Operating risks	5,473,968	5,358,127
Operational headquarter and others	24,254	13,426
Total	8,021,222	7,914,511

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

23. PENSION PLAN

The Group, 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 QGOG, according to the employee's seniority level. The pension plan is managed by Bradesco Vida e Previdência S.A. When employees choose to abandon the plan before the end of payments, the contributions still payable are reduced by the amount already paid by QGOG. Therefore, QGOG's only obligation to the Pension Plan is to make its specified contributions.

For the nine-month periods ended September 30, 2016 and 2015, contributions payable by QGOG at rates specified by the plan rules amounted to US$1,484 and US$1,017, respectively.

24. ADDITIONAL INFORMATION ON CASH FLOWS

	Nine-month period ended September 30, 2016	2015
Non-cash investing activities:		
Derecognition of accrued costs of the drillship under mobilization	-	(390,697)
Borrowing costs capitalized, net of hedging adjustments (Notes 10, 11 and 14)	-	13,890
Intercompany loans to Beta Lula Central S.à.r.l.	-	4,660
Capital increase in Beta Lula Central S.à.r.l.	-	2,621
	-	(369,526)

25. SEASONALITY

There is no seasonality impact over the Group's charter and service-rendering agreements.

26. SUBSEQUENT EVENTS

Alpha Star offshore drilling rig scheduled 5-year survey

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

Onshore drilling rig QG-VIII charter and drilling services agreements

On October 3, 2016, the Group signed agreements to charter the onshore drilling rig QG-VIII and render drilling services for Rosneft Brasil E&P Ltda. ("Rosneft"). The mobilization is expected to occur after 60 days from Rosneft notice. The purpose of the agreements is to drill one oil well in the Solimões Basin (Brazil), using the onshore drilling rig QG-VIII under a 170-days minimum term. The agreements can be extended by two periods of one year by mutual agreement between the parties.

Call option agreement exercise with QG S.A.

The Group exercised the call option agreement with QG S.A. The actual transference of the shares and payment of the remaining amount occurred in November 2016 (Note 2).

27. APPROVAL OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved by the Company's management and authorized for issue on November 24, 2016.