QGOG Constellation S.A.

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

Deloitte Touche Tohmatsu Auditores Independentes

TABLE OF CONTENTS

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
To the Board of Directors and Shareholders of
QGOG Constellation S.A.
Grand Duchy of Luxembourg

Introduction

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

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

Scope of Review

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

Basis for Qualified Conclusion

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

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

As disclosed in Note 9 of the condensed consolidated interim financial information, as of September 30, 2017, the Investees presents shareholders' equity deficiency in the aggregate amount of US$1,318,108 thousand (shareholders' equity deficiency in the aggregate amount of US$1,254,936 thousand as of December 31, 2016) and total comprehensive losses in the aggregate amount of US$17,581 thousand and US$60,531 thousand for the three and nine-month periods ended September 30, 2017, respectively (total comprehensive losses in the aggregate amount of US$46,883 thousand and US$89,175 thousand for the three and nine-month periods ended September 30, 2016, respectively). Such balances have not been audited and/or reviewed by any independent auditors.

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

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

Partnership with SBM Offshore N.V. and its subsidiaries - Investments in associate and joint venture entities

The Company has ownership interest in the associate entities FPSO Capixaba Venture S.A. and SBM Espírito do Mar Inc. and in the joint venture entities 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. (all together denominated "Investees") all accounted for by the equity method.

As disclosed in Note 9 of the condensed consolidated interim financial information, as of September 30, 2017, the Company's equity participation in the Investees amounts to US$228,704 thousand (US$219,693 thousand as of December 31, 2016), and the Company's share of the Investees total comprehensive income in the aggregate amount of US$4,336 thousand and US$17,262 thousand for the three and nine-month periods ended September 30, 2017, respectively (total comprehensive income in the aggregate amount of US$8,737 thousand and total comprehensive loss in the aggregate amount of US$1,107 thousand for the three-month and nine-month periods ended September 30, 2016, respectively), are included in the Company's net income for the three and nine-month periods then ended, respectively.

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

Qualified Conclusion

Based on our review, except for the possible effects, if any, of the matters described in the "Basis for Qualified Conclusion" section of our report, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information does not present fairly, in all material respects, the consolidated financial position of the Company as of September 30, 2017, and its consolidated financial performance for the three and nine-month periods then ended and its consolidated cash flows for the nine-month period then ended, in accordance with IAS 34, as issued by the IASB.

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Emphasis of Matter

Material uncertainty related to the going concern basis of accounting

As disclosed in Notes 1 and 21 of the condensed consolidated interim financial information, the Company presents, as of September 30, 2017: (i) net working capital deficiency in the amount of US$179,511 thousand, mainly related to the current portion of its loans and financings and lower operating cash flow generation in the three and nine-month periods then ended; and (ii) a scenario in which all charter and service-rendering agreements will mature within the next twelve months from the date of approval of these condensed consolidated interim financial information.

These conditions indicates that a material uncertainty exists that may cast significant doubts on the Company's ability to continue as a going concern if Management's plans for future actions in relation to its going concern assessment, as disclosed in Note 1, are unsuccessful.

The accompanying condensed consolidated interim financial information have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty. Our conclusion is not qualified in respect of this matter.

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

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

November 28, 2017

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU
Auditores Independentes
Rio de Janeiro, Brazil

QGOG CONSTELLATION S.A.

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

ASSETS	Note	September 30, 2017	December 31, 2016
CURRENT ASSETS			
Cash and cash equivalents	3	110,097	293,189
Short-term investments	4	128,715	113,866
Restricted cash	5	38,972	43,222
Trade and other receivables	6	67,558	81,050
Inventories	7	187,882	184,691
Recoverable taxes	20.a	11,637	4,005
Deferred mobilization costs		8,351	10,999
Receivables from related parties	8	1,475	3,034
Other current assets		18,544	10,226
Total current assets		573,231	744,282
NON-CURRENT ASSETS			
Receivables from related parties	8	372,263	339,096
Derivatives	14	744	946
Other non-current assets		1,150	999
Deferred mobilization costs		707	6,584
Recoverable taxes	20.a	7,244	5,840
Deferred tax assets	20.c	9,054	7,505
Investments	9	246,550	253,268
Property, plant and equipment, net	10	3,800,179	3,921,943
Total non-current assets		4,437,891	4,536,181
TOTAL ASSETS		5,011,122	5,280,463

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 FINANCIAL POSITION AS OF SEPTEMBER 30, 2017
(Amounts expressed in thousands of U.S. dollars - US$'000)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	September 30, 2017	December 31, 2016
CURRENT LIABILITIES			
Loans and financings	11	580,905	674,085
Payroll and related charges		29,679	31,046
Derivatives	14	5,937	12,784
Trade and other payables		28,542	29,488
Payables to related parties	8	1,104	2,049
Taxes payables	20.b	1,722	2,317
Provisions	12	2,516	1,230
Deferred revenues		45,404	62,741
Other current liabilities		56,933	65,251
Total current liabilities		752,742	880,991
NON-CURRENT LIABILITIES			
Loans and financings	11	1,151,340	1,521,604
Payables to related parties	8	337,130	309,871
Derivatives	14	537	3,853
Deferred revenues		2,235	34,397
Other non-current liabilities		1,356	1,604
Total non-current liabilities		1,492,598	1,871,329
TOTAL LIABILITIES		2,245,340	2,752,320
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	(13,863)	(18,352)
Retained earnings		1,898,108	1,678,422
Equity attributable to the owners of the Group		2,704,285	2,480,110
Equity attributable to non-controlling interests	15.e	61,497	48,033
TOTAL SHAREHOLDERS’ EQUITY		2,765,782	2,528,143
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY		5,011,122	5,280,463

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, 2017
(Amounts expressed in thousands of U.S. dollars - US$'000, except per share amounts)

	Note	Three-month period ended September 30, 2017	Three-month period ended September 30, 2016	Nine-month period ended September 30, 2017	Nine-month period ended September 30, 2016
NET OPERATING REVENUE	16	218,655	291,923	725,876	859,876
COST OF SERVICES	17	(133,515)	(143,748)	(397,823)	(410,289)
GROSS PROFIT		85,140	148,175	328,053	449,587
General and administrative expenses	17	(7,909)	(11,315)	(23,627)	(32,538)
Other income	18	477	8,395	1,401	17,728
Other expenses	18	(1,250)	(247,014)	(3,563)	(247,032)
OPERATING PROFIT (LOSS)		76,458	(101,759)	302,264	187,745
Financial income	19	3,959	3,597	11,873	10,364
Financial expenses	19	(37,353)	(33,280)	(99,623)	(101,427)
Foreign exchange variation loss, net	19	(538)	(274)	(640)	(519)
FINANCIAL EXPENSES, NET		(33,932)	(29,957)	(88,390)	(91,582)
Share of results of investments	9	4,336	4,703	17,262	(1,435)
PROFIT (LOSS) BEFORE TAXES		46,862	(127,013)	231,136	94,728
Taxes	20.d	3,088	(3,395)	1,063	(11,629)
PROFIT (LOSS) FOR THE PERIOD		49,950	(130,408)	232,199	83,099
Profit (loss) attributable to:					
Owners of the Group		43,957	(135,368)	219,686	64,569
Non-controlling interests		5,993	4,960	12,513	18,530
Profit (loss) per share (in U.S. dollars - US$)					
Basic	15.f	0.23	(0.72)	1.16	0.34
Diluted	15.f	0.23	(0.72)	1.16	0.34

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

QGOG CONSTELLATION S.A.

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

		Three-month period ended September 30,		Nine-month period ended September 30,	
	Note	2017	2016	2017	2016
PROFIT (LOSS) FOR THE PERIOD		49,950	(130,408)	232,199	83,099
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges fair value adjustments	14/15.d	1,222	5,623	3,033	(9,258)
Share of investments' other comprehensive income (loss)	9/15.d	444	4,034	674	(12,395)
Foreign currency translation adjustments	15.d	3,891	(1,026)	1,733	12,148
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		55,507	(121,777)	237,639	73,594
Comprehensive income (loss) attributable to:					
Owners of the Group		49,315	(127,749)	224,175	56,894
Non-controlling interests		6,192	5,972	13,464	16,700

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 CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2017
(Amounts expressed in thousands of U.S. dollars - US$'000)

					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, 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 loss 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
BALANCE AS OF DECEMBER 31, 2016		63,200	766,561	(9,721)	5,683	(3,749)	(12,156)	(8,130)	(18,352)	1,678,422	2,480,110	48,033	2,528,143
Profit for the period		-	-	-	-	-	-	-	-	219,686	219,686	12,513	232,199
Other comprehensive income for the period	15.d	-	-	-	-	2,082	674	1,733	4,489	-	4,489	951	5,440
Total comprehensive income for the period		-	-	-	-	2,082	674	1,733	4,489	219,686	224,175	13,464	237,639
BALANCE AS OF SEPTEMBER 30, 2017		63,200	766,561	(9,721)	5,683	(1,667)	(11,482)	(6,397)	(13,863)	1,898,108	2,704,285	61,497	2,765,782

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 CASH FLOWS
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2017
(Amounts expressed in thousands of U.S. dollars - US$'000)

	Note	Nine-month period ended September 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		232,199	83,099
Adjustments to reconcile profit for the period to net cash provided by operating activities:			
Depreciation of property, plant and equipment	10/17	172,318	177,935
Loss (gain) on sales of property, plant and equipment, net	18	(41)	170
Impairment loss recognised on property, plant and equipment	10/18	-	237,234
Inventory write-down	18	-	9,846
Share of results of investments	9	(17,262)	1,435
Recognition of deferred mobilization costs		8,525	9,376
Recognition of deferred revenues, net of taxes levied		(51,166)	(46,610)
Financial expenses on loans and financings	11.a/19	90,580	86,465
Financial income from related parties, net	8/19	(4,781)	(4,231)
Fair value loss on derivatives	14/19	3,404	6,841
Provision for employee profit sharing plan		6,913	16,515
Other financial expenses (income), net	19	(813)	2,507
Recognition (reversal) of provisions	12/18	1,250	(352)
Taxes	20.d	(1,063)	11,629
Changes in working capital:			
Decrease/(increase) in short-term investments		(14,199)	203,557
Decrease in trade and other receivables		13,944	15,466
Decrease/(increase) in receivables from related parties		1,536	(1,362)
Increase in inventories		(1,646)	(2,200)
Decrease in recoverable taxes		946	3,912
Decrease/(increase) in deferred taxes		(191)	238
Increase in deferred mobilization costs		-	(8)
Decrease/(increase) in other assets		(2,058)	16,276
Decrease in payroll and related charges		(9,092)	(22,892)
Decrease in trade and other payables		(1,262)	(4,469)
Increase/(decrease) in payables to related parties		(40)	8
Decrease in taxes payables		(551)	(550)
Increase in deferred revenues		1,667	20,787
Decrease in provisions		-	(3,191)
Increase/(decrease) in other liabilities		1,204	(16,062)
Cash provided by operating activities		430,321	801,369
Income tax and social contribution paid		(9,871)	(22,403)
Net cash provided by operating activities		420,450	778,966
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received	9	6,600	-
Capital decrease in investments	9	2,325	14,788
Capital contributions in investments	9	-	(8,316)
Acquisition of property, plant and equipment	10	(50,263)	(62,829)
Proceeds from sales of property, plant and equipment	18	44	134
Net cash used in investing activities		(41,294)	(56,223)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments to related parties		(2,009)	-
Dividends paid	15.c	-	(94,416)
Transaction costs paid	11.a	(23,524)	-
Interest paid on loans and financings	11.a	(73,600)	(67,994)
Cash payments on derivatives	14	(10,332)	(20,063)
Restricted cash	5	4,250	(20,998)
Repayment of principal on loans and financings	11.a	(456,900)	(294,357)
Net cash used in financing activities		(562,115)	(497,828)
Increase (decrease) in cash and cash equivalents		(182,959)	224,915
Cash and cash equivalents at the beginning of the period	3	293,189	154,810
Effects of exchange rate changes on the balance of cash held in foreign currencies		(133)	848
Cash and cash equivalents at the end of the period	3	110,097	380,573

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

1. GENERAL INFORMATION

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

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

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

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

The Group is currently pursuing opportunities to expand and diversify its client portfolio, including new locations. Accordingly, subsidiaries/offices have already been established in important international markets such as London (UK) and Houston (USA), specifically focusing on strategic markets such as India, West Africa and the Gulf of Mexico. As a result of these actions, the Group has participated in some bids and was awarded with a three year contract in India, as disclosed in Note 1b.

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

Management believes that the aforementioned strategies, combined with cost containment measures, capital expenditures discipline and its strong operational track record, will position the Group to benefit from the expected recovery in the oil and gas industry. The Group's operational continuity will depend upon its ability to renew the existing offshore long-term charter agreements that are valid until November 2018 or to enter into new agreements. Furthermore, actions to improve the Group's liquidity position are being taken through a liability management process with the aim to extend debt maturities. This was successfully initiated after the issuance of the Senior Secured Notes due in 2024 (the "New Notes") as disclosed in Note 11.

a) Fleet of drilling rigs and drillships

Offshore drilling units

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

Onshore drilling units

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

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

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

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

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

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

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

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

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

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

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34 *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"), on a basis consistent with the significant accounting policies and critical accounting estimates disclosed in Notes 3 and 4, respectively, to the annual consolidated financial statements as of December 31, 2016 and for the year then ended.

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

The unaudited condensed consolidated interim financial statements do not include all the information and disclosure items required in the annual consolidated financial statements. Therefore, they must be read together with the Company's annual consolidated financial statements related to the year ended December 31, 2016, which were prepared according to accounting policies, as described above. There were no changes in the accounting policies and critical accounting estimates adopted on December 31, 2016 and September 30, 2017.

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

Continuity as a going concern

The Company's unaudited condensed consolidated interim financial statements were prepared on the going concern basis of accounting. Management assessed the Company's ability to continue as a going concern in light of the assumptions disclosed in Note 1.

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

2.1.1. Amendments to IFRS adopted in 2017

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

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

2.1.2. New or revised standards and interpretations

The following new or revised and amended IFRS will be effective on January 1, 2018 and 2019. The Company's management is currently conducting an analysis on the possible impacts, if any, on its consolidated financial statements. However, considering the current level of its operations and transactions, the Company does not expect that there will be any material impact on its consolidated financial statements upon the adoption of these new or revised and amended IFRS.

New or revised standards and interpretations

Standard or interpretation	Description	Effective date
IFRS 9 *Financial Instruments* (2014)	A finalized 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 ✓ Recognize revenue when (or as) the entity satisfies a performance obligation.	January 1, 2018

IFRIC 22 *Foreign Currency Transactions and Advance Considerations*	IFRIC 22 addresses foreign currency transactions or parts of transactions where: ✓ there is consideration that is denominated or priced in a foreign currency; ✓ the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and ✓ the prepayment asset or deferred income liability is non-monetary.	January 1, 2018
IFRS 16 *Leases*	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	January 1, 2019
IFRIC 23 *Uncertainty over Income Tax Treatments*	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: ✓ Whether tax treatments should be considered collectively; ✓ Assumptions for taxation authorities' examinations; ✓ The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; ✓ The effect of changes in facts and circumstances.	January 1, 2019

__Amendments__

Standard	Description	Effective date
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.
Clarifications to IFRS 15 "Revenue from Contracts with Customers"	Amends IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	January 1, 2018

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	Amends IFRS 2 Share-based Payment to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.	January 1, 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle	Makes amendments to the following standards: ✓ IFRS 1: Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose; and ✓ IAS 28: Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.	January 1, 2018
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	January 1, 2019
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 1, 2019
Editorial Corrections (various)	The IASB periodically issues Editorial Corrections and changes to IFRSs and other pronouncements. Since the beginning of calendar 2013, such corrections have been made in March 2013, September 2013, November 2013, March 2014, September 2014, December 2014, March 2015, April 2015, September 2015, December 2015, March 2016, May 2016, September 2016, and December 2016.	As minor editorial corrections, these changes are effectively immediately applicable under IFRS

3. CASH AND CASH EQUIVALENTS

	September 30, 2017	December 31, 2016
Cash and bank deposits	32,033	72,197
Cash equivalents (*)	78,064	220,992
Total	110,097	293,189

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

Cash equivalents are comprised by the following time deposits:

Financial institution	Average interest rate (per annum)	September 30, 2017	December 31, 2016
Itaú BBA Nassau	0.44%	4,690	121,229
Citibank	0.53%	46,785	85,047
Bradesco S.A.	0.57%	9,586	95
ING Bank	0.91%	-	14,621
Deutsche Bank	1.04%	14,423	-
HSBC	0.27%	2,580	-
Total		78,064	220,992

4. SHORT-TERM INVESTMENTS

Short-term investments	Financial institution	Currency	Average interest rate (per annum)	September 30, 2017	December 31, 2016
Time deposits (i)	Itaú BBA Nassau	U.S. dollar	2.50%	56,957	40,139
Time deposits (i)	Bradesco Grand Cayman	U.S. dollar	1.78%	20,092	50,144
Time deposits (i)	Lafise	U.S. dollar	2.75%	46	45
Time deposits (i)	Deutsche Bank	U.S. dollar	1.20%	43,322	-
Repurchase agreements (iii)	Bradesco S.A.	Brazilian real	98.00% of CDI(ii)	8,298	23,538
Total				128,715	113,866

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

(ii) Brazilian Interbank Deposit Certificate (*Certificado de Depósito Interbancário - CDI*), which average remuneration during the nine-month period ended September 30, 2017 was 10.91% p.a. (13.63% during the year ended December 31, 2016).

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

The following accounts, which deposits have original maturity of less than twelve months, currently refer to (i) the financing agreements related to the construction of the Amaralina Star and Brava Star offshore drilling rigs (Note 11); and (ii) cash collateral related to Bid/Performance Bonds.

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

Restricted cash	Financial institution	Average interest rate (per annum)	September 30, 2017	December 31, 2016
Time deposits	Citibank N.A.	0.24	9,873	31,265
Time deposits	HSBC	1.00	24,000	-
Bank deposits	ING Bank	-	-	11,957
Bank deposits	HSBC London	-	4,999	-
Bank deposits	Citibank N.A.	-	100	-
Total			38,972	43,222

6. TRADE AND OTHER RECEIVABLES

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

7. INVENTORIES

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

Based on the Alaskan Star offshore drilling rig impairment loss recognition (Note 10.c), on September 30, 2016, 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

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

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

	September 30, 2017		December 31, 2016		Three-month period ended September 30,		Nine-month period ended September 30,	
					2017	2016	2017	2016
	Assets	Liabilities	Assets	Liabilities	Income/ (expenses)	Income/ (expenses)	Income/ (expenses)	Income/ (expenses)
Alperton Capital Ltd. [a]	371,144	337,130	338,004	309,871	2,065	1,819	5,881	5,084
Queiroz Galvão S.A. [b]	-	1,104	-	2,008	(358)	(378)	(1,104)	(1,045)
FPSO Capixaba Venture S.A. [c]	925	-	921	-	4	3	4	9
SBM Espírito do Mar Inc. [d]	-	-	-	-	-	62	-	183
Tupi Nordeste Operações Marítimas Ltda. [e]	375	-	800	-	377	444	1,204	1,112
Guará Norte Operações Marítimas Ltda. [e]	299	-	577	-	300	288	941	879
Alfa Lula Alto Operações Marítimas Ltda. [e]	332	-	301	-	341	304	954	859
Guará Norte Holding Ltd.[f]	167	-	1,056	-	125	139	375	931
Alfa Lula Alto Holding Ltd. [f]	50	-	100	-	150	150	450	400
Beta Lula Central Holding Ltd.[f]	150	-	100	-	150	150	450	150
SBM Holding Luxembourg S.à.r.l. [g]	-	-	-	-	-	7,850	-	16,000
Others	296	-	271	41	6	59	22	72
Total	373,738	338,234	342,130	311,920	3,160	10,890	9,177	24,634
Current	1,475	1,104	3,034	2,049				
Non-current	372,263	337,130	339,096	309,871				

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

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

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

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

The income for the nine-month periods ended September 30, 2017 and 2016, in the amounts of US$5,881 and US$5,084, respectively, is presented net of expenses. The income for the nine-month periods ended September 30, 2017 and 2016, in the amounts of US$30,362 and US$28,179, respectively, refer to interest charged on the receivables by Constellation Overseas from Alperton; while the expenses for the nine-month periods ended September 30, 2017 and 2016, in the amounts of US$24,481 and US$23,095, respectively, refer to interest charged on the payables due by Amaralina and Laguna to Alperton (Note 19 – Financial income from related parties).

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

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

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

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, 2017 and 2016, the fees charged to Alperton totaled US$5,881 and US$5,084, respectively.

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

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

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

(d) The loan receivable from SBM Espírito do Mar Inc. bears an effective interest rate of 5.56% p.a., with maturity at the end of the charter agreement period between SBM Espírito do Mar B.V. and Petrobras (2022). In December 2016, such receivable was settled through the receipt of US$6,267.

(e) As of September 30, 2017 and December 31, 2016, the receivable amounts and the income from Tupi Nordeste Operações Marítimas Ltda., Guará Norte Operações Marítimas Ltda. and Alfa Lula Alto Operações Marítimas Ltda. relates to labor costs reimbursement regarding the operation of the FPSO Cidade de Paraty, FPSO Cidade de Ilhabela, and FPSO Cidade de Maricá, respectively.

(f) As of September 30, 2017, 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. relates to a management fee charged by the Group in respect of the operating services rendered to the FPSO Cidade de Ilhabela, FPSO Cidade de Maricá and FPSO Cidade de Saquarema, respectively.

(g) Refers to a payment made by SBM Holding Luxembourg S.à.r.l. 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. and Alfa Lula Alto Holding Ltd. Such payment is related to the first oil achievement by the FPSO Cidade de Maricá (Notes 9 and 18).

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

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2017	2016	2017	2016
Short-term benefits (ii)	1,721	2,380	4,952	7,061

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

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

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

9. INVESTMENTS

	September 30, 2017							
	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	11,363	71,651	52,705	104,041	(73,732)
SBM Espírito do Mar Inc.	100	20.00%	88	8,834	188,757	15,614	68,954	113,023
Urca Drilling B.V. [3]	90	15.00%	€90k	141	22,007	497,038	242,827	(717,717)
Bracuhy Drilling B.V. [3]	90	15.00%	€90k	1,476	10,069	199,473	263,073	(451,001)
Mangaratiba Drilling B.V. [3]	90	15.00%	€90k	11	1	44,998	104,404	(149,390)
Joint Ventures:								
Tupi Nordeste S.à.r.l.	20	20.00%	20	135,838	1,080,898	103,381	588,043	525,312
Tupi Nordeste Holding Ltd.	12	20.00%	12	13,289	-	5,955	21,325	(13,991)
Guará Norte S.à.r.l. [4]	50,200	12.75%	50,200	119,825	1,522,671	126,570	844,484	671,442
Guará Norte Holding Ltd. [4]	12	12.75%	12	12,491	-	10,656	1,456	379
Alfa Lula Alto S.à.r.l. [4]	65,200	5.00%	65,200	121,582	1,650,105	118,317	1,305,730	347,640
Alfa Lula Alto Holding Ltd. [4]	5	5.00%	12	3,843	-	9,806	-	(5,963)
Beta Lula Central S.à.r.l. [4]	65,200	5.00%	65,200	78,382	1,636,841	79,045	1,326,011	310,167
Beta Lula Central Holding Ltd. [4]	5	5.00%	12	11,119	244	4,655	-	6,708

	December 31, 2016							
	Number of shares (thousands)	Ownership interest (%)	Authorized share capital	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Shareholders' equity (deficiency)
Associates:								
FPSO Capixaba Venture S.A.	100	20.00%	82	1,270	14,913	62,213	58,945	(104,975)
SBM Espírito do Mar Inc.	100	20.00%	88	7,970	222,732	34	38,754	191,914
Urca Drilling B.V. [3]	90	15.00%	€90k	162	23,007	449,880	252,334	(679,045)
Bracuhy Drilling B.V. [3]	90	15.00%	€90k	1,490	8,670	173,778	265,678	(429,296)
Mangaratiba Drilling B.V. [3]	90	15.00%	€90k	24	1	39,308	107,312	(146,595)
Joint Ventures:								
Tupi Nordeste S.à.r.l.	20	20.00%	20	154,297	1,103,025	105,001	646,163	506,158
Tupi Nordeste Holding Ltd.	12	20.00%	12	1,328	-	21,190	24,999	(44,861)
Guará Norte S.à.r.l. [4]	50,200	12.75%	50,200	135,987	1,556,929	126,878	906,023	660,015
Guará Norte Holding Ltd. [4]	12	12.75%	12	5,332	-	20,411	8,839	(23,918)
Alfa Lula Alto S.à.r.l. [4]	65,200	5.00%	65,200	107,748	1,688,368	112,784	1,372,821	310,511
Alfa Lula Alto Holding Ltd. [4]	5	5.00%	12	5,505	-	15,670	-	(10,165)
Beta Lula Central S.à.r.l. [4]	65,200	5.00%	65,200	73,373	1,668,085	86,804	1,375,132	279,522
Beta Lula Central Holding Ltd. [4]	5	5.00%	12	1,605	1,380	3,983	-	(998)

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

	Investees' comprehensive income/(loss) for the three-month period ended September 30,					
	2017			2016		
	Net income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)	Net income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Associates:						
FPSO Capixaba Venture S.A.	42,376	(1,524)	40,852	(6,353)	201	(6,152)
SBM Espírito do Mar Inc.	(48,553)	-	(48,553)	1,154	-	1,154
Urca Drilling B.V. (3)	(9,349)	-	(9,349)	(36,754)	1,009	(35,745)
Bracuhy Drilling B.V. (3)	(5,887)	-	(5,887)	(9,496)	-	(9,496)
Mangaratiba Drilling B.V. (3)	(2,345)	-	(2,345)	(1,642)	-	(1,642)
Joint Ventures:						
Tupi Nordeste S.à.r.l.	6,916	2,359	9,275	12,022	8,088	20,110
Tupi Nordeste Holding Ltd.	4,166	(1,423)	2,743	(8,754)	282	(8,472)
Guará Norte S.à.r.l. (4)	14,336	1,313	15,649	15,840	8,951	24,791
Guará Norte Holding Ltd. (4)	(6,369)	(627)	(6,996)	(519)	93	(426)
Alfa Lula Alto S.à.r.l. (4)	870	(656)	214	11,281	14,440	25,721
Alfa Lula Alto Holding Ltd. (4)	4,565	(140)	4,425	(2,943)	36	(2,907)
Beta Lula Central S.à.r.l. (4)	30,416	10,335	40,751	54,956	8,849	63,805
Beta Lula Central Holding Ltd. (4)	10,906	-	10,906	(580)	20	(560)

	Investees' comprehensive income/(loss) for the nine-month period ended September 30,					
	2017			2016		
	Net income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)	Net income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Associates:						
FPSO Capixaba Venture S.A.	32,105	(864)	31,241	(5,400)	(2,878)	(8,278)
SBM Espírito do Mar Inc.	(45,891)	-	(45,891)	(9,655)	-	(9,655)
Urca Drilling B.V. (3)	(35,502)	-	(35,502)	(59,584)	(138)	(59,722)
Bracuhy Drilling B.V. (3)	(19,336)	-	(19,336)	(23,526)	(233)	(23,759)
Mangaratiba Drilling B.V. (3)	(5,693)	-	(5,693)	(5,556)	(138)	(5,694)
Joint Ventures:						
Tupi Nordeste S.à.r.l.	13,940	5,214	19,154	36,983	(8,454)	28,529
Tupi Nordeste Holding Ltd.	31,691	(819)	30,872	(21,210)	(3,816)	(25,026)
Guará Norte S.à.r.l. (4)	12,030	(603)	11,427	43,592	(20,824)	22,768
Guará Norte Holding Ltd. (4)	24,627	(332)	24,295	(7,276)	(1,252)	(8,528)
Alfa Lula Alto S.à.r.l. (4)	54,797	(669)	54,128	84,392	(50,891)	33,501
Alfa Lula Alto Holding Ltd. (4)	4,318	(179)	4,139	(5,636)	(120)	(5,756)
Beta Lula Central S.à.r.l. (4)	57,596	2,548	60,144	54,856	(82,478)	(27,622)
Beta Lula Central Holding Ltd. (4)	7,648	60	7,708	(881)	20	(861)

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

Changes in investments

	December 31, 2016	Capital decrease [5]	Dividends received [8]	Share of results	Share of comprehensive income/ (loss)	September 30, 2017
Associates:						
FPSO Capixaba Venture S.A.	(20,995)	-	-	6,421	(172)	(14,746)
SBM Espírito do Mar Inc.	38,383	-	(6,600)	(9,178)	-	22,605
Joint ventures:						
Tupi Nordeste S.à.r.l.	101,232	-	-	2,788	1,043	105,063
Tupi Nordeste Holding Ltd.	(8,972)	-	-	6,338	(164)	(2,798)
Guará Norte S.à.r.l. [4]	84,152	-	-	1,534	(77)	85,609
Guará Norte Holding Ltd. [4]	(3,050)	-	-	3,140	(42)	48
Alfa Lula Alto S.à.r.l. [4]	15,525	(850)	-	2,740	(33)	17,382
Alfa Lula Alto Holding Ltd. [4]	(508)	-	-	217	(11)	(302)
Beta Lula Central S.à.r.l. [4]	13,976	(1,475)	-	2,880	127	15,508
Beta Lula Central Holding Ltd. [4]	(50)	-	-	382	3	335
Total	219,693	(2,325)	(6,600)	17,262	674	228,704
Total assets (investments)	253,268					246,550
Total liabilities (accumulated deficit in investments) [1]	(33,575)					(17,846)

	December 31, 2015	Capital contributions [2]	Capital decrease [5]	Share of results	Share of comprehensive income (loss)	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	-
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 [6]	(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 [7]	(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)

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

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

(3) During the year-ended December 31, 2016, the Company's 15% equity participation in the associate entities Urca, Bracuhy and Mangaratiba was reduced to zero, following management's understanding of the Group's legal and statutory obligations in respect of such associate entities. Once the investments are reduced to zero, no additional losses will be provided for and no liabilities will be recognized whereas Angra Participações B.V. had not incurred legal or constructive obligations or made payments on behalf of such associates.

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

(5) In March 2016, the Group received the amount of US$397 from Alfa Lula Alto S.à.r.l., in connection with the final tranche disbursement of the FPSO Cidade de Maricá loan facility. In April 2016, the Group received the amount of US$7,401 from Alfa Lula Alto S.à.r.l., in connection with the payment made by Petrobras related to the acceptance of the FPSO Cidade de Maricá. In June 2017, the Group received the amounts of US$850 and US$225 from Alfa Lula Alto S.à.r.l. and Beta Lula Central S.à.r.l., respectively. In September 2017, the Group received the amount of US$1,250 from Beta Lula Central S.à.r.l..

(6) FPSO Cidade de Maricá started its operations on February 7, 2016. Alfa Lula Alto S.à.r.l. classified its charter agreement with Petrobras as a financial lease agreement. Included in the share of results during the 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.

(7) FPSO Cidade de Saquarema started its operations on July 8, 2016. Beta Lula Central S.à.r.l. classified its charter agreement with Petrobras as a financial lease agreement. Included in the share of results during the year ended December 31, 2016, there is a gain of US$2,041 corresponding to the share of the difference between the recognition of the present value of the minimum lease payments as revenues at the lease date of inception, and the corresponding recognition of the equipment cost in profit or loss.

(8) In June 2017, the Group received dividends from SBM Espírito do Mar Inc. in the amount of US$6,600. The taxes levied on such dividends amounted to US$2,310 (Note 18).

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

<u>FPSO Capixaba</u>

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

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

<u>Urca, Bracuhy and Mangaratiba offshore drilling rigs (Partnership with Sete Brasil)</u>

- ✓ 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 Queiroz Galvão Óleo e Gás S.A. ("QGOG") should be its sole operator.

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

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

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

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

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

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

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

<u>FPSO Cidade de Paraty</u>

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

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

FPSO Cidade de Ilhabela

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

- ✓ Guará Norte Holding Ltd.'s main activity is to support operations for agreements in the oil and gas industry. This entity is a shareholder of a Brazilian entity, Guará Norte Operações Marítimas Ltda., which operates the FPSO Cidade de Ilhabela to Petrobras until 2034.

FPSO Cidade de Maricá

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

- ✓ Alfa Lula Alto Holding Ltd.'s main activity will be to support operations for agreements in the oil and gas industry. This entity is a shareholder of a Brazilian entity, Alfa Lula Alto Operações Marítimas Ltda., which will operate the FPSO Cidade de Maricá to Petrobras until 2036.

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.

- ✓ Beta Lula Central Holding Ltd.'s main activity will be to support operations for agreements in the oil and gas industry. This entity is a shareholder of a Brazilian entity, Beta Lula Central Operações Marítimas Ltda., which will operate the FPSO Cidade de Saquarema to Petrobras until 2036.

Other matters regarding the Group's investments

Partnership with SBM Offshore N.V. - Contingent Liability

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

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

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

In November 2017, SBM Offshore announced that it is in advanced discussions with the DoJ concerning a potential resolution of the DoJ's investigations and based on these investigations and the applicable U.S. statutory rules, the DoJ has now concluded that the evidence not only supports jurisdiction in the United States, but also requires a further penalty in the United States. Confronted with the DoJ's conclusions and in anticipation of a final resolution, SBM Offshore is making a provision of US$238 million.

SBM Offshore also announced that the final resolution with the DoJ remains subject to, amongst other matters, agreement on the terms and conditions of the resolution, including subsequent approval thereof by SBM Offshore Supervisory Board.

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.

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

In November 2017, SBM Offshore announced that the Brazilian authorities presented two separate leniency agreements: one leniency agreement with the MPF only (the “MPF Agreement”) and another leniency agreement with the other authorities (the MTFC and the AGU) and Petrobras (the “MTFC Agreement”).

SBM Offshore stated that to enter into the leniency agreements, they would need to be in a position to reach satisfactorily closure with all Brazilian authorities and Petrobras on all outstanding leniency issues at the same time. In view of the current situation, SBM Offshore informed that it cannot guarantee that a satisfactory resolution will be reached.

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

	Drillships			Offshore drilling rigs								
	Brava Star	Amaralina Star	Laguna Star	Alaskan Star	Atlantic Star	Alpha Star	Gold Star	Lone Star	Olinda Star	Onshore drilling rigs, equipment and bases [b]	Corporate	Total
Cost												
Balance as of December 31, 2015	691,780	652,721	657,052	379,951	346,665	722,622	586,407	673,397	558,009	150,953	24,779	5,444,336
Additions	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
Balance as of December 31, 2016	695,866	661,323	662,166	-	351,287	742,274	590,059	710,048	561,178	162,654	27,219	5,164,074
Additions	2,986	14,229	12,501	-	648	1,640	1,420	3,392	6,381	6,532	534	50,263
Disposals	-	-	-	-	-	-	(270)	-	-	-	(91)	(361)
Currency translation adjustments	-	-	-	-	-	-	-	-	-	1,821	244	2,065
Balance as of September 30, 2017	698,852	675,552	674,667	-	351,935	743,914	591,209	713,440	567,559	171,007	27,906	5,216,041
Accumulated depreciation and impairment												
Balance as of December 31, 2015	(10,418)	(84,953)	(81,079)	(116,781)	(121,038)	(127,104)	(131,638)	(135,062)	(196,096)	(93,972)	(18,172)	(1,116,313)
Depreciation	(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 [c]	-	-	-	(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)
Balance as of December 31, 2016	(41,877)	(111,996)	(108,247)	-	(136,154)	(172,438)	(159,174)	(167,114)	(220,750)	(102,108)	(22,273)	(1,242,131)
Depreciation	(23,953)	(21,005)	(20,666)	-	(11,508)	(21,767)	(20,955)	(26,968)	(18,494)	(6,151)	(851)	(172,318)
Disposals	-	-	-	-	-	-	8	-	-	-	88	96
Currency translation adjustments	-	-	-	-	-	-	-	-	-	(1,390)	(119)	(1,509)
Balance as of September 30, 2017	(65,830)	(133,001)	(128,913)	-	(147,662)	(194,205)	(180,121)	(194,082)	(239,244)	(109,649)	(23,155)	(1,415,862)
Property, plant and equipment, net [a]												
December 31, 2016	653,989	549,327	553,919	-	215,133	569,836	430,885	542,934	340,428	60,546	4,946	3,921,943
September 30, 2017	633,022	542,551	545,754	-	204,273	549,709	411,088	519,358	328,315	61,358	4,751	3,800,179
Useful life range (years)	5 – 35	5 – 35	5 - 35	5 – 35	5 – 35	5 – 35	5 – 35	5 – 35	5 - 35	5 – 25	5 - 25	

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

(b) As of September 30, 2017, the amount of US$46,197 (US$50,952 as of December 31, 2016) refers to the onshore drilling rigs.

(c) 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 offshore drilling rig lead the Group to reassess 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).

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

11. LOANS AND FINANCINGS

Financial institution	Funding type	Objective	Beginning period	Maturity	Contractual interest rate (per annum)	Effective interest rate (per annum)	Currency	September 30, 2017	December 31, 2016
Santander, HSBC, Citibank (joint bookrunners)	Senior Notes ("Project Bond")	Refinance Alaskan Star and Atlantic Star rigs, and other corporate purposes	Jul/2011	Jul/2018	5.25%	5.55%	U.S. dollar	118,023	144,286
HSBC, BAML and Citibank (joint bookrunners)	Senior Unsecured Notes ("Corporate Bond")	Prepay working capital loans	Nov/2012	Nov/2019	6.25%	6.86%	U.S. dollar	97,035	698,388
HSBC, BAML and Citibank (joint bookrunners)	Senior Unsecured Notes ("New Notes")	Refinance Corporate Bond	Jul/2017	Nov/2024	9.00% + 0.50%	10.6%	U.S. dollar	591,828	-
							Subtotal - fixed interest rate	806,886	842,674
Bradesco	Loan	Working capital	Sep/2014	Jul/2018	Libor+6.80%	7.98%	U.S. dollar	101,292	152,622
Bradesco	Loan	Working capital	Jan/2015	Jul/2018	Libor+6.50%	7.86%	U.S. dollar	50,622	76,827
							Subtotal - variable interest rate loans	151,914	229,449
ING (leader arranger)	Financing	Gold Star rig construction(1)	Jul/2007	Dec/2017	Libor+1.15% to Libor+1.35%	1.77%	U.S. dollar	-	47,515
Citibank and Santander (joint leader arrangers)	Financing	Alpha Star rig construction	Apr/2011	Jul/2017	Libor+2.50%	3.55%	U.S. dollar	-	174,860
BNP, Citi and ING (leader arrangers) and The Norwegian Ministry of Trade and Industry ("MTI")	Financing	Amaralina Star drillship construction	May/2012	Sep/2018(2)	Libor+2.75%	3.88%	U.S. dollar	194,457	241,780
BNP, Citi and ING (leader arrangers) and The Norwegian Ministry of Trade and Industry ("MTI")	Financing	Laguna Star drillship construction	May/2012	Nov/2018(2)	Libor+2.75%	4.05%	U.S. dollar	203,804	249,793
BNP, Citi, ING and DNB and Eksportkreditt Norge ("EKN")	Financing	Brava Star drillship construction	May/2015	Sep/2020(3)	Libor+2.00%	3.73%	U.S. dollar	375,184	409,618
							Subtotal - variable interest rate financings	773,445	1,123,566
							Total	1,732,245	2,195,689
							Current	580,905	674,085
							Non-current	1,151,340	1,521,604

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

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

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

a) Changes in loans and financings

	Nine-month period ended September 30,	
	2017	2016
Balance as of January 1	2,195,689	2,621,350
Principal repayment	(456,900)	(294,357)
Transaction costs paid	(23,524)	-
Interest payment	(73,600)	(67,994)
Total payments	(554,024)	(362,351)
Interest charged through profit and loss	78,686	79,111
Transaction cost charged through profit and loss	8,160	6,020
Debt discounts charged through profit and loss	3,734	1,334
Financial expenses on loans and financings	90,580	86,465
Balance as of September 30,	1,732,245	2,345,464

Working capital

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

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

Project financing

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

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

Corporate Bond Exchange Offer

On July 27, 2017, the Company issued Senior Secured Notes (the "New Notes") bearing interest rates at 9.00% p.a. semiannually paid with an additional capitalized interest at 0.50% p.a. to be repaid until 2024 in exchange for an equal aggregate principal amount of its outstanding 6.25% p.a. Senior Notes due in 2019. The Group paid transaction costs in the aggregate amount of US$23,524.

b) Loans and financings long term amortization schedule

Year ending December 31,	Gross amount	Transaction costs	Debt discounts	Net amount
2018	155,088	(5,692)	(189)	149,207
2019	158,032	(5,100)	(21)	152,911
2020	303,274	(3,244)	-	300,030
2021	30,228	(3,226)	-	27,002
2022	45,343	(3,226)	-	42,117
2023	45,343	(3,234)	-	42,109
2024	438,312	(348)	-	437,964
Total	1,175,620	(24,070)	(210)	1,151,340

c) Covenants

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

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

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

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

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

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

d) Guarantees

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

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

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

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

The Corporate Bond issued on November 9, 2012, is guaranteed by the Group on a senior unsecured basis. In addition, the Group has established an interest reserve account in favor of the collateral agent, which is fully funded by cash and/or letters of credit in an amount sufficient to provide for the payment of the next two succeeding interest payments. On June 26, 2015, the Group released the letters of credit related to such interest reserve account, in compliance with the Corporate Bond documentation and considering the Group's consistent deleveraging since the Corporate Bond's issuance.

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

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

12. PROVISIONS

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

	Nine-month period ended September 30,	
	2017	2016
Balance as of January 1	1,230	4,570
Olinda Star penalty provision (Note 1.b)	1,250	-
Brava Star penalty reversal	-	(352)
Brava Star penalty payment	-	(3,191)
Foreign exchange rate variations	36	208
Balance as of September 30	2,516	1,235

13. PROVISION FOR CONTINGENCIES

a) Contingent assets

The Group has not recognized contingent assets.

b) Contingent liabilities assessed as probable losses

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

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

	Nine-month period ended September 30,	
	2017	2016
Balance as of January 1	1,544	1,504
Additions	516	682
Reversals	(296)	(949)
Foreign exchange rate variations	44	278
Balance as of September 30	1,808	1,515

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 condensed consolidated interim financial statements and consist of labor lawsuits (mainly comprised by compensation due to work related accidents and occupational diseases) in the amount of US$30,160 as of September 30, 2017 (US$21,650 as of December 31, 2016), tax lawsuits in the amount of US$28,107 as of September 30, 2017 (US$26,246 as of December 31, 2016) and civil lawsuits in the amount of US$16 as of September 30, 2017 (US$15 as of December 31, 2016).

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

i. On September 15, 2010, QGOG received a Notice of Violation issued by the tax authorities due to the nonpayment of Services Tax (“*Imposto sobre Serviços de Qualquer Natureza* - 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, 2017, the estimated amount involved is US$5,630 (US$5,062 as of December 31, 2016).

On January 22, 2015, QGOG received a Notice of Violation issued by the Brazilian Internal Revenue Service (*Receita Federal do Brasil* - RFB) related to Social Integration Program (“*Programa de Integração Social* - PIS”) and Social Investment Program (“*Contribuição para o Financiamento da Seguridade Social* - 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, 2017, the estimated amount involved is US$20,548 (US$19,973 as of December 31, 2016).

d) Tax, labor and social security matters

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

e) Other matters

<u>*Petrobras withholding taxes*</u>

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 translated at historical rates), excluding penalties, interest and fees. The Group has contested Petrobras’ allegations in a response letter stating that Petrobras “has no legal or commercial grounds to seek recoverability of such losses from the Group” and that “will not accept any withholding or deduction of the amounts to be received under the charter agreements”. Should Petrobras fail on its appeals and, consequently, the Group receives any future charges aiming the reimbursement of Petrobras’ losses, the Group will contest such charges.

14. DERIVATIVES

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

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

Information on derivative agreements

Interest rate swaps US$ LIBOR/Pre-fixed rate

Financial institution	Loans and financings objective	Payable leg interest rate (per annum)	Maturity	Notional amount Sep. 30, 2017	Notional amount Dec. 31, 2016	Fair value Sep.30, 2017	Fair value Dec. 31, 2016
ING (leader arranger)	Gold Star construction	5.16%	Jul/2017	-	42,421	-	857
Citibank and Santander (joint leader arranger)	Alpha Star construction	1.93%	Jul/2017	-	189,558	-	1,107
	Non-designated to hedge accounting			-	231,979	-	1,964
BNP, Citibank and ING (joint leader arranger) (*)	Amaralina Star construction	2.81%	Oct/2018	200,062	249,688	2,430	5,825
BNP, Citibank and ING (joint leader arranger) (*)	Laguna Star construction	2.90%	Dec/2018	211,601	258,350	3,022	6,704
BNP, Citi, ING and DNB (mandated leader arranger) (*)	Brava Star construction	1.79%	Sep/2020	171,504	187,583	33	457
BNP and ING (mandated leader arranger) (*)	Brava Star construction	1.84%	Sep/2020	170,496	186,480	245	741
	Designated to hedge accounting			753,663	882,101	5,730	13,727
	Total amount			753,663	1,114,080	5,730	15,691
	Non-current assets					744	946
	Current liabilities					5,937	12,784
	Non-current liabilities					537	3,853

Changes in fair values are as follows:

	Three-month period ended September 30, 2017	Three-month period ended September 30, 2016
Balance as of July 1,	8,422	40,871
Fair value adjustments through profit and loss	876	1,649
Fair value adjustments through other comprehensive income(*)	(1,222)	(5,623)
Cash payments on derivatives	(2,346)	(6,182)
Balance as of September 30,	5,730	30,715

	Nine-month period ended September 30, 2017	Nine-month period ended September 30, 2016
Balance as of January 1,	15,691	34,679
Fair value adjustments through profit and loss	3,404	6,841
Fair value adjustments through other comprehensive income/(loss)(*)	(3,033)	9,258
Cash payments on derivatives	(10,332)	(20,063)
Balance as of September 30,	5,730	30,715

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

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

Derivative agreements designated as cash flow hedges

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

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

15. SHAREHOLDERS' EQUITY

a) Share capital

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

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

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

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

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

b) Legal reserve

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

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

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

c) Shareholders distribution policy

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

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

For the nine-month period ended September 30, 2017, the Company did not pay dividends.

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

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

d) Other Comprehensive Items (OCI)

Cash flow hedging reserve

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

Foreign currency translation adjustments reserve

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

Changes in Other Comprehensive Items

Changes in comprehensive income for the three-month periods ended September 30, 2017 and 2016 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 adjustment on:						
Derivative agreements (Note 14)	4,611	1,012	5,623	-	-	5,623
Joint ventures' derivative agreements	-	-	-	3,922	-	3,922
Exchange differences arising during the period:						
On investments	-	-	-	112	-	112
On subsidiaries	-	-	-	-	(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, 2017	(2,690)	(1,335)	(4,025)	(11,926)	(10,288)	(26,239)
Fair value adjustment on:						
Derivative agreements (Note 14)	1,023	199	1,222	-	-	1,222
Joint ventures' derivative agreements	-	-	-	1,122	-	1,122
Exchange differences arising during the period:						
On investments	-	-	-	(678)	-	(678)
On subsidiaries	-	-	-	-	3,891	3,891
Balance as of September 30, 2017	(1,667)	(1,136)	2,803	(11,482)	(6,397)	(20,682)

Changes in comprehensive income for the nine-month periods ended September 30, 2017 and 2016 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 arising during the period:						
On investments	-	-	-	(1,503)	-	(1,503)
On subsidiaries	-	-	-	-	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, 2016	(3,749)	(2,087)	(5,836)	(12,156)	(8,130)	(26,122)
Fair value adjustments on:						
Derivative agreements	2,082	951	3,033	-	-	3,033
Joint ventures' derivative agreements	-	-	-	1,060	-	1,060
Associates' financial assets	-	-	-	-	-	-
Exchange differences arising during the period:						
On investments	-	-	-	(386)	-	(386)
On subsidiaries	-	-	-	-	1,733	1,733
Balance as of September 30, 2017	(1,667)	(1,136)	2,803	(11,482)	(6,397)	(20,682)

e) Non-controlling interests

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

f) Profit per share

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

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2017	2016	2017	2016
Profit attributable to the owners of the Group	43,957	(135,368)	219,686	64,569
Weighted average number of ordinary shares for calculation purposes (thousands of shares) (*)	189,227	189,227	189,227	189,227
Basic and diluted profit per share (in U.S. dollars – US$)	0.23	(0.72)	1.16	0.34

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

16. NET OPERATING REVENUE

The Group's operating revenue is mainly derived from charter and service-rendering agreements. As of September 30, 2017 and 2016, Petrobras has accounted for 98% and 99%, 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,	
	2017	2016	2017	2016
Gross operating revenue	223,889	298,794	744,504	880,299
Taxes levied on revenue:				
Social Integration Program (PIS) (*)	(681)	(893)	(2,397)	(2,547)
Social Investment Program (COFINS) (*)	(3,138)	(4,113)	(11,042)	(11,759)
Services Tax (ISS) (*)	(832)	(1,082)	(3,129)	(3,131)
Withholding Income tax (IRRF)	(583)	(783)	(2,060)	(2,986)
Net operating revenue	218,655	291,923	725,876	859,876

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

17. COST OF SERVICES AND OPERATING EXPENSES

	Three-month period ended September 30,					
	2017			2016		
Costs and expenses by nature	Cost of services	General and administrative expenses	Total	Cost of services	General and administrative expenses	Total
Payroll, charges and benefits	(37,276)	(4,716)	(41,992)	(40,342)	(6,614)	(46,956)
Depreciation	(57,355)	(169)	(57,524)	(59,600)	(196)	(59,796)
Materials	(17,586)	-	(17,586)	(19,514)	-	(19,514)
Maintenance	(15,200)	-	(15,200)	(14,086)	-	(14,086)
Insurance	(1,737)	-	(1,737)	(4,259)	-	(4,259)
Other (1)/(2)	(4,361)	(3,024)	(7,385)	(5,947)	(4,505)	(10,452)
	(133,515)	(7,909)	(141,424)	(143,748)	(11,315)	(155,063)

	Nine-month period ended September 30,					
	2017			2016		
Costs and expenses by nature	Cost of services	General and administrative expenses	Total	Cost of services	General and administrative expenses	Total
Payroll, charges and benefits	(112,530)	(14,263)	(126,793)	(118,135)	(19,620)	(137,755)
Depreciation	(171,792)	(526)	(172,318)	(177,390)	(545)	(177,935)
Materials	(44,776)	-	(44,776)	(45,945)	-	(45,945)
Maintenance	(46,779)	-	(46,779)	(41,705)	-	(41,705)
Insurance	(8,348)	-	(8,348)	(12,920)	-	(12,920)
Other (1)/(2)	(13,598)	(8,838)	(22,436)	(14,194)	(12,373)	(26,567)
	(397,823)	(23,627)	(421,450)	(410,289)	(32,538)	(442,827)

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

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

18. OTHER INCOME (EXPENSES), NET

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2017	2016	2017	2016
Contractual fee	425	8,289	1,275	17,481
Revenue from sales of PP&E	24	58	44	134
Other	28	48	82	113
Other income	477	8,395	1,401	17,728
Provision of impairment (Note 10)	-	(237,234)	-	(237,234)
Inventory write-down (Note 7)	-	(9,846)	-	(9,846)
Penalties (Note 12)	(1,250)	352	(1,250)	352
Cost of PP&E sold	-	(286)	(3)	(304)
Other taxes (*)	-	-	(2,310)	-
Other expenses	(1,250)	(247,014)	(3,563)	(247,032)
Total other income, net	(773)	(238,619)	(2,162)	(229,304)

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

19. FINANCIAL EXPENSES, NET

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2017	2016	2017	2016
Interest on short-term investments	1,332	1,219	4,747	3,780
Financial income from related parties	2,069	1,884	5,885	5,276
Other financial income	558	494	1,241	1,308
Financial income	3,959	3,597	11,873	10,364
Financial expenses on loans and financings (Note 11.a)	(34,990)	(27,995)	(90,580)	(86,465)
Derivative expenses (Note 14)	(876)	(1,649)	(3,404)	(6,841)
Financial expenses from related parties	(358)	(378)	(1,104)	(1,045)
Other financial expenses	(1,129)	(3,258)	(4,535)	(7,076)
Financial expenses	(37,353)	(33,280)	(99,623)	(101,427)
Foreign exchange variation loss, net	(538)	(274)	(640)	(519)
Financial expenses, net	(33,932)	(29,957)	(88,390)	(91,582)

20. TAXES

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

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

a) Recoverable taxes

	September 30, 2017	December 31, 2016
Social Security Contribution (INSS) (*)	7,794	8,486
Income tax (IRPJ) and social contribution (CSLL)	11,078	1,339
Other	9	20
Total	18,881	9,845
Current	11,637	4,005
Non-current	7,244	5,840

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

b) Taxes payables

	September 30, 2017	December 31, 2016
Services Tax (ISS)	1,304	1,813
Income tax (IRPJ) and social contribution (CSLL)	206	307
Social Integration Program (PIS) and Social Investment Program (COFINS)	212	197
Total	1,722	2,317

c) Deferred tax assets

	September 30, 2017	December 31, 2016
Income tax (IRPJ) and social contribution (CSLL) (*)	9,054	7,505
Total	9,054	7,505
Non-current	9,054	7,505

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

d) Effect of income tax results

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

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

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2017	2016	2017	2016
Profit before taxes	46,862	(127,013)	231,136	94,728
Income tax and social contribution at nominal rate (*)	3,663	(2,167)	1,503	(10,385)
Adjustments to derive effective tax rate:				
Non-deductible expenses	(457)	(959)	(549)	(1,384)
Other	(118)	(269)	109	140
Income tax expense recognized in profit or loss	3,088	(3,395)	1,063	(11,629)
Current taxes	3,405	(3,835)	(77)	(13,686)
Deferred taxes	(317)	440	1,140	2,057

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

21. FINANCIAL INSTRUMENTS

a) General considerations

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

The Group's main financial instruments are as follows:

	Category	September 30, 2017 Carrying amount	September 30, 2017 Fair value	December 31, 2016 Carrying amount	December 31, 2016 Fair value
Financial assets					
Cash and cash equivalents	Loans and receivables	110,097	110,097	293,189	293,189
Short-term investments	Fair value through profit or loss	128,715	128,715	113,866	113,866
Restricted cash	Fair value through profit or loss	38,972	38,972	43,222	43,222
Trade and other receivables	Loans and receivables	67,558	67,558	81,050	81,050
Receivables from related parties	Loans and receivables	373,738	373,738	342,130	342,130
Derivatives	Fair value through profit or loss	744	744	946	946
Financial liabilities					
Loans and financings	Other financial liabilities	1,732,245	1,570,413	2,195,689	1,952,855
Trade and other payables	Other financial liabilities	28,542	28,542	29,488	29,488
Payables to related parties	Other financial liabilities	338,234	338,234	311,920	311,920
Derivatives	Fair value through profit or loss	6,474	6,474	16,637	16,637

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

Management believes that there is no significant risk of short-term fluctuations in the day rates of its charter agreements, considering that the majority of the Group's agreements are long-term (expiring in 2018).

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

Additionally, the amounts of trade accounts receivables and payables disclosed in these 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 short-term investments, restricted cash and derivative financial instruments at fair value through profit or loss. Short-term investments and restricted cash are classified as Level 1, due to the fact that they are measured using market prices for identical instruments. Loans and financings and derivative financial instruments are classified as Level 2, due to the fact that they are measured using similar financial instruments.

Financial instruments fair value measurement

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

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

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

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

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

In the evaluation carried out for determining the fair value of assets and liabilities measured at amortized cost method, it was not considered the applicability of this evaluation to trade and other receivables and payables due to its very short-term of maturity.

b) Financial risk management

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

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

As of September 30, 2017 and December 31, 2016, the Group presents net working capital deficiency in the amounts of US$179,511 and US$136,709, respectively, mainly due to the current portion of its loans and financings and lower operating cash flow generation due to the expiration of certain of its charter and service-rendering agreements. Management continue to pursue other opportunities to obtain additional long-term loans and financings and refinance its current portion of loans and financings in order to improve its current liquidity position.

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

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

September 30, 2017

Period	Trade payables	Loans and financings	Derivatives	Payables to related parties	Total
2017	28,542	129,872	1,980	2,794	163,188
2018	-	745,414	4,321	5,980	755,715
2019	-	231,508	(222)	79,798	311,084
2020	-	367,084	(339)	91,579	458,324
2021	-	79,074	-	102,288	181,362
After 2021	-	666,692	-	240,201	906,893
Total	28,542	2,219,644	5,740	522,640	2,776,566

December 31, 2016

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

Credit risk

Credit risk refers to the risk that counter-party will default on its contractual obligations resulting in financial losses to the Group. Financial instruments that potentially subject the Group to concentrations of credit risk are primarily cash and cash equivalents, trade receivables and receivables from related parties. The maximum exposure amounts of such financial instruments are those disclosed in Notes 3, 6 and 8, respectively.

It is the Group's practice to place its cash and cash equivalents in time deposits at financial institutions with high credit ratings or at mutual funds, which invest exclusively in high quality money market instruments. The Group limits the exposure amount to any one financial institution to minimize its credit risk exposure.

For the nine-month periods ended September 30, 2017 and 2016, Petrobras has accounted for 98% and 99%, respectively, of total revenues (Note 16). Therefore, Management considers that the credit risk arising from this concentration is minimal, considering that Petrobras is a government controlled entity with a history of full payment.

Market Risk (interest rate risk)

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

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

Interest rate sensitivity analysis

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

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

Risk: interest rate variation	September 30, 2017	Scenario I (i)	Scenario II (ii)
		Increase/ (decrease) in P&L	
Variable interest rate loans (Note 11)	151,914	(152)	152
Variable interest rate financings (Note 11)	773,445	(773)	773
Total	925,359	(925)	925
		Increase/ (decrease) in OCI	
Hedge derivatives (Note 14)	(753,663)	754	(754)

(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, 2017	December 31, 2016
Loans and financings [(a)]	1,732,245	2,195,689
Cash transactions [(b)]	(277,784)	(450,277)
Net debt [(c)]	1,454,461	1,745,412
Shareholders' equity [(d)]	2,765,782	2,528,143
Net debt on shareholders' equity plus net debt [(c)] ÷ [(c) + (d)]	34%	41%

(a) Consider all loans and financings balances.
(b) Includes cash and cash equivalents, short-term investments and restricted cash balances.
(c) Includes all shareholders' equity accounts.

22. INSURANCE

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

	September 30, 2017	December 31, 2016
Civil liability	2,373,000	2,523,000
Operating risks	3,749,938	5,449,180
Operational headquarter and others	21,326	24,184
Total	6,144,264	7,996,364

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

23. PENSION PLAN

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

For the nine-month periods ended September 30, 2017 and 2016, contributions payable by QGOG at rates specified by the plan rules amounts to US$110 and US$1,484, respectively.

24. SEASONALITY

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

25. SUBSEQUENT EVENTS

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

On October 25, 2017, the Group, through its subsidiaries Domenica S.A. and QGOG, signed agreements to charter the onshore drilling rig QG-I and render drilling services to Zeus ÖL S.A. (“Zeus”). The purpose of the agreements is to drill up to two oil wells in the Carandayty Basin (Paraguay), under a 180-days minimum term as from the commencement day.

26. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved by the Company’s management and authorized for issue on November 16, 2017.