QGOG Constellation S.A.

Unaudited Condensed Consolidated Interim Financial Statements as of March 31, 2013 and for the Three-Month Period Then Ended and Report on Review of Interim Financial Statements

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of QGOG Constellation S.A. (the "Company") as of March 31, 2013, the related condensed consolidated interim statements of operations, comprehensive income, changes in shareholder's equity and cash flows for the three-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 Standards 34 *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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". 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.

Conclusion

Based on our review, 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 financial position of the Company as of March 31, 2013, and of its financial performance and its cash flows for the three-month period then ended in accordance with IAS 34, as issued by the IASB.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU
Auditores Independentes
Rio de Janeiro, Brazil
May 15, 2013

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT
OF FINANCIAL POSITION AS OF MARCH 31, 2013
(Amounts expressed in thousands of U.S. dollars - US$)

	Note	March 31, 2013	December 31, 2012
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	155,391	219,613
Short-term investments	4	291,205	213,178
Restricted cash	5	30,910	25,483
Trade and other receivables	6	95,539	129,330
Inventories	7	124,707	112,233
Recoverable taxes	20.a	1,342	170
Deferred mobilization costs		12,740	12,675
Deferred taxes	20.c	153	153
Receivables from related parties	8	281	195
Other current assets		32,889	17,486
		745,157	730,516
NON-CURRENT ASSETS			
Receivables from related parties	8	255,475	247,636
Other non-current assets		567	568
Investments	9	78,380	71,713
Deferred mobilization costs		42,115	44,978
Deferred taxes	20.c	173	212
Property, plant and equipment, net	10	4,171,007	4,213,595
		4,547,717	4,578,702
TOTAL ASSETS		5,292,874	5,309,218

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QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT
OF FINANCIAL POSITION AS OF MARCH 31, 2013
(Amounts expressed in thousands of U.S. dollars - US$)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	March 31, 2013	December 31, 2012
CURRENT LIABILITIES			
Loans and financings	11	569,930	567,847
Payroll and related charges		42,199	52,299
Derivatives	14	50,967	56,126
Trade and other payables		26,260	25,004
Payables to related parties	8	13,429	12,007
Taxes payables	20.b	4,899	4,383
Provisions	12	7,525	7,525
Deferred mobilization revenue		22,902	22,902
Other current liabilities		28,693	27,938
		766,804	776,031
NON-CURRENT LIABILITIES			
Loans and financings	11	2,789,666	2,847,700
Payables to related parties	8	217,699	210,793
Derivatives	14	78,746	92,234
Deferred income taxes	20.d	7,023	7,265
Deferred mobilization revenue		75,417	81,143
Other non-current liabilities		10,615	11,311
		3,179,166	3,250,446
TOTAL LIABILITIES		3,945,970	4,026,477
SHAREHOLDERS' EQUITY			
Capital	15	55,632	55,632
Share premium	15	464,804	470,487
Reserves		10,089	(1,484)
Retained earnings		811,448	759,462
Equity attributable to the owners of the Group		1,341,973	1,284,097
Non-controlling interests		4,931	(1,356)
		1,346,904	1,282,741
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		5,292,874	5,309,218

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

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2013 AND 2012
(Amounts expressed in thousands of U.S. dollars - US$, except per share amounts)

	Note	2013	2012
NET OPERATING REVENUE	16	258,797	178,586
COSTS OF SERVICES	17	(151,626)	(117,061)
GROSS PROFIT		107,171	61,525
General and administrative expenses	17	(11,787)	(9,782)
Other income	18	249	369
Other expenses	18	(1,469)	(599)
OPERATING PROFIT		94,164	51,513
Financial income	19	1,913	919
Financial expenses	19	(42,587)	(27,292)
Net foreign exchange losses	19	(627)	(561)
FINANCIAL EXPENSES, NET		(41,301)	(26,934)
Shares of results of investments	9	2,088	1,048
PROFIT BEFORE TAXES		54,951	25,627
Taxes	20.e	145	254
PROFIT FOR THE PERIOD		55,096	25,881
Profit attributable to the owners of the Group		51,986	25,881
Profit attributable to non-controlling interests		3,110	-
Profit per share			
Basic	15	0.30	0.15
Diluted	15	0.30	0.15

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

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2013 AND 2012
(Amounts expressed in thousands of U.S. dollars - US$)

	Note	2013	2012
PROFIT FOR THE PERIOD		55,096	25,881
OTHER COMPREHENSIVE INCOME (LOSS)			
Attributable to owners of the Group	15	3,883	(705)
Attributable to non-controlling interests	15	3,177	(576)
Cash flow hedge fair value adjustments	14/15	7,060	(1,281)
Shares of cash flow hedge adjustements of investments		1,394	-
Currency translation adjustments	15	613	1,616
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		64,163	26,216
Profit attributable to the owners of the Group		57,876	26,792
Profit (loss) attributable to non-controlling interests		6,287	(576)

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

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2013
(Amounts expressed in thousands of U.S. dollars - US$)

		Capital				Reserves							
	Note	Constellation Oveseas Ltd.	QGOG Constellation S.A.	Total	Share premium	Legal	Cash flow hedge fair value adjustments	Shares of cash flow hedge adjustements of investments	Currency translation adjustments	Retained earnings	Attributable to the owners of the Group	Attributable to non-controlling interests	Total shareholders' equity
BALANCE AS OF DECEMBER 31, 2011		130,987	58	131,045	395,082	-	(27,454)	-	22,132	627,904	1,148,709	(26,273)	1,122,436
Profit for the period	15	-	-	-	-	-	-	-	-	25,881	25,881	-	25,881
Other comprehensive loss for the period		-	-	-	-	-	(705)	-	1,616	-	911	(576)	335
Total comprehensive loss for the period		-	-	-	-	-	(705)	-	1,616	25,881	26,792	(576)	26,216
BALANCE AS OF MARCH 31, 2012		130,987	58	131,045	395,082	-	(28,159)	-	23,748	653,785	1,175,501	(26,849)	1,148,652
BALANCE AS OF DECEMBER 31, 2012		-	55,632	55,632	470,487	-	3,395	(23,311)	18,432	759,462	1,284,097	(1,356)	1,282,741
Legal reserve		-	-	-	(5,683)	5,683	-	-	-	-	-	-	-
Profit for the period	15	-	-	-	-	-	-	-	-	51,986	51,986	3,110	55,096
Other comprehensive income for the period		-	-	-	-	-	3,883	1,394	613	-	5,890	3,177	9,067
Total comprehensive income for the period		-	-	-	-	-	3,883	1,394	613	51,986	57,876	6,287	64,163
BALANCE AS OF MARCH 31, 2013		-	55,632	55,632	464,804	5,683	7,278	(21,917)	19,045	811,448	1,341,973	4,931	1,346,904

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

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2013 AND 2012
(Amounts expressed in thousands of U.S. dollars - US$)

	Note	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		55,096	25,881
Adjustments for:			
Depreciation of property, plant and equipment	10,17	48,843	39,468
Gain on disposals of property, plant and equipment	10,18	(229)	(78)
Shares of results of investments	9	(2,088)	(1,048)
Recognition of mobilization costs		3,183	1,990
Recognition of mobilization revenues, net of taxes		(5,687)	(3,443)
Financial charges on loans and financings	11,19	33,091	19,550
Financial expenses from related parties, net	8,19	491	1,092
Derivatives	14,19	6,307	5,180
Provision for employee profit sharing		6,160	-
Other financial expenses, net	19	1,412	1,112
Taxes	20.e	(145)	(254)
Changes in working capital:			
Increase in short-term investments		(77,938)	(11,523)
Decrease in restricted cash		-	9,700
(Increase)/decrease in trade and other receivables		34,212	(2,529)
Increase in receivables from related parties		(93)	(72)
Increase in inventories		(12,036)	(7,521)
Increase in recoverable taxes		(1,180)	(1,343)
Increase in deferred mobilization costs		(385)	-
Increase in other assets		(15,637)	(4,713)
Decrease in payroll and related charges		(17,130)	(789)
Increase/(decrease) in trade and other payables		1,165	(10,069)
Increase in payables to related parties		1	206
Increase/(decrease) in taxes payables		251	(23)
Increase/(Decrease) in other liabilities		(3,201)	17,321
Net cash generated by operating activities		54,463	78,095
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans to related parties	8	-	(22,340)
Acquisition of property, plant and equipment	10	(3,977)	(19,521)
Aquisition of investments	9	(2,835)	-
Proceeds from sales of property, plant and equipment	18	249	369
Net cash used in investing activities		(6,563)	(41,492)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from loans and financings	11	26,147	-
Interest paid on loans and financings	11	(13,796)	(8,318)
Cash payments on derivatives	14	(17,894)	(11,118)
Restricted cash		(5,427)	-
Repayment of principal on loans and financings	11	(102,948)	(57,164)
Net cash used in financing activities		(113,918)	(76,600)
Decrease in cash and cash equivalents		(66,018)	(39,997)
Cash and cash equivalents at the beginning of the period		219,613	188,938
Effects of exchange rate changes on the balance of cash held in foreign currencies		1,796	(323)
Cash and cash equivalents at the end of the period		155,391	148,618

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

1. GENERAL INFORMATION

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

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

QGOG Constellation's objective is to hold investments in Luxembourg or foreign subsidiaries; to acquire any securities and rights through participation, contribution, underwriting firm purchase or option, negotiation or in any other way and namely to acquire patents and licenses, and other property, rights and interest in property as the Company shall deem fit, and generally to hold, manage, develop, sell or dispose of the same, in whole or in part, for such consideration as the Company may deem fit, and in particular for shares or securities of any company purchasing the same; to enter into, assist or participate in financial, commercial and other transactions, and to grant to any holding company, subsidiary, or fellow subsidiary, or any other company associated in any way with the Company, or the said holding company, subsidiary or fellow subsidiary, in which the Company has a direct or indirect financial interest, any assistance, loans, advances or guarantees; to borrow and raise money in any manner and to secure the repayment of any money borrowed; and finally, to perform any operation which is directly or indirectly related to its purpose. QGOG Constellation's fiscal year is from January 1 to December 31, except for its first year, which started on August 30, 2011, the incorporation date.

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

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

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

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

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

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

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

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

QGOG Constellation has investments in subsidiaries that charter and operate onshore and offshore drilling rigs for exploration and production companies operating in Brazil. Currently, the Group charters rigs mainly to Petrobras, and also to Shell Brasil Petróleo S.A. ("Shell") and HRT O&G Exploração e Produção de Petróleo Ltda..

The contract with Shell was signed on December 19, 2012 with a minimum 180-day term. The purpose of the contract is to drill a specific oil well in the São Francisco basin, Brazil, using the QG-I onshore drilling rig. The contract is valid since February 28, 2013 and Management expects to begin providing the service during the second half of 2013.

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

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

(1) The construction of Amaralina Star was concluded in July 2012 in partnership with Alperton Capital Limited ("Delba") as described in Note 10. The operations started in September 2012.

(2) The construction of Laguna Star was concluded in September 2012 in partnership with Delba as described in Note 10. The operations started in November 2012.

As of March 31, 2013, the Group presents working capital deficiency in the amount of US$21,647 (US$45,515 as of December 31, 2012), mainly as result of investments performed during the last 3 years in onshore and offshore drilling rigs and drillships. As of March 31, 2013 the working capital deficiency is mainly related to working capital loans in the amount of US$124,933 (US$124,089 as of December 31, 2012). Management understands that the working capital deficiency is supported by the cash flow generation of the Group's existing long-term contracts in the regular course of business. Management is also exploring other opportunities to obtain additional long-term financing.

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

FPSO Cidade de Ilhabela

On March 20, 2012, Arazi and Lancaster Projects Corp., QGOG Constellation´s subsidiaries, signed a shareholders' agreement with SBM Holding Inc. ("SBM") and Mitsubishi Corporation ("Mitsubishi"), in order to create Guara Norte S.à.r.l. ("Guara Norte"), Guara Norte Holding Ltd. ("Guara Norte Holding") and Guara Norte Operações Marítimas Limitada ("Guara Norte Operações Marítimas"). These entities will respectively charter and operate the FPSO Cidade de Ilhabela for Petrobras for a 20 year period with an expected date for the start of the operations in third quarter of 2014.

The Group has a participation of 12.75% in these entities and has the right to acquire an additional participation of 12.75% from SBM within fifteen days of the final acceptance of the FPSO, based on the capital invested by SBM plus interest of 8% p.a..

New partnership with Petrobras and Sete Brasil

On August 3, 2012, Angra signed three shareholders agreements in order to acquire a 15% equity interest in three SPEs, each one owning an ultra-deepwater semi-submersible rig (Urca, Bracuhy and Mangaratiba) in partnership with Sete Brasil. In the same day, the partnership signed charter agreements of these assets with Petrobras. These three ultra-deepwater semi-submersible offshore rigs are expected to be delivered in 2016, 2018 and 2019, respectively. Queiroz Galvão Óleo e Gás S.A. (“QGOG”) will be the sole operator of these rigs.

Samsung Construction Contract

On August 15, 2012, the Company executed a letter of intent with Samsung Heavy Industries Co., Ltd (“Samsung”), which provided an option to enter into two Engineering, Procurement, Construction and Integration (“EPCI”) contracts by November 15, 2012 for the construction and delivery of two ultra-deepwater drillships by December 2014 and June 2015, respectively. Under the letter of intent, the Company has the right to extend the date on which it enters into the second EPCI contract by a period of up to one month, so long as the Company enters into the first EPCI contract by November 15, 2012.

On November 14, 2012, the Company, through one of its subsidiaries, exercised the right to enter into a contract with Samsung to design, construct, complete and deliver an ultra-deepwater drillship, the Brava Star drillship. The total cost of Brava Star construction project (without an estimative of capitalized interest) is of approximately US$660 million. Accordingly to the payment schedule, the Company paid 10% of the contract price as a first installment in November 2012, and 20% of the contract price is due as a second installment in the second half of 2013, and the remaining 70% of the contract price is due upon delivery, subject to the terms and conditions of the construction contract. The Company expects that Samsung will deliver this ultra-deepwater drillship by December 2014.

On January 16, 2013, the Company executed an amendment to the letter of intent with Samsung, through one of its subsidiaries, granting until March 1, 2013 the right to enter into an additional contract with Samsung to design and construct an additional ultra-deepwater drillship. On February 25, 2013, the Company executed another amendment to extend the date until April 30, 2013. On April 30, 2013, the Company executed another amendment to extend the date until June 30, 2013. The Company expects the drillship to be delivered by August 2015 and the total project cost of this drillship shall be consistent with the project cost of the drillship of the first option.

Initial Public Offering (“IPO”)

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

Concurrent Private Placement

On January 17, 2013, the Company entered into a share exchange agreement with Delba and its shareholders, conditioned to the completion of the Company's IPO, in which Delba agreed to exchange its 45% equity interest in Amaralina and Laguna for 3,580,026 Company's common shares, which will represent 2.1% of Company's common shares (excluding the common shares that would be issued in the IPO), together with cancellation of Delba's loans with Company's subsidiary, Constellation. Company's shareholders would transfer these shares to the Company to implement the exchange with Delba concurrently with the completion of the IPO through a private placement that would not be registered under the U.S. Securities Act of 1933, as amended. Upon this transfer, the Company would own 100% of the equity interest in Amaralina and Laguna. Pursuant to paragraph 30 and 31 of IAS 27 *Consolidated and Separated Financial Statements*, the acquisition of the non-controlling interests in these entities will be accounted for as equity transactions with no impact on the Company's assets, liabilities or results of operations.

This share exchange agreement termination date, if not implemented due to the non-occurrence of the IPO, is on July, 17, 2013.

Share Split

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

Share Dividend

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

FPSO Cidade de Maricá and FPSO Cidade de Saquarema

On March 26, 2013, the Company signed letters of intent ("LOI"), in which its subsidiary QGOG together with SBM have been awarded with two charter and service agreements for two new FPSO for the Consortium BM-S-11, operated by Petrobras. These FPSOs will be owned and operated by a new investee of QGOG and SBM.

The Company expects the two FPSOs to be delivered by the end of 2015 and early 2016, for pre-salt production development at the Lula Alto and Lula Central fields, located in the Santos Basin, Brazil. These FPSOs will have 65% of national content and a daily oil production capacity of 150,000 barrels and gas production capacity of 6.0 million cubic meters per day.

The Group will have a participation of 5% in the new entities of the structure that will be incorporated for these operations and will have the right to acquire an additional participation of 5% from SBM within fifteen days of the final acceptance of the FPSOs, based on the capital invested by SBM plus interest of 8% p.a..

As of March 31, 2013 the Group's main capital commitments for the conclusion of the construction of the FPSO Cidade de Maricá e FPSO Cidade de Saquarema are in the amounts of US$34 million and US$32 million, respectively, corresponding to the percentage of interest in the partnerships. On April 26, 2013 the Company made the payments related to the first milestones of the projects, as detailed in Note 25.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements has 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 disclosed in Note 3 to the annual consolidated financial statements for the fiscal year ended December 31, 2012.

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

These unaudited condensed consolidated interim financial statements do not include all the information and disclosure items required in the consolidated annual financial statements. Therefore, they must be read together with the Company's consolidated financial statements referring the year ended December 31, 2012, which were prepared according to accounting policies, as described above. There were no changes in accounting policies and critical accounting estimates adopted on December 31, 2012 and March 31, 2013.

The following Standards have been effective since January 1, 2013 and their adoption, where applicable, did not have significant effect on the unaudited condensed consolidated interim financial statements:

Standard or interpretation	Description	Effective date for annual period beginning on or after
IFRS 1 (amended)	Government Loans	January 1, 2013
IFRS 7 (amended)	Disclosures - Offsetting Financial Assets and Financial Liabilities	January 1, 2013
IFRS 10	Consolidated Financial Statements	January 1, 2013
IFRS 11	Joint Arrangements	January 1, 2013
IFRS 13	Fair Value Measurement	January 1, 2013
IAS 19 (revised in 2011)	Employee Benefits	January 1, 2013
IAS 27 (revised in 2011)	Separate Financial Statements	January 1, 2013
IAS 28 (revised in 2011)	Investments in Associates and Joint Ventures	January 1, 2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013

Consolidation

These unaudited condensed consolidated interim financial statements as of March 31, 2013 and for the three months period then ended have been prepared by consolidating the financial statements of the Company and its subsidiaries. All intra-group transactions, balances, income and expenses were eliminated in the consolidation process.

Combination

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

3. CASH AND CASH EQUIVALENTS

	March 31, 2013	December 31, 2012
Cash and bank deposits	46,769	58,606
Cash equivalents	108,622	161,007
Total	155,391	219,613

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

The amounts of cash equivalents are presented below:

Cash equivalents	Financial Institution	Average interest rate (per annum)	March 31, 2013	December 31, 2012
Time deposits	Itau BBA Nassau	0.24%	78,621	127,567
Time deposits	Bradesco S.A. Grand Cayman	0.25%	30,001	32,500
Time deposits	Citibank	0.08%	-	940
Total			108,622	161,007

4. SHORT-TERM INVESTMENTS

	March 31, 2013	December 31, 2012
Time deposits	254,167	195,460
Bank deposits certificates	18,134	11,952
Repurchase agreements	18,904	5,766
Total	291,205	213,178

Short-term investments	Financial institution	Average interest rate (per annum)	March 31, 2013	December 31, 2012
Time deposits	HSBC Bank	0.05%	5,838	30,563
Time deposits	Deutsche Bank	0.14%	75,328	-
Time deposits	Itaú BBA Nassau	1.45%	124,063	123,600
Time deposits	ING Bank	0.17%	43,160	41,297
Time deposits	Citibank	0.18%	5,778	-
Bank deposit certificates	Banco do Nordeste - BNB	101.5% of CDI (*)	9,196	4,417
Bank deposit certificates	Banco do Brasil S.A.	97% of CDI (*)	8,938	4,428
Bank deposit certificates	Itaú S.A.	100% of CDI (*)	-	3,107
Repurchase agreements (**)	Itaú S.A.	100% of CDI (*)	9,193	1,339
Repurchase agreements (**)	Bradesco S.A.	99.73% of CDI (*)	9,711	4,427
Total			291,205	213,178

(*) CDI - Interbank deposit certificate.

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

5. RESTRICTED CASH

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

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

These accounts refer to the financing agreements related to the construction of Lone Star, Gold Star and Olinda Star drilling rigs, as mentioned in Note 11, with original maturity less than one year.

The amounts in these accounts are presented below:

Restricted cash	Financial institution	Average interest rate (per annum)	March 31, 2013	December 31, 2012
Bank deposits	ING Bank	-	15,630	-
Time deposits	ING Bank	0.20%	15,280	25,483
Total			30,910	25,483

6. TRADE AND OTHER RECEIVABLES

	March 31, 2013	December 31, 2012
Trade receivables	95,539	129,330
Total	95,539	129,330

Trade receivables are mainly related to receivables from Petrobras for charter and services relating to offshore and onshore drilling rigs used in exploration of oil and natural gas in Brazil. Historically, there have been no defaults on receivables or delays in collections and consequently, the Group has not recorded an allowance for doubtful accounts for the years presented. The average collection period is approximately 30 days. See credit risks in Note 21.

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

7. INVENTORIES

Inventories refer basically to materials to be used in the rigs operations. The amounts recognised in statement of operations are accounted as costs of services in the account “Materials”, as disclosed in Note 17.

8. RELATED PARTY TRANSACTIONS

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

The consolidated intercompany balances as of March 31, 2013 and December 31, 2012 and the intercompany transactions for the three month periods ended March 31, 2013 and 2012 are as follows:

	March 31, 2013		Three month period ended March 31, 2013	December 31, 2012		Three month period ended March 31, 2012
	Assets	Liabilities	Income / (expenses)	Assets	Liabilities	Income / (expenses)
Delba [a]	219,649	217,128	377	212,366	210,222	-
FPSO Cidade de Paraty [b]	30,939	-	500	30,443	-	-
QG S.A. [c]	-	13,364	(1,421)	-	11,943	(1,142)
Queiroz Galvão Exploração e Produção S.A. (QGEP) [f]	281	-	127	195	-	1
FPSO Capixaba [d]	883	-	2	880	-	1
Espírito do Mar [e]	3,817	-	51	3,765	-	49
Sete Brasil [g]	-	571	1,981	-	571	-
Others	187	65		182	64	-
Total	255,756	231,128	1,617	247,831	222,800	(1,091)
Total current	281	13,429		195	12,007	
Total non-current	255,475	217,699		247,636	210,793	

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

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

The outstanding principal on the loans receivable bears interest at 12% p.a., compounded annually, up to the sixth anniversary of the sub-charter contract with Petrobras. Thereafter, the loans receivable will bear interest at 13% p.a., compounded. Repayment of interest and principal is scheduled to occur quarterly as from the first quarter end following the Date of Acceptance of the drillships by Petrobras, with the principal being repayable in equal quarterly installments over the six year term of the Petrobras charter contract, starting from the Date of Acceptance, since Amaralina and Laguna comply with the financing agreement conditions to pay dividends. The payables to Delba relate to intercompany loans to Amaralina and Laguna for the same amounts, terms and conditions.

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

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

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

In connection with the first disbursement of Amaralina Star and Laguna Star project financings, since May 2012, Constellation charges Delba a fee for being the guarantor of Amaralina Star and Laguna Star project financings. For the three month period ended March 31, 2013, the fee charged to Delba amounted to US$377.

Non-compliance with the contracts between Delba and Constellation could result in penalties to either entity. As of December 31, 2012 and for the year then ended, the Group was in compliance with the requirements of the respective contracts.

(b) The Group signed a shareholders' agreement with partners to construct charter and operate FPSOs for Petrobras. Loans receivables as of March 31, 2013 in the amount of US$30,939 (US$30,443 as of December 31, 2012) refer to milestones payments made by Constellation in proportion with its participation in FPSO Cidade de Paraty. The loan bears interest rate at LIBOR plus 3% p.a. with no maturity date.

(c) The amount of US$13,364 is comprised by US$6,365 (US$6,365 as of December, 2012) which refers to the fee charged by QG S.A., entity under common control with the Group, for being guarantor of part of QGOG Constellation's subsidiaries' loans and financings (such guarantees ceased in 2012) and US$6,999 (US$5,578 as of December, 2012) which refers to the fee charged for being guarantor for importations under the Special Regime of Temporary Admission ("REPETRO").

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

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

(f) On June 1, 2010, Company's subsidiary QGOG entered into an agreement with QGEP pursuant to which they agreed to share infrastructure and costs of certain administrative activities.

(g) The amount of US$1,981 refers to the fee charged by the Company related to Urca, Bracuhy and Mangaratiba project management. The amount of US$571 refers to the net amount payable to Sete Brasil related to the contributions made to Bracuhy and Mangaratiba on behalf of the Company.

Key management personnel remuneration is presented below:

	Three month period ended March 31,	
	2013	2012
Key management personnel compensation (i)	2,355	1,161

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

All key management personnel compensation refers to short term benefits.

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

9. INVESTMENTS

	March 31, 2013								
	Associates					Joint Ventures			
	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Urca Drilling B.V.	Bracuhy Drilling B.V.	Mangaratiba Drilling B.V.	Tupi Nordeste S.à.r.l.	Tupi Nordeste Ltd.	Guará Norte S.à.r.l.	Guará Norte Ltd.
Number of shares (thousands)	100	100	90	90	90	20	12	50,200	12
Indirect interest	20.00%	20.00%	15.00%	15.00%	15.00%	20.00%	20.00%	12.75%	12.75%
Authorized share capital	82	88	€90	€90	€90	16,020	12	50,200	12
Current assets	7,228	29,721	4,774	3,255	2,389	185	11	540	12
Non-current assets	9,830	309,521	263,849	35,931	35,911	1,046,086	-	657,360	296
Current liabilities	16,830	1,100	207,768	27,261	25	149,076	-	25,002	312
Non-current liabilities	11,402	191,471	9,129	5,126	31,195	837,941	29	418,366	-
Shareholder’s equity (deficit)	(11,174)	146,671	51,726	6,799	7,080	59,254	(18)	214,532	(4)

	December 31, 2012						
	Associates					Joint Ventures	
	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Urca Drilling B.V.	Bracuhy Drilling B.V.	Mangaratiba Drilling B.V.	Tupi Nordeste S.à.r.l.	Guará Norte S.à.r.l
Number of shares (thousands)	100	100	90	90	90	20	50,200
Indirect interest	20.00%	20.00%	15.00%	15.00%	15.00%	20.00%	12.75%
Authorized share capital	82	88	€90	€90	€90	16,020	50,200
Current assets	340	29,090	1,129	626	647	209	657
Non-current assets	9,150	324,057	249,108	34,001	33,980	1,195,867	652,583
Current liabilities	7,543	65,047	85,459	31	31	133,982	27,030
Non-current liabilities	11,395	148,567	136,671	28,666	28,663	1,007,307	415,605
Shareholder’s equity (deficit)	(9,448)	139,533	28,107	5,930	5,933	54,787	210,605

	Three month period ended March 31,										
	2013									2012	
	Associates					Joint Ventures				Associates	
	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Urca Drilling B.V.	Bracuhy Drilling B.V.	Mangaratiba Drilling B.V.	Tupi Nordeste S.à.r.l.	Tupi Nordeste Ltd.	Guará Norte S.à.r.l.	Guará Norte Ltd.	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.
Net income (loss)	(1,725)	7,139	5,020	868	867	-	(30)	-	(16)	(526)	5,763
Other comprehensive income (loss)	-	-	-	-	-	4,437	-	3,927	-	-	-
Total comprehensive income	(1,725)	7,139	5,020	868	867	4,437	(30)	3,927	(16)	(526)	5,763

Changes in investments

	Three month period ended March 31,												
	2013										2012		
	Associates					Joint Ventures					Associates		
	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Urca Drilling B.V.	Bracuhy Drilling B.V.	Mangaratiba Drilling B.V.	Tupi Nordeste S.à.r.l.	Tupi Nordeste Ltd.	Guará Norte S.à.r.l.	Guará Norte Ltd.	Total	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Total
Balance as of January 1	(1,891)	27,906	4,216	890	890	10,957	-	26,854	-	69,822	(1,446)	22,981	21,535
Capital increase (1)	-	-	2,790	-	42	-	2	-	1	2,835	-	-	-
Share of results	(345)	1,428	753	130	130	-	(6)	-	(2)	2,088	(105)	1,153	1,048
Share of comprehensive income	-	-	-	-	-	894	-	500	-	1,394	-	-	-
Balance as of March 31	(2,236)	29,334	7,759	1,020	1,062	11,851	(4)	27,354	(1)	76,139	(1,551)	24,134	22,583
Assets (investments)	-	29,334	7,759	1,020	1,062	11,851	-	27,354	-	78,380	-	24,134	24,134
Liabilities (accumulated deficit in investments) (2)	(2,236)	-	-	-	-	-	(4)	-	(1)	(2,241)	(1,551)	-	(1,551)

(1) Capital contributions have been made by cash disbursements.
(2) The liability to fund deficit in FPSO Capixaba Venture S.A. is recognised in "Other current liabilities".

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

- Capixaba's core business is to support operations for contracts in the offshore oil and gas industry. Since March 16, 2007, this company is a shareholder of a Brazilian company which operates the "FPSO Capixaba" unit which is currently located off the Brazilian coast and is chartered to Petrobras until 2022.
- Espírito do Mar is the owner of FPSO Capixaba and its main activity is to support charter contracts in the offshore oil and gas industry.
- Urca Drilling B.V. is the owner of Urca semi-submersible drilling rig and is expected to commence operations in 2016. This drilling rig will be equipped to operate in pre-salt water depths. Upon completion of its construction and its acceptance by Petrobras, Urca will be under contract with Petrobras until 2031.
- Bracuhy Drilling B.V. is the owner of Bracuhy semi-submersible drilling rig and is expected to commence operations in 2018. This drilling rig will be equipped to operate in pre-salt water depths. Upon completion of its construction and its acceptance by Petrobras, Bracuhy will be under contract with Petrobras until 2033.
- Mangaratiba Drilling B.V. is the owner of Mangaratiba semi-submersible drilling rig and is expected to commence operations in 2019. This drilling rig will be equipped to operate in pre-salt water depths. Upon completion of its construction and its acceptance by Petrobras, Mangaratiba will be under contract with Petrobras until 2034.

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

- Tupi Nordeste S.à.r.l.'s main activity is to act as an FPSO owner in support of charter contracts in the offshore oil and gas industry. It is the owner of FPSO Cidade de Paraty, which will operate of the Brazilian coast being chartered to Petrobras until 2032. The expected date for the start of the operations is the second quarter of 2013. As of March 31, 2013 the Group's main capital commitments for the conclusion of the construction of the FPSO Cidade Paraty is in the amount of US$4 million, corresponding to the percentage of interest in the joint venture.
- Guara Norte S.à.r.l.'s main activity is to act as an FPSO owner in support of charter contracts in the offshore oil and gas industry. It is the owner of FPSO Cidade de Ilhabela, which will operate of the Brazilian coast being chartered to Petrobras for 20 years. The expected date for the start of the operations is the third quarter of 2014. As of March 31, 2013 the Group's main capital commitments for the conclusion of the construction of the FPSO Cidade Ilhabela, is in the amount of US$38 million, corresponding to the percentage of interest in this joint venture.

10. PROPERTY, PLANT AND EQUIPMENT

	Equipment under construction	Equipment in operation										
		Amaralina drillship	Laguna drillship	Alaskan Star Rig	Atlantic Star Rig	Alpha Star Rig	Gold Star Rig	Lone Star Rig	Olinda Rig	Onshore drilling rigs	Corporate	Total
Cost												
Balance as of December 31, 2011	966,846	-	-	378,708	334,568	718,636	536,701	639,844	531,137	170,837	29,511	4,306,788
Additions	89,554	-	-	-	-	38	9	97	167	424	581	90,870
Disposals	-	-	-	(265)	(4)	-	-	-	-	-	(69)	(338)
Currency translation differences	-	-	-	-	-	-	-	-	-	2,704	440	3,144
Balance as of March 31, 2012	1,056,400	-	-	378,443	334,564	718,674	536,710	639,941	531,304	173,965	30,463	4,400,464
Balance as of December 31, 2012	61,283	640,111	647,084	378,212	335,088	721,207	537,140	640,421	531,589	169,762	29,626	4,691,523
Additions	2,130	172	439	191	8	12	16	23	8	1,858	675	5,532
Disposals	-	-	-	-	-	-	-	-	-	-	(151)	(151)
Currency translation differences	-	-	-	-	-	-	-	-	-	1,282	216	1,498
Balance as of March 31, 2013	63,413	640,283	647,523	378,403	335,096	721,219	537,156	640,444	531,597	172,902	30,366	4,698,402

	Equipment under construction	Equipment in operation										
		Amaralina drillship	Laguna drillship	Alaskan Star Rig	Atlantic Star Rig	Alpha Star Rig	Gold Star Rig	Lone Star Rig	Olinda Rig	Onshore drilling rigs	Corporate	Total
Accumulated depreciation												
Balance as of December 31, 2011	-	-	-	(50,782)	(51,929)	(16,271)	(45,758)	(24,894)	(59,019)	(51,019)	(14,515)	(314,187)
Depreciation	-	-	-	(4,146)	(3,793)	(8,153)	(5,575)	(8,161)	(5,721)	(3,296)	(623)	(39,468)
Disposals	-	-	-	-	-	-	-	-	-		47	47
Currency translation differences	-	-	-	-	-	-	-	-	-	(1,234)	(140)	(1,374)
Balance as of March 31, 2012	-	-		(54,928)	(55,722)	(24,424)	(51,333)	(33,055)	(64,740)	(55,549)	(15,231)	(354,982)
Balance as of December 31, 2012	-	(6,535)	(2,219)	(67,513)	(67,379)	(49,503)	(68,639)	(57,801)	(81,835)	(60,137)	(16,367)	(477,928)
Depreciation	-	(6,554)	(6,660)	(4,222)	(3,880)	(6,594)	(5,135)	(6,327)	(5,676)	(3,321)	(474)	(48,843)
Disposals	-	-	-	-	-	-	-	-	-	-	131	131
Currency translation differences	-	-	-	-	-	-	-	-	-	(674)	(81)	(755)
Balance as of March 31, 2013	-	(13,089)	(8,879)	(71,735)	(71,259)	(56,097)	(73,774)	(64,128)	(87,511)	(64,132)	(16,791)	(527,395)
Property, plant and equipment, net												
December 31, 2012	61,283	633,576	644,865	310,699	267,709	671,704	468,501	582,620	449,754	109,625	13,259	4,213,595
March 31, 2013	63,413	627,194	638,644	306,668	263,837	665,122	463,382	576,316	444,086	108,770	13,575	4,171,007
Average useful life (years)		24	24	22	21	27	26	25	24	17	15	

The detailed cost of equipment under construction is as follows:

	Equipment under construction (Drillships)
Cost	
Balance as of December 31, 2011	966,846
Additions	89,554
Balance as of March 31, 2012	1,056,400
Balance as of December 31, 2012	61,283
Additions	2,130
Balance as of March 31, 2013	63,413

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

As of December 31, 2012 the balance of equipment under construction refers to the first installment payment of the ultra-deepwater drillship construction as described in Note 1.

Borrowing costs capitalized in PP&E for the three month periods ended March 31, 2013 and 2012 were US$1,555 and US$2,332, respectively.

Borrowing costs are capitalized using the effective interest rates of each financing agreement described in Note 11.

The Group’s assets which are pledged as security for financing are also described in Note 11.

11. LOANS AND FINANCINGS

Financial institution	Funding type	Objective	Beginning period	Maturity	Contractual interest rate	Effective interest rate	Currency	March 31, 2013	December 31, 2012
Banco do Brasil	Loan	Working capital	Sept, 2012	Aug, 2013	2.75%p.a.	2.75%p.a.	U.S. dollar	124,933	124,089
ING (leader arranger)	Financing	Gold Star rig construction[1]	Jul,2007	Dec,2017	Libor+1.15%p.a. to Libor+1.35%p.a.[2]	1.45%p.a.	U.S. dollar	270,221	278,489
ING (leader arranger)	Financing	Lone Star rig construction[3]	Jul,2007	Jan,2015	Libor+1.15%p.a.	1.45%p.a.	U.S. dollar	260,068	281,621
Santander, HSBC, Citibank (joint bookrunners)	Senior Notes ("Project Bond")	Refinance Alaskan Star and Atlantic Star rigs, and other corporate purposes	Jul,2011	Jul,2018	5.25%p.a.	5.55%p.a.	U.S. dollar	577,656	569,287
ING (leader arranger)	Financing	Olinda Star rig construction	Feb,2008	Jul,2014	Libor+1.40%p.a.	1.70%p.a.	U.S. dollar	137,344	151,276
Citibank and Santander (joint leader arrangers)	Financing	Alpha Star rig construction	Apr,2011	Jul,2017	Libor+2.50%p.a.	3.37%p.a.	U.S. dollar	439,481	454,178
BNP, Citi and ING (leader arrangers) and The Norwegian Ministry of Trade and Industry ("MTI")	Financing	Amaralina Star drillship construction	May,2012	Oct,2018[4]	Libor+2.75% to Libor+3.00%p.a.[5]	4.14%p.a.	U.S. dollar	422,976	419,222
BNP, Citi and ING (leader arrangers) and The Norwegian Ministry of Trade and Industry ("MTI")	Financing	Laguna Star drillship construction	May,2012	Dec,2018[4]	Libor+2.75% to Libor+3.00%p.a.[5]	4.31%p.a.	U.S. dollar	427,402	449,474
HSBC, BAML and Citibank (joint bookrunners)	Senior Unsecured Notes ("Corporate Bond")	Prepay working capital loans	Nov, 2012	Nov, 2019	6.25%p.a.	6.68%p.a.	U.S. dollar	699,515	687,911
Total								3,359,596	3,415,547
Current								569,930	567,847
Non-current								2,789,666	2,847,700

(1) The proceeds for repayment of this financing come from the charter receivables of Lone Star rig.
(2) The interest rate is Libor plus 1.15% p.a. until the fifth anniversary and thereafter is Libor plus 1.35% p.a.
(3) The proceeds for repayment of this financing come from the charter receivables of Gold Star rig.
(4) The maturity dates for MTI tranches for Amaralina and Laguna project financings are December, 2020 and January, 2021, respectively, unless the commercial banks tranche would not be extended to the same dates.
(5) The contractual interest rate is Libor plus 2.75% p.a., except for the MTI tranches in which during the construction period the interest rate is Libor plus 3.00% p.a. and after the compliance with certain conditions is Libor plus 2.75% p.a.

Changes in loans and financings

	Three month period ended March 31,	
	2013	2012
Balance as of January 1,	3,415,547	2,440,522
Additions	26,147	-
Repayment of principal	(102,948)	(57,164)
Interest capitalized	1,555	2,332
Interest charged through profit and loss	30,309	18,214
Payment of interest	(13,796)	(8,318)
Transaction cost charged through profit and loss	2,188	1,049
Debt discounts charged through profit and loss	594	287
Balance as of March 31,	3,359,596	2,396,922

Loans and financings long term amortization schedule

For the periods ending December 31,	Loans and financing	Transaction costs	Debt discounts	Net amount
2014	403,155	(5,698)	(1,580)	395,877
2015	422,244	(7,028)	(1,947)	413,269
2016	340,728	(6,262)	(1,751)	332,715
2017	494,681	(4,942)	(1,596)	488,143
2018	467,437	(3,364)	(1,456)	462,617
After 2018	700,000	(1,764)	(1,191)	697,045
Total	2,828,245	(29,058)	(9,521)	2,789,666

Covenants

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

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

The financial covenants are assessed semi-annually based on the consolidated financial statements as of December 31 and June 30 of each year. As of December, 2012 (last assessment period), the Group was in compliance with such restrictive clauses.

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

<u>Guarantees</u>

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

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

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

12. PROVISIONS

In the normal course of business the Group engages in contracts with third parties which convey contractual obligations. The Group recognises provisions for contractual penalties which are allegedly payable with respect to certain of its contracts. The amount of US$7,525 as of March 31, 2013 and December 31, 2012 corresponds to the contractual penalties of Amaralina Star and Laguna Star, which do not foresee monetary variation.

13. PROVISION FOR RISKS AND CONTINGENCIES

Labor, civil and tax claims

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

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

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

	Three month period ended March 31,	
	2013	2012
Balance as of January 1,	935	152
Additions	48	-
Currency translation differences	14	5
Balance as of March 31,	997	157

b) Claims assessed as possible losses by Management

These claims as of March 31, 2013, based on the in-house counsel and external legal advisors' opinions, are not accrued in the unaudited condensed consolidated interim financial statements and consist of labor lawsuits (comprised mainly by compensation due to accidents at work and occupational diseases) in the amount of US$6,603 (US$8,392 in December 31, 2012) and tax lawsuits in the amount of US$23,060 (US$22,511 in December 31, 2012).

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

1) The subsidiary QGOG received a Notice of Violation issued by Brazilian tax authorities related to the importation of the Atlantic Star offshore drilling rig consisting of: (i) the lack of an appropriate importation license of the related offshore drilling rig under the REPETRO and (ii) error in filling out the import documents. As of March 31, 2013, the estimated amount involved is US$19,543 (US$19,161 as of December 31, 2012). The tax assessment was judged partly unsuccessful at first instance administrative and on April 25, 2013 there was a decision at second instance administrative, as discussed in Note 25.

2) The Group received a Notice of Violation issued by Rio de Janeiro tax authorities due to nonpayment of ISS in the city of Rio de Janeiro. The Group argues, on appeal, that the operations tax jurisdiction was carried out in other places and in these collected taxes (ISS due to the site of the service provider). As of March 31, 2013, the estimated amount involved is US$3,060 (US$2,909 in December 31, 2012).

c) Tax, labor and social security matters

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

14. DERIVATIVES

Under the terms of Project Finance arrangements (Note 11), the Group is contractually required to manage its risk on floating interest rates by taking out variable-to-fixed interest rate swaps on its long term variable rate loans. Accordingly, the interest rate swaps contracted by Management convert the variable component of interest rates to fixed rates ranging from 1.930% to 5.165% to mitigate such risk. The floating component of interest rate of all hedging contracts is US$ LIBOR.

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

Information on derivative contracts

Interest rate swaps US$ LIBOR/Pre

Banks	Loans and financings objective	Payable leg interest rate	Maturity	Notional amount Mar 31, 2013	Notional amount Dec 31, 2012	Fair value Mar 31, 2013	Fair value Dec 31, 2012
ING financing (leader arranger)	Gold Star rig construction	5.165% p.a.	Jul, 2017	237,492	248,660	27,356	30,452
ING financing (leader arranger) (*)	Lone Star rig construction	5.165% p.a.	Jul, 2014	247,126	267,499	12,544	15,497
ING financing (leader arranger)	Olinda Star rig construction	3.973% p.a.	Dec, 2013	104,016	118,422	2,831	3,935
Citibank and Santander financing (joint leader arranger) (*)	Alpha Star rig construction	1.930% p.a.	Jul, 2017	449,880	459,866	17,637	19,263
BNP, Citibank and ING financing (joint leader arranger) (**)	Amaralina Star construction	2.815% p.a.	Oct, 2018	434,595	472,711	33,533	36,851
BNP, Citibank and ING financing (joint leader arranger) (**)	Laguna Star construction	2.900% p.a.	Dec, 2018	439,690	471,152	35,812	42,362
Total amount						129,713	148,360
Current liabilities						50,967	56,126
Non-current liabilities						78,746	92,234

	Three month period ended March 31,	
	2013	2012
Balance as of January 1,	148,360	133,710
Fair value adjustments through profit and loss	6,307	5,180
Fair value adjustments through other comprehensive income (loss) (*)	(7,060)	1,281
Settlements	(17,894)	(11,118)
Balance as of March 31,	129,713	129,053

(*) The Group has adopted the hedge accounting as from July 15, 2011, using the derivative contracts related to Amaralina Star and Laguna Star drilling rigs construction. Additional information on these instruments is included in Note 21. Accordingly, the effect of the changes in the fair value of these derivative contracts were recorded in the “Other Comprehensive Loss” until the completion of its construction and the disbursement of the Project Financing (Note 11). At the date of the completion of the construction of each equipment, the fair value adjustments balance recognised in “Other Comprehensive Income” were capitalized.

Derivative contracts designated as cash flow hedges

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

In connection with the Project Financing (Note 11) for the construction of Amaralina Star and Laguna Star drilling rigs, the Group has the contractual commitment with the same financial institutions to contract derivatives as hedging instrument of the debt in relation to changes in LIBOR. Accordingly, the Group has swaps contracts in connection with the rates, spreads, notional, terms and cash flows of the debt. The swap contracts were contracted on July 2011 and will follow the Project Financing terms.

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

Interest rate swaps US$ LIBOR/Pre

				Notional amount		Fair value	
Banks	Loans and financings objective	Payable leg interest rate	Maturity	Mar 31, 2013	Dec 31, 2012	Mar 31, 2013	Dec 31, 2012
BNP, Citibank and ING financing (joint leader arrangers)	Amaralina Star construction	2.815%p.a.	Oct, 2018	434,595	472,711	33,533	36,851
BNP, Citibank and ING financing (joint leader arrangers)	Laguna Star construction	2.900%p.a.	Dec, 2018	439,690	471,152	35,812	42,362

Interest rate swap contracts exchanging floating rate interest for fixed rate interest 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.

15. SHAREHOLDER'S EQUITY

Share capital

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

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

Shareholders	Ordinary shares (*)	Share capital	Share premium	Total
Queiroz Galvão Oil & Gas International S.à.r.l	137,168,142	44,762	373,987	418,749
Constellation Coinvestment S.à.r.l.	15,570,123	5,081	42,451	47,532
Constellation Holding S.à.r.l.	17,739,099	5,789	48,366	54,155
Total as of March 31, 2013	170,477,364	55,632	464,804	520,436

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

The Company's ultimate controlling party is the Queiroz Galvão family, who controls the direct parent companies Queiroz Galvão Oil & Gas International S.à.r.l..

Constellation Coinvestment S.à.r.l. and Constellation Holding S.à.r.l. are companies controlled by Cipef Constellation Coinvestment Fund L.P. and Cipef V Constellation Holding L.P., respectively, which are limited partnerships organized under the laws of Delaware, United States of America.

Share Split

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

Share Dividend

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

Legal reserve

Luxembourg companies are required to appropriate to the legal reserve a minimum of 5% of the net profit for the year after deduction of any losses brought forward, until this reserve equals to 10% of the subscribed capital. This reserve may not be distributed in the form of cash dividends, or otherwise, during the life of the Company. The appropriation to legal reserve is effected after approval at the general meeting of shareholders.

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

Dividends policy

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

Additionally, any dividends paid by the Company will be subject to a Luxembourg withholding tax at a rate of 15% for the year ended December 31, 2012 (17.65% if the dividend tax is not charged to the shareholder), subject to the exceptions provided by Luxembourg tax law or by double tax treaties concluded by the Grand Duchy of Luxembourg and the country of tax residency of the shareholders. The withholding tax must be withheld from the gross distribution and paid to the Luxembourg tax authorities.

Other Comprehensive Items (OCI)

Hedging reserve

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

Currency translation adjustments reserve

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

Changes in Other Comprehensive Items

Changes in comprehensive income (loss) for the three month periods ended March 31, 2013 and 2012 are as follows:

	Cash flow hedge fair value adjustments					
	Attributable to owners of the Group	Attributable to non-controlling interests	Total cash flow hedge fair value adjustments	Shares of cash flow hedge adjustments of investments	Currency translation adjustments	Total
Balances as of December 31, 2011	(27,454)	(22,462)	(49,916)	-	22,132	(27,784)
Fair value adjustment on derivative contracts	(705)	(576)	(1,281)	-	-	(1,281)
Exchange differences arising during the period	-	-	-	-	1,616	1,616
Balances as of March 31, 2012	(28,159)	(23,038)	(51,197)	-	23,748	(27,449)
Balances as of December 31, 2012	3,395	2,779	6,174	(23,311)	18,432	1,295
Fair value adjustment on derivative contracts	3,883	3,177	7,060	-	-	7,060
Fair value adjustment on joint ventures' derivative contracts	-	-	-	1,394	-	1,394
Exchange differences arising during the period	-	-	-	-	613	613
Balances as of March 31, 2013	7,278	5,956	13,234	(21,917)	19,045	10,362

Non-controlling interests

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

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

	Three month period ended March 31,	
	2013	2012
Profit for the period attributable to the owners of the Company	51,986	25,881
Weighted average number of ordinary shares for calculation purposes (thousands of shares) (*)	170,477	170,477
Basic and diluted profit per share	0.30	0.15

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

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 rig charter and drilling services. As of March 31, 2013, of the total of revenues, 96% (94% in March 31, 2012) is derived from one client, Petrobras.

Net operating revenue is stated after the following items:

	Three month period ended March 31,	
	2013	2012
Operating revenue	266,341	185,449
Taxes on revenue:		
Social Integration Program (PIS)	(1,074)	(976)
Social Investment Program (COFINS)	(5,018)	(4,494)
Services Tax (ISS)	(1,452)	(1,393)
Net operating revenue	258,797	178,586

17. COSTS OF SERVICES AND OPERATING EXPENSES

	Three month period ended March 31,					
	2013			2012		
Costs and expenses by nature	Costs of services	General and administrative expenses	Total	Costs of services	General and administrative expenses	Total
Payroll, charges and benefits	(57,046)	(7,002)	(64,048)	(43,038)	(5,067)	(48,105)
Depreciation	(48,560)	(283)	(48,843)	(39,171)	(297)	(39,468)
Materials	(17,645)	-	(17,645)	(12,459)	-	(12,459)
Maintenance	(11,850)	-	(11,850)	(8,442)	-	(8,442)
Insurance	(4,742)	-	(4,742)	(2,844)	-	(2,844)
Other (*)	(11,783)	(4,502)	(16,285)	(11,107)	(4,418)	(15,525)
	(151,626)	(11,787)	(163,413)	(117,061)	(9,782)	(126,843)

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

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

18. OTHER INCOME (EXPENSES), NET

	Three month period ended March 31,	
	2013	2012
Revenue from PP&E sold	249	369
Other income	249	369
Cost of PP&E sold	(20)	(291)
Transaction costs written off (*)	(1,449)	-
Other	-	(308)
Other expenses	(1,469)	(599)
Total other expenses, net	(1,220)	(230)

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

19. FINANCIAL EXPENSES, NET

	Three month period ended March 31, 2013	2012
Interest on short-term investments	961	863
Financial income from related parties	930	50
Other financial income	22	6
Total financial income	1,913	919
Financial charges on loans and financings	(33,091)	(19,550)
Derivative expenses	(6,307)	(5,180)
Financial expenses from related parties	(1,421)	(1,142)
Other financial expenses	(1,768)	(1,420)
Total financial expenses	(42,587)	(27,292)
Net foreign exchange losses	(627)	(561)
Financial expenses, net	(41,301)	(26,934)

20. TAXES

The QGOG Constellation, Constellation and the majority of its subsidiaries are located in jurisdictions which do not charge income tax. Certain of the consolidated entities operate in the Netherlands and Luxembourg, but none of these reported taxable income for the periods presented.

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

a) Recoverable taxes

	March 31, 2013	December 31, 2012
Income tax (IRPJ) and social contribution (CSLL) (*)	1,342	170
Total	1,342	170

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

b) Taxes payables

	March 31, 2013	December 31, 2012
Taxes on revenue (PIS and COFINS)	2,680	2,579
Income tax (IRPJ) and social contribution (CSLL)	615	365
Services Tax (ISS)	1,421	1,234
State VAT (ICMS)	181	203
Others	2	2
Total	4,899	4,383

c) Deferred tax assets

	March 31, 2013	December 31, 2012
Taxes on revenue (PIS/COFINS)	326	365
Total	326	365
Current	153	153
Non-current	173	212

d) Deferred tax liabilities

	March 31, 2013	December 31, 2012
Corporate income tax (IRPJ) and social contribution (CSLL) (*)	7,023	7,265
Total	7,023	7,265

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

e) Effect of income tax results

	Three month period ended March 31,	
	2013	2012
Profit before taxes	54,951	25,627
Income tax effects of businesses subjected to taxes (QGOG - 34%)	279	109
Non-deductible expenses	(596)	(2)
Tax loss carryforwards utilized (not recognised)	92	(255)
Other	370	402
Tax	145	254
Effective tax rate	0.3%	1.0%

As of March 31, 2013 and December 31, 2012, the subsidiary QGOG has tax loss carryforwards in the amounts of US$7,752 and US$8,392, respectively, for which no deferred tax assets are recorded since the Group does not expect that QGOG's operations will generate taxable income in the foreseeable future.

21. FINANCIAL INSTRUMENTS

a) General considerations

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

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

		March 31, 2013		December 31, 2012	
	Category	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Cash and bank deposits	Loans and receivables	46,769	46,769	58,606	58,606
Cash equivalents	Fair value through profit or loss	108,622	108,622	161,007	161,007
Short-term investments	Fair value through profit or loss	291,205	291,205	213,178	213,178
Restricted cash	Fair value through profit or loss	30,910	30,910	25,483	25,483
Trade and other receivables	Loans and receivables	95,539	95,539	129,330	129,330
Receivables from related parties	Loans and receivables	255,756	255,756	247,831	247,831
Financial liabilities					
Loans and financings	Other financial liabilities	3,359,596	3,421,743	3,415,547	3,495,727
Trade and other payables	Other financial liabilities	26,260	26,260	25,004	25,004
Payables to related parties	Other financial liabilities	231,128	231,128	222,800	222,800
Derivatives	Fair value through profit or loss	129,713	129,713	148,360	148,360

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

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

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

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

b) Fair value hierarchy

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

The fair value hierarchy gives greater weight to market information available (i.e. observable) and less weight to information related to the 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 hierarchy of three levels to be used to measure and disclose the fair value. A categorization tool in the fair value hierarchy is based on the lowest level of “input” significant for its measurement. A description of the three hierarchical levels is shown below:

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

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

Level 3 - The “inputs” are those unobservable from little or no market activity. These “inputs” represent the best estimates of management of the entity 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 Mesaurement*, the Group measures its cash equivalents, short-term investments and derivative financial instruments at fair value. Cash equivalents and short-term investments are classified as Level 1 as they are measured using market prices for similar instruments. Derivative financial instruments are classified as Level 2 as they are measured using observable data.

The tables below present the Group’s assets and liabilities recorded at fair value as of March 31, 2013 and December 31, 2012:

	March 31, 2013		
	Fair value	Quoted prices for identical assets or liabilities (Level 1)	Other observable inputs for assets and liabilities (Level 2)
Financial assets			
Cash equivalents	108,622	108,622	-
Short-term investments	291,205	291,205	-
Restricted cash	30,910	30,910	-
Financial liabilities			
Derivatives	129,713	-	129,713

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

Financial instruments fair value measurement

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

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

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

For contracts where the current conditions are similar to those in which they originated or that do not have parameters for quotation or contract, fair values are similar to its carrying amounts. In the evaluation carried out for the purpose of determining the fair value of assets and liabilities measured at amortised cost method, it was not considered the applicability of this adjustment, highlighting the following reasons:

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

- ✓ Loans and financings (other than the Project Bond and the Corporate Bond) and related parties: the fact that fair value information has not been disclosed for these instruments because fair value cannot be measured reliably.

c) Financial risk management

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

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of directors, which has built a liquidity risk management framework for the management of 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) by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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

As of March 31, 2013, the Group presents working capital deficiency in the amount of US$21,298 (US$45,515 as of December 31, 2012), mainly as a result of investments during the last 3 years in onshore and offshore rigs and drillship equipment. The Group strategy in relation to this working capital deficiency is described in Note 1.

The following table details the Group's liquidity analysis for its non-derivative financial liabilities and related derivative financial instruments. The table has been drawn up based on the undiscounted contractual cash inflows and outflows for the financial instruments. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period:

Period	Loans and financings	Derivatives	Trade payables	Related parties	Total
2013	576,684	39,796	26,260	13,429	656,169
2014	597,313	38,900	-	-	636,213
2015	520,709	25,098	-	-	545,807
2016	430,908	15,249	-	-	446,157
2017	573,501	6,342	-	-	579,843
2018	530,518	1,921	-	-	532,439
After 2018	743,750	-	-	417,171	1,160,921
Total	3,973,383	127,306	26,260	430,600	4,557,549

Credit risk

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

The Group has a concentration of trade receivables with Petrobras, which is the Group's main customer. Management considers that the credit risk arising from this concentration is minimal as Petrobras is a government controlled entity with a history of full payment, and of being respectful of contractual rights.

<u>Interest rate risk</u>

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts. The Group is exposed to fluctuations in US$ LIBOR interest rates charged on its loans and financings as reported in Note 11. As discussed in Note 14, the Group manages this interest rate risk by taking out variable-to-fixed interest rate swaps. As a result of the swaps in place at the balance sheet date, the Group's exposure to changes in interest rate expense as a result of fluctuations in US$ LIBOR is in respect of changes in fair values of the respective interest rate swaps. As discussed in Note 14, these interest rates swaps are held at fair value in the balance sheet. The fair value of these instruments is affected by factors including market expectations for future changes to US$ LIBOR. Changes to these expectations affect the value of the swaps of the Group and its subsidiaries, producing effects in the statement of operations unless such changes are capitalized.

<u>Interest rate sensitivity analysis</u>

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period and considers the effects of an increase or decrease of 0.1 basis point on outstanding loans and financing and the effects of either an increase or a decrease of 0.1 basis point in the interest curve (Libor), and its impacts in the swaps mark to market on the date of the unaudited condensed consolidated interim financial statements. For floating rate liabilities (US$ LIBOR plus spread), the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole period. A 0.1 basis point 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 basis point higher/lower and all other variables were held constant, the Group's:

- ✓ Profit for the period ended March 31, 2013 would increase/ decrease by US$45 (profit for the period ended March 31, 2012 would increase/decrease by US$47). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings (US$ LIBOR plus spread); and

- ✓ Other comprehensive income for the year period March 31, 2013 would decrease/increase by US$874 (Other comprehensive income for the period ended March 31, 2012 would increase/decrease by US$51), mainly as a result of the changes in the fair value of the cash flow hedges.

d) Capital management

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

	March 31, 2013	December 31, 2012
Loans and financings [(a)]	3,359,596	3,415,547
Cash transactions [(b)]	(477,506)	(458,274)
Net debt	2,882,090	2,957,273
Shareholders' equity [(c)]	1,346,904	1,282,741
Net debt ratio [(a) + (b)] ÷ [(a) + (b) + (c)]	68%	70%

(a) Consider all loans and financings.

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

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

22. INSURANCE

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

	March 31, 2013	December 31, 2012
Civil liability	1,969,863	1,969,574
Operating risks	5,748,952	5,586,986
Operational headquarter and others	9,705	9,612
Total	7,728,520	7,566,172

23. PENSION PLAN

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

The amount of US$601 for the three month period ended March 31, 2013 (US$469 for the three month period ended March 31, 2012), refers to contributions payable by QGOG at rates specified by the rules of these plans.

24. ADDITIONAL INFORMATION ON CASH FLOWS

	Three month period ended March 31, 2013	2012
Non-cash investing activities:		
Recognition of accrued costs of drilling rigs and drillships under construction	-	69,017
Borrowing costs capitalized, net of hedging adjustments	1,555	2,332
	1,555	71,349

25. SUBSEQUENT EVENTS

Samsung Construction Contract

On April 30, 2013, the Company executed another amendment to extend until June 30, 2013 the validity date of the letter of intent with Samsung, through one of its subsidiaries, granting the Company the right to enter into an additional contract with Samsung to design, construct, build and complete an additional ultra-deepwater drillship, as described in Note 1.

FPSO Cidade de Maricá and FPSO Cidade de Saquarema

On April 26, 2013 the Company made the payments related to the first milestones of the projects FPSO Cidade de Maricá and FPSO Cidade de Saquarema in the amounts of US$7,389 and US$7,281, respectively.

Tax Lawsuit: Atlantic Star offshore drilling rig importation

On April 25, 2013 the subsidiary QGOG was notified of the decision in the second instance administrative regarding the Notice of Violation issued by Brazilian tax authorities related to the importation of the Atlantic Star offshore drilling rig, as discussed in Note 13.

The decision is as follows: (i) exclude the fine in the percentage of 30% of the total amount of the Atlantic Star offshore drilling rig related to the lack of an appropriate importation license under the REPETRO; and (ii) uphold the fine in the percentage of 1% of the total amount of the Atlantic Star offshore drilling rig related to an error in filling out the import documents. There was no appeal by the Brazilian tax authorities, and the Company is currently assessing the best alternative to settle the debt, whose updated amount is US$638.

26. APPROVAL OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved by the Company's management and authorized for issue on May 15, 2013.