QGOG Constellation S.A.

Consolidated Financial Statements as of December 31, 2012 and 2011 and for the Years Then Ended and Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

Deloitte.

Deloitte Touche Tohmatsu
Av. Presidente Wilson, 231 – 22º
Rio de Janeiro – RJ – 20030-905
Brasil

Tel: + 55 (21) 3981-0500
Fax:+ 55 (21) 3981-0600
www.deloitte.com.br

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of QGOG Constellation S.A. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the QGOG Constellation S.A. and its subsidiaries as at December 31, 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU
Auditores Independentes
Rio de Janeiro, Brazil
March 14, 2013

QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2012 AND 2011
(Amounts expressed in thousands of U.S. dollars - US$)

ASSETS	Note	2012	2011
CURRENT ASSETS			
Cash and cash equivalents	6	219,613	188,938
Short-term investments	7	213,178	138,672
Restricted cash	8	25,483	26,325
Trade and other receivables	9	129,330	57,827
Inventories	10	112,233	69,964
Recoverable taxes	24.a	170	1,114
Deferred mobilization costs		12,675	7,962
Deferred taxes	24.c	153	163
Receivables from related parties	11	195	360
Other current assets		17,486	16,388
		730,516	507,713
NON-CURRENT ASSETS			
Receivables from related parties	11	247,636	173,585
Other non-current assets		568	6,944
Investments	12	71,713	22,981
Deferred mobilization costs		44,978	29,912
Deferred taxes	24.c	212	365
Property, plant and equipment, net	13	4,213,595	3,992,601
		4,578,702	4,226,388
TOTAL ASSETS		5,309,218	4,734,101

QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2012 AND 2011
(Amounts expressed in thousands of U.S. dollars - US$)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	2012	2011
CURRENT LIABILITIES			
Loans and financings	15	567,847	731,190
Accrued liabilities	14	-	722,536
Payroll and related charges		52,299	36,101
Derivatives	18	56,126	30,806
Trade and other payables		25,004	27,900
Payables to related parties	11	12,007	4,278
Taxes payables	24.b	4,383	2,988
Provisions	16	7,525	8,468
Deferred mobilization revenue		22,902	13,801
Other current liabilities		27,938	19,725
		776,031	1,597,793
NON-CURRENT LIABILITIES			
Loans and financings	15	2,847,700	1,709,332
Payables to related parties	11	210,793	130,639
Derivatives	18	92,234	102,904
Deferred income taxes	24.d	7,265	9,415
Deferred mobilization revenue		81,143	49,871
Other non-current liabilities		11,311	11,711
		3,250,446	2,013,872
TOTAL LIABILITIES		4,026,477	3,611,665
SHAREHOLDERS' EQUITY			
Capital	19	55,632	131,045
Share premium	19	470,487	395,082
Reserves		(1,484)	(5,322)
Retained earnings		759,462	627,904
Equity attributable to the owners of the Group		1,284,097	1,148,709
Non-controlling interests		(1,356)	(26,273)
		1,282,741	1,122,436
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		5,309,218	4,734,101

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

QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Amounts expressed in thousands of U.S. dollars - US$, except per share amounts)

	Note	2012	2011
NET OPERATING REVENUE	20	806,695	586,331
COSTS OF SERVICES	21	(490,036)	(466,146)
GROSS PROFIT		316,659	120,185
General and administrative expenses	21	(49,664)	(29,788)
Other income	22	6,686	707
Other expenses	22	(4,159)	(12,003)
OPERATING PROFIT		269,522	79,101
Financial income	23	10,420	2,936
Financial expenses	23	(144,764)	(121,130)
Net foreign exchange losses	23	(1,624)	(313)
FINANCIAL EXPENSES, NET		(135,968)	(118,507)
Shares of results of investments	12	3,825	1,028
PROFIT (LOSS) BEFORE TAXES		137,379	(38,378)
Taxes	24.e	(6,145)	(5,146)
PROFIT (LOSS) FOR THE YEAR		131,234	(43,524)
Profit (loss) attributable to the owners of the Group		131,558	(39,713)
Loss attributable to non-controlling interests		(324)	(3,811)
Profit (loss) per share			
Basic	19	0.77	(0.23)
Diluted	19	0.77	(0.23)

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

QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Amounts expressed in thousands of U.S. dollars - US$)

	Note	2012	2011
PROFIT (LOSS) FOR THE YEAR		131,234	(43,524)
OTHER COMPREHENSIVE INCOME (LOSS)			
Attributable to owners of the Group		30,849	(27,454)
Attributable to non-controlling interests		25,241	(22,462)
Cash flow hedge fair value adjustments	18	56,090	(49,916)
Shares of cash flow hedge adjustements of investments		(23,311)	-
Currency translation adjustments		(3,700)	(5,538)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		160,313	(98,978)
Profit (loss) attributable to the owners of the Group		135,396	(72,705)
Profit (loss) attributable to non-controlling interests		24,917	(26,273)

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

QGOG CONSTELLATION S.A.

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

		Capital				Reserves						
	Note	Constellation Oveseas Ltd.	QGOG Constellation S.A.	Total	Share premium	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
BALANCES 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
Capital reduction	19	-	(8)	(8)	-	-	-	-	-	(8)	-	(8)
Capital exchange	19	(130,987)	55,582	(75,405)	75,405	-	-	-	-	-	-	-
Profit for the year		-	-	-	-	-	-	-	131,558	131,558	(324)	131,234
Other comprehensive income for the year		-	-	-	-	30,849	(23,311)	(3,700)	-	3,838	25,241	29,079
Total comprehensive income for the year		-	-	-	-	30,849	(23,311)	(3,700)	131,558	135,396	24,917	160,313
BALANCES 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

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

QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011
(Amounts expressed in thousands of U.S. dollars - US$)

	Note	Capital				Reserves						
		Constellation Oveseas Ltd.	QGOG Constellation S.A.	Total	Share premium	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
BALANCES AS OF DECEMBER 31, 2010		130,987	-	130,987	395,082	-	-	27,670	673,238	1,226,977	-	1,226,977
Capital increase as of August 30, 2011 - issuance of 400,000 shares	19	-	58	58	-	-	-	-	-	58	-	58
Distribution to shareholders		-	-	-	-	-	-	-	(5,621)	(5,621)	-	(5,621)
Loss for the year		-	-	-	-	-	-	-	(39,713)	(39,713)	(3,811)	(43,524)
Other comprehensive loss for the year		-	-	-	-	(27,454)	-	(5,538)	-	(32,992)	(22,462)	(55,454)
Total comprehensive loss for the year		-	-	-	-	(27,454)	-	(5,538)	(45,334)	(78,326)	(26,273)	(104,599)
BALANCES 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

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

QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Amounts expressed in thousands of U.S. dollars - US$)

	Note	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) for the year		131,234	(43,524)
Adjustments for:			
Depreciation of property, plant and equipment	13,21	168,272	131,328
Gain on disposals of property, plant and equipment		(263)	(369)
Shares of results of investments	12	(3,825)	(1,028)
Provisions/(reversal) for penalties	16,22	(943)	10,796
Recognition of mobilization costs		8,877	6,216
Recognition of mobilization revenues, net of taxes		(15,466)	(9,916)
Financial charges on loans and financings	23	94,629	60,012
Financial expenses from related parties, net	23	632	15,387
Derivatives	18,23	35,732	40,753
Other financial expenses, net	23	3,352	2,355
Taxes	24.e	6,145	5,146
Changes in working capital:			
Increase in short-term investments		(75,862)	(131,763)
Decrease in restricted cash		14,242	3,277
(Increase)/decrease in trade and other receivables		(73,570)	32,835
Decrease in receivables from related parties		190	-
Increase in inventories		(44,890)	(24,142)
(Increase)/decrease in recoverable taxes		891	6,550
Increase in deferred mobilization costs		(28,656)	(18,567)
Increase in other assets		10,668	(5,420)
Increase in payroll and related charges		20,032	20,401
Increase/(decrease) in trade and other payables		(2,073)	13,496
Decrease in payables to related parties		(6)	(5,094)
Increase/(decrease) in taxes payables		(5,951)	1,850
Decrease in provisions		-	(42,136)
Increase in deferred mobilization revenue		56,001	41,080
Increase in other liabilities		3,792	8,347
Net cash generated by operating activities		303,184	117,870

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QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Amounts expressed in thousands of U.S. dollars - US$)

	Note	2012	2011
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans to related parties	11	(143,658)	(48,323)
Proceeds from related parties		91,536	-
Acquisition of property, plant and equipment		(956,053)	(230,194)
Advance to suppliers relating to equipment under construction	13	(61,283)	-
Aquisition of investments		(6,059)	-
Capital contribution		(61,143)	-
Proceeds from sales of property, plant and equipment	22	322	707
Net cash used in investing activities		(1,136,338)	(277,810)
CASH FLOW FROM FINANCING ACTIVITIES			
Payments to related parties	11	(91,536)	(11,201)
Proceeds from related parties	11	153,103	17,288
Proceeds from loans and financings, net of transactions costs and (	15	1,861,314	1,752,005
Interest paid on loans and financings	15	(98,315)	(75,743)
Cash payments on derivatives	18	(48,880)	(54,509)
Capital increase	19	-	58
Restricted cash		(13,400)	-
Repayment of principal on loans and financings	15	(898,286)	(1,322,187)
Distributions to shareholders	19	-	(43,331)
Net cash generated by financing activities		864,000	262,380
Increase in cash and cash equivalents		30,846	102,440
Cash and cash equivalents at beginning of the year		188,938	84,301
Effects of exchange rate changes on the balance of cash held in foreign currencies		(171)	2,197
Cash and cash equivalents at end of the year	6	219,613	188,938

The accompanying notes are an integral part of these consolidated 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 consolidated 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 OGX Maranhão Petróleo e Gás Ltda. (“OGX”) and HRT O&G Exploração e Produção de Petróleo Ltda..
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 (1)	Onshore drilling rig	2011
QG-VI	Onshore drilling rig	2008
QG-VII	Onshore drilling rig	2008
QG-VIII (1)	Onshore drilling rig	2011
QG-IX (1)	Onshore drilling rig	2011
Alaskan Star	Offshore drilling rig	1994
Atlantic Star (2)	Offshore drilling rig	1997
Olinda Star	Offshore drilling rig	2009
Gold Star	Offshore drilling rig	2010
Lone Star (1)	Offshore drilling rig	2011
Alpha Star (1)	Offshore drilling rig	2011
Amaralina Star (3)	Drillship	2012
Laguna Star (4)	Drillship	2012

(1) The start of charter and operation of drilling rigs in 2011 began in the following months: on April - Lone Star, QG-V, QG-VIII and QG-IX; and on July - Alpha Star.

(2) In February 2011, the upgrade of Atlantic Star was concluded and the rig restarted its operations.

(3) 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.

(4) 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 December 31, 2012, the Group presents working capital deficiency in the amount of US$45,515 (US$1,090,080 as of December 31, 2011), mainly as a result of investments made during the last 3 years in onshore and offshore drilling rigs and drillship equipment. The working capital deficiency as of December 31, 2012 is principally related to working capital loans in the amount of US$124,089 and as of December 31, 2011 was related to accrued liabilities in the amount of US$722,536 related to the construction of the Amaralina Star and Laguna Star drillships (Note 14). The Group’s strategy in relation to the working capital deficiency included a long-term debt facility in the amount of US$943,863 signed on March 27, 2012 relating to these drillships. This debt facility has a term of up to 6 years. Additionally, the Company issued a 7 year term Senior Unsecured Notes in November, 2012 which proceeds were used to settle certain of the working capital loans (Note 15).

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.

<u>FPSO Cidade de Ilhabela</u>

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.

<u>New partnership with Petrobras and Sete Brasil</u>

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 total project cost (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. Additional information regarding the second EPCI contract is described in Note 29.

Onshore drilling contract signed with Shell

On December 19, 2012, the Company signed a contract with Shell Brasil Petróleo S.A. ("Shell") with a minimum 180-day term, to drill a specific oil well in the São Francisco basin, Brazil, using the onshore rig QG-I. Management expects to begin providing the service during the second half of 2013, after the expiration of the current contract for the QG-I rig with OGX.

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 consolidated financial statements have been retroactively adjusted to reflect this forward split.

Share Dividend

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

2.1. Standards in issue but not yet effective

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

Standard or interpretation	Description	Effective date for annual period beginning on or after
IFRS 1 (amended)	Government Loans	January 1, 2013
IFRS 7 (amended)	Disclosures - Offsetting Financial Assets and Financial Liabilities	January 1, 2013
IFRS 9 (revised in 2010)	Financial Instruments	January 1, 2015
IFRS 10	Consolidated Financial Statements	January 1, 2013
IFRS 11	Joint Arrangements	January 1, 2013
IFRS 12	Disclosure of Interests in Other Entities	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
IAS 32 (amended)	Offsetting Financial Assets and Financial Liabilities	January 1, 2014
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013

The amendments to IFRS 1 address how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRSs.

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

IFRS 10 establishes clarifications and new parameters for defining control, as well as the principles for preparing consolidated financial statements that apply to all entities (including special purpose entities or structured entities).

IFRS 11 redefines the concept of joint control, aligning with IFRS 10 and requiring that entities that are part of a joint agreement determine the type of agreement (joint operation or joint business) by evaluating their rights and obligations. The standard eliminates the possibility of proportional consolidation for joint businesses.

IFRS 12 requires certain disclosures that allow for assessing the nature of the stake held in other entities and the risks involved, as well as how these stakes affect the entity’s financial situation, financial performance, and cash flows.

IFRS 13 establishes, in a single standard, a framework for assessing the fair value of assets and liabilities, and incorporates new concepts and clarifications for this assessment. It also requires that the entities disclose certain information on the assessment of the fair value of their assets and liabilities.

The amendments to IAS 19 revise requirements for pensions and other post-retirement benefits, termination benefits and other changes.

IAS 27 is amended for confirming changes based on the issuance of IFRS 10. The IAS 27 revised in 2011 refers only to separate financial statements.

IAS 28 is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

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

IFRIC 20 is an interpretation that clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognised as an asset, how the asset is initially recognised, and subsequent measurement.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Statements of compliance

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

3.2. Basis of preparation of combination and consolidation

Combination

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

Consolidation

The consolidated financial statements incorporate QGOG Constellation and the operations of Constellation Overseas and its subsidiaries, and, as described in Note 1, the oil drilling operations of QGOG since that Constellation and QGOG were under common control for all years presented. Control is achieved when Constellation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

3.3. Functional currency

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

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

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

All resulting exchange differences on currency translation adjustments are recognised as a separate component of other comprehensive income.

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

3.4. Reportable segments

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

3.5. Current and non-current assets and liabilities

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

3.6. Inventories

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

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

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

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

Borrowing costs are capitalized on equipment under construction.

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

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

3.8. Impairment of long-lived assets

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

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

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

3.9. Cash and cash equivalents

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

3.10. Short-term investments

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

3.11. Investments

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

The requirements of IAS 36 - *Impairment of Assets* are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investees. When necessary, the entire carrying amount of the investee is tested for impairment in accordance with IAS 36, as a single asset by comparing its recoverable amount (higher of value in use, measured by the discounted cash flow, and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investee. The reversal of an impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investee subsequently increases, other than where that impairment loss relates to goodwill. No impairment losses have been recognised on the Group's investments.

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

3.12.Provisions

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

3.13.Revenue recognition

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

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

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

3.14.Borrowing costs

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

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

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

3.15.Current and deferred income tax and social contribution

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

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

3.16.Financial instruments

Financial assets and liabilities

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

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

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

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

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

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

i. Financial liabilities measured at fair value through profit and loss: these include financial liabilities normally traded prior to maturity, liabilities designated upon initial recognition at fair value, except those designated as hedge instruments. They are remarked to fair value at each balance sheet date. The interest, monetary and exchange variations and variations resulting from the fair value, when applicable, are recognised in profit or loss, when incurred. The Group has no financial liabilities in this category.

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

<u>Impairment of financial assets</u>

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

<u>Derivative financial instruments</u>

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

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

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

Hedge accounting

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

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

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive loss. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the “Other gains and losses” line item.

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

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

Derecognition of financial assets and financial liabilities

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

4. CRITICAL ACCOUNTING ESTIMATES

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

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

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

4.1. Measurement of financial instruments

The Group uses valuation techniques that include the use of inputs that are (or not) based on observable market data to estimate the fair values of certain types of financial instruments. Note 25 contain details of the main assumptions used to measure the fair values of financial instruments.

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

4.2. Provisions for claims and other obligations

Claims against the Group, including unasserted claims or assessments are recognised as a liability and/or are disclosed in Notes 3.12, 16 and 17, unless the loss probability is considered to be remote. A provision for claims and other obligations is recorded when the loss is probable and the amount can be reliably estimated. Claims and other similar obligations will be settled when one or more future events occur. Normally, the occurrence of these events is not within control of the Group and therefore, the assessment of these liabilities, is subject to varying degrees of legal uncertainty and interpretation, and requires significant estimates and judgments to be made by Management.

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

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

4.3. Useful lives of PP&E

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

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

4.4. Impairment of Long Lived Assets

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

4.5. Outcome of contract negotiations

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

5. CONSOLIDATED ENTITIES AND INVESTMENTS

		Shareholding %			
		December 31,			
		2012		2011	
Consolidated entities	Location	Direct	Indirect	Direct	Indirect
Alaskan & Atlantic Cooperatief U.A.	Netherlands	-	100.00	-	-
Alaskan & Atlantic Rigs B.V.	Netherlands	-	100.00	-	-
Alaskan Star Ltd. ("Alaskan")	British Virgin Islands	-	100.00	-	100.00
Alpha Star Equities Ltd. ("Alpha")	British Virgin Islands	-	100.00	-	100.00
Amaralina Cooperatief U.A.	Netherlands	-	100.00	-	-
Amaralina Star Ltd. ("Amaralina")	British Virgin Islands	-	55.00	-	55.00
Angra Participações B.V. ("Angra")	Netherlands	100.00	-	-	-
Arazi S.à.r.l ("Arazi")	Luxembourg	100.00	-	-	-
Atlantic & Alaskan Rigs Ltd.	British Virgin Islands	-	100.00	-	-
Becrux B.V. ("Becrux")	British Virgin Islands	-	100.00	-	100.00
Belcher Group Inc. ("Belcher")	British Virgin Islands	-	100.00	-	100.00
Bonvie Investments Inc ("Bonvie")	British Virgin Islands	-	100.00	-	100.00
Centaurus S.à.r.l. ("Centaurus")	Luxembourg	100.00	-	-	100.00
Constellation Netherlands B.V.	Netherlands	100.00	-	-	-
Constellation Services Ltd. ("Constellation Services")	British Virgin Islands	-	100.00	-	100.00
Constellation Overseas Ltd. ("Constellation Overseas")	British Virgin Islands	-	100.00	-	100.00
Dorgaly Technologies Inc. ("Dorgaly")	British Virgin Islands	-	100.00	-	100.00
Eiffel Ridge Group C.V. ("Eiffel")	Netherlands	-	100.00	-	23.75
Gold Star Equities Ltd. ("Gold")	British Virgin Islands	-	100.00	-	100.00
Hopelake Services Ltd. ("Hopelake")	British Virgin Islands	-	100.00	-	-
Keam Holdings C.V. ("Keam")	Netherlands	-	100.00	-	100.00
Laguna Cooperatief U.A.	Netherlands	-	100.00	-	-
Laguna Star Ltd. ("Laguna")	British Virgin Islands		55.00	-	55.00
Lancaster Projects Corp. ("Lancaster")	British Virgin Islands		100.00	-	100.00
London Tower International Drilling C.V. ("London")	Netherlands		100.00	-	100.00

Consolidated entities	Location	Shareholding % December 31, 2012 Direct	2012 Indirect	2011 Direct	2011 Indirect
London Tower Management B.V.	Netherlands	-	100.00	-	-
Lone Star Offshore Ltd. (“Lone”)	British Virgin Islands	-	100.00	-	100.00
Manisa Serviços de Petróleo Ltda. (“Manisa”)	Brazil	-	55.00	-	55.00
Melbhouse Park Ltd. (“Melbhouse”)	British Virgin Islands	-	100.00	-	-
New Canyon City Inc. (“New Canyon”)	British Virgin Islands	-	100.00	-	-
Olinda Star Ltd. (“Olinda”)	British Virgin Islands	-	100.00	-	-
Palase C.V. (“Palase”)	Netherlands	-	55.00	-	55.00
Palase Management B.V.	Netherlands	-	100.00	-	-
Podocarpus C.V. (“Podocarpus”)	Netherlands	-	55.00	-	55.00
Podocarpus Management B.V	Netherlands	-	100.00	-	-
Positive Investments C.V. (“Positive”)	Netherlands	-	100.00	-	100.00
Positive Investments Management B.V.	Netherlands	100.00	-	-	-
QGOG Atlantic / Alaskan Rigs Ltd	British Virgin Islands	-	100.00	-	-
QGOG Participações S.A. (former Rio Arade S.A.)	Brazil	-	100.00	-	100.00
QGOG Star GmbH	Switzerland	100.00	-	-	-
Queiroz Galvão Óleo e Gás S.A.(“QGOG”)	Brazil	-	74.50	-	74.50
Snover International Inc. (“Snover”)	British Virgin Islands	-	100.00	-	100.00
Star International Drilling Ltd. (“Star”)	Cayman Island	-	100.00	-	100.00
Tarsus Serviços de Petróleo Ltda. (“Tarsus”)	Brazil	-	55.00	-	55.00
Tenfield Management Corp.	British Virgin Islands	-	100.00	-	-

Investments

Entities	Location	Shareholding % December 31, 2012 Direct	2012 Indirect	2011 Direct	2011 Indirect
Associates					
FPSO Capixaba Venture S.A. (“Capixaba”)	Switzerland	-	20.0	-	20.0
SBM Espírito do Mar Inc. (“Espírito do Mar”)	Switzerland	-	20.0	-	20.0
Urca Drilling B.V.	Netherlands	-	15.0	-	-
Bracuhy Drilling B.V.	Netherlands	-	15.0	-	-
Mangaratiba Drilling B.V.	Netherlands	-	15.0	-	-
Joint Ventures					
JVH Tupi Nordeste Ltd. (“JVH Tupi”) (*)	Bermuda	-	20.0	-	-
JVC Tupi Nordeste S.à.r.l. (“JVC Tupi”) (*)	Luxembourg	-	20.0	-	-
JVO Tupi Nordeste Operações Marítimas Ltda. (“JVO Tupi”) (*)	Brazil	-	20.0	-	-
Guara Norte S.à.r.l (**)	Luxembourg		12.75		
Guara Norte Holding Ltd. (**)	Bermuda		12.75		
Guara Norte Operações Marítimas Ltda. (**)	Brazil		12.75		

(*) These entities (refers to “FPSO Cidade Paraty”) are in the construction phase and the shareholders' agreement has been signed between the subsidiary Lancaster, SBM Holding Inc (“SBM”), NYK and ITOCHU, creating JVH Tupi, JVO Tupi and JVC Tupi, in which Arazi has an interest of 20% in these companies. As of December 31, 2012, the Group had made advances to these entities that were recorded as intercompany loans relating to the construction of the FPSO Cidade de Paraty.

(**) On March 20, 2012, Arazi and Lancaster, QGOG Constellation’s subsidiaries, signed a shareholders’ agreement with SBM and Mitsubishi, in order to create these entities, which will charter and operate the FPSO Cidade de Ilhabela for Petrobras for 20 years 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 interest 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. At December 31, 2012, the Group had made advances to these entities that were recorded as intercompany loans relating to the construction of the FPSO Cidade de Ilhabela.

The investments in associates and joint ventures are accounted for using the equity method. Other relevant information about interests in associates and joint ventures are described in Note 12.

6. CASH AND CASH EQUIVALENTS

	December 31, 2012	December 31, 2011
Cash and bank deposits	58,606	5,240
Cash equivalents	161,007	183,698
Total	219,613	188,938

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

The amounts of cash equivalents are presented below:

Cash equivalents	Financial Institution	Average interest rate (per annum)	December 31, 2012	December 31, 2011
Time deposits	Itau BBA Nassau	0.34%	127,567	73,544
Time deposits	Bradesco S.A. Grand Cayman	0.58%	32,500	110,154
Time deposits	Citibank	0.08%	940	-
Total			161,007	183,698

7. SHORT-TERM INVESTMENTS

	December 31, 2012	December 31, 2011
Time deposits	195,460	125,038
Bank deposits certificates	11,952	7,498
Repurchase agreements	5,766	6,136
Total	213,178	138,672

Short-term investments	Financial Institution	Average interest rate (per annum)	December 31, 2012	December 31, 2011
Time deposits	HSBC bank	0.08%	30,563	-
Time deposits	Deutsche Bank	0.14%	-	24,074
Time deposits	Bradesco S.A. Grand Cayman	2.20%	-	35,000
Time deposits	Itaú BBA Nassau	1.45%	123,600	7,000
Time deposits	ING Bank	0.17%	41,297	35,876
Time deposits	Citibank	0.13%	-	23,088
Bank deposit certificates	Bradesco S.A.	100% of CDI (*)	-	2,142
Bank deposit certificates	Banco do Nordeste – BNB	101.5% of CDI (*)	4,417	5,356
Bank deposit certificates	Banco do Brasil S.A.	97% of CDI (*)	4,428	-
Bank deposit certificates	Itau S.A.	98% of CDI (*)	3,107	-
Repurchase agreements (**)	Itau S.A.	100.5% of CDI (*)	1,339	-
Repurchase agreements (**)	Bradesco S.A.	99.5% of CDI (*)	4,427	6,136
Total			213,178	138,672

(*) 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.

8. RESTRICTED CASH

Under certain of the Group's project finance arrangements, surplus cash from operations is held in designated reserve accounts, up to a level determined in relation to 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 15, with original maturity less than one year.

The amounts in these accounts are presented below:

Restricted cash	Financial institution	Average interest rate (per annum)	December 31, 2012	December 31, 2011
Time deposits	ING Bank	0.18%	25,483	26,325
Total			25,483	26,325

9. TRADE AND OTHER RECEIVABLES

	December 31, 2012	December 31, 2011
Trade receivables	129,330	57,747
Other receivables	-	80
Total	129,330	57,827

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 25.

The increase in trade receivables is mainly represented by the revenue recognition related to Amaralina Star and Laguna Star drillships in the amounts of US$11,690 and US$9,520, respectively, and the reimbursement of State Value-Added Tax ("State VAT" - ICMS) charged on the importation of these drillships, in the amounts of US$18,551 and US$18,357, respectively. These drillships were not in operation during 2011 (Note 13).

10. 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 21.

11. RELATED PARTY TRANSACTIONS

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

The consolidated intercompany balances as of December 31, 2012 and 2011 and the intercompany transactions for the years then ended are as follows:

	December 31, 2012		2012	December 31, 2011		2011
	Assets	Liabilities	Income / (Expenses)	Assets	Liabilities	Income / (Expenses)
Delba (a)	212,366	210,222	2,144	130,639	130,639	-
FPSO Cidade de Paraty (b)	30,443	-	4,750	34,310	-	-
FPSO Cidade de Ilhabela	-	-	-	4,062	-	-
QG S.A. (c)	-	11,943	(7,735)	-	4,208	(14,978)
Queiroz Galvão Exploração e Produção S.A. (QGEP) (f)	195	-	38	44	-	465
Manati S.A. (f)	-	-	447	316	-	1,248
FPSO Capixaba (d)	880	-	11	869	-	3
Espírito do Mar (e)	3,765	-	198	3,567	-	188
Sete Brasil (g)	-	571	1,553	-	-	-
L1T Consultoria Ltda. (h)	-	-	-	-	-	(179)
SBM Holding Inc. (i)	-	-	4,176	-	-	-
Others	182	64	-	138	70	420
Total	247,831	222,800	5,582	173,945	134,917	(12,833)
Total current	195	12,007		360	4,278	
Total non-current	247,636	210,793		173,585	130,639	

(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.

For the year ended December 31, 2012, the amount of US$2,144 refers to the fee charged by the Group for being guarantor of Amaralina and Laguna project financings.

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 December 31, 2012 in the amount of US$30,443 (US$34,310 as of December 31, 2011) 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.

As defined by the contract, in October, 2012, the amount of US$31,500 was transferred from the intercompany loan with FPSO Cidade de Paraty to investments as a capital contribution.

(c) The amount of US$11,943 is comprised by US$6,365 (US$4,208 as of December, 2011) 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$5,578 which refers to the fee charged for being guarantor for importations under REPETRO special regime.

(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, the subsidiaries QGOG, Manati S.A. (“Manati”) and QGEP entered into an agreement pursuant to which they agreed to share infrastructure and costs of certain administrative activities. On November 30, 2012, Manati was incorporated by QGEP.

(g) The amount of US$1,553 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.

(h) Relates to engineering and consulting services provided to QGOG by L1T Consultoria Ltda., a company owned by the Chief Operating Officer of QGOG and certain of his family members. These services were completed and the related contract was terminated in May 2011.

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

Key management personnel remuneration is presented below:

	December 31,	
	2012	2011
Key management personnel compensation [(i)]	15,327	9,539

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

All key management personnel compensation refers to short term benefits.

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

The above mentioned compensation does not include amounts relating to services provided by the Company’s Chief Executive Officer relating to the private placement transaction undertaken by Constellation with Cipef Constellation Coinvestment Fund L.P. and Cipef V Constellation Holding L.P. (mentioned together as “Capital”) in June 2010 as described in Note 1. These services were contracted in 2009, prior to the nomination of the Chief Executive Officer in March 2010. The total amount of this contract was US$1,790. As of December 31, 2011 amounts payable under this contract amounted to US$565, included in the liability account “Payroll and Related Charges” and which were fully paid in the second quarter of 2012.

12. INVESTMENTS

	December 31, 2012							2011	
	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.	Guará Norte S.à.r.l	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.
Number of shares (thousands)	100	100	90	90	90	20	50,200	100	100
Indirect interest	20.00%	20.00%	15.00%	15.00%	15.00%	20.00%	12.75%	20.00%	20.00%
Authorized share capital	82	88	€90	€90	€90	16,020	50,200	82	88
Current assets	340	29,090	1,129	626	647	209	657	3,822	30,339
Non-current assets	9,150	324,057	249,108	34,001	33,980	1,195,867	652,583	6,333	356,560
Current liabilities	7,543	65,047	85,459	31	31	133,982	27,030	13,906	46,586
Non-current liabilities	11,395	148,567	136,671	28,666	28,663	1,007,307	415,605	3,475	225,407
Shareholder´s equity (deficit)	(9,448)	139,533	28,107	5,930	5,933	54,787	210,605	(7,226)	114,906

	December 31, 2012							2011	
	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.	Guará Norte S.à.r.l	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.
Net income (loss)	(2,223)	24,628	(2,950)	(639)	(636)	(74)	(56)	(13,968)	19,108
Total comprehensive income	(2,223)	24,628	(2,950)	(639)	(636)	(102,733)	(21,853)	(13,968)	19,108

Changes in investments

	2012								2011		
	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.	Guará Norte S.à.r.l	Total	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Total
Balance as of January 1	(1,446)	22,981	-	-	-	-	-	21,535	1,348	19,159	20,507
Capital increase	-	-	4,659	985	985	31,504	29,640	67,773	-	-	-
Share of results	(445)	4,925	(443)	(95)	(95)	(15)	(7)	3,825	(2,794)	3,822	1,028
Share of other comprehensive income	-	-	-	-	-	(20,532)	(2,779)	(23,311)	-	-	-
Balance as of December 31	(1,891)	27,906	4,216	890	890	10,957	26,854	69,822	(1,446)	22,981	21,535
Assets (investments)	-	27,906	4,216	890	890	10,957	26,854	71,713	-	22,981	22,981
Liabilities (accumulated deficit in investments) (*)	(1,891)	-	-	-	-	-	-	(1,891)	(1,446)	-	(1,446)

(*) 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 December 31, 2012 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 December 31, 2012 the Group’s main capital commitments for the conclusion of the construction of the FPSO Cidade Ilhabela, is in the amount of US$39 million, corresponding to the percentage of interest in this joint venture.

13. 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, 2010	1,511,660	-	-	374,018	319,965	-	530,128	-	527,915	131,211	24,008	3,418,905
Additions	836,171	-	-	4,690	23,903	-	6,573	-	3,222	29,068	6,327	909,954
Disposals	-	-	-	-	(9,300)	-	-	-	-	(50)	(394)	(9,744
Transfers	(1,380,985	-	-	-	-	718,636	-	639,844	-	22,106	399	-
Currency translation differences	-	-	-	-	-	-	-	-	-	(11,498)	(829)	(12,327)
Balance as of December 31, 2011	966,846	-	-	378,708	334,568	718,636	536,701	639,844	531,137	170,837	29,511	4,306,788
Additions	260,276	10,085	49,988	556	569	2,571	439	577	516	6,614	1,706	333,897
Advances to suppliers [a]	61,283	-	-	-	-	-	-	-	-	-	-	61,28
Disposals	-	-	-	(1,052	(49)	-	-	-	(64)	-	(309)	(1,474
Transfers	(1,227,122)	630,026	597,096	-	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	-	-	-	-	(7,689	(1,282)	(8,971
Balance as of December 31, 2012	61,283	640,111	647,084	378,212	335,088	721,207	537,140	640,421	531,589	169,762	29,626	4,691,523

(a) Refers to the first installment payment of the ultra-deepwater drillship construction as described in Note 1.

	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, 2010	-	-	-	(33,707	(45,338	-	(23,949)	-	(36,562)	(45,342)	(13,098)	(197,996
Depreciation	-	-	-	(17,075	(15,682	(16,271)	(21,809)	(24,894)	(22,457)	(11,082)	(2,059)	(131,328
Disposals	-	-	-	-	9,091	-	-	-	-	14	301	9,406
Currency translation differences	-	-	-	-	-	-	-	-	-	5,391	341	5,73
Balance as of December 31, 2011	-	-	-	(50,782	(51,929	(16,271)	(45,758)	(24,894)	(59,019)	(51,019)	(14,515)	(314,187
Depreciation	-	(6,535)	(2,219)	(16,731	(15,450	(33,232	(22,881)	(32,907)	(22,816)	(12,983)	(2,518)	(168,272
Disposals	-	-	-	-	-	-	-	-	-	-	217	217
Currency translation differences	-	-	-	-	-	-	-	-	-	3,865	449	4,314
Balance as of December 31, 2012	-	(6,535)	(2,219)	(67,513	(67,379	(49,503	(68,639)	(57,801)	(81,835)	(60,137)	(16,367)	(477,928
Property, plant and equipment, net												
December 31, 2011	966,846	-	-	327,926	282,639	702,365	490,943	614,950	472,118	119,818	14,996	3,992,601
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
Average useful life (years)		24	24	22	21	22	21	22	24	17	15	

The detailed cost of equipment under construction is as follows:

	Equipment under construction				
	Alpha Star Rig	Lone Star Rig	Drillships [(a)]	Onshore drilling rigs	Total
Cost					
Balance as of December 31, 2010	654,803	618,726	215,626	22,505	1,511,660
Additions	63,833	21,118	751,220	-	836,171
Transfers	(718,636)	(639,844	-	(22,505	(1,380,985
Balance as of December 31, 2011	-	-	966,846	-	966,846
Additions	-	-	260,276	-	260,276
Advances to suppliers			61,283		61,283
Transfers	-	-	(1,227,122)	-	(1,227,122)
Balance as of December 31, 2012	-	-	61,283	-	61,283

(a) 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.

Borrowing costs capitalized in PP&E for the year ended December 31, 2012 was US$100,380 (US$27,942 for the year ended December 31, 2011).

Borrowing costs are capitalized using the effective interest rates of each financing agreement described in Note 15.

The Group's assets which are pledged as security for financing are also described in Note 15.

14. ACCRUED LIABILITIES

Equipment under construction is recorded based on the incurred costs amounts of the respective project based on information provided by the shipyards and suppliers. The related costs are recognised in PP&E and the respective amounts of the unbilled costs are recognised as accrued liabilities account, as follows:

	December 31, 2011
Equipment under construction:	
Amaralina Star	379,693
Laguna Star	342,843
Total	722,536

In June and September, 2012 the Company reclassified the amounts of US$440,465 and US$431,188, respectively, from "Accrued Liabilities" to "Trade and Other Payables" relating to Amaralina Star and Laguna Star construction costs billed by Samsung shipyard and other suppliers, respectively, in connection with the issuance of the invoice and the completeness of the construction (Note 13).

The payments for the construction of Amaralina Star and Laguna Star drillships were made on July and September, 2012, respectively.

15. LOANS AND FINANCINGS

Financial institution	Funding type	Objective	Beginning period	Maturity	Contractual interest rate	Effective interest rate	Currency	December 31, 2012	December 31, 2011
Bradesco	Loan	Working capital	During 2011 and 2012	Within 1 year	2.03%p.a. to 3.94%p.a.	3.88%p.a.	U.S. dollar	-	283,683
Banco do Brasil	Loan	Working capital	During 2011 and Sep, 2012	Within 1 year	2.75%p.a.	2.75%p.a.	U.S. dollar	124,089	123,954
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)	1.46%p.a.	U.S. dollar	278,489	311,036
ING (leader arranger)	Financing	Lone Star rig construction(3)	Jul,2007	Jan,2015	Libor+1.15%p.a.	1.46%p.a.	U.S. dollar	281,621	364,504
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	569,287	660,245
ING (leader arranger)	Financing	Olinda Star rig construction	Feb,2008	Jul,2014	Libor+1.40%p.a.	1.83%p.a.	U.S. dollar	151,276	205,003
Citibank and Santander (joint leader arrangers)	Financing	Alpha Star rig construction	Apr,2011	Jul,2017	Libor+2.50%p.a.	3.42%p.a.	U.S. dollar	454,178	492,097
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)	4.36%p.a.	U.S. dollar	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)	4.52%p.a.	U.S. dollar	449,474	-
HSBC, BAML and Citibankl (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	687,911	-
Total								3,415,547	2,440,522
Current								567,847	731,190
Non-current								2,847,700	1,709,332

(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

	2012	2011
Balance as of January 1	2,440,522	2,006,349
Additions	1,900,261	1,776,916
Repayment of principal	(898,286)	(1,322,187)
Transaction cost	(29,231)	(20,361)
Debt discount	(9,716)	(4,550)
Interest capitalized	15,683	20,086
Interest charged through profit and loss	88,236	55,315
Payment of interest	(98,315)	(75,743)
Transaction cost charged through profit and loss	5,114	4,090
Debt discounts charged through profit and loss	1,279	607
Balance as of December 31	3,415,547	2,440,522

Loans and financing long term amortization schedule

For the years ending December 31,	Loans and financing	Transaction costs	Debt discounts	Net amount
2014	485,887	(7.674)	(2,132)	476,081
2015	420,928	(7.028)	(1,947)	411,953
2016	339,318	(6.262)	(1,751)	331,305
2017	493,078	(4.943)	(1,596)	486,539
2018	365,330	(3.363)	(1,455)	360,512
After 2018	784,268	(1.766)	(1,192)	781,310
Total	2,888,809	(31.036)	(10,073)	2,847,700

Senior Unsecured Notes ("Corporate Bond")

On November 9, 2012, the Company issued Senior Unsecured Notes ("Corporate Bond") in the amount of US$700 million (US$681 million, net of transaction costs). The Corporate Bond bears interest at 6.25%p.a., which the Company will pay semi-annually on May and November of each year, beginning in May, 2013. The Corporate Bond will mature on November, 2019.

The Company used the net proceeds from the Corporate Bond to repay Constellation's working capital loans with Bradesco and Itaú BBA, and the remaining proceeds will be used to repay the working capital facility with Banco do Brasil upon its final maturity and for general corporate purposes.

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.

Unused available credit lines

Amaralina Star and Laguna Star Project Financing
In the first semester of 2011, the Group agreed with BNP Paribas ("BNP"), ING Capital LLC ("ING") and Citigroup Global Markets Inc. ("Citi") the terms of a long-term facility to finance the construction of Amaralina Star and Laguna Star drillships.

On March 27, 2012, the Group signed a loan agreement with a Bank Syndicate led by BNP, ING and Citi, to finance the construction of Amaralina Star and Laguna Star drillships. The total facility amount is US$943,863 and the term is 6 years and 1 month after the commencement of operations of each drillship. The credit facility was provided by the Bank Syndicate, in the amount of US$593,863, and by MTI, in the remaining amount of US$350,000.

The financing bears an interest rate of LIBOR plus 2.75%p.a. for the commercial banks tranche and LIBOR plus 1.35%p.a. for the MTI tranche. The MTI tranche is guaranteed by the Guarantee Institute for Export Credits ("GIEK") and the premium rate to be paid for such guarantee vary from 1.65%p.a. (during the drillship construction) and 1.40%p.a. (after the compliance with certain conditions). Further, a commitment fee of 40% of the applicable margins for banks and MTI tranches and GIEK premium for MTI tranche is paid over the undisbursed amount of the respective facility tranche.

The guarantees offered by the Group are the usual for this type of transactions, including, mortgage over the rigs, assignment of the charter contracts, pledge of accounts and compliance with certain financial covenants, among others.

In connection with this Project Financing, the Group has the contractual commitment with the same financial institutions to contract derivatives as cash flow hedging instrument of the debt in relation to changes in LIBOR. Accordingly, the Group has contracted swaps in connection with the terms and cash flows of the debt, as disclosed in Note 18.

In May, June, September and December, 2012, the first, second, third and fourth tranches were disbursed in the total amount of US$203,413, US$323,527, US$361,112 and US$29,626, respectively. As of December 31, 2012 there was an amount of US$26,185 still remaining of this facility.

16. PROVISIONS

In the normal course of business the Group engages in contracts with third parties which convey contractual obligations. During 2011 the Group recognised provisions for contractual penalties which are allegedly payable with respect to certain of its contracts. The amount of US$7,525 as of December 31, 2012 (US$8,468 as of December 31, 2011) corresponds to the contractual penalties of Amaralina Star and Laguna Star.

17. 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 December 31, 2012 and 2011 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:

	2012	2011
Balance as of January 1,	152	531
Additions	908	89
Reversals	(175)	(409)
Currency translation differences	50	(59)
Balance as of December 31,	935	152

b) Claims assessed as possible losses by Management

These claims as of December 31, 2012, based on the in-house counsel and external legal advisors’ opinions, are not accrued in the consolidated financial statements and consist of labor lawsuits (comprised mainly by compensation due to accidents at work and occupational diseases) in the amount of US$8,392 (US$3,156 in December 31, 2011) and tax lawsuits in the amount of US$22,511 (US$23,232 in December 31, 2011).

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

1) The Group received a Notice of Violation issued by Brazilian tax authorities which assumed that the Atlantic Star rig has been imported without a corresponding import license. The tax assessment was judged partly unsuccessful at first instance administrative. It is awaiting trial on appeal. The estimated amount involved is US$19,161 (US$19,184 in December 31, 2011).

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). The estimated amount involved is US$2,909 (US$2,871 in December 31, 2011).

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.

18. DERIVATIVES

Under the terms of Project Finance arrangements (Note 15), 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 1.50% to 5.16% 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 December 31, 2012, 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

				Notional amount		Fair value Payables	
				December 31,		December 31,	
Banks	Loans and financings objective	Payable leg	Maturity	2012	2011	2012	2011
ING financing (leader arranger)	Gold Star rig construction	5.165% p.a.	Jul, 2017	248,660	291,276	30,452	36,235
ING financing (leader arranger) (*)	Lone Star rig construction	1.505%p.a. to 5.165% p.a.	Jan, 2015	267,499	345,873	15,497	24,017
ING financing (leader arranger)	Olinda Star rig construction	3.973% p.a.	Dec, 2013	118,422	174,087	3,935	7,648
Citibank and Santander financing (joint leader arranger) (*)	Alpha Star rig construction	1.930% p.a.	Jul, 2017	459,866	520,490	19,263	15,894
BNP, Citibank and ING financing (joint leader arranger) (**)	Amaralina Star construction	2.815% p.a.	Oct, 2018	472,711	115,269	36,851	24,155
BNP, Citibank and ING financing (joint leader arranger) (**)	Laguna Star construction	2.900% p.a.	Dec, 2018	471,152	113,157	42,362	25,761
Total amount						148,360	133,710
Current liabilities						56,126	30,806
Non-current liabilities						92,234	102,904

	2012	2011
Balance as of January 1,	133,710	89,694
Fair value adjustments capitalized	-	7,856
Fair value adjustments through profit and loss	35,732	40,753
Fair value adjustments through other comprehensive income (loss)**	28,607	49,916
Settlements	(49,689)	(54,509)
Balance as of December 31,	148,360	133,710

(*) During the year ended December 31, 2011 the fair value adjustments capitalized related to the subsidiaries Lone and Alpha derivatives since their rigs were under construction and started operation in April, 2011 and July, 2011, respectively.

(**) 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 25. 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 15). 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 15) 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 years.

Interest rate swaps US$ LIBOR/Pre

				Notional amount		Fair value Payables	
				December 31,		December 31,	
Banks	Loans and financings objective	Payable leg	Maturity	2012	2011	2012	2011
BNP, Citibank and ING financing (joint leader arrangers)	Amaralina Star construction	2.815%p.a.	Oct, 2018	472,711	115,269	36,851	24,155
BNP, Citibank and ING financing (joint leader arrangers)	Laguna Star construction	2.900%p.a.	Dec, 2018	471,152	113,157	42,362	25,761

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 years presented, the hedge was effective in hedging the fair value.

19. 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	378,560	423,322
Constellation Coinvestment S.à.r.l.	15,570,123	5,081	42,970	48,051
Constellation Holding S.à.r.l.	17,739,099	5,789	48,957	54,746
Total as of December 31, 2012	170,477,364	55,632	470,487	526,119

(*) Considers the one-for-three forward share split and share dividend (Note 29) 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.

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 QGOG Constellation. The appropriation to legal reserve is effected after approval at the general meeting of shareholders.

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 years ended December 31, 2012 and 2011 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, 2010	-	-	-	-	27,670	27,670
Fair value adjustment on derivative contracts	(27,454)	(22,462)	(49,916)	-	-	(49,916)
Exchange differences arising during the year	-	-	-	-	(5,538)	(5,538)
Balances as of December 31, 2011	(27,454)	(22,462)	(49,916)	-	22,132	(27,784)
Fair value adjustment on derivative contracts	(15,734)	(12,873)	(28,607)	-	-	(28,607)
Amounts transferred to property, plant and equipment	46,583	38,114	84,697	-	-	84,697
Fair value adjustment on joint ventures’ derivative contracts	-	-	-	(23,311)	-	(23,311)
Exchange differences arising during the year	-	-	-	-	(3,700)	(3,700)
Balances as of December 31, 2012	3,395	2,779	6,174	(23,311)	18,432	1,295

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 (loss) per share

Basic and diluted profit (loss) per share amounts are calculated by dividing the profit (loss) for the year, 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 year.

	2012	2011
Net income (loss) attributable to the owners of the Company	131,558	(39,713)
Weighted average number of ordinary shares for calculation purposes (thousands of shares) (*)	170,477	170,477
Basic and diluted profit (loss) per share	0.77	(0.23)

(*) 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 (loss) per share is equal to basic profit (loss) per share.

20. NET OPERATING REVENUE

The Group’s operating revenue is mainly derived from rig charter and drilling services. As of December 31, 2012, of the total of revenues, 94% (93% in December 31, 2011) is derived from one client, Petrobras.

Net operating revenue is stated after the following items:

	2012	2011
Operating revenue	834,725	610,263
Taxes on revenue:		
Social Integration Program (PIS)	(4,016)	(3,396)
Social Investment Program (COFINS)	(18,498)	(15,640)
Services Tax (ISS)	(5,516)	(4,896)
Net operating revenue	806,695	586,331

21. COSTS OF SERVICES AND OPERATING EXPENSES

	For the years ended December 31,					
	2012			2011		
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	(183,018)	(28,310)	(211,328)	(165,006)	(17,956)	(182,962)
Depreciation	(167,135)	(1,137)	(168,272)	(130,103)	(1,225)	(131,328)
Materials	(45,565)	-	(45,565)	(72,756)	-	(72,756)
Maintenance	(37,225)	-	(37,225)	(39,217)	-	(39,217)
Insurance	(14,102)	-	(14,102)	(11,073)	-	(11,073)
Other (*)	(42,991)	(20,217)	(63,208)	(47,991)	(10,607)	(58,598)
	(490,036)	(49,664)	(539,700)	(466,146)	(29,788)	(495,934)

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

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

22. OTHER INCOME (EXPENSES), NET

	2012	2011
Revenue from sales of PP&E	1,520	707
Contractual fee	4,964	-
Other	202	-
Other income	6,686	707
Reversal of (provision for) penalties (*)	943	(10,796)
Cost of PP&E sold	(1,257)	(338)
Transaction costs write-off	(3,845)	-
Other	-	(869)
Other expenses	(4,159)	(12,003)
Total other income (expenses), net	2,527	(11,296)

(*) Refer to provisions for contractual penalties relating to certain contracts (Note 16).

23. FINANCIAL EXPENSES, NET

	2012	2011
Interest income on short-term investments	3,205	1,591
Financial income from related parties	7,103	608
Other financial income	112	737
Financial income	10,420	2,936
Financial charges on loans and financings	(94,629)	(60,012)
Derivative expenses	(35,732)	(40,753)
Financial expenses from related parties	(7,735)	(15,995)
Other financial expenses	(6,668)	(4,370)
Financial expenses	(144,764)	(121,130)
Net foreign exchange losses	(1,624)	(313)
Financial expenses, net	(135,968)	(118,507)

24. 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 years presented.

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

a) Recoverable taxes

	December 31,	
	2012	2011
Taxes on revenue (*)	-	868
Corporate income tax (IRPJ) and social contribution (CSLL) (*)	170	152
Other	-	94
Total	170	1,114

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

b) Taxes payables

	December 31, 2012	December 31, 2011
Taxes on revenue (PIS and COFINS)	2,579	-
Income tax (IRPJ) and social contribution (CSLL)	365	1,583
Services Tax (ISS)	1,234	1,038
State VAT (ICMS)	203	301
Others	2	66
Total	4,383	2,988

c) Deferred tax assets

	December 31, 2012	December 31, 2011
Taxes on revenue (PIS/COFINS)	365	528
Total	365	528
Current	153	163
Non-current	212	365

d) Deferred tax liabilities

	December 31, 2012	December 31, 2011
Corporate income tax (IRPJ) and social contribution (CSLL) (*)	7,265	9,415
Total	7,265	9,415

(*) Deferred tax liabilities related to deemed cost.

e) Effect of income tax results

	For the years ended December 31, 2012	For the years ended December 31, 2011
Profit (loss) before taxes	137,379	(38,378)
Income tax effects of businesses subjected to taxes (QGOG - 34%)	(920)	(8,558)
Non-deductible expenses	(10,107)	(122)
Tax loss carryforwards utilized (not recognised)	3,316	3,270
Other	1,566	264
Tax	(6,145)	(5,146)
Effective tax rate	4%	26%

As of December 31, 2012 and 2011, the subsidiary QGOG has tax loss carryforwards in the amounts of US$8,392 and US$12,053, 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.

25. FINANCIAL INSTRUMENTS

a) General considerations

The Group manages its capital to ensure that its entities will be able to continue as a going concern while maximizing the return to 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:

		December 31,			
		2012		2011	
	Category	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Cash and bank deposits	Loans and receivables	58,606	58,606	5,240	5,240
Cash equivalents	Fair value through profit or loss	161,007	161,007	183,698	183,698
Short-term investments	Fair value through profit or loss	213,178	213,178	138,672	138,672
Restricted cash	Fair value through profit or loss	25,483	25,483	26,325	26,325
Trade and other receivables	Loans and receivables	129,330	129,330	57,827	57,827
Related parties	Loans and receivables	247,831	247,831	173,945	173,945
Financial liabilities					
Loans and financing	Other financial liabilities	3,415,547	3,495,727	2,440,522	2,451,469
Trade and other payables	Other financial liabilities	25,004	25,004	27,900	27,900
Related parties	Other financial liabilities	222,800	222,800	134,917	134,917
Derivatives	Fair value through profit or loss	148,360	148,360	133,710	133,710

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 consolidated 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.

The tables below present the Group's assets and liabilities recorded at fair value as of December 31, 2012 and 2011:

	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

	December 31, 2011		
	Fair value	Quoted prices for identical assets or liabilities (Level 1)	Other observable inputs for assets and liabilities (Level 2)
Financial assets			
Cash equivalents	183,698	183,698	-
Short-term investments	138,672	138,672	-
Restricted cash	26,325	26,325	-
Financial liabilities			
Derivatives	133,710	-	133,710

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 senior notes issued by QGOG Atlantic / Alaskan Rigs Ltd 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 15) by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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

As of December 31, 2012, the Group presents working capital deficiency in the amount of US$45,515 (US$1,090,080 as of December 31, 2011), 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 financing	Derivatives	Trade payables	Related parties	Total
2013	689,241	54,220	25,004	12,007	780,472
2014	595,638	38,126	-	-	633,764
2015	518,878	24,932	-	-	543,810
2016	428,455	15,249	-	-	443,704
2017	570,841	6,342	-	-	577,183
2018	427,415	1,920	-	-	429,335
After 2018	831,843	-	-	415,512	1,247,355
Total	4,062,311	140,789	25,004	427,519	4,655,623

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.

Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts. The Group is exposed to fluctuations in US$ LIBOR interest rates charged on its loans and financings as reported in Note 15. As discussed in Note 18, the Group manages this interest rate risk by taking out variable-to-fixed interest rate swaps. As a result of the swaps in place at the balance sheet date, the Group's exposure to changes in interest rate expense as a result of fluctuations in US$ LIBOR is in respect of changes in fair values of the respective interest rate swaps. As discussed in Note 18, these interest rates swaps are held at fair value in the 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.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period and considers the effects of an increase or decrease of 0.1 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 consolidated financial statements. For floating rate liabilities (US$ LIBOR plus spread), the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole period. A 0.1 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 year ended December 31, 2012 would increase/ decrease by US$964 (loss for the year ended December 31, 2011 would increase/decrease by US$569). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings (US$ LIBOR plus spread); and
- Other comprehensive income for the year ended December 31, 2012 would decrease/increase by US$944 (Other comprehensive loss for the year ended December 31, 2011 would increase/decrease by US$50), 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:

	December 31, 2012	December 31, 2011
Loans and financings [a]	3,415,547	2,440,522
Cash transactions [b]	(458,274)	(353,935)
Net debt	2,957,273	2,086,587
Shareholders' equity [c]	1,282,741	1,122,436
Net debt ratio [(a) + (b)] ÷ [(a) + (b) + (c)]	70%	65%

(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.

26. INSURANCE

As of December 31, 2012 and 2011, major assets or interests covered by insurance and respective amounts are summarized below:

	December 31, 2012	December 31, 2011
Civil liability	1,969,574	1,401,324
Operating risks	5,586,986	4,086,175
Operational headquarter and others	9,612	8,930

27. PENSION PLAN

QGOG Constellation, 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$1,568 for the year ended December 31, 2012 (US$701 for the year ended December 31, 2011), refers to contributions payable by QGOG at rates specified by the rules of these plans.

28. ADDITIONAL INFORMATION ON CASH FLOWS

	For the year ended December 31,	
	2012	2011
Non-cash investing activities:		
Recognition of accrued costs of drilling rigs and drillships under construction	-	652,890
Borrowing costs capitalized, net of hedging adjustments	100,380	27,942
Other	-	(1,072)
	100,380	679,760

29. SUBSEQUENT EVENTS

Samsung Letter of Intent

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

Initial Public Offering

On January 7, 2013, QGOG Constellation filed its registration statement with the U.S. Securities and Exchange Commission ("SEC") in connection with its Initial Public Offering ("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, QGOG Constellation entered into a share exchange agreement with Delba and its shareholders, conditioned to the completion of the IPO, in which Delba agreed to exchange its 45% equity interest in Amaralina and Laguna for 3,580,026 common shares of QGOG Constellation, which will represent 2.1% of QGOG Constellation's common shares (without taking into account the common shares it would issue in the IPO), together with cancellation of Delba's loans with the Company. QGOG Constellation's shareholders would transfer these shares to the Company to implement the exchange with Delba concurrently with the completion of the Initial Public Offering 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.

In addition to receiving the Company´s common shares, Delba´s loans with Constellation Overseas would be cancelled.

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

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 QGOG Constellation's shares to shares with no par value. All references to common share values in these consolidated financial statements have been retroactively adjusted to reflect this forward split.

Share Dividend

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

Legal Reserve

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

Disbursement of current credit lines

On January 30, 2013 Amaralina Star and Laguna Star received the last tranches in the total amount of US$26,147 of the Project Financing for the construction of such drillships (Note 15).

30. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 14, 2013.