QGOG Constellation S.A.

Consolidated Financial Statements as of December 31, 2014 and 2013 and for the Years Then Ended and Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of QGOG Constellation S.A. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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 qualified opinion.

Basis for Qualified Opinion

The Company's investments in the associates Urca Drilling B.V., Bracuhy Drilling B.V. and Mangaratiba Drilling B.V. (all together denominated "Investees"), accounted for by the equity method of accounting, are carried at US$14,168 thousand on the consolidated statement of financial position as at December 31, 2014, and the Company's share of the Investees net loss amounts of US$209 thousand, are included in the Company's consolidated statement of operations for the year then ended (Note 12). We draw attention to the related Note, which discloses Sete Brasil Participações S.A.'s internal actions (majority shareholder of such Investees) related to the "Lava-Jato" operation being held in Brazil and the alternatives under evaluation in order to improve its short term liquidity capacity to meet its operational and financing commitments (including those related to the Investees), and then supporting its ability to continue as a going concern.

Until the date of this report, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of the Company's investments in the Investees as at December 31, 2014 and the Company's share of the Investees total comprehensive loss for the year then ended. Consequently, we were unable to determine whether any adjustments or additional disclosures to the accompanying footnotes of these Investees balances as at December 31, 2014 and for the year then ended were due necessary at the date of this report.

Opinion

In our opinion, except for the possible effects, if any, of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of QGOG Constellation S.A. and its subsidiaries as at December 31, 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Partnership with SBM Holding Inc. - contingent liability

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

Charter and Operate Agreements with Petróleo Brasileiro S.A. - Petrobras

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements, which discloses the uncertainty in the Company's operations related to the notice received by the Company's subsidiary Queiroz Galvão Óleo e Gás S.A. ("QGOG") from Petrobras on December 29, 2014, mentioning that QGOG has been temporarily suspended from being hired and taking part in future bids by its main customer until investigations under CGU ("Brazilian General Comptroller's Office") related to "Lava Jato" operation is concluded.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU
Auditores Independentes
Rio de Janeiro, Brazil
March 19, 2015

QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2014 AND 2013
(Amounts expressed in thousands of U.S. dollars - US$)

ASSETS	Note	December 31, 2014	December 31, 2013
CURRENT ASSETS			
Cash and cash equivalents	6	147,079	217,530
Short-term investments	7	83,470	283,399
Restricted cash	8	37,842	38,674
Trade and other receivables	9	102,313	90,941
Inventories	10	161,664	153,190
Recoverable taxes	24.a	3,284	1,979
Deferred mobilization costs		10,857	14,116
Deferred tax assets	24.c	1,056	153
Receivables from related parties	11	13,042	8,011
Other current assets		28,483	14,898
		589,090	822,891
NON-CURRENT ASSETS			
Receivables from related parties	11	323,960	237,496
Other non-current assets		523	487
Investments	12	222,850	200,850
Deferred mobilization costs		23,864	33,740
Deferred tax assets	24.c	5,747	58
Property, plant and equipment, net	13	4,448,868	4,201,634
		5,025,812	4,674,265
TOTAL ASSETS		5,614,902	5,497,156

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QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2014 AND 2013
(Amounts expressed in thousands of U.S. dollars - US$)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	December 31, 2014	December 31, 2013
CURRENT LIABILITIES			
Loans and financings	14	417,979	609,896
Accrued liabilities	15	390,697	42,920
Payroll and related charges		55,102	60,554
Derivatives	18	28,445	40,810
Trade and other payables		30,650	27,238
Payables to related parties	11	2,719	10,302
Taxes payables	24.b	3,375	5,051
Provisions	16	1,551	7,525
Deferred revenues		24,505	25,386
Other current liabilities		52,622	34,100
		1,007,645	863,782
NON-CURRENT LIABILITIES			
Loans and financings	14	2,016,748	2,393,362
Payables to related parties	11	265,406	223,013
Derivatives	18	21,748	37,579
Deferred tax liabilities	24.d	-	5,136
Deferred revenues		73,859	63,190
Other non-current liabilities		1,424	6,241
		2,379,185	2,728,521
TOTAL LIABILITIES		3,386,830	3,592,303
SHAREHOLDERS' EQUITY			
Capital	19	63,200	63,200
Share premium	19	766,561	766,561
Transaction costs on issuance of shares	19	(9,721)	(9,721)
Reserves	19	(5,407)	16,464
Retained earnings		1,405,712	1,065,781
Equity attributable to the owners of the Group		2,220,345	1,902,285
Non-controlling interests	19	7,727	2,568
TOTAL SHAREHOLDERS' EQUITY		2,228,072	1,904,853
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		5,614,902	5,497,156

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, 2014 AND 2013
(Amounts expressed in thousands of U.S. dollars - US$, except per share amounts)

	Note	2014	2013
NET OPERATING REVENUE	20	1,101,667	1,079,266
COST OF SERVICES	21	(627,983)	(623,907)
GROSS PROFIT		473,684	455,359
General and administrative expenses	21	(56,716)	(52,200)
Other income	22	10,146	4,340
Other expenses	22	(2,283)	(4,058)
OPERATING PROFIT		424,831	403,441
Financial income	23	14,805	9,539
Financial expenses	23	(120,760)	(130,453)
Net foreign exchange losses	23	(760)	(4,913)
FINANCIAL EXPENSES, NET		(106,715)	(125,827)
Shares of results of investments	12	26,783	41,962
PROFIT BEFORE TAXES		344,899	319,576
Taxes	24.e	3,746	(11,099)
PROFIT FOR THE YEAR		348,645	308,477
Profit attributable to the owners of the Group		339,931	306,319
Profit attributable to non-controlling interests		8,714	2,158
Profit per share			
Basic	19	1.80	1.74
Diluted	19	1.80	1.74

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

QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Amounts expressed in thousands of U.S. dollars - US$)

	Note	2014	2013
PROFIT FOR THE YEAR		348,645	308,477
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Attributable to owners of the Group	19	(4,345)	2,158
Attributable to non-controlling interests	19	(3,555)	1,766
Cash flow hedges fair value adjustments	18/19	(7,900)	3,924
Share of investments' other comprehensive income (loss)	12/19	(8,321)	16,302
Items that will not be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments	19	(9,205)	(6,195)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		323,219	322,508
Comprehensive income attributable to the owners of the Group		318,060	318,584
Comprehensive income attributable to non-controlling interests		5,159	3,924

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 YEARS ENDED DECEMBER 31, 2014 AND 2013
(Amounts expressed in thousands of U.S. dollars - US$)

					Reserves							
	Note	Capital	Share premium	Transaction costs	Legal	Cash flow hedges fair value adjustments	Share of investments' other comprehensive income (loss)	Foreign currency translation adjustments	Retained earnings	Equity attributable to the owners of the Company	Equity attributable to non-controlling interests	Total shareholders' equity
BALANCE AS OF DECEMBER 31, 2012		55,632	479,812	(9,325)	-	3,395	(23,311)	18,432	759,462	1,284,097	(1,356)	1,282,741
Profit for the year		-	-	-	-	-	-	-	306,319	306,319	2,158	308,477
Other comprehensive income for the year	19	-	-	-	-	2,158	16,302	(6,195)	-	12,265	1,766	14,031
Total comprehensive income for the year		-	-	-		2,158	16,302	(6,195)	306,319	318,584	3,924	322,508
Legal reserve	19	-	(5,683)	-	5,683	-	-	-	-	-	-	-
Share dividend	19	1,193	(1,193)	-	-	-	-	-	-	-	-	-
Capital increase	19	6,375	293,625	-	-	-	-	-	-	300,000	-	300,000
Transaction costs on issuance of shares	19	-	-	(396)	-	-	-	-	-	(396)	-	(396)
BALANCE AS OF DECEMBER 31, 2013		63,200	766,561	(9,721)	5,683	5,553	(7,009)	12,237	1,065,781	1,902,285	2,568	1,904,853
Profit for the year		-	-	-	-	-	-	-	339,931	339,931	8,714	348,645
Other comprehensive income for the year	19	-	-	-	-	(4,345)	(8,321)	(9,205)	-	(21,871)	(3,555)	(25,426)
Total comprehensive income for the year		-	-	-	-	(4,345)	(8,321)	(9,205)	339,931	318,060	5,159	323,219
BALANCE AS OF DECEMBER 31, 2014		63,200	766,561	(9,721)	5,683	1,208	(15,330)	3,032	1,405,712	2,220,345	7,727	2,228,072

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

QGOG CONSTELLATION S.A.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Amounts expressed in thousands of U.S. dollars - US$)

	Note	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		348,645	308,477
Adjustments to reconcile profit to net cash provided by operating activities:			
Depreciation of property, plant and equipment	13/21	191,823	191,617
Gain on disposal of property, plant and equipment, net	22	(164)	(742)
Share of results of investments	12	(26,783)	(41,962)
Recognition of deferred mobilization costs		15,340	13,858
Recognition of deferred revenues, net of taxes levied		(29,383)	(25,048)
Financial charges on loans and financings	14/23	103,952	126,425
Financial expenses (income) from related parties, net	11/23	(6,195)	273
Fair value loss (gain) on derivatives	18/23	6,414	(7,234)
Provision for employee profit sharing plan		26,918	33,290
Other financial expenses, net	23	2,544	6,363
Provisions	16/22	1,470	-
Taxes	24.e	(3,746)	11,099
Changes in working capital:			
Decrease/(increase) in short-term investments		195,784	(73,365)
Decrease/(increase) in trade and other receivables		(14,415)	34,987
Increase in receivables from related parties		(11,800)	(1,015)
Increase in inventories		(15,120)	(46,340)
Increase in recoverable taxes		(1,736)	(1,988)
Increase in deferred mobilization costs		(2,369)	(4,179)
Decrease/(increase) in other assets		(10,389)	8,962
Decrease in payroll and related charges		(25,273)	(17,077)
Increase in trade and other payables		5,174	3,665
Increase/(decrease) in payables to related parties		1,332	(579)
Decrease in taxes payables		(2,609)	(11,188)
Increase in deferred revenues		32,447	10,371
Decrease in provisions		(7,444)	-
Decrease in other liabilities		46	(8,933)
Net cash provided by operating activities		774,463	509,737
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments to related parties		(57,087)	(9,751)
Proceeds from related parties		39,534	-
Capital decrease in investments	12	11,621	-
Acquisition of property, plant and equipment	13/28	(83,740)	(139,915)
Dividends received from associates		-	6,148
Capital contributions in investments	12	(27,730)	(73,329)
Proceeds from sales of property, plant and equipment	22	198	890
Net cash used in investing activities		(117,204)	(215,957)
CASH FLOW FROM FINANCING ACTIVITIES			
Payments to related parties		(6,351)	(13,838)
Proceeds from related parties		6,700	37,749
Proceeds from loans and financings	14	55,000	148,679
Interest paid on loans and financings	14	(109,459)	(124,666)
Cash payments on derivatives	18	(42,510)	(58,813)
Restricted cash	8	832	(13,191)
Capital increase	19	-	299,604
Repayment of principal on loans and financings	14	(631,733)	(569,505)
Net cash used in financing activities		(727,521)	(293,981)
Decrease in cash and cash equivalents		(70,262)	(201)
Cash and cash equivalents at the beginning of the year		217,530	219,613
Effects of exchange rate changes on the balance of cash held in foreign currencies		(189)	(1,882)
Cash and cash equivalents at the end of the year		147,079	217,530

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

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

1. GENERAL INFORMATION

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

These consolidated financial statements include the Company and its subsidiaries (the "Group").

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

The Company holds investments in subsidiaries that charter and operate onshore and offshore drilling rigs and drillships for exploration and production entities operating mainly in Brazil. The Group currently charters onshore and offshore drilling rigs and drillships mainly to Petróleo Brasileiro S.A. ("Petrobras"), but also to President Energy PLC and Karoon Petróleo e Gás Ltda. ("Karoon").

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

Drilling rigs and drillships	Type	Start of operations
QG-I	Onshore drilling rig	1981
QG-II	Onshore drilling rig	1981
QG-III	Onshore drilling rig	1987
QG-IV	Onshore drilling rig	1996
QG-V	Onshore drilling rig	2011
QG-VI	Onshore drilling rig	2008
QG-VII	Onshore drilling rig	2008
QG-VIII	Onshore drilling rig	2011
QG-IX	Onshore drilling rig	2011
Alaskan Star	Offshore drilling rig	1994
Atlantic Star	Offshore drilling rig	1997
Olinda Star	Offshore drilling rig	2009

Drilling rigs and drillships	Type	Start of operations
Gold Star	Offshore drilling rig	2010
Lone Star	Offshore drilling rig	2011
Alpha Star	Offshore drilling rig	2011
Amaralina Star	Drillship	2012
Laguna Star	Drillship	2012
Brava Star [(1)]	Drillship	Under construction

(1) Delivery is expected to occur in April 2015.

As of December 31, 2014 and 2013, the Group presents working capital deficiency in the amounts of US$418,555 and US$40,891, respectively, mainly as result of its current investments. As of December 31, 2014 the working capital deficiency is mainly related to the Brava Star drillship construction costs amounting to US$390,697 (Notes 13 and 15). Management expects to revert this working capital deficiency primarily through committed long-term project financing with international banks and export credit agencies.

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

Samsung Construction Agreement

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

On November 14, 2012, the Group exercised the right to enter into the first agreement with Samsung to design, construct, complete and deliver an ultra-deepwater drillship, the Brava Star drillship. The Brava Star drillship total project cost amounts to approximately US$660 million and the Group paid 10% of the agreement price as a first milestone in the last quarter of 2012. The Group expects Samsung to deliver this ultra-deepwater drillship by April 2015. The Group has not exercised the right to enter into the second EPCI.

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

On May 26, 2014, the Group signed a three-year agreement to charter and render operational services within the pre-salt area offshore the Brazilian coast, using the Brava Star drillship to the consortium BM-S-11, which is comprised by Petrobras (consortium operator), BG E&P Brasil Ltda. and Petróleos de Portugal – Petrogal, S.A. (“Petrogal”). The operations are expected to start in July 2015.

On November 21, 2014, the Company, through its subsidiary Brava Star Ltd., signed a loan agreement amounting to US$475 million, as disclosed in Note 14.

FPSO Cidade de Maricá and FPSO Cidade de Saquarema

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

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

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

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

FPSO P-63 Operation

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

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

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

On March 21, 2014, the Group signed an agreement to charter and render operational services for President Energy PLC and President Energy Paraguay S.A. with a 210-day term beginning at start of operations. The purpose of the agreement is to drill two oil wells in Paraguay, using the onshore drilling rig QG-I. The first oil well started to be drilled in June 2014. The agreement was terminated in January 2015 and the Company is currently seeking for a new agreement.

Olinda Star offshore drilling rig new agreement

On July 14, 2014, the Group signed an agreement with Karoon to charter and render operating services in two oil wells, using the Olinda Star offshore drilling rig. The operations started on October 22, 2014. The agreement has an estimated duration of 120 days and can be extended by another 120 days to drill two optional wells.

Amendments to Olinda Star offshore drilling rig charter and service-rendering agreements with Petrobras

On August 26, 2014, the Group signed amendments to the existing charter and service-rendering agreements with Petrobras, in which the duration of the agreements was extended by 150 days from August 2015, including the increase of the contractual amount. These agreements will be effective after the termination of the agreement with Karoon.

FPSO Cidade de Maricá loan facility

On July 28, 2014, the Group and its partners SBM Inc., Mitsubishi and NYK Line, through the joint venture Alfa Lula Alto S.à.r.l., signed a loan agreement amounting to US$1.45 billion with a pool of international commercial banks, in order to finance the construction of the FPSO Cidade de Maricá. The loan agreement was structured as a Limited Recourse Project Finance and will be repaid on a quarterly basis as from April 2016 over a period ending December 2029. As of December 31, 2014, Alfa Lula Alto S.á.r.l. disbursed US$982.4 million and with part of the proceeds repaid the full amount of the shareholders loan and part of the capital contributions made by the Group (Notes 11 and 12).

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

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

The financial covenants consist of: (i) a minimum requirement of Consolidated Tangible Net Worth; (ii) a minimum requirement of Consolidated Cash and Cash Equivalents and Marketable Securities; (iii) Interest Cover Ratio, that requires maintenance of a minimum Consolidated Adjusted EBITDA to Consolidated Net Interest Payable ratio; (iv) Leverage Ratio, which requires a maximum ratio of Consolidated Net Total Borrowings to Consolidated Adjusted EBITDA. Consolidated refers to the Group.

The financial covenants are assessed semi-annually based on the consolidated financial statements as of December 31 and June 30 of each year. As of December 31, 2014 the Group was in compliance with such restrictive clauses.

Petrobras withholding taxes

In July 2014, the Group received letters from Petrobras informing that the Brazilian Federal Revenue Service ("RFB") issued Notices of Violation against Petrobras regarding the absence of withholding income taxes from charter agreements remittances in 2008 and 2009, related to Atlantic Star and Alaskan Star offshore drilling rigs. Petrobras indicated that is currently contesting the Notices of Violation issued by the RFB, but if the losses on ongoing appeals are confirmed, it will seek the recoverability of such losses from its contractors, including the Group, and any penalties, interest and fees that would be required to settle the debt with the RFB. Petrobras has informed that the amount involved related to the work performed by the Group amounts to R$152 million, equivalent to approximately US$69 million, excluding penalties, interest and fees. The Group has contested Petrobras' allegations in a response letter stating that Petrobras "has no legal or commercial grounds to seek recoverability from the Group" and that "will not accept any withholding or deduction of the amounts to be received under the charter agreements". Should Petrobras fail in its appeals and, consequently, the Group receives any future charges aiming the reimbursement of Petrobras' losses, the Group will contest such charges.

Notices received from Petrobras

On December 29, 2014, Queiroz Galvão Óleo Gás S.A. ("QGOG"), one of the Company's subsidiaries, received a notice from Petrobras which temporarily suspends QGOG from entering into direct contracts and participating in bids for new contracts. This notice currently does not impact any of the existing contracts between QGOG and Petrobras. QGOG disagrees with this temporary suspension and has already contested this determination in order to reverse it.

On March 10, 2015, QGOG received a notice from Petrobras about the transfer to *Controladoria Geral da União* - CGU (Comptroller General's Office) of the administrative procedure, in order to avoid duplication of efforts by entities at the federal administration. Petrobras has also informed that it will rely on the conclusion of CGU's administrative procedure to decide on eventual sanctions or the reversion of the temporary suspension.

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

2.1. New and amended IFRS adopted in 2014

During 2014, the Group has applied a number of new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2014. The following new standards and amendments have been adopted by the Group but had no impact on its consolidated financial statements, except for additional disclosure requirements:

Standard or interpretation	Description	Effective date
IFRS 10, IFRS 12 and IAS 27 (Amendments)	Investment Entities	January 1, 2014
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities	January 1, 2014
IAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets	January 1, 2014
IAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting	January 1, 2014
IFRIC 21	Levies	January 1, 2014
IAS 19 (Amendments)	Defined Benefit Plans: Employee Contributions	July 1, 2014
2010-2012 Cycle	Annual Improvements	July 1, 2014
2011-2013 Cycle	Annual Improvements	July 1, 2014

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

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

Standard or interpretation	Description	Effective date
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	January 1, 2016
IFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016
IAS 16 and IAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
IAS 16 and IAS 41 (Amendments)	Agriculture: Bearer Plants	January 1, 2016
IAS 27 (Amendments)	Equity Method in Separate Financial Statements	January 1, 2016
2012-2014 Cycle	Annual Improvements	July 1, 2016
IFRS 9 (2014)	Financial Instruments	January 1, 2018

The Group's management is currently 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. Statement of compliance

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

3.2. Basis of preparation and consolidation

Preparation

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting practices below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods or services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Consolidation

The consolidated financial statements incorporate the Company and its subsidiaries.

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

The consolidated financial statements also consider the consolidation of QGOG without the consideration of non-controlling interest, since in September 2011, the Group entered into a Share Purchase Agreement with Queiroz Galvão S.A. (QG S.A.), pursuant to which it purchased 49% of the outstanding common shares and 100% of the outstanding preferred shares of QGOG for R$53,154 thousand (US$32,768). In connection with this agreement, the Group also entered into a call option agreement with QG S.A. to have the right to purchase the remaining 51% of QGOG's common shares for R$17,836 thousand (US$10,563). The Group advanced R$17,835 thousand (US$10,563) of this amount to QG S.A., with R$1 thousand remaining unpaid and due upon its exercise of the option. The call option is exercisable at any time in the sole discretion of the Group. As a result of this call option, the Group effectively controls QGOG.

The principal accounting policies are set out below:

3.3. Functional currency and foreign currencies

The financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the respective entity operates (i.e., functional currency). The Company's functional currency 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 subsidiaries' 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 subsidiaries 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 mainly 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. Inventories' costs are determined by using the average cost method of accounting.

3.7. Trade and other receivables

Trade and other receivables are initially measured at the fair value of the consideration to be received and, subsequently, at amortized cost and adjusted for allowances for credit losses and impairment.

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

All PP&E is carried at cost less accumulated depreciation. PP&E consists primarily of onshore and offshore drilling rigs, drillships 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 other 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 rigs 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 profit or loss in the period in which they are incurred.

The carrying amounts of these assets are based on estimates, assumptions and judgments relating to capitalized costs, useful lives and residual values of the drilling rigs. These estimates, assumptions and judgments reflect both historical experience and expectations regarding future oil and gas 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 a PP&E item have different useful lives, those components are accounted for as separate PP&E items. At the end of each year, the Group reviews the estimated useful lives and residual values of the PP&E.

3.9. Impairment of long-lived assets

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

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

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

3.10. 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 a minimum risk of changes in value.

3.11. 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.

3.12. Investments in associates and joint ventures

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

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

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

3.13. 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 obligation amount. 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 in these consolidated financial statements but not recorded in a specific account.

3.14. Revenue recognition

The charter and service-rendering 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 service-rendering 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 operational 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 agreement.

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

3.15. 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.

3.16. 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 statement of operations 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 individual entity 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 probable.

3.17. 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 variations 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 (Note 25.a).

ii. Financial assets held to maturity: these include non-derivative financial instruments with fixed or determinable payments with defined maturities, for which the Group has 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 amount, 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 the amortised cost under the effective interest rate method. The interest, monetary and exchange variations, less losses in recoverable amount, 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 (Note 25.a).

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

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

i. Financial liabilities measured at fair value through profit and loss: these include financial liabilities normally traded prior to maturity, liabilities designated upon initial recognition at fair value, except those designated as hedge instruments. They are remarked to fair value at each balance sheet date. The interest, monetary and exchange variations and variations resulting from the fair value, when applicable, are recognised in profit or loss, when incurred. The Group has derivative financial instruments in this category (Note 25.a).

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 variations, 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 in this category (Note 25.a).

Impairment of financial assets

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

Derivative financial instruments

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

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

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

Hedge accounting

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

Amounts previously recognised in other comprehensive income 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 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 income 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 income 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 amounts 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. Provision for impairment of trade and other receivables

The Group recognises a provision for impairment of trade and other receivables when there is objective evidence that a loss event occurred after the initial recognition of the receivable and has an impact on the estimated future cash flows, which can be reliably estimated. Such evidence includes insolvency, defaults or a significant probability of a debtor filing for bankruptcy.

4.3. 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 3.13, 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 of the consolidated financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company’s management and its legal counsels assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company’s legal counsels evaluate the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

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

4.4. Useful lives of PP&E

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

As described in Note 3.8, at the end of each year, the Group reviews the estimated useful lives of PP&E and no significant changes were identified.

4.5. Impairment of long-lived assets

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

4.6. Provision for employee profit sharing plan

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

4.7. Outcome of agreement negotiations

In the normal course of business the Group engages in agreements 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 uncertainties 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

		Ownership interest (%)			
		December 31,			
		2014		2013	
Consolidated entities	Place of incorporation	Direct	Indirect	Direct	Indirect
Alaskan & Atlantic Cooperatief U.A.	Netherlands	-	100.00	-	100.00
Alaskan & Atlantic Rigs B.V.	Netherlands	-	100.00	-	100.00
Alaskan Star Ltd. (“Alaskan”)	British Virgin Islands	-	100.00	-	100.00
Alpha Star Equities Ltd. (“Alpha”)	British Virgin Islands	-	100.00	-	100.00
Amaralina Cooperatief U.A.	Netherlands	-	55.00	-	55.00
Amaralina Star Ltd. (“Amaralina”)	British Virgin Islands	-	55.00	-	55.00
Angra Participações B.V. (“Angra”)	Netherlands	100.00	-	100.00	-
Arazi S.à.r.l. (“Arazi”)	Luxembourg	100.00	-	100.00	-
Atlantic & Alaskan Rigs Ltd.	British Virgin Islands	-	100.00	-	100.00
Becrux B.V.	Netherlands	-	100.00	-	100.00
Belcher Group Inc.	British Virgin Islands	-	100.00	-	100.00
Bonvie Investments Inc.	British Virgin Islands	-	100.00	-	100.00
Brava Drilling B.V.	Netherlands	-	100.00	-	-
Brava Star Ltd. (former “Tenfield Management Corp.”)	British Virgin Islands	-	100.00	-	100.00
Centaurus S.à.r.l. (“Centaurus”)	Luxembourg	100.00	-	100.00	-
Constellation Netherlands B.V.	Netherlands	100.00	-	100.00	-
Constellation Services Ltd. (“Constellation Services”)	British Virgin Islands	-	100.00	-	100.00
Constellation Overseas Ltd. (“Constellation Overseas”)	British Virgin Islands	-	100.00	-	100.00
Domenica S.A. (“Domenica”)	Paraguay	-	100.00	-	100.00
Dorgaly Technologies Inc.	British Virgin Islands	-	100.00	-	100.00
Eiffel Ridge Group C.V.	Netherlands	-	100.00	-	100.00
Gold Star Equities Ltd. (“Gold”)	British Virgin Islands	-	100.00	-	100.00
Hopelake Services Ltd.	British Virgin Islands	-	100.00	-	100.00
Keam Holdings C.V.	Netherlands	-	100.00	-	100.00
Laguna Cooperatief U.A.	Netherlands	-	55.00	-	55.00
Laguna Star Ltd. (“Laguna”)	British Virgin Islands	-	55.00	-	55.00
Lancaster Projects Corp. (“Lancaster”)	British Virgin Islands	-	100.00	-	100.00
London Tower International Drilling C.V.	Netherlands	-	100.00	-	100.00
London Tower Management B.V.	Netherlands	-	100.00	-	100.00
Lone Star Offshore Ltd. (“Lone”)	British Virgin Islands	-	100.00	-	100.00
Manisa Serviços de Petróleo Ltda.	Brazil	-	55.00	-	55.00
Melbhouse Park Ltd.	British Virgin Islands	-	100.00	-	100.00
New Canyon City Inc.	British Virgin Islands	-	100.00	-	100.00
Olinda Star Ltd. (“Olinda”)	British Virgin Islands	-	100.00	-	100.00
Palase C.V.	Netherlands	-	55.00	-	55.00
Palase Management B.V.	Netherlands	-	100.00	-	100.00
Podocarpus C.V.	Netherlands	-	55.00	-	55.00
Podocarpus Management B.V.	Netherlands	-	100.00	-	100.00

		Ownership interest (%)			
		December 31,			
		2014		2013	
Consolidated entities	Place of incorporation	Direct	Indirect	Direct	Indirect
Positive Investments C.V.	Netherlands	-	100.00	-	100.00
Positive Investments Management B.V.	Netherlands	100.00	-	100.00	-
QGOG Atlantic / Alaskan Rigs Ltd.	British Virgin Islands	-	100.00	-	100.00
QGOG Participações S.A.	Brazil	-	100.00	-	100.00
QGOG Perforaciones S.A.C.	Peru	-	100.00	-	-
QGOG Star GmbH	Switzerland	100.00	-	100.00	-
Queiroz Galvão Óleo e Gás S.A. (“QGOG”) (*)	Brazil		74.50		74.50
Snover International Inc.	British Virgin Islands	-	100.00	-	100.00
Star International Drilling Ltd. (“Star”)	Cayman Island	-	100.00	-	100.00
Tarsus Serviços de Petróleo Ltda.	Brazil	-	55.00	-	55.00

(*) As described in Note 3.2, QGOG is consolidated without the consideration of non-controlling interest.

Investments (equity accounted investees)

		Ownership interest (%)			
		December 31,			
		2014		2013	
Entities	Place of incorporation	Direct	Indirect	Direct	Indirect
Associates					
FPSO Capixaba Venture S.A. (“Capixaba”) (1)	Switzerland	-	20.0	-	20.0
SBM Espírito do Mar Inc. (“Espírito do Mar”) (1)	Switzerland	-	20.0	-	20.0
Urca Drilling B.V.	Netherlands	-	15.0	-	15.0
Bracuhy Drilling B.V.	Netherlands	-	15.0	-	15.0
Mangaratiba Drilling B.V.	Netherlands	-	15.0	-	15.0
Joint Ventures					
Tupi Nordeste Ltd. (2)	Bermuda	-	20.0	-	20.0
Tupi Nordeste S.à.r.l. (2)	Luxembourg	-	20.0	-	20.0
Guará Norte S.à.r.l (3)	Luxembourg	-	12.75	-	12.75
Guará Norte Holding Ltd. (3)	Bermuda	-	12.75	-	12.75
Alfa Lula Alto S.à.r.l. (4)	Luxembourg	-	5.00	-	5.00
Alfa Lula Alto Holding Ltd. (4)	Bermuda	-	5.00	-	5.00
Beta Lula Central S.à.r.l. (5)	Luxembourg	-	5.00	-	5.00
Beta Lula Central Holding Ltd. (5)	Bermuda	-	5.00	-	5.00

(1) These entities refer to FPSO Capixaba’s structure as detailed in Note 12.
(2) These entities refer to FPSO Cidade de Paraty’s structure as detailed in Note 12.
(3) These entities refer to FPSO Cidade de Ilhabela’s structure as detailed in Note 12.
(4) These entities refer to FPSO Cidade de Maricá’s structure as detailed in Notes 1 and 12.
(5) These entities refer to FPSO Cidade de Saquarema’s structure as detailed in Notes 1 and 12.

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

6. CASH AND CASH EQUIVALENTS

	December 31,	
	2014	2013
Cash and bank deposits	74,097	48,896
Cash equivalents (*)	72,982	168,634
Total	147,079	217,530

(*) Cash equivalents refer to 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 a minimum risk of changes in value.

Cash equivalents are comprised by time deposits as follows:

Financial institution	Average interest rate (per annum)	December 31, 2014	December 31, 2013
Itaú BBA Nassau	0.20%	47,558	89,967
Citibank	0.05%	25,001	-
Bradesco S.A. Grand Cayman	0.12%	423	78,667
		72,982	168,634

7. SHORT-TERM INVESTMENTS

Short-term investments	Financial institution	Average interest rate (per annum)	December 31, 2014	December 31, 2013
Time deposits	HSBC Bank	0.04%	1,608	9,048
Time deposits	Citibank	0.03%	-	942
Time deposits	Itaú BBA Nassau	1.44%	-	94,336
Time deposits	ING Bank	0.14%	32,669	54,913
Time deposits	Bradesco Grand Cayman	0.88%	-	54,253
Time deposits	Banco do Brasil S.A	1.20%	-	44,166
Time deposits	Deutsche Bank	0.10%	17,887	-
CDB (i)	Banco do Nordeste do Brasil S.A - BNB	101% of CDI (ii)	14,310	9,543
CDB (i)	Banco do Brasil S.A.	98% of CDI (ii)	-	766
Repurchase agreements (iii)	Bradesco S.A.	99.5% of CDI (ii)	16,996	15,432
Total			83,470	283,399

(i) Brazilian Bank Deposit Certificate. – CDB.

(ii) Brazilian Interbank Deposit Certificate. – CDI.

(iii) Refer to agreements in which the financial institutions have 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 the future debt servicing requirements of the project financing arrangements.

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

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

Restricted cash	Financial institution	Average interest rate (per annum)	December 31, 2014	December 31, 2013
Time deposits	ING Bank	0.17%	37,842	38,674
			37,842	38,674

9. TRADE AND OTHER RECEIVABLES

	December 31, 2014	December 31, 2013
Trade receivables	102,313	90,941
Total	102,313	90,941

Trade receivables are mainly related to receivables from Petrobras for charter and service-rendering relating to the drilling rigs used in the exploration of oil and gas in Brazil. Historically, there have been no defaults on receivables or delays in collections and, consequently, the Group has not recorded an allowance for doubtful accounts for the years presented. The average collection period is of approximately 30 days. Refer to Note 25.c for details of financial risk management related to credit risk.

As of December 31, 2014 overdue accounts are mainly comprised by receivables from HRT O&G Exploração e Produção de Petróleo Ltda. (“HRT”) amounting US$4,273.

The delay in collection of HRT receivables refers to QG-VIII and QG-IX onshore drilling rigs operations performed between April and June 2014, in the amounts of US$2,050 and US$2,223, respectively. HRT contests some of the charter and service-rendering agreements’ terms and decided for the non-payment. On June 30, 2014, the Group decided to proceed for a termination of the agreements in accordance with its terms and conditions, with the interruption of the charter and service-rendering and then enter into a legal dispute in order to, among other objectives, collect the amounts overdue. Despite the delay in these receivables, the Group had recorded in other current liabilities the amount of US$5,052 related to advances made by HRT. In December 2014, the Group recognised an allowance for doubtful accounts, considering the full amount of the receivables from HRT in the statement of operations as “General and Administrative Expenses” and recognised the revenue arising from the appropriation of the remaining amount of advances received from HRT.

10. INVENTORIES

Inventories refer basically to materials to be used in the onshore and offshore drilling rigs and drillships operations. The amounts recognised in the statement of operations are accounted for as cost 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 disclosed below.

The consolidated intercompany balances as of December 31, 2014 and 2013, and transactions for the years them ended are as follows:

	As of December 31,				Year-ended December 31,	
	2014		2013		2014	2013
	Assets	Liabilities	Assets	Liabilities	Income / (expenses)	Income / (expenses)
Alperton [a]	280,378	265,406	235,914	229,833	8,890	3,937
Tupi Nordeste S.à.r.l. [b]	-	-	3,336	-	118	891
QG S.A. [c]	-	1,331	-	3,426	(4,256)	(5,321)
FPSO Capixaba [d]	900	-	890	-	10	10
Espírito do Mar [e]	4,196	-	3,975	-	221	210
Sete Brasil Participações S.A. [f]	570	-	1,053	-	2,490	8,807
Beta Lula Central S.à.r.l. [g]	33,285	-	-	-	655	-
Alfa Lula Alto S.à.r.l. [g]	-	-	-	-	391	-
Guará Norte S.à.r.l.[b]	5,051	-	-	-	166	-
SBM Holding Inc. [h]	9,590	1,339	-	-	9,590	1,196
Tupi Nordeste Operações Marítimas Ltda. [i]	1,432	-	-	-	2,059	-
SBM Offshore do Brasil Ltda. [i]	1,328	-	-	-	1,369	-
Others	272	49	339	56	86	353
Total	337,002	268,125	245,507	233,315	21,789	10,083
Current	13,042	2,719	8,011	10,302		
Non-current	323,960	265,406	237,496	223,013		

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

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

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

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

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

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

The Group charges a fee to Alperton for being the guarantor of Amaralina Star and Laguna Star drillships project financings and a fee for being the guarantor for importations under the REPETRO. For the years ended December 31, 2014 and 2013, the fees charged to Alperton totaled US$8,890 and US$3,937, respectively.

Non-compliance with the agreements between Alperton and Constellation could result in penalties to either entity. As of December 31, 2014, the Group was in compliance with the requirements of the respective agreements.

(b) The Group signed shareholders' agreements with its partners to regulate their relationship in the entities that will construct, charter and operate the FPSOs Cidade de Paraty and Cidade de Ilhabela for Petrobras. As of December 31, 2014 and 2013 loans receivables refer to milestone payments made by Constellation in proportion to its participation in the FPSOs Cidade de Paraty and Cidade de Ilhabela, through Tupi Nordeste S.à.r.l. and Guará Norte S.à.r.l., respectively. The loans bear interest rate at the London Interbank Offered Rate ("LIBOR") plus 3% p.a., with no maturity date.

(c) The payable amount of US$1,331 refers to the fee charged by Queiroz Galvão S.A. for being the guarantor for importations under the REPETRO. During 2014, the Group paid US$6,351 to Queiroz Galvão S.A..

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

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

(f) On August 3, 2012, Angra Participações B.V. ("Angra") signed three shareholders' agreements in which the Company acquired a 15% equity interest in three special purpose entities ("SPEs"), each one owning an ultra-deepwater semi-submersible rig (Urca, Bracuhy and Mangaratiba) in partnership with Sete Brasil Participações S.A. ("Sete Brasil"). In the same day, the partnership signed charter agreements of these drilling rigs with Petrobras. As of December 31, 2014, the receivable amount of US$570 and the income of US$2,490 refer to the fee charged by the Company related to the drilling rigs' project management.

(g) In January and February 2014, the Group signed shareholders' loan agreements with Alfa Lula and Beta Lula, which regulate the shareholders' loans to such entities that will construct, charter and operate the FPSOs Cidade de Maricá and Cidade de Saquarema for Petrobras, respectively (Notes 12 and 25). As of December 31, 2014 loans receivables amounts refer to milestones payments made by Constellation in proportion to its participation in the referred FPSOs. The loans bear interest at LIBOR plus 3% p.a. with no maturity date. In August 2014, the Group received US$28,774 related to the FPSO Cidade de Maricá shareholders loan, in connection with the disbursement of the first tranche of the related FPSO loan facility (Note 1).

(h) The receivable amount of US$9,590 as of December 31, 2014 and the income for the year ended December 31, 2014, refer to the payment made by SBM to the Group, in connection with the terms which regulates the relationship of these entities as shareholders of Guará Norte S.à.r.l. and Guará Norte Holding Ltd.. The payable amount of US$1,339 as of December 31, 2014, refer to costs charged by SBM to the Group related to a bid in which the partnership with SBM did not win. The income for the year ended December 31, 2013, refer to the payment made by SBM to Arazi, a wholly-owned subsidiary of the Company, in connection with the terms which regulates the relationship of these entities as shareholders of SBM Espírito do Mar Inc. and Capixaba Venture S.A..

(i) The receivable amounts from Tupi Nordeste Operações Marítimas Ltda. and SBM Offshore do Brasil Ltda. are related to labor costs reimbursement with respect to the operation of the FPSO Cidade de Paraty and FPSO Cidade de Ilhabela, respectively.

Key management personnel remuneration is presented below:

	December 31,	
	2014	2013
Key management personnel compensation (i)	11,480	10,704

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

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

The cash compensation for each member of senior management is mainly comprised by 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 prior year, market rates and movements and the individual's anticipated contribution to the Group's growth. Members of senior management are also eligible to participate in the Group's retirement savings plans (Note 27).

12. INVESTMENTS

	December 31, 2014							
	Number of shares (thousands)	Ownership interest (%)	Authorized share capital	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Shareholders' equity (deficiency)
Associates:								
FPSO Capixaba Venture S.A.	100	20.00%	82	3,807	-	51,956	19,596	(67,745)
SBM Espírito do Mar Inc.	100	20.00%	88	1,280	261,980	76,773	15,523	170,964
Urca Drilling B.V. [3]	90	15.00%	€90k	2,314	651,448	356,776	214,823	82,163 (*)
Bracuhy Drilling B.V. [3]	90	15.00%	€90k	1,812	392,306	140,894	232,922	20,302 (*)
Mangaratiba Drilling B.V. [3]	90	15.00%	€90k	112	98,992	34,212	57,970	6,922
Joint Ventures:								
Tupi Nordeste S.à.r.l.	20	20.00%	20	160,447	1,154,258	155,060	789,314	370,331
Tupi Nordeste Holding Ltd.	12	20.00%	12	6,083	5,281	22,766	-	(11,402)
Guará Norte S.à.r.l. [4]	50,200	12.75%	50,200	288,314	1,641,604	199,328	1,103,288	627,302
Guará Norte Holding Ltd. [4]	12	12.75%	12	3,231	606	3.043	-	794
Alfa Lula Alto S.à.r.l. [4]	65,200	5.00%	65,200	261	1,202,485	152,603	1,011,568	38,575
Alfa Lula Alto Holding Ltd. [4]	5	5.00%	12	273	244	-	13	278
Beta Lula Central S.à.r.l. [4]	65,200	5.00%	65,200	157	1,033,447	691	665,245	367,668
Beta Lula Central Holding Ltd. [4]	5	5.00%	12	266	244	-	13	278

(*) On the shareholders's equity amounts related to Urca Drilling B.V. and Bracuhy Drilling B.V. are included the amounts of US$2,397 and US$12,535, respectively, related to advances for future capital increase made by Sete Brasil.

	December 31, 2013							
	Number of shares (thousands)	Ownership interest (%)	Authorized share capital	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Shareholders' equity (deficiency)
Associates:								
FPSO Capixaba Venture S.A.	100	20.00%	82	1,334	2,420	16,613	12,311	(25,170)
SBM Espírito do Mar Inc.	100	20.00%	88	(312)	287,523	71,605	77,392	138,214
Urca Drilling B.V. [3]	90	15.00%	€90k	91,758	458,191	402,859	93,903	53,187
Bracuhy Drilling B.V. [3]	90	15.00%	€90k	816	101,808	32,136	63,766	6,722
Mangaratiba Drilling B.V. [3]	90	15.00%	€90k	416	90,996	493	83,903	7,016
Joint Ventures:								
Tupi Nordeste S.à.r.l.	20	20.00%	20	241,145	1,100,434	108,461	932,148	300,970
Tupi Nordeste Holding Ltd.	12	20.00%	12	7,037	3,361	11,280	1,854	(2,736)
Guará Norte S.à.r.l. [4]	50,200	12.75%	50,200	30,627	1,448,943	12,829	1,004,337	462,404
Guará Norte Holding Ltd. [4]	12	12.75%	12	296	-	-	266	30
Alfa Lula Alto S.à.r.l. [4]	65,200	5.00%	65,200	90	591,835	-	147,900	444,025
Beta Lula Central S.à.r.l. [4]	65,200	5.00%	65,200	87	437,557	-	109	437,535

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

	Investees' comprehensive income (loss)		
	Year-ended December 31, 2014		
	Net income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Associates:			
FPSO Capixaba Venture S.A.	(41,092)	(1,478)	(42,570)
SBM Espírito do Mar Inc.	32,749	-	32,749
Urca Drilling B.V. (3)	(717)	(128)	(845)
Bracuhy Drilling B.V. (3)	(568)	(5)	(573)
Mangaratiba Drilling B.V. (3)	(104)	11	(93)
Joint Ventures:			
Tupi Nordeste S.à.r.l.	69,978	(620)	69,358
Tupi Nordeste Holding Ltd.	(11,143)	2,478	(8,665)
Guará Norte S.à.r.l. (4)	132,016	(46,774)	85,242
Guará Norte Holding Ltd. (4)	512	245	757
Alfa Lula Alto S.à.r.l. (4)	(48)	(48,929)	(48,977)
Alfa Lula Alto Holding Ltd. (4)	(4)	-	(4)
Beta Lula Central S.à.r.l. (4)	(51)	-	(51)
Beta Lula Central Holding Ltd. (4)	(4)	-	(4)

	Investees' comprehensive income (loss)		
	Year-ended December 31, 2013		
	Net income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Associates:			
FPSO Capixaba Venture S.A.	(15,720)	-	(15,720)
SBM Espírito do Mar Inc.	29,427	-	29,427
Urca Drilling B.V. (3)	170	-	170
Bracuhy Drilling B.V. (3)	518	-	518
Mangaratiba Drilling B.V. (3)	530	-	530
Joint Ventures:			
Tupi Nordeste S.à.r.l.	197,926	48,257	246,183
Tupi Nordeste Holding Ltd.	(2,727)	-	(2,727)
Guará Norte S.à.r.l. (4)	-	52,157	52,157
Guará Norte Holding Ltd. (4)	23	-	23

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

Changes in investments

	Asset (liability) balance as of December 31, 2013	Capital contributions [2]	Capital decrease [5]	Share of results [6]	Share of comprehensive income (loss)	Asset (liability) balance as of December 31, 2014
Associates						
FPSO Capixaba Venture S.A.	(5,035)	-	-	(8,218)	(296)	(13,549)
SBM Espírito do Mar Inc.	27,643	-	-	6,550	-	34,193
Urca Drilling B.V. [3]	7,978	4,114	-	(108)	(19)	11,965
Bracuhy Drilling B.V. [3]	1,008	243	-	(85)	(1)	1,165
Mangaratiba Drilling B.V. [3]	1,052	-	-	(16)	2	1,038
Joint ventures						
Tupi Nordeste S.à.r.l.	60,195	-	-	13,996	(124)	74,067
Tupi Nordeste Holding Ltd.	(547)	-	-	(2,229)	496	(2,280)
Guará Norte S.à.r.l. [4]	58,958	10,155	-	16,832	(5,964)	79,981
Guará Norte Holding Ltd. [4]	4	-	-	66	31	101
Alfa Lula Alto S.à.r.l. [4]	22,168	5,325	(23,116)	(2)	(2,446)	1,929
Alfa Lula Alto Holding Ltd. [4]	-	14	-	-	-	14
Beta Lula Central S.à.r.l. [4]	21,844	7,865	(11,323)	(3)	-	18,383
Beta Lula Central Holding Ltd. [4]	-	14	-	-	-	14
Total	195,267	27,730	(34,439)	26,783	(8,321)	207,021
Total assets (investments)	200,850	-	-	-	-	222,850
Total liabilities (accumulated deficit in investments) [1]	(5,582)	-	-	-	-	(15,829)

	Asset (liability) balance as of December 31, 2012	Capital contributions [2]	Dividends received	Share of results [7]	Share of comprehensive income	Asset (liability) balance as of December 31, 2013
Associates						
FPSO Capixaba Venture S.A.	(1,891)	-	-	(3,144)	-	(5,035)
SBM Espírito do Mar Inc.	27,906	-	(6,148)	5,885	-	27,643
Urca Drilling B.V. [3]	4,216	3,736	-	26	-	7,978
Bracuhy Drilling B.V. [3]	890	40	-	78	-	1,008
Mangaratiba Drilling B.V. [3]	890	82	-	80	-	1,052
Joint ventures						
Tupi Nordeste S.à.r.l.	10,957	-	-	39,585	9,653	60,195
Tupi Nordeste Holding Ltd.	-	3	-	(550)	-	(547)
Guará Norte S.à.r.l. [4]	26,854	25,454	-	-	6,650	58,958
Guará Norte Holding Ltd. [4]	-	2	-	2	-	4
Alfa Lula Alto S.à.r.l. [4]	-	22,168	-	-	-	22,168
Beta Lula Central S.à.r.l. [4]	-	21,844	-	-	-	21,844
Total	69,822	73,329	(6,148)	41,962	16,303	195,267
Total assets (investments)	71,713	-	-	-	-	200,850
Total liabilities (accumulated deficit in investments) [1]	(1,891)	-	-	-	-	(5,582)

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

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

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

(4) The Group jointly controls the entities within the FPSOs Cidade de Ilhabela, Cidade de Maricá and Cidade de Saquarema structures with its partners since all the major financial and operational decisions require the unanimous approval of the Directors and Managers representatives of all the shareholders of these entities.

The Group has the right to appoint one of five Managers in Luxembourg entities and one of four Directors in Bermuda entities. According to the shareholders agreement, the meetings of the Board of Managers and Board of Directors of Luxembourg and Bermuda entities, respectively, must have a quorum comprised by at least one Manager or one Director appointed by each shareholder, which means that the Manager or the Director appointed by Arazi and or Lancaster Projects Corp. must be present. The Group participates actively in the,organization and execution of the operations by seconding personnel to the operating management team in agreed positions.

(5) Refer to amendments executed in January and February 2014, to the agreements that regulate the Group's relationship with its partners in the FPSOs Cidade de Maricá and Cidade de Saquarema, respectively, in order to change the capital structure of the related projects (Notes 11 and 25). Previous capital structures of the projects were comprised by 100% of equity contributions. In August 2014, the Group received US$11,621 related to equity contributions to Alfa Lula Alto S.à.r.l. in order to advance funds for the construction of the FPSO Cidade de Maricá, in connection with the disbursement of the first tranche of the related FPSO facility (Note 1).

(6) FPSO Cidade de Ilhabela started its operations in November 2014. Guará Norte S.à.r.l. classified its charter agreement with Petrobras as a financial lease agreement. Included in the amount of US$16,832 there is a gain of US$15,772 that corresponds to the share of the difference between the recognition of the present value of the minimum lease payments as revenues at the lease date of inception, and the corresponding recognition of the equipment cost in the statement of operations.

(7) FPSO Cidade de Paraty started its operations in June 2013. Tupi Nordeste S.à.r.l. classified its charter agreement with Petrobras as a financial lease agreement. Included in the amount of US$39,585 there is a gain of US$32,571 that corresponds to the share of the difference between the recognition of the present value of the minimum lease payments as revenues at the lease date of inception, and the corresponding recognition of the equipment cost in the statement of operations.

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

FPSO Capixaba

- FPSO Capixaba Venture S.A. ("Capixaba")'s core business is to support operations for agreements in the offshore oil and gas industry. Since March 16, 2007, this entity is a shareholder of a Brazilian entity that operates the FPSO Capixaba, currently located off the Brazilian coast and chartered to Petrobras until 2022.
- SBM Espírito do Mar Inc. ("Espírito do Mar") owns the FPSO Capixaba and its main activity is to support charter agreements in the offshore oil and gas industry.

Urca, Bracuhy and Mangaratiba offshore drilling rigs

- Urca Drilling B.V. owns the Urca semi-submersible drilling rig, which operation is expected to start in 2016. This offshore drilling rig will be equipped to operate in pre-salt water depths. Upon its construction completion and acceptance by Petrobras, Urca will be chartered to Petrobras until 2031. QGOG will be the sole operator of this offshore drilling rig. As of December 31, 2014 the Group's main capital commitments for the conclusion of Urca offshore drilling rig construction amounts to US$17 million, corresponding to the ownership interest percentage in this associate.

- Bracuhy Drilling B.V. owns the Bracuhy semi-submersible drilling rig, which operation is expected to start in 2018. This offshore drilling rig will be equipped to operate in pre-salt water depths. Upon its construction completion and acceptance by Petrobras, Bracuhy will be chartered to Petrobras until 2033. QGOG will be the sole operator of this offshore drilling rig. As of December 31, 2014 the Group's main capital commitments for the conclusion of Bracuhy offshore drilling rig construction amounts to US$28 million, corresponding to the ownership interest percentage in this associate.

- Mangaratiba Drilling B.V. owns the Mangaratiba semi-submersible drilling rig, which operation is expected to start in 2019. This offshore drilling rig will be equipped to operate in pre-salt water depths. Upon its construction completion and acceptance by Petrobras, Mangaratiba will be chartered to Petrobras until 2034. QGOG will be the sole operator of this offshore drilling rig. As of December 31, 2014 the Group's main capital commitments for the conclusion of Mangaratiba offshore drilling rig construction amounts to US$28 million, corresponding to the ownership interest percentage in this associate.

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

FPSO Cidade de Paraty

- Tupi Nordeste S.à.r.l.'s main activity is to act as a sub-charter party in the agreements in the offshore oil and gas industry. The entity charters the FPSO Cidade de Paraty to Petrobras until 2033, which is currently located off the Brazilian coast. Operations started in June 2013.
- Tupi Nordeste Holding Ltd.'s main activity is to support operations for agreements in the offshore oil and gas industry. This entity is a shareholder of a Brazilian entity, Tupi Nordeste Operações Marítimas Ltda., that operates the FPSO Cidade de Paraty to Petrobras until 2033.

FPSO Cidade de Ilhabela

- Guará Norte S.à.r.l.'s main activity is to act as a sub-charter party in the agreements in the offshore oil and gas industry. The entity owns the FPSO Cidade de Ilhabela, which operates off the Brazilian coast being chartered to Petrobras for a twenty-year period. Operations started on November 20, 2014, which became effective on November 24, 2014 after a continuous oil flow of 72 hours at the Sapinhoá field, in the Santos basin.
- Guará Norte Holding Ltd.'s main activity is to support operations for agreements in the offshore oil and gas industry. This entity is a shareholder of a Brazilian entity, Guará Norte Operações Marítimas Ltda., that operates the FPSO Cidade de Ilhabela to Petrobras for a twenty-year period.

  Additionally, the Group had the right to acquire an additional participation of 12.75% in Guará Norte S.à.r.l. and Guará Norte Holding Ltd. from SBM Inc. within fifteen days of the FPSO final acceptance, based on the capital invested by SBM Inc. plus interest of 8% p.a.. The Group has not exercised such right.

FPSO Cidade de Maricá

- Alfa Lula Alto S.à.r.l. owns the FPSO Cidade de Maricá, which is expected to be delivered and start its operations in the fourth quarter of 2015. On July 12, 2013, the Company entered into a twenty-year agreement to charter the FPSO Cidade de Maricá with the Consortium BM-S-11. As of December 31, 2014, the Group has future capital commitments amounting to US$29 million for the conclusion of the construction of the FPSO Cidade de Maricá.
- Alfa Lula Alto Holding Ltd.'s main activity will be the support operations for agreements in the offshore oil and gas industry. This entity is a shareholder of a Brazilian entity that will operate the FPSO Cidade de Maricá to Petrobras for a twenty-year period.

FPSO Cidade de Saquarema

- Beta Lula Central S.à.r.l. owns the FPSO Cidade de Saquarema, which is expected to be delivered and start its operations in the first quarter of 2016. On July 12, 2013, the Company entered into a twenty-year agreement to charter the FPSO Cidade de Saquarema with the Consortium BM-S-11. As of December 31, 2014, the Group has no capital commitments for the conclusion of the construction of the FPSO Cidade de Saquarema, although it is expected that the Group will make some cash advances for the conclusion of the FPSO Cidade de Saquarema construction until the investee receives the proceeds of the project financing and Petrobras' payment related to the services rendered between the preliminary and final acceptance (first oil date).
- Beta Lula Central Holding Ltd.'s main activity will be the support operations for agreements in the offshore oil and gas industry. This entity is a shareholder of a Brazilian entity that will operate the FPSO Cidade de Maricá to Petrobras for a twenty-year period.

  Additionally, the Group has the right to acquire from SBM Lux an additional participation of 5% in Alfa Lula Alto S.à.r.l., Alfa Lula Alto Holding Ltd., Beta Lula Central S.à.r.l. and Beta Lula Central Holding Ltd. within fifteen days of the FPSOs final acceptance, based on the capital invested by SBM Lux plus interest of 8% p.a.

Other matters regarding the Company's investments

Partnership with SBM Offshore N.V. – Contingent Liability

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

On November 12, 2014, SBM Offshore announced that it had reached an out-of-court settlement agreement with the *Openbaar Ministerie* over the inquiry into alleged improper payments to sales agents in Equatorial Guinea, Angola and Brazil in the period from 2007 through 2011. The out-of-court settlement agreement consists of a payment by SBM Offshore to the *Openbaar Ministerie* of US$240 million. Furthermore, the U.S. Department of Justice has informed SBM Offshore that declined to prosecute SBM Offshore and has closed its inquiry into the matter.

On February 4, 2015, SBM Offshore announced that is a party in a number of investigations in Brazil, notably by *Ministério Público Federal* - MPF (Federal Public Prosecutor's Office), *Tribunal de Contas da União* - TCU (Federal Accounts Tribunal) and CGU, who recently confirmed in writing to SBM Offshore that they have opened an investigation. SBM Offshore's management confirmed that it is not aware of any authorities outside Brazil investigating SBM Offshore and that it is cooperating with the current investigations in Brazil.

On March 17, 2015, SBM Offshore announced that signed a Memorandum of Understanding with CGU and *Advocacia-Geral da União* - AGU (Attorney General's Office). Such memorandum sets a framework between SBM Offshore, CGU and AGU for discussions on a potential mutually acceptable settlement and for the disclosure by SBM Offshore of information relevant to the CGU's investigations.

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

Partnership with Sete Brasil

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

- Recent press news regarding ongoing investigations involving Petrobras

  On November 26, 2014, Sete Brasil announced that regarding the recent news in the press involving Petrobras, its Board of Executive Officers immediately started an audit and investigation process of documents and contracts related to the rigs project, signed since the establishment of Sete Brasil in December 2010.

  As of the date of these consolidated financial statements, it is not possible to reasonably estimate the impact, if any, of this matter on the Company's consolidated financial statements.

- Uncertainty with respect to going concern assumption

  Sete Brasil is under negotiations with financial institutions to obtain long-term resources to meet Urca, Bracuhy and Mangaratiba's existing obligations as of December 31, 2014. These resources are required to complete the construction of Urca, Bracuhy and Mangaratiba drillships. The completion of such negotiations depends on the fulfillment of certain precedent conditions, which indicates the existence of a material uncertainty that may cast significant doubt about Urca, Bracuhy and Mangaratiba's ability to continue as a going concern. Urca, Bracuhy and Mangaratiba's Management considers it appropriate to prepare the financial statements on a going concern basis as pre-operating costs will be recovered through future revenues to be generated by the drillships' operation and the concluded charter agreement with Petrobras.

13. PROPERTY, PLANT AND EQUIPMENT

		Drilling rigs and drillships in operation										
		Drillships		Offshore drilling rigs								
	Drillship under construction	Amaralina Star	Laguna Star	Alaskan Star	Atlantic Star	Alpha Star	Gold Star	Lone Star	Olinda Star	Onshore drilling rigs, equipment and bases	Corporate	Total
Cost												
Balance as of December 31, 2012	61,283	640,111	647,084	378,212	344,263	721,207	537,140	640,421	531,589	178,937	29,626	4,709,873
Additions	175,773	911	3,009	268	154	27	809	75	730	5,966	1,891	189,613
Disposals	-	(1,587)	(1,835)	-	(50)	(20)	-	(19)	-	-	(682)	(4,193)
Currency translation adjustments	-	-	-	-	-	-	-	-	-	(11,626)	(2,004)	(13,630)
Balance as of December 31, 2013	237,056	639,435	648,258	378,480	344,367	721,214	537,949	640,477	532,319	173,277	28,831	4,881,663
Additions	394,656	5,974	2,309	711	447	692	4,967	7,787	10,567	14,861	2,255	445,226
Disposals	-	-	-	-	-	-	-	-	-	-	(133)	(133)
Currency translation adjustments	-	-	-	-	-	-	-	-	-	(11,473)	(1,907)	(13,380)
Balance as of December 31, 2014	631,712	645,409	650,567	379,191	344,814	721,906	542,916	648,264	542,886	176,665	29,046	5,313,376
Accumulated depreciation												
Balance as of December 31, 2012	-	(6,535)	(2,219)	(67,513)	(76,554)	(49,503)	(68,639)	(57,801)	(81,835)	(69,312)	(16,367)	(496,278)
Depreciation	-	(26,018)	(26,193)	(16,561)	(14,953)	(25,926)	(20,122)	(25,033)	(22,532)	(12,394)	(1,885)	(191,617)
Disposals	-	-	-	-	-	-	-	-	-	-	534	534
Currency translation adjustments	-	-	-	-	-	-	-	-	-	6,523	809	7,332
Balance as of December 31, 2013	-	(32,553)	(28,412)	(84,074)	(91,507)	(75,429)	(88,761)	(82,834)	(104,367)	(75,183)	(16,909)	(680,029)
Depreciation	-	(26,139)	(26,287)	(16,403)	(14,737)	(25,810)	(20,196)	(25,561)	(22,569)	(12,250)	(1,871)	(191,823)
Disposals	-	-	-	-	-	-	-	-	-	-	99	99
Currency translation adjustments	-	-	-	-	-	-	-	-	-	6,364	881	7,245
Balance as of December 31, 2014	-	(58,692)	(54,699)	(100,477)	(106,244)	(101,239)	(108,957)	(108,395)	(126,936)	(81,069)	(17,800)	(864,508)
Property, plant and equipment, net												
December 31, 2013	237,056	606,882	619,846	294,406	252,860	645,785	449,188	557,643	427,952	98,094	11,922	4,201,634
December 31, 2014	631,712	586,717	595,868	278,714	238,570	620,667	433,959	539,869	415,950	95,596	11,246	4,448,868
Average useful life (years)		25	25	23	23	28	27	26	24	17	15	

The detailed cost of the drillship under construction is as follows:

	Drillship under construction (Brava Star)
Cost	
Balance as of December 31, 2012	61,283
Additions	175,773
Balance as of December 31, 2013	237,056
Additions	394,656
Balance as of December 31, 2014	631,712

As of December 31, 2014, the balance of the drillship under construction refers to the costs incurred in the Brava Star drillship construction, which total construction project cost is of approximately US$660 million (Note 1). As of December 31, 2014 the unbilled costs by the shipyard (Samsung) and other suppliers amount to US$390,697. The Company recognised these costs in PP&E against a provision recognized in accrued liabilities (Note 15).

Borrowing costs capitalized in PP&E for the years ended December 31, 2014 and 2013 amount to US$13,709 and US$6,778, respectively (Notes 14 and 28).

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

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

14. LOANS AND FINANCINGS

Financial institution	Funding type	Objective	Beginning period	Maturity	Contractual interest rate	Effective interest rate	Currency	December 31, 2014	December 31, 2013
Bradesco	Loan	Working capital	Sep 2014	May 2017	3.38%p.a.	3.38%p.a.	U.S. dollar	55,568	-
Bradesco	Loan	Working capital	Aug 2013	Aug 2014	2.52%p.a.	2.52%p.a.	U.S. dollar	-	124,066
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	369,351	472,591
HSBC, BAML and Citibank (joint bookrunners)	Senior Unsecured Notes (“Corporate Bond”)	Prepay working capital loans	Nov 2012	Nov 2019	6.25%p.a.	6.86%p.a.	U.S. dollar	692,919	690,185
						Subtotal - fixed interest rate		1,117,838	1,286,842
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]	1.38%p.a.	U.S. dollar	190,324	244,707
ING (leader arranger)	Financing	Lone Star rig construction[3]	Jul 2007	Jan 2015	Libor+1.15%p.a.	1.38%p.a.	U.S. dollar	95,278	193,429
ING (leader arranger)	Financing	Olinda Star rig construction	Feb 2008	Jul 2014	Libor+1.40%p.a.	1.62%p.a.	U.S. dollar	-	93,616
Citibank and Santander (joint leader arrangers)	Financing	Alpha Star rig construction	Apr 2011	Jul 2017	Libor+2.50%p.a.	3.46%p.a.	U.S. dollar	329,437	393,741
BNP, Citi and ING (leader arrangers) and The Norwegian Ministry of Trade and Industry (“MTI”)	Financing	Amaralina Star drillship construction	May 2012	Oct 2018[4]	Libor+2.75%	4.21%p.a.	U.S. dollar	347,522	392,702
BNP, Citi and ING (leader arrangers) and The Norwegian Ministry of Trade and Industry (“MTI”)	Financing	Laguna Star drillship construction	May 2012	Dec 2018[4]	Libor+2.75%	4.39%p.a.	U.S. dollar	354,328	398,221
						Subtotal - variable interest rate		1,316,889	1,716,416
							Total	2,434,727	3,003,258
							Current	417,979	609,896
							Non-current	2,016,748	2,393,362

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

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

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

(4) The maturity dates for MTI tranches for Amaralina Star and Laguna Star project financings are December 2020 and January 2021, respectively. The maturity dates would be anticipated for October 2018 and December 2018 for Amaralina Star and Laguna Star MTI tranches, respectively, if the commercial banks do not extend the maturity date of their financings to December 2020 and January 2021, respectively.

Changes in loans and financings

	Year-ended December 31, 2014	2013
Balance as of January 1,	3,003,258	3,415,547
Additions	55,000	148,679
Repayment of principal	(631,733)	(569,505)
Interest capitalized	13,709	6,778
Payment of interest	(109,459)	(124,666)
Subtotal	2,330,775	2,876,833
Interest charged through profit and loss	94,078	115,576
Transaction cost charged through profit and loss	7,742	8,542
Debt discounts charged through profit and loss	2,132	2,307
Financial charges on loans and financings	103,952	126,425
Balance as of December 31,	2,434,727	3,003,258

Loans and financings long term amortization schedule

For the years ending December 31,	Loans and financing	Transaction costs	Debt discounts	Net amount
2016	340,728	(6,329)	(1,751)	332,648
2017	531,171	(5,010)	(1,596)	524,565
2018	467,434	(4,098)	(1,455)	461,881
2019	700,000	(1,155)	(1,191)	697,654
Total	2,039,333	(16,592)	(5,993)	2,016,748

Covenants

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

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

The financial covenants are assessed semi-annually based on the consolidated financial statements as of December 31 and June 30 of each year. As of December 31, 2014 the Group was in compliance with such restrictive clauses.

The indenture governing the Corporate Bond contains certain financial covenants that limit the Group's ability to incur 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 is envisaged to be incurred by the Company, as required under the indenture.

Guarantees

The financings obtained by the Group in order to finance the construction of the drilling rigs and for other corporate purposes are usually structured as Project Finance/Project Bond, therefore benefiting from a customary security package that includes guarantees such as assignment of the charter receivables, mortgages over the drilling rigs, pledges over the shares of the drilling rigs owners, charges over the relevant bank accounts held at the facility agents, including accounts into which the amounts payable under charter 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 assets and enter into certain acquisitions, mergers and consolidations, except as already established in such financing debt instruments.

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

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

Working capital credit line

On May 9, 2014, the Group signed a working capital credit line agreement with Banco Bradesco S.A. in the total amount of US$150 million, with a three-year term bearing interest rate at LIBOR plus 3.05% p.a.. The Group also incurs in a commitment fee of 0.92% p.a. over the amounts of credit line unused. As of December 31, 2014, the Group used US$55,000 of this credit line and the remaining amount has been used in January 2015 (Note 29).

Brava Star drillship loan facility

On November 21, 2014, the Company, through its subsidiary Brava Star Ltd., signed a loan agreement amounting to US$475 million with a pool of international commercial banks and export credit agencies in order to finance the construction of the Brava Star drillship. The loan agreement was structured as a Limited Recourse Project Finance to be repaid over a 5-year period and will be disbursed by the date of the conclusion of Brava Star drillship construction bearing interest rate at LIBOR plus 2% p.a.

15. ACCRUED LIABILITIES

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

	December 31, 2014	December 31, 2013
Drillship under construction:		
Brava Star drillship	390,697	42,920
Total	390,697	42,920

16. PROVISIONS

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

	Year-ended December 31,	
	2014	2013
Balance as of January 1,	7,525	7,525
Amaralina Star penalty adjustment (1)	52	-
Laguna Star penalty adjustment (1)	(133)	-
Amaralina Star penalty reversal (1)	(2,625)	-
Laguna Star penalty reversal (1)	(4,819)	-
Brava Star penalty provision	1,551	-
Balance as of December 31,	1,551	7,525

(1) During 2014, Amaralina Star and Laguna Star drillships payable penalties were compensated with receivables from Petrobras related to drillships improvements required by Petrobras.

17. PROVISION FOR CONTINGENCIES

a) Contingent assets

The Group has not recognised contingent assets.

b) Contingent liabilities assessed as probable losses

During the normal course of its business activities, the Group is exposed to labor, civil and tax claims. Regarding each claim or exposure, Management has made an assessment of the probability that the resolution of the matter would ultimately result in a loss for the Group. Therefore, based on such assessment a provision to cover probable losses arising from labor claims was recorded. As of December 31, 2014 and 2013 the provisions for labor claims included in "other non-current liabilities" are mainly related to hardship and retirement.

Changes in loss provision for labor claims are as follows:

	Year-ended December 31,	
	2014	2013
Balance as of January 1,	924	935
Additions	1,080	126
Reversals	(470)	(8)
Currency translation adjustments	(179)	(129)
Balance as of December 31,	1,355	924

c) Contingent liabilities assessed as possible losses

Based on the in-house legal counsel and external legal advisors' opinions, these claims are not accrued in the consolidated financial statements and consist of labor lawsuits (mainly comprised by compensation due to work related accidents and occupational diseases) in the amount of US$11,969 (US$15,268 as of December 31, 2013), tax lawsuits in the amount of US$5,356 (US$5,378 as of December 31, 2013) and civil lawsuits in the amount of US$9,006.

The main tax lawsuit assessed as possible loss refers to a Notice of Violation, received by QGOG, which was issued by the Rio de Janeiro tax authorities due to nonpayment of Services Tax ("ISS") in the city of Rio de Janeiro. QGOG argues, on appeal, that the operations were carried out in other places and the taxes were collected under such tax jurisdictions (ISS due to the site of the service provider). As of December 31, 2014, the estimated amount involved is US$4,427 (US$4,553 as of December 31, 2013).

The main civil lawsuits assessed as possible loss refer to litigations with HRT related to the early termination of the agreements related to QG-VIII and QG-IX onshore drilling rigs. In the judicial dispute, the Group seeks payment of the invoices related to April, May and June 2014, payment of loss and damages, and the return of such onshore drilling rigs to its possession, while HRT seeks the repayment of the amounts advanced to the Group. As of December 31, 2014, the estimated amount involved is US$8,249.

d) 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 the Project Finance arrangements (Note 14), the Group is contractually required to manage its risk on variable interest rates by eliminating variable-to-fixed interest rate swaps on its long term variable rate loans. Accordingly, the interest rate swaps utilized by Management convert the variable component of interest rates to fixed rates ranging from 1.505% p.a. to 5.165% p.a. in order to mitigate such risk. The floating component of interest rate of all derivatives agreements is US$ LIBOR.

These swaps protect the Group from fluctuations in interest rates. As of December 31, 2014, the Group has interest rate swaps related to the loans funding Gold Star, Lone Star, and Alpha Star offshore drilling rigs, and Amaralina Star and Laguna Star drillships. The swap agreements cover the expected periods of the loans and terminate between 2015 and 2018.

Information on derivative agreements

Interest rate swaps US$ LIBOR/Pre-fixed rate

Financial institution	Loans and financings objective	Payable leg interest rate (per annum)	Maturity	Notional amount Dec. 31, 2014	Notional amount Dec. 31, 2013	Fair value Dec. 31, 2014	Fair value Dec. 31, 2013
ING financing (leader arranger)	Gold Star construction	5.165%	Jul 2017	154,633	203,218	10,504	19,072
ING financing (leader arranger)(*)	Lone Star construction	1.505%	Jan 2015	71,250	184,061	229	5,600
Citibank and Santander financing (joint leader arranger) (*)	Alpha Star construction	1.930%	Jul 2017	332,312	397,919	6,736	10,588
	Non-designated to hedge accounting			558,195	785,198	17,469	35,260
BNP, Citibank and ING financing (joint leader arranger) (**)	Amaralina Star construction	2.815%	Oct 2018	357,279	403,556	15,648	20,863
BNP, Citibank and ING financing (joint leader arranger) (**)	Laguna Star construction	2.900%	Dec 2018	364,549	409,644	17,076	22,266
	Designated to hedge accounting			721,828	813,200	32,724	43,129
	Total amount			1,280,023	1,598,398	50,193	78,389
	Current liabilities					28,445	40,810
	Non-current liabilities					21,748	37,579

	Year-ended December 31, 2014	2013
Balance as of January 1,	78,389	148,360
Fair value adjustments through profit and loss	6,414	(7,234)
Fair value adjustments through other comprehensive income (loss)(*)	7,900	(3,924)
Cash payments	(42,510)	(58,813)
Balance as of December 31,	50,193	78,389

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

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

Derivative contracts designated as cash flow hedges

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

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

19. SHAREHOLDERS' EQUITY

Share capital

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

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

The Company's ultimate controlling party is the Queiroz Galvão family, who continued to be the indirect controlling shareholders of the Company, through QGOG International, after the capital increase previously described.

After the capital increase described above and the events described in "*Share Split*" and "*Share Dividend*" sections below, the Company's share capital amounts to US$63,200 comprised by 189,227,364 ordinary shares, with no par value, as follows:

		Rights over the amounts (1)		
Shareholders	Ordinary shares	Capital	Share premium	Total
QGOG International	140,293,142	46,857	568,328	615,185
Constellation Coinvestment S.à.r.l.	15,570,123	5,200	63,075	68,275
Constellation Holding S.à.r.l.	17,739,099	5,925	71,861	77,786
CGPE VI L.P.	303,125	101	1,228	1,329
CIPEF VI QGOG S.à.r.l.	15,321,875	5,117	62,069	67,186
Total as of December 31, 2014	189,227,364	63,200	766,561	829,761

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

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

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

Share Split

On January 7, 2013, the Company filed its registration statement within the U.S. Securities and Exchange Commission ("SEC") in connection with its Initial Public Offering ("IPO").

On January 29, 2013, the Company's shareholders approved a one-for-three forward share split of the Company's common shares, immediately converting all of the Company's shares to shares with no par value.

On February 7, 2013, the Company announced that, due to market conditions, it has decided to postpone its previously-announced IPO.

Share Dividend

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

Legal reserve

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

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

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

Dividend policy

The Company's Board of Directors approved a new dividend policy. The policy sets a regular dividend annually payable, with a minimum payout ratio of 25%, based on the previous year's earnings, subject to: (i) compliance with covenants under the Group's existing financing agreements; (ii) maintaining targeted net debt/EBITDA ratios lower than 4.5:1.0 by the end of 2015, lower than 3.5:1.0 by the end of 2016, and lower than 3.0:1.0 by the end of 2018 and thereafter; and (iii) Board of Directors' approval.

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

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

In December 2014, the Company's Board of Directors resolved that no dividends shall be paid to the shareholders based on the profit for the year ended December 31, 2014.

Other Comprehensive Items (OCI)

Cash flow hedging reserve

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

Foreign currency translation adjustments reserve

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

Changes in Other Comprehensive Items

Changes in comprehensive income for the years ended December 31, 2014 and 2013 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	Share of investments other comprehensive income (loss)	Currency translation adjustments	Total
Balances as of December 31, 2012	3,395	2,779	6,174	(23,311)	18,432	1,295
Fair value adjustment on derivative contracts	2,158	1,766	3,924	-	-	3,924
Fair value adjustment on joint ventures' derivative contracts	-	-	-	16,302	-	16,302
Exchange differences arising during the period	-	-	-	-	(6,195)	(6,195)
Balances as of December 31, 2013	5,553	4,545	10,098	(7,009)	12,237	15,326
Fair value adjustment on derivative contracts	(4,345)	(3,555)	(7,900)	-	-	(7,900)
Fair value adjustment on joint ventures' derivative contracts	-	-	-	(8,534)	-	(8,534)
Fair value adjustment on associates' financial assets	-	-	-	(18)	-	(18)
Exchange differences on investments arising during the period	-	-	-	231	-	231
Exchange differences arising during the period	-	-	-	-	(9,205)	(9,205)
Balances as of December 31, 2014	1,208	990	2,198	(15,330)	3,032	(10,100)

Non-controlling interests

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

Profit per share

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

	Year-ended December 31,	
	2014	2013
Profit attributable to the owners of the Group	339,931	306,319
Weighted average number of ordinary shares for calculation purposes (thousands of shares) (*)	189,227	176,539
Basic and diluted profit per share	1.80	1.74

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

20. NET OPERATING REVENUE

The Group's operating revenue is mainly derived from charter agreements and related drilling services. As of December 31, 2014 and 2013, Petrobras has accounted for 98% and 96%, respectively, of total revenues.

Net operating revenue is presented after the following items:

	Year-ended December 31,	
	2014	2013
Operating revenue	1,129,572	1,109,334
Taxes levied on revenue:		
Social Integration Program (PIS)	(4,100)	(4,300)
Social Investment Program (COFINS)	(18,920)	(19,818)
Services Tax (ISS)	(4,885)	(5,950)
Net operating revenue	1,101,667	1,079,266

21. COST OF SERVICES AND OPERATING EXPENSES

	Year-ended December 31,					
	2014			2013		
Costs and expenses by nature	Cost of services	General and administrative expenses	Total	Cost of services	General and administrative expenses	Total
Payroll, charges and benefits	(228,276)	(31,206)	(259,482)	(235,729)	(30,111)	(265,840)
Depreciation	(190,756)	(1,067)	(191,823)	(190,548)	(1,069)	(191,617)
Materials	(86,309)	-	(86,309)	(72,865)	-	(72,865)
Maintenance	(66,662)	-	(66,662)	(54,548)	-	(54,548)
Insurance	(19,996)	-	(19,996)	(20,374)	-	(20,374)
Other (1)/(2)	(35,984)	(24,443)	(60,427)	(49,843)	(21,020)	(70,863)
	(627,983)	(56,716)	(684,699)	(623,907)	(52,200)	(676,107)

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

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

22. OTHER INCOME (EXPENSES), NET

	Year-ended December 31,	
	2014	2013
Revenue from sales of PP&E	198	890
Gain on tax lawsuits (Note 24.a)	-	1,830
Contractual fee	9,590	1,196
Property rental	358	251
Other	-	173
Other income	10,146	4,340
Other taxes	-	(2,152)
Penalties	(1,470)	-
Cost of PP&E sold	(34)	(148)
Transaction costs (*)	(779)	(1,758)
Other expenses	(2,283)	(4,058)
Total expenses, net	7,863	282

(*) Transaction costs written off due to the IPO's postponement (Note 19).

23. FINANCIAL EXPENSES, NET

	Year-ended December 31,	
	2014	2013
Interest on short-term investments	4,207	4,288
Financial income from related parties	10,451	5,048
Other financial income	147	203
Financial income	14,805	9,539
Financial charges on loans and financings	(103,952)	(126,425)
Derivative expenses	(6,414)	7,234
Financial expenses from related parties	(4,256)	(5,321)
Other financial expenses	(6,138)	(5,941)
Financial expenses	(120,760)	(130,453)
Foreign exchange rate variations, net	(760)	(4,913)
Financial expenses, net	(106,715)	(125,827)

24. TAXES

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

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

a) Recoverable taxes

	December 31,	
	2014	2013
Income tax (IRPJ) and social contribution (CSLL) [1]	3,284	147
Social Integration Program ("PIS") and Social Investment Program ("COFINS") [2]	-	1,832
Other	-	-
Total	3,284	1,979

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

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

b) Taxes payables

	December 31, 2014	December 31, 2013
Taxes on revenue (PIS and COFINS)	968	424
Income tax (IRPJ) and social contribution (CSLL)	157	3,349
Services Tax (ISS)	2,250	952
State VAT (ICMS)	-	135
Others	-	191
Total	3,375	5,051

c) Deferred tax assets

	December 31, 2014	December 31, 2013
Income tax (IRPJ) and social contribution (CSLL) (*)	5,453	-
Taxes on revenue (PIS/COFINS/ISS)	1,350	211
Total	6,803	211
Current	1,056	153
Non-current	5,747	58

(*) As of December 31, 2014, QGOG recorded deferred tax assets related to temporary differences and tax loss carryforwards in the amount of US$8,849, due to the fact that since 2014 QGOG became a profitable entity and became possible to make reliable estimate of taxable profits aiming the compensation of tax loss carryforwards in the foreseeable future.

d) Deferred tax liabilities

	December 31, 2014	December 31, 2013
Income tax (IRPJ) and social contribution (CSLL) (*)	-	5,136
Total	-	5,136

(*) Deferred tax liabilities effect related to the deemed cost adjustments. As of December 31, 2014, the deferred tax liabilities amounting to US$3,396 were transferred to offset the deferred tax assets balances.

e) Effect of income tax results

The tax rate used for the years ended December 31, 2014 and 2013 reconciliations below refers to the corporate nominal tax rate of 34% in accordance with the Brazilian tax law, jurisdiction in which QGOG (Brazilian subsidiary) operates.

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

	Year-ended December 31,	
	2014	2013
Profit before taxes	344,899	319,576
Income tax and social contribution at nominal rate	(6,627)	(12,046)
Adjustments to derive effective tax rate:		
Non-deductible expenses	(1,961)	(5,151)
Tax loss carryforwards recognized	10,188	-
Tax loss carryforwards utilized	1,359	5,548
Other	787	550
Taxes	3,746	(11,099)
Current taxes	(6,442)	(11,099)
Deferred taxes	10,188	-
Effective tax rate	-1.1%	3 %

Transitional Tax System (RTT)

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

On May 14, 2014, Law 12,973/14 was enacted to cease the applicability of the RTT. The main objective of such Law is to establish the IFRS also as basis for the tax adjustments for income tax and social contribution calculation. The Group is still evaluating the impacts in its operations, as the referred Law is applicable for fiscal years beginning in January 1, 2015 and the early adoption is permitted. According to studies, the Group has not recorded any impact in the consolidated financial statements.

25. FINANCIAL INSTRUMENTS

a) General considerations

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

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

	Category	December 31, 2014 Carrying amount	2014 Fair value	2013 Carrying amount	2013 Fair value
Financial assets					
Cash and bank deposits	Loans and receivables	74,097	74,097	48,896	48,896
Cash equivalents	Fair value through profit or loss	72,982	72,982	168,634	168,634
Short-term investments	Fair value through profit or loss	83,470	83,470	283,399	283,399
Restricted cash	Fair value through profit or loss	37,842	37,842	38,674	38,674
Trade and other receivables	Loans and receivables	102,313	102,313	90,941	90,941
Receivables from related parties	Loans and receivables	337,002	337,002	245,507	245,507
Financial liabilities					
Loans and financings	Other financial liabilities	2,434,727	2,170,421	3,003,258	3,003,713
Trade and other payables	Other financial liabilities	30,650	30,650	27,238	27,238
Payables to related parties	Other financial liabilities	270,760	270,760	233,315	233,315
Derivatives	Fair value through profit or loss	50,193	50,193	78,389	78,389

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 its charter agreements due to the respective agreements being long-term.

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

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

b) Fair value hierarchy

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

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

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

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

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

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

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

<u>Financial instruments fair value measurement</u>

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

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

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

For securities that has quoted price in active markets (Project Bond and Corporate Bond), the fair value is equal to its last quoted price at the balance sheet 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 amortized cost method, it was not considered the applicability of this adjustment, due to the following reasons:

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

c) Financial risk management

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

<u>Liquidity risk</u>

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built a liquidity risk management framework for managing the Group's short and long-term funding and liquidity management requirements. The Group manages liquidity risk by a combination of maintaining adequate reserves, banking facilities and reserve borrowing facilities (Note 14) and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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

As of December 31, 2014 and 2013, the Group presents working capital deficiency in the amount of US$418,555 and US$40,891, respectively, mainly as a result of its current investments. The Group's strategy in relation to this working capital deficiency is disclosed in Note 1.

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

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

Period	Loans and financings	Derivatives	Trade payables	Related parties	Total
2015	513,853	28,581	30,650	2,719	575,803
2016	432,035	14,323	-	7,756	454,114
2017	611,519	4,510	-	7,718	623,747
2018	530,480	1,590	-	2,659	534,729
2019	743,748	-	-	9,499	753,247
After 2019	-	-	-	434,681	434,681
Total	2,831,635	49,004	30,650	465,032	3,376,321

Credit risk

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

For the years ended December 31, 2014 and 2013 Petrobras has accounted for 98% and 96%, respectively, of total revenues. Therefore, management considers that the credit risk arising from this concentration is minimal considering that Petrobras is a government controlled entity with a history of full payment and of being respectful of contractual rights.

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

As disclosed in Note 1, following the press release issued by Petrobras on December 29, 2014, QGOG, one of the Company's subsidiaries, received a notice from Petrobras which temporarily suspends QGOG from entering into direct contracts and participating in bids for new contracts. This notice currently does not impact any of the existing contracts between QGOG and Petrobras. QGOG disagrees with this temporary suspension and has already contested this determination in order to reverse it.

The majority of the fleet of the Group is hired under long-term agreements. Moreover, the Group owns a state-of-the-art offshore fleet which can operate globally and is seeking client diversification and internationalization as part of its strategy, capitalizing on its strong operational track record.

Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and variable interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and variable 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 disclosed in Note 14. As discussed in Note 18, the Group manages this interest rate risk by eliminating 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 rate swaps are held at fair value in the statement of financial position. The fair value of these instruments is affected by factors including market expectations for future changes to US$ LIBOR. Changes to these expectations affect the value of the Group's swaps, producing effects in the statement of operations and statement of comprehensive income 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 derivative and non-derivative instruments at the end of the reporting period and considers the effects of an increase or decrease of 0.1 percent on outstanding loans and financings and the effects of either an increase or a decrease of 0.1 percent in the interest curve (LIBOR), and its impacts in the swaps mark to market on the date of the consolidated financial statements. For variable rate liabilities (US$ LIBOR plus spread), the analysis is prepared assuming the liability amount outstanding at the end of the reporting period was outstanding for the entire period. A 0.1 percent increase or decrease in US$ LIBOR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

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

		December 31, 2014	
Risk: interest rate variation	December 31, 2014	Scenario I Increase of 0.1% in interest rate	Scenario II Decrease of 0.1% in interest rate
	US$	Increase / (decrease) in P&L	Increase / (decrease) in P&L
Loans and financings (Note 14)	1,316,889	(1,317)	1,317
Derivative instruments (Note 18)	(1,280,023)	1,280	(1,280)
Total		(37)	37
		Increase / (decrease) in OCI	Increase / (decrease) in OCI
Hedge derivatives (Note 18)	(721,828)	722	(722)

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, 2014	December 31, 2013
Loans and financings [(a)]	2,434,727	3,003,258
Cash transactions [(b)]	(268,391)	(539,603)
Net debt	2,166,336	2,463,655
Shareholders' equity [(c)]	2,228,072	1,904,853
Net debt ratio [(a) + (b)] ÷ [(a) + (b) + (c)]	49%	56%

(a) Consider all loans and financings.

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

(c) Includes all shareholders' equity accounts.

26. INSURANCE

As of December 31, 2014 and 2013, major assets or interests covered by insurance policies and respective amounts are summarized below:

	December 31,	
	2014	2013
Civil liability	2,199,419	2,125,044
Operating risks	5,394,122	5,631,040
Operational headquarter and others	15,439	12,328
Total	7,608,980	7,768,412

The Group's practice related to its insurance policies is to contract solid insurance companies with high reputation in this market.

27. PENSION PLAN

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

For the years ended December 31, 2014 and 2013, contributions payable by QGOG at rates specified by the plan rules amounted to US$1,920 and US$2,123, respectively.

28. ADDITIONAL INFORMATION ON CASH FLOWS

	December 31,	
	2014	2013
Non-cash investing activities:		
Recognition of accrued costs of the drillship under construction (Note 15)	347,777	42,920
Capital decrease in investments (Note 12)	22,818	-
Capital increase ("share dividend")	-	1,193
Borrowing costs capitalized, net of hedging adjustments (Notes 13 and 14)	13,709	6,778
	384,304	50,891

29. SUBSEQUENT EVENTS

Lone Star offshore drilling rig project financing repayment

In January 2015, Lone Star offshore drilling rig project financing was settled through the repayment amounting to US$95,617, including the amortization of US$95,055 plus interest and derivative charges of US$332 and US$229, respectively. As described in Note 14, the repayment proceeds of this financing derive from the charter receivables of the Gold Star offshore drilling rig.

FPSO Cidade de Ilhabela shareholders loan

On January 19, 2015, the Group received the amount of US$18,434 from Guará Norte S.à.r.l., through a capital decrease and repayment of existing loans amounting to US$ US$13,375 and US$5,059, respectively, in connection with the payment made by Petrobras related to the FPSO Cidade de Ilhabela acceptance.

Group's working capital credit lines

In January 2015, the Group used the remaining amount of the credit line with Bradesco amounting to US$95 million and signed another working capital credit line agreement with the same financial institution, which amounts to US$75 million, with a 2-year term bearing interest rate at LIBOR plus 4.85% p.a. The Group fully used this credit line.

Onshore drilling rig QG-I charter and drilling service agreements

The Group's agreement to charter and render drilling services for President Energy PLC and President Energy Paraguay S.A. was terminated in January 2015 (Note 1).

Notice of Violation related to PIS and COFINS collection

On January 22, 2015, QGOG, one of the Group's subsidiaries, received Notice of Violation issued by the *Receita Federal do Brasil* - RFB ("Internal Revenue Service") related to Social Integration Program ("PIS") and Social Investment Program ("COFINS") collected in the years 2010 and 2011.

The RFB initiated a Tax Administrative Process, whereby requires QGOG to make payment amounting to approximately R$65 million corresponding to approximately US$25 million (including penalties and interest), due to the fact that the RFB considered that QGOG made use of improper tax credits aiming to reduce its PIS and COFINS obligations.

On February 23, 2015, the Group, through its subsidiary QGOG, argued on appeal in order to contest the tax assessment made by the RFB.

Based on the Group's external legal advisors' opinion, Management has made a risk assessment of the probability that the resolution of the matter could result in a loss for the Group and concluded that the probability of loss on such matter is possible.

30. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's Board of Directors and authorized for issue on March 19, 2015.