QGOG Constellation S.A.

Unaudited Condensed Consolidated Interim Financial Information for the Three and Nine Month Periods Ended September 30, 2012

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of QGOG Constellation S.A. (the "Company") as of September 30, 2012, the related condensed consolidated statements of operations and comprehensive income for the three and nine-month periods then ended and the changes in shareholder's equity and cash flows for the nine-month period then ended, and other explanatory notes. Management is responsible for the preparation and fair presentation of this condensed consolidated interim financial information in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information does not present fairly, in all material respects, the financial position of the Company as of September 30, 2012, and of its financial performance for the three and nine-month period then ended and its cash flows for the nine-month period then ended in accordance with IAS 34 *Interim Financial Reporting*, as issued by the IASB.

/s/ DELOITTE TOUCHE TOHMATSU
Rio de Janeiro, Brazil
January 29, 2013

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT
OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2012
(Amounts expressed in thousands of U.S. dollars - US$)

ASSETS	Note	September 30, 2012	December 31, 2011
CURRENT ASSETS			
Cash and cash equivalents	3	276,686	188,938
Short-term investments	4	116,078	138,672
Restricted cash	5	17,871	26,325
Trade and other receivables	6	119,607	57,827
Inventories	7	97,987	69,964
Recoverable taxes	21.a	5,549	1,114
Deferred mobilization costs		14,973	7,962
Deferred taxes	21.c	153	163
Receivables from related parties	8	256	360
Other current assets		31,041	16,388
		680,201	507,713
NON-CURRENT ASSETS			
Receivables from related parties	8	251,909	173,585
Other noncurrent assets		489	6,944
Investments	9	30,206	22,981
Deferred mobilization costs		34,161	29,912
Deferred taxes	21.c	250	365
Property, plant and equipment, net	10	4,135,586	3,992,601
		4,452,601	4,226,388
TOTAL ASSETS		5,132,802	4,734,101

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QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT
OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2012
(Amounts expressed in thousands of U.S. dollars - US$)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	September 30, 2012	December 31, 2011
CURRENT LIABILITIES			
Loans and financings	12	1,070,691	731,190
Accrued liabilities	11	-	722,536
Payroll and related taxes		50,622	36,101
Derivatives	15	43,711	30,806
Trade and other payables		27,651	27,900
Payables to related parties	8	6,430	4,278
Taxes payables	21.b	5,745	2,988
Provisions	13	8,468	8,468
Deferred mobilization revenue		18,299	13,801
Other current liabilities		24,558	19,725
		1,256,175	1,597,793
NON-CURRENT LIABILITIES			
Loans and financings	12	2,265,489	1,709,332
Payables to related parties	8	176,661	130,639
Derivatives	15	114,942	102,904
Deferred income taxes	21.d	7,658	9,415
Deferred mobilization revenue		62,844	49,871
Other non-current liabilities		11,441	11,711
		2,639,035	2,013,872
SHAREHOLDER´S EQUITY			
Capital	16	55,632	131,045
Share premium	16	470,487	395,082
Other reserves		(5,039)	(5,322)
Retained earnings		740,805	627,904
Equity attributable to the owners of the Group		1,261,885	1,148,709
Non-controlling interest		(24,293)	(26,273)
		1,237,592	1,122,436
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		5,132,802	4,734,101

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

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012 AND 2011
(Amounts expressed in thousands of U.S. dollars - US$, except for the profit (loss) per thousand shares)

	Note	For the three month period ended September 30,		For the nine month period ended September 30,	
		2012	2011	2012	2011
NET OPERATING REVENUE	17	199,147	177,446	575,946	415,339
COSTS OF SERVICES	18	(109,520)	(133,748)	(342,481)	(314,454)
GROSS PROFIT		89,627	43,698	233,465	100,885
General and administrative expenses	18	(10,359)	(9,506)	(31,470)	(22,099)
Other income	19	1,364	212	3,031	840
Other expenses	19	-	196	(1,202)	(11,380)
OPERATING PROFIT		80,632	34,600	203,824	68,246
Financial income	20	978	3,463	6,795	5,044
Financial costs	20	(36,143)	(58,827)	(100,992)	(97,754)
FINANCIAL COSTS, NET		(35,165)	(55,364)	(94,197)	(92,710)
Shares of results of investments	9	631	663	2,416	521
PROFIT (LOSS) BEFORE TAXES		46,098	(20,101)	112,043	(23,943)
Taxes	21.e	(218)	(957)	(696)	(731)
PROFIT (LOSS) FOR THE PERIOD		45,880	(21,058)	111,347	(24,674)
Net income (loss) attributed to the owners of the Group		45,865	(21,058)	112,901	(20,863)
Net income (loss) attributed to non-controlling interest		15	-	(1,554)	(3,811)
Profit (loss) per share					
Basic	16	0.269	(0.124)	0.662	(0.122)
Diluted	16	0.269	(0.124)	0.662	(0.122)

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

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012 AND 2011
(Amounts expressed in thousands of U.S. dollars - US$)

	Note	For the three month period ended September 30,		For the nine month period ended September 30,	
		2012	2011	2012	2011
PROFIT (LOSS) FOR THE PERIOD		45,880	(21,058)	111,347	(24,674)
OTHER COMPREHENSIVE INCOME (LOSS)					
Cash flow hedge fair value adjustments					
Attributable to owners of the Group	16	6,040	(24,854)	4,320	(24,854)
Attributable to non-controlling interest		4,942	(20,335)	3,534	(20,335)
		10,982	(45,189)	7,854	(45,189)
Currency translation differences		(184)	(15,134)	(4,037)	(14,051)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		56,678	(81,381)	115,164	(83,914)
Comprehensive income (loss) attributed to the owners of the Group		51,721	(77,570)	113,184	(59,768)
Comprehensive income (loss) attributed to non-controlling interest		4,957	(3,811)	1,980	(24,146)

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

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2012
(Amounts expressed in thousands of U.S. dollars - US$)

		Capital				Other reserves					
	Note	Constellation Oveseas Ltd.	QGOG Constellation S.A.	Total	Share premium	Cash flow hedges fair value adjustments	Currency translation differences	Retained earnings	Attributable to the owners of the Group	Attributable to non-controlling interest	Total shareholders' equity
BALANCES AS OF DECEMBER 31, 2011		130,987	58	131,045	395,082	(27,454)	22,132	627,904	1,148,709	(26,273)	1,122,436
Capital reduction	16	-	(8)	(8)	-	-	-	-	(8)	-	(8)
Capital exchange	16	(130,987)	55,582	(75,405)	75,405	-	-	-	-	-	-
Profit for the period		-	-	-	-	-	-	112,901	112,901	(1,554)	111,347
Other comprehensive income for the period		-	-	-	-	4,320	(4,037)	-	283	3,534	3,817
Total comprehensive income for the period		-	-	-	-	4,320	(4,037)	112,901	113,184	1,980	115,164
BALANCES AS OF SEPTEMBER 30, 2012		-	55,632	55,632	470,487	(23,134)	18,095	740,805	1,261,885	(24,293)	1,237,592

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

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2011
(Amounts expressed in thousands of U.S. dollars - US$)

		Capital				Other reserves					
	Note	Constellation Oveseas Ltd.	QGOG Constellation S.A.	Total	Share premium	Cash flow hedges fair value adjustments	Currency translation differences	Retained earnings	Attributable to the owners of the Group	Attributable to non-controlling interest	Total shareholders' equity
BALANCES AS OF DECEMBER 31, 2010		130,987	-	130,987	395,082	-	27,670	673,238	1,226,977	-	1,226,977
Capital increase as of August 30, 2011 - issuance of 400,000 shares	16	-	58	58	-	-	-	-	58	-	58
Loss for the period		-	-	-	-	-	-	(20,863)	(20,863)	(3,811)	(24,674)
Other comprehensive loss for the period		-	-	-	-	(24,854)	(14,051)	-	(38,905)	(20,335)	(59,240)
Tota comprehensive loss for the period		-	-	-	-	(24,854)	(14,051)	(20,863)	(59,768)	(24,146)	(83,914)
BALANCES AS OF SEPTEMBER 30, 2011		130,987	58	131,045	395,082	(24,854)	13,619	652,375	1,167,267	(24,146)	1,143,121

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

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012 AND 2011
(Amounts expressed in thousands of U.S. dollars - US$)

CASH FLOWS FROM OPERATING ACTIVITIES	Note	September 30, 2012	September 30, 2011
Profit (loss) for the period		111,347	(24,674)
Adjustments for:			
Depreciation of property, plant and equipment	10/18	119,373	92,461
Gain on disposals of property, plant and equipment	19	(162)	(188)
Shares of results of investments	9	(2,416)	(521)
Provisions for penalties	13/19	-	10,686
Recognition of mobilization costs		6,039	4,226
Recognition of mobilization revenues, net of taxes		(10,405)	(6,473)
Financial charges on loans and financings	12/20	58,954	30,759
Financial expenses from related parties, net	12/20	1,206	7,556
Derivatives	15/20	29,537	52,721
Other financial expenses, net	20	4,500	1,674
Taxes	21.e	696	731
Changes in working capital:			
(Increase)/decrease in short-term investments		20,815	(48,080)
(Increase)/decrease in restricted cash		14,242	6,192
(Increase)/decrease in trade and other receivables		(63,474)	(21,479)
(Increase)/decrease in receivables from related parties		(16)	(2,435)
(Increase)/decrease in inventories		(30,793)	(51,597)
(Increase)/decrease in recoverable taxes		(4,780)	(728)
(Increase)/decrease in deferred mobilization costs		(17,299)	(18,567)
(Increase)/decrease in other assets		(10,360)	(990)
Increase/(decrease) in payroll and related taxes		18,268	14,217
Increase/(decrease) in trade and other payables		771	(13,796)
Increase/(decrease) in payables to related parties		(6)	7,034
Increase (decrease) in taxes payables		1,197	2,660
Increase (decrease) in deferred mobilization revenue		28,000	41,081
Increase (decrease) in other liabilities		2,451	12,971
Net cash generated by operating activities		277,685	95,441
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans to related parties		(156,823)	(62,257)
Proceeds from related parties		91,536	-
Acquisition of property, plant and equipment		(938,249)	(197,692)
Aquisition of investees	9	(3,609)	-
Proceeds from sales of property, plant and equipment	19	199	485
Net cash used in investing activities		(1,006,946)	(259,464)
CASH FLOW FROM FINANCING ACTIVITIES			
Payments to related parties		(91,536)	-
Proceeds from related parties		125,593	10,492
Proceeds from loans and financings, net of transactions costs	12	1,150,943	1,692,006
Interest paid on loans and financings	12	(51,087)	(50,282)
Cash payments on derivatives	15	(37,108)	(47,208)
Capital increase		-	58
Restricted cash		(5,788)	
Repayment of principal on loans and financings	12	(274,964)	(1,137,458)
Net cash generated by financing activities		816,053	467,608
Increase in cash and cash equivalents		86,792	303,585
Cash and cash equivalents at beginning of the period		188,938	84,301
Effects of exchange rate changes on the balance of cash held in the foreign currencies		956	(10,611)
Cash and cash equivalents at end of the period		276,686	377,275

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

1. GENERAL INFORMATION

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

The unaudited condensed consolidated interim financial information includes QGOG Constellation and its subsidiaries (“the Group”).

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

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

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

- QGOG Star GmbH, an entity organized under the laws of Switzerland on May 2, 2012, which wholly-owns Constellation. Constellation continues to wholly-own, directly and indirectly, the entities which own the drilling rigs.
- Arazi S.à.r.l. ("Arazi"), an entity organized under the laws of Luxembourg on May 12, 2011, which holds investments in the following Floating, Production, Storage and Offloading - FPSO vessels: FPSO Capixaba, FPSO Cidade de Ilhabela and FPSO Cidade de Paraty. Before restructuring, Arazi was a wholly-owned subsidiary of Constellation.
- Constellation Netherlands B.V., an entity organized under the laws of the Netherlands on April 3, 2012, which indirectly wholly-owns certain entities that are party to Constellation's offshore charter agreements with Petróleo Brasileiro S.A. ("Petrobras").
- Centaurus S.à.r.l., an entity organized under the laws of Luxembourg on July 27, 2007, which directly wholly-owns Eiffel Ridge C.V., an entity that is party to Constellation's offshore charter agreements with Petrobras related to Lone and Gold offshore drilling rigs.
- Angra Participações B.V ("Angra"), an entity organized under the laws of Netherlands on May 11, 2012, which holds a 15% equity interest in three Special Purpose Entities ("SPE"), each with an ultra-deepwater semi-submersible rigs (Urca, Bracuhy and Mangaratiba) in partnership with Sete Brasil.

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

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

The Group's fleet of assets is currently comprised of:

Assets	Type	Start of operations
QG-I	Onshore drilling rig	1981
QG-II	Onshore drilling rig	1981
QG-III	Onshore drilling rig	1987
QG-IV	Onshore drilling rig	1996
QG-V(1)	Onshore drilling rig	2011
QG-VI	Onshore drilling rig	2008
QG-VII	Onshore drilling rig	2008
QG-VIII (1)	Onshore drilling rig	2011
QG-IX (1)	Onshore drilling rig	2011
Alaskan Star	Offshore drilling rig	1994
Atlantic Star (2)	Offshore drilling rig	1997
Olinda Star	Offshore drilling rig	2009
Gold Star	Offshore drilling rig	2010
Lone Star (1)	Offshore drilling rig	2011
Alpha Star (1)	Offshore drilling rig	2011
Amaralina Star (3)	Drillship	2012
Laguna Star (4)	Drillship	Under mobilization

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

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

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

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

As of September 30, 2012, the Group presents working capital deficiency in the amount of US$575,974 (US$1,090,080 as of December 31, 2011), mainly as a result of investments made during the last 2 years in onshore and offshore drilling rigs and drillship equipment. The working capital deficiency as of September 30, 2012 is principally related to working capital loans in the amount of US$619,503 and as of December 31, 2011 was related to accrued liabilities in the amount of US$722,536 related to the construction of the Amaralina Star and Laguna Star drillships (Note 11). The Group strategy in relation to this working capital deficiency includes a long-term debt facility which negotiation process commenced in 2011 with the banks and the loan agreements in the amount of US$943,863 signed on March 27, 2012 relating to these drillships. This debt facility has a term of up to 6 years. Additionally, the Company issued a 7 year term Senior Unsecured Notes in November, 2012 which is intended to solve the working capital deficiency, since the proceeds of these Senior Unsecured Notes will be used to settle certain of the working capital loans (Note 27).

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

<u>FPSO Cidade de Ilhabela</u>

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

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

New partnership with Petrobras and Sete Brasil

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

Share Split

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

Share Dividend

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

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

The unaudited condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"), on a basis consistent with the accounting policies disclosed in the audited combined financial statements for the fiscal year ended December 31, 2011.

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

The unaudited condensed consolidated interim financial information should be read in conjunction with the most recently issued annual combined financial statements of the Company, which include information necessary or useful to understand the Company's business and financial statement presentation. In particular, the Company's significant accounting policies were presented as Note 3 to the combined financial statements for the fiscal year ended December 31, 2011, and have been consistently applied in the preparation of these unaudited condensed consolidated interim financial statements.

The unaudited condensed consolidated interim financial information as of September 30, 2012 and for the three and nine month periods then ended has been prepared by consolidating the financial information of the Company and its subsidiaries. All intra-group transactions, balances, income and expenses were eliminated in the consolidation process.

Combination

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

2.2. Statements of compliance

The unaudited condensed consolidated interim financial information was prepared as of September 30, 2012 and for the nine month period then ended in accordance with IAS 34, related to interim financial statements, as issued by the IASB.

These unaudited condensed consolidated interim financial information do not include all the information and disclosure items required in the consolidated annual financial statements therefore, they must be read together with the QGOG Constellation's combined financial statements referring the year ended December 31, 2011, which were prepared according to accounting policies, as described above. There were no changes in accounting policies and critical accounting estimates adopted on December 31, 2011 and September 30, 2012.

3. CASH AND CASH EQUIVALENTS

	September 30, 2012	December 31, 2011
Cash and bank deposits	55,603	5,240
Cash equivalents	221,083	183,698
Total	276,686	188,938

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

The amounts of cash equivalents are presented below:

Cash equivalents	Financial Institution	Average interest rate (per annum)	September 30, 2012	December 31, 2011
Time deposits	Itau BBA Nassau	0.29%	175,407	73,544
Time deposits	Bradesco S.A. Grand Cayman	0.39%	45,676	110,154
Total			221,083	183,698

4. SHORT-TERM INVESTMENTS

	September 30, 2012	December 31, 2011
Time deposits	90,640	125,038
Bank deposits certificates	25,438	7,498
Repurchase agreements	-	6,136
Total	116,078	138,672

Short-term investments	Financial Institution	Average interest rate (per annum)	September 30,2012	December 31, 2011
Time deposits	Deutsche Bank	0.14%	41,818	24,074
Time deposits	Bradesco S.A. Grand Cayman	2.20%	-	35,000
Time deposits	Itaú BBA Nassau	2.52%	-	7,000
Time deposits	ING Bank	0.22%	20,348	35,876
Time deposits	Citibank	0.28%	28,475	23,088
Bank deposit certificates	Bradesco S.A.	99.5% - 100.0% of CDI(*)	11,015	2,142
Bank deposit certificates	Banco do Nordeste – BNB	101.5% of CDI(*)	5,183	5,356
Bank deposit certificates	Banco do Brasil S.A.	101.1 - 101.3% of CDI(*)	9,239	-
Repurchase agreements (**)	Bradesco S.A.	99.5% of CDI(*)	-	6,136
Total			116,078	138,672

(*) CDI - Interbank deposit certificate

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

5. RESTRICTED CASH

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

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

These accounts refer to the financing agreements related to the construction of Lone Star, Gold Star and Olinda Star drilling rigs, as mentioned in Note 12, with original maturity less than one year.

The amounts in these accounts are presented below:

Restricted cash	Financial institution	Average interest rate (per annum)	September 30, 2012	December 31, 2011
Time deposits	ING Bank	0.24%	17,871	26,325
Total			17,871	26,325

6. TRADE AND OTHER RECEIVABLES

	September 30, 2012	December 31, 2011
Trade receivables	119,607	57,747
Other receivables	-	80
Total	119,607	57,827

Trade receivables are mainly relate to receivables from Petrobras for charter and services relating to offshore and onshore drilling rigs used in exploration of oil and natural gas in Brazil. Historically, there have been no defaults on receivables or delays in collections and consequently, the Group has not recorded an allowance for doubtful accounts for the periods presented. The average collection period is approximately 30 days. See credit risks in Note 22.

The increase in trade receivables is mainly represented by the recognition of mobilization revenue related to Amaralina Star drillship and the reimbursement of State VAT (ICMS) charged on the importation of Amaralina Star drillship, in the amounts of US$28,000 and US$18,551, respectively.

7. INVENTORIES

Inventories refer basically to materials to be used in the operations of the rigs. The amounts recognized in statement of operations are accounted as costs of services in the account "Materials" as disclosed in Note 18.

8. RELATED PARTY TRANSACTIONS

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

The consolidated intercompany balances as of September 30, 2012 and December 31, 2011, respectively, and the intercompany transactions for the nine month periods ended September 30, 2012 and 2011, are as follows:

	As of September 30, 2012		For the three month period ended September 30, 2012	For the nine month period ended September 30, 2012	As of December 31, 2011		For the three month period ended September 30, 2011	For the nine month period ended September 30, 2011
	Assets	Liabilities	Income/(expenses)	Income/(expenses)	Assets	Liabilities	Income/(expenses)	Income/(expenses)
Delba (a)	176,661	176,661	-	-	130,639	130,639	-	-
FPSO Cidade de Paraty (b)	48,920	-	-	803	34,310	-	-	-
FPSO Cidade de Ilhabela (b)	21,486	-	-	-	4,062	-	-	-
QG S.A. (c)	-	6,366	(196)	(2,157)	-	4,208	(2,654)	(8,116)
Queiroz Galvão Exploração e Produção S.A. (QGEP) (f)	15	-	13	27	44	-	58	528
Manati S.A. (f)	241	-	79	358	316	-	143	1,089
FPSO Capixaba (d)	869	-	-	-	869	-	-	-
Espírito do Mar (e)	3,715	-	50	148	3,567	-	47	141
Others	258	64	-	-	138	70	419	419
Total	252,165	183,091	(54)	(821)	173,945	134,917	(1,987)	(5,939)
Total current	256	6,430			360	4,278		
Total noncurrent	251,909	176,661			173,585	130,639		

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

Under the agreements, Constellation has committed to finance Delba's 45% share of expenditures on these projects through the date of acceptance of the drillships by Petrobras, where such expenditures are not funded by Project Finance or by the Charterer. The date of acceptance is expected to occur at the end of November, 2012.

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

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

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

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

Non-compliance with the contracts between Delba and Constellation could result in penalties to either entity. Through September 30, 2012, the Group is in compliance with the requirements of the respective contracts.

(b) The Group signed a shareholder's agreement with partners to construct charter and operate FPSOs for Petrobras. Loans receivables as of September 30, 2012 in the amount of US$48,920 (US$34,310 as of December 31, 2011) and US$21,486 (US$4,062 as of December 31, 2011) refer to milestones payments made by Constellation in proportion with its participation in FPSO Cidade de Paraty and FPSO Cidade Ilhabela projects, respectively. The loan with respect to FPSO Cidade de Paraty bears interest rate at LIBOR plus 3% p.a. with no maturity date.

As of September 30, 2012 the Group's main capital commitments for the conclusion of the construction of the FPSO Cidade Paraty and FPSO Cidade Ilhabela, are in the amounts of US$17 million and US$28 million, respectively, corresponding to the percentage of interest in these investees.

(c) The amount of US$6,366 (US$4,208 as of December, 2011) refers to the fee charged by QG S.A., entity under common control with the Group, for being guarantor of part of Constellation's loans and financings.

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

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

(f) On June 1, 2010, the subsidiary QGOG, Manati S.A. and QGEP entered into an agreement pursuant to which they agreed to share infrastructure and costs of certain administrative activities.

Key management personnel remuneration is presented below:

	For the three month period ended September 30		For the nine month period ended September 30	
	2012	2011	2012	2011
Key management personnel compensation	3,303	3,853	6,649	8,296

All key management personnel compensation refers to short term benefits.

The cash compensation for each member of senior management is mainly comprised of base salary and bonus. The compensation that is paid to senior management is evaluated on an annual basis considering the following primary factors: individual performance during the prior year, market rates and movements, and the individual's anticipated contribution to the Group growth. Members of senior management are also eligible to participate in the Group's retirement savings plans (Note 24).

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

9. INVESTMENTS

	September 30, 2012					December 31, 2011	
	Joint Ventures		Other investees			Joint Ventures	
	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Urca Drilling B.V.	Bracuhy Drilling B.V.	Mangaratiba Drilling B.V.	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.
Number of shares (thousands)	100	100	90	90	90	100	100
Indirect interest	20%	20%	15%	15%	15%	20%	20%
Authorized share capital	82	88	€90	€90	€90	82	88
Current assets	2,888	29,516	14,460	93	93	3,822	30,339
Noncurrent assets	-	332,080	162,071	33,230	33,230	6,333	356,560
Current liabilities	7,344	63,770	50,862	24	24	13,906	46,586
Noncurrent liabilities	8,770	164,840	104,662	27,621	27,610	3,475	225,407
Shareholder´s equity (deficit)	(13,226)	132,986	21,007	5,678	5,689	(7,226)	114,906

	For the three month period ended September 30,						
	2012					2011	
	Joint Ventures		Other investees			Joint Ventures	
	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Urca Drilling B.V.	Bracuhy Drilling B.V.	Mangaratiba Drilling B.V.	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.
Net income (loss)	(3,143)	6,296	(3,142)	(487)	(476)	(2,061)	5,378

	For the nine month period ended September 30,						
	2012					2011	
	Joint Ventures		Other investees			Joint Ventures	
	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Urca Drilling B.V.	Bracuhy Drilling B.V.	Mangaratiba Drilling B.V.	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.
Net income (loss)	(6,001)	18,079	(3,142)	(487)	(476)	(10,970)	13,579

Changes in investments

	2012						2011		
	Joint Ventures		Other investees				Joint Ventures		
	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Urca Drilling B.V.	Bracuhy Drilling B.V.	Mangaratiba Drilling B.V.	Total	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Total
Balance as of January 1	(1,446)	22,981	-	-	-	21,535	1,348	19,159	20,507
Capital increase	-	-	2,613	498	498	3,609	-	-	-
Share of results	(1,200)	3,616	-	-	-	2,416	(2,194)	2,715	521
Balance as of September 30	(2,646)	26,597	2,613	498	498	27,560	(846)	21,874	21,028
Assets (investments)	-	26,597	2,613	498	498	30,206	-	21,874	21,874
Liabilities (accumulated deficit in investments) (*)	(2,646)	-	-	-	-	(2,646)	(846)	-	(846)

(*) The liability to fund deficit in FPSO Capixaba Venture S.A. is recognized in “Other current liabilities”.

Joint Ventures

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

- Capixaba's core business is to support operations for contracts in the offshore oil and gas industry. Since March 16, 2007, this company is a shareholder of a Brazilian company which operates the "FPSO Capixaba" unit which is currently located off the Brazilian coast and is chartered to Petrobras until 2022.
- Espírito do Mar is the owner of FPSO Capixaba and its main activity is to support charter contracts in the offshore oil and gas industry.

Other investees

As described in Note 1, on August 3, 2012, the Company signed three shareholders agreements to acquire a 15% equity interest in three SPE, each one owning an ultra-deepwater semi-submersible rig (Urca, Bracuhy and Mangaratiba) in partnership with Sete Brasil. In the same day, the partnership signed charter agreements of these assets with Petrobras. These three ultra-deepwater semi-submersible offshore rigs are expected to be delivered in 2016, 2018 and 2019, respectively. QGOG will be the sole operator of these rigs.

Except for our portion of the capital expenditures for these rigs, these projects are fully funded. The Company's expected capital expenditures for Urca, Bracuhy and Mangaratiba projects are in the amount of US$85 million.

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

Urca Drilling B.V.

Urca Drilling B.V. is the owner of Urca semi-submersible drilling rig and is expected to commence operations in 2016. This drilling rig will be equipped to operate in pre-salt water depths. Upon completion of its construction and its acceptance by Petrobras, Urca will be under contract with Petrobras until 2031.

Bracuhy Drilling B.V.

Bracuhy Drilling B.V. is the owner of Bracuhy semi-submersible drilling rig and is expected to commence operations in 2018. This drilling rig will be equipped to operate in pre-salt water depths. Upon completion of its construction and its acceptance by Petrobras, Bracuhy will be under contract with Petrobras until 2033.

Mangaratiba Drilling B.V.

Mangaratiba Drilling B.V. is the owner of Mangaratiba semi-submersible drilling rig and is expected to commence operations in 2019. This drilling rig will be equipped to operate in pre-salt water depths. Upon completion of its construction and its acceptance by Petrobras, Mangaratiba will be under contract with Petrobras until 2034.

10. PROPERTY, PLANT AND EQUIPMENT

	Equipment under construction	Equipment in operation: Amaralina drillship	Laguna drillship	Alaskan Star Rig	Atlantic Star Rig	Alpha Star Rig	Gold Star Rig	Lone Star Rig	Olinda Rig	Onshore drilling rigs	Corporate	Total
Cost												
Balance as of December 31, 2010	1,511,660	-	-	374,018	319,965	-	530,128	-	527,915	131,211	24,008	3,418,905
Additions	615,988	-	-	2,358	21,991	-	5,273	-	3,270	24,064	6,181	679,125
Disposals	-	-	-	-	-	-	-	-	-	(51)	(308)	(359)
Transfers	(1,379,044)	-	-	-	-	716,695	-	639,844	-	22,096	409	-
Currency translation differences	-	-	-	-	-	-	-	-	-	(10,022)	(727)	(10,749)
Balance as of September 30, 2011	748,604	-	-	376,376	341,956	716,695	535,401	639,844	531,185	167,298	29,563	4,086,922
Balance as of December, 31, 2011	966,846	-	-	378,708	334,568	718,636	536,701	639,844	531,137	170,837	29,511	4,306,788
Additions	260,276	-	-	185	494	2,109	125	167	309	2,735	1,493	267,893
Disposals	-	-	-	(1,052)	(49)	-	-	-	(64)	-	(186)	(1,351)
Transfers	(1,227,122)	630,026	597,096	-	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	-	-	-	-	(7,143)	(1,205)	(8,348)
Balance as of September 30, 2012	-	630,026	597,096	377,841	335,013	720,745	536,826	640,011	531,382	166,429	29,613	4,564,982

	Equipment under construction	Equipment in operation: Amaralina drillship	Laguna drillship	Alaskan Star Rig	Atlantic Star Rig	Alpha Star Rig	Gold Star Rig	Lone Star Rig	Olinda Rig	Onshore drilling rigs	Corporate	Total
Accumulated depreciation												
Balance as of December 31, 2010	-	-	-	(33,707)	(45,338)	-	(23,949)	-	(36,562)	(45,342)	(13,098)	(197,996)
Depreciation	-	-	-	(12,788)	(11,632)	(9,054)	(18,442)	(14,086)	(16,819)	(8,227)	(1,413)	(92,461)
Disposals	-	-	-	-	-	-	-	-	-	15	47	62
Currency translation differences	-	-	-	-	-	-	-	-	-	4,870	285	5,155
Balance as of September 30, 2011	-	-	-	(46,495)	(56,970)	(9,054)	(42,391)	(14,086)	(53,381)	(48,684)	(14,179)	(285,240)
Balance as of December 31, 2011	-	-	-	(50,782)	(51,929)	(16,271)	(45,758)	(24,894)	(59,019)	(51,019)	(14,515)	(314,187)
Depreciation	-	-	-	(12,514)	(11,539)	(24,833)	(17,097)	(24,614)	(17,142)	(9,744)	(1,890)	(119,373)
Disposals	-	-	-	-	-	-	-	-	-	-	149	149
Currency translation differences	-	-	-	-	-	-	-	-	-	3,595	420	4,015
Balance as of September 30, 2012	-	-	-	(63,296)	(63,468)	(41,104)	(62,855)	(49,508)	(76,161)	(57,168)	(15,836)	(429,396)
Property, plant and equipment, net												
December 31, 2011	966,846	-	-	327,926	282,639	702,365	490,943	614,950	472,118	119,818	14,996	3,992,601
September 30, 2012	-	630,026	597,096	314,545	271,545	679,641	473,971	590,503	455,221	109,261	13,777	4,135,586
Average useful life (years)		24	24	22	21	22	21	22	24	17	15	

The detailed cost of equipment under construction is showed as follows:

	Equipment under construction				
	Alpha Star Rig	Lone Star Rig	Drillships (a)	Onshore drilling rigs	Total
Cost					
Balance as of December 31, 2010	654,803	618,726	215,626	22,505	1,511,660
Additions	61,892	21,118	532,978	-	615,988
Transfers	(716,695)	(639,844)	-	(22,505)	(1,379,044)
Balance as of September 30, 2011	-	-	748,604	-	748,604
Balance as of December 31, 2011	-	-	966,846	-	966,846
Additions	-	-	260,276	-	260,276
Transfers	-	-	(1,227,122)	-	(1,227,122)
Balance as of September 30, 2012	-	-	-	-	-

(a) The construction of Amaralina Star and Laguna Star was concluded in July 2012 and September 2012, respectively. Amaralina Star started its operations at the end of September 2012 (depreciation will be calculated only as from October 2012) and Laguna Star started its operations in November 2012.

Borrowing costs capitalized in property, plant and equipment for the three and nine month periods ended September 30, 2012 were US$47,106 and US$52,180, respectively (US$4,155 and US$34,821 for the three and nine month periods ended September 30, 2011).

Borrowing costs are capitalized using the effective interest rates of each financing agreement described in Note 12.

The Group's assets which are pledged as security for financing are also described in Note 12.

11. ACCRUED LIABILITIES

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

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

In June and September, 2012 the Company reclassified the amounts of US$440,465 and US$431,188, respectively, from "Accrued Liabilities" to "Trade and Other Payables" relating to Amaralina Star and Laguna Star construction costs billed by Samsung shipyard and other suppliers, respectively, in connection with the issuance of the invoice and the completeness of the construction (Note 10).

The payments for the construction of Amaralina Star and Laguna Star drillships were made on July, 2012 and on September, 2012 in the amounts of US$431,370 and US$446,733, respectively.

12. LOANS AND FINANCINGS

Financial institution	Funding type	Objective	Beginning period	Maturity	Contractual interest rate	Effective interest rate	Currency	Sep 30, 2012	Dec 31, 2011
Bradesco	Loan	Working capital	During 2011 and 2012	Within1year	3.67%p.a. to 3.94%p.a.	3.88%p.a.	US dollars	347,685	283,683
Banco do Brasil	Loan	Working capital	During 2011 and 2012	Within1year	2.75%p.a.	2.75%p.a.	US dollars	123,225	123,954
Itau BBA	Loan	Working capital	During 2012	Within1year	3.68%p.a. to 4.02%p.a.	3.89%p.a	US dollars	148,593	-
ING (leader arranger)	Financing	Gold Star rig construction	Jul,2007	Jan,2015	Libor+1.15%p.a.to Libor+1.35%p.a.(1)	1.60%p.a.	US dollars	286,666	311,036
ING (leader arranger)	Financing	Lone Star rig construction	Jul,2007	Dec,2017	Libor+1.15%p.a.	1.60%p.a.	US dollars	302,881	364,504
Santander, HSBC, Citibank (joint bookrunners)	Senior Notes (Project Bond)	Refinance Alaskan Star and Atlantic Star rigs, and other corporate purposes	Jul,2011	Jul,2018	5.25%p.a.	5.55%p.a.	US dollars	624,167	660,245
ING (leader arranger)	Financing	Olinda Star rig construction	Feb,2008	Jul,2014	Libor+1.40%p.a.	1.83%p.a.	US dollars	165,005	205,003
Citibank and Santander (joint leader arrangers)	Financing	Alpha Star rig construction	Apr,2011	Jul,2017	Libor+2.50%p.a.	3.42%p.a.	US dollars	468,587	492,097
BNP, Citi and ING (leader arrangers)	Financing	Amaralina Star drillship construction	May,2012	Oct,2018	Libor+2.75%p.a.	4.36%p.a.	US dollars	274,001	-
The Norwegian Ministry of Trade and Industry ("MTI")	Financing	Amaralina Star drillship construction	May,2012	Oct,2018(2)	Libor+2.75%toLibor+3.00%p.a.(3)	4.36%p.a.	US dollars	166,262	-
BNP, Citi and ING (leader arrangers)	Financing	Laguna Star drillship construction	May,2012	Dec,2018	Libor+2.75%p.a.	4.52%p.a.	US dollars	266,232	-
The Norwegian Ministry of Trade and Industry ("MTI")	Financing	Laguna Star drillship construction	May,2012	Dec,2018(2)	Libor+2.75%toLibor+3.00%p.a.(3)	4.52%p.a.	US dollars	162,876	-
Total								3,336,180	2,440,522
Current								1,070,691	731,190
Non current								2,265,489	1,709,332

(1) The interest rate is Libor + 1.15% p.a. until the fifth anniversary and thereafter is Libor + 1.35% p.a.

(2) The maturity dates for MTI tranches for Amaralina and Laguna project financings are December, 2020 and January, 2021, respectively, unless the commercial banks tranche would not be extended to the same dates.

(3) In pre-completion period the interest is Libor + 3.00% p.a. and in post-completion is Libor + 2.75% p.a.

Changes in loans and financings

	2012	2011
Balance as of January 1	2,440,522	2,006,349
Additions	1,170,635	1,716,917
Repayment of principal	(274,964)	(1,137,458)
Transaction cost	(19,692)	(20,361)
Debt discount	-	(4,550)
Interest capitalized	11,812	27,024
Interest charged through profit and loss	54,992	28,066
Payment of interest	(51,087)	(50,282)
Transaction cost charged through profit and loss	3,133	2,577
Debt discounts charged through profit and loss (*)	829	116
Balance as of September 30	3,336,180	2,568,398

Loans and financing long term amortization schedule

For the years ending December 31,	Loans and financing	Transaction costs	Debt discounts	Net amount
2013	128,560	(1,689)	(196)	126,675
2014	481,594	(6,382)	(738)	474,474
2015	416,108	(5,739)	(554)	409,815
2016	334,163	(4,976)	(360)	328,827
2017	487,583	(3,660)	(206)	483,717
After 2017	444,906	(2,826)	(99)	441,981
Total	2,292,914	(25,272)	(2,153)	2,265,489

Covenants

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

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

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

Guarantees

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

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

Unused available credit lines

Amaralina Star and Laguna Star Project Financing

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

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

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

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

In connection with this Project Financing, the Group has the contractual commitment with the same financial institutions to contract derivatives as cash flow hedging instrument of the debt in relation to changes in LIBOR. Accordingly, the Group has contracted swaps in connection with the terms and cash flows of the debt as disclosed in Note 15.

On May, June and September, 2012, the first, second and third tranches were disbursed in the total amount of US$203,413, US$323,527 and US$361,112, respectively.

13. PROVISIONS

In the normal course of business the Group engages in contracts with third parties which convey contractual obligations. During 2011 the Group recognized provisions for contractual penalties which are allegedly payable with respect to certain of its contracts. The amount of US$8,468 as of September 30, 2012 and December 31, 2011 corresponds to the contractual penalties of Amaralina Star and Laguna Star.

14. PROVISION FOR RISKS AND CONTINGENCIES

Labor, civil and tax claims

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

Based on the opinions of in-house and external legal counsel, Management recorded a provision to cover the probable losses arising from labor claims. As of September 30, 2012 and December 31, 2011 the provisions for, labor lawsuits included in "other noncurrent liabilities" were mainly related to hardship and retirement.

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

	2012	2011
Balance as of January 1,	156	531
Additions	621	105
Reversals	-	(442)
Currency translation differences	1	(20)
Balance as of September 30,	778	174

b) Claims assessed as possible losses by Management

These claims as at September 30, 2012, based on the in-house and outside legal counsel's opinions, are not accrued in the unaudited condensed interim financial statements and consist of labor lawsuits (comprised mainly by compensation due to accidents at work and occupational diseases) in the amount of US$3,556 (US$3,156 as of December 31, 2011) and tax lawsuits in the amount of US$21,756 (US$23,232 as of December 31, 2011).

The main claims assessed as possible losses are described as follows:

1) The Group received a Notice of Violation issued by Brazilian tax authorities which assumed that the Atlantic Star rig has been imported without a corresponding import license. The tax assessment was judged partly unsuccessful at first instance administrative. It is awaiting trial on appeal. The estimated amount involved is US$18,934 (US$19,184 as of December 31, 2011).

2) The Group received a Notice of Violation issued by Rio de Janeiro tax authorities due to nonpayment of ISS in the city of Rio de Janeiro. The Group argues, on appeal, that the operations tax jurisdiction was carried out in other places and in these collected taxes (ISS due to the site of the service provider). The estimated amount involved is US$2,863 (US$2,871 as of December 31, 2011).

c) Tax, labor and social security matters

The Group enters into transactions and operations that may be interpreted by others subjectively and/or as opposed to the Group position; however, the Group actions are supported by outside legal counsel's opinion.

15. DERIVATIVES

Under the terms of Project Finance arrangements (Note 12), the Group is contractually required to manage its risk on floating interest rates by taking out variable-to-fixed interest rate swaps on its long term variable rate loans. Accordingly, the interest rate swaps contracted by Management convert the variable component of interest rates to fixed rates ranging from 1.50% to 5.16% to mitigate such risk. The floating component of interest rate of all hedging contracts is US$ LIBOR.

These swaps protect the Group from fluctuations in interest rates. As of September 30, 2012, the Group has interest rate swaps related to the loans to fund Olinda Star, Gold Star, Lone Star, and Alpha Star offshore rigs, and Amaralina and Laguna drillships. The swap contracts cover the expected periods of the loans and terminate between 2013 and 2018.

Information on derivative contracts

Interest rate swaps US$ LIBOR/Pre

						Fair value	
	Loans and			Notional amount		Payables	
Banks	financings objective	Payable leg	Maturity	Sep 30, 2012	Dec 31, 2011	Sep 30, 2012	Dec 31, 2011
ING financing (leader arranger)	Gold Star rig construction	5.165% p.a.	Jul, 2017	259,642	291,276	33,596	36,235
ING financing (leader arranger)	Lone Star rig construction	5.165% p.a.	Jan, 2015	287,554	345,873	18,592	24,017
ING financing (leader arranger)	Olinda Star rig construction	3.973% p.a.	Dec, 2013	132,638	174,087	5,112	7,648
Citibank and Santander financing (joint leader arranger)	Alpha Star rig construction	1.930% p.a. *	Jul, 2017	474,643	520,490	21,283	15,894
BNP, Citibank and ING financing (joint leader arranger) (**)	Amaralina Star construction	2.815% p.a.	Oct, 2018	472,711	115,269	38,816	24,155
BNP, Citibank and ING financing (joint leader arranger) (**)	Laguna Star construction	2.900% p.a.	Dec, 2018	460,229	113,157	41,254	25,761
Total amount						158,653	133,710
Current liabilities						43,711	30,806
Noncurrent liabilities						114,942	102,904

	2012	2011
Balance as of January 1,	133,710	89,694
Fair value adjustments capitalized	40,368	7,797
Fair value adjustments through profit and loss	29,537	52,721
Fair value adjustments through other comprehensive loss*	(7,854)	45,189
Settlements	(37,108)	(47,208)
Balance as of September 30,	158,653	148,193

(*) During the period ended September 30, 2011 the fair value adjustments capitalized relates to the subsidiaries Lone and Alpha derivatives since their rigs were under construction and started operation in April, 2011 and July, 2011, respectively. For the period ended September 30, 2012 the derivative contract related to Amaralina Star drilling rig construction and such contract was designated as cash flow hedges. Accordingly, the effect of the changes in the fair value of this derivative contract was recorded in the “Other Comprehensive Loss” until the completion of its construction and the disbursement of the Project Financing (Note 12). After these events, the fair value adjustments balance recognized in “Other Comprehensive Income” was capitalized.

(**) The Group has adopted the hedge accounting as from July 15, 2011, using the contracts mentioned above. Additional information on these instruments is included in Note 22. For the period ended September 30, 2012 the derivative contract related to Laguna Star drilling rig construction and such contract was designated as cash flow hedges. Accordingly, the effective portion of the derivative contract is recorded in the “Other Comprehensive Loss”.

Derivative contracts designated as cash flow hedges

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

In connection with the Project Financing (Note 12) for the construction of the drilling rigs Amaralina Star and Laguna Star, the Group has the contractual commitment with the same financial institutions to contract derivatives as hedging instrument of the debt in relation to changes in LIBOR. Accordingly, the Group has swaps contracts in connection with the rates, spreads, notional, terms and cash flows of the debt. The swap contracts were contracted on July 2011 and will follow the Project Financing terms.

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

Interest rate swaps US$ LIBOR/Pre

				Notional amount		Fair value Payables	
Banks	Loans and financings objective	Payable leg	Maturity	Sep 30, 2012	Dec 31, 2011	Sep 30, 2012	Dec 31, 2011
BNP, Citibank and ING financing (joint leader arranger)*	Amaralina Star construction	2.815%p.a.	Oct, 2018	472,711	115,269	38,816	24,155
BNP, Citibank and ING financing (joint leader arranger)*	Laguna Star construction	2.900%p.a.	Dec, 2018	460,229	113,157	41,254	25,761

Interest rate swap contracts exchanging floating rate interest for fixed rate interest are designated and effective as fair value hedges in respect of interest rates. During the periods presented, the hedge was 100% effective in hedging the fair value.

16. SHAREHOLDER'S EQUITY

Share capital

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

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

Shareholders	Ordinary shares (*)	Share capital	Share premium	Total
Queiroz Galvão Oil & Gas International S.à.r.l	137,168,142	44,762	378,560	423,322
Constellation Coinvestment S.à.r.l.	15,570,123	5,081	42,970	48,051
Constellation Holding S.à.r.l.	17,739,099	5,789	48,957	54,746
Total at September 30, 2012	170,477,364	55,632	470,487	526,119

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

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

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

Legal reserve

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

Dividends policy

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

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

Other Comprehensive Items (OCI)

Hedging reserve

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

Currency translation differences reserve

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

Changes in Other Comprehensive Items

Changes in comprehensive income (loss) for the three and nine month periods ended September 30, 2012 and 2011 are as follows:

	Cash flow hedge fair value adjustments				
	Attributable to owners of the Group	Attributable to non-controlling interest	Total of cash flow hedge fair value adjustments	Currency translation differences	Total
Balances as of June 30, 2011	-	-	-	28,753	28,753
Fair value adjustment on derivative contracts	(24,854)	(20,335)	(45,189)	-	(45,189)
Exchange differences arising during the period	-	-	-	(15,134)	(15,134)
Balances as of September 30, 2011	(24,854)	(20,335)	(45,189)	13,619	(31,570)
Balances as of June 30, 2012	(29,174)	(23,870)	(53,044)	18,279	(34,765)
Fair value adjustment on derivative contracts	(16,162)	(13,224)	(29,386)	-	(29,386)
Amounts transferred to property, plant and equipment	22,202	18,166	40,368	-	40,368
Exchange differences arising during the period	-	-	-	(184)	(184)
Balances as of September 30, 2012	(23,134)	(18,928)	(42,062)	18,095	(23,967)

	Cash flow hedge fair value adjustments				
	Attributable to owners of the Group	Attributable to non-controlling interest	Total of cash flow hedge fair value adjustments	Currency translation differences	Total
Balances as of December 31, 2010	-	-	-	27,670	27,670
Fair value adjustment on derivative contracts	(24,854)	(20,335)	(45,189)	-	(45,189)
Exchange differences arising during the period	-	-	-	(14,051)	(14,051)
Balances as of September 30, 2011	(24,854)	(20,335)	(45,189)	13,619	(31,570)
Balances as of December 31, 2011	(27,454)	(22,462)	(49,916)	22,132	(27,784)
Fair value adjustment on derivative contracts	(17,882)	(14,632)	(32,514)	-	(32,514)
Amounts transferred to property, plant and equipment	22,202	18,166	40,368	-	40,368
Exchange differences arising during the period	-	-	-	(4,037)	(4,037)
Balances as of September 30, 2012	(23,134)	(18,928)	(42,062)	18,095	(23,967)

Non-controlling interest

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

Profit (loss) per share

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

	For the three month period ended September 30,		For the nine month period ended September 30,	
	2012	2011	2012	2011
Net income (loss) attributable to the owners of the Company	45,865	(21,058)	112,901	(20,863)
Weighted average number of ordinary shares for calculation purposes (thousands of shares) (*)	170,477	170,477	170,477	170,477
Basic and diluted profit (loss) per share	0.269	(0.124)	0.662	(0.122)

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

The Group has no potential dilutive shares. Diluted profit (loss) per share is therefore equal to basic profit (loss) per share.

17. NET OPERATING REVENUE

Operating revenue of the Group is derived mainly from rig charter and drilling services. As of September 30, 2012, of the total of revenues, 94% (94% in September 30, 2011) is derived from one client, Petrobras.

Net operating revenue is stated after the following items:

	For the three month period ended September 30,		For the nine month period ended September 30,	
	2012	2011	2012	2011
Operating revenue	206,005	184,707	596,951	432,916
Taxes on revenue:				
PIS	(988)	(1,027)	(3,002)	(2,460)
COFINS	(4,551)	(4,797)	(13,827)	(11,404)
ISS	(1,319)	(1,437)	(4,176)	(3,713)
Net operating revenue	199,147	177,446	575,946	415,339

18. COSTS OF SERVICES AND OPERATING EXPENSES

	For the three month period ended September 30,					
	2012			2011		
Costs and expenses by nature	Costs of services	General and administrative expenses	Total	Costs of services	General and administrative expenses	Total
Payroll, charges and benefits	(42,946)	(6,853)	(49,799)	(51,339)	(4,667)	(56,006)
Depreciation	(39,824)	(275)	(40,099)	(39,010)	(312)	(39,322)
Materials	(5,695)	-	(5,695)	(18,351)	-	(18,351)
Maintenance	(9,010)	-	(9,010)	(12,549)	-	(12,549)
Insurance	(3,786)	-	(3,786)	(2,893)	-	(2,893)
Other (*)	(8,259)	(3,231)	(11,490)	(9,606)	(4,527)	(14,133)
	(109,520)	(10,359)	(119,879)	(133,748)	(9,506)	(143,254)

	For the nine month period ended September 30,					
	2012			2011		
Costs and expenses by nature	Costs of services	General and administrative expenses	Total	Costs of services	General and administrative expenses	Total
Payroll, charges and benefits	(128,561)	(18,323)	(146,884)	(118,236)	(12,829)	(131,065)
Depreciation	(118,510)	(863)	(119,373)	(91,517)	(944)	(92,461)
Materials	(30,409)	-	(30,409)	(36,266)	-	(36,266)
Maintenance	(26,638)	-	(26,638)	(28,876)	-	(28,876)
Insurance	(9,699)	-	(9,699)	(7,479)	-	(7,479)
Other (*)	(28,664)	(12,284)	(40,948)	(32,080)	(8,326)	(40,406)
	(342,481)	(31,470)	(373,951)	(314,454)	(22,099)	(336,553)

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

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

19. OTHER INCOME (EXPENSES), NET

	For the three month period ended September 30,		For the nine month period ended September 30,	
	2012	2011	2012	2011
Revenue from sales of property, plant and equipment	-	124	1,364	485
Contractual fee	1,269	62	1,514	295
Other	95	26	153	60
Other income	1,364	212	3,031	840
Reversal of (provision for) penalties (*)	-	220	-	(10,686)
Cost of property, plant and equipment sold	-	(26)	(1,202)	(297)
Other	-	2	-	(397)
Other expenses	-	196	(1,202)	(11,380)
Total other income (expenses), net	1,364	408	1,829	(10,540)

(*) Refer to provisions for contractual penalties relating to certain contracts (Note 11).

20. FINANCIAL EXPENSES, NET

	For the three month period ended September 30,		For the nine month period ended September 30,	
	2012	2011	2012	2011
Interest on short-term investments	747	434	2,504	900
Financial income from related parties	50	466	951	560
Exchange rate variations	166	2,265	3,325	3,117
Other financial income	15	298	15	467
Financial income	978	3,463	6,795	5,044
Financial charges on loans and financings	(19,939)	(18,045)	(58,954)	(30,759)
Derivative expenses	(12,725)	(34,723)	(29,537)	(52,721)
Financial expenses from related parties	(196)	(2,654)	(2,157)	(8,116)
Exchange rate variations	(415)	(1,726)	(4,831)	(3,462)
Other financial expenses	(2,868)	(1,679)	(5,513)	(2,696)
Financial expenses	(36,143)	(58,827)	(100,992)	(97,754)
Financial expenses, net	(35,165)	(55,364)	(94,197)	(92,710)

21. TAXES

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

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

a) Recoverable taxes

	September 30, 2012	December 31, 2011
Taxes on revenue (PIS/COFINS) (*)	-	868
Corporate income tax (IRPJ) and social contribution (CSLL) (*)	5,549	152
Other	-	94
Total	5,549	1,114

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

b) Taxes payables

	September 30, 2012	December 31, 2011
Income tax (IRPJ) and social contribution (CSLL)	4,181	1,583
Services Tax (ISS)	206	1,038
State VAT (ICMS)	1,356	301
Others	2	66
Total	5,745	2,988

c) Deferred tax assets

	September 30, 2012	December 31, 2011
Taxes on revenue (PIS/COFINS)	403	528
Total	403	528
Current	153	163
Non-current	250	365

d) Deferred tax liabilities

	September 30, 2012	December 31, 2011
Corporate income tax (IRPJ) and social contribution (CSLL) (*)	7,658	9,415
Total	7,658	9,415

(*) Deferred tax liabilities related to deemed cost.

e) Effect of income tax results

	For the three month period ended September 30,		For the nine month period ended September 30,	
	2012	2011	2012	2011
Profit (loss) before taxes	46,098	(20,101)	112,043	(23,943)
Income tax effects of businesses subjected to taxes (QGOG - 34%)	(110)	(1,806)	(781)	(1,449)
Non-deductible expenses	(85)	(3)	(88)	(50)
Tax loss carryforwards utilized (not recognized)	(385)	404	(189)	192
Other	362	448	362	576
Tax	(218)	(957)	(696)	(731)
Effective tax rate	68%	18%	30%	2%

As of September 30, 2012 and December 31, 2011, the subsidiary QGOG has tax loss carryforwards in the amount of US$10,409 and US$12,053, respectively, for which no deferred tax assets are recorded since the Group does not expect that QGOG's operations will generate taxable income in the foreseeable future.

22. FINANCIAL INSTRUMENTS

a) General considerations

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

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

		September 30, 2012		December 31, 2011	
	Category	Carrying amount	Fair value	Carrying amount	Fair value
<u>Financial assets</u>					
Cash and bank deposits	Loans and receivables	55,603	55,603	5,240	5,240
Cash equivalents	Fair value through profit or loss	221,083	221,083	183,698	183,698
Short-term investments	Fair value through profit or loss	116,078	116,078	138,672	138,672
Restricted cash	Fair value through profit or loss	17,871	17,871	26,325	26,325
Trade and other receivables	Loans and receivables	119,607	119,607	57,827	57,827
Related parties	Loans and receivables	252,165	252,165	173,945	173,945
<u>Financial liabilities</u>					
Loans and financing	Other financial liabilities	3,336,180	3,366,604	2,440,522	2,451,469
Trade and other payables	Other financial liabilities	27,651	27,651	27,899	27,899
Related parties	Other financial liabilities	183,091	183,091	134,917	134,917
Derivatives	Fair value through profit or loss	158,653	158,653	133,710	133,710

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

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

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

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

b) Fair value hierarchy

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

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

IFRS 7 also establishes a hierarchy of three levels to be used to measure and disclose the fair value. A categorization tool in the fair value hierarchy is based on the lowest level of “input” significant for its measurement. A description of the three hierarchical levels is shown below:

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

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

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

According to IAS 39, the Group measures its cash equivalents, short-term investments and derivative financial instruments at fair value. Cash equivalents and short-term investments are classified as Level 1 as they are measured using market prices for similar instruments.

The tables below present our assets and liabilities recorded at fair value as of September 30, 2012 and December 31, 2011:

	September 30, 2012		
	Fair value	Quoted prices for identical assets or liabilities (Level 1)	Other observable inputs for assets and liabilities (Level 2)
Financial assets			
Cash equivalents	221,083	221,083	-
Short-term investments	116,078	116,078	-
Restricted cash	17,871	17,871	-
Financial liabilities			
Derivatives	158,653	-	158,653

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

Financial instruments fair value measurement

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

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

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

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

- Trade and other receivables and payables: very short term of maturity; and
- Loans and financing (other than the senior notes issued by QGOG Atlantic / Alaskan Rigs Ltd) and related parties: the fact that fair value information has not been disclosed for these instruments because fair value cannot be measured reliably.

c) Financial risk management

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

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of directors, which has built a liquidity risk management framework for the management of the Group's short and long-term funding and liquidity management requirements. The Group manages liquidity risk by a combination of maintaining adequate reserves, banking facilities and reserve borrowing facilities (Note 12) 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 September 30, 2012, the Group presents working capital deficiency in the amount of US$575,974 (US$1,090,080 as of December 31, 2011), mainly as a result of investments during the last 2 years in onshore and offshore rigs and drillship equipment. The Group strategy in relation to this working capital deficiency is described in Note 1.

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

Period	Loans and financing	Derivatives	Trade payables	Related parties	Total
Next 3 months of 2012	585,363	15,217	27,651	6,430	634,661
2013	728,055	53,340	-	-	781,395
2014	547,021	37,982	-	-	585,003
2015	469,592	25,020	-	-	494,612
2016	379,158	15,144	-	-	394,302
2017	520,987	6,626	-	-	527,613
After 2017	468,461	1,829	-	361,928	832,218
Total	3,698,637	155,158	27,651	368,358	4,249,804

Credit risk

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

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

Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts. The Group is exposed to fluctuations in US$ LIBOR interest rates charged on its loans and financings as reported in Note 15. As discussed in Note 15, the Group manages this interest rate risk by taking out variable-to-fixed interest rate swaps. As a result of the swaps in place at the balance sheet date, the Group's exposure to changes in interest rate expense as a result of fluctuations in US$ LIBOR is in respect of changes in fair values of the respective interest rate swaps. As discussed in Note 15, these interest rates swaps are held at fair value in the balance sheet. The fair value of these instruments is affected by factors including market expectations for future changes to US$ LIBOR. Changes to these expectations affect the value of the swaps of the Group and its subsidiaries, producing effects in the statement of operations unless such changes are capitalized.

Interest rate sensitivity analysis

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

If the US$ LIBOR had been 0.1 basis point higher/lower and all other variables were held constant, the Group's:

- Profit for the three month period ended September 30, 2012 would increase/ decrease by US$894 (US$20 for the same period ended in 2011) and for the nine month period ended September 30, 2012 would increase/ decrease by US$964 (US$47 for the same period ended in 2011). This mainly attributable to the Group's exposure to interest rates on its variable rate borrowings (US$ LIBOR plus spread); and
- Other comprehensive income (loss) for the three month period ended September 30, 2012 would decrease/increase by US$723 (US$228 for the same period ended in 2011) and for the nine month period ended September 30, 2012 would decrease/increase by US$933 (US$228 for the same period ended in 2011), mainly as a result of the changes in the fair value of the cash flow hedges.

d) Capital management

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

	September 30, 2012	December 31, 2011
Loans and financings (a)	3,336,180	2,440,522
Cash transactions (b)	(410,635)	(353,935)
Net debt	2,925,545	2,086,587
Shareholders' equity (c)	1,237,592	1,122,436
Net debt ratio [(a) + (b)] ÷ [(a) + (b) + (c)]	70%	65%

(a) Consider all loans and financings.

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

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

23. INSURANCE

As of September 30, 2012 and December 31, 2011, major assets or interests covered by insurance and respective amounts are summarized below:

	September 30, 2012	December 31, 2011
Civil liability	1,969,699	1,401,324
Operating risks	5,661,044	4,086,175
Operational headquarter and others	9,652	8,930

The Group has insurance coverage for assets subject to risks in amounts considered sufficient by Management to cover possible losses, considering the nature of its activities.

24. PENSION PLAN

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

The amount of US$297 recognized in the account "Payroll and related taxes" for the three month period ended September 30, 2012 (US$86 for the same period ended in 2011) and the amount of US$1,054 for the nine month period ended September 30, 2012 (US$701 or the same period ended in 2011), refers to contributions payable by QGOG at rates specified by the rules of these plans.

25. ADDITIONAL INFORMATION ON CASH FLOWS

	For the nine month period ended September 30,	
	2012	2011
Non-cash investing activities:		
Recognition of accrued costs of drilling rigs and drillships under construction	-	446,612
Borrowing costs capitalized, net of hedging adjustments	52,180	34,821
	52,180	481,433

26. SEASONALITY

There is no seasonality impact over the Company´s charter and drilling services.

27. SUBSEQUENT EVENTS

Corporate Bond

On November 9, 2012, the Company issued Senior Unsecured Notes in the amount of US$700 million (US$ 683.3 million net of commissions and expenses). The Senior Unsecured Notes bear interest at 6.25%p.a., which the Company will pay semi-annually on May and November of each year, beginning in May 2013. The Senior Unsecured Notes will mature in November 2019.

The Senior Unsecured Notes are guaranteed on a senior unsecured basis by Constellation. In addition, the Company established an interest reserve account in favor of the collateral agent, which was fully funded in an amount sufficient to provide for the payment of the next two succeeding interest payments.

The Company used the net proceeds from the Senior Unsecured Notes to repay Constellation's working capital loans with Bradesco and Itaú BBA, and the excess proceeds will be used for general corporate purposes.

Samsung Letter of Intent

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

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

On January 16, 2013, the Company executed an amendment to the letter of intent with Samsung, through one of its subsidiaries, granting the Company a right to exercise an option to enter into an additional contract with Samsung to design, construct, build and complete an additional ultra-deepwater drillship. The Company expects the delivery of the drillship by March 2015, and the total project cost of this drillship to be generally consistent with the project cost of the drillship of the first option.

Laguna Star Drillship

The Laguna Star drillship commenced operations on November 20, 2012.

Project Finance of Amaralina and Laguna

In December, 2012, the fourth tranche was disbursed in the amount of US$29,626.

Onshore drilling contract signed with Shell

On December 19, 2012, the Company signed a contract with Shell to provide onshore drilling services in the São Francisco Basin, Brazil, using the onshore rig QG-I. Management expects to begin providing these services during the second half of 2013, after the expiration of the current contract for the QG-I rig with OGX.

Concurrent Private Placement

On January 17, 2013, QGOG Constellation entered into a share exchange agreement with Delba and its shareholders in which Delba agreed to exchange its 45% equity interest in Amaralina Star Ltd. and Laguna Star Ltd. for 3,580,026 common shares of QGOG Constellation, which will represent 2.1% of QGOG Constellation's common shares (without taking into account the common shares it will issue in the Initial Public Offering described below), together with cancellation of Delba's loans with the Company. QGOG Constellation's shareholders will transfer these shares to the Company to implement the exchange with Delba concurrently with the completion of the Initial Public Offering through a private placement that will not be registered under the U.S. Securities Act of 1933, as amended. Upon this transfer, the Company will own 100% of the equity interest in Amaralina Star Ltd. and Laguna Star Ltd. Pursuant to paragraph 30 and 31 of IAS 27, the acquisition of the non-controlling interests in these entities will be accounted for as equity transactions with no impact on the Company's assets, liabilities or results of operations.

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

Initial Public Offering

On January 7, 2013, QGOG Constellation filed its registration statement with the U.S. Securities and Exchange Commission ("SEC") in connection with its Initial Public Offering ("IPO") of 27,500,000 common shares, which are expected to commence trading after the SEC completes its review process and the offering is consummated. After the pricing, it is expected that the common shares will trade on the New York Stock Exchange. The Company has granted the underwriters an option to purchase a maximum of 4,125,000 additional common shares from the Company, at the public offering price, less the underwriting discount, for 30 days after the date of this prospectus. This process is in progress and it is expected that the closing will occur in February 2013.

The Company's share capital will consist of 197,977,364 common shares, after its proposed initial public offering, assuming no exercise of the underwriters' option to purchase additional common shares. If the underwriters exercise their option to purchase additional common shares in full, QGOG Constellation will have 202,102,364 common shares issued and outstanding.

Share Split

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

Share Dividend

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

Legal Reserve

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

Share-based Compensation ("Incentive Compensation Plan")

On January 29, 2013, the Company's general meeting of shareholders approved the QGOG Constellation S.A. 2013 Incentive Compensation Plan, or the 2013 Incentive Compensation Plan, under which the Company will grant equity-based awards to its directors, officers and certain employees.

The plan is intended to retain and attract individuals and to further Company's growth, development and financial success by aligning the personal interests of the participants of this plan, through the ownership of Company's shares and other incentives, with Company's interests and those of its shareholders. Awards granted under the 2013 Incentive Compensation Plan may be incentive stock options, non-statutory stock options, restricted stock, restricted stock units or other share-based awards.

The maximum number of shares that may be delivered in satisfaction of awards under the 2013 Incentive Compensation Plan will be approximately 5% of Company's outstanding shares (after the consummation of the initial public offering), subject to customary adjustments.