

QGOG Constellation S.A.

*Condensed Consolidated Interim
Financial Information for the Six
Month Period Ended June 30, 2012*

Deloitte Touche Tohmatsu Auditores Independentes

Atendimento Prisma

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 statement of financial position of QGOG Constellation S.A. (the “Company”) as of June 30, 2012 and the related condensed consolidated statements of operations, comprehensive income, changes in shareholder’s equity and cash flows for the six-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 June 30, 2012, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34 *Interim Financial Reporting*, as issued by the IASB.



DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Rio de Janeiro, Brazil
October 18, 2012

QGOG CONSTELLATION S.A.UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2012
(in thousands of US\$)

<u>ASSETS</u>	<u>Note</u>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
CURRENT ASSETS			
Cash and cash equivalents	3	864,744	188,938
Short-term investments	4	72,418	138,672
Restricted cash	5	12,083	26,325
Trade and other receivables	6	64,552	57,827
Inventories	7	82,624	69,964
Recoverable taxes	21.a	4,498	1,114
Deferred mobilization costs		7,962	7,962
Deferred taxes	21.c	153	163
Receivables from related parties	8	622	360
Other current assets		31,250	16,388
		<u>1,140,906</u>	<u>507,713</u>
NON-CURRENT ASSETS			
Receivables from related parties	8	190,048	173,585
Other noncurrent assets		463	6,944
Investments in joint ventures	9	25,338	22,981
Deferred mobilization costs		25,931	29,912
Deferred taxes	21.c	288	365
Property, plant and equipment, net	10	4,087,122	3,992,601
		<u>4,329,190</u>	<u>4,226,388</u>
TOTAL ASSETS		<u>5,470,096</u>	<u>4,734,101</u>

(continues)

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QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2012
(in thousands of US\$)

<u>LIABILITIES AND SHAREHOLDERS EQUITY</u>	<u>Note</u>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
CURRENT LIABILITIES			
Loans and financing	12	999,286	731,190
Accrued liabilities	11	412,714	722,536
Payroll and related taxes		42,332	36,101
Derivatives	15	36,228	30,806
Trade and other payables	11	452,407	27,900
Payables to related parties	8	6,169	4,278
Taxes payables	21.b	4,829	2,988
Provisions	13	8,468	8,468
Deferred mobilization revenue		13,696	13,800
Other current liabilities		24,374	19,725
		<u>2,000,503</u>	<u>1,597,792</u>
NON-CURRENT LIABILITIES			
Loans and financing	12	2,025,839	1,709,332
Payables to related parties	8	107,992	130,639
Derivatives	15	92,910	102,904
Deferred income taxes	21.d	8,041	9,415
Deferred mobilization revenue		43,024	49,872
Other non-current liabilities		10,874	11,711
		<u>2,288,680</u>	<u>2,013,873</u>
SHAREHOLDER'S EQUITY			
Capital	16	55,632	131,045
Share premium	16	470,487	395,082
Other reserves		(10,895)	(5,322)
Retained earnings		694,939	627,903
Equity attributable to the owners of the Group		<u>1,210,163</u>	<u>1,148,708</u>
Non-controlling interest		(29,250)	(26,273)
		<u>1,180,913</u>	<u>1,122,435</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u><u>5,470,096</u></u>	<u><u>4,734,101</u></u>

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

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
 FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2012 AND 2011
 (in thousands of US\$, except for the earnings per thousand shares)

		<u>June 30,</u>	
	<u>Note</u>	<u>2012</u>	<u>2011</u>
NET OPERATING REVENUE	17	376,799	237,893
COSTS OF SERVICES	18	<u>(232,961)</u>	<u>(180,706)</u>
GROSS PROFIT		143,838	57,187
General and administrative expenses	18	(21,111)	(12,593)
Other income	19	1,667	628
Other expenses	19	<u>(1,202)</u>	<u>(11,576)</u>
OPERATING PROFIT		123,192	33,646
Financial income	20	5,817	1,581
Financial costs	20	<u>(64,849)</u>	<u>(38,927)</u>
FINANCIAL COSTS, NET		(59,032)	(37,346)
Shares of results of joint ventures	9	1,785	(142)
PROFIT (LOSS) BEFORE TAXES		65,945	(3,842)
Taxes	21.e	<u>(478)</u>	<u>226</u>
PROFIT (LOSS) FOR THE PERIOD		<u><u>65,467</u></u>	<u><u>(3,616)</u></u>
Net income attributed to the owners of the Group		67,036	195
Loss attributed to non-controlling interest		(1,569)	(3,811)
Earnings per share			
Basic	16	1.205	0.003
Diluted	16	1.205	0.003

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

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
 FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2012 AND 2011
 (In thousands of U.S. dollars)

		<u>June 30,</u>	
	<u>Note</u>	<u>2012</u>	<u>2011</u>
PROFIT (LOSS) FOR THE PERIOD		65,467	(3,616)
OTHER COMPREHENSIVE INCOME (LOSS)			
Cash flow hedge fair value adjustments	15	(3,128)	-
Currency translation differences		(3,853)	1,083
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		<u>58,486</u>	<u>(2,533)</u>
Income attributed to the owners of the Company		61,463	1,278
Loss attributed to non-controlling interest		(2,977)	(3,811)

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

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QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2012
(In thousands of U.S. dollars)

	Note	Constellation Overseas Ltd. Capital	QGOG Constellation S.A. Capital	Total Capital	Share premium	Cash flow hedges fair value adjustments	Other reserves			Shareholders equity attributable to controlling interest	Shareholders equity attributable to non-controlling interest	Total of shareholders equity
							Currency translation differences	Retained earnings	Shareholders equity attributable to controlling interest			
BALANCES AS OF DECEMBER 31, 2011												
Capital reduction	16	-	58	131,045	395,082	(27,454)	22,132	627,903	1,148,708	(26,273)	1,122,435	
Capital exchange	16	(130,987)	(8)	(8)	-	-	-	-	(8)	-	(8)	
Profit for the period			55,582	(75,405)	75,405	-	-	-	-	-	-	
Other comprehensive loss for the period			-	-	-	(1,720)	(3,853)	67,036	67,036	(1,569)	65,467	
Total comprehensive income (loss) for the period			-	-	-	(1,720)	(3,853)	67,036	(5,573)	(1,408)	(6,981)	
BALANCES AS OF JUNE 30, 2012												
		-	55,632	55,632	470,487	(29,174)	18,279	694,939	1,210,163	(29,250)	1,180,913	

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

QOGOG CONSTELLATION S.A.

UNAUDITED CONDENSED COMBINED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2011
(In thousands of U.S. dollars)

	<u>Other reserves</u>							Total of shareholders equity
	Constellation Overseas Ltd. Capital	Total Capital	Share premium	Currency translation differences	Retained earnings	Shareholders equity attributable to controlling interest	Shareholders equity attributable to non-controlling interest	
BALANCES AS OF DECEMBER 31, 2010	130,987	130,987	395,082	27,670	673,238	1,226,977	-	1,226,977
Profit (loss) for the period	-	-	-	-	195	195	(3,811)	(3,616)
Other comprehensive income for the period	-	-	-	1,083	-	1,083	-	1,083
Total comprehensive income for the period	-	-	-	1,083	195	1,278	(3,811)	(2,533)
BALANCES AS OF JUNE 30, 2011	130,987	130,987	395,082	28,753	673,433	1,228,255	(3,811)	1,224,444

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

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE SIX MONTH PERIOD ENDED JUNE 31, 2012 AND 2011
(in thousands of U.S. dollars)

CASH FLOWS FROM OPERATING ACTIVITIES	Note	June 30,	
		2012	2011
Profit (loss) for the period		65,467	(3,616)
Adjustments for:			
Depreciation of property, plant and equipment	10/18	79,274	53,139
Gain on disposals of property, plant and equipment	19	(162)	(90)
Shares of results of joint ventures	9	(1,785)	142
Provisions for penalties	13/19	-	10,906
Recognition of mobilization costs		3,981	2,235
Recognition of mobilization revenues		(6,865)	(3,031)
Financial charges on loans and financings	12/20	39,015	12,715
Financial expenses from related parties, net	12/20	1,060	5,368
Derivative contracts	15/20	16,812	17,998
Other financial expenses, net	20	2,145	1,265
Taxes	21.c	478	(226)
		<u>199,420</u>	<u>96,805</u>
Changes in working capital:			
(Increase)/decrease in short-term investments		63,840	(67,522)
Decrease in restricted cash		14,242	757
(Increase) in trade and other receivables		(8,410)	(19,950)
(Increase)/decrease in receivables from related parties		(300)	93
(Increase) in inventories		(15,276)	(32,185)
(Increase) in recoverable taxes		(3,753)	(1,590)
(Increase) in deferred mobilization cost		-	(18,534)
(Increase) in other assets		(9,537)	(11,356)
Increase in payroll and related charges		9,567	13,846
(Decrease) in trade and other payables		(2,158)	(11,118)
Increase/(decrease) in payables to related parties		(6)	526
Increase in taxes payables		837	364
Increase in deferred mobilization revenue		-	41,377
Increase in other liabilities		7,005	20,920
Net cash generated by operating activities		<u>255,471</u>	<u>12,433</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans to related parties		(106,090)	(72,155)
Proceeds from related parties		91,536	-
Acquisition of property, plant and equipment	10	(56,167)	(181,233)
Proceeds from sales of property, plant and equipment	19	1,364	361
Net cash used in investing activities		<u>(69,357)</u>	<u>(253,027)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Payments to related parties		(91,536)	-
Proceeds from related parties		67,855	7,343
Proceeds from loans and financing, net of transactions costs and debt discount	12	734,809	865,717
Interest paid on loans and financing	12	(33,856)	(28,221)
Cash payments on derivatives contracts	15	(24,512)	(27,186)
Repayment of principal on loans and financing	12	(160,439)	(575,484)
Net cash generated by (used in) financing activities		<u>492,321</u>	<u>242,169</u>
Increase in cash and cash equivalents		<u>678,435</u>	<u>1,575</u>
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		<u>(2,629)</u>	<u>(7,813)</u>
Cash and cash equivalents at end of the period		<u>864,744</u>	<u>78,063</u>

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

QGOG CONSTELLATION S.A.NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL
INFORMATION FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2012

(Expressed in thousands of US dollars - US\$, unless otherwise stated)

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 condensed consolidated interim financial information includes QGOG Constellation S.A 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 400,000 ordinary shares to US\$50 represented by 50,000 ordinary shares. On the same date, in exchange for the contribution of Constellation Overseas Ltd. (“Constellation”), QGOG Constellation issued 55,582,446 ordinary shares with a nominal value of US\$1 per share, representing an exchange ratio of one ordinary share of QGOG Constellation for each share of Constellation. As a result, QGOG Constellation S.A. owns indirectly Constellation Overseas Ltd. 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 a substantial part of the corporate reorganization which is related to its directly wholly owned subsidiaries. This restructuring will 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 will continue to wholly-own, directly and indirectly, the entities which own the drilling rigs.
- Arazi S.à.r.l, 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 will indirectly wholly-own certain entities that are party to Constellation's offshore charter agreements with Petróleo Brasileiro S.A. ("Petrobras").
- Centaurus S.à.r.l., a currently wholly-owned subsidiary of Constellation, is 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 will hold a 15% equity interest in three Special Purpose Entities, each with an ultra-deepwater semi-submersible rigs (Urca, Bracuhy and Mangaratiba) in partnership with Sete Brasil.

The corporate reorganization is driven by improved 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	Under mobilization
Laguna Star (4)	Drillship	Under construction

- (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, and is currently in transit from the shipyard in South Korea to Brazil, where it will operate. Amaralina Star is expected to start its operations in the last quarter of 2012.
- (4) Laguna Star is currently under construction in partnership with Delba as described in Note 11. Laguna Star is expected to start its operations in the last quarter of 2012.

As of June 30, 2012, the Group presents working capital deficiency in the amount of US\$859,597 (US\$1,090,079 in 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 June 30, 2012 is principally related to accrued liabilities in the amount of US\$412,714 (US\$722,536 in December 31, 2011) related to the construction of the Laguna Star drillship (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. Given the Group significant backlog of US\$7,448,964 (which includes US\$505,407 of bonus performance) relating to existing contracts as of June 30, 2012, Management is also exploring other opportunities to obtain additional long-term financing.

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

FPSO Cidade de Ilhabela

On March 20, 2012, Arazi and Lancaster, Constellation’s subsidiaries, signed a shareholders’ agreement with SBM and 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.

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 Standards (“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 Management. The unaudited interim condensed consolidated financial information was prepared based on historical cost, except for certain financial liabilities, which are measured at fair value.

The unaudited interim condensed consolidated 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 understanding 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 the unaudited condensed consolidated interim financial information.

The unaudited condensed consolidated financial information as of June 30, 2012 and for the six months period 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 S.A. and the consolidated financial statements of Constellation Overseas Ltd and its subsidiaries.

2.2. Statements of compliance

The condensed consolidated interim financial information was prepared as of June 30, 2012 and for the six month period then ended in accordance with International Accounting Standards (IAS) 34, related to interim financial statements, as issued by the International Accounting Standards Board (IASB).

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

These 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 June 30, 2012.

3. CASH AND CASH EQUIVALENTS

	June 30, <u>2012</u>	December 31, 2011 <u> </u>
Cash and bank deposits	581,903	5,240
Cash equivalents	<u>282,841</u>	<u>183,698</u>
Total	<u>864,744</u>	<u>188,938</u>

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.

As described in Note 12, on May 31 and June 27, 2012 amounts referring to the first and second tranches regarding Amaralina Star and Laguna Star project financings were disbursed. A substantial part of this amount (US\$427,636) was used in July 2012, for the payment of the construction of Amaralina Star drillship as described in Note 27.

The amounts of cash equivalents are presented below:

<u>Cash equivalents</u>	<u>Financial Institution</u>	Average interest rate (per annum)	June 30, <u>2012</u>	December 31, 2011 <u> </u>
Time deposits	Itau BBA Nassau	0.12% - 1.00%	186,341	73,544
Time deposits	Bradesco S.A. Grand Cayman	0.70% - 0.90%	<u>96,500</u>	<u>110,154</u>
Total			<u>282,841</u>	<u>183,698</u>

4. SHORT-TERM INVESTMENTS

	June 30, <u>2012</u>	December 31, 2011 <u> </u>
Time deposits	42,599	125,038
Bank deposits certificates	29,819	7,498
Repurchase agreements	<u>-</u>	<u>6,136</u>
Total	<u>72,418</u>	<u>138,672</u>

<u>Short-term investments</u>	<u>Financial Institution</u>	<u>Average interest rate (per annum)</u>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Time deposits	Deutsche Bank	0.28%	-	24,074
Time deposits	Bradesco S.A. Grand Cayman	2.20%	35,471	35,000
Time deposits	Itaú BBA Nassau	2.52%	7,128	7,000
Time deposits	ING Bank	0.34%	-	35,876
Time deposits	Citibank	0.13%	-	23,088
Bank deposit certificates	Bradesco S.A.	99.5% - 100.0% of CDI(*)	24,828	2,142
Bank deposit certificates	Banco do Nordeste - BNB	101.5% of CDI(*)	4,991	5,356
Repurchase agreements (**)	Bradesco S.A.	99.5% of CDI(*)	-	6,136
Total			<u>72,418</u>	<u>138,672</u>

(*) 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 (after operating expenditures and servicing or payment of debt) is held in designated reserve accounts, up to a level determined in relation to future debt servicing requirements on that financing arrangement.

Cash in these accounts may be only used for servicing or payment of debt. 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:

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Bank deposits	12,083	-
Time deposits	-	26,325
Total	<u>12,083</u>	<u>26,325</u>

<u>Restricted cash</u>	<u>Financial Institution</u>	<u>Average interest rate (per annum)</u>	<u>December 31, 2011</u>
Time deposits	ING Bank	0.48%	26,325
Total			<u>26,325</u>

6. TRADE AND OTHER RECEIVABLES

	June 30, <u>2012</u>	December 31, 2011 <u> </u>
Trade receivables	64,523	57,747
Other receivables	<u>29</u>	<u>80</u>
Total trade and other receivables	<u>64,552</u>	<u>57,827</u>

Trade receivables principally 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.

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.

Atendimento Prisma

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 June 30, 2012 and December 31, 2011, respectively, and the intercompany transactions for the six month periods ended June 30, 2012 and 2011, are as follows:

	As of June 30, 2012		For the six month period ended June 30, 2012		As of December 31, 2011		For the six month period ended June 30, 2011	
	Assets	Liabilities	Income/(expenses)	Liabilities	Assets	Liabilities	Income/(expenses)	Income/(expenses)
Delba (a)	107,928	107,928	-	-	130,639	130,639	-	-
FPSO Cidade de Paraty (b)	42,784	-	803	-	34,310	-	-	-
FPSO Cidade de Ilhabela (b)	34,746	-	-	-	4,062	-	-	-
QG S.A. (c)	-	6,169	(1,961)	4,208	-	-	(5,462)	470
Queiroz Galvão Exploração e Produção S.A. ("QGEP") (f)	27	-	14	-	44	-	-	946
Manati S.A. ("Manati") (f)	595	-	279	-	316	-	-	-
FPSO Capixaba (d)	869	-	-	-	869	-	-	-
Espírito do Mar (e)	3,665	-	98	-	3,567	-	-	94
Other	56	64	-	-	138	70	-	-
Total	<u>190,670</u>	<u>114,161</u>	<u>(767)</u>	<u>134,917</u>	<u>173,945</u>	<u>134,917</u>	<u>(3,952)</u>	<u>(3,952)</u>
Total current	622	6,169	-	-	360	4,278	-	-
Total noncurrent	190,048	107,992	-	-	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 ("Amaralina") and the Laguna Star ("Laguna"), 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 in last quarter of 2012.

The outstanding principal on the loans receivable bears interest at 12% per annum, compounded annually, up to the sixth anniversary of the sub-charter contract with Petrobras. Thereafter, the loans receivable will bear interest at 13% per annum, 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 paid in full. 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 June 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 at June 30, 2012 in the amount of US\$42,784 (US\$34,310 in December 31, 2011) and US\$34,746 (US\$4,062 in December 31, 2011) refer to milestones payments made by Constellation in proportion with its participation in the Project Cidade de Paraty and Project Cidade Ilhabela, respectively. The loan with respect to FPSO Cidade de Paraty bears interest rate at LIBOR plus 3% per annum with no maturity date.

On June 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 amount of US\$18 million and US\$28 million, respectively, corresponding to the percentage of interest in these investees.

- (c) The amount of US\$6,169 (US\$4,208 in 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.

QGOG Constellation S.A.

- (d) Loans bearing interest at LIBOR plus 0.5% per annum 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% per annum 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 Queiroz Galvão Óleo e Gás S.A. (“QGOG”), Manati 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 six month periods ended June 30,	
	<u>2012</u>	<u>2011</u>
Key management personnel compensation	3,346	4,443

All key management personnel compensation refers to short term benefits.

The cash compensation for each member of senior management is principally comprised of base salary and bonus. The compensation that is paid to our 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 and Group growth. Members of our senior management team are also eligible to participate in our retirement savings plans, described below under Pension Plan as described in Note 24.

This above 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 his nomination as Chief Executive Officer in March 2010. The total amount of this contract was US\$1,790. At 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 IN JOINT VENTURES

	June 30, 2012		December 31, 2011	
	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.
Number of shares	100	100	100	100
Indirect interest	20%	20%	20%	20%
Authorized share capital	82	88	82	88
Current assets	16,350	30,074	3,822	30,339
Noncurrent assets	-	340,265	6,333	356,560
Current liabilities	16,680	62,084	13,906	46,586
Noncurrent liabilities	9,753	180,847	3,475	225,407
Shareholder's equity (deficit)	(10,083)	126,688	(7,226)	114,906

	For the six month periods ended			
	June 30, 2012		June 30, 2011	
	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.
Net income (loss)	(2,858)	11,783	(8,909)	8,201

	For the six month period ended June 30, 2012			For the six month period ended June 30, 2011		
	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Total	FPSO Capixaba Venture S.A.	SBM Espírito do Mar Inc.	Total
Opening balance	(1,446)	22,981	21,535	1,348	19,159	20,507
Share of results	(572)	2,357	1,785	(1,782)	1,640	(142)
Closing balance	(2,018)	25,338	23,320	(434)	20,799	20,365
Assets (Interests in joint ventures)	-	25,338	25,338	-	20,985	20,985
Liabilities (Accumulated deficit in joint ventures) (*)	(2,018)	-	(2,018)	(434)	-	(434)

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

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.

10. PROPERTY, PLANT AND EQUIPMENT

	Equipment under construction	Equipment in operation										Total	
		Alaskan Star Rig	Atlantic Star Rig	Alpha Star Rig	Gold Star Rig	Lone Star Rig	Olinda Rig	Onshore drilling rigs	Corporate				
<u>Cost</u>													
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	364,587	2,024	21,019	-	4,858	-	2,943	22,508	5,178	423,117			
Disposals	-	-	-	-	-	-	-	(51)	(301)	(352)			
Transfers	(662,349)	-	-	-	-	639,844	-	22,139	366	-			
Currency translation differences	-	-	-	-	-	-	-	6,446	2,234	8,680			
Balance as of June, 30, 2011	<u>1,213,898</u>	<u>376,042</u>	<u>340,984</u>	-	<u>534,986</u>	<u>639,844</u>	<u>530,858</u>	<u>182,253</u>	<u>31,485</u>	<u>3,850,350</u>			
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	175,948	34	41	348	6	99	177	1,224	1,178	179,055			
Disposals	-	(1,052)	(49)	-	-	-	(64)	-	(191)	(1,356)			
Currency translation differences	-	-	-	-	-	-	-	(6,698)	(1,147)	(7,845)			
Balance as of June 30, 2012	<u>1,142,794</u>	<u>377,690</u>	<u>334,560</u>	<u>718,984</u>	<u>536,707</u>	<u>639,943</u>	<u>531,250</u>	<u>165,363</u>	<u>29,351</u>	<u>4,476,642</u>			

	Equipment in operation										Total
	Equipment under construction					Onshore drilling rigs					
	Alaskan Star Rig	Atlantic Star Rig	Alpha Star Rig	Gold Star Rig	Lone Star Rig	Olinda Rig	Onshore drilling rigs	Corporate			
Accumulated depreciation											
Balance as of December 31, 2010	-	(33,707)	(45,338)	-	(23,949)	-	(36,562)	(13,098)	(45,342)	(197,996)	
Depreciation	-	(8,504)	(8,094)	-	(12,473)	(7,034)	(11,190)	(708)	(5,136)	(53,139)	
Disposals	-	-	-	-	-	-	-	66	15	81	
Currency translation differences	-	-	-	-	-	-	-	(553)	(2,943)	(3,496)	
Balance as of June 30, 2011	-	<u>(42,211)</u>	<u>(53,432)</u>	-	<u>(36,422)</u>	<u>(7,034)</u>	<u>(47,752)</u>	<u>(14,293)</u>	<u>(53,406)</u>	<u>(254,550)</u>	
Balance as of December 31, 2011	-	(50,782)	(51,929)	(16,271)	(24,894)	(59,019)	(51,019)	(14,515)	(6,520)	(314,187)	
Depreciation	-	(8,306)	(7,642)	(16,452)	(16,330)	(11,449)	(6,520)	(1,257)	(1,257)	(79,274)	
Disposals	-	-	-	-	-	-	-	154	-	154	
Currency translation differences	-	-	-	-	-	-	-	392	3,395	3,787	
Balance as of June 30, 2012	-	<u>(59,088)</u>	<u>(59,571)</u>	<u>(32,723)</u>	<u>(41,224)</u>	<u>(70,468)</u>	<u>(54,144)</u>	<u>(15,226)</u>	<u>(15,226)</u>	<u>(389,520)</u>	
Property, plant and equipment, net											
December 31, 2011	966,846	327,926	282,639	702,365	614,950	472,118	119,818	14,996	119,818	3,992,601	
June 30, 2012	1,142,794	318,602	274,989	686,261	598,719	460,782	111,219	14,125	111,219	4,087,122	
Average useful life (years)		22	21	22	22	24	17	15	17	15	

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

Cost	Equipment under construction					Total
	Alpha Star Rig		Drillships (a)	Onshore drilling rigs		
	Star Rig	Lone Star Rig		Star Rig	drilling rigs	
Balance as of December 31, 2010	654,803	618,726	215,626	22,505	1,511,660	
Additions	53,104	21,118	290,365	-	364,587	
Transfers	-	(639,844)	-	(22,505)	(662,349)	
Balance as of June 30, 2011	<u>707,907</u>	<u>-</u>	<u>505,991</u>	<u>-</u>	<u>1,213,898</u>	
Balance as of December 31, 2011	-	-	966,846	-	966,846	
Additions	-	-	175,948	-	175,948	
Balance as of June 30, 2012	<u>-</u>	<u>-</u>	<u>1,142,794</u>	<u>-</u>	<u>1,142,794</u>	

(a) In June, 2012, Amaralina Star and Laguna Star drillships were under construction by third party shipyard, with delivery scheduled for the third and the last quarter of 2012, respectively. The construction of Amaralina Star was concluded on July 4, 2012 and is currently in transit to Brazil where it will operate.

Borrowing costs capitalized in property, plant and equipment for the six month period ended June 30, 2012 was US\$5,074 (US\$30,666 for the same period ended in 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.

On June 30, 2012 the Group's capital commitment related to the conclusion of the construction of the drillship Laguna Star, is in the amount remaining of US\$18 million.

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:

	June 30, 2012	December 31, 2011
Equipment under construction:		
Amaralina Star	-	379,693
Laguna Star	<u>412,714</u>	<u>342,843</u>
Total	<u>412,714</u>	<u>722,536</u>

In June, 2012 the Company reclassified US\$427,636 from Accrued Liabilities to Trade and Other Payables relating to Amaralina Star construction costs billed by Samsung shipyard in connection with the issuance of the invoice and the completeness of the construction (Note 27).

Atendimento Prisma

12. LOANS AND FINANCINGS

Financial institution	Funding type	Objective	Beginning period	Maturity	Contractual interest rate	Effective interest rate	Currency	Jun 30, 2012	Dec 31, 2011
Bradesco	Loan	Working capital	During 2011	Within 1 year	2.03% p.a. to 3.94% p.a.	2.73% p.a.	US dollars	403,187	283,683
Banco do Brasil	Loan	Working capital	During 2011	Within 1 year	1.48% p.a. to 2.55% p.a.	2.54% p.a.	US dollars	125,533	123,954
Itau BBA	Loan	Working capital	During 2012	Within 1 year	Libor + 2.95% p.a. to Libor + 1.15% p.a.	4.02% p.a.	US dollars	90,151	-
ING (leader arranger)	Financing	Gold Star rig construction	Jul, 2007	Jan, 2015	to Libor + 2.65% p.a. ⁽¹⁾ to Libor + 1.15% p.a.	3.08% p.a.	US dollars	295,486	311,036
ING (leader arranger)	Financing	Lone Star rig construction	Jul, 2007	Dec, 2017	Libor + 1.15% p.a. to Libor + 2.15% p.a. ⁽²⁾	1.58% p.a.	US dollars	323,803	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. to Libor + 1.40% p.a.	5.55% p.a.	US dollars	615,111	660,245
ING (leader arranger)	Financing	Olinda Star rig construction	Feb, 2008	Jul, 2014	to Libor + 1.75% p.a. ⁽³⁾ to Libor + 2.25% p.a.	1.83% p.a.	US dollars	178,551	205,003
Citibank and Santander (joint leader arrangers)	Financing	Alpha Star rig construction	Apr, 2011	Jul, 2017	to Libor + 2.50% p.a. ⁽⁴⁾	4.91% p.a.	US dollars	482,931	492,097
BNP, Citi and ING (leader arrangers)	Financing	Amaralina Star drillship construction	May, 2012	Oct, 2018 ⁽⁵⁾	Libor + 2.75% p.a. to Libor + 2.75% to Libor + 3.00% p.a.	3.50% p.a.	US dollars	259,661	-
The Norwegian Ministry of Trade and Industry ("MTI")	Financing	Amaralina Star drillship construction	May, 2012	Oct, 2018 ⁽⁵⁾	Libor + 3.00% p.a. ⁽⁶⁾	3.50% p.a.	US dollars	157,474	-
BNP, Citi and ING (leader arrangers)	Financing	Laguna Star drillship construction	May, 2012	Dec, 2018 ⁽⁵⁾	Libor + 2.75% p.a. to Libor + 2.75% to Libor + 3.00% p.a. ⁽⁶⁾	3.50% p.a.	US dollars	55,408	-
The Norwegian Ministry of Trade and Industry ("MTI")	Financing	Laguna Star drillship construction	May, 2012	Dec, 2018 ⁽⁵⁾	Libor + 3.00% p.a. ⁽⁶⁾	3.50% p.a.	US dollars	37,829	-
Total								3,025,125	2,440,522
Current								999,286	731,190
Non current								2,025,839	1,709,332

- (1) In pre-completion period the interest is Libor + 2.15% p.a. until September, 2009 and thereafter Libor + 2.65% p.a. and in post-completion is Libor + 1.15% p.a. until the fifth anniversary and thereafter is Libor + 1.35% p.a.
- (2) In pre-completion period the interest is Libor + 2.15% p.a. and in post-completion (December 24, 2010) is Libor + 1.15% p.a.
- (3) In pre-completion period the interest is Libor + 1.75% p.a. and in post-completion (December 23, 2010) is Libor + 1.40% p.a.
- (4) In pre-completion period the interest is Libor + 2.25% p.a. and in post-completion (July, 2011) is Libor + 2.50% p.a.
- (5) The maturity dates are estimated based on the expected completion of the drillships. 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.
- (6) 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

	For the six month period ended <u>June 30, 2012</u>	For the six month period ended <u>June 30, 2011</u>
Opening balance	2,440,522	2,006,349
Additions	752,024	875,779
Repayment of principal	(160,439)	(575,484)
Transaction costs	(17,215)	(10,062)
Interest capitalized	5,074	18,648
Interest charged through profit and loss	36,383	11,222
Payment of interest	(33,856)	(28,221)
Transaction cost charged through profit and loss	2,071	1,492
Debt discounts charged through profit and loss (*)	<u>561</u>	<u>-</u>
Closing balance	<u>3,025,125</u>	<u>2,299,725</u>

(*) Refer to the appropriation to profit and loss accounts of the discount on the Senior Notes issued by QGOG Atlantic / Alaskan for refinance of Alaskan Star and Atlantic Star.

Loans and financing long term amortization schedule

<u>For the years ending December 31,</u>	<u>Loans and financing</u>	<u>Transaction costs</u>	<u>Debt discounts</u>	<u>Net amount</u>
2013	200,003	(3,171)	(434)	196,398
2014	446,682	(5,956)	(738)	439,988
2015	376,651	(5,495)	(554)	370,602
2016	291,853	(4,904)	(360)	286,589
2017	356,278	(3,960)	(206)	352,112
After 2017	<u>381,418</u>	<u>(1,181)</u>	<u>(87)</u>	<u>380,150</u>
Total	<u>2,052,885</u>	<u>(24,667)</u>	<u>(2,379)</u>	<u>2,025,839</u>

Covenants

The financing agreements contain financial covenants as well as security 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: a minimum requirement of Consolidated Tangible Net Worth, and Consolidated Cash and Cash Equivalents and Marketable Securities; 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 - with no guarantee provided by Constellation); 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 Constellation Overseas Ltd. 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 at June 30, 2012, 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, assignment of the relevant insurances along with corporate guarantees during pre-completion period and accounts into which the amounts payable under charter and services agreements are required to be paid. 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 Paribas (“BNP”), ING Capital LLC (“ING”) and Citigroup Global Markets Inc. (“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 will be provided by the Bank Syndicate, in the amount of US\$593,863, and The Norwegian Ministry of Trade and Industry (“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 and premium 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 rates and spreads, terms and cash flows of the debt as disclosed in Note 15.

On May 31, 2012 and on June 27, 2012 the first and second tranches were disbursed in the total amount of US\$203,413 and US\$323,527, 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 June 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 June 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:

	For the six month period ended June 30, 2012	For the six month period ended June 30, 2011
Opening balance	156	486
Additions	6	105
Reversals	(2)	(354)
Currency translation differences	<u>(14)</u>	<u>21</u>
Closing balance	<u>146</u>	<u>258</u>

b) Claims assessed as possible losses by Management

These claims as at June 30, 2012, based on the in-house and outside legal counsel's opinions, are not accrued in the financial statements and consist of labor lawsuits (comprised mainly by compensation due to accidents at work and occupational diseases) in the amount of US\$3,572 (US\$3,156 in December 31, 2011) and tax lawsuits in the amount of US\$22,367 (US\$23,232 in 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 platform Atlantic Star 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 amount involved is estimated in US\$18,652 (US\$19,184 in December 31, 2011).
- 2) The Group received a Notice of Violation issued by Rio de Janeiro tax authorities due to nonpayment of ISS in the city of Rio de Janeiro. The Group argues, on appeal, that the operations tax jurisdiction was carried out in other places and in these collected taxes (ISS due to the site of the service provider). The amount involved is estimated in US\$2,819 (US\$2,871 in December 31, 2011).

c) Tax, labor and social security matters

The Group enters into transactions and operations that may be interpreted by others subjectively and/or as opposed to the Group 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 1.93% 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 June 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							
Banks	Loans and financings objective	Payable leg	Maturity	Notional amount		Fair value	
				Jun 30, 2012	Dec 31, 2011	Payables	
						Jun 30, 2012	Dec 31, 2011
ING financing (leader arranger)	Gold Star rig construction	5.165% p.a.	Jul, 2017	270,441	291,276	32,851	36,235
ING financing (leader arranger)	Lone Star rig construction	5.165% p.a.	Jan, 2015	307,299	345,873	18,780	24,017
ING financing (leader arranger)	Olinda Star rig construction	3.973% p.a.	Dec, 2013	146,666	174,087	5,350	7,648
Citibank and Santander financing (joint leader arranger)	Alpha Star rig construction	1,930% p.a. *	Jul, 2017	489,383	520,490	19,113	15,894
BNP, Citibank and ING financing (joint leader arranger) (**)	Amaralina Star construction	2.815% p.a.	Oct, 2018	106,952	115,269	25,982	24,155
BNP, Citibank and ING financing (joint leader arranger) (**)	Laguna Star construction	2.900% p.a.	Dec, 2018	103,192	113,157	<u>27,062</u>	<u>25,761</u>
Total amount						<u>129,138</u>	<u>133,710</u>
Current liabilities						36,228	30,806
Noncurrent liabilities						92,910	102,904
				For the six month period ended June 30, 2012		For the six month period ended June 30, 2011	
Opening balance				133,710		89,694	
Fair value adjustments capitalized (*)				-		12,018	
Fair value adjustments through profit and loss				16,812		17,998	
Fair value adjustments through other comprehensive loss (**)				3,128		-	
Settlements				<u>(24,512)</u>		<u>(27,186)</u>	
Closing balance				<u>129,138</u>		<u>92,525</u>	

(*) During the period ended June 30, 2011 the fair value adjustments capitalized relates to the subsidiaries Lone and Alpha swap contracts effects since their rigs were under construction. These two drilling rigs started their operations during the second semester of 2011. For the period ended June 30, 2012 the derivative contracts relates to Amaralina Star and Laguna Star drilling rigs construction and such contracts were designated as cash flow hedges. Accordingly, the effects of these derivative contracts are recorded in the "Other Comprehensive Loss".

(**) 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.

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 flow 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 all the Project Financing terms. The Project Financing was signed on March 27, 2012. The first and second tranches in the amounts of US\$203,413 and US\$323,527 were disbursed on May 31, 2012 and on June 27, 2012, respectively.

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							
Banks	Loans and financings objective	Payable leg	Maturity	Notional amount		Fair value	
				Jun 30, 2012	Dec 31, 2011	Jun 30, 2012	Dec 31, 2011
BNP, Citibank and ING financing (joint leader arranger)*	Amaralina Star construction	2.815%p.a.	Oct, 2018	106,952	115,269	25,982	24,155
BNP, Citibank and ING financing (joint leader arranger)*	Laguna Star construction	2.900%p.a.	Dec, 2018	103,192	113,157	27,062	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

QGOG Constellation S.A.

Share capital

The share capital of the QGOG Constellation was US\$58 (equivalent to historical value of €40) represented by 400,000 ordinary shares with a par value of €0.10 each, subscribed by Orangefield Trust (Luxembourg) S.A. As of August 30, 2011, 400,000 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 400,000 ordinary shares to US\$50 represented by 50,000 ordinary shares. On the same date, in exchange for the contribution of Constellation in the amount of US\$130,987, QGOG Constellation issued 55,582,446 ordinary shares with a nominal value of US\$1 per share, 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. For purposes of the presentation of earnings per share, the Company has retrospectively reflected this reorganization in arriving at the per share numbers in these condensed consolidated financial information.

Shareholders	Ordinary shares	Share capital	Share premium	Total
Queiroz Galvão Oil & Gas International S.à.r.l	44,762,537	44,762	378,560	423,322
Constellation Coinvestment S.à.r.l.	5,081,050	5,081	42,970	48,051
Constellation Holding S.à.r.l.	5,788,859	5,789	48,957	54,746
Total at June 30, 2012	<u>55,632,446</u>	<u>55,632</u>	<u>470,487</u>	<u>526,119</u>

The Company's ultimate controlling party is the Queiroz Galvão family, who control 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. ("the Funds"), respectively. The Funds 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 our 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.

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.

Non-controlling interest

The Group condensed consolidated interim financial information 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 per share

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

	For the six month period ended June 30, 2012	For the six month period ended June 30, 2011
Net income attributable to the owners of the Company	67,036	195
Weighted average number of ordinary shares for calculation purposes (thousands of shares)	<u>55,632</u>	<u>55,632</u>
Basic and diluted profit per share	<u>1.205</u>	<u>0.003</u>

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

17. NET OPERATING REVENUE

Operating revenue in the amount of US\$390,946 (US\$248,209 in the first six months of 2011) of the Group is derived principally from rig charter and related services. As of June 30, 2012, of the total of revenues, 93% (94% in June 30, 2011) is derived from one client, Petrobras.

Net operating revenue is stated after the following items:

	For the six month period ended June 30	
	<u>2012</u>	<u>2011</u>
Operating revenue	390,946	248,209
Taxes on revenue:		
PIS	(2,014)	(1,433)
COFINS	(9,276)	(6,607)
ISS	<u>(2,857)</u>	<u>(2,276)</u>
Net operating revenue	<u>376,799</u>	<u>237,893</u>

18. COSTS OF SERVICES AND OPERATING EXPENSES

Costs and expenses by nature	For the six month period ended June 30,					
	2012			2011		
	Costs of services	General and administrative expenses	Total	Costs of services	General and administrative expenses	Total
Payroll, charges and benefits	(85,615)	(11,470)	(97,085)	(66,897)	(8,162)	(75,059)
Depreciation	(78,686)	(588)	(79,274)	(52,507)	(632)	(53,139)
Materials	(24,714)	-	(24,714)	(17,915)	-	(17,915)
Maintenance	(17,628)	-	(17,628)	(16,327)	-	(16,327)
Insurance	(5,913)	-	(5,913)	(4,586)	-	(4,586)
Other (*)	(20,405)	(9,053)	(29,458)	(22,474)	(3,799)	(26,273)
	<u>(232,961)</u>	<u>(21,111)</u>	<u>(254,072)</u>	<u>(180,706)</u>	<u>(12,593)</u>	<u>(193,299)</u>

(*) Comprised mainly of costs and expenses with: communication; transportation; information technology; legal advisors; auditors; advisory services; among others.

19. OTHER EXPENSES, NET

	For the six month period ended June 30,	
	<u>2012</u>	<u>2011</u>
Revenue from sales of property, plant and equipment	1,364	361
Tax fee	245	233
Other	<u>58</u>	<u>34</u>
Other income	1,667	628
Penalties (*)	-	(10,906)
Costs of property, plant and equipment sold	(1,202)	(271)
Other	<u>-</u>	<u>(399)</u>
Other expenses	<u>(1,202)</u>	<u>(11,576)</u>

(*) Refer to provisions for contractual penalties relating to certain contracts (Note 13).

20. FINANCIAL COSTS, NET

	For the six month period ended June 30,	
	<u>2012</u>	<u>2011</u>
Interest on short-term investments	1,757	466
Financial income from related parties	901	94
Exchange rate variations	3,159	852
Other financial income	<u>-</u>	<u>169</u>
Financial income	<u>5,817</u>	<u>1,581</u>
Financial charges on loans and financings	(39,015)	(12,715)
Loss arising from derivative instruments	(16,812)	(17,998)
Financial costs from related parties	(1,961)	(5,462)
Exchange rate variations	(4,416)	(1,736)
Other financial costs	<u>(2,645)</u>	<u>(1,016)</u>
Financial costs	<u>(64,849)</u>	<u>(38,927)</u>
Financial costs, net	<u>(59,032)</u>	<u>(37,346)</u>

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

	June 30, 2012	December 31, 2011
Taxes on revenue (PIS/COFINS) (*)	-	868
Corporate income tax (IRPJ) and social contribution (CSLL) (*)	4,498	152
Other	-	94
Total	<u>4,498</u>	<u>1,114</u>

(*) Credits refer basically to withholding taxes on Petrobras invoices.

b) Taxes payables

	June 30, 2012	December 31, 2011
Corporate income tax (IRPJ) and social contribution (CSLL)	2,330	1,583
Services Tax (ISS)	1,271	1,038
Taxes on revenue (PIS/COFINS)	999	-
State VAT (ICMS)	226	301
Others	3	66
Total	<u>4,829</u>	<u>2,988</u>

c) Deferred taxes

	June 30, 2012	December 31, 2011
Taxes on revenue (PIS/COFINS)	441	528
Total	<u>441</u>	<u>528</u>
Current	153	163
Non-current	288	365

d) Deferred income taxes

	June 30, 2012	December 31, 2011
Corporate income tax (IRPJ) and social contribution (CSLL)	<u>8,041</u>	<u>9,415</u>
Total	<u>8,041</u>	<u>9,415</u>

e) Effect of income tax results

	For the six month period ended June 30,	
	2012	2011
Profit (loss) before taxes	65,945	(3,842)
Taxed on the outcome (0%)	-	-
Income tax effects of businesses subjected to taxes ("QGOG" - 34%)	(671)	357
Non-deductible expenses	(3)	(47)
Tax loss carryforwards utilized (not recognized)	196	(212)
Other	-	128
Tax	<u>(478)</u>	<u>226</u>
Effective tax rate	24%	-1%

At June 30, 2012 and December 31, 2011, the subsidiary QGOG has tax loss carryforwards in the amount of US\$10,658 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:

Category	June 30, 2012		December 31, 2011		
	Carrying amount	Fair value	Carrying amount	Fair value	
<u>Financial assets</u>					
Cash and cash equivalents	Fair value through profit loss	864,744	864,744	188,938	188,938
Short-term investments	Fair value through profit loss	72,418	72,418	138,672	138,672
Restricted cash	Fair value through profit loss	12,083	12,083	26,325	26,325
Trade and other receivables	Loan and receivables	64,552	64,552	57,827	57,827
Related parties	Loan and receivables	190,670	190,670	173,945	173,945
<u>Financial liabilities</u>					
Loans and financing	Not measured at fair value	3,025,125	3,052,916	2,440,522	2,451,469
Trade and other payables	Not measured at fair value	452,407	452,407	27,899	27,899
Related parties	Not measured at fair value	114,161	114,161	134,917	134,917
Derivatives	Fair value through profit loss	129,138	129,138	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 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 shows, in summary, our assets and liabilities recorded at fair value as of June 30, 2012 and December 31, 2011:

	June 30, 2012		
	Fair value	Quoted prices for identical assets or liabilities (Level 1)	Other observable inputs for assets and liabilities (Level 2)
<u>Financial assets</u>			
Cash equivalents	282,841	282,841	-
Short-term investments	72,418	72,418	-
Restricted cash	12,083	12,083	-
<u>Financial liabilities</u>			
Derivatives	129,138	-	129,138
	December 31, 2011		
	Fair value	Quoted prices for identical assets or liabilities (Level 1)	Other observable inputs for assets and liabilities (Level 2)
<u>Financial assets</u>			
Cash equivalents	183,698	183,698	-
Short-term investments	138,672	138,672	-
Restricted cash	26,325	26,325	-
<u>Financial liabilities</u>			
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 estimative to achieve the fair value. Consequently, the estimative 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 June 30, 2012, the Group presents working capital deficiency in the amount of US\$859,597 (US\$1,090,079 in 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:

<u>Period</u>	<u>Loans and financing</u>	<u>Derivatives</u>	<u>Trade payables</u>	<u>Related parties</u>	<u>Total</u>
Next 6 months of 2012	645,462	28,795	452,407	6,169	1,132,833
2013	663,082	51,208	-	-	714,290
2014	503,701	36,324	-	-	540,025
2015	422,684	23,190	-	-	445,874
2016	329,372	13,745	-	-	343,117
2017	381,720	6,179	-	-	387,899
After 2017	396,623	2,189	-	225,515	624,327
Total	<u>3,342,644</u>	<u>161,630</u>	<u>452,407</u>	<u>231,684</u>	<u>4,188,365</u>

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 six month period ended June 30, 2012 would increase/ decrease by US\$70 (US\$27 in the first six months of 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 six month period ended June 30, 2012 would decrease/increase by US\$210, 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:

	June 30, 2012	December 31, 2011
Loans and financings (a)	3,025,125	2,440,522
Cash transactions (b)	<u>(949,245)</u>	<u>(353,935)</u>
Net debt	2,075,880	2,086,587
Shareholders' equity (c)	<u>1,180,914</u>	<u>1,122,435</u>
Net debt ratio	<u>64%</u>	<u>65%</u>

(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 at June 30, 2012 and December 31, 2011, major assets or interests covered by insurance and respective amounts are summarized below:

	June 30, 2012	December 31, 2011
Civil liability	1,399,789	1,401,324
Operating risks	3,739,571	4,086,175
Operational headquarter and others	8,631	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 level of seniority. 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\$757 for the period ended June 30, 2012 (US\$615 in June 30, 2011) recognized in the account "Payroll and related taxes", refers to contributions payable by QGOG at rates specified by the rules of these plans.

25. ADDITIONAL INFORMATION ON CASH FLOWS

	For the six month period ended June 30,	
	<u>2012</u>	<u>2011</u>
Non-cash investing activities:		
Recognition of accrued costs of drilling rigs and drillships under construction	117,814	211,218
Borrowing costs capitalized, net of hedging adjustments	<u>5,074</u>	<u>30,666</u>
	<u>122,888</u>	<u>241,883</u>

26. SEASONALITY

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

27. SUBSEQUENT EVENTS

New partnership with Petrobras and Sete Brasil

On August 3, 2012, Angra signed three shareholders agreements to acquire a 15% equity interest in three special purpose companies, 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.

Amaralina Star drillship construction payments to Samsung shipyard

Amaralina Star had its construction concluded in July 2012 in partnership with Alperton Capital Limited ("Delba") as described in Note 10, and is currently in transit from the shipyard in South Korea to Brazil, where it will operate. Amaralina Star is expected to start its operations in the last quarter of 2012.

The payments for the construction of Amaralina Star drillship was made on July 2, 2012 in the amount of US\$427,636.