

(A free translation of the original in Portuguese)

# **Sete Brasil Participações S.A.**

**Consolidated and parent  
company financial statements  
at December 31, 2014  
and independent auditors' report**



## **Independent auditor's report on parent company and consolidated financial statements**

To the Board of Directors and Shareholders  
Sete Brasil Participações S.A.

We have audited the accompanying financial statements of Sete Brasil Participações S.A. ("Company" or "Parent Company"), which are comprised of the balance sheet as at December 31, 2014 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

We have also audited the accompanying consolidated financial statements of Sete Brasil Participações S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2014 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

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

### **Auditor's responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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Sete Brasil Participações S.A.

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

**Opinion on the parent company financial statements**

In our opinion, the parent company financial statements referred to above present fairly, in all material respects, the financial position of Sete Brasil Participações S.A. as at December 31, 2014, and its financial performance and its cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.

**Opinion on the consolidated financial statements**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sete Brasil Participações S.A. and its subsidiaries as at December 31, 2014, and their financial performance and their cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil.

**Emphasis of matter**

We draw attention to Note 1 to the financial statements, which states that the Company has excess liabilities over current assets at the end of the fiscal year in the amount of R\$ 15,583 million, which includes loans overdue since January 2015 and not offset in the amount of R\$ 664 million. This situation raises a significant doubt about the ability of the Company to continue as a going concern. Management's plan to raise long-term funds is described in Note 1. Our opinion is not qualified in respect of this matter.

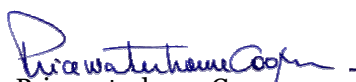
We also draw attention to the Note 21 (a) which describes the impacts of the investigation called "Operação Lava Jato" in the Company. Our opinion is not qualified in respect of this matter.


**Other matters**

**Supplementary information - statements of value added**

We also have audited the parent company and consolidated statements of value added for the year ended December 31, 2014, which are the responsibility of the Company's management. The presentation of these statements is required by the Brazilian corporate legislation for listed companies, but they are considered supplementary information for IFRS. These statements were subject to the same audit procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Rio de Janeiro, March 27, 2015

  
PricewaterhouseCoopers  
Auditores Independentes  
CRC 2SP000160/O-5 "F" RJ

  
Marcos Donizete Panassol  
Contador CRC 1SP155975/O-8 "S" RJ

# Sete Brasil Participações S.A.

## Balance sheets at December 31 In thousands of reais

(A free translation of the original in Portuguese)

| Assets   | Note       | Parent            |                  | Consolidated      |                   | Liabilities and equity                     | Note  | Parent company    |                  | Consolidated      |                   |
|--|------------|-------------------|------------------|-------------------|-------------------|--|-------|-------------------|------------------|-------------------|-------------------|
|  |            | 2014              | 2013             | 2014              | 2013              |  |       | 2014              | 2013             | 2014              | 2013              |
| <b>Current</b>                                 |            |                   |                  |                   |                   | <b>Current</b>                             |       |                   |                  |                   |                   |
| Cash and cash equivalents                      | 6          | 51,642            | 197,548          | 412,416           | 1,002,476         | Suppliers and other accounts payable       | 13    | 8,608             | 7,376            | 2,418,425         | 1,516,756         |
| Restricted funds                               | 7          | -                 | 476,004          | 4,172             | 476,004           | Borrowings and financing                   | 15    | 0                 | -                | 11,201,552        | 8,478,432         |
| Recoverable taxes                              |            | 21,425            | 8,790            | 21,507            | 8,865             | Debentures                                 | 15    | 2,376,130         | -                | 2,376,130         | -                 |
| Sundry advances                                |            | 594               | 572              | 594               | 572               | Social and labor obligations               | 14    | 25,209            | 19,002           | 25,209            | 19,002            |
|  |            |                   |                  |                   |                   | Tax obligations                            |       | 481               | 420              | 504               | 420               |
|  |            | <u>73,661</u>     | <u>682,914</u>   | <u>438,689</u>    | <u>1,487,917</u>  |  |       | <u>2,410,428</u>  | <u>26,798</u>    | <u>16,021,820</u> | <u>10,014,610</u> |
| <b>Non-current</b>                             |            |                   |                  |                   |                   | <b>Non-current</b>                         |       |                   |                  |                   |                   |
| Long-term receivables                          |            |                   |                  |                   |                   | Suppliers and other payables               | 13    | -                 | -                | 181,544           | 381,443           |
| Prepaid expenses                               | 8          | 9,040             | 15,268           | 313,773           | 215,225           | Borrowings and financing                   | 15    | -                 | -                | -                 | 295,221           |
| Related parties                                | 19(c.ii;d) | 1,579,012         | 1,446,624        | 7,689             | 4,874             | Debentures                                 | 15    | -                 | 2,050,519        | -                 | 2,050,519         |
| Shipbuilding Guarantee Fund (FGCN) Investments | 9          | -                 | -                | 55,893            | 41,384            |  |       |                   |                  |                   |                   |
|  |            | <u>1,588,052</u>  | <u>1,461,892</u> | <u>377,355</u>    | <u>261,483</u>    |  |       | <u>-</u>          | <u>2,050,519</u> | <u>181,544</u>    | <u>2,727,183</u>  |
| <b>Investments</b>                             | 10         | 8,397,331         | 2,665,037        | -                 | -                 | <b>Total liability</b>                     |       | <u>2,410,428</u>  | <u>2,077,317</u> | <u>16,203,364</u> | <u>12,741,793</u> |
| Property, plant and equipment                  | 12         | 6,191             | 7,888            | 23,330,582        | 13,952,276        | <b>Equity</b>                              |       |                   |                  |                   |                   |
| Intangible assets                              | 11         | 4,213             | 4,897            | 4,213             | 4,897             | Attributed to the owners of parent company |       |                   |                  |                   |                   |
|  |            | <u>9,995,787</u>  | <u>4,139,714</u> | <u>23,712,150</u> | <u>14,218,656</u> | Share capital                              | 16(a) | 6,368,500         | 2,529,500        | 6,368,500         | 2,529,500         |
|  |            |                   |                  |                   |                   | Share issue expenses                       | 16(a) | (56,994)          | (50,766)         | (56,994)          | (50,766)          |
|  |            |                   |                  |                   |                   | Revenue reserve                            | 16(b) | 930,359           | 109,742          | 930,359           | 109,742           |
|  |            |                   |                  |                   |                   | Carrying value adjustment                  |       | 417,155           | 156,836          | 417,155           | 156,836           |
|  |            |                   |                  |                   |                   | <b>Total Company equity</b>                |       | <u>7,659,020</u>  | <u>2,745,311</u> | <u>7,659,020</u>  | <u>2,745,311</u>  |
|  |            |                   |                  |                   |                   | <b>Non-controlling interests</b>           |       |                   |                  | <u>288,455</u>    | <u>219,469</u>    |
|  |            |                   |                  |                   |                   | <b>Total equity</b>                        |       | <u>7,659,020</u>  | <u>2,745,311</u> | <u>7,947,475</u>  | <u>2,964,780</u>  |
| <b>Total assets</b>                            |            | <u>10,069,448</u> | <u>4,822,628</u> | <u>24,150,839</u> | <u>15,706,573</u> | <b>Total liabilities and equity</b>        |       | <u>10,069,448</u> | <u>4,822,628</u> | <u>24,150,839</u> | <u>15,706,573</u> |

The administration's explanatory notes are an integral part of these financial statements.

# Sete Brasil Participações S.A.

## Statements of Income Years ended December 31 In thousands of reais

(A free translation of the original in Portuguese)

|  | Note | Parent         |                | Consolidated     |                  |
|--|------|----------------|----------------|------------------|------------------|
|  |      | 2014           | 2013           | 2014             | 2013             |
| Administrative expenses  | 17   | (127,402)      | (84,861)       | (144,515)        | (97,461)         |
| Equity in the results of subsidiaries  | 10   | 802,409        | 191,408        | -                |                  |
| Other expenses   |      | (1,833)        | (2,619)        | (3,211)          | (6,689)          |
| <b>Operational income (loss)</b>   |      | <b>673,174</b> | <b>103,928</b> | <b>(147,726)</b> | <b>(104,150)</b> |
| Finance income   | 18   | 164,498        | 93,183         | 34,554           | 39,677           |
| Finance costs  | 18   | (17,057)       | (2,688)        | (33,930)         | (39,251)         |
| Exchange and monetary variations   | 18   | 2              | 2              | 866,319          | 262,676          |
| <b>Net finance result</b>  |      | <b>147,443</b> | <b>90,497</b>  | <b>866,943</b>   | <b>263,102</b>   |
| <b>Profit for the year</b>   |      | <b>820,617</b> | <b>194,425</b> | <b>719,217</b>   | <b>158,952</b>   |
| <b>Attributable to</b>   |      |                |                |                  |                  |
| Owners of the Company  |      |                |                | 820,617          | 194,425          |
| Non-controlling interest   |      |                |                | (101,400)        | (35,473)         |
|  |      |                |                | 719,217          | 158,952          |
| <b>Earnings per share attributable to Company shareholders for the period (expressed in R\$ per share)</b> |      |                |                | 820,617          | 194,425          |
| <b>Basic and diluted earnings per share (Note 16 f)</b>  |      |                |                | 0.17             | 0.08             |

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## Sete Brasil Participações S.A.

### Statements of comprehensive income Years ended December 31

In thousands of reais

(A free translation of the original in Portuguese)

|  | <u>Parent company</u> |                | <u>Consolidated</u> |                 |
|--|-----------------------|----------------|---------------------|-----------------|
|  | <u>2014</u>           | <u>2013</u>    | <u>2014</u>         | <u>2013</u>     |
| <b>Profit (loss) for the year</b>                            | 820,617               | 194,425        | 719,217             | 158,952         |
| <b>Other comprehensive results</b>                           |                       |                |                     |                 |
| Items to be subsequently reclassified to income              |                       |                |                     |                 |
| Foreign exchange variation gains on investees located abroad | 256,694               | 151,550        | 308,024             | 182,020         |
| Gain on assets available for sale                            | 4,059                 | (7,259)        | 4,830               | (8,607)         |
| Carrying value adjustments                                   | (434)                 | 18,154         | -                   | -               |
| <b>Total comprehensive result for the year</b>               | <u>1,080,936</u>      | <u>356,870</u> | <u>1,032,071</u>    | <u>332,365</u>  |
| <b>Attributable to:</b>                                      |                       |                |                     |                 |
| Owners of the Company  |                       |                | 1,080,935           | 356,870         |
| Non-controlling interest                                     |                       |                | <u>(48,864)</u>     | <u>(24,505)</u> |
|  |                       |                | <u>1,032,071</u>    | <u>332,365</u>  |

The administration's explanatory notes are an integral part of these financial statements.

# Sete Brasil Participações S.A.

## Statement of changes in equity In thousands of reais

(A free translation of the original in Portuguese)

|  | Attributed to the owners of parent company |                      |                  |                      |                            | Non-controlling interests | Equity         |                  |
|--|--|----------------------|------------------|----------------------|----------------------------|---------------------------|----------------|------------------|
|  | Share capital                              | Share issue expenses | Revenue reserves | Appropriated surplus | Carrying value adjustments |                           |                | Total            |
| <b>At January 1, 2013</b>  | <b>2,021,000</b>                           | <b>(41,105)</b>      |                  | <b>(84,684)</b>      | <b>(4,369)</b>             | <b>1,890,842</b>          | <b>162,152</b> | <b>2,052,994</b> |
| Total comprehensive income for the year                                    |  |                      |                  |                      |                            |                           |                |                  |
| Profit for the year  |  |                      |                  | 194,425              |                            | 194,425                   | (35,473)       | 158,952          |
| Foreign exchange variation gains on offshore investees                     |  |                      |                  |                      | 151,550                    | 151,550                   | 30,470         | 182,020          |
| Losses on assets available for sale  |  |                      |                  |                      | (7,259)                    | (7,259)                   | (1,348)        | (8,607)          |
| Carrying value adjustments   |  |                      |                  |                      | 18,154                     | 18,154                    | (18,154)       |                  |
| Total comprehensive results for the year                                   |  |                      |                  | 194,425              | 162,445                    | 356,870                   | (24,505)       | 332,365          |
| Contributions from the owners of the Company                               |  |                      |                  |                      |                            |                           |                |                  |
| Capital subscription   | 508,500                                    |                      |                  |                      |                            | 508,500                   | 80,583         | 589,083          |
| Stock issue expenses   |  | (9,661)              |                  |                      |                            | (9,661)                   |                | (9,661)          |
| Allocation of profit for the year  |  |                      |                  |                      |                            |                           |                |                  |
| Transfer to revenue reserve  |  |                      | 109,742          | (109,742)            |                            |                           |                |                  |
| Total shareholders' contributions and distributions                        | 508,500                                    | (9,661)              | 109,742          | -                    |                            | 498,839                   | 80,583         | 579,422          |
| Changes in interest in subsidiaries which do not result in loss of control |  |                      |                  |                      |                            |                           |                |                  |
| Sale of equity holding   |  |                      |                  |                      | (1,239)                    | (1,239)                   | 1,239          |                  |
| Total transactions with owners of the Company                              |  |                      |                  |                      | (1,239)                    | (1,239)                   | 1,239          |                  |
| <b>At December 31, 2013</b>  | <b>2,529,500</b>                           | <b>(50,766)</b>      | <b>109,742</b>   | <b>-</b>             | <b>156,835</b>             | <b>2,745,311</b>          | <b>219,469</b> | <b>2,964,780</b> |
| <b>At January 1, 2014</b>  | <b>2,529,500</b>                           | <b>(50,766)</b>      | <b>109,742</b>   | <b>-</b>             | <b>156,835</b>             | <b>2,745,311</b>          | <b>219,469</b> | <b>2,964,780</b> |
| Total comprehensive income for the year                                    |  |                      |                  |                      |                            |                           |                |                  |
| Profit for the year  |  |                      |                  | 820,617              |                            | 820,617                   | (101,400)      | 719,218          |
| Foreign exchange variation gains on offshore investees (Note 8)            |  |                      |                  |                      | 256,694                    | 256,694                   | 51,330         | 308,024          |
| Gain on assets held for sale   |  |                      |                  |                      | 4,059                      | 4,059                     | 771            | 4,830            |
| Carrying value adjustments   |  |                      |                  |                      | (434)                      | (434)                     | 434            | -                |
| Total comprehensive income for the year                                    |  |                      |                  | 820,617              | 260,319                    | 1,080,936                 | (48,865)       | 1,032,072        |
| Shareholders' contributions  | 3,839,000                                  |                      |                  |                      |                            | 3,839,000                 | 117,851        | 3,956,851        |
| Capital subscription (Note 16(a))  |  |                      |                  |                      |                            |                           |                |                  |
| Capital subscription (Note 16 (a))   | 1,883,000                                  |                      |                  |                      |                            | 1,883,000                 |                | 1,883,000        |
| Capital to pay (Note 16 (a))   | (1,883,000)                                |                      |                  |                      |                            | (1,883,000)               |                | (1,883,000)      |
| Stock issuance costs (Note 16(a))  |  | (6,228)              | -                |                      |                            | (6,228)                   | -              | (6,228)          |
| Allocation of profit for the year  |  |                      |                  |                      |                            |                           |                |                  |
| Transfer to revenue reserve (Note 16 (b))                                  |  |                      | 820,617          | (820,617)            |                            |                           |                |                  |
| Total stockholder contributions  | 3,839,000                                  | (6,228)              | 820,617          | -                    | -                          | 3,832,772                 | 117,851        | 3,950,623        |
| <b>At December 31, 2014</b>  | <b>6,368,500</b>                           | <b>(56,994)</b>      | <b>930,359</b>   | <b>-</b>             | <b>417,155</b>             | <b>7,659,020</b>          | <b>288,455</b> | <b>7,947,475</b> |

The administration's explanatory notes are an integral part of these financial statements.

# Sete Brasil Participações S.A.

## Statement of cash flows Years ended December 31 In thousands of reais

(A free translation of the original in Portuguese)

|   | <b>Parent</b>      |                    | <b>Consolidated</b> |                    |
|---|--------------------|--------------------|---------------------|--------------------|
|   | <b>2014</b>        | <b>2013</b>        | <b>2014</b>         | <b>2013</b>        |
| <b>Cash flows from operating activities</b>                         |                    |                    |                     |                    |
| <b>Income for the year</b>  | 820,617            | 194,425            | 719,218             | 158,952            |
| Adjustments for   |                    |                    |                     |                    |
| Depreciation and amortization (Notes 11 and 12)                     | 4,098              | 2,996              | 4,098               | 2,996              |
| Equity in the results of subsidiaries (Note 10)                     | (802.409)          | (191.408)          | -                   | -                  |
| Interest on borrowings (Note 18)                                    | (132.388)          | (59.124)           | -                   | -                  |
| Foreign exchange and indexation charges, net (Note 18)              | (2)                | -                  | (866.319)           | (262.676)          |
|   | <u>(110.084)</u>   | <u>(53.111)</u>    | <u>(143.004)</u>    | <u>(100.728)</u>   |
| Changes in assets and liabilities                                   |                    |                    |                     |                    |
| Increase in taxes recoverable                                       | (2.460)            | (7.048)            | (12.642)            | (6.957)            |
| Increase in sundry advances   | (23)               | 216                | (23)                | 216                |
| Increase in prepaid expenses  | -                  | (1.651)            | (104.775)           | (132.948)          |
| Increase (decrease) in trade and other payables                     | 1,107              | (558)              | 50,952              | 53,772             |
| Increase (decrease) in tax obligations                              | 61                 | (91)               | 83                  | (12.965)           |
| Increase in labor and social obligations                            | 6,207              | 8,711              | 6,207               | 8,711              |
| Increase (decrease) in other liabilities                            | 128                | (1)                | 129                 | (1)                |
| Interest paid on borrowings   |                    |                    | (308,858)           | (175,676)          |
|   | <u>(105.064)</u>   | <u>(53.533)</u>    | <u>(511.931)</u>    | <u>(366.576)</u>   |
| <b>Net cash used in operating activities</b>                        |                    |                    |                     |                    |
| <b>Cash flows from investing activities</b>                         |                    |                    |                     |                    |
| Purchase of property, plant, and equipment (Note 12)                | (349)              | (3.423)            | (5.434.120)         | (6.546.400)        |
| Purchase of intangible assets                                       | (1.367)            | (1.554)            | (1.367)             | (1.554)            |
| Financial assets measured at fair value                             |                    |                    |                     |                    |
| through result  | 475,858            | (433.573)          | 471,686             | (137.482)          |
| Loans granted to related parties (Note 19 (d))                      | -                  | (1.387.500)        | (2.815)             | 20,469             |
| Shipbuilding guarantee fund (FGCN) investments                      | -                  | -                  | (9.679)             | (45.442)           |
| Investment in subsidiaries  | (4.353.983)        | (353.263)          | -                   | -                  |
|   | <u>(2,720,615)</u> | <u>(2.179.313)</u> | <u>(4.976.295)</u>  | <u>(6.710.409)</u> |
| <b>Net cash used in investing activities</b>                        |                    |                    |                     |                    |
| <b>Cash flows from financing activities</b>                         |                    |                    |                     |                    |
| Borrowings obtained   | (1)                | 1,833,943          | 3,023,921           | 7,249,919          |
| Payment of borrowings   | -                  | -                  | (1.848.101)         | (394.943)          |
| Capital subscription by controlling shareholders                    | 3,839,000          | 508,500            | 3,839,000           | 508,500            |
| Capital subscription in subsidiaries by non-controlling interests   | -                  | -                  | 117,851             | 80,583             |
| Share issue expenses  | -                  | -                  | -                   | -                  |
|   | <u>3,838,999</u>   | <u>2,342,443</u>   | <u>5,132,671</u>    | <u>7,444,059</u>   |
| <b>Net cash provided by financing activities</b>                    |                    |                    |                     |                    |
| <b>Increase (decrease) in cash and cash equivalents</b>             | (145.906)          | 109,597            | (355.555)           | 367,074            |
| <b>Cash and cash equivalents at the beginning of the year</b>       | 197,548            | 87,951             | 1,002,476           | 566,910            |
| <b>Effect of exchange rate changes on cash and cash equivalents</b> | -                  | -                  | (234.505)           | 68,492             |
| <b>Cash and cash equivalents at the end of the year</b>             | <u>51,642</u>      | <u>197,548</u>     | <u>412,416</u>      | <u>1,002,476</u>   |

The administration's explanatory notes are an integral part of these financial statements.



## Sete Brasil Participações S.A.

### Statements of value added Years ended December 31 In thousands of reais

(A free translation of the original in Portuguese)

|  | <b>Parent</b>    |                  | <b>Consolidated</b> |                 |
|--|------------------|------------------|---------------------|-----------------|
|  | <b>2014</b>      | <b>2013</b>      | <b>2014</b>         | <b>2013</b>     |
| <b>Inputs acquired from third parties</b>          |                  |                  |                     |                 |
| Materials, power, third-party services, and others | (33,732)         | (29,453)         | (50,845)            | (42,051)        |
| Loss/recovery of asset values                      | -                | (38)             | -                   | (38)            |
| Other expenses                                     | (1,833)          | (2,580)          | (3,211)             | (6,651)         |
| <b>Gross added value</b>                           | <b>(35,565)</b>  | <b>(32,071)</b>  | <b>(54,056)</b>     | <b>(48,740)</b> |
| Depreciation and amortization                      | (4,116)          | (2,996)          | (4,116)             | (2,996)         |
| <b>Net added value produced by the entity</b>      | <b>(39,681)</b>  | <b>(35,067)</b>  | <b>(58,172)</b>     | <b>(51,736)</b> |
| <b>Value added received in transference</b>        |                  |                  |                     |                 |
| Finance income                                     | 164,498          | 93,183           | 34,554              | 39,677          |
| Share in the results of subsidiaries               | 802,409          | 191,408          | -                   | -               |
| <b>Total added value to be distributed</b>         | <b>927,226</b>   | <b>249,524</b>   | <b>(23,618)</b>     | <b>(12,059)</b> |
| <b>Added value distribution</b>                    |                  |                  |                     |                 |
| Salaries and charges                               | (69,118)         | (31,491)         | (69,118)            | (31,491)        |
| Board fees   | (6,656)          | (10,639)         | (6,656)             | (10,639)        |
| Federal contributions, fees, and taxes             | (9,763)          | (6,024)          | (9,763)             | (6,024)         |
| Interest and exchange rate variations              | (17,054)         | (2,686)          | 832,390             | 223,425         |
| Leases   | (4,018)          | (4,259)          | (4,018)             | (4,259)         |
| Profit for the year                                | (820,617)        | (194,425)        | (719,217)           | (158,952)       |
| <b>Value added distributed</b>                     | <b>(927,226)</b> | <b>(249,524)</b> | <b>23,618</b>       | <b>12,059</b>   |

The administration's explanatory notes are an integral part of these financial statements.

(A free translation of the original in Portuguese)

## **Sete Brasil Participações S.A.**

### **Administration's explanatory notes to the financial statements at December 31, 2014** **In thousands of reais, unless otherwise stated**

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#### **1 General information**

Sete Brasil Participações S.A. ("Company" or "Sete Brasil") is a privately held joint stock company incorporated on December 22, 2010, based in the city of Rio de Janeiro.

The company and its subsidiaries (jointly "the Group") were created with the purpose of facilitating the construction of assets for oil and gas exploration in the pre-salt layer. The pre-salt has become an important component of the global oil industry, with oil exploration in ultra-deep waters and extraction of oil in newly-discovered regions.

The Company's objective is asset portfolio management for the exploration of the oil and gas sector. The Company's business model is based on partnerships with specialized and experienced companies in operation of assets in each sector of activity.

The stockholders of the company are: *Petróleo Brasileiro S.A.* - Petrobras, which holds a 5% participation, and the *Fundo de Investimento em Participações Sondas* - FIP Sondas, which holds a 95% participation. FIP Sondas has, as its quotaholders, the pension funds of Petros - Fundação Petrobras de Seguridade Social, Previ - Caixa de Previdência dos Funcionários do Banco do Brasil, Funcef - Fundação dos Economistas Federais e Valia - Fundação Vale do Rio Doce de Seguridade Social, the banks BTG Pactual S.A. and Santander-Banco Santander S.A., Strong Fundo de Investimento em Cotas de Fundos de Investimento Multimercado, represented by its manager, Banco Bradesco BBI S.A., the American private equity fund EIG and the Brazilian investment firm Luce Venture Capital, the Investment Fund of the Guarantee Fund of Time of Service-FI-FGTS, in addition to Petrobras itself.

At December 31, 2014, the company had excess liabilities over current assets in the amount of R \$ 15,583 million, which include short-term borrowings due accrued and not settled in the amount of R\$ 664 million. According to the Company's Business Plan, the short-term obligations that exist at December 31, 2014, related to debts with the shipyards and the short-term financing, will be liquidated through short and long-term fundraising now under negotiation with various financial institutions, including commercial banks, Banco do Brasil, Caixa Econômica Federal, Banco Nacional de Desenvolvimento Econômico e Social (BNDES) and the Merchant Marine Fund (FMM). The conclusion of these negotiations depends on the fulfillment of certain precedent conditions, which indicates the existence of a material uncertainty which may raise significant doubts regarding the operational continuity of the Company.

The administration considers the preparation of these annual financial statements to be appropriate based on the assumption of operational continuity. The development and finalization of long-term operations for financing of the project depends on the completion of a re-evaluation of the strategy and financial engineering for the project, given the current market conditions, which are taking place between the Administration of the Company, its shareholders and major creditors.

Among the options evaluated by the Company during 2014, the possibility of issuance of debentures convertible into shares was analyzed, originally approved by the Board of Directors of BNDESPAR in June 2013. However, in the context of the restructuring of long-term operations mentioned above, over the course of 2014, certain conditions precedent to the contracting of convertible debentures were found to be impossible to meet.

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In line with the new financing plan now being structured, the Company negotiated with lenders to extend the maturity of short-term lines (*bridge loans*) maturing by the date of publication of these financial statements, except for the Bridge Loan 5 with Standard Chartered in the amount of R\$ 664 million which issued a notification of "default" against the Company (Note 21).

The Administration's plans to raise long-term funds are described as follows:

- The Company is reviewing, in conjunction with Banco do Brasil and Caixa Economica Federal, financial structuring alternatives for the viability of long-term financing, in the initial volume of approximately \$ 3.7 billion, that meet the interests of both creditors and its stockholders, considering the current market conditions. The Administration of the Company, its stockholders and major creditors have the expectation of concluding the structuring of the new financing model by April 2015;
- The Company obtained priority from the Merchant Marine Fund (FMM) for securing long-term financing of up to R\$ 10.3 billion. Due to the renegotiations of the lines of long-term financing, the Company requested an extension for another 120 days to meet the prerequisites for signing of the contract and for subsequent disbursement of the funds. This request should be decided by the Board of Directors of the Fund on April 10, 2015.
- In addition to the lines of negotiation above, the Company has contractual conditions signed for contracting a long-term line of US\$ 1.7 billion from the Infrastructure Investment Fund (FINISA), administered by Caixa Economica Federal. This line is in advanced negotiations for meeting the prerequisite for signing of the contract with the forecast for completion in April 2015;

In addition, the Company has capital committed by its stockholders corresponding to around R\$ 1.3 billion.

The issuance of these consolidated financial statements of the Group was authorized by the Administration on March 25, 2015.

## **2 Summary of the significant accounting policies**

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently in the years presented.

### **2.1 Basis of preparation**

The financial statements have been prepared considering the historical cost as the basis of value that, in the case of available-for-sale financial assets and other assets and financial liabilities, is adjusted to reflect the measurement at fair value.

The preparation of financial statements requires the use of certain critical accounting estimates and proper judgment by the Company's Board regarding the Group's process of applying accounting policies. Areas that require a higher degree of judgment and are more complex, as well as areas in which premises and estimates are significant for the financial statements, are duly detailed in Note 3.

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**(a) Individual financial statements**

The parent company's financial statements have been prepared in accordance with accounting practices adopted in Brazil issued by CPC and are disclosed together with the consolidated financial statements.

**(b) Consolidated financial statements**

The consolidated financial statements have been prepared and are being presented in accordance with the accounting practices adopted in Brazil, including the pronouncements issued by the Comitê de Pronunciamentos Contábeis (CPC 21) and in accordance with international financial reporting standards (IFRS, issued by the *International Accounting Standards Board (IASB)*).

**(c) Changes in accounting policies and disclosure**

**Amendments and interpretations adopted by the Group**

The following standards and changes of standards were adopted for the first time for the financial year starting on January 1, 2014 and had impacts for the group.

(i) ICPC 19/IFRIC 21 - "Taxes", deals with the accounting obligation to pay a tax if the liability is part of the scope of IAS 37 - "Provisions". The interpretation clarifies which obligation-producing fact generates the payment of a tax and when a liability should be recognized.

(ii) OCPC 07 - "Disclosure in Accounting and Financial Reports", deals with the quantitative and qualitative aspects of the disclosures in explanatory notes, reinforcing the existing accounting standards requirements and emphasizing that only the information relevant to users of financial statements should be disclosed.

(vii) Revision CPC 07-"Equity Method of Accounting in Separate Financial Statements", amends the wording of CPC 35 - "Separate Financial Statements" to incorporate the changes made by the IASB in IAS 27- *Separate Financial Statements*, which allows for the adoption of the equity method in subsidiaries, associated companies and joint ventures in the separate statements, thus aligning the Brazilian accounting practices with international accounting standards. Especially for the purposes of IFRS, IAS 27 amendments can be adopted in advance, even in Brazil, which allows for affirming that the separate financial statements are also in accordance with the IFRS.

Other amendments and interpretations effective for the year starting on January 1, 2014 are not relevant to the Group.

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#### (d) Accounting pronouncements

##### **Pronouncements, interpretations or updates issued by the IASB with application on January 1, 2014**

- *Novation of Derivatives and Continuation of Hedge Accounting* - In June 2013, the IASB issued an update to IAS pronouncement 39- *Financial Instruments: Recognition and Measurement*, which, among other items, give the understanding that *hedge accounting* does not cease when a derivative instrument of *hedge accounting*, by a specific law or regulation, ends and is renewed by a new derivative. This pronouncement has no effect on these accounting statements.
- *IFRIC Levies 21* - In May 2013, the IASB issued a new interpretation which deals with the recognition of obligations imposed by governmental agents. This pronouncement has no effect on these accounting statements.
- *Recoverable Amount Disclosures for Non-Financial Assets* - In May 2013, the IASB issued an update to IAS pronouncement 36 - *Impairment of Assets*, which details the Committee's intentions about aspects of disclosure of the impairment of non-financial assets. This pronouncement has no effect on these accounting statements.

##### **Pronouncements, interpretations or updates issued by the IASB with application after January 1, 2014**

- *IFRS 14 Regulatory Deferral Accounts* - In January 2014, the IASB issued IFRS pronouncement 14 - *Regulatory Deferral Accounts* which allows the company to adopt the IFRS for the first time, within the scope of the pronouncement, to continue accounting for the deferral of regulatory balances on the first financial statement in IFRS according to previous accounting practice. This pronouncement will become effective for annual periods beginning on or after January 1, 2016, and the company will have no effect on its Financial Statements.
- *IFRS 15 Revenue from contracts with customers* - In May 2014, the IASB issued IFRS pronouncement 15 - *Revenue from contracts with customers* which increments the disclosure of aspects of revenue recognition in order to improve the comparability between the financial statements globally, since it requires both companies that adopt IFRS and those that adopt USGAAP to adopt the pronouncement, which will become effective for annual periods beginning on or after January 1, 2017. The company will have no effect on its Financial Statements.
- *IFRS 9 Financial Instruments* - addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and replaced the passages of IAS 39 related to the classification and measuring of financial instruments. IFRS 9 requires the classification of the financial assets into two categories: those measured at fair value and those measured at amortized cost. The determination is made on initial recognition. The basis of classification depends on the business model of the entity and the contractual characteristics of the cash flow of the financial instruments. In relation to financial liabilities, the rule maintains the majority of the requirements established by IAS 39. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive result rather than the statement of income, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact. The standard is applicable as from January 1, 2018.

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There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

#### **2.2 Consolidation**

The following accounting policies are applied in the preparation of the consolidated financial statements.

##### **(a) Subsidiaries**

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed or holds recourse rights arising from its involvement with the entity, in addition to the ability of interfering in such recourses due to its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are no longer consolidated from the date that the Group loses such control.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and equity interest issued by the Group. The consideration transferred includes the fair value of assets or liabilities resulting from a contingent consideration arrangement, when applicable.

Acquisition-related costs are accounted for in the profit or loss for the financial year as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree, either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets. The measurement of the non-controlling participation to be recognized is determined at every acquisition.

The excess: (i) of consideration transferred; (ii) the non-controlling interest in the acquired company; and (iii) the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. When the total consideration transferred, non-controlling interest, and assessment of prior interest held are lower than the fair value of net assets of the acquired subsidiary, the difference is recorded directly in the financial statements for the year.

Transactions, balances, and unrealized gains on transactions among the Group companies are eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

##### **(b) Transactions with non-controlling interests**

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the proportion acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded directly in equity, in "Carrying value adjustments".

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#### **(c) Loss of interest in subsidiaries**

When the group ceases to have control, any participation retained in the entity is revalued to its fair value, the change in book value is recognized in the result. The fair value is the initial book value for subsequent accounting of the share held in a related company, a joint venture, or a financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that the amounts previously recognized in other comprehensive result are reclassified to profit or loss.

#### **2.3 Presentation of information by segments**

The Company's Board of Directors is responsible for all relevant decisions, assessing analytical information regarding the probes built by the Group and deliberating on the allocation of resources. The management of activities related to strategic planning and resource investments is centralized; there are no management divisions per probe that could characterize a segmented management process, or other factors that could identify a set of components as the entity's operating segments; the information is presented to the Board of Directors in an analytical manner per probe, and consolidated as a single operating segment.

As described in the General Information Note (Note 1), the Company's primary activity is asset portfolio management for the exploration of the oil and gas sector.

#### **2.4 Foreign currency translation**

##### **(a) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the company operates ("the functional currency"). The consolidated financial statements are presented in Brazilian reais (R\$), which is the Company's functional currency, and also the Group's presentation currency.

##### **(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or the dates of valuation when items are re-measured. Foreign exchange gains and losses, resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income, except when deferred in equity.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of income under "Finance income or cost". All other foreign exchange gains and losses are presented in the statement of income under "Exchange and monetary variations, net".

##### **(c) Group companies with a different functional currency**

The results and financial position of all entities of the Group entities (none of which has the currency of a hyper-inflationary economy), that have a functional currency different from the presentation currency, are translated to the functional currency as follows:

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- (i) assets and liabilities of each balance sheet account presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses of each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- (iii) capital is translated at the historic exchange rates; and
- (iv) all resulting exchange differences are recognized as a separate component of equity, in the account "Carrying value adjustments".

On consolidation, exchange differences arising from the conversion of the net investment in operations abroad are recognized in the equity.

When a foreign operation is partially disposed of or sold without any loss of control, exchange differences that were recorded in equity are recognized in the statement of comprehensive income as part of the net gain or loss on sale.

#### **2.5 Cash and cash equivalents**

Cash and cash equivalents include cash, bank deposits, other high-liquidity short-term investments, and they can be redeemed at any time, without risk of loss of income and the funds are utilized for complying with the Company's short-term obligations, and with an insignificant risk of change in value.

#### **2.6 Financial assets**

##### **2.6.1 Classification**

The Group classifies its financial assets as: (a) measured at fair value through profit or loss; (b) loans and receivables; and (c) available for sale. The classification depends on the objective for which the financial assets were acquired. Management determines the classification of its financial assets on the initial recognition.

##### **(a) Financial assets measured at fair value through the result**

Financial assets measured at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for realization in the short term.

##### **(b) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included as current assets, except those with maturity terms greater than 12 months as of the balance sheet issuance date (which are assigned as non-current assets). The Group's loans and receivables comprise "Cash and cash equivalents" and "Receivables from related parties".



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#### **(c) Financial assets available for sale**

The financial assets available for sale are non-derivatives, which are designated in this category or which are not classified in any of the previous categories.

They are recorded as non-current assets, unless the Board intends to reassign the investment within 12 months as of the balance sheet date.

The available-for-sale financial assets of the Group include investments in shares of the Shipbuilding Guarantee Fund (FGCN).

#### **2.6.2 Recognition and measurement**

The purchases and sales of financial assets are normally recognized on the date of the negotiation. The investments are initially recognized at the fair value, plus the transaction costs for all the financial assets not classified as at fair value through the result. Financial assets at the fair value by means of the result are initially recognized at the fair value, and the transaction costs are charged to the statement of income. The financial assets are settled when the rights to receive cash flows have expired or have been transferred; in the latter case, provided that the Group has transferred, significantly, all the risks and the benefits of ownership. Financial assets available for sale and financial assets measured at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method.

The gains or losses arising from variations in the fair value of financial assets measured at fair value through the result are presented in the statement, under "Finance income /costs" in the period in which they occur.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are duly recorded in the equity. Exchange rate variations of monetary securities are recorded in the results. Exchange rate variations of non-monetary securities are recorded in the equity.

When securities classified as available-for-sale are sold or suffer impairment loss, accrued fair value adjustments recorded in equity are included in the statement of income as "Finance income and costs".

Interest on available-for-sale securities calculated by the effective interest rate method is recorded in the statement of income as other revenues.

The dividends of financial assets measured at fair value through the result and net equity instruments available for sale, such as shares, are recorded in the statement of income as other revenues, whenever the Group's right to receive dividends is established.

The fair values of investments with a public quotation are based on current purchase prices. If the market of a financial asset (as well as securities not listed on a Stock Exchange) is not active, the Group establishes fair value through due valuation techniques. Such techniques include the use of recent operations outsourced by third parties, reference to other substantially similar instruments, deducted cash flow analysis, and option pricing models based on information generated by the market and with least reliance as possible on information generated by the entity's management.

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#### **2.6.3 Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liabilities simultaneously.

#### **2.6.4 Impairment of financial assets**

##### **(a) Financial assets measured at amortized cost**

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- (i) significant financial difficulty of the issuer or debtor;
- (ii) a breach of contract, such as default or delinquency interest or principal payments;
- (iii) the Group, for economical or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that it would not otherwise consider;
- (iv) it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- (v) the disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - adverse changes in payment status of borrowers in the portfolio; and;
  - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recorded loss is recognized in the statement of income.

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#### **(b) Assets classified as available-for-sale**

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria listed in (a) above. In the case of investments in equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is evidence that the asset is impaired. In case any evidence of such type applies for financial assets available for sale, the cumulative losses - measured as the difference between the acquisition cost and the current fair value, minus any impairment loss over the financial asset previously recorded in the results - will be removed from the equity and recorded in the statement of income. Impairment losses of equity instruments recorded in the statement of income are not reversed through the statement of income. In case of debt instruments, if the fair value of such instrument classified as available for sale is subsequently increased, and such increase can be objectively attributed to an event that occurred after the impairment loss is recorded in the results, the impairment loss is reversed through the statement of income.

#### **2.7 Intangible assets**

##### **(a) Rig construction licenses**

The acquired licenses are shown, initially, at the acquisition cost. Later, these licenses are recorded by their cost value minus the accumulated amortization. The amortization is calculated by the straight-line method to allocate the cost of licenses during their useful life estimated at 4 years as from the start of the oil rigs construction.

##### **(b) Software**

Computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of five years. Costs associated with maintaining computer software programs are recognized as an expense as incurred.

#### **2.8 Property, plant and equipment**

Property, plant and equipment are stated at historical cost less the accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Historical cost includes finance costs related to the acquisition of qualifying assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with these costs will flow to the Group and they can be measured reliably. The carrying amount of items or replaced part is written off. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

The amortization of leasehold improvements is calculated on the basis of the contractual term of the property rent to which they refer, the depreciation of other assets is calculated using the straight-line method to reduce their cost to their residual values over their estimated useful lives, as follows:

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|                                  | <u>Years</u> |
|----------------------------------|--------------|
| Furniture and fixtures           | 5            |
| Machinery and equipment          | 10           |
| Computer equipment               | 5            |
| Leasehold improvements (average) | 5            |

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The asset's carrying amount is written down immediately to its recoverable amount when the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in "Finance Income / Costs" in the statement of income.

#### **2.9 Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in the circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

#### **2.10 Payables**

Payable to suppliers are obligations to pay for goods or services that have been acquired in the ordinary course of business. Accounts payable are classified as current liabilities if payment is due in one year. If not, they are presented as non-current liabilities.

Payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

#### **2.11 Borrowings and financing**

Borrowings and financing are recognized initially at fair value, net of transaction costs incurred. Borrowings and financing are subsequently carried at amortized cost, any difference between the proceeds (net of transaction costs) and the total amount payable is recognized in the statement of income over the period of the borrowings using the effective interest rate method.

Borrowings and financing are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

The borrowing costs that are directly attributable to acquisition, construction or production of a qualifying asset, which is an asset that necessarily requires a substantial period of time to be ready for use or sale, are capitalized as part of the cost of the asset when it is probable they will result in future economic benefits for the entity and that such costs can be measured reliably. Other borrowing costs are recognized as an expense in the year they are incurred.

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#### **2.12 Provisions**

Provisions are recognized only when there is a present obligation (legal or implicit) resulting from a past event. For solving this obligation, it is necessary that it is probable that an outlay of resources will be necessary and that the value of the obligation can be reasonably estimated.

Provisions are constituted, reviewed, and adjusted so as to reflect the best estimate on the date of the statements. Provisions are measured at the present value of expenditures expected to be required to settle the obligation using a rate before tax effects that reflects current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to passage of time is recognized as an interest expense.

#### **2.13 Current and deferred income tax and social contribution**

Expenses for income tax and social contribution comprise the current and deferred taxes. Income taxes are recognized in the statement of income, to the extent they relate to items recognized in the comprehensive result or directly in equity. In this case, the tax is also recognized in equity or in the comprehensive result.

The charge of current and deferred income tax and social contribution is calculated on the basis of promulgated or substantially promulgated tax laws on the balance sheet date of the countries in which the entities of the Group work and generate taxable profit.

The management evaluates periodically the positions assumed by the Group when verifying the taxes over the income in relation to situations in which the applicable tax regulation provides a margin for interpretations and establishes provisions, when appropriate, on the basis of estimated amounts of payment to be made to the tax authorities.

Current income tax and social contribution are presented net, by taxpayer entity, in liabilities when there are amounts payable, or in assets when the prepaid amounts exceed the total due on the report date.

Deferred income tax and social contribution are recognized, using the liability method, based on temporary differences between the tax bases of assets and liabilities and their carrying amounts, in the tax losses determined and on the negative bases for social contribution on income, to the extent that it is probable it is realized against future taxable profit.

Deferred income tax receivable and payable are offset when there is a legal right to offset the current tax assets against the current tax liabilities and when deferred income tax receivable and payable are related to income tax recorded by the same tax authority over the same taxable entity. Thus, deferred income tax receivable and payable in different entities or in different countries are presented in general separately and not on a net basis.

Since the Company and its subsidiaries are in a pre-operating phase, the deferred income tax and social contribution were not recognized on tax losses or temporary differences.

#### **2.14 Employee benefits**

The Group records a liability and performance bonus expense based on the methodology that considers the achievement of goals based on the guidelines set out by the Company's stockholders. The Group records a provision when it is contractually obligated or in case of past practice (constructive obligation).

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#### **2.15 Share capital**

Common shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction. Such costs are appropriated in equity proportionally to the applied volume and, when not received, they are held in Prepaid expenses (Note 17 (a)).

#### **2.16 Revenue recognition**

##### **(a) Finance income**

Finance income is recognized according to the elapsed term using the effective interest rate method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument. Subsequently, as time goes by, interest is incorporated into the receivable against finance income. This finance income is calculated by the same effective interest rate used to determine the recoverable amount, that is, the original rate of the instrument.

##### **(b) Equity in the results of subsidiaries - Parent Company**

The accounting income refers to the recognition, in the result of the Company, of the corresponding proportion to its participation in the investee results.

#### **2.17 Leases**

As mentioned in Note 1, the Group was created in order to provide the construction of assets for oil and gas exploration in the Pre-salt layer. These assets will be used to render services of oil drilling in ultra deep- sea waters on the basis of long-term lease contracts with the Group's clients.

Leases in which the Group holds a significant portion of risks and benefits of the ownership are classified as operating leases.

The receivables from operating leases will be recognized in the income statement of income by the straight-line method during the period of the lease.

#### **2.18 Distribution of dividends and interest on equity**

The distribution of dividends and interest on capital to stockholders of the Company is recognized as a liability in the financial statements of the Group at the end of the fiscal year, based on the bylaws of the Company. Any amount that exceeds the minimum required is only provided on the date it is approved by the stockholders in a General Meeting.

The tax benefit of interest on capital is recognized in the statement of income.

#### **2.19 New standards, amendments and interpretations of standards that are not yet in force**

The following new standards were issued by the IASB but are not in effect for the year 2014. The anticipated adoption of such standards, although encouraged by the IASB, was not permitted by the Accounting Pronouncements Committee (CPC) in Brazil.

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IFRS 9 - "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. The IFRS 9 was issued in November 2009 and October 2010 and replaced the passages of IAS 39 related to the classification and measuring of financial instruments. The IFRS 9 requires the classification of financial assets into two categories: measured at fair value and measured at amortized cost. The determination is made at initial recognition. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial instruments. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive result rather than the statement of income, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact. The standard is applicable as from January 1, 2018.

IFRS 15 - "Revenue from Contract with Client" - This new standard establishes the principles that an entity will apply to determine the measurement of the revenue and when it is recognized. It enters into force on January 1, 2017 and replaces IAS11 - "Construction Contracts", IAS28 - "Revenue" and corresponding interpretations. The administration is evaluating the impacts of its adoption.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

### **3 Critical accounting estimates and judgments**

The estimates and judgments are continually reassessed and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### **3.1 Critical accounting estimates and assumptions**

Based on assumptions, the Group makes estimates concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are addressed below.

##### **(a) Income tax, social contributions and other taxes**

The Group is subject to income taxes in all countries in which it operates. Significant judgment is required in determining the worldwide provision for income taxes.

There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group also recognizes provisions for credits of income tax on tax losses for which it is not yet possible to determine if there will be future taxable results of a sufficient volume to compensate such credits. On December 31, 2014, these credits of provided income tax amount to R\$ 590.106 (R\$ 306,698 at December 31, 2013).

On May 14, 2014, the conversion of MP 627, in Law No. 12.973, was published in the Official Gazette of the Union. The provision set forth in the Law have effect from 2015, but this Law allows for the taxpayer to opt for early application of the effect for 2014 as a condition to eliminate eventual tax effect related to dividends paid, the calculation of interest on capital, and the evaluation of the relevant investments in subsidiary and affiliate companies by the equity method.

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The Company analyzed the possible effect of the application of the provisions of Law No. 12.973 and concluded that it does not result in relevant adjustments to the financial information for December 31, 2014. The Administration opted against early adoption established in this legislation, stating its position in the DCTF of December 2014.

#### **(b) Fair value of financial instruments**

The fair value of financial instruments which are not traded in an active market is determined by using valuation techniques. The Group uses judgment to select among a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period.

#### **3.2 Critical judgments in applying the entity's accounting policies**

The Group classifies the chartering contracts as operational leases, since the largest portion of the risks and benefits of ownership remain with the Group during the period of the contracts. As such, the assets are shown in the balance sheet in the group Fixed assets and the future revenue resulting from the charter of these assets will be recognized in the statement of income as Revenue of Rendered Services throughout the length of the contracts. The corresponding depreciation of the assets will be recognized in the statement of income as Costs of Rendered Services on the bases of rates which take into consideration the economical useful life of the assets.

### **4 Financial risk management**

#### **4.1 Financial risk factors**

##### **(a) Market risk**

The market risk regards the possibility of losses due to the market value oscillation effect of financial instruments, including currency risk, fair value interest rate risk, cash flows interest rate risk and price risk. As it is constituted by non-financial companies, the Group has a conservative policy based on the administration of its assets and liabilities positions, focusing on liquidity and risk mitigation.

##### **(i) Currency exchange risk**

This is the risk of fair value fluctuation of the discounted cash flow of a financial instrument due to a variation in the exchange rates. Exposing the Group to the risk of exchange gains and losses and mainly refers to net investments in subsidiaries abroad and financing contracted in U.S. dollars.

Due to the pre-operating level of the Company, this risk is currently considered as being moderate (refer to sensitivity analysis). No financial instruments for protection were acquired.

##### **(b) Liquidity risk**

Sete Brasil and its subsidiaries monitor their level of liquidity, considering cash and cash equivalent flows. Prudent liquidity risk management implies in keeping the cash, availability of funding through committed credit lines and notes and security investments at a sufficient level to be able to liquidate its obligations.



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**(c) Credit Risk**

Credit risk exists due to the possibility of Sete Brasil and its subsidiaries suffering losses because of default of its counterparts, depository financial institutions for resources or financial investments. Sete Brasil considers information contained in financial statements, solvency indexes, updated market information and ratings supplied by rating agencies (Moody's, S&P and Fitch) for credit analysis of financial counterparts.

**(d) Cash flow or fair value risk**

Interest rate risks are related to the possibility of variations in the fair value of borrowings and financing, obtained by the group when such rates do not reflect current market conditions. The possibility of an unfavorable variation in interest rates, which would cause an increase in financial expenditures of the subsidiaries, was analyzed by the Group and considered as being low (refer to sensitivity analysis). No instruments were acquired to cover such risks.

**(e) Additional sensitivity analysis required by CVM**

Impacts potentially generated by changes in applicable risk variables to which the Group's borrowings and financing are exposed at year-end are detailed below. The relevant risk variables in the period, considering the estimated period of three months for such assessment, are its exposure to the U.S. dollar variation, and exposure to the fluctuation in the LIBOR 1-month, LIBOR 2-month, LIBOR 3-month , and LIBOR 12-month, and IPCA inflation rate variations. The Board believes that the most likely scenario for the U.S. dollar exchange rate and IPCA inflation will follow market estimates published by the Central Bank of Brazil on Friday, February 6, 2015. Regarding the 1, 2, 3, and 12-month LIBOR rates, an increase of 1% is considered compared to December 31, 2014. Other risk factors were deemed irrelevant for the financial instrument results.

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|                                 | <b>Balance sheets</b>    |                          |                          |                          | <b>Risk</b>                         | <b>Scenarios</b> |                     |                    |                  |                  |
|---------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-------------------------------------|------------------|---------------------|--------------------|------------------|------------------|
|                                 | <b>December 31, 2014</b> | <b>December 31, 2013</b> | <b>December 31, 2014</b> | <b>December 31, 2013</b> |                                     | <b>Probable</b>  | <b>+25%</b>         | <b>+50%</b>        | <b>-25%</b>      | <b>-50%</b>      |
|                                 | <b>Liabilities</b>       | <b>Liabilities</b>       | <b>Notional</b>          | <b>Notional</b>          |                                     |                  |                     |                    |                  |                  |
| Loans                           |                          |                          |                          |                          |                                     |                  |                     |                    |                  |                  |
| Consumer price index            | 2,376,130                | 2,050,519                | 1,850,000                | 1,850,000                | IPCA High <sup>1</sup>              | (66.874)         | (74.638 )           | (82.306 )          | 74,638           | 82,306           |
| LIBOR/month                     | 663,713                  |                          | 664,050                  |                          | High of 1-month LIBOR <sup>2</sup>  | (2.391)          | (2.408 )            | (2.425 )           | 2,408            | 2,425            |
| LIBOR 2 months                  | 4,179,067                |                          | 4,165,476                |                          | High of 2-month LIBOR <sup>3</sup>  | (13.522)         | (13.686 )           | (13.848 )          | 13,686           | 13,848           |
| LIBOR 3 months                  | 1,687,264                | 5,869,600                | 1,688,364                | 5,722,319                | High of 3-month LIBOR <sup>4</sup>  | (16.490)         | (16.763 )           | (17.035 )          | 16,763           | 17,035           |
| LIBOR 12 months                 | 3,607,070                | 2,904,053                | 3,394,766                | 2,928,250                | High of 12-month LIBOR <sup>5</sup> | (30.178)         | (31.226 )           | (32.280 )          | 31,226           | 32,280           |
|                                 | <u>12,513,244</u>        | <u>10,824,172</u>        | <u>11,762,656</u>        | <u>10,500,569</u>        |                                     | <u>(129.455)</u> | <u>(138.721 )</u>   | <u>(147.894)</u>   | <u>138,721</u>   | <u>147,894</u>   |
| Loans                           |                          |                          |                          |                          |                                     |                  |                     |                    |                  |                  |
| In US\$                         | <u>11,198,572</u>        | <u>8,773,653</u>         | <u>10,960,660</u>        | <u>8,650,569</u>         | High of US\$                        | <u>(14.179)</u>  | <u>(2.495.893 )</u> | <u>(4.977.601)</u> | <u>2,495,893</u> | <u>4,977,601</u> |
| Interest rates considered were: | <b>Probable</b>          | <b>+25%</b>              | <b>+50%</b>              |                          |                                     |                  |                     |                    |                  |                  |
| IPCA <sup>(1)</sup>             | 7.22%                    | 9.03%                    | 10.83%                   |                          |                                     |                  |                     |                    |                  |                  |
| LIBOR one month <sup>(2)</sup>  | 0.17322%                 | 0.21652%                 | 0.25982%                 |                          |                                     |                  |                     |                    |                  |                  |
| LIBOR 2 months <sup>(3)</sup>   | 0.21362%                 | 0.26702%                 | 0.32042%                 |                          |                                     |                  |                     |                    |                  |                  |
| LIBOR 3 months <sup>(4)</sup>   | 0.25816%                 | 0.32270%                 | 0.38723%                 |                          |                                     |                  |                     |                    |                  |                  |
| LIBOR 12 months <sup>(5)</sup>  | 0.63782%                 | 0.79727%                 | 0.95672%                 |                          |                                     |                  |                     |                    |                  |                  |

The rates above were considered for the calculation. They were considered for 3 month calculation or until the maturity date, which comes first. The following items detail the premises adopted to obtain likely scenario rates:

- (1) Relates to the expected accrued annual variation by 3/31/2015, published by the Central Bank of Brazil on February 6, 2014.
- (2) Refers to the LIBOR 1-month rate, published by the BBA (British Bankers Association) on February 6, 2015, with an increase of 1%.
- (3) Refers to the LIBOR 2-month rate, published by the BBA (British Bankers Association) on February 6, 2015, with an increase of 1%.
- (4) Refers to the LIBOR 3-month rate, published by the BBA (British Bankers Association) on February 6, 2015, with an increase of 1%.
- (5) Refers to the 12-month LIBOR rate, announced by the BBA (British Bankers Association) on February 6, 2015, with an increase of 1%.

Exposure values are not deducted from transaction costs, and interest balances on 12/31/2014 are not considered, whenever the latter do not interfere with the calculation of subsequent effects.

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#### 4.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for stockholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital.

The long-term capital structure foreseen for the group is of approximately 20% (twenty percent) of equity and 80% (eighty percent) of third party capital. Financial leverage indexes on December 31, 2014 and 2013 are summarized as follows:

|  | <u>Consolidated</u>      |                          |
|--|--------------------------|--------------------------|
|  | <u>2014</u>              | <u>2013</u>              |
| Total borrowings and financing (Note 16) | 13,574,702               | 10,824,172               |
| Less: cash and cash equivalents (Note 6) | <u>(412,416)</u>         | <u>(1,002,476)</u>       |
| Net debt                                 | <u>13,162,286</u>        | <u>9,821,696</u>         |
| Net equity                               | <u>7,947,475</u>         | <u>2,964,780</u>         |
| Total capital                            | <u><u>21,109,761</u></u> | <u><u>12,786,476</u></u> |
| Financial leverage index - %             | 62                       | 77                       |

#### 4.3 Fair value estimate

It is assumed that the balances of the accounts receivable from clients and accounts payable to suppliers at the book value, less the loss (impairment) in the case of accounts receivable, approximate their fair values.

The table below classifies the financial instruments accounted for at fair value according to the valuation method. The different levels were defined as follows:

- Quoted prices (not adjusted) in active markets for identical assets or liabilities (Level 1).
- Information, in addition to the prices quoted, included in level 1 that are observable by the market for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from the prices) (Level 2).
- Information for the assets or liabilities that are not based on the data observable by the market (that is, unobservable premises) (Level 3).

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The following table presents the Group's assets and liabilities measured at fair value at December 31, 2014.

|                                     |                |                |                | <b>Consolidated</b>  |
|-------------------------------------|----------------|----------------|----------------|----------------------|
|                                     | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total balance</b> |
| Assets                              |                |                |                |                      |
| Financial assets available for sale |                |                |                |                      |
| Investment in shares of the FGCN    | 55,893         |                |                | 55,893               |
| Total assets                        | <u>55,893</u>  |                |                | <u>55,893</u>        |

The table below presents the Group's assets and liabilities measured at fair value at December 31, 2013.

|                                     |                |                |                | <b>Consolidated</b>  |
|-------------------------------------|----------------|----------------|----------------|----------------------|
|                                     | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total balance</b> |
| Assets                              |                |                |                |                      |
| Financial assets available for sale |                |                |                |                      |
| Investment in shares of the FGCN    | 41,384         |                |                | 41,384               |
| Total assets                        | <u>41,384</u>  |                |                | <u>41,384</u>        |

## 5 Financial instruments by category

### 5.1 Classification of financial instruments

The financial instruments of the Group, by category are as follows:

|  |                              |                           | <b>Consolidated</b> |
|--|------------------------------|---------------------------|---------------------|
|  | <b>Loans and Receivables</b> | <b>Available for sale</b> | <b>Total</b>        |
| <b>December 31, 2014</b>                 |                              |                           |                     |
| Assets, according to the balance sheet   |                              |                           |                     |
| Accounts receivable with related parties | 4,874                        |                           | 4,874               |
| Shipbuilding Guarantee Fund              |                              | 41,384                    | 41,384              |
| Restricted funds                         | 476,004                      |                           | 476,004             |
| Cash and cash equivalents                | 1,002,476                    |                           | 1,002,476           |
|  | <u>1,483,354</u>             | <u>41,384</u>             | <u>1,524,738</u>    |

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|   | <u>Other<br/>financial<br/>liabilities</u> | <u>Consolidated<br/>Total</u> |
|---|--|-------------------------------|
| <b>At December 31, 2014</b>                 |  |                               |
| Liabilities, according to the balance sheet |  |                               |
| Borrowings, financing, and debentures       | 10,824,173                                 | 10,824,173                    |
| Trade and other accounts payable            | <u>1,917,620</u>                           | <u>1,917,620</u>              |
|   | <u>12,741,793</u>                          | <u>12,741,793</u>             |

|                             | <u>Loans<br/>and<br/>Receivables</u> | <u>Available<br/>for sale</u> | <u>Consolidated<br/>Total</u> |
|-----------------------------|--------------------------------------|-------------------------------|-------------------------------|
| <b>At December 31, 2014</b> |                                      |                               |                               |
| Restricted funds            | 4,172                                |                               | 4,172                         |
| Shipbuilding Guarantee Fund |                                      | 55,893                        | 55,893                        |
| Cash and cash equivalents   | 412,416                              |                               | 412,416                       |
|                             | <u>416,588</u>                       | <u>55,893</u>                 | <u>472,481</u>                |

|  | <u>Other<br/>financial<br/>liabilities</u> | <u>Consolidated<br/>Total</u> |
|--|--|-------------------------------|
| <b>At December 31, 2014</b>                |  |                               |
| Liabilities according to the balance sheet |  |                               |
| Borrowings, financing, and debentures      | 13,574,702                                 | 13,574,702                    |
| Trade and other accounts payable           | <u>2,629,592</u>                           | <u>2,629,592</u>              |
|  | <u>16,204,294</u>                          | <u>16,204,294</u>             |

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#### 5.2 Credit quality of financial assets

The credit quality of financial assets that are not matured is evaluated by reference to external credit ratings of counterparties:

|  | <u>Parent</u>    |                  | <u>Consolidated</u> |                  |
|--|------------------|------------------|---------------------|------------------|
|  | <u>2014</u>      | <u>2013</u>      | <u>2014</u>         | <u>2013</u>      |
| <b>Short-term bank deposits and checking account</b> |                  |                  |                     |                  |
| AAA (Fitch)  | 51,642           | 673,552          | 416,588             | 1,478,480        |
|  | <u>51,642</u>    | <u>673,552</u>   | <u>416,588</u>      | <u>1,478,480</u> |
|  |                  |                  |                     |                  |
|  | <u>Parent</u>    |                  | <u>Consolidated</u> |                  |
|  | <u>2014</u>      | <u>2013</u>      | <u>2014</u>         | <u>2013</u>      |
| <b>Debt securities</b> available for sale            |                  |                  |                     |                  |
| brAAA (S&P)  | -                | -                | 55,893              | 41,384           |
|  | -                | -                | 55,893              | 41,384           |
| Loans to related parties                             |                  |                  |                     |                  |
| Group 2  | 1,585,649        | 1,446,624        | 7,689               | 4,874            |
|  | <u>1,585,649</u> | <u>1,446,624</u> | <u>63,582</u>       | <u>46,258</u>    |

Group 2 - current clients/related parties (over six months) without past default events.

None of the fully compliant financial assets were renegotiated in the last year. None of the loans to related parties are due or impaired.

#### 6 Cash and cash equivalents

|                                   | <u>Parent</u>            |                          | <u>Consolidated</u>      |                          |
|-----------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                                   | <u>December 31, 2014</u> | <u>December 31, 2013</u> | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
| Resources at the bank and in cash | 122                      | -                        | 351,014                  | 14,852                   |
| Short-term bank deposits          | 51,520                   | 197,548                  | 61,402                   | 987,624                  |
|                                   | <u>51,642</u>            | <u>197,548</u>           | <u>412,416</u>           | <u>1,002,476</u>         |

Of the amount of R\$ 412,416 in cash and cash equivalents present in the consolidated statement, R\$ 350,037 (R\$ 663,425 at December 31, 2013) is denominated in U.S. dollars, R\$ 3,406 (R\$ 1,392 at December 31, 2013) in Euros, and R\$ 58,973 (R\$ 337,659 at December 31, 2013) is denominated in R\$.

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The short-term bank deposits refer to the Bank Deposit Certificates (CDBs), which are bonds issued by banks and sold to the public as a form of fundraising. Such bonds can be negotiated at any time, without any significant losses in value. The average remuneration of the CDBs of the Company is 102.64% of the variation of the Interbank Deposit Certificate (CDI).

#### 7 Restricted funds

The values recorded at December 31, 2013 are retained in compliance with the clauses of the funding contracts. The funds applied in FI-FGTS arising from debentures collected (Note 15) are applied in government bonds, whose compensation is the Selic rate. The total amount of restricted funds in 2013 was made available on January 20, 2014, in compliance with due issuance clauses.

The Company, through its indirect subsidiary Joatinga, in September 2014 raised new financing funds, the bridge loan 5 (Note 15) and pledged to keep in restricted funds the resources relating to interest payable at maturity of debt amounting to \$ 1,571 (equivalent to R \$ 4,172 at December 31).

#### 8 Prepaid expenses

|  | <u>Parent</u>            |                          | <u>Consolidated</u>      |                          |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
|  | <u>December 31, 2014</u> | <u>December 31, 2013</u> | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
| Stock issue expenses (i)               | -                        | 6,228                    | -                        | 6,228                    |
| Construction risk insurance (ii)       | -                        | -                        | 226,263                  | 179,809                  |
| Expenses with proceeds from borrowings | 9,040                    | 9,040                    | 85,609                   | 25,859                   |
| Civil liability insurances             | -                        | -                        | 1,901                    | 3,329                    |
|  | <u>9,040</u>             | <u>15,268</u>            | <u>313,773</u>           | <u>215,225</u>           |

(i) The amount for the cost of attracting capital registered at December 31, 2013 has been fully transferred to the shareholders' equity of the company by virtue of the payment of the total committed resources in the amount of R\$ 1.7 billion, in the first half of 2014.

(ii) In 2014, the subsidiaries Leblon, Pituba, Itioca, Curumin and Portogalo took out insurance aimed at covering operational risks in the construction of their drilling rigs. In this way the group comes to have a further five units insured, in addition to the eleven units whose insurance had already been contracted by the end of 2013 by subsidiaries Arpoador, Guarapari, Urca, Copacabana, Grumari, Frade, Ondina, Cassino, Camburi, Ipanema and Bracuhy, totalling sixteen units insured.

The amount of premium paid totaled approximately US\$ 134.5 million, equivalent to R \$ 357,2 million in the year ended December 31, 2014. The portion relating to the period of use of insurance, totaling \$ 48.6 million, equivalent to R \$ 129,09 million, was capitalized as part of the cost of the rigs.

#### 9 Shipbuilding Guarantee Fund (FGCN)

The shipbuilding guarantee fund (FGCN) is a private fund its own equity divided into quotas, responsible for issuing guarantees to cover credit risks of financing operations linked to construction of vessels in the Brazilian market, as well as the risk of fulfillment of contracts of Brazilian shipyards.

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As per the fund's regulations, participants must acquire a quantity of shares equivalent to 1% and up to 50% of the target surety financing by issuing surety letters.

Shares can only be redeemed 5 years after their respective purchase date, provided that the following conditions are met:

- i) fund solvency;
- ii) liquidity of portfolio assets; and
- iii) elimination of credit risk assured by FGCN.

At December 31, 2014, the Group held R\$ 55,893 invested in FGCN shares, as per the following chart:

| <b>Subsidiary</b> | <b>Consolidated</b> |             |
|-------------------|---------------------|-------------|
|                   | <b>2014</b>         | <b>2013</b> |
| Arpoador          | 4,800               | 4,236       |
| Boipeba           | 1,088               | 960         |
| Botinas           | 546                 | 492         |
| Bracuhy           | 907                 | 802         |
| Camburi           | 1,615               | 1,435       |
| Cassino           | 2,412               | 2,089       |
| Comandatuba       | 903                 | 423         |
| Copacabana        | 2,246               | 1,967       |
| Curumim           | 1,689               | 1,452       |
| Frade             | 1,098               | 976         |
| Grumari           | 2,264               | 1,983       |
| Guarapari         | 2,864               | 2,524       |
| Interlagos        | 980                 | 458         |
| Ipanema           | 2,184               | 1,890       |
| Itaoca            | 1,403               | 1,231       |
| Itapema           | 889                 | 411         |
| Itaunas           | 2,552               | 1,224       |
| Joatinga          | 2,581               | -           |
| Leblon            | 2,189               | 1,894       |
| Leme              | 2,192               | 1,896       |
| Mangaratiba       | 537                 | 483         |
| Marambaia         | 3,984               | 1,874       |
| Ondina            | 3,120               | 2,748       |
| Pituba            | 1,080               | 952         |
| Portogalo         | 974                 | 863         |
| Sahy              | 1,418               | 482         |
| Salinas           | 1,500               | 1,292       |
| Siri              | 1,469               | 472         |



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| Subsidiary | Consolidated |        |
|------------|--------------|--------|
|            | 2014         | 2013   |
| Urca       | 4,409        | 3,875  |
|            | 55,893       | 41,384 |

#### 10 Investments

|  | Parent                  |
|--|-------------------------|
| <b>At January 1, 2013</b>                    | <b>1,785,015</b>        |
| Capital increase in subsidiaries             | 353,263                 |
| Participation in the results of subsidiaries | 191,408                 |
| Sale of equity holding                       | (1,239)                 |
| Accumulated translation adjustments          | 151,550                 |
| Loss on assets held for sale                 | (7,259)                 |
| Carrying value adjustment                    | 18,154                  |
|  | <u>2,490,892</u>        |
| Appropriated financial charges (*)           | <u>174,145</u>          |
| <b>At December 31, 2013</b>                  | <b>2,665,037</b>        |
| Capital increase in subsidiaries             | 4,353,984               |
| Participation in the results of subsidiaries | 802,409                 |
| Accumulated translation adjustments          | 256,694                 |
| Gain in assets held for sale                 | 3,625                   |
|  | <u>8,081,749</u>        |
| Appropriated financial charges (*)           | <u>315,582</u>          |
| <b>At December 31, 2013</b>                  | <b><u>8,397,331</u></b> |

(\*) Sete Brasil raised financial funds subject to interest (Note 15), which are applied to indirect subsidiaries to finance their rig construction projects. The financial burden of these funds secured by the parent company and related to the units under construction by the SPEs, are presented in this section. In the consolidated balance sheet, they were reclassified under the heading works in progress, in fixed assets, whose movement is shown in Note 12.

During the financial year 2014 the Company constituted five new businesses, controlled entirely by Sete Brasil, as described below:

- On January 3 and 23, 2014, Sete Investments 1 S.A. and Sete Investments 2 S.A., were constituted, respectively, in compliance with the Group's strategy, for intermediating financial transactions, being dedicated to securing funds in the national capital market.
- On January 8 and May 2, 2014, Sete Netherlands B.V. and the Sete International Two GmbH were constituted, respectively, to make possible the segregation of assets involved in securing of

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funds. Therefore, the Board believes that this subsidiary can manage administrative costs inherent to the maintenance of operations in The Netherlands, in addition to contributing towards structuring activities along with project funders.

- On August 26, 2014, Sete Lux S.a.r.l. was constituted, continuing segregation required for securing long-term funds.
- On October 20, 2014, the company received a notice of intent to sell the shares of the companies Frade Drilling B.V. and Portogaldo Drilling B.V. held by the minority class shareholder – Domain Marine Coöperatief U.A., controlled by operator Petroserv S.A.. The Administration is discussing terms with this partner for formalization of its exit from the company.

On December 31, 2014, the company held the following direct and indirect subsidiaries:

| Name                        | Country     | Business  | Percentage                                |  |
|-----------------------------|-------------|---|---|--|
|                             |             |   | Direct participation in the common shares | Total participation in the common shares |
| Sete Investimentos 1        | Brazil      |   | 100%                                      |  |
| Sete Investimentos 2        | Brazil      |   | 100%                                      |  |
| Sete LUX Sarl               | Luxembourg  |   | 100%                                      |  |
| Sete LUX SCS                | Luxembourg  |   |   | 100%                                     |
| Sete Netherlands            | Netherlands | Participation in assets of the Oil and Gas sector |   | 100%                                     |
| Sete Netherlands 2          | Netherlands |   |   | 100%                                     |
| Sete Holding GmbH           | Austria     |   | 100%                                      |  |
| Sete Finco GmbH             | Austria     |   | 100%                                      |  |
| Sete International One GmbH | Austria     |   |   | 100%                                     |
| Sete International Two GmbH | Austria     |   |   | 100%                                     |
| Arpodor Drilling B.V.       | Netherlands |   |   | 85%                                      |
| Copacabana Drilling B.V.    | Netherlands |   |   | 85%                                      |
| Grumari Drilling B.V.       | Netherlands |   |   | 85%                                      |
| Ipanema Drilling B.V.       | Netherlands |   |   | 85%                                      |
| Leblon Drilling B.V.        | Netherlands |   |   | 85%                                      |
| Leme Drilling B.V.          | Netherlands |   |   | 85%                                      |
| Marambaia Drilling B.V.     | Netherlands |   |   | 85%                                      |
| Urca Drilling B.V.          | Netherlands |   |   | 85%                                      |
| Guarapari Drilling B.V.     | Netherlands |   |   | 80%                                      |
| Bracuhy Drilling B.V.       | Netherlands |   |   | 85%                                      |
| Portogalo Drilling B.V.     | Netherlands | Chartering of rigs                                |   | 85%                                      |
| Mangaratiba Drilling B.V.   | Netherlands |   |   | 85%                                      |
| Botinas Drilling B.V.       | Netherlands |   |   | 85%                                      |
| Ondina Drilling B.V.        | Netherlands |   |   | 85%                                      |
| Pituba Drilling B.V.        | Netherlands |   |   | 85%                                      |
| Boipeba Drilling B.V.       | Netherlands |   |   | 85%                                      |
| Interlagos Drilling B.V.    | Netherlands |   |   | 85%                                      |
| Itapema Drilling B.V.       | Netherlands |   |   | 75%                                      |
| Comandatuba Drilling B.V.   | Netherlands |   |   | 75%                                      |
| Frade Drilling B.V.         | Netherlands |   |   | 85%                                      |
| Camburi Drilling B.V.       | Netherlands |   |   | 70%                                      |
| Itaoca Drilling B.V.        | Netherlands |   |   | 80%                                      |

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| Name                   | Country     | Business | Percentage                                |  |
|------------------------|-------------|----------|---|--|
|                        |             |          | Direct participation in the common shares | Total participation in the common shares |
| Itaunas Drilling B.V.  | Netherlands |          |   | 70%                                      |
| Siri Drilling B.V.     | Netherlands |          |   | 80%                                      |
| Sahy Drilling B.V.     | Netherlands |          |   | 70%                                      |
| Cassino Drilling B.V.  | Netherlands |          |   | 75%                                      |
| Curumim Drilling B.V.  | Netherlands |          |   | 75%                                      |
| Salinas Drilling B.V.  | Netherlands |          |   | 75%                                      |
| Joatinga Drilling B.V. | Netherlands |          |   | 100%                                     |

Below is the financial information of its direct and indirect subsidiaries:

|                           | Assets     | Liabilities | Results  |
|---------------------------|------------|-------------|----------|
| Sete Investimentos 1      | 1,069,567  | 1,068,955   | 612      |
| Sete Investimentos 2      | 11,145     | 11,771      | (626)    |
| Sete Lux Sarl             | 166        | 626         | (460)    |
| Sete Lux SCS              |            | 436         | (436)    |
| Sete Netherlands          | 1,067,119  | 1,055,889   | 11,230   |
| Sete Netherlands 2        | 2,378      | 2,626       | (248)    |
| Sete Holding GmbH         | 7,865,466  | 7,091,247   | 774,219  |
| Sete Finco GmbH           | 749        | 1,021       | (272)    |
| Sete International Two    | 160,661    | 213,837     | (53,176) |
| Sete International GmbH   | 10,975,919 | 10,297,472  | 678,447  |
| Arpoador Drilling B.V.    | 1,711,877  | 1,712,101   | (224)    |
| Copacabana Drilling B.V.  | 1,168,091  | 1,168,964   | (873)    |
| Grumari Drilling B.V.     | 1,072,914  | 1,073,501   | (587)    |
| Ipanema Drilling B.V.     | 791,833    | 794,070     | (2,237)  |
| Leblon Drilling B.V.      | 680,048    | 682,199     | (2,151)  |
| Leme Drilling B.V.        | 622,320    | 624,468     | (2,148)  |
| Marambaia Drilling B.V.   | 593,619    | 595,768     | (2,149)  |
| Urca Drilling B.V.        | 1,737,598  | 1,739,497   | (1,899)  |
| Guarapari Drilling B.V.   | 1,533,218  | 1,533,568   | (350)    |
| Bracuhy Drilling B.V.     | 1,052,648  | 1,054,099   | (1,451)  |
| Portogalo Drilling B.V.   | 294,932    | 295,256     | (324)    |
| Mangaratiba Drilling B.V. | 263,174    | 263,438     | (264)    |
| Botinas Drilling B.V.     | 263,220    | 263,472     | (252)    |
| Ondina Drilling B.V.      | 1,542,354  | 1,543,150   | (796)    |
| Pituba Drilling B.V.      | 958,024    | 958,408     | (384)    |
| Boipeba Drilling B.V.     | 572,191    | 572,167     | 24       |
| Interlagos Drilling B.V.  | 422,072    | 423,001     | (929)    |
| Itapema Drilling B.V.     | 397,704    | 397,993     | (289)    |
| Comandatuba Drilling B.V. | 376,062    | 376,318     | (256)    |
| Frade Drilling B.V.       | 1,485,465  | 1,486,047   | (582)    |
| Camburi Drilling B.V.     | 894,970    | 895,067     | (97)     |
| Itaoca Drilling B.V.      | 573,174    | 573,408     | (234)    |
| Itaunas Drilling B.V.     | 498,235    | 498,698     | (463)    |

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|                       |           |           |         |
|-----------------------|-----------|-----------|---------|
| SiriDrilling B.V.     | 469,246   | 469,519   | (273)   |
| SahyDrilling B.V.     | 460,965   | 461,220   | (255)   |
| CassinoDrilling B.V.  | 1,384,696 | 1,390,277 | (5,581) |
| CurumimDrilling B.V.  | 772,359   | 772,775   | (416)   |
| SalinasDrilling B.V.  | 559,008   | 559,360   | (352)   |
| JoatingaDrilling B.V. | 789,636   | 790,011   | (375)   |

#### 11 Intangible Assets

|                                     | <u>Parent and Consolidated</u>                     |                                      |              |
|-------------------------------------|--|--------------------------------------|--------------|
|                                     | <u>Construction<br/>license and<br/>chartering</u> | <u>Software<br/>use<br/>licenses</u> | <u>Total</u> |
| <b>At January 1, 2013</b>           |  |                                      |              |
| Cost                                | 3,157  | 3,718                                | 6,875        |
| Amortization                        | (1,184)  | (709)                                | (1,893)      |
| Carrying amount, net                | <u>1,973</u>                                       | <u>3,009</u>                         | <u>4,982</u> |
| <b>Year ended December 31, 2013</b> |  |                                      |              |
| Opening balance                     | 1,973  | 3,009                                | 4,982        |
| Acquisitions                        | -  | 1,554                                | 1,554        |
| Amortization                        | (789)  | (850)                                | (1,639)      |
| Accounting balance, net             | <u>1,184</u>                                       | <u>3,713</u>                         | <u>4,897</u> |
| <b>At December 31, 2013</b>         |  |                                      |              |
| Costs                               | 3,157  | 5,272                                | 8,429        |
| Accrued amortization                | (1,973)  | (1,559)                              | (3,532)      |
| Carrying amount, net                | <u>1,184</u>                                       | <u>3,713</u>                         | <u>4,897</u> |
| <b>Year ended December 31, 2014</b> |  |                                      |              |
| Opening balance                     | 1,184  | 3,713                                | 4,897        |
| Acquisitions                        | -  | 1,367                                | 1,367        |
| Amortization                        | (789)  | (1,262)                              | (2,051)      |
| Carrying amount, net                | <u>395</u>   | <u>3,818</u>                         | <u>4,213</u> |
| <b>At December 31, 2014</b>         |  |                                      |              |
| Costs                               | 3,157  | 6,639                                | 9,796        |
| Amortization                        | (2,762)  | (2,821)                              | (5,583)      |
| Carrying amount, net                | <u>395</u>   | <u>3,818</u>                         | <u>4,213</u> |

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#### 12 Property, plant, and equipment

|   |                            |                       |                           |   |                             | Parent       |
|---|----------------------------|-----------------------|---------------------------|---|-----------------------------|--------------|
|   | Machinery and<br>equipment | Computer<br>equipment | Furniture<br>and fixtures | Improvements to<br>third-party property | Fixed assets in<br>progress | Total        |
| <b>At January 1, 2013</b>                 |                            |                       |                           |   |                             |              |
| Costs                                     | 302                        | 995                   | 1,460                     | 1,441                                   |                             | 6,463        |
| Accumulated depreciation and amortization | (48)                       | (126)                 | (123)                     | (358)                                   |                             | (655)        |
| Net book value                            | <u>254</u>                 | <u>869</u>            | <u>1,337</u>              | <u>1,083</u>                            |                             | <u>5,808</u> |
| <b>Year ended December 31, 2013</b>       |                            |                       |                           |   |                             |              |
| Opening balance                           | 254                        | 869                   | 1,337                     | 1,083                                   | 2,265                       | 5,808        |
| Acquisitions                              | 205                        | 1,577                 | 374                       | 1,098                                   | 260                         | 3,514        |
| Assignment                                |                            |                       |                           | 2,528                                   | (2,528)                     |              |
| Write-offs                                | (1)                        | (77)                  | (10)                      | (3)                                     |                             | (91)         |
| Depreciation and amortization             | (50)                       | (243)                 | (162)                     | (888)                                   |                             | (1,343)      |
| Net book value                            | <u>408</u>                 | <u>2,126</u>          | <u>1,539</u>              | <u>3,818</u>                            | <u>(3)</u>                  | <u>7,888</u> |
| <b>At December 31, 2013</b>               |                            |                       |                           |   |                             |              |
| Costs                                     | 506                        | 2,495                 | 1,824                     | 5,064                                   | (3)                         | 9,886        |
| Accumulated depreciation and amortization | (98)                       | (369)                 | (285)                     | (1,246)                                 |                             | (1,998)      |
| Net book value                            | <u>408</u>                 | <u>2,126</u>          | <u>1,539</u>              | <u>3,818</u>                            | <u>(3)</u>                  | <u>7,888</u> |
| <b>Year ended December 31, 2014</b>       |                            |                       |                           |   |                             |              |
| Opening balance                           | 408                        | 2,126                 | 1,539                     | 3,818                                   | (3)                         | 7,888        |
| Acquisitions                              | 90                         | 255                   | (71)                      | (1)                                     | 75                          | 348          |
| Write-offs                                | -                          | -                     | -                         | -                                       | -                           | 0            |
| Depreciation and amortization             | (91)                       | (503)                 | (164)                     | (1,287)                                 | -                           | (2,045)      |
| Net book value                            | <u>407</u>                 | <u>1,878</u>          | <u>1,304</u>              | <u>2,530</u>                            | <u>72</u>                   | <u>6,191</u> |
| <b>At December 31, 2014</b>               |                            |                       |                           |   |                             |              |
| Costs                                     | 595                        | 2,750                 | 1,752                     | 5,063                                   | 72                          | 10,232       |
| Accumulated depreciation and amortization | (188)                      | (872)                 | (448)                     | (2,533)                                 | -                           | (4,041)      |
| Net book value                            | <u>407</u>                 | <u>1,878</u>          | <u>1,304</u>              | <u>2,530</u>                            | <u>72</u>                   | <u>6,191</u> |

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|   | <u>Machinery and equipment</u> | <u>Computer equipment</u> | <u>Furniture and fixtures</u> | <u>Improvements on third-party property</u> | <u>Fixed assets in progress</u> | <u>Total</u>      |
|---|--------------------------------|---------------------------|-------------------------------|---|---------------------------------|-------------------|
| <b>At January 1, 2013</b>                 |                                |                           |                               |   |                                 |                   |
| Costs                                     | 302                            | 995                       | 1,458                         | 1,441                                       | 6,070,352                       | 6,074,548         |
| Accumulated depreciation and amortization | (48)                           | (126)                     | (123)                         | (358)                                       |                                 | (655)             |
| Net book value                            | <u>254</u>                     | <u>869</u>                | <u>1,335</u>                  | <u>1,083</u>                                | <u>6,070,352</u>                | <u>6,073,893</u>  |
| <b>Year ended December 31, 2013</b>       |                                |                           |                               |   |                                 |                   |
| Opening balance                           | 254                            | 869                       | 1,335                         | 1,083                                       | 6,070,352                       | 6,073,893         |
| Acquisitions                              | 205                            | 1,577                     | 376                           | 1,098                                       | 6,517,574                       | 6,520,830         |
| Assignment                                |                                |                           |                               | 2,528                                       | (2,528)                         |                   |
| Write-offs                                | (1)                            | (77)                      | (10)                          | (3)   |                                 | (91)              |
| Exchange rate differences                 |                                |                           |                               |   | 1,358,987                       | 1,358,987         |
| Depreciation and amortization             | (50)                           | (243)                     | (162)                         | (888)                                       |                                 | (1,343)           |
| Net book value                            | <u>408</u>                     | <u>2,126</u>              | <u>1,539</u>                  | <u>3,818</u>                                | <u>13,944,385</u>               | <u>13,952,276</u> |
| <b>At December 31, 2013</b>               |                                |                           |                               |   |                                 |                   |
| Costs                                     | 506                            | 2,495                     | 1,824                         | 5,064                                       | 13,944,385                      | 13,954,274        |
| Accumulated depreciation and amortization | (98)                           | (369)                     | (285)                         | (1,246)                                     | -                               | (1,998)           |
| Carrying amount, net                      | <u>408</u>                     | <u>2,126</u>              | <u>1,539</u>                  | <u>3,818</u>                                | <u>13,944,385</u>               | <u>13,952,276</u> |
| <b>Year ended December 31, 2014</b>       |                                |                           |                               |   |                                 |                   |
| Opening balance                           | 408                            | 2,126                     | 1,539                         | 3,818                                       | 13,944,385                      | 13,952,276        |
| Acquisitions                              | 90                             | 255                       | (71)                          | (1)   | 6,703,567                       | 6,703,840         |
| Write-offs                                | -                              | -                         | -                             | -   | -                               | -                 |
| Exchange rate differences                 |                                |                           |                               |   | 2,676,511                       | 2,676,511         |
| Depreciation and amortization             | (91)                           | (503)                     | (164)                         | (1,287)                                     | -                               | (2,045)           |
| Net book value                            | <u>407</u>                     | <u>1,878</u>              | <u>1,304</u>                  | <u>2,530</u>                                | <u>23,324,463</u>               | <u>23,330,582</u> |
| <b>At December 31, 2014</b>               |                                |                           |                               |   |                                 |                   |
| Costs                                     | 595                            | 2,750                     | 1,752                         | 5,063                                       | 23,324,463                      | 23,334,623        |
| Accumulated depreciation and amortization | (188)                          | (872)                     | (448)                         | (2,533)                                     | -                               | (4,041)           |
| Net book value                            | <u>407</u>                     | <u>1,878</u>              | <u>1,304</u>                  | <u>2,530</u>                                | <u>23,328,877</u>               | <u>23,330,582</u> |

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The costs incurred with 29 projects now under construction by the Dutch SPEs, called "Drilling Rig Units" or DRUs, are recorded under the heading of fixed assets in progress of the Group.

The portfolio of operational assets (DRUs) in construction is distributed into two types of assets of similar characteristics:

- Drillship type (23 units): they are basically shaped like a conventional ship with a drilling tower located at its center, where an opening in the "moon pool" hull allows the passage of a drilling column. Its advantage is to have a higher transit speed and higher loading capacity and storage.
- Semi-submersible type (6 units): have floats that are submerged, which gives this type of platform greater stability and makes it less susceptible to drifting movement. The deck, also called the "main deck", sits above the waterline, out of reach of waves, sustained by the legs or columns of the platform. Its deck area is usually higher than that of a drillship. The drilling tower is generally located in the center of the platform and an opening in the center of its deck allows passage for the drilling column.

The specification of each of these vessels are consistent with international designs. Their equipment and components are supplied by various suppliers existing in the oil and gas sector to guarantee the quality, the availability of replacement parts, and post-sales support for future maintenance.

All the units are designed to drill at ultra-deep water depths of up to 3000 meters, with a total depth capacity of up to 10,000 meters.

With the aim of limiting the counterpart risk of conclusion with any of the shipbuilders, the Administration opted for a diversified approach of contracting with different shipyards, according to the table below:

| <b>Shipyard</b>                             | <b>No. of units</b> | <b>Type of vessel</b> | <b>Contracting SPE</b>  |
|---|---------------------|-----------------------|---|
| Estaleiro Atlântico Sul - EAS .....         | 7                   | Drillship             | Copacabana<br>Grumari<br>Ipanema<br>Leblon<br>Leme<br>Marambaia<br>Joatinga |
| Estaleiro Brasfels (FernavalePte Ltd.)..... | 6                   | Semi-submersible      | Urca<br>Frade<br>Bracuhy<br>Portogalo<br>Mangaratiba<br>Botinas             |
| Estaleiro Jurong Aracruz - EJA.....         | 7                   | Drillship             | Arpoador<br>Guarapari<br>Camburi<br>Itaoca                                  |

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| Shipyard                                   | No. of units | Type of vessel | Contracting SPE   |
|--|--------------|----------------|---|
|  |              |                | Itaunas<br>Siri<br>Sahy   |
| Estaleiro Enseada do Paraguaçu - EEP ..... | 6            | Drillship      | Ondina<br>Pituba<br>Boipeba<br>Interlagos<br>Itapema<br>Comandatuba |
| Estaleiro Rio Grande - ERG.....            | 3            | Drillship      | Cassino<br>Curumim<br>Salinas                                       |

The most relevant costs for construction of the assets are distributed as follows:

(i) Construction contracts of assets agreed under the EPC mode - Engineering, Procurement and Construction Contract ("EPC"), as described in Note 20 (item a - (i)).

The vessels are contracted to be delivered, on average, four years after the start of construction. The company understands that the delivery period allows the Administration and the shipyards the flexibility needed for completion and handoff to Petrobras on schedule. The first unit is set to be delivered in June 2015, and currently, our last vessel is set to be delivered in January 2020.

(ii) Contracts for management and supervision of the construction of rights (Construction Management Agreements - "CMA"), as described in Note 20 (item a - (ii)).

The costs of managing and supervising the work represent approximately 4% of the total of each ongoing project. The company believes that with the hiring of Petrobras' engineering team and/or a partner operator acting in conjunction with the technical staff of Sete Brazil as supervisors in each of the shipyards, it is possible to ensure the progress of construction of the DRUs, reducing the risks of construction and acceptance (non-compliance with the requirements of Petrobras).

(iii) Other indirect costs (such as financial costs and insurance of the work) incurred during construction are capitalized under property, plant and equipment.

In the year 2014, the Group capitalized under property, plant and equipment R\$ 925,469 (R\$ 477,083 at December 31, 2013) of borrowing costs. Of the total amount capitalized in 2014, R\$ 489,728 relate to the debt assumed by the Parent Company, and R\$ 435,741 relate to bridge loans assumed by subsidiaries.



## Sete Brasil Participações S.A.

### Administration's explanatory notes to the financial statements at December 31, 2014

In thousands of reais, unless otherwise stated

#### 13 Suppliers and other accounts payable

|                                    | <b>Parent</b> |             | <b>Consolidated</b> |             |
|------------------------------------|---------------|-------------|---------------------|-------------|
|                                    | <b>2014</b>   | <b>2013</b> | <b>2014</b>         | <b>2013</b> |
| Accounts payable shipyards         | -             | -           | 2,479,722           | 1,829,033   |
| Accounts payable service providers | 8,479         | 7,375       | 120,118             | 69,164      |
| Other accounts payable             | 129           | 1           | 129                 | 2           |
|                                    | 8,608         | 7,376       | 2,599,969           | 1,898,199   |
| Current portion                    | (8,608)       | (7,376)     | (2,418,425)         | (1,516,756) |
| Non-current portion                | -             | -           | 181,544             | 381,443     |

Accounts payable balances for the shipyards involved in the project are from obligations generated in the normal course of business and will be paid in periods less than or greater than twelve months according to the schedule of payments set out in the EPC contracts.

At December 31, 2014, the portion of obligations recorded under non-current liabilities represented services rendered by the Enseada do Paraguaçu Shipyard to be paid within a period of over twelve months, as per the contractually established payment flow.

In addition to the services already invoiced related to physical construction of assets adhering to EPC contracts, there are also services already invoiced, related to supervision of construction and assembly.

Additionally, provisions are also recorded based on measuring monthly bulletins regarding the physical progress of the construction of assets. Measuring bulletins are issued by shipyards and are reviewed by the technical engineering staff of Sete Brazil, partner operators and Petrobras.

#### 14 Social and labor obligations

|   | <b>Parent</b> |             | <b>Consolidated</b> |             |
|---|---------------|-------------|---------------------|-------------|
|   | <b>2014</b>   | <b>2013</b> | <b>2014</b>         | <b>2013</b> |
| Provisions for variable compensation of employees       | 19,065        | 15,081      | 19,065              | 15,081      |
| Vacation pay provision                                  | 3,387         | 2,162       | 3,387               | 2,162       |
| Provision for 14th salaries                             | 1,688         | 1,073       | 1,688               | 1,073       |
| National Social Security Institute - INSS               | 712           | 521         | 712                 | 521         |
| Guarantee Severance Indemnity Fund for Employees - FGTS | 249           | 165         | 249                 | 165         |
| Private Pensions  | 108           | -           | 108                 | -           |
|   | 25,209        | 19,002      | 25,209              | 19,002      |

## Sete Brasil Participações S.A.

### Administration's explanatory notes to the financial statements at December 31, 2014 In thousands of reais, unless otherwise stated

#### 15 Borrowings and financing

| Creditor  | Borrower                       | Rate                  | Due date   | Total contracted | Principal         | Charges        | Borrowing cost  | Total             |            |
|---|--------------------------------|-----------------------|------------|------------------|-------------------|----------------|-----------------|-------------------|------------|
| <b>Denominated in R\$</b>   |                                |                       |            |                  |                   |                |                 |                   |            |
| FI - FGTS   | Sete Brasil Participações S.A. | IPCA + 8.00% p.a.     | 8/15/2033  | 1,850,000        | 1,850,000         | 540,732        | (14,602)        | 2,376,130         |            |
| <b>Denominated in US\$</b>  |                                |                       |            |                  |                   |                |                 |                   |            |
| Sumitomo Mitsui Banking<br>The Bank of Nova Scotia<br>Standard Chartered Bank<br>Banco Bradesco S.A.<br>Citibank<br>(3) | Sete International One GmbH    | LIBOR 3M + 3.50% p.a. | 6/19/2015  | 3,320,250        | 1,487,472         | 155            | (1,424)         | 1,486,203         |            |
| Luce Venture Capital - Drilling Series  |                                | LIBOR 3M + 4.75% p.a. | 12/31/2015 | 332,025          | 200,892           | 584            | (414)           | 201,062           |            |
| <b>Denominated in US\$</b>  |                                |                       |            |                  |                   |                |                 |                   |            |
| Caixa Econômica Federal (6)   | Sete Investimentos I S.A.      | 9.2% p.a.             | 1/29/2015  | 1,048,004        | 1,048,004         | 16,533         | (3,079)         | 1,061,458         |            |
| <b>Denominated in US\$</b>  |                                |                       |            |                  |                   |                |                 |                   |            |
| Copacabana Drilling B.V.  |                                | LIBOR 2M + 5.5% p.a.  | 2/18/2015  | 362,832          | 390,438           | 804            | (1,797)         | 389,445           |            |
| Grumari Drilling B.V.   |                                | LIBOR 2M + 5.5% p.a.  | 2/18/2015  | 366,153          | 393,945           | 812            | (1,785)         | 392,972           |            |
| Ipanema Drilling B.V.   |                                | LIBOR 12M + 3.9% p.a. | 2/20/2015  | 344,239          | 363,528           | 14,120         | (537)           | 377,111           |            |
| Leblon Drilling B.V.  |                                | LIBOR 12M + 3.9% p.a. | 2/20/2015  | 344,239          | 363,528           | 14,120         | (580)           | 377,067           |            |
| Leme Drilling B.V.  |                                | LIBOR 12M + 3.9% p.a. | 2/20/2015  | 344,239          | 363,528           | 14,120         | (544)           | 377,104           |            |
| <b>Denominated in US\$</b>  |                                |                       |            |                  |                   |                |                 |                   |            |
| Arpoador Drilling B.V.  |                                | LIBOR 2M + 3.55% p.a. | 1/21/2015  | 739,699          | 762,533           | 3,905          | (276)           | 766,162           |            |
| Urca Drilling B.V.  |                                | LIBOR 2M + 3.55% p.a. | 1/21/2015  | 812,425          | 833,473           | 4,930          | (251)           | 838,152           |            |
| Frade Drilling B.V.   |                                | LIBOR 2M + 3.55% p.a. | 1/21/2015  | 106,248          | 108,090           | 639            | (275)           | 108,455           |            |
| Bracuhu Drilling B.V.   |                                | LIBOR 12M + 4% p.a.   | 4/17/2015  | 79,686           | 82,037            | 2,422          | (478)           | 83,981            |            |
| Portogalo Drilling B.V.   |                                | LIBOR 12M + 4% p.a.   | 4/17/2015  | 79,686           | 81,087            | 2,394          | (478)           | 83,003            |            |
| Guarapari Drilling B.V.   |                                | LIBOR 2M + 3.55% p.a. | 1/21/2015  | 473,016          | 484,715           | 2,944          | (281)           | 487,378           |            |
| Ondina Drilling B.V.  |                                | LIBOR 2M + 3.55% p.a. | 1/21/2015  | 523,590          | 536,273           | 3,257          | (275)           | 539,255           |            |
| Pituba Drilling B.V.  |                                | LIBOR 12M + 4% p.a.   | 4/17/2015  | 114,429          | 118,320           | 3,501          | (573)           | 121,248           |            |
| Boipeba Drilling B.V.   |                                | LIBOR 12M + 4% p.a.   | 4/17/2015  | 114,429          | 117,018           | 3,458          | (545)           | 119,931           |            |
| Camburi Drilling B.V.   |                                | LIBOR 2M + 3.55% p.a. | 1/21/2015  | 228,486          | 236,474           | 1,436          | (103)           | 237,807           |            |
| Itaoea Drilling B.V.  |                                | LIBOR 12M + 4% p.a.   | 4/17/2015  | 181,950          | 188,339           | 5,571          | (692)           | 193,218           |            |
| Cassino Drilling B.V.   |                                | LIBOR 2M + 3.55% p.a. | 1/21/2015  | 406,048          | 419,535           | 2,528          | (268)           | 421,795           |            |
| Curumim Drilling B.V.   |                                | LIBOR 12M + 4% p.a.   | 4/17/2015  | 254,461          | 264,345           | 7,837          | (849)           | 271,333           |            |
| Salinas Drilling B.V.   |                                | LIBOR 12M + 4% p.a.   | 4/17/2015  | 218,337          | 227,536           | 6,692          | (766)           | 233,462           |            |
| <b>Denominated in US\$</b>  |                                |                       |            |                  |                   |                |                 |                   |            |
| Marambaia Drilling B.V.   |                                | LIBOR 12M + 3.9% p.a. | 3/10/2015  | 404,181          | 404,181           | 14,639         | (1,268)         | 417,552           |            |
| Interlagos Drilling B.V.  |                                | LIBOR 12M + 3.9% p.a. | 3/10/2015  | 98,279           | 98,279            | 3,560          | (675)           | 101,164           |            |
| Itapema Drilling B.V.   |                                | LIBOR 12M + 3.9% p.a. | 3/10/2015  | 90,311           | 90,311            | 3,271          | (674)           | 92,908            |            |
| Comandatuba Drilling B.V.   |                                | LIBOR 12M + 3.9% p.a. | 3/10/2015  | 90,311           | 90,311            | 3,271          | (674)           | 92,908            |            |
| Itaunas Drilling B.V.   |                                | LIBOR 12M + 3.9% p.a. | 3/10/2015  | 254,557          | 254,557           | 9,220          | (962)           | 262,815           |            |
| Siri Drilling B.V.  |                                | LIBOR 12M + 3.9% p.a. | 3/10/2015  | 201,871          | 201,871           | 7,312          | (868)           | 208,315           |            |
| Sahy Drilling B.V.  |                                | LIBOR 12M + 3.9% p.a. | 3/10/2015  | 188,590          | 188,590           | 6,831          | (844)           | 194,577           |            |
| <b>Denominated in US\$</b>  |                                |                       |            |                  |                   |                |                 |                   |            |
| Standard Chartered Bank<br>(5)  | Joatinga Drilling B.V.         | LIBOR 1M + 6% p.a.    | 1/21/2015  | 664,050          | 664,050           | 1,705          | (2,042)         | 663,713           |            |
|   |                                |                       |            |                  | <b>12,913,260</b> | <b>703,305</b> | <b>(38,883)</b> | <b>13,577,682</b> |            |
|   |                                |                       |            |                  |                   |                |                 | Current Assets    | 13,577,682 |
|   |                                |                       |            |                  |                   |                |                 | Noncurrent        | -          |

## Sete Brasil Participações S.A.

### Administration's explanatory notes to the financial statements at December 31, 2014

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The funds were secured to supply immediate needs to honor payment flows of the EPC contracts with the shipyards contracted for the construction of drilling rigs.

#### (1) Bridge Loan 1 – Bridge Facility Agreement 1 - administrative officer\*: Banco Itaú BBA

On February 20, 2014, there was a new extension of the period for SPEs Copacabana, Grumari, Ipanema, Leblon, and Leme. Interest incurred up to this date, has been incorporated into the principal of the debt in the amount of US\$ 13,668, equivalent to R \$ 30,929 (with US\$ 2,814 being equivalent to R \$ 6,369 for Copacabana, US\$ 2,840 being equivalent to R\$ 6,426 for Grumari, US\$ 2,671 being equivalent to R\$ 6,044 for Ipanema, US\$ 2,671 being equivalent to R\$ 6,044 for Leblon and \$ 2,671 being equivalent to R \$ 6,044 for Leme).

On August 20, 2014, there was a new extension of the period for SPEs Copacabana, and Grumari, with the due date set for December 18, 2014. Interest incurred up to this date has been incorporated in to the principal of the debt, in the amount of US 5,579, equivalent to R\$ 12,652 (with US\$ 2,777 being equivalent to R\$ 6,298 for Copacabana, and US\$ 2801 being equivalent to R\$ 6,354 for Grumari).

On December 18, 2014, SPEs Copacabana and Grumari paid the interest incurred up to this date, amounting to US\$ 4,197 equivalent to R \$ 11,079. On this same date, was the extension of the deadline with the due date established for February 18, 2015.

#### (2) Bridge Loan 2 – Bridge Facility Agreement 2 - administrative officer\*: Deutsche Bank

On May 8, 2014, there was the extension of the due date of the second bridge loan for the 14 SPEs that had that line contracted. They are: Arpoador, Urca, Frade, Bracuhy, Portogalo, Guarapari, Ondina, Pituba, Boipeba, Camburi, Itaoca, Cassino, Curumim and Salinas. The new due dates agreed upon are, respectively, November 4, 2014 for SPEs Arpoador, Camburi, Frade, Guarapari, Ondina, Urca, and Cassino; and April 17, 2015 for SPEe Boipeba, Bracuhy, Itaoca, Pituba, Portogalo, Curumim, and Salinas.

On November 4, 2014, SPEs Arpoador, Camburi, Frade, Guarapari, Ondina, Urca, and Cassino paid the interest incurred up to that date, in the amount of US\$ 24, 616, equivalent to R\$ 62,731. On this same date, was the extension of the deadline with the due date established for December 17, 2014.

On December 17, 2014, the maturation period for SPEs Arpoador, Camburi, Frade, Ondina, Urca, and Cassino was extended to January 21, 2015.

#### (3) Bridge Loan 3 – Bridge Facility Agreement 3 - administrative officer\*: Sumitomo Mitsui

On September 19, 2013, the Company, through its subsidiary Sete International, secured new funds for financing of short-term expenses of rig construction. This new *bridge facility agreement*, has, as its creditors, the banks Sumitomo Mitsui Banking Corporation, The Bank of Nova Scotia, Standard Chartered Bank, Bradesco BBI and Citibank.

On September 17, 2014, there was an extension of the due date of the third bridge loan secured by subsidiary Sete International for March 17, 2015. In the same month, there was payment of part of the principal of the debt, amounting to \$ 160,000, equivalent to R \$ 373,259.

In the fourth quarter of 2014, there was payment of part of the principal of the debt, in the amount of US\$ 530,000, equivalent to R\$ 1,357,458.

In 2014, there was payment of the interest incurred, in the amount of US\$ 38,839, equivalent to R\$ 92,280.

## **Sete Brasil Participações S.A.**

### **Administration's explanatory notes to the financial statements at December 31, 2014**

**In thousands of reais, unless otherwise stated**

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#### (4) Bridge Loan 4 – Bridge Facility Agreement 4 - administrative officer\*: Deutsche Bank

On February 28, 2014, the Company secured new funds for financing of the assets. This new financing in the amount of US\$ 500,000, whose creditors are Banco Itaú and Banco do Brasil, was secured by the indirect subsidiaries: Marambaia, Interlagos, Itapema, Comandatuba, Itaunas, Siri and Sahy.

#### (5) Bridge Loan 5 – Bridge Facility Agreement 5 - administrative officer\*: Deutsche Bank

On September 16, 2014, the company, through its subsidiary Joatinga, secured new funds for asset financing. This new funding in the amount of \$ 250,000, equivalent to R \$ 583,000, whose creditor is the Standard Chartered Bank.

On November 17, 2014, there was the extension of the due date to December 17, 2015. On this same date, there was payment of accrued interest amounting to \$ 2,412, equivalent to R \$ 6,148.

#### (6) Bridge Loan 6 – Bridge Facility Agreement 6 - administrative officer\*: Caixa Econômica Federal:

On October 31, 2014, the company, through its subsidiary Sete Investimentos I, secured new funds for asset financing. This new funding in the amount of \$ 400,000, equivalent to R \$ 1,062,480, whose creditor is the Caixa Econômica Federal.

\* The administrative officer is responsible for releasing disbursements of borrowings and receipt of borrower's payments of funds to the creditors of each debt.

The fair value of borrowings classified in current liabilities is close to its book value, since the impact of discounting is not significant.

The total amount of fund raising costs was approximately \$ 100,563, equivalent to \$ 267,116 in the year ended December 31, 2014 (\$ 81,200, equivalent to R \$ 190,300 at December 31, 2013), with the portion of \$ 92,030 equivalent to R \$ 244,451 (US \$ 38,300, equivalent to R \$ 89,600 at December 31, 2013) having been transferred to the asset.

### **Simple Debenture Issuance - FI-FGTS**

At the Extraordinary General Meeting, dated February 1, 2013, the Company approved the issuance of 1,850 simple debentures, issued in a single series, with real guarantees, non-convertible into shares, with a unit value of \$ 1,000, totaling the amount of R\$ 1,850 billion.

The resources will be used for financing the program of investments of the Company which involves the construction of 29 drilling rigs for ultra deep-sea water to be constructed in Brasil and chartered by the subsidiaries to Petrobras. The expenditures related to maintenance, to cost and consumption of the Company and any investment plans, which have not been previously approved in writing by the bondholders, will not be eligible for inclusion in the use of resources.

The issuance will not be required to be registered with The Securities Commission of Brazil (Comissão de Valores Mobiliários - CVM), since the debentures had a private placement without any effort of sale of investors. The debentures, except anticipated maturity, will have a term of 20 years and six months as from the issuance date which took place on February 15, 2013.

## **Sete Brasil Participações S.A.**

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As of February 19, 2013, the debentures will be subject to interests of 8% (eight percent) per annum. Until the sixtieth month, as from the date of issuance, the interests will be incorporated into the value of debentures (grace period) and as from this date they will be paid every six months, together with the 16 installments for paying the debentures.

As part of the costs of securing this, the Company paid, on February 21, 2013, a remuneration of R\$ 16,250 for each debenture, presented net in the balance under the heading of debentures.

The shares and their rights of the capital of the intervening consenting party, Sete International One GmbH, as well as receivables from guaranteeing intervening parties Itapema Drilling B.V. and Comandatuba Drilling B.V. are guarantees of issue in favor of the debenture holders.

On December 13, 2014, the Company was not in compliance with certain covenants contained in the deed of the debentures. As there was still no formalization of waiver on the part of the debenture holders, the company transferred this obligation originally classified as non-current liabilities to current liabilities. The Administration understands that this is a temporary situation, since it is under negotiation with the only debenture holder for readjustment of these indices in accordance with the operational reality of the Group.

The fair value of the non-convertible debt liability at December 31, 2014 totals R \$ 2,569 billion. The fair value was calculated using cash flows discounted at a rate based on the rate of loans of IPCA + 8%.

## Sete Brasil Participações S.A.

### Administration's explanatory notes to the financial statements at December 31, 2014

In thousands of reais, unless otherwise stated

#### 16 Share capital and reserves

##### (a) Share capital

On 11 September, the shareholders of the company approved the increase of the subscribed capital to R\$ 3,267,000. These resources will be paid within 180 days after the date of approval and will be used upon request by the company to remedy any cash needs in the short term. Of the total shares issued, 6,368,500 are paid-up and have the same voting rights in meetings and rights to receive dividends.

|                                     | Amount               | Gross                |
|-------------------------------------|----------------------|----------------------|
| FIP Sondas                          | 2,403,025,000        | 2,403,025,000        |
| Petrobras S.A.                      | 126,475,000          | 126,475,000          |
| <b>Balance at December, 31</b>      | <b>2,529,500,000</b> | <b>2,529,500,000</b> |
| <b>Full payments in 2014</b>        | <b>3,839,000,000</b> | <b>3,839,000,000</b> |
| April                               |                      |                      |
| FIP Sondas                          | 475,000,000          | 475,000,000          |
| Petrobras S.A.                      | 25,000,000           | 25,000,000           |
| May                                 |                      |                      |
| FIP Sondas                          | 760,000,000          | 760,000,000          |
| Petrobras S.A.                      | 40,000,000           | 40,000,000           |
| June                                |                      |                      |
| FIP Sondas                          | 380,000,000          | 380,000,000          |
| Petrobras S.A.                      | 20,000,000           | 20,000,000           |
| August                              |                      |                      |
| FIP Sondas                          | 717,250,000          | 717,250,000          |
| Petrobras S.A.                      | 37,750,000           | 37,750,000           |
| October                             |                      |                      |
| FIP Sondas                          | 358,150,000          | 358,150,000          |
| Petrobras S.A.                      | 18,850,000           | 18,850,000           |
| November                            |                      |                      |
| FIP Sondas                          | 348,650,000          | 348,650,000          |
| Petrobras S.A.                      | 18,350,000           | 18,350,000           |
| December                            |                      |                      |
| FIP Sondas                          | 608,000,000          | 608,000,000          |
| Petrobras S.A.                      | 32,000,000           | 32,000,000           |
| <b>Balance at December 31, 2014</b> | <b>6,368,500,000</b> | <b>6,368,500,000</b> |

## Sete Brasil Participações S.A.

### Administration's explanatory notes to the financial statements at December 31, 2014

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The proportional installment of costs for issuing stock was recorded in a reduction account of net equity, as expenses for stock issuance, as shown below:

|  | <u>2014</u>    | <u>2013</u>    |
|--|----------------|----------------|
| <b>Total consultancy costs<br/>on the transaction - 2nd subscription</b> | 15,889         | 15,889         |
| Committed capital (i)  | 794,460        | 794,460        |
| Paid-in capital  | <u>794,460</u> | <u>483,075</u> |
| Proportional % of funds secured and paid-in                              | 100.00%        | 60.81          |
| Portion of costs allocated in equity                                     | 15,889         | 9,661          |
| Portion of costs recored in pre-paid<br>non-current expenses             | -              | 6,228          |

Refers to the commitment assumed by the Sete Brasil stockholders in the Company's capital increase. The capital increase will occur whenever there is need for obtaining funds.

#### (b) Revenue reserve

##### Legal Reserve

The legal reserve is constituted annually with 5% of the net profit for the year and cannot exceed 20% of equity. The legal reserve is to ensure capital integrity and will only be used to offset losses and increase capital.

In 2014, the amount of R \$ 41,031 was intended for creation of the legal reserve, as approved at the annual general meeting of shareholders held on March 25, 2015.

##### (ii) Realizable profit reserve

The realizable profits reserve was constituted to prevent distribution of minimum mandatory dividends. The company is in a financial situation incompatible with distribution of dividends. As set out in Article 197 § 2 of the Brazilian Corporate Law, such reserve shall only be used to pay minimum mandatory obligations or to offset future losses. In 2014, the amount of R \$ 779,586 was intended for creation of unattained revenue reserve, as approved at the annual general meeting of shareholders held on March 25, 2015.

#### (c) Cumulative translation adjustments

Cumulative translation adjustments refer to exchange gains and losses due to conversion of financial statements of subsidiaries drawn up in foreign currency.

## Sete Brasil Participações S.A.

### Administration's explanatory notes to the financial statements at December 31, 2014

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#### (d) Dividends

The stockholders have the right to receive mandatory dividends of 25% of net income, according to Article 202 of the Brazilian Corporate Legislation.

In the year ended December 31, 2014, the company showed a profit of \$ 820,617. Considering that the entire group is under the pre-operation phase, and no profits were duly calculated thus far, the Board concluded that the Company currently presents an incompatible financial situation to propose dividend distribution.

#### (e) Appropriated surplus

|  |                  |
|--|------------------|
| At January 1, 2012                     | (19,661)         |
| Loss for the year                      | <u>(65,023)</u>  |
| At December 31, 2014                   | <u>(84,684)</u>  |
| At January 1, 2013                     |                  |
| Net profit for the year                | <b>194,425</b>   |
| Transfer to legal reserve              | (9,721)          |
| Transfer to realizable revenue reserve | <u>(100,021)</u> |
| At December 31, 2013                   | <u>-</u>         |
| At January 1, 2013                     |                  |
| Net profit for the year                | <b>820,617</b>   |
| Transfer to legal reserve              | (41,031)         |
| Transfer to realizable revenue reserve | <u>(779,586)</u> |
| On December 31, 2014                   | <u>-</u>         |

#### (f) Earnings (loss) per share - Basic

Basic earnings per share are calculated by dividing the income attributable to Company shareholders by the weighted average number of common shares issued during the year.

|   | <u>2014</u>      | <u>2013</u>      |
|---|------------------|------------------|
| Profit attributable to shareholders of the Company                  | 820,617          | 194,425          |
| Weighted average number of common shares in circulation (thousands) | <u>4,916,157</u> | <u>2,529,500</u> |
| Basic profit per share - R\$  | <u>0.17</u>      | <u>0.08</u>      |



## Sete Brasil Participações S.A.

### Administration's explanatory notes to the financial statements at December 31, 2014

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#### (g) Earnings (loss) per share - Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of common outstanding shares, to assume the conversion of all potential common shares with diluting effects. The Company does not have common shares with potential diluting effects.

#### 17 Administrative expenses

|  | Parent         |               | Consolidated   |               |
|--|----------------|---------------|----------------|---------------|
|  | 2014           | 2013          | 2014           | 2013          |
| Personnel  | 85,536         | 48,154        | 85,536         | 48,154        |
| Consulting and auditing services                       | 16,149         | 12,808        | 33,218         | 25,401        |
| Taxes and contributions                                | 581            | 497           | 625            | 503           |
| Depreciation and amortization                          | 4,116          | 2,996         | 4,116          | 2,996         |
| Leasing expenses                                       | 4,018          | 4,259         | 4,018          | 4,259         |
| Advertising and publicity                              | 4,344          | 2,202         | 4,344          | 2,202         |
| Travel   | 2,269          | 2,255         | 2,269          | 2,255         |
| Software maintenance                                   | 2,503          | 3,290         | 2,503          | 3,290         |
| Overheads (light, water and sewage systems, telephone) | 1,256          | 1,120         | 1,256          | 1,120         |
| Administration and cleaning                            | 1,017          | 1,104         | 1,017          | 1,104         |
| Transportation   | 2,703          | 3,668         | 2,703          | 3,668         |
| Insurance  | 201            | 170           | 201            | 170           |
| Other general expenses                                 | 2,709          | 2,338         | 2,709          | 2,339         |
|  | <u>127,402</u> | <u>84,861</u> | <u>144,515</u> | <u>97,461</u> |

#### 18 Net finance result

|  | Parent          |                | Consolidated    |                 |
|--|-----------------|----------------|-----------------|-----------------|
|  | 2014            | 2013           | 2014            | 2013            |
| <b>Finance costs</b>                               |                 |                |                 |                 |
| Tax on financial transactions - IOF                | (14,849)        | (951)          | (25,755)        | (31,073)        |
| Exchange operations expenses                       | (2,172)         | (1,725)        | (2,521)         | (1,726)         |
| Interest expenses                                  | (2)             | (1)            | (2)             | (1)             |
| Bank charges                                       | (27)            | (2)            | (5,362)         | (6,442)         |
| Other finance costs                                | (7)             | (9)            | (290)           | (9)             |
|  | <u>(17,057)</u> | <u>(2,688)</u> | <u>(33,930)</u> | <u>(39,251)</u> |
| <b>Finance income</b>                              |                 |                |                 |                 |
| Income on financial applications                   | 30,611          | 34,020         | 33,057          | 39,638          |
| Intercompany loan income                           | 132,391         | 59,124         | -               | -               |
| Other finance income                               | 1,496           | 39             | 1,497           | 39              |
|  | <u>164,498</u>  | <u>93,183</u>  | <u>34,554</u>   | <u>39,677</u>   |
| <b>Currency variations and gains (losses), net</b> |                 |                |                 |                 |
| Other net exchange variations (*)                  | 2               | 2              | 866,319         | 262,676         |
| <b>Net finance result</b>                          | <u>154,080</u>  | <u>90,497</u>  | <u>866,943</u>  | <u>263,102</u>  |

## Sete Brasil Participações S.A.

### Administration's explanatory notes to the financial statements at December 31, 2014

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(\*) The exchange rate changes recorded in the consolidated results are due mainly to the effects of changes in the US dollar and the Euro against the Real. During the period, the Austrian subsidiaries, Sete International One GmbH and Sete International Two GmbH, held real-denominated funds from the parent company and, at the same time, kept borrowings denominated in US dollars in favor of the Dutch subsidiaries (Note 19 (d)).

These operations resulted in a net asset position in U.S. dollars exposed to currency fluctuations, since, despite being foreign-controlled, Sete International One GmbH and Sete International Two GmbH possess real functional currency especially due to its financial dependence of the Company.

In accordance with this condition, the foreign exchange effects generated by this subsidiary were directly recorded in the result under the heading of foreign exchange and indexation charges.

The Company believes that this is a temporary condition and suitable for the phase the group is in, since a portion of the funding for the works are resources from its shareholders. As a reference, we present below currency fluctuations in the periods:

|                        | <b>December 31,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>Change</b> |
|------------------------|------------------------------|------------------------------|---------------|
| Closing exchange rates |                              |                              |               |
| US\$ x R\$             | 2.6562                       | 2.3426                       | 13%           |
| EUR x R\$              | 3.227                        | 3.2265                       | 0%            |
| EUR x US\$             | 1.2149                       | 1.3773                       | -12%          |

|                        | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> | <b>Change</b> |
|------------------------|------------------------------|------------------------------|---------------|
| Closing exchange rates |                              |                              |               |
| US\$ x R\$             | 2.3426                       | 2.0435                       | 15%           |
| EUR x R\$              | 3.2265                       | 2.6954                       | 20%           |
| EUR x US\$             | 1.3773                       | 1.3109                       | 5%            |

## Sete Brasil Participações S.A.

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#### 19 Related parties

##### (a) Contracts between related parties

The subsidiaries maintain charter contracts for rigs and construction supervision with Petrobras, a shareholder of the Company, which are detailed in Note 20 Commitments.

##### (b) Compensation of administrators

The compensation of administrators of the company for the year ended December 31, 2014, was R\$ 27,393 (R\$ 6,144 at December 31, 2013).

##### (c) Costs with stock issuance and proceeds from borrowings and financing

Total costs with consulting in the transaction of stock issuance and collection of debt in the year ended December 31, 2014 R\$ 3,290 (R\$ 1,538 on December 31, 2013) were paid to Lakeshore Financial Partners Participações Ltda.

##### (d) Intercompany Loans

###### (i) Sete International One GmbH

Sete International has intercompany loan contracts, with its subsidiaries aiming at complying with the financial model of each of the SPEs. This structure determines that financing resources of each project will be raised through 80% of third parties capital and 20% of equity.

| <u>Subsidiary</u>        | <u>Rate p.a.</u> | <u>Principal</u> | <u>Charges</u> | <u>Total</u> |
|--------------------------|------------------|------------------|----------------|--------------|
| <b>Expressed in US\$</b> |                  |                  |                |              |
| Arpoador Drilling B.V.   | LIBOR + 4.48%    | 289,518          | 4,804          | 294,322      |
| Arpoador Drilling B.V.   | LIBOR + 5.50%    | 103,563          | 6,231          | 109,794      |
| Arpoador Drilling B.V.   | LIBOR + 5.61%    | 13,387           | 218            | 13,606       |
| Arpoador Drilling B.V.   | 10.41%           | 73,644           | 12,634         | 86,278       |
| Copacabana Drilling B.V. | LIBOR + 4.48%    | 196,960          | 3,620          | 200,580      |
| Copacabana Drilling B.V. | LIBOR + 5.50%    | 128,752          | 5,103          | 133,855      |
| Copacabana Drilling B.V. | LIBOR + 5.61%    | 17,281           | 282            | 17,563       |
| Copacabana Drilling B.V. | 10.41%           | 69,592           | 10,216         | 79,809       |
| Grumari Drilling B.V.    | LIBOR + 4.48%    | 130,333          | 2,533          | 132,867      |
| Grumari Drilling B.V.    | LIBOR + 5.50%    | 90,364           | 2,137          | 92,502       |
| Grumari Drilling B.V.    | LIBOR + 5.61%    | 16,268           | 265            | 16,533       |
| Grumari Drilling B.V.    | 10.41%           | 71,144           | 8,611          | 79,754       |
| Ipanema Drilling B.V.    | LIBOR + 4.48%    | 74,885           | 1,035          | 75,920       |
| Ipanema Drilling B.V.    | LIBOR + 5.50%    | 101,973          | 3,015          | 104,988      |
| Ipanema Drilling B.V.    | LIBOR + 5.61%    | 5,379            | 88             | 5,467        |
| Ipanema Drilling B.V.    | 10.41%           | 71,354           | 8,249          | 79,603       |
| Leblon Drilling B.V.     | LIBOR + 4.48%    | 27,807           | 383            | 28,190       |
| Leblon Drilling B.V.     | LIBOR + 5.50%    | 52,712           | 1,680          | 54,393       |
| Leblon Drilling B.V.     | LIBOR + 5.61%    | 1,793            | 29             | 1,822        |
| Leblon Drilling B.V.     | 10.41%           | 57,942           | 6,716          | 64,659       |

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| <b>Subsidiary</b>         | <b>Rate p.a.</b> | <b>Principal</b> | <b>Charges</b> | <b>Total</b> |
|---------------------------|------------------|------------------|----------------|--------------|
| <b>Expressed in US\$</b>  |                  |                  |                |              |
| Leme Drilling B.V.        | LIBOR + 4.48%    | 27,809           | 387            | 28,196       |
| Leme Drilling B.V.        | LIBOR + 5.50%    | 36,054           | 1,073          | 37,127       |
| Leme Drilling B.V.        | LIBOR + 5.61%    | 1,594            | 26             | 1,620        |
| Leme Drilling B.V.        | 10.41%           | 58,354           | 6,697          | 65,052       |
| Marambaia Drilling B.V.   | LIBOR + 5.50%    | 18,328           | 524            | 18,851       |
| Marambaia Drilling B.V.   | LIBOR + 5.61%    | 1,494            | 24             | 1,518        |
| Marambaia Drilling B.V.   | 10.41%           | 58,666           | 7,742          | 66,408       |
| Urca Drilling B.V.        | LIBOR + 5.50%    | 160,522          | 282            | 160,804      |
| Urca Drilling B.V.        | LIBOR + 5.50%    | 162,835          | 1,581          | 164,416      |
| Urca Drilling B.V.        | LIBOR + 5.61%    | 1,912            | 31             | 1,944        |
| Urca Drilling B.V.        | 12.00%           | 95,096           | 13,511         | 108,608      |
| Guarapari Drilling B.V.   | LIBOR + 5.50%    | 333,396          | 8,953          | 342,349      |
| Guarapari Drilling B.V.   | LIBOR + 5.50%    | 162,663          | 4,071          | 166,734      |
| Guarapari Drilling B.V.   | LIBOR + 5.61%    | 17,000           | 277            | 17,277       |
| Guarapari Drilling B.V.   | 12.00%           | 94,381           | 17,288         | 111,669      |
| Bracuhy Drilling B.V.     | LIBOR + 4.48%    | 115,253          | 1,799          | 117,053      |
| Bracuhy Drilling B.V.     | LIBOR + 5.50%    | 23,252           | 294            | 23,546       |
| Bracuhy Drilling B.V.     | LIBOR + 5.50%    | 377,844          | 5,502          | 383,346      |
| Bracuhy Drilling B.V.     | LIBOR + 5.61%    | 531              | 9              | 540          |
| Bracuhy Drilling B.V.     | 12.00%           | 88,579           | 5,621          | 94,200       |
| Portogalo Drilling B.V.   | LIBOR + 5.50%    | 116,237          | 1,801          | 118,038      |
| Portogalo Drilling B.V.   | LIBOR + 5.50%    | 28,643           | 787            | 29,430       |
| Portogalo Drilling B.V.   | LIBOR + 5.61%    | 1,169            | 19             | 1,188        |
| Portogalo Drilling B.V.   | 12.00%           | 39,204           | 2,357          | 41,561       |
| Mangaratiba Drilling B.V. | LIBOR + 5.50%    | 90,386           | 2,045          | 92,431       |
| Mangaratiba Drilling B.V. | LIBOR + 5.50%    | 113,762          | 1,769          | 115,532      |
| Mangaratiba Drilling B.V. | LIBOR + 5.61%    | 518              | 8              | 526          |
| Mangaratiba Drilling B.V. | 12.00%           | 32,653           | 1,635          | 34,289       |
| Botinas Drilling B.V.     | LIBOR + 5.50%    | 88,825           | 2,656          | 91,482       |
| Botinas Drilling B.V.     | LIBOR + 5.50%    | 115,167          | 1,791          | 116,958      |
| Botinas Drilling B.V.     | LIBOR + 5.61%    | 425              | 7              | 432          |
| Botinas Drilling B.V.     | 12.00%           | 32,937           | 1,802          | 34,739       |
| Ondina Drilling B.V.      | LIBOR + 5.50%    | 110,568          | 2,994          | 113,562      |
| Ondina Drilling B.V.      | LIBOR + 5.50%    | 289,890          | 8,982          | 298,872      |
| Ondina Drilling B.V.      | LIBOR + 5.61%    | 56,736           | 926            | 57,662       |
| Ondina Drilling B.V.      | 12.00%           | 93,696           | 13,810         | 107,507      |
| Pituba Drilling B.V.      | LIBOR + 5.50%    | 173,777          | 3,305          | 177,081      |
| Pituba Drilling B.V.      | LIBOR + 5.50%    | 287,232          | 12,006         | 299,237      |
| Pituba Drilling B.V.      | LIBOR + 5.61%    | 14,237           | 232            | 14,469       |
| Pituba Drilling B.V.      | 12.00%           | 84,112           | 13,185         | 97,297       |
| Boipeba Drilling B.V.     | LIBOR + 5.50%    | 193,371          | 5,916          | 199,288      |
| Boipeba Drilling B.V.     | LIBOR + 5.61%    | 71,452           | 1,166          | 72,617       |
| Boipeba Drilling B.V.     | 12.00%           | 55,249           | 12,300         | 67,549       |

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| <b>Subsidiary</b>         | <b>Rate p.a.</b> | <b>Principal</b> | <b>Charges</b> | <b>Total</b>     |
|---------------------------|------------------|------------------|----------------|------------------|
| <b>Expressed in US\$</b>  |                  |                  |                |                  |
| Interlagos Drilling B.V.  | LIBOR + 5.50%    | 797              | 19             | 816              |
| Interlagos Drilling B.V.  | LIBOR + 5.61%    | 398              | 6              | 405              |
| Interlagos Drilling B.V.  | 12.00%           | 59,632           | 13,118         | 72,749           |
| Itapema Drilling B.V.     | 12.00%           | 60,561           | 13,452         | 74,014           |
| Comandatuba Drilling B.V. | 12.00%           | 60,561           | 13,452         | 74,014           |
| Frade Drilling B.V.       | LIBOR + 5.50%    | 662,765          | 6,517          | 669,282          |
| Frade Drilling B.V.       | LIBOR + 5.50%    | 13,798           | 118            | 13,916           |
| Frade Drilling B.V.       | LIBOR + 5.61%    | 1,275            | 21             | 1,296            |
| Frade Drilling B.V.       | 12.00%           | 106,871          | 3,779          | 110,651          |
| Camburi Drilling B.V.     | LIBOR + 5.50%    | 174,619          | 4,339          | 178,959          |
| Camburi Drilling B.V.     | LIBOR + 5.50%    | 67,315           | 1,864          | 69,179           |
| Camburi Drilling B.V.     | LIBOR + 5.61%    | 13,015           | 212            | 13,228           |
| Camburi Drilling B.V.     | 12.00%           | 95,927           | 18,892         | 114,819          |
| Itaoca Drilling B.V.      | LIBOR + 5.50%    | 47,855           | 1,085          | 48,940           |
| Itaoca Drilling B.V.      | LIBOR + 5.50%    | 179,670          | 6,363          | 186,033          |
| Itaoca Drilling B.V.      | LIBOR + 5.61%    | 6,587            | 107            | 6,695            |
| Itaoca Drilling B.V.      | 12.00%           | 72,609           | 14,119         | 86,729           |
| Itaunas Drilling B.V.     | LIBOR + 5.50%    | 100,139          | 3,339          | 103,478          |
| Itaunas Drilling B.V.     | LIBOR + 5.61%    | 1,727            | 28             | 1,755            |
| Itaunas Drilling B.V.     | 12.00%           | 72,452           | 12,427         | 84,879           |
| Siri Drilling B.V.        | LIBOR + 5.50%    | 52,327           | 1,861          | 54,188           |
| Siri Drilling B.V.        | LIBOR + 5.61%    | 2,656            | 43             | 2,700            |
| Siri Drilling B.V.        | 12.00%           | 98,524           | 20,245         | 118,769          |
| Sahy Drilling B.V.        | LIBOR + 5.50%    | 48,077           | 1,714          | 49,791           |
| Sahy Drilling B.V.        | LIBOR + 5.61%    | 2,125            | 35             | 2,160            |
| Sahy Drilling B.V.        | 12.00%           | 100,617          | 20,713         | 121,330          |
| Cassino Drilling B.V.     | LIBOR + 4.83%    | 169,158          | 3,842          | 173,000          |
| Cassino Drilling B.V.     | LIBOR + 5.50%    | 224,752          | 5,278          | 230,030          |
| Cassino Drilling B.V.     | LIBOR + 5.61%    | 49,299           | 804            | 50,103           |
| Cassino Drilling B.V.     | 12.00%           | 80,523           | 16,312         | 96,835           |
| Curumim Drilling B.V.     | LIBOR + 4.83%    | 99,386           | 1,735          | 101,122          |
| Curumim Drilling B.V.     | LIBOR + 4.83%    | 38,377           | 2,948          | 41,325           |
| Curumim Drilling B.V.     | LIBOR + 5.50%    | 153,794          | 4,330          | 158,124          |
| Curumim Drilling B.V.     | LIBOR + 5.61%    | 11,422           | 186            | 11,608           |
| Curumim Drilling B.V.     | 12.00%           | 81,309           | 15,840         | 97,149           |
| Salinas Drilling B.V.     | LIBOR + 4.83%    | 160,258          | 1,937          | 162,195          |
| Salinas Drilling B.V.     | LIBOR + 5.50%    | 35,752           | 1,188          | 36,940           |
| Salinas Drilling B.V.     | LIBOR + 5.61%    | 2,922            | 48             | 2,969            |
| Salinas Drilling B.V.     | 12.00%           | 46,484           | 9,927          | 56,410           |
|                           |                  | <b>8,776,800</b> | <b>467,294</b> | <b>9,244,094</b> |

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#### (ii) Sete International Two GmbH

Sete International Two also has intercompany loan contracts, with its subsidiaries aiming at complying with the financial model of each of the SPEs. The conditions agreed upon are as follows:

| <u>Subsidiary</u>        | <u>Rate p.a.</u> | <u>Principal</u> | <u>Charges</u> | <u>Total</u>  |
|--------------------------|------------------|------------------|----------------|---------------|
| <b>Expressed in US\$</b> |                  |                  |                |               |
| Marambaia Drilling B.V.  | LIBOR + 5.50%    | 2,855            | 24             | 2,879         |
| Interlagos Drilling B.V. | LIBOR + 5.50%    | 60,030           | 545            | 60,575        |
| Itaunas Drilling B.V.    | LIBOR + 5.50%    | 3,586            | 28             | 3,614         |
| Siri Drilling B.V.       | LIBOR + 5.50%    | 2,922            | 23             | 2,945         |
| Sahy Drilling B.V.       | LIBOR + 5.50%    | 3,453            | 26             | 3,479         |
|                          |                  | <u>72,846</u>    | <u>645</u>     | <u>73,491</u> |

#### (iii) Sete Brasil Participações S.A.

The parent company Sete Brasil holds an intercompany loan agreement with Sete International One GmbH, under the goal of transferring funds obtained by collecting third-party debts. The conditions agreed upon are as follows:

| <u>Subsidiary</u>           | <u>Rate p.a.</u> | <u>Principal</u> | <u>Charges</u> | <u>Total</u> |
|-----------------------------|------------------|------------------|----------------|--------------|
| <b>Denominated in R\$</b>   |                  |                  |                |              |
| Sete International One GmbH | 10%              | 1,387,500        | 194,671        | 1,582,171    |

#### (iv) Joatinga Drilling B.V.

Subsidiary Joatinga has an intercompany loan contract with Sete International One GmbH, with the purpose of passing on funds obtained through third-party debt collection. The conditions agreed upon are as follows:

| <u>Subsidiary</u>           | <u>Rate p.a.</u> | <u>Principal</u> | <u>Charges</u> | <u>Total</u> |
|-----------------------------|------------------|------------------|----------------|--------------|
| <b>Expressed in US\$</b>    |                  |                  |                |              |
| Sete International One GmbH | LIBOR + 5.50%    | 191,246          | 3,159          | 194,405      |

#### (v) Sete Investimentos I S.A.

Subsidiary Sete Investments I has an intercompany loan contract with Sete Netherlands I B.V. , for the purpose of passing on funds obtained through third-party debt collection. The conditions agreed upon are as follows:

| <u>Subsidiary</u>        | <u>Rate p.a.</u> | <u>Principal</u> | <u>Charges</u> | <u>Total</u> |
|--------------------------|------------------|------------------|----------------|--------------|
| <b>Expressed in US\$</b> |                  |                  |                |              |
| Sete Netherlands I BV    | 9.25%            | 1,048,004        | 2,192          | 1,050,195    |

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#### (vi) Sete Netherlands I B.V.

Subsidiary Sete Netherlands I, in turn, has an intercompany loan contract with some SPEs in order to pass on funds obtained through third-party debt collection. The conditions agreed upon are as follows:

| <u>Subsidiary</u>        | <u>Rate p.a.</u> | <u>Principal</u>        | <u>Charges</u>       | <u>Total</u>            |
|--------------------------|------------------|-------------------------|----------------------|-------------------------|
| <b>Expressed in US\$</b> |                  |                         |                      |                         |
| Arpoador Drilling B.V.   | 9.35%            | 139,348                 | 2,208                | 141,555                 |
| Copacabana Drilling B.V. | 9.35%            | 108,254                 | 1,715                | 109,969                 |
| Grumari Drilling B.V.    | 9.35%            | 89,725                  | 1,422                | 91,146                  |
| Urca Drilling B.V.       | 9.35%            | 135,251                 | 2,143                | 137,394                 |
| Guarapari Drilling B.V.  | 9.35%            | 142,441                 | 2,257                | 144,697                 |
| Ondina Drilling B.V.     | 9.35%            | 138,967                 | 2,202                | 141,169                 |
| Frade Drilling B.V.      | 9.35%            | 87,655                  | 1,389                | 89,043                  |
| Camburi Drilling B.V.    | 9.35%            | 111,405                 | 1,765                | 113,170                 |
| Cassino Drilling B.V.    | 9.35%            | 94,959                  | 1,700                | 96,659                  |
|                          |                  | <b><u>1,048,004</u></b> | <b><u>16,799</u></b> | <b><u>1,064,803</u></b> |

#### (e) Contracts for management and construction supervision

Sete Brasil, through its subsidiaries, holds agreements for managing and supervising the construction of drilling rigs. The amount payable from such agreements with related parties is distributed as per the following table:

|                                    | <u>Consolidated</u>  |                      |
|------------------------------------|----------------------|----------------------|
|                                    | <u>2014</u>          | <u>2013</u>          |
| Petrobras                          | 17,097               | 10,747               |
| Atlas Perfuração Ltda. - Seaworthy | 3,246                | 4,040                |
| Constellation Services – QGOG      | 1,145                | 1,488                |
| Lantz - Petroserv                  | 607                  | 818                  |
| Odfjell Galvão                     | 753                  | -                    |
| Odebrecht Oleo e Gas – OOG         | 1,912                | 425                  |
| Seadrill                           | 1,956                | 2,403                |
|                                    | <b><u>26,716</u></b> | <b><u>19,921</u></b> |

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#### (f) Share Premium contribution

The Share Premium contribution is an obligation of the minority stockholders, as set out in a stockholders' agreement, which records the value of capital that must be contributed in connection with the contribution made by the controlling stockholder, so that there is no change in the percentage of participation of stockholders in investee companies. In this way, the financial year 2014 concluded with part of its share capital and in return the rubric of related parties, according to the table below:

| SPE                     | Signature date | Amount in        |                  |
|-------------------------|----------------|------------------|------------------|
|                         |                | US\$             | R\$              |
| Urca Drilling B.V.      | 9/23/2014      | 27,000           | 71,717           |
| Bracuhy Drilling B.V.   | 9/23/2014      | 7,500            | 19,922           |
| Frade Drilling B.V.     | 9/23/2014      | 100              | 266              |
| Ondina Drilling B.V.    | 9/24/2014      | 4,800            | 12,750           |
| Pituba Drilling B.V.    | 9/24/2014      | 1,200            | 3,187            |
| Urca Drilling B.V.      | 11/4/2014      | 252,147          | 669,753          |
| Bracuhy Drilling B.V.   | 11/4/2014      | 2,204,710        | 5,856,151        |
| Urca Drilling B.V.      | 12/16/2014     | 143,682          | 381,648          |
| Guarapari Drilling B.V. | 12/16/2014     | 160,000          | 424,992          |
| Ondina Drilling B.V.    | 12/16/2014     | 75,977           | 201,810          |
|                         |                | <b>2,877,116</b> | <b>7,642,196</b> |

#### 20 Commitments

##### (a) Commitments for the acquisition of assets

##### (i) Engineering, Procurement and Construction Contract ("EPC")

The Group maintains active construction contracts agreed under the modality of EPC, which aim to restrict the risk of construction and delivery delays of each asset. This mode provides that all service management and acquisition of equipment will be the responsibility of the contractor.

Up to December 31, 2014, Sete Brasil, through its subsidiaries, has EPC contracts signed with the shipbuilding companies for the construction of 29 assets as shown below:



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|                           |                   |   |                       |                      | At December 31, 2014 |  |
|---------------------------|-------------------|---|-----------------------|----------------------|----------------------|--|
| Subsidiary                | Date of signature | Supplier                                    | Contracted (In USD)   | Paid (In USD)        |                      |  |
| Arpoador Drilling B.V.    | 6/15/2011         | Estaleiro Jurong Aracruz Ltda.              | 792,497,580           | 568,195,025          |                      |  |
| Copacabana Drilling B.V.  | 6/15/2011         | Estaleiro Atlântico Sul S.A.                | 662,428,590           | 386,036,316          |                      |  |
| Grumari Drilling B.V.     | 6/15/2011         | Estaleiro Atlântico Sul S.A.                | 662,428,590           | 319,994,609          |                      |  |
| Ipanema Drilling B.V.     | 6/15/2011         | Estaleiro Atlântico Sul S.A.                | 662,428,590           | 243,308,668          |                      |  |
| Leblon Drilling B.V.      | 6/15/2011         | Estaleiro Atlântico Sul S.A.                | 662,428,590           | 195,990,327          |                      |  |
| Leme Drilling B.V.        | 6/15/2011         | Estaleiro Atlântico Sul S.A.                | 662,428,590           | 195,832,538          |                      |  |
| Marambaia Drilling B.V.   | 6/15/2011         | Estaleiro Atlântico Sul S.A.                | 662,428,590           | 193,756,430          |                      |  |
| Urca Drilling B.V.        | 12/16/2011        | Fernavale Pte. Ltd.                         | 809,288,000           | 539,008,931          |                      |  |
| Guarapari Drilling B.V.   | 2/3/2012          | Estaleiro Jurong Aracruz Ltda.              | 792,497,580           | 486,738,249          |                      |  |
| Cassino Drilling B.V.     | 3/9/2012          | Ecovix - Engevix Construções Oceânicas S.A. | 778,000,000           | 398,587,043          |                      |  |
| Curumim Drilling B.V.     | 3/9/2012          | Ecovix - Engevix Construções Oceânicas S.A. | 778,000,000           | 232,223,715          |                      |  |
| Salinas Drilling B.V.     | 3/9/2012          | Ecovix - Engevix Construções Oceânicas S.A. | 778,000,000           | 175,506,687          |                      |  |
| Botinas Drilling B.V.     | 3/22/2012         | Estaleiro BrasFELS Ltda.                    | 823,448,000           | 83,454,992           |                      |  |
| Bracuhy Drilling B.V.     | 3/22/2012         | Estaleiro BrasFELS Ltda.                    | 823,448,000           | 251,340,103          |                      |  |
| Frade Drilling B.V.       | 3/22/2012         | Estaleiro BrasFELS Ltda.                    | 823,448,000           | 361,837,788          |                      |  |
| Mangaratiba Drilling B.V. | 3/22/2012         | Estaleiro BrasFELS Ltda.                    | 823,448,000           | 83,464,431           |                      |  |
| Portogalo Drilling B.V.   | 3/22/2012         | Estaleiro BrasFELS Ltda.                    | 823,448,000           | 83,764,431           |                      |  |
| Camburi Drilling B.V.     | 3/28/2012         | Estaleiro Jurong Aracruz Ltda.              | 792,497,580           | 247,735,759          |                      |  |
| Itaoca Drilling B.V.      | 3/28/2012         | Estaleiro Jurong Aracruz Ltda.              | 792,497,580           | 171,327,944          |                      |  |
| Itaunas Drilling B.V.     | 3/28/2012         | Estaleiro Jurong Aracruz Ltda.              | 792,497,580           | 156,743,051          |                      |  |
| Sahy Drilling B.V.        | 3/28/2012         | Estaleiro Jurong Aracruz Ltda.              | 792,497,580           | 130,077,392          |                      |  |
| Siri Drilling B.V.        | 3/28/2012         | Estaleiro Jurong Aracruz Ltda.              | 792,497,580           | 132,752,446          |                      |  |
| Boipeba Drilling B.V.     | 4/18/2012         | Estaleiro Enseada do Paraguaçu S.A.         | 798,500,000           | 169,202,502          |                      |  |
| Comandatuba Drilling B.V. | 4/18/2012         | Estaleiro Enseada do Paraguaçu S.A.         | 798,500,000           | 60,708,291           |                      |  |
| Interlagos Drilling B.V.  | 4/18/2012         | Estaleiro Enseada do Paraguaçu S.A.         | 798,500,000           | 81,492,127           |                      |  |
| Itapema Drilling B.V.     | 4/18/2012         | Estaleiro Enseada do Paraguaçu S.A.         | 798,500,000           | 60,709,801           |                      |  |
| Ondina Drilling B.V.      | 4/18/2012         | Estaleiro Enseada do Paraguaçu S.A.         | 798,500,000           | 486,707,198          |                      |  |
| Pituba Drilling B.V.      | 4/18/2012         | Estaleiro Enseada do Paraguaçu S.A.         | 798,500,000           | 253,634,016          |                      |  |
| Joatinga Drilling B.V.    | 11/28/2012        | Estaleiro Atlântico Sul S.A.                | 662,428,590           | 192,376,051          |                      |  |
|                           |                   |   | <b>22,236,011,190</b> | <b>6,942,506,859</b> |                      |  |

#### (ii) Construction Management Agreement ("CMA")

Sete Brasil, through its subsidiaries, holds agreements for managing and supervising the construction of drilling rigs. This contract aims at following up the EPC contracts, mitigating/monitoring the work schedule and ensuring the fulfillment of the specifications agreed on in the contract. In order to attain full success, the contractors are responsible for providing skilled and experienced professionals as necessary to carry out all obligations resulting from the agreement.

|                          |                                  |                |                     |               | At December 31, 2014 |  |
|--------------------------|----------------------------------|----------------|---------------------|---------------|----------------------|--|
| Subsidiary               | Suppliers                        | Signature date | Contracted (In USD) | Paid (In USD) |                      |  |
| Arpoador Drilling B.V.   | Petrobras                        | 6/15/2011      | 8,000,000           | 2,888,833     |                      |  |
| Copacabana Drilling B.V. | Petrobras                        | 6/15/2011      | 8,000,000           | 5,240,468     |                      |  |
| Grumari Drilling B.V.    | Petrobras                        | 6/15/2011      | 8,000,000           | 3,924,873     |                      |  |
| Ipanema Drilling B.V.    | Petrobras                        | 6/15/2011      | 8,000,000           | 2,492,721     |                      |  |
| Leblon Drilling B.V.     | Petrobras                        | 6/15/2011      | 8,000,000           | 1,264,669     |                      |  |
| Leme Drilling B.V.       | Petrobras                        | 6/15/2011      | 8,000,000           | 0             |                      |  |
| Marambaia Drilling B.V.  | Petrobras                        | 6/15/2011      | 8,000,000           | 0             |                      |  |
| Boipeba Drilling B.V.    | Odebrecht Oil e Gás - OOG        | 1/2/2013       | 16,175,367          | 3,363,441     |                      |  |
|                          | Petrobras                        | 6/17/2013      | 17,771,691          | 3,082,315     |                      |  |
| Botinas Drilling B.V.    | Queiroz Galvão Óleo e Gás - QGOG | 1/1/2013       | 7,711,965           | 2,389,234     |                      |  |
|                          | Odebrecht Oil e Gás - OOG        | 1/1/2013       | 3,760,558           | 1,081,477     |                      |  |
|                          | Ventura Petróleo S.A.            | 1/1/2013       | 7,284,019           | 1,992,347     |                      |  |
|                          | Petrobras                        | 6/17/2013      | 16,843,244          | 0             |                      |  |
|                          | Queiroz Galvão Óleo e Gás - QGOG |                |                     |               |                      |  |
| Bracuhy Drilling B.V.    | Queiroz Galvão Óleo e Gás - QGOG | 1/1/2013       | 7,711,965           | 2,458,231     |                      |  |

## Sete Brasil Participações S.A.

### Administration's explanatory notes to the financial statements at December 31, 2014 In thousands of reais, unless otherwise stated

| Subsidiary                | Suppliers                        | Signature date | At December 31, 2014 |                    |
|---------------------------|----------------------------------|----------------|----------------------|--------------------|
|                           |                                  |                | Contracted (In USD)  | Paid (In USD)      |
|                           | Odebrecht Oil e Gás - OOG        | 1/1/2013       | 3,760,558            | 1,081,075          |
|                           | Ventura Petróleo S.A.            | 1/1/2013       | 7,284,019            | 1,992,021          |
|                           | Petrobras                        | 6/20/2013      | 16,843,244           | 4,494,739          |
| Camburi Drilling B.V.     | Seadrill                         | 1/2/2013       | 22,092,912           | 5,773,331          |
|                           | Petrobras                        | 6/17/2013      | 14,185,044           | 4,909,088          |
| Cassino Drilling B.V.     | Atlas                            | 6/20/2013      | 20,939,566           | 9,240,303          |
|                           | Petrobras                        | 6/14/2013      | 20,470,942           | 8,507,524          |
| Comandatuba Drilling B.V. | Atlas                            | 6/20/2013      | 22,913,594           | 1,956,702          |
|                           | Petrobras                        | 6/14/2013      | 17,771,691           | 0                  |
| Curumim Drilling B.V.     | Atlas                            | 6/20/2013      | 20,939,566           | 9,240,303          |
|                           | Petrobras                        | 6/14/2013      | 20,470,942           | 6,616,963          |
| Frade Drilling B.V.       | Queiroz Galvão Óleo e Gás - QGOG | 1/1/2013       | 7,711,965            | 2,458,231          |
|                           | Odebrecht Oil e Gás - OOG        | 1/1/2013       | 3,760,558            | 1,079,006          |
|                           | Ventura Petróleo S.A.            | 1/1/2013       | 7,284,019            | 1,992,021          |
|                           | Petrobras                        | 6/14/2013      | 16,843,244           | 5,832,522          |
| Guarapari Drilling B.V.   | Odfjell Galvão                   | 1/2/2013       | 22,092,912           | 7,521,453          |
|                           | Petrobras                        | 6/14/2013      | 14,185,044           | 5,572,479          |
| Interlagos Drilling B.V.  | Odebrecht Oil e Gás - OOG        | 1/2/2013       | 16,175,367           | 3,363,441          |
|                           | Petrobras                        | 6/17/2013      | 17,771,691           | 328,804            |
| Itaoca Drilling B.V.      | Odfjell Galvão                   | 1/2/2013       | 22,092,912           | 7,060,681          |
|                           | Petrobras                        | 6/14/2013      | 14,185,044           | 3,789,018          |
| Itapema Drilling B.V.     | Atlas                            | 6/20/2013      | 22,913,594           | 1,956,702          |
|                           | Petrobras                        | 6/14/2013      | 17,771,691           | 0                  |
| Itaunas Drilling B.V.     | Seadrill                         | 1/2/2013       | 22,092,912           | 5,307,359          |
|                           | Petrobras                        | 1/2/2013       | 14,185,044           | 1,641,058          |
| Mangaratiba Drilling B.V. | Queiroz Galvão Óleo e Gás - QGOG | 1/1/2013       | 7,711,965            | 2,458,231          |
|                           | Odebrecht Oil e Gás - OOG        | 1/1/2013       | 3,760,558            | 1,081,075          |
|                           | Ventura Petróleo S.A.            | 1/1/2013       | 7,284,019            | 1,992,021          |
|                           | Petrobras                        | 6/20/2013      | 16,843,244           | 0                  |
| Ondina Drilling B.V.      | Odebrecht Oil e Gás - OOG        | 1/2/2013       | 16,175,367           | 3,363,441          |
|                           | Petrobras                        | 6/17/2013      | 17,771,691           | 6,977,817          |
| Pituba Drilling B.V.      | Odebrecht Oil e Gás - OOG        | 1/2/2013       | 16,175,367           | 3,363,441          |
|                           | Petrobras                        | 6/17/2013      | 17,771,691           | 5,493,176          |
| Portogalo Drilling B.V.   | Queiroz Galvão Óleo e Gás - QGOG | 1/1/2013       | 7,711,965            | 2,458,231          |
|                           | Odebrecht Oil e Gás - OOG        | 1/1/2013       | 3,760,558            | 1,079,006          |
|                           | Ventura Petróleo S.A.            | 1/1/2013       | 7,284,019            | 1,992,021          |
|                           | Petrobras                        | 6/14/2013      | 16,843,244           | 1,947,476          |
| Sahy Drilling B.V.        | Seadrill                         | 1/2/2013       | 22,092,912           | 5,027,775          |
|                           | Petrobras                        | 6/17/2013      | 14,185,044           | 0                  |
| Salinas Drilling B.V.     | Atlas                            | 6/20/2013      | 20,939,566           | 9,240,303          |
|                           | Petrobras                        | 6/14/2013      | 20,470,942           | 4,302,772          |
| Siri Drilling B.V.        | Odfjell Galvão                   | 1/2/2013       | 22,092,912           | 6,721,993          |
|                           | Petrobras                        | 6/14/2013      | 14,185,044           | 0                  |
| Urca Drilling B.V.        | Queiroz Galvão Óleo e Gás - QGOG | 1/1/2013       | 7,711,965            | 2,458,231          |
|                           | Odebrecht Oil e Gás - OOG        | 1/1/2013       | 3,760,558            | 1,081,075          |
|                           | Ventura Petróleo S.A.            | 1/1/2013       | 7,284,019            | 1,992,021          |
|                           | Petrobras                        | 6/20/2013      | 16,843,244           | 8,165,530          |
|                           |                                  |                | <b>828,656,778</b>   | <b>203,089,074</b> |

#### (b) Charter contract for rigs

The subsidiaries have chartering contracts with Petrobras with terms between 20 years (for two drilling rigs), 15 years (for 21 drilling rigs) and 10 years (for five drilling rigs) with a possibility for renewal for a further 5 to 10 years, and with delivery terms of the drilling rigs to Petrobras between 2015 and 2020.

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| <u>Subsidiary</u>         | <u>Signature date</u> | <u>Term</u> |
|---------------------------|-----------------------|-------------|
| Arpoador Drilling B.V.    | 6/15/2011             | 20 years    |
| Copacabana Drilling B.V.  | 6/15/2011             | 20 years    |
| Grumari Drilling B.V.     | 6/15/2011             | 10 years    |
| Ipanema Drilling B.V.     | 6/15/2011             | 10 years    |
| Leblon Drilling B.V.      | 6/15/2011             | 10 years    |
| Leme Drilling B.V.        | 6/15/2011             | 10 years    |
| Marambaia Drilling B.V.   | 6/15/2011             | 10 years    |
| Urca Drilling B.V.        | 8/3/2012              | 15 years    |
| Guarapari Drilling B.V.   | 8/3/2012              | 15 years    |
| Cassino Drilling B.V.     | 8/10/2012             | 15 years    |
| Curumim Drilling B.V.     | 8/10/2012             | 15 years    |
| Salinas Drilling B.V.     | 8/10/2012             | 15 years    |
| Botinas Drilling B.V.     | 8/3/2012              | 15 years    |
| Bracuhy Drilling B.V.     | 8/3/2012              | 15 years    |
| Frade Drilling B.V.       | 8/3/2012              | 15 years    |
| Mangaratiba Drilling B.V. | 8/3/2012              | 15 years    |
| Portogalo Drilling B.V.   | 8/3/2012              | 15 years    |
| Camburi Drilling B.V.     | 8/3/2012              | 15 years    |
| Itaoca Drilling B.V.      | 8/3/2012              | 15 years    |
| Itaunas Drilling B.V.     | 8/3/2012              | 15 years    |
| Sahy Drilling B.V.        | 8/3/2012              | 15 years    |
| Siri Drilling B.V.        | 8/3/2012              | 15 years    |
| Boipeba Drilling B.V.     | 8/10/2012             | 15 years    |
| Comandatuba Drilling B.V. | 8/10/2012             | 15 years    |
| Interlagos Drilling B.V.  | 8/10/2012             | 15 years    |
| Itapema Drilling B.V.     | 8/10/2012             | 15 years    |
| Ondina Drilling B.V.      | 8/10/2012             | 15 years    |
| Pituba Drilling B.V.      | 8/10/2012             | 15 years    |

## 21 Subsequent events

### (A) "Operation Lava Jato" and its effects on the Company

In March 2014, the Federal Police ("PF") began an investigation - called "Operation Lava Jato", aiming to ascertain money laundering practices by criminal organizations in several Brazilian states.

In connection with the investigations conducted by the Federal Public Ministry ("MPF"), Mr. Pedro José Barusco Filho, former director of Operations of Sete Brasil, had an arrest warrant issued by the MPF in November 2014 on suspicion of criminal organization and passive corruption, among other crimes related to the period in which he was Executive Manager at Petrobras.

The former director submitted his resignation from the Company in September 2013, for health reasons.

On February 5, 2015, the Administration of Sete Brasil took note of the statements made in the scope of the rewarded collaboration agreement of Mr. Barusco. In these statements, the former director says that certain companies contracted as the Company's suppliers have used funds received as a result of the implementation of contracts with Sete Brasil to make improper payments to political parties, Petrobras employees and also to other ex-Sete Brasil executives. Still, according to the testimony, the purpose of the scheme would have been to take these rig construction contracts to specific shipyards, without knowledge of the Board of Directors and the Company's tockholders. The witness also mentioned the

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period of time that said "scheme" operated and said that "there was a combination of payment of 1% of bribes for contracts signed between Sete Brasil and each of the shipyards".

Upon disclosure of the annual financial statements of 2013, there were no allegations or evidence available about the above facts that could have affected the outcome of the Administration regarding them. Nor did such allegations or evidence exist either in the preparation or issuance of the interim financial statements for the 2014 quarters.

With a commitment to transparency and ethical conduct, the Company and its officers have made every effort to (i) obtain knowledge of the facts through investigations and independent evaluations conducted by law firms and hired consultants; (ii) assess the need for improvements in governance and internal controls; and (iii) determine possible adjustments in the financial statements.

The actions taken by the Company with respect to such matters are covered in the topics presented below:

#### **a.1 In depth ongoing investigations**

The company conducted a series of actions in order to contribute to the determination of any possible irregularities involving its business, including:

- a) the hiring of external legal advisors Veirano Advogados and Clifford Chance LLP, with the objective to assess, from the perspective of the Brazilian laws and those of New York:
  - i) the legality of bidding procedures promoted by Petrobras and the Company's participation in them which culminated in the conclusion of contracts for rig construction (EPCs), chartering and operation services of rigs; and
  - ii) the legal validity of EPC, chartering, services and construction supervision contracts (CMAs).
- b) hiring of Veirano Advogados, more specifically its area of forensics, to conduct a specific investigation on the internal electronic mail and electronic files of the Company, as well as perform interviews with employees and executives of the Company;
- c) hiring of a specialized consulting firm to conduct a comprehensive assessment of the compliance with the EPC contracts from the beginning of the work until the end of the current 2014 financial year;
- d) hiring of the firm Kroll Associates Brasil Ltda. to conduct research on the process of contracting the company insurance for assets that are under construction;
- e) hiring of a firm specializing in evaluation of platforms, with the objective to get reassurance about the value of the contracted cost in bids for the construction of the platforms when compared to similar on the market, considering the technical specifications and Brazilian standards of local content;
- f) analysis of the application of sanctions against contractors and suppliers, as well as against the former directors, mentioned in the depositions that were made public; and
- g) if required, systematic care and cooperation with Federal prosecutors, Judiciary and other Brazilian authorities.

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These services were carried out under the guidance and supervision of the Audit Committee of the Company. The results of these investigations, according to reports issued by the above-mentioned entities, led the Administration to conclude that there is nothing to indicate that their contracts were not agreed upon observing the terms and conditions usually practiced by the market in this kind of operation or that there were violations against laws and regulations to which the Company is subject.

Additionally, the Company, with the support of its legal advisers are considering taking the necessary legal measures, mainly related to the damage to its image and its operations.

#### **a.2 Measures for the improvement of the governance and internal controls**

The Board of Executive Directors and the Board of Directors of Sete Brasil do not tolerate any illegal acts on the part of its employees and, in this way, regardless of the investigations related to the "Operation Lava Jato", the Company has been developing and implementing, from 2013, a set of measures for the improvement of the governance, control and risk management, properly documented in proceedings of the Board of Directors and the Administrative Board, which stipulate the procedures, methods, skills and other instructions that crystallize these actions in the practices of the Company.

As a result of these efforts, the Company has developed the following initiatives aimed at improving its corporate governance system:

- a) approval by the Administrative Board on April 29, 2013, of the structure of the areas of Internal Controls and Corporate Risks;
- b) approval of the structure of the Internal Audit on October 30, 2013, which was implemented in March 2014, with the goal of developing a plan of action to assist the Company in the execution of their business plans by adopting a systematic and disciplined approach to evaluate and improve the effectiveness of risk management processes with the objective of adding value and improving their operations and results. It is an independent activity of the administration, with direct subordination to the Administrative Board;
- c) starting in August 2014, the area of Risks and Internal Controls went to work in an integrated manner to identify and assess the operational and corporate risks, seeking greater synergy in the analysis and implementation of controls;
- d) the Code of Ethics was revised and relaunched in June 2014. This new version is routinely disclosed in conjunction with the achievement of training actions on important points of its contents. Actions are reinforced with the employees on the importance of ethics and compliance with the best management practices, through the strengthening of the culture of the Organization in terms of internal controls and compliance; and
- e) starting in January 2015, the independent Ombudsman process was strengthened, which includes the Complaints Channel, an important tool against fraud and irregularities within the Company, which went on to be driven independently by a specialized consulting firm, reporting directly to the Audit Committee;

The Company continuously evaluates its internal controls, including those inherent in the process of preparation of the financial statements, and any needs for improvement in its control environment will be implemented.

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#### **a.3 Evaluations regarding adjustment of fixed assets**

Below aspects are addressed, regarding the conclusion of the Administration as to the adequacy of the values of certain fixed assets.

Considering the size of the enterprise (contracts for construction of 29 rigs), negotiations for the contracting of the shipyards were conducted considering the physical capacity of attendance of each shipyard, the technical competence of its international partners, and construction costs of the rigs vis-a-vis the values of daily-rates offered by Sete Brasil in bids with Petrobras. This business model restricts, in the opinion of the Administration, the opportunity for risk of increase of prices of construction of platforms as a result of any improper payments, as alleged by Mr. Barusco.

The Administration of the Company has evidence that the funds invested portray exactly the schedule of the plan for construction of assets and that such contracts were agreed upon within an acceptable price for a unique initiative in the Brazilian naval market, contemplating the strategic issues of local content regulations, supported in the work carried out by specialized independent consultants.

Under the so-called "rewarded collaboration", Mr. Barusco affirmed that Sete Brazil participated in the bidding process with Petrobras, within all legal requirements required, this statement consistent with the result of the work carried out by outside counsel hired as specified in item a. 1 above.

It is impractical to identify payments specifically related to such forms of misconduct, since the allegations indicate that these payments would have been made directly by contractors and external suppliers of the Company and cannot be traced in the accounting records of the Company. The accounting records of the Company reflect the completeness of the payments made to suppliers on the contractual bases agreed. The payments made by the Company were correctly recorded as fixed asset cost, as a result of the monitoring of the progress of EPC contracts, agreed under the model of turnkey, lump sum. At December 31, 2014, the whole of these assets were under construction, therefore without accumulated depreciation.

Additionally, the accounting values of assets are not indicative of impairment losses, since their recovery values are guaranteed by the charter contracts signed with Petrobras which present, upon completion of construction and start-up of the assets, recoverable values higher than the accounting values of these assets.

Under the circumstances described above, the Company believes that there is no indication or business purpose related to unlawful acts perpetrated by third parties and cited by its former director and that there were no errors in its financial statements disclosed up to that point. .

#### **(b) Payment of capital**

On January 9, 2015, the Company received a new pay-in of capital of R \$ 1,883,000, with R \$ 94,150 via Petrobras S.A. and R \$ 1,788,850 via FIP Sondas. In this way, the Company completes the payment of the new shares issued at an extraordinary general meeting held on September 11, 2014. Thus the total share capital of the Company at the date of approval of these financial statements is \$ 8,251,500.

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**(c) Bridge loan settlement**

Considering the movement of the exchange rate variations that occurred in recent months, the Company, on January 14, 2015, opted to pay off the debt taken through its subsidiary Sete Internacional One, amounting to USD 560,000.

**(d) Rollover of first-line short-term financing**

On February 18, 2015, there was the extension of the maturity period of the first bridge loan for two of the five SPEs that had that line contracted. They are: Copacabana and Grumari. On February 20, 2015, there was the extension of the maturity period of the first bridge loan for the other SPEs that have that line contracted. They are: Ipanema, Leblon and Leme. The new maturity period is being negotiated with the banks.

**(e) Rollover of second-line short-term financing**

On January 21, 2015, there was the extension of the maturity period of the second bridge loan for seven of the fourteen SPEs that have that line contracted. They are: Arpoador, Urca, Frade, Guarapari, Ondina, Camburi and Cassino. The new maturity period is being negotiated with the banks.

**(f) Rollover of fourth-line short-term financing**

On March 10, 2015, there was the extension of the maturity period of the fourth bridge loan for the seven SPEs that have that line contracted. They are: Comandatuba, Interlagos, Sahy, Marambaia, Itaunas, Siri and Itapema. The new maturity period is being negotiated with the banks.

**(f) Rollover of sixth-line short-term financing**

On January 29, 2015, there was the extension of the maturity of short-term financing designated as "Bridge Loan 6" through Sete Investimentos 1. The new maturity deadline agreed upon is April 28, 2015.

**(h) Fifth line of short-term financing – Standard Chartered**

On March 4, 2015, subsidiary Joatinga received the notification of "default" for "Bridge Loan 5" from the creditor Standard Chartered. As a consequence of non-payment at maturity on January 21, 2015, the Administrative Officer declares all amounts and obligations outstanding related to financing documents due and payable.

On March 12, 2015, subsidiary Joatinga was informed that Standard Chartered Bank sent, through notification, a request payment by the FGCN, due to the non-payment of the due bridge loan, which formally begins the process of execution of the guarantee of the FGCN. This is a procedure necessary to preserve the right of the Bank to receive the guarantee.

By the rules of the fund, the FGCN has 30 working days from the receipt of such notification to perform due diligence on the facts and notify the debtor, establishing the deadline for comments or regularization.

## **Sete Brasil Participações S.A.**

### **Administration's explanatory notes to the financial statements at December 31, 2014**

**In thousands of reais, unless otherwise stated**

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Considering that currently all efforts are being made in the search for a long-term solution for Sete Brasil that meets the interests of all the parties, including these creditor banks, the Company believes that such a situation can be reversed through negotiations currently underway.

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