queiroz galvão
EXPLORAÇÃO E PRODUÇÃO






2011 Annual Sustainability Report

PORTINARI, A MESSAGE OF PEACE

In 2012, year in which Candido Portinari is remembered for the 50th anniversary of his death, QGEP pays homage to the memory of one of the greatest Brazilian artists by selecting a few works of this famous painter to illustrate this publication.

The reproductions were authorized by João Candido Portinari - sole holder of the painter's copyrights, founder, and general manager of the Portinari Project, whose main sponsor has been QGEP, since 2010.

Boys on a Swing
1960
Oil on canvas
61 x 49 cm
Rio de Janeiro, RJ

QGEP's Board of Directors
From left to right:
Lincoln Guardado, Exploration director[1];
Paula Costa, Finance and Investor Relations director;
Danilo Oliveira, Production director; José Augusto Fernandes Filho, Chief Executive Officer[2].

Message from the chief executive officer

We are pleased to present QGEP Participações S.A.'s first annual sustainability report. This publication provides an overview of our performance in 2011, our first year as a publicly traded company.

The main milestones in this period were, unquestionably, our successful initial public offering, which yielded BRL 1.5 billion, and the purchase of shareholding interest in blocks BM-S-8 and BS-4, both located in highly prospective areas in the Santos Basin. These two acquisitions have added value to our portfolio and reinforce our position as one of the main players in the Brazilian oil and gas industry.

Formed by the Atlanta and Oliva fields, which are currently being developed, block BS-4 expands the company's cash flow generation potential in the medium term. Moreover, our approval as operators of the block by our partners and by ANP (National Petroleum, Natural Gas and Biofuels Agency) confirms our qualification as deepwater operators. In BM-S-8, the two discoveries made after the farm in - prospects Biguá, at the end of 2011, and Carcará, at the beginning of 2012 - confirm the high potential of the block, which was acquired in the middle of the year. In 2011, we also started drilling the Ilha do Macuco well, in block BM-S-12, located in the Santos Basin, intended for the reserves in the pre-salt region, among others. This result was disclosed in 2012.

In 2011, we started drilling well 1-QG-5A-BAS, in block BM-J-2, in the Jequitinhonha Basin, where we hold 100% interest and are the operators. This drilling aims to test a thick session of pre-salt reserves. In this highly bio-diversified area, we highlight our socio-environmental performance. We developed the projects included in our licenses not only to comply with legal requirements, but above all for our awareness of potential impacts of our activities. Thus, we innovated in various activities and executed projects through our own initiative. We also implemented environmental, cultural, and sports education actions and directed our R&D resources towards actions aiming to develop new technologies for the conservation of Brazilian natural habitats.

2011 was also full of challenges. We faced a non-programmed maintenance in the Manati Field, which, at times, had one of its six wells in production. Consequently, our net revenue was affected, totaling BRL 289 million at the end of the year, 25% below the net revenue recorded in 2010. Even with the maintenance at the Manati Field, we reached a positive operating cash flow of BRL 194 million and registered a net income of BRL 92 million in 2010.

In 2011, we also had to adapt internally to face all the challenges of an unequivocally burgeoning company. We invested in the restructuring of areas and departments, in hiring new professionals, and in the development of operational policies and procedures focusing on sustainability.

Currently, we have a Code of Ethical Conduct developed by our employees and an Integrated Management System (SGI) that guides our initiatives related to the environment, health and safety. In addition, we consolidated our adherence to the UN Global Compact and, in 2012, we intend to take a step forward, structuring actions to implement its ten principles. We also adopted the Global Reporting Initiative (GRI) guidelines, and we publish this report in compliance with its internationally accepted norms.

With the Manati Field operating at its normal capacity, cash generation for 2012 should return to the level presented in previous years. This, in conjunction with a robust net cash of BRL 1.1 billion in December 2011, places us in a very favorable position to take advantage of the opportunities found in the industry and, consequently, to accelerate our company's growth.

Therefore, we would like to highlight that 2011, regardless of the difficulties that were overcome, was a very positive year. The development projects of Atlanta and Oliva, in block BS-4, in the initial implementation phase, and the perspectives concerning short-term results for our ongoing exploratory projects, in conjunction with the Manati Field's return to its full production capacity, foresee a very promising year for our company. We are only at the beginning of a long journey, which, undoubtedly, will involve a great deal of learning. Yes, we will grow, but always supported by the pillars of sustainability.

[1] On June 01, 2012, he assumed the position of Chief Executive Officer

[2] On June 01, 2012, he became a member of the company's Board of Directors

SUSTAINABILITY REPORT

About the report

QGEP reports its performance in its first year of operation through a sustainability report that adheres to the international standards of the Global Reporting Initiative (GRI).

Vandemir Ferreira Geophysical Station, located in the municipality of São Francisco do Conde (BA).

PMNT-1 Platform, located in the south of the State of Bahia.

This annual sustainability report complies with the latest version of the Global Reporting Initiative (GRI) guidelines, known as G3.1. It reaches an application level C, addressing 21 indicators, which describe economic, social, and environmental performances.

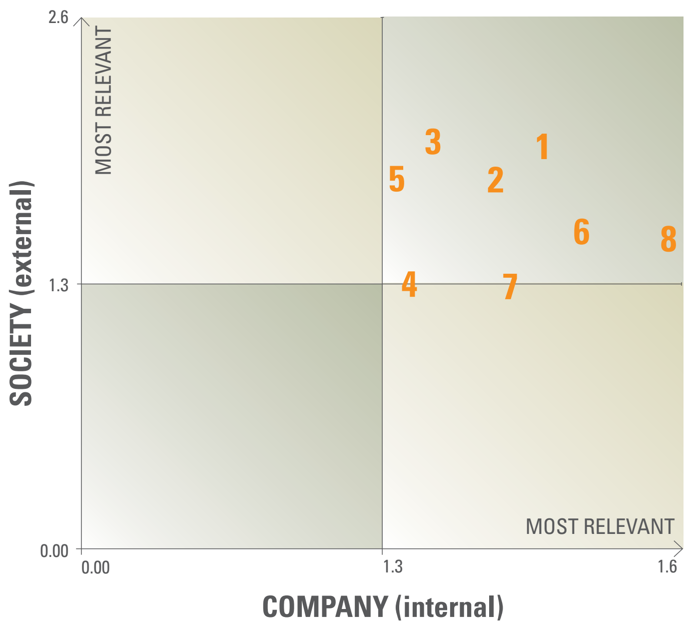
			C	C+	B	B+	A	A+
REPORT CONTENT	Profile	RESULT	**Respond to items: 1.1; 2.1 to 2.10; 3.1 to 3.8, 3.10 to 3.12; 4.1 to 4.4, 4.14 to 4.15.**	WITH EXTERNAL ASSURANCE	Respond to all criteria listed for the C+ level: 1.2; 3.9, 3.13; 4.5 to 4.13; 4.16 to 4.17.	WITH EXTERNAL ASSURANCE	Same requirements.	WITH EXTERNAL ASSURANCE
	Management Approach	RESULT	**Not required.**		Information on management approach for each indicator category.		Management regime informed for each indicator category:	
	Performance Indicators & Sector Supplement performance indicators	RESULT	**Report at least ten Performance Indicators, including at least one in each area: social, economic and environmental.**		Report at least 20 Performance Indicators, including at least one in each area: economic, environmental, human rights, labor practices, society and product responsibility.		Address each critical indicator of the guidelines and of the industry-specific supplement*, with due consideration of the Materiality Principle, for one of the following forms: (a) addressing the indicator or (b) explaining the reason for the omission.	

* Industry-specific supplement in its final version.

In order to develop this content, QGEP complied with the best reporting practices, conducting the following actions:

- comparative study with other companies in the industry;
- online surveys with multi-stakeholders (suppliers, government, organized civil society, financial institutions, investors);
- survey with representatives from the communities located in the area directly influenced by the drilling of block BM-J-2, in the State of Bahia;
- analysis of industry-specific documents;
- online survey with internal stakeholders;
- interviews with senior and key managers.

Based on the convergence of perceptions of stakeholders, a materiality matrix was created, containing the company's primary themes.



1. Impact on the communities located in the areas influenced by its activities
2. Accident prevention
3. Accountability and transparency
4. Engagement, dialogue, and direct communication channels with the stakeholders
5. Risk management
6. Contribution toward local development
7. Investment perspectives
8. Biodiversity

For the preparation of this report, internal and external stakeholders were consulted.

Continuous improvement

The GRI indicators in this report are being integrated to the Business Intelligence (BI) system, in order for them to be monitored and assessed, and to allow, based on their results, the establishment of improvement goals for future periods. This integration will contribute to the identification of new socio-environmental investment needs, cost reduction opportunities, and improvement of performance in safety, environment, and health.

Report scope and boundaries

This report covers the period between January 1st and December 31st 2011, and it is the first report to be published by the company. All future reports will also follow annual cycles.

The information includes the actions performed by QGEP Participações S.A., by its direct subsidiary Queiroz Galvão Exploração e Produção S.A., in charge of operations, and, whenever specified, by its indirect subsidiary Manati S.A., a privately held company, whose social and specific goals are to manage the Manati Field. The criterion used to define the scope was based on the degree of shareholding interest and control held by QGEP Participações S.A. in the other companies. Whenever there is a difference in scope, the information is clarified in the text or in footnotes of charts and tables. Considering that, before the creation of QGEP Participações S.A., the exploration and production activities belonged to Queiroz Galvão Óleo e Gás (QGOG - Queiroz Galvão Oil & Gas), the historical series provided in the financial information were generated as if these activities were already operating independently in the reporting period.

For this report, the term employee is used to refer to full-time company workers. The acronym QGEP will be used in reference to QGEP Participações S.A. and to its subsidiary Queiroz Galvão Exploração e Produção S.A. In case any clarification is required on the oil and gas terminology used in this publication, please refer to the glossary available on the company's website: <www.qgep.com.br>, in IR Home >The Company.

WE WANT YOUR OPINION

Please help us improve our next reports. Send your questions, opinions, comments or suggestions regarding the format and content of this publication or any other related issue to <qgep@qgep.com.br>.

A NEW COMPANY

Corporate profile

"We work for the well-being of all. We are committed to health and safety in all stages of our activities. We take into consideration the whole, diversity, equity, human respect, fair labor, environment, and quality of life."

(Code of Ethical Conduct, paragraph 5)

Doing a Hand Stand
1956
Oil on canvas
55 x 46 cm
Rio de Janeiro, RJ

Code of Ethical Conduct

"QGEP ENCOURAGES ALL ITS PARTNERS TO INCORPORATE THESE VALUES AND PRINCIPLES."

1. Our Team is Professional and Dedicated.
We are a productive, respectful, professional, and relaxed team that integrates generations and experience. We are highly motivated and valued, have development opportunities and promote a good work environment.

2. We Adopt a Management Participatory System.
We promote management based on communication, cooperation, merit, freedom of speech, and good integration among people, areas, and our stakeholders; we mutually support each other in everyday challenges and seek solutions that are based on decisions made in the most participatory manner possible.

3. We are an Ethical and Transparent Organization.
Our work is based on honesty, credibility, transparency of information, and respect to the interests and rights of our stakeholders. We operate with integrity and always in compliance with legislations, regulatory aspects, and with the best corporate governance practices.

4. We Aim at Overcoming Challenges and Achieving Results.
Our line of business is complex, dynamic, and challenging, and involves the use of high technology. We are attentive to opportunities that bring wide-reaching growth perspectives and profitability.

5. We Work for the Well-Being of All.
We are committed to health and safety in all stages of our activities. We take into consideration the whole, diversity, equity, human respect, fair labor, environment, and quality of life.

6. We are Committed to Sustainability.
Our actions incorporate respect for society and for the environment. We promote environmental awareness, social responsibility, and actions that are consistent with sustainable development.

"We are proud to be a company that is 100% Brazilian."

VISION
To grow consistently in order to be among the three largest Brazilian companies producing oil and gas by 2020, and to be recognized by society for its transparent and responsible management.

MISSION
To operate with safety, in an ethical and sustainable manner, in the exploration and production of oil and gas, obtaining results and contributing to the development of the areas where we operate, respecting the needs of all our stakeholders.

QGEP combines the tradition of Grupo Queiroz Galvão with the modern practices of publicly held companies. Created in 2010, the company wishes to be recognized for operations based on ethical principles, respecting life and the environment.

QGEP Participações S.A. is the largest Brazilian company in the private sector in the oil and gas exploration and production (E&P) industry, based on its annualized average daily production of barrels of oil equivalent (BOE), according to data provided by the National Oil, Natural Gas, and Biofuel Agency (ANP), and it is the only company in the Brazilian private sector in the E&P industry qualified by ANP to act as operator A in deep and ultra-deep waters.

Grupo Queiroz Galvão (QGSA) is formed by a successful Brazilian corporate conglomerate with nearly 60 years of activities and 30 years of experience in the oil industry. It is the only company of the Group formed by a publicly held corporation.

Our numbers in 2011

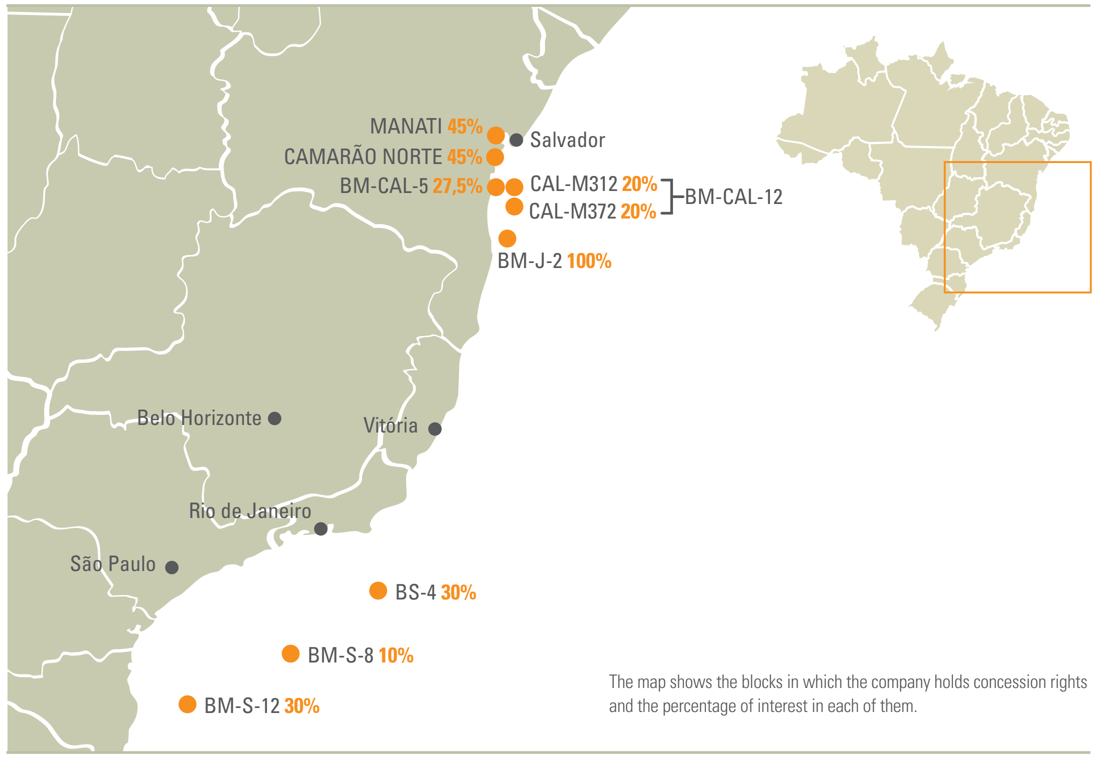
Gross operating revenue	BRL 372 million
Net operating revenue	BRL 289 million
Operating income	BRL 36.9 million
Profit per share	BRL 0.36
Net equity	BRL 2.17 billion
Investment in environmental protection	BRL 9.5 million
Number of employees	74
Volume of reserves – Manati Field	70.2 million BOE
Volume of contingent and prospective resources	321.8 million BOE
Gas production (Manati Field, in 2011)	675 million m³ of gas (referring to the company's share)

COMPETITIVE ADVANTAGES

- The only Brazilian company in the private sector in the E&P industry qualified by ANP as operator A, that is, with permission to operate onshore, in shallow, deep and ultra-deep waters.
- A diversified, balanced, and high-quality portfolio, with assets in exploration, development, and production.
- Long-term partnership with Petrobras as partner in exploration and production projects.
- Privileged financial position, with assets already in operation, significant cash flow, and low indebtedness.
- Highly qualified technical team with a successful professional track record.
- Significant experience, good reputation and prestige in the oil and natural gas industry, due to Grupo Queiroz Galvão's three decades of operation in this industry.

Our portfolio

COMPANY ASSETS IN DECEMBER 2011



The map shows the blocks in which the company holds concession rights and the percentage of interest in each of them.

QGEP has one office in Salvador (BA) and one in Rio de Janeiro (RJ), where the headquarters is located. It was created in March 2010 from the restructuring of QGOG, when the activities related to oil and gas exploration and production were spun off from the operations related to drilling services, such as supply of rigs and leasing of platforms.

In February 2011, the company opened its capital by making an initial public offering of its shares, which was the largest IPO of the year, attracting a total of BRL 1.5 billion. QGEP's shares (QGEP3) are listed in BM&FBOVESPA's Novo Mercado, which is known for gathering companies committed to the adoption of rules that go beyond those determined by the legislation, regarding elements such as the balance between the rights of all shareholders – either controlling or minority – and are transparent in their accountability.

With an estimated market cap of BRL 4.4 billion at the end of 2011, the company operates exclusively in Brazil with assets located in the Camamu-Almada and Jequitinhonha basins, in the state of Bahia, and in the Santos Basin, in the southeast of Brazil. In these regions, the company has concession rights in six exploratory blocks, three discoveries are in the evaluation phase, three fields are in the development phase, and a gas field is in production – Manati, in which the company holds a 45% interest (read more on "Our operations").

Currently, the company's operating revenues come from the production in the Manati Field, through the sale of natural gas and gas condensate. All natural gas produced in the Field is sold to Petrobras, as determined by long-term contract, while the gas condensate (byproduct of natural gas) is sold to Dax Oil Refino S.A.

QGEP guides its operation through the Code of Ethical Conduct developed with the cooperation of its employees and with the use of the Integrated Management System (SGI), which covers the guidelines and procedures regarding health and safety of its employees and the environment. The company signed the National Pact for the Eradication of Bonded Labor and UN Global Compact.

Grupo Queiroz Galvão encourages all its partners and stakeholders to incorporate these values and principles.

GRUPO QUEIROZ GALVÃO

Founded in 1953 as a construction company, Grupo Queiroz Galvão is currently a conglomerate with over 50 companies, operating in various segments of the economy, such as construction, real estate development, participations and concessions, oil and gas, exploration and production, environmental engineering, and in the food and steel industries.

The Group has over 40,000 employees and is present in all Brazilian states, in African and Latin American countries, and exports its products to Canada, the United States, and Europe.

In addition to the exploration and production area, the Group operates in other stages of the production chain of the oil and gas industry, providing services and leasing of drilling platforms and of production ships, and projects and construction of ships and platforms, in operation in Brazil and in other African and Latin American countries.

To learn more about Grupo Queiroz Galvão, visit <www.queirozgalvao.com>.

VALUES

✓ **Reliability** ✓ **Work**
✓ **Quality** ✓ **Loyalty**

Operation background in the oil & gas industry

TIMELINE

1980
- Queiroz Galvão Perfurações S.A. is founded.

1981
- Begins operating with onshore rigs.

1994
- Begins operating with offshore rigs.

1996
- Begins activities in the area of oil and natural gas exploration and production.

1998/2000
- Begins the formation of its E&P's portfolio with the participation in Round Zero*.

2000
- Manati Field is discovered.

2001
- Begins drilling the BC-7 block, the first to be operated by Queiroz Galvão, in partnership with Petrobras.

2003
- Begins the production of oil in the Coral Field.

2006
- Queiroz Galvão Perfurações S.A. has its name changed to Queiroz Galvão Óleo e Gás S.A. (QGOG).

2007
- Begins the production of natural gas and gas condensate in the Manati Field.

2009
- Begins operating with platforms in ultra-deep waters.

2010
- Grupo Queiroz Galvão (QGSA) decides to concentrate its E&P activities in a single company and creates QGEP.
- QGOG spins off all exploration and production assets to QGEP.

2011
- QGEP Participações S.A. opens its capital through an initial public offering.
- Acquires blocks BM-S-8 and BS-4.
- Begins activities in the BM-J-2 block as an operator.

*Milestone for the opening of the oil industry in the country.

ETHICS AND TRANSPARENCY AS BASIS

Corporate governance

"We adopt a participatory management system. We promote management based on communication, cooperation, merit, freedom of speech, and good integration among people, areas, and our stakeholders; we mutually support each other in everyday challenges and seek solutions that are based on decisions made in the most participatory manner possible."

(Code of Ethical Conduct, paragraph 2)

Coffee Harvest
1958
Oil on wood
60 x 73 cm
Brodowski, SP

All shareholders and investors are ensured equal access to information.

QGEP seeks to ensure that its commitment to best corporate governance practices, consolidated via its adherence to BM&FBOVESPA's Novo Mercado, is put into practice. In order to do so, in addition to complying with Novo Mercado's Listing Regulations and with the norms of Brazil's Securities and Exchange Commission (CVM), it also adheres to the recommendations of the Brazilian Institute of Corporate Governance (IBGC), expressed in its Best Corporate Governance Practice Code. The rules below are among those followed by the company:

- the Board of Directors, together with the directors, promotes, at least once a year, a public meeting with analysts and stakeholders to disclose information on the company's finance, projects, and perspectives;
- the company's share capital is divided only in common shares, granting voting rights to all shareholders;
- all shareholders are offered the option to trade their shares under the same conditions. Transfer of controlling interest shall be made at a transparent price. In the event of disposal of the entire controlling block, the acquirer shall direct its public offering to all shareholders, under the same terms and conditions of the majority shareholder (tag-along).
- clear definition, in the bylaws, of the manner in which the General Meeting shall be convened, as well as of the election, dismissal, and term of office for members of the Board of Directors and Executive Board.

Other principles and policies are also important drivers, expressing the responsibility of conducting all activities in an honest and irreproachable manner and of continuously improving all internal controls, namely: the Relevant Fact or Act Disclosure Policy, the Securities Trading Policy, the Code of Ethical Conduct, and the ten Global Compact principles.

An independent auditor was hired to analyze the financial balance sheets and statements, and the company also intends to establish an Audit Committee linked to the Board of Directors.

In 2012, the company will formalize its adherence to the Business Pact for Integrity and Against Corruption, based on the 10th principle, anti-corruption, of the UN Global Compact, on the trade guidelines for transnational companies of the Organization for Economic Cooperation and Development (OECD), on the procedures and conducts recommended by NGO Transparency International, and on the Charter of Social Responsibility Principles of Instituto Ethos. The coordination for the creation of the Pact was headed by Instituto Ethos, the United Nations Development Programme (UNDP), the United Nations Office on Drugs and Crime (UNODC), the World Economic Forum, and the Brazilian Committee for the Global Compact.

Code of Ethical Conduct

The company's Code of Ethical Conduct, established as an instrumental conduct tool, is comprised of six principles, which reinforce the commitment to participatory management, dialogue, transparency, respect for the environment, diversity, and fair labor.

The preparation of the code was a goal planned for the year, which was reinforced by the need to comply with the Novo Mercado rules. More than simply addressing mandatory issues, the goal was to prepare a document that faithfully reflects what the company is and what it intends to be. Thus, it chose to implement a participatory process which, for six months, relied on the participation of employees. The preparation of the code also served as an engagement and internal awareness tool concerning issues on sustainability and ethics in the company's daily activities.

Altogether, 90% of the employees* attended lectures and workshops on ethics, in which QGEP's weaknesses and strengths were mapped. All individuals were encouraged to report their view on how the company addresses issues such as justice, equality, room for development, and relationship with external stakeholders (clients, government, communities, investors, suppliers). In order to ensure freedom of speech, an independent and confidential ombudsman channel was available.

The words used in preparing the code were said by the employees themselves during the workshops and the final text faithfully reflects the ideas set forth throughout the process, except for adjustments in language.

To disseminate the Code of Ethical Conduct, several lectures on ethics will be given, which will occur at least twice a year. The document will be periodically reviewed, whenever applicable.

The following e-mail address is available for suggestions, doubts, and complaints: <qgep@qgep.com.br>.

* The initial goal of 100% was not reached due to employees' vacations, leave, or involvement in other activities.

NÓS APOIAMOS O PACTO GLOBAL

GLOBAL COMPACT

In December 2011, QGEP joined the Global Compact. Headed by the United Nations (UN), the Compact gathers companies willing to align their operations and strategies to the ten universally accepted principles in the human rights, labor, environment, and anti-corruption areas. Even before its adherence to this initiative, the company already developed actions that complied with such principles.

In 2012, QGEP intends to structure its actions to effectively implement all ten principles of the Global Compact, as well as to foster its dissemination among its stakeholders.

Human rights

1. Support and respect the protection of internationally recognized human rights.

2. Ensure the nonparticipation in violations of human rights.

Labor

3. Uphold the freedom of association and the effective recognition of the right to collective bargaining.

4. Eliminate all forms of forced or bonded labor.

5. Effectively abolish child labor.

6. Eliminate workplace discrimination.

Environment

7. Support a precautionary approach to environmental challenges.

8. Undertake initiatives to promote greater environmental responsibility.

9. Encourage the development and dissemination of environmentally friendly technologies.

Against Corruption

10. Fight corruption in all its forms, including extortion and bribery.

The principles and policies adopted seek to ensure an ethical and respectful conduct with all stakeholders.

Trust as a result

Ethics and transparency are the pillars of QGEP's relationship with its stakeholders. Thus, the company has built solid relations of trust and respect with its various stakeholders.

QGEP's stakeholders were mapped based on an internal survey, an industry-specific benchmark study, and a sector analysis. Once identified, these stakeholders took part in an online survey, to allow the company to establish dialogue and learn about their topics of interest.

The mapping involved members of the local community, civil society, clients, shareholders and investors, suppliers, employees, unions, and government agencies associated with licensing processes.

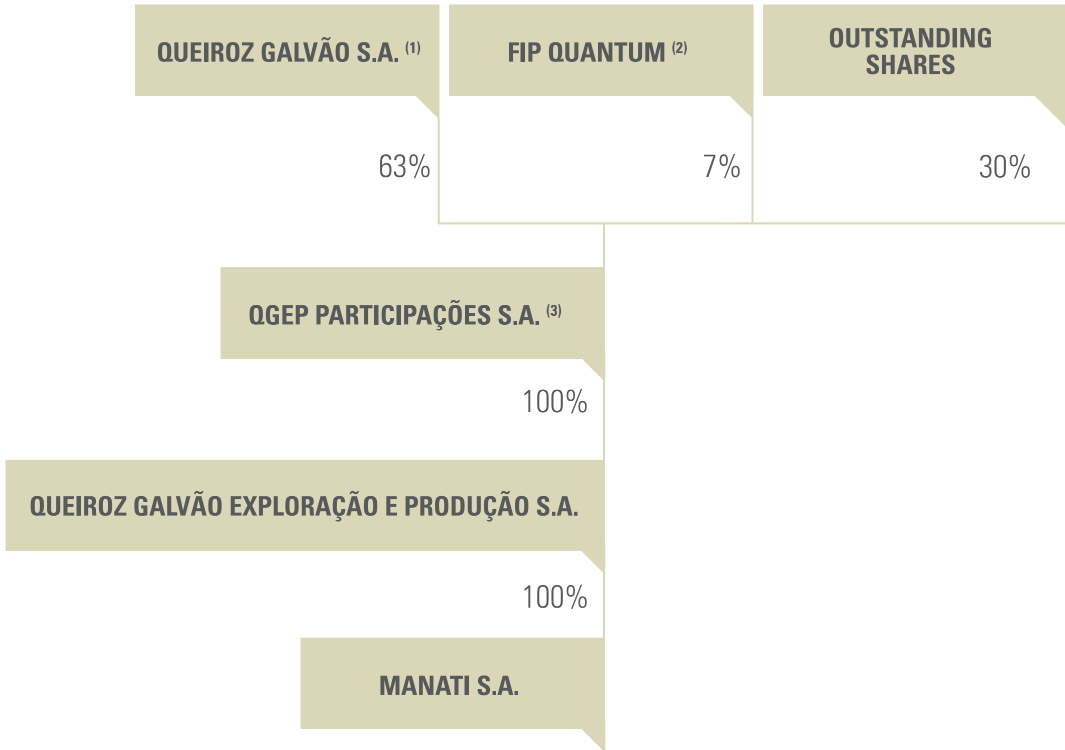
As part of the process, QGEP prepared a materiality matrix consistent with the topics deemed relevant by these stakeholders. This matrix guides the content of this publication, as mentioned in the "About the Report" section.

The company's goals for the coming year include expanding the engagement of the stakeholders via at least one panel/meeting and developing actions aimed at its relationship with suppliers.

The way we relate to our stakeholders is described in this report.

Corporate structure

THE CHART BELOW DESCRIBES THE COMPANY'S CURRENT CORPORATE STRUCTURE



(1) Queiroz Galvão S.A.: holding owned by the Queiroz Galvão family. QGEP Participações S.A.'s chairman of the board is also QGSA's chairman of the board and a member of its executive board.
(2) Quantum - Fundo de Investimento em Participações: FIP Quantum is a private equity fund, whose portfolio is managed and administrated by Oliveira Trust Servicer S.A., a company duly authorized by CVM to professionally manage investment funds and portfolios. FIP Quantum's quota holders and QGSA's shareholders are the same. FIP Quantum's quota distribution follows QGSA's ownership percentage.
(3) QGEP Participações S.A. has indirect controlling interest in Manati S.A. The direct subsidiary of Queiroz Galvão Exploração S.A., or QGEP, holds all shares issued by Manati S.A.

Shareholding structure

NUMBER OF SHARES AND PERCENTAGE

SHAREHOLDER[3]	BEFORE IPO [1]		AFTER IPO[2]	
	COMMON SHARES	%	COMMON SHARES	%
QGSA	167,459,291	90.0	167,459,291	62.9
FIP Quantum	18,606,588	10.0	18,606,588	7.0
Administrators	7	0.0	7	0.1
Outstanding shares	0	0.0	79,741,019	30.0
Total	**186,065,886**	**100.0**	**265,806,905**	**100.0**

[1] Refers to baseline date of 01/19/2011.
[2] Not considering the full exercise of the Over-allotment Option and the issuance of Additional Shares.
[3] For a further description of the company's shareholders and its shareholding structure, refer to item 15.2 of the Reference Form and to "Principais Acionistas e Acionista Vendedor", on page 110 of the Prospecto de Emissão de Ações da companhia, available at <www.qgep.com.br>.

Administrative structure

QGEP is managed by a Board of Directors and by an Executive Board that perform combining agility, efficiency, and quality in its decision-making processes, aiming to reach business management excellence and to maximize the return expected by its shareholders, respecting the environment and the communities surrounding its developments.

The Board of Directors is QGEP's highest governance body, formed by a group of seven members, 22% of whom are independent, non-gender restricted individuals. In compliance with the Novo Mercado rules, the chairman of the Board cannot concurrently hold the position of chief executive officer or main executive.

The Board's current members were chosen during extraordinary meetings held in 2010; therefore, before going public. The term of these board members ends at the Annual General Meeting, which shall deliberate on the accounts and financial statements referring to the fiscal year ended on December 31st, 2011. New board members will be elected during a meeting, to be held in 2012.

There are no committees supporting the Board of Directors. The company understands that it is still undergoing a structuring stage and that the creation of committees, such as the Audit and Compensation Committees and the Supervisory Board, will be analyzed throughout 2012.

The Executive Board is subordinate to the Board of Directors. Presently, it consists of four members. The chief executive officer, director of production, director of exploration officer, and director of Finance and IR.

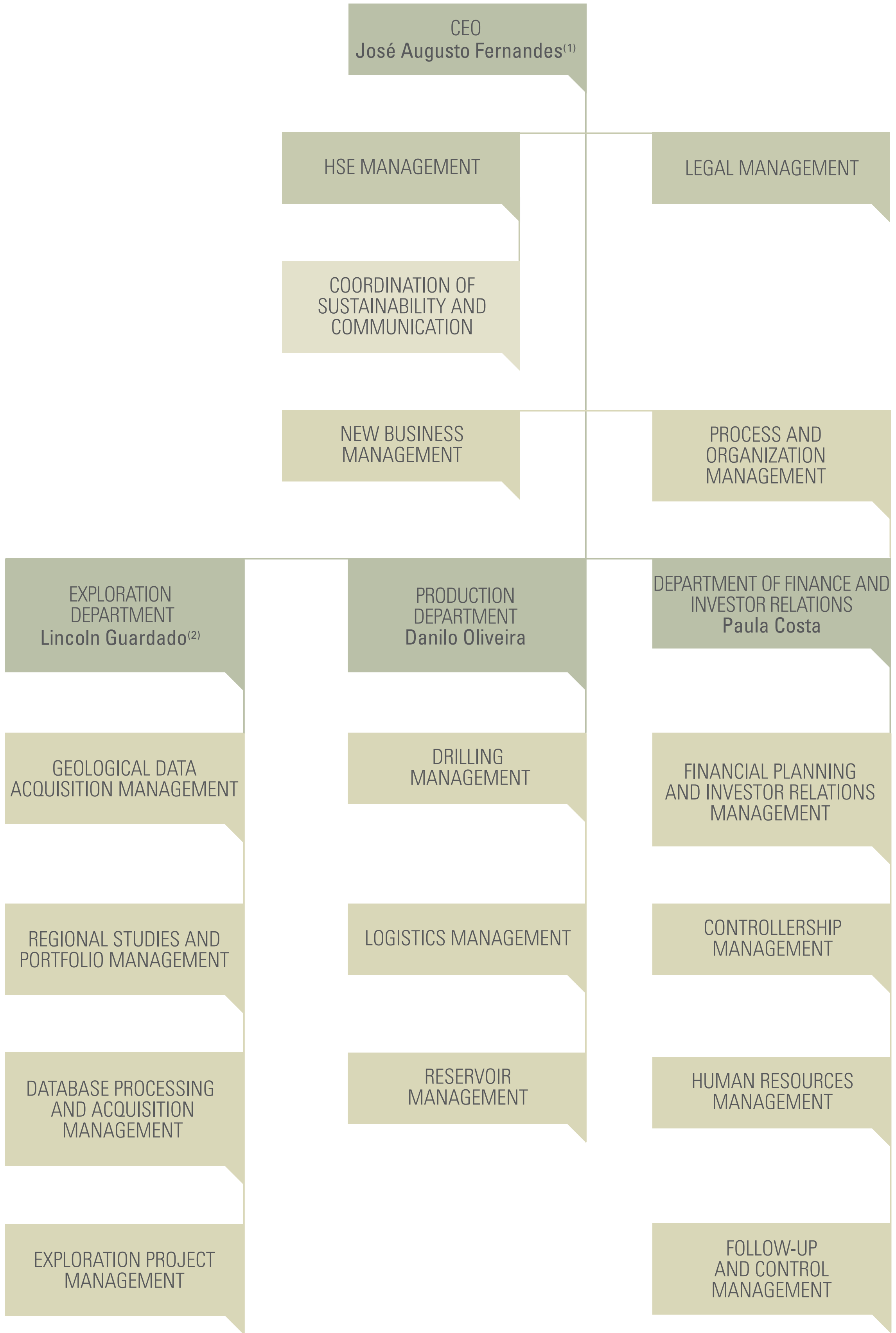
The term of office of the members of the Executive Board and Board of Directors is two years, eligible for reelection. The rules for election and removal from office of these two bodies, as well as detailed information on its operation, can be found on the bylaws, available at <www.qgep.com.br>, in IR Home> Corporate Governance>Bylaws.

Employees may send their recommendations to the Board of Directors through the Investor Relations Management. Minority shareholders can send their considerations to the IR Management or directly to the Board of Directors.

In 2011, a few issues raised by shareholders and employees through these channels were: sustainability goals, creation of committees subordinate to the Board of Directors, existence of an anti-corruption pact, general and administrative revenues and expenses.

General organization of the company

ORGANIZATION CHART AS OF JANUARY 2012



[1] He became member of the company's Board of Directors on June 1st, 2012.
[2] He became CEO on June 1st, 2012.

Board of Directors

MEMBERS (ON DECEMBER 31ST, 2011)				
NAME	AGE	BACKGROUND	POSITION	DATE OF ELECTION
Antônio Augusto de Queiroz Galvão	57	Civil engineer	President of the Board of Directors	09/02/2010
Ricardo de Queiroz Galvão	51	Civil engineer	Vice-president of the Board of Directors	09/02/2010
Leduvy de Pina Gouvêa Filho	57	Mining engineer	Councilor	10/26/2010
Maurício José de Queiroz Galvão	55	Civil engineer	Councilor	09/02/2010
Roberto de Queiroz Galvão	46	Industrialist	Councilor	09/02/2010
José Luiz Alquéres	68	Civil engineer	Independent Councilor	12/16/2010
Luiz Carlos de Lemos Costamilan	59	Mechanical engineer	Independent Councilor	12/16/2010
EXECUTIVE BOARD				
José Augusto Fernandes Filho	72	Geologist	CEO	10/01/2010
Danilo Oliveira	59	Civil engineer	Chief Production Officer	10/01/2010
Lincoln Guardado	64	Geologist	Director of Exploration	10/01/2010
Paula Vasconcelos da Costa	34	Production engineer	Director of Finance and Investor Relations	10/26/2010

Mini résumés of the members of the Board of Directors and the Executive Board are available on QGEP's website: <www.qgep.com.br>, in IR Home > Corporate Governance > Management and Board of Directors.

Compensation policy

QGEP's compensation policy aims at attracting, retaining, and motivating its professionals, aligning the interests of the administrators with medium and long-term objectives.

Compensation paid to our administrators (who are also administrators of QGEP and Manati S.A.) consists of fixed and variable elements, reflecting the parameters adopted in the oil industry with focus on exploration and production.

In 2011, the variable compensation was paid to the company's directors as bonus for the successful initial public offering of shares which ended on March 9th, 2011. For 2012, the company intends to adopt, as variable compensation, a bonus for performance, operating and financial results through a profit share plan (PLR).

Policy to Communicate Material Act or Fact

The Communication Policy aims to provide investors with clear, equal and timely information required for their investment decisions, ensuring symmetry in disclosing information. In this way, we avoid misuse of insider information in the securities market by people who have access to this information, either for their own advantage or that of third parties, to the disadvantage of investors in general, in the market and in the company.

Professionals with recognized experience and successful track record in the E&P area lead QGEP's activities.

Excellence in business management to maximize results.

Policy for Trading Securities

This policy establishes rules for the trading of company-issued securities by insiders, aiming at ensuring compliance with best practices and prevention of insider trading.

Investor relations

In its first year as a publicly traded company, QGEP sought to strengthen, expand, and diversify its investor base. In order to do so, the company held approximately 200 group and individual meetings and participated in national and international conferences, most of which making its senior management available to investors.

In order to control and quantify this relationship, the company contracted the Investor Relationship Manager (IRM) software, which organizes all contacts and meetings held with analysts and investors and data related to their shareholding position.

Other activities are scheduled for 2012, such as: a study on the investors' perception of the performance of the Investor Relations (IR) area and the reformulation of the IR section available on QGEP's website, facilitating the language and providing more user-friendly access.

In its first year, the company was listed in BM&FBOVESPA's Índice Brasil (IBX-100).

Share performance
QGEP's share (QGEP3) ended the year traded at BRL 16.50, which represents a market cap of BRL 4.4 billion and a devaluation of 13% when compared with the price of the initial public offering of shares. This devaluation followed the IBOVESPA index, which presented a decrease of 14% in the same period. The capital market showed high volatility in the year due to the global macroeconomic scenario.

Tradability of the share in the year presented an average financial volume of BRL 12 million and a daily average of approximately 19,000 trades. In July 2011, the company hired Credit Suisse as a market maker to foster the liquidity of the shares. As a result, there was an increase of over 80% in the number of trades in the year. This result granted the company the inclusion of its shares in Índice Brasil's (IBrX) portfolio as of January 2012, which considers the top 100 companies with the highest indices of tradability in BM&FBOVESPA.

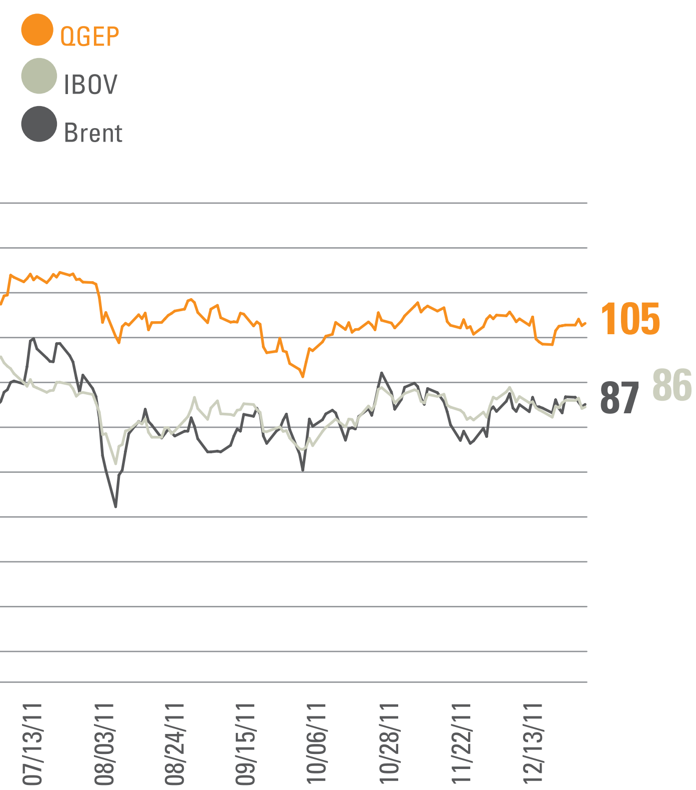
The company's shares attracted the interest of the market and are currently covered by 15 investment analysts of national and international brokerage houses and banks. At the end of 2011, among these institutions, twelve recommended buying QGEP's shares, and only three recommended holding on to the shares; the average target-price for the company's shares was BRL 24.10.

Share Performance in 2011

PRICE VARIATION FROM THE IPO UP TO DECEMBER 2011

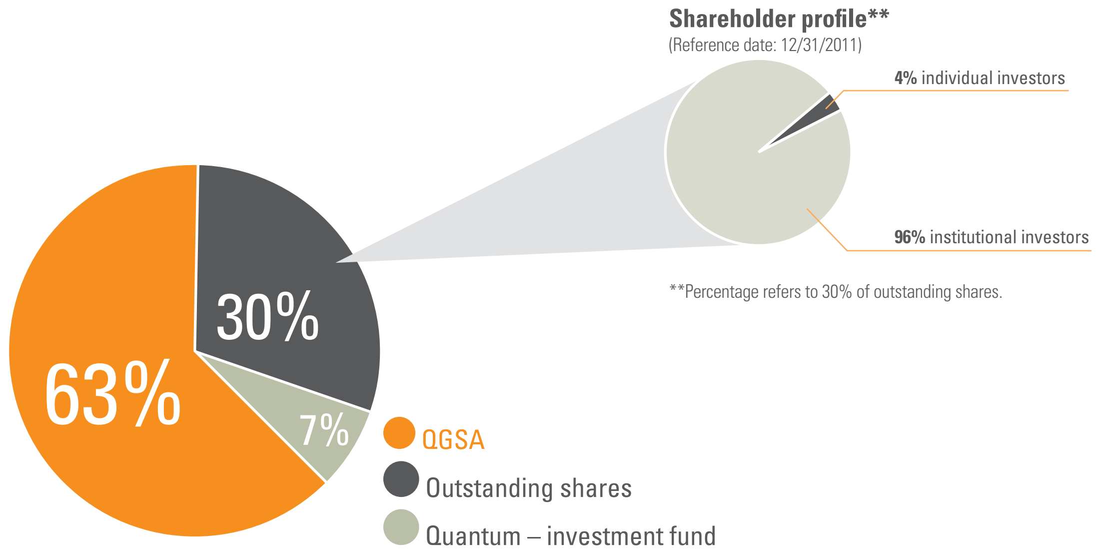
Maximum trading price: BRL 24.69 (April 2011)

Minimum trading price: BRL 12.37 (August 2011)



Distribution of capital*

SHAREHOLDER PROFILE



*Date of last meeting: 04/29/2011.

Policy for dividends
QGEP distributes dividends each fiscal year. Shareholders are assured a minimum dividend of 0.001% of the adjusted net profit, calculated according to the Law of Corporations, after the constitution of a legal reserve of 5% of the net profit for the fiscal year, until the reserve reaches 20% of the share capital. Any remaining balance of net profit in the fiscal year is allocated according to deliberations made by the company's General Assembly.

The Board of Directors may decide on dividends from profits or profit reserves determined in the financial statements from any other period, which are considered advances of minimum dividend.

CONTACT CHANNELS
IR's website: www.qgep.com.br/ri

E-mail: ri@qgep.com.br

Phone: (21) 3509-5959

FOCUS ON VALUE CREATION

Operation strategy

"Our line of business is complex, dynamic, challenging and involves the use of high technology. We are attentive to opportunities that bring wide-reaching growth perspective and profitability."

(Code of Ethical Conduct, paragraph 4)

Discovering Brazil
1954-1955
Oil and tempera on canvas
492 x 393 cm
Rio de Janeiro, RJ

QGEP's strategy is to be in areas that add value to the portfolio, maintaining the balance between risk and return and between short and medium-term projects.

Strategy

To maintain growth in exploration campaigns. This is one of QGEP's main objectives for the coming years, whose focus is to reach the objective mentioned in the company's vision: to be among the three top Brazilian oil and gas companies by 2020, and to be recognized by society for its transparent and responsible management.

The current portfolio is focused on the reduction of risk in the short term and a significant growth in the medium term. Therefore, new opportunities for the expansion of the portfolio are still being considered, mainly in the offshore segment.

Our strategy involves

- Intensification of the exploration and drilling program.
- Growth based on expansion of the portfolio to increase reserves and production in order to obtain appropriate balance for sustainable long-term growth.
- Making use of the knowledge of the key production processes of the E&P chain and of the know-how in the development of fields and commercialization of gas, oil, and gas condensate.
- Increasing participation in the search for new opportunities and exploration projects, especially in the pre-salt's new exploration cycle, through future rounds of ANP's bidding, joint ventures, and farm-ins, making use of the company's qualification as operator A, which enables the search for exploration areas in all environments and being the preferential partner of companies that do not hold this qualification.
- To be in areas that add value to the portfolio, with constant balance between risk and return and between short and medium-term projects.
- To form partnerships with strategic players that allow not only the exchange of technical knowledge, but also the reduction of financial exposure and risk faced by companies in the sector.

Assumptions of our operations

- To base our decisions on planning, constant follow-up, and critical analysis of operations as a foundation for our initiatives, whether in the financial, production or exploration area.
- To work continuously to replace and expand reserves and the production profile at the lowest possible cost, without losing track of the excellence of our environmental management.
- To operate safely, working to prevent operational accidents and adhering to all the industry's regulations.
- To adopt the practices required by best corporate governance, which include transparency, equity, accountability, and corporate responsibility.

Operational and management goals

- To publish the HSE manual with guidelines on health, safety, and the environment.
- To maintain an average production of 6 MM^3/day.
- To comply with the schedule proposed in the Atlanta Field.
- To use the cash flow raised in the IPO for new acquisitions.
- To achieve zero environmental, personal, and property accidents.
- To reach the minimum goal of 2% of training and development hours in relation to the total hours worked by employees.
- To reduce between 5% and 10% the specific consumption of electricity in offices per employee.

All areas continuously assess the main risks involving their activities.

Planned investments

(BRL MILLION)

	LESS THAN 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
BM-S-12	78.7	-	-	-	**78.7**
BM-J-2	121.3	-	-	-	**121.3**
BM-CAL-5	27.7	6.9	-	-	**34.6**
CAL-M-372 CAL-M-312 BM-CAL-12	-	28.8	-	-	**28.8**
BM-S-8	47.7	-	-	-	**47.7**
Total	**275.4**	**35.7**	**0.0**	**0.0**	**311.1**

Investments planned for the next three years for the Minimum Exploratory Programs (PEM) assumed at ANP, in the exploration blocks under concession. These plans do not cover investments in exploratory wells not considered in the PEM or in the production development, since these investments are subject to the confirmation of new discoveries. Investments in production development in the Atlanta and Oliva Fields related to block BS-4 were not considered in this item, given that their Development Plans are being reviewed by ANP.

Investments
We plan to invest an average of US$ 150 million in exploration projects each year. We hold a privileged financial position, with a robust cash flow resulting from the Manati Field's daily production, resources obtained through the IPO, and a low indebtedness level, which enables us to capture future opportunities and to develop a balanced asset portfolio.

Moreover, we can resort to resources from third parties, according to credit availability and market conditions, available for fields under development and in production. Our low indebtedness level also grants us access to the debt market, if necessary.

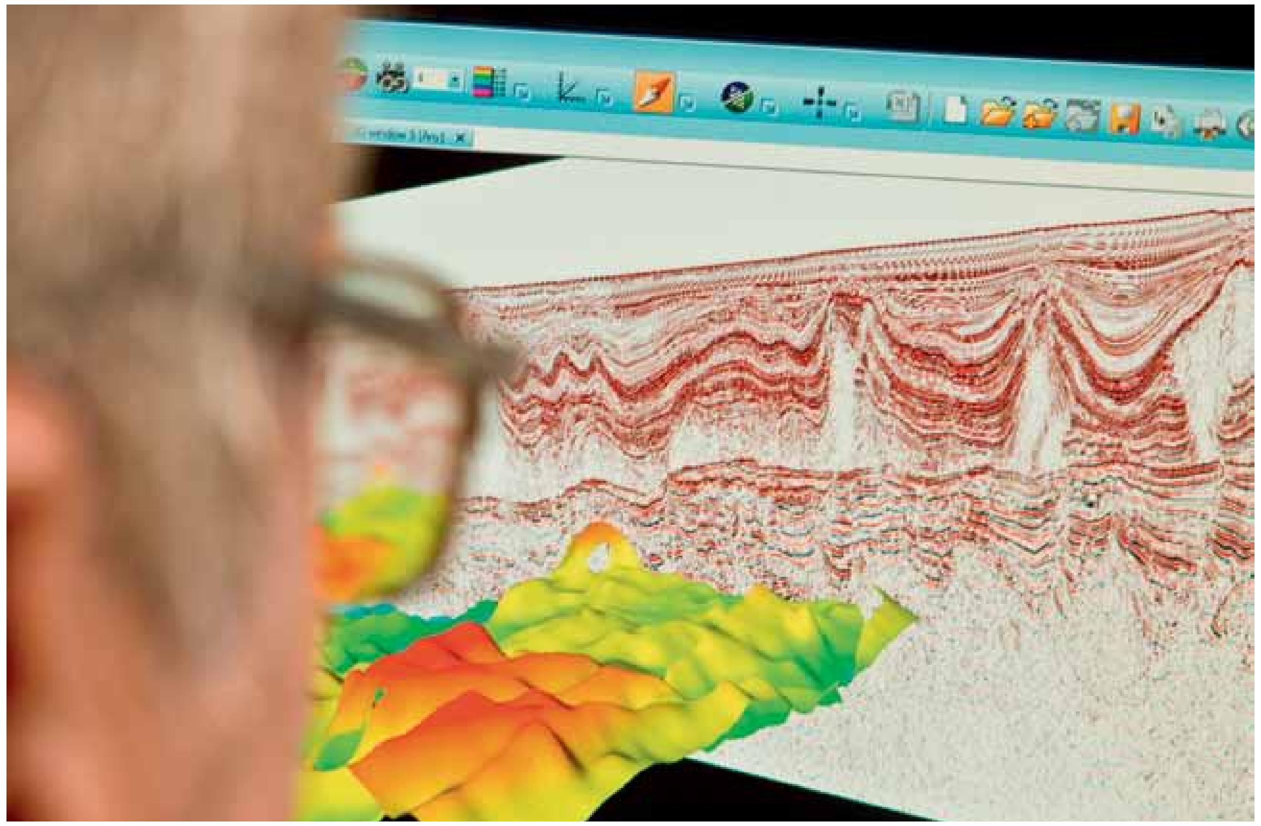
Risk management
QGEP continuously manages the risks to which it is exposed and could affect its businesses, its financial situation, and its operating results. The company has been developing a general risk management structure, aided by a specialized international consulting company, and, during this process, each area is responsible for the assessment of the main risks involving their activities, as well as the control and communication of these risks to the administration.

In 2011, the Board of Directors approved the company's Market Risk Management Policy, which aims to formalize the applicable measures to mitigate QGEP's exposure to market risks non-inherent to oil and gas exploration and production activities.

Nearly all QGEP's revenues and cost of goods sold are expressed in Brazilian Reais (BRL). Even so, the company is exposed to foreign exchange risk due to commitments made in foreign currency. For this reason, the Market Risk Management Policy was implemented in 2011, establishing rules that must be followed by the company in order to reduce its exposure to risks, including exchange variation in the US$-BRL rate for items expressed in dollars or amounts in BRL, pegged to or strongly influenced by the dollar rate.

The policy determines conditions and limits for the use of derivative instruments, such as Futures, NDF (non-deliverable forward), and Options, which may only be contracted as hedge.

Some of the risks assessed by QGEP are summarized below. Further information can be found at Reference Form, at <http:// www.qgep.com. br>IR Home>Announcements and Minutes> CVM Filings – 2011.



- Future drillings in our areas may not occur or may not produce oil or gas in commercially feasible volume or quality.
- Oil and gas exploration and production involves risks, such as spills, explosions in pipelines and exploration wells, and environmental and geological disasters.
- Since we are not the operators of most of our blocks, we have a limited capacity to successfully control the exploration activities and development deadlines, associated costs, and production rates related to the exploration of these blocks.
- We depend on certain members of our administration and on our exploration and production team, thus, the loss or withdrawal of these members can be deleterious to our future success.
- The E&P project schedule is subject to delays and cost overrun, which my adversely affect our current and future projects, keeping us from reaching our exploration and production goals.
- The international baseline prices for crude and natural gas and the demand for these products may vary due to factors beyond our control.
- The oil and natural gas industry is subject to extensive regulation and to the intervention of the federal government.
- The variation of the US$-BRL exchange rate may affect items expressed in dollars or those whose amount in BRL is pegged to or strongly influenced by the dollar rate.

Business Intelligence
QGEP is implementing a Business Intelligence (BI) system to manage information from several company departments, integrating the various data from these areas in order to improve monitoring of processes, risk management for each activity, and, consequently, decision-making processes.

The implementation process started in 2011 and has already been concluded for the financial area. The goal is to have all indicators monitored by all areas integrated to BI, including the GRI indicators.

Integrated Management System (SGI)

The Integrated Management System (SGI) is the basis for the company's operation regarding the occupational health and safety and environmental issues, contributing towards the management of risks related to these areas. It was prepared according to the principles of the rules issued by the International Standards Organization (ISO), such as the Technical Regulation for ANP's Operational Safety Management System (SGSO).

The full text of the Policy for the Integrated Management System can be found at QGEP's website: <www.qgep.com.br>, under Safety and the Environment.

Aiming to comply with the legal requirements involving management of occupational health, safety, and environment, and social responsibility, the company implemented, in 2011, a program to monitor these items, helping in the monitoring and management of the compliance with legal requirements applicable to QGEP's activities.

Our operations

QGEP has a portfolio with a great growth potential and privileged location, in the offshore region of Bahia and in the Santos Basin, which started to be formed as of Round Zero, in 1998, when the exploration and production activities were owned by Queiroz Galvão Perfurações S.A.

Between 1998 and 2000, when Rounds Zero, 1, and 2 occurred, QGEP acquired interest in blocks BC-7, performing as the operator; BCAM-40, where the Manati and Camarão Norte Fields were discovered, located in the Camamu-Almada Basin; and BS-3, where the Cavalo Marinho Field was discovered and subsequently sold, and where the company took part in the development of the Coral Field, already decommissioned.

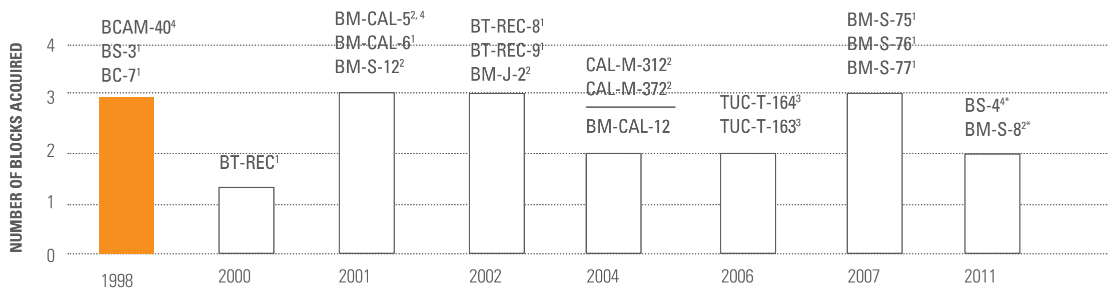
The company also had an active participant in Rounds 3, 4, and 6, promoted by ANP between 2001 and 2004. Of the assets acquired in these biddings, QGEP has interest in concessions of five exploration blocks, one in the Santos Basin (BM-S-12), one in the Jequitinhonha Basin (BM-J-2), and three in the Camamu-Almada Basin (BMCAL-5, CAL-M-312 and CAL-M-372).

In 2011, two strategic blocks located in the Santos Basin were added to the portfolio: BM-S-8, in the exploration phase, and BS-4, with two fields being developed and one prospect identified in the pre-salt region. Ownership interest in these two blocks was acquired from Shell Brasil Petróleo S.A. for US$ 175 million and US$ 157.5 million, respectively. These were the first two farm-in operations conducted by QGEP after its creation.

The company's reserve currently totals 70.2 million BOE and refers to the Manati Field. This volume, added to the contingent resources (estimated at 43.6 million BOE) and the risked prospective resources (278.2 million BOE) total 392 million BOE. These figures are not included in the contingent and prospective resources estimated for blocks BS-4 and BMS-8, whose disclosure is being discussed between the members of this consortium.

Background of Asset formation

CONCESSIONS OBTAINED SINCE THE BEGINNING OF THE E&P OPERATIONS BY GRUPO QUEIROZ GALVÃO



[1] Returned.
[2] In exploration.
[3] Suspended.
[4] Retention of discovery areas/field.
[*] Acquired via farm-in. Blocks BS-4 and BM-8 were part of rounds 0 and 2, respectively.

DESCRIPTION OF ASSETS

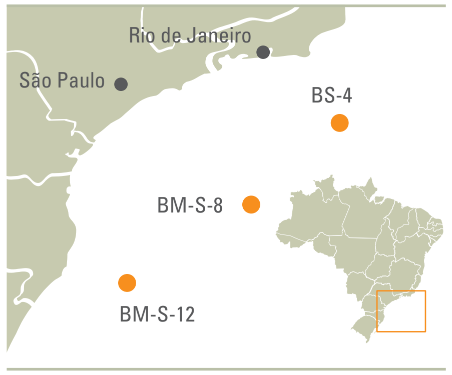
Portfolio in 2011

Portfolio expansion and diversification were the milestones in 2011. The asset portfolio was expanded, with the inclusion of promising blocks and potential sources for revenue growth. The activities in the existing areas proceeded, with important news expected for 2012.

In the Santos Basin, the assets are located in promising and highly prospective areas, near several discoveries already identified.

Santos Basin

STRATEGIC LOCATION



Located to the south of the Brazilian coast, it includes the area between the southern coast of the state of Rio de Janeiro and the north of the state of Santa Catarina. The region is considered to be the most promising in Brazil for the exploration and production of oil, due to the most recent discoveries in the pre-salt region

BS-4

STATUS
Under development

WATER DEPTH
1,550 m

FLUID
Oil

CONSORTIUM
QGEP (operator): 30%

Petrobras: 40%

Barra Energia: 30%

STRATEGIC IMPORTANCE
The Atlanta and Oliva fields have a total volume of over 2 billion barrels of oil *in situ*. The block represents a relevant increase in the company's production capacity in the medium term. It also offers potential for discoveries in the pre-salt layer, due to its proximity to important fields, such as Libra and Franco, and the drilling of the Piapara prospect* is planned for 2014, aiming at the pre-salt region.

In this block, QGEP was unanimously approved as operator by the members of the consortium.**

DEVELOPMENT PLAN
The first oil in the Atlanta Field is scheduled for 2014. It will be executed in Long Term Testing (TLD), from six months to a year, to collect data on reserves and to gather flow and production parameters.

***Prospect:** potential oil and/or natural gas accumulation mapped and ready for drilling.
** The transfer of concession rights and the selection as operator was approved by ANP in February 2012.

BM-S-8

STATUS
In exploration

WATER DEPTH
2,177 m

FLUID
Oil

CONSORTIUM
QGEP: 10%; Petrobras (operator): 66%

Petrogal: 14%; Barra Energia: 10%

STRATEGIC IMPORTANCE
It is the largest block in the Santos Basin, with more than 2,400 km². It is located in a highly prospective area of the pre-salt region, near various giant oil discoveries. It will provide valuable experience in this pre-salt area, allowing QGEP to assume a privileged position for future operations in the region. At least four additional prospects have been identified, including Biguá and Carcará. The drilling of the latter started at the end of 2011 and the existence of an oil column of 170 meters is known to exist in this pre-salt's excellent quality reserve. With Carcará's positive results, the consortium plans new drilling activities for this block.

DISCOVERIES UNDER EVALUATION
Bem-Te-Vi.

Abaré Oeste (extension of a discovery located in an adjacent block, BM-S-9).

Biguá (discovery made in November 2011).

Carcará (discovery made in 2012).

Two other promising prospects have been identified.

BM-S-12

STATUS
In exploration

FLUID
Oil/Gas

CONSORTIUM
QGEP: 30%; Petrobras (operator): 70%

Drilling of the Ilha do Macuco exploration well started in July 2011 to test prospects Santos #1, Santos #2, Santos #3, and Santos #4. The final depth, corresponding to prospect Santos #4, should be reached by the end of the second quarter of 2012. For the other prospects, Santos#1 reserves presented water; in Santos#2, the expected reserves did not occur and the seismic and geological data are being reinterpreted; and in Santos#3, reserves presented low porosity, thus the activities in the area were suspended.

87.9 Blended Case (considering a likelihood of 50% oil and 50% gas).

TOTAL COSTS
Capital invested in drilling in 2011 (Exploration capex): US$ 30 million.

Estimate for 2012: US$ 40 million.

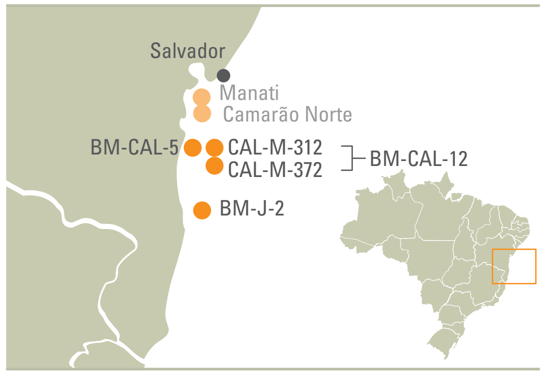
BM-S-76

In 2011 the consortium (QGEP: 20%; Petrobras: 60%; Petrogal: 20%) decided to return block BM-S-76 and the adjacent blocks BM-S-75 and BM-S-77 to ANP, due to its understanding, based on the results from drillings conducted in the Enseada well, that the prospects identified in these blocks would not justify new investments, and that these resources may be put to better use in other exploratory opportunities.

The coast of Bahia is considered to have large oil potential and holds blocks with discoveries under assessment and the Manati and Camarão Norte gas fields.

Coast of Bahia

DIVERSIFIED ASSETS



Camamu-Almada Basin
It is located in the central region of the coast of the state of Bahia.

BM-CAL-5

STATUS
In exploration

DEPTH OF THE RESERVOIR
2,700-3,700 m

WATER DEPTH
500-860 m

FLUID
Oil and gas

CONSORTIUM
QGEP: 27.5%; Petrobras (operator): 72.5%

DISCOVERIES UNDER EVALUATION

COPAÍBA (OIL) Discovery made in the second half of 2008. Expected drilling of an extension well in 2013.	**CONTINGENT RESOURCES*** 21.9 million BOE
JEQUITIBÁ (GAS) Gas accumulation discovered in 2009. Reprocessing of seismic data is being performed. After the seismic reinterpretations are ready, the consortium will consider whether possible discoveries enable the development of the Jequitibá Field.	**CONTINGENT RESOURCES*** 17.2 million BOE

*** Contingent resources:** Potential volume of oil, gas condensate and natural gas in known deposits, but which still are not considered commercially recoverable due to one or more contingencies.

BM-CAL-12* — CAL-M-312, CAL-M-372

STATUS
In exploration

DEPTH OF THE RESERVOIR
2,700 m

WATER DEPTH
1,500 m

FLUID
Oil

CONSORTIUM
QGEP: 20%; Petrobras (operator): 60%; El Paso: 20%

RISKED PROSPECTIVE RESOURCES
24.4 million BOE

A prospect was identified with geological success rate of 31%.
4 leads** identified.
Expected drilling of the exploration well in 2013.

***Risked prospective resource:** prospective resource multiplied by the probability of geological success.
****Lead: less defined accumulation;** requires additional data and/or evaluation in order to be classified as a prospect.

Camamu Basin
The Camamu Basin is located in the central area of the coast of the state of Bahia, with a total area of 12,929 km².

Camarão Norte Field

STATUS
In development (commercial viability declared in 2009)

FLUID
Gas

CONSORTIUM
QGEP: 45%; Petrobras (operator): 35%
Panoro: 10%; Brasoil: 10%

CONTINGENT RESOURCES
4.5 million BOE

Manati Field*

STATUS
In production

FLUID
Gas

CONSORTIUM
QGEP: 45%; Petrobras: 35%
Panoro: 10%; Brasoil: 10%

*For more information, refer to the box on page 40.

Jequitinhonha Basin
It is located in the south of the state of Bahia. It covers an area of approximately 10,000 km². In 2003, a modeling study of this basin indicated a promising oil potential for the BM-J-2 block area and its surroundings, with discoveries already made by other companies in this region.

BM-J-2*

STATUS
In exploration

FLUID
Gas/Oil

PROSPECTS IDENTIFIED
Alto de Canavieiras: 29% chance of geological success.
Alto Externo: 24% chance of geological success.
94.2 Blended Case (it considers the likelihood of 50% oil and 50% gas).

COST ESTIMATE
Total cost (exploration Capex): US$ 140 million, of which US$ 70 million were already invested in 2011.

* For more information, refer to page 41.

Manati: the long-term contract ensures continuous cash flow.

MANATI FIELD

- One of the largest producers of non-associated natural gas in Brazil.
- The long-term contract with Petrobras provides solid and predictable cash flow.

Located in the Camamu Basin, in the state of Bahia, the Manati Field was discovered in October 2000 and started operations in 2007. The field's estimated reserves were of 70.2 million BOE in December 2011.

Its average expected production capacity is 6 million m³ of gas a day. For the development of the field, the consortium has already invested US$ 700 million. There are six wells interconnected by submarine lines to the PMNT-1 platform, which is installed at a 35-meter depth, 10 km off the coast. The gas is transported through a 125-km-long gas pipeline to the Treatment Station Vandemir Ferreira (EVF), in São Francisco do Conde (BA). In this station, the gas is processed and sold to Petrobras.

Maintenance in 2011

In 2011, the Manati Field had its wells temporarily closed for maintenance.

This need was detected during an inspection of the risers (tubular systems that connect the wells to the platforms) when severe corrosion was detected. For safety reasons, the wells were temporarily closed to replace the affected tubes, but were gradually reopened throughout the year. At the end of the fourth quarter, all six existing wells were already operating.

The maintenance cost referring to QGEP's share will total approximately BRL 23 million, of which BRL 10 million were paid as expenses in 2011 and BRL 13 million are expected to be paid in 2012.

Maintenance works are scheduled for 2012, but they will not have an impact on the average daily production in the future. The construction of a compression station, which will maintain the level of production, is also scheduled.

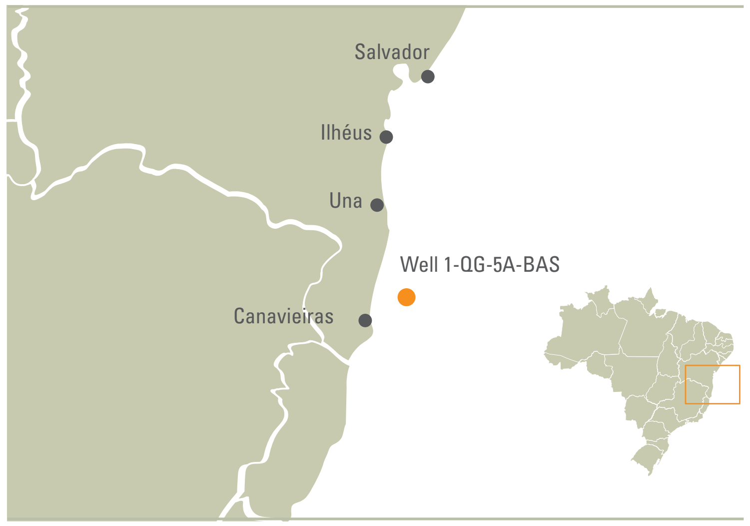
BM-J-2 block

This block was acquired in 2002, in the fourth round of the ANP bidding, and covers a 370-km² area. The development's direct area influence (AID) consists of the municipalities of Ilhéus, Una, Canavieiras, and Belmonte. This region includes the Marine Extractive Reserve of Canavieiras.

The drilling site is approximately 22 km off the coast of the municipality of Canavieiras, in a 44-meter water depth. The purpose of this activity is to evaluate the presence of a reservoir with the production potential of well 1-QG-5A-BAS, known as Alto de Canavieiras.

The operations started in June 2011, after IBAMA issued the operating license, with the drilling of the 1-QG-5-BAS well. However, technical-operational problems with unusual intensity occurred on this site. Since the problems could not be satisfactorily resolved, it was decided to abandon the well and start drilling in a new location, distant one km, which was called well 1-QG-5A-BAS. The procedure was done safely and with the approval from ANP and the environmental licensing agency.

In September, drilling was temporarily interrupted, when the depth of 2,540 meters was reached, in compliance with the existing restrictions in the operating license. According to the license, activities in this region can only occur from June to September because of the restriction period for the area as a result of the presence of turtles and the smaller probability of oil reaching the area of Abrolhos.



The restart of operations is planned for 2013 to complete the drilling of the well to the final depth of 4,700 meters.

Four months of activities

The operation lasted 141 days. In this short period, three emergency drills were carried out and ten socio-environmental projects were implemented in the municipalities within the project's direct area of influence, meeting the requirements of the operating license. The Individual Emergency Plan was also implemented, with the installation of operational bases and the use of resources such as combat boats and vessels, which are used exclusively for emergencies.

QGEP also brought two projects to the municipalities in the vicinities of the block, one is focused on the incentive to sports – the Viva Volleyball project – and the other is focused on culture and environmental education – the Portinari for All project, which uses the paintings of Candido Portinari as pedagogical tools.

These initiatives are detailed in section "Accident Prevention" below, and in chapter "Socio-environmental performance".

Aerial view of the EVF in the Municipality of São Francisco do Conde.

Accident prevention

QGEP recognizes the inherent risks to its activities and works to reduce them to the fullest, with special focus on accident prevention. We analyze the risks of every activity to be contracted in order to identify the control measures that must be included as contractual requirements, in addition to a prior selection of suppliers. We always work with the most renowned and well-prepared companies in the market.

During the drilling activity in block BM-J-2, regular HSE inspections and audits were carried out aiming at continuously improving the processes and the prevention of accidents. The company encouraged its contractors to fill out HSE observation cards, which aim at identifying and correcting deviations that could lead to accidents. The data from these cards, which were prepared in the drilling platform, were daily forwarded to the QGEP for analysis and verification of trends. Other tools for accident prevention were also used in BM-J-2, such as: work permit, preliminary analysis of tasks, HSE daily communication, and safety meetings.

During the reporting period, no cases of spills were recorded.

Individual Emergency Plan

During the licensing process, it is mandatory to prepare an Individual Emergency Plan (PEI), which considers the risk of accidents with oil spills to the sea, the response strategies, and the resources available.

The Individual Emergency Plan prepared for the drilling activity in the BM-J-2 block considered more resources than those required by CONAMA Resolution 398/08, due to the environmental sensitivity of the area. We made use of equipment called drifters, which are used to monitor the surface drift (direction and intensity of currents associated with the effect of the winds), comparing information generated by numeric studies of the behavior of oil in an eventual spill in the area, in order to direct the resources to the areas that could be affected. We also carried out regular training sessions and simulations that involved our employees and our outsourced employees.

For the drilling of wells 1-QG-5-BAS and 1-QG-5A-BAS, approximately BRL 7 million were invested in the Individual Emergency Plan, including human resources, materials, training sessions, and simulations. The company provided: two dedicated vessels next to the platform, with equipment such as barriers and collectors, ready for immediate use together with the support vessels in case of a spill; ten boats, named combat boats, located in Ilhéus, Canavieiras, and Alcobaça, also dedicated exclusively to this activity; and land bases for the support of the PEI, with materials for the cleaning and protection of the coast in four different locations (Ilhéus, Una, Canavieiras, and Alcobaça). The crews of over 50 fishing vessels were also trained (in the PEI they are referred to as coast protecting boats) in order to act in case of an accident.

Examples of accident scenarios foreseen in the PEI:

- spill of diesel oil by the support vessel during transportation;
- spill involving the support vessel during transfer of diesel oil;
- spill of diesel oil or lubricants from tanks, equipment, and other containers in the platform and support vessels;
- oil spills due to eruption or blowout of the well.

Intangible assets

The QGEP brand is associated with the Grupo Queiroz Galvão brand, which has a successful history of nearly 60 years in the development of important projects in the areas of construction, highways, energy, real-estate developments, agribusiness, and steel industry.

In addition to being part of a successful group in Brazil, QGEP adopts an attitude that, based on the transparency of its activities and on the consistency of its image before the public, contributes to the generation of a reliable brand, recognized by its stakeholders. Throughout 2011, the company's operation was not questioned by the press or by the communities surrounding its developments.

The development of the intellectual and leadership potential of our employees is a key success factor.

Human capital

QGEP believes that the partnership built with its employees is the key element for the accomplishment of its mission and activities. In a scenario where companies compete on a global scale, the intellectual potential and leadership skills are considered the greatest assets of organizations. With the right mix of knowledge, skills and attitude, employees are able to reach the essence of the company and contribute to its success.

Thus, in addition to investing in the intellectual development of its employees, providing support to training (investment in post-graduation courses, advanced training, MBAs, among others), QGEP empowers employees to seek alternatives and strategies to improve business performance. We believe motivation is a key factor in the work environment, since it translates into credibility and reliability for the entire group.

Incentive to innovation

The company supports the development of scientific capital and maintains constant dialogue with academia, interacting in industry committees that rely on the participation of the academic community, such as the Social Responsibility Committee of the Brazilian Institute of Oil, Gas, and Biofuels (IBP), and participating in seminars in order to learn about new studies and new tools in the exploration, production, environmental, and social areas.

The contracts for exploration, development, and production of oil and/or natural gas have a clause on investments in research and development that requires companies to invest in R&D at least 0.5% of the annual gross revenue of fields with high production levels. In 2011, QGEP decided to invest these resources, from the production in the Manati Field, in projects that bring social and environmental benefits to the Jequitinhonha Basin area, where the BM-J-2 block is located.

The investment was made in a pioneer project in Brazil, developed by the Environmental Modeling Center (NUMA), linked to the Laboratory for Computational Methods in Engineering (LAMCE) of COPPE/UFRJ, and by the Center for Environmental Studies (NEA) of the Geosciences Institute (IGEO) of the Federal University of Bahia (UFBA). More information on box "Conhecer para Preservar" (in loose translation "Know it to Preserve it").

Investment in the project will total BRL 4 million throughout the years of 2011 and 2012. In 2011, the total invested was BRL 1.9 million.

Investment of BRL 4 million in R&D promotes scientific research in an area of great biodiversity, on the coast of Bahia. The pioneering project includes studies on environmental sensitivity, climate change and bioremediation.

CONHECER PARA PRESERVAR (KNOW IT TO PRESERVE IT)

By July 2013, the Jequitinhonha Basin will have a Socio-environmental Sensitivity Charter that will show the areas that are more sensitive to oil spills. The area studied covers the coastal region of Una, Canavieiras, and Belmonte that have mangroves, river estuaries, restinga, and beaches.

Data are being collected for the preparation of this charter, such as use and coverage of the land, the dynamics of rivers and water flows in the region, winds, and meteorological and oceanographic conditions. The database of the UFRJ team, which is responsible for the development of this charter, is also receiving geochemical, biological, and social data on the sites studied, collected by the researchers of UFBA.

The environmental modeling also includes the analysis of the influence of climate change on the region, based on scenarios foreseen by the Intergovernmental Panel on Climate Change (IPCC). It will be the first time that the local impact of climate change will be analyzed in Brazil.

In addition to supporting the Socio-environmental Sensitivity Charter, the data collected by UFBA will also help assess the current situation of the mangrove and develop methods and procedures for bioremediation for this type of ecosystem. Bioremediation consists in the application of biodegradable procedures; therefore, a very natural method for the treatment of waste and contaminants, using microorganisms (bacteria and/or funguses).

These microorganisms may be used to "clean" an area that suffered contamination by hydrocarbons, including those arising from the cleaning of vessels or engines of small boats.

The studies started in 2011 and will be conducted for two years; they are of great importance for the region because they contribute for the conservation of a healthier habitat and provide the communities with additional knowledge on their territory, providing them with information to demand a more sustainable development for their region.

RESPONSIBLE PERFORMANCE

Socio-environmental performance

“We are Committed to Sustainability. Our actions incorporate respect for society and for the environment. We promote environmental awareness, social responsibility, and actions that are consistent with sustainable development”

(Code of Ethics, paragraph 6)

Drag net
1959
Oil on canvas
38 x 46 cm
Rio de Janeiro, RJ

Potential impacts on the fishing communities are assessed and mitigated via specific socio-environmental projects.

Examples of impact factors

FACTORS	IMPACTS
Disposal of drill cuttings	• Reduction of the benthic community (living at the bottom of the sea) by burial
Use of marine areas/presence of drilling unit and vessels	• Fishing-restricted area, for safety reasons • Interference in the marine habitat of cetaceans
Hydrocarbon spills, in case of eventual accidents	• Changes in the physicochemical characteristics of seawater • Contamination, loss of larvae, eggs, and individuals of the ichthyofauna • Contamination of fish, crustacean, and mollusk populations • Contamination of sea turtle feeding areas • Loss of the sustainability conditions of the communities surviving on fishing and shellfish picking

QGEP has a path of growth ahead and has been on this path since its creation guided by the respect for the environment and the communities surrounding its activities.

Socio-environmental studies are conducted in the areas of influence of its operations and all activities are developed with the approval of relevant agencies.

The company uses the Integrated Management System (SGI), the Brazilian Pact to Eradicate Bonded Labor, the Global Reporting Initiative (GRI) guidelines, and the Global Compact principles as its guiding principles for its socio-environmental performance. In its administrative framework, the company has a Safety, Environment, and Health Management (HSE) department, directly reporting to the Presidency. In December 2011, the Sustainability and Communication Committee was created, reporting directly to the HSE Department.

The information described in this chapter includes the Rio de Janeiro and Salvador offices and the operations involving the drilling of block BM-J-2, for which QGEP is the operator and holds 100% interest. For the other consortiums in which it takes part, QGEP does not implement any socio-environmental actions, since it is not the operator; however, it closely monitors the activities conducted, and is always up-to-date on the projects developed.

We recognize the actual and potential impacts of our operations upon the biodiversity and local communities, and we focus on minimizing these impacts. All our operations are assessed in relation to the impacts that they may cause upon communities and the environment.

Block BM-J-2 is located in an environmentally sensitive area, in the Jequitinhonha Basin, in the south of the state of Bahia. In order to operate in this environment, QGEP took part, in 2006, in a strict licensing process, which included the preparation of an Environmental Impact Study and its respective Environmental Impact Assessment (EIS/EIA) and the summoning of two public hearings. The offshore drilling activity was duly licensed by the environmental regulating agency (General Oil and Gas Coordination – CGPEG/IBAMA).

The studies conducted, as proposed in the term of reference issued by CGPEG/IBAMA, included the assessment of the impacts from drilling activities on the physical, biotic, and socio-economic environments, both under normal activity conditions and emergencies.

Thus, an impact matrix was generated for the various phases of the activity (positioning/drilling/formation testing/decommissioning), including the analysis and discussion of the scope, magnitude, and relevance of the impacts identified. The matrix considers, for example, potential impacts on water quality, cetaceans, birds and sea turtles, coastal ecosystems, traditional, commercial, and industrial fishing, tourism, and the quality of life of local communities.

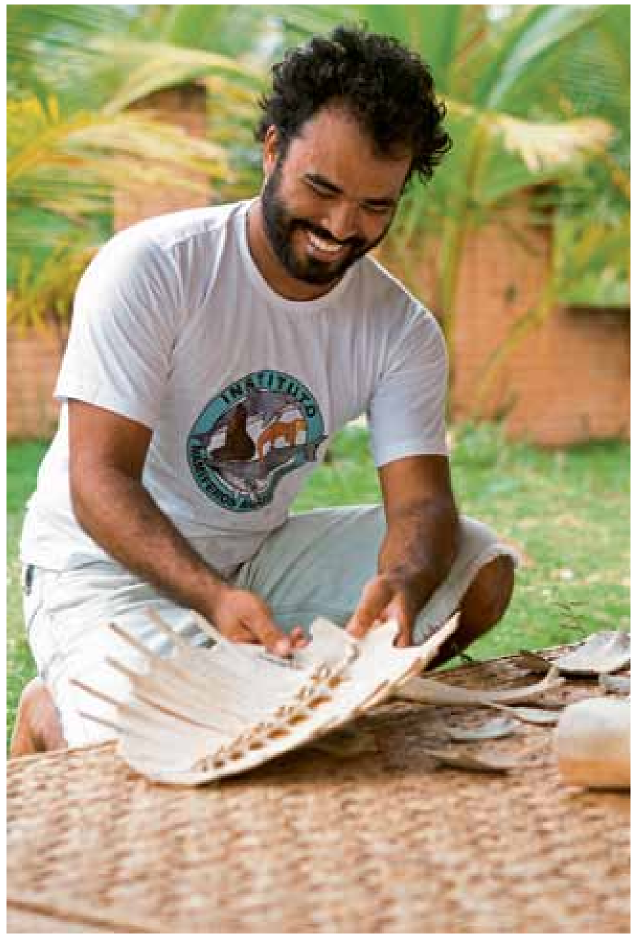
We are currently developing the implementation of a more comprehensive risk assessment system, which shall also consider social risks, given that, at the moment, environmental, safety, and economic risks are assessed more intensely. A few examples of impact factors, whether normal or accidental, in the matrix prepared for the EIS/EIA of the operation are listed above.

In 2011, BRL 9.5 million were invested in environmental protection actions.

The implementation of socio-environmental projects is strategic to manage actual and potential impacts arising from offshore drilling operations for block BM-J-2. These projects aim to reduce interferences from the activities or, when this is not possible, to mitigate these interferences. The socio-environmental projects developed for the block were based on the impact matrix prepared for the EIS/EIA and its execution was determined by CGPEG/IBAMA.

To implement these actions, we engaged our stakeholders in various ways. Preliminary visits to the area of direct influence were conducted for the issuance of the EIA, meetings and public hearings were held to discuss the project. In total, seven public meetings and two public hearings were held to discuss the activities and their consequences. We also took part, upon request, in the meetings of the Deliberative Council of the Canavieiras Extractivist Reserve, located west of block BM-J-2.

In addition, we sent communications about the activity to several organizations in the region, created a hotsite with information about the projects, and a telephone line and an e-mail address for questions. We were in direct contact with the environmental agency (CGPEG/IBAMA), the regulatory agency (ANP), and the fishing communities in the region. We also held a preliminary meeting about the activity with suppliers, and daily meetings with our main suppliers throughout the drilling process.



For the operation of block BM-J-2, the community was engaged and informed of all aspects pertaining to the operation.

Block BM-J-2 projects

PROJECT	OBJECTIVES
Social Communication Project (PCS)	To establish a communication channel between the company and communities and keep them informed on the drilling activity via local media, distribution of leaflets and explanatory posters, and meetings with the fishing communities and their representatives.
Fishing Activity Compensation Project (PCAP)	To implement compensation measures for the fishing communities that are directly affected by the activity, so that they can acquire knowledge and abilities to support management of fishing resources to the benefit of their livelihood and that of the community.
Worker's Environmental Education Project (PEAT)	To achieve good environmental performance for the activity as a whole, through training and awareness of the people involved.
Environmental Monitoring Project (PMA)	To track environmental changes in the area of influence by: monitoring of disposal of drill cuttings and fluids; monitoring of the physicochemical characteristics of the water and sediment before and after drilling; recording of marine animals and fishing vessels near the drilling unit.
Project to Monitor Beaches/ Strandings (PMP)	Monitoring and registration of beached marine animals on the beaches of Ilhéus, Una, Canavieiras, and Belmonte, before and after drilling, promoting rescue and rehabilitation, whenever possible.
Fishing Vessel Unloading Project (PMDP)	To provide information to assess the influence of drilling activities upon local fishing productivity by monitoring the unloading of fishing vessels in Ilhéus, Una, Canavieiras, and Belmonte, before, during, and after drilling activities.
Decommissioning Project (PD)	To avoid the migration of fluids from the drilled well into the seabed and between the geological horizons drilled, especially for hydrocarbon-filled layers, pursuant to ANP's Ordinance No. 025/2002 and to Queiroz Galvão's norms.
Individual Emergency Plan (PEI)	To define attributions and provide resources to operate in the control and fighting of oil spills in the sea, in compliance with Queiroz Galvão's Emergency Response Organization.
Pollution Control Project (PCP)	To establish guidelines focused on the management and reduction in the production of wastewater, atmospheric emissions, and waste arising from the exploratory drilling process.

All projects are monitored, since it is our understanding that, through this monitoring, we can have a view of the biodiversity in the region prior to the operation and after drilling is finished, to determine any change this operation may cause.

Mitigate actual and potential impacts

In 2011, BRL 9.5 million were invested in environmental protection actions. Of that total, approximately BRL 7.5 million correspond to operations involving block BM-J-2.

Throughout the reporting period, no fines were paid and no non-monetary sanctions were applied. This is the result of an environmental compliance management based on monitoring, on permanent assessments, and on the timely search for solutions for eventual occurrences.

Investments and expenditures on environmental protection

TYPE OF INVESTMENT	OPERATING UNIT	AMOUNT
External environmental management services	Head office	BRL 101,254.00
Waste treatment and disposal	BM-J-2	BRL 215,576.39
Personnel used in education and training	BM-J-2	BRL 383,214.41
Prevention, protection, and environmental management costs	BM-J-2	BRL 6,954,486.92
Research and development*	Manati	BRL 1,936,849.40
TOTAL		**BRL 9,591,381.12**

* This amount corresponds to the total invested in the PetroMangue Project, developed by QGEP, in partnership with UFBA and UFRJ. This investment will occur in a period of two years and will total BRL 4,000,000.00.
Although this amount originates from Manati, the investment must be considered as a corporate QGEP investment and is being allocated to the area of influence of BM-J-2's activities.

All waste is properly disposed and the sources of CO_2 emissions are being monitored.

In 2011, there were no expenses with the treatment of emissions and remediation. QGEP aims to implement, in the future, an initiative to mitigate the emissions generated by the company.

CO_2 emissions
In 2011, CO_2 emissions from the drilling of block BM-J-2, business trips, and purchase of electricity for the Rio de Janeiro and Salvador offices were monitored. The 141 days of operation of block BM-J-2 account for 99% of QGEP's CO_2 emissions in 2011.

For 2012, the goals are the consolidation of the emission calculation process and the participation in emission reporting initiatives, such as the Carbon Disclosure Project (CDP).

Waste
QGEP has a waste management plan that was prepared in compliance with the guidelines and best practices concerning the Technical Notice No. 01/11 issued by CGPEG/DILIC/IBAMA, determining that the final disposal methods should be as follows: reuse, recycling, refurbishment, re-refining, decontamination, co-processing, incineration on land, and disposal in sanitary and industrial landfills.

During the operation of BM-J-2, all waste generated was transported and handled by duly licensed contractors. We point out that, given the short period of time of these activities, no indicators and/or reduction goals were defined.

Most oily wastewater generated by BM-J-2 was treated using oil/water separators located in the rig and vessels and, when within specification (oil and grease content - TOG - up to 15 ppm), discarded at sea, pursuant to environmental legislation. The 16.33 tons of oily wastewater reported in the table represent the volume that was not treated on board, since the water/oil separator was down for maintenance. Thus, this volume was unloaded and sent for treatment on land by a duly licensed company (CETREL).

There are no specific initiatives to reduce water consumption, emissions, wastewater, and noise pollution; however, the water used in the platform, that is, for showering, general cleaning, and bathrooms, is produced by an internal system that uses seawater. Aiming to minimize the environmental impacts generated by offshore drilling activities, a few activities were adopted by QGEP:

- collection of drill cuttings generated in the riser phase, with the fluid returning to the rig, using the Clean CutTM system, produced by MI Swaco, with subsequent disposal in locations with water depth of over 1,000 m. This system consists in the containment, handling, temporary storage, and transportation of drill cuttings within a totally closed and protected environment;
- use of water-based drilling fluids;
- sending of the recyclable waste generated by the activity to a recycling cooperative;
- sending of all spent lubricating oil for re-refining.

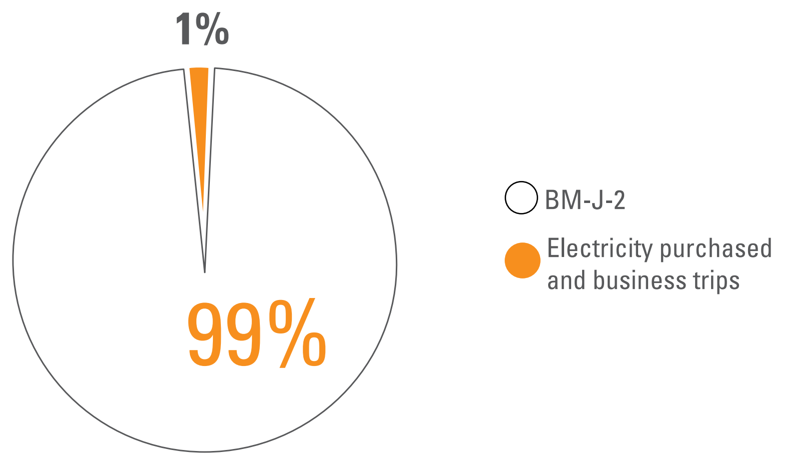
Indirect greenhouse gas emissions[1]

IN METRIC TONS OF CO_2 EQUIVALENT	
Business trips	80.2
Purchase of electricity[2]	6.38
BM-J-2[3]	10,778.30

[1] Indirect emissions are those arising from activities conducted by the organization, although generated by sources that are owned or controlled by another organization (for example: purchase of electricity). Calculated using the 2010 GHG Protocol methodology.
[2] For the Rio de Janeiro and Salvador offices.
[3] Including the drilling rig, three support vessels, two dedicated vessels, two helicopters, and all waste transportation.

Percentage of indirect CO_2 emissions

THE CHART BELOW DESCRIBES THE PERCENTAGE OF CO_2-EMISSION SOURCES MONITORED IN 2011



Total weight of waste by type and disposal methods

NON-HAZARDOUS WASTE	WEIGHT (T)	GENERATING UNIT	DESTINATION
Paper, cardboard, plastic, glass, metallic scrap	32.41	BM-J-2	Recycling
Common waste and wood	14.13	BM-J-2	Landfill
Spent lubricating oil	26.97	BM-J-2	Re-refining
Fluorescent lamps	0.022	BM-J-2	Decontamination and recycling
Healthcare waste	0.063	BM-J-2	Incineration
Waste contaminated with oil or chemical products	24.58	BM-J-2	Incineration
Oily wastewater	16.33	BM-J-2	Treatment station

Hazardous waste transported*

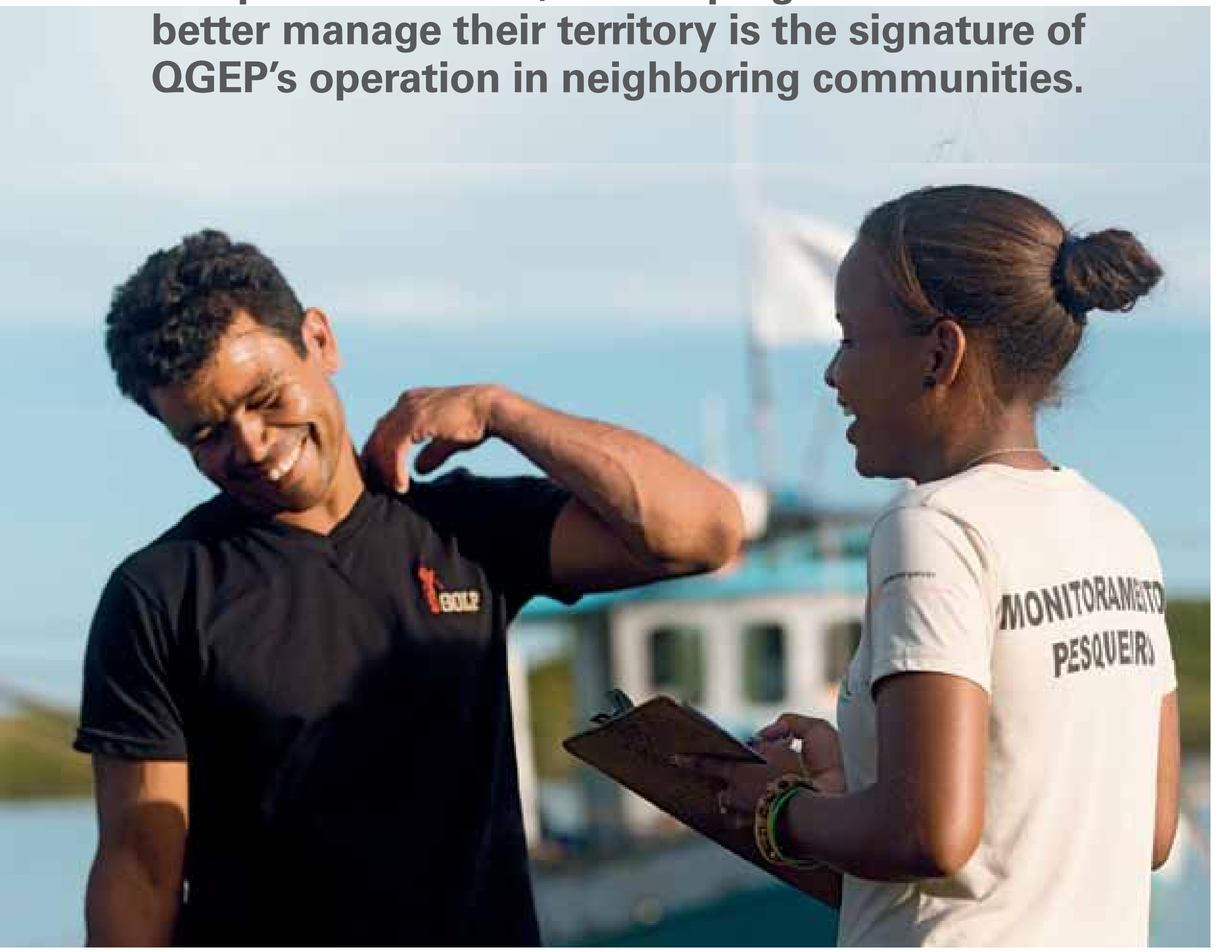
WEIGHT OF HAZARDOUS WASTE TRANSPORTED (IN TONS)	
Transported	68
Transported through international boarders and entering the boundaries of the organization (imported)	0
Transported outside national boarders (exported)	0
Treatment station	68

* Data covers the operations of BM-J-2.

TRANSPARENCY IN RELATIONSHIPS

Partnership with local communities

Maintaining a continuously open channel for dialogue, informing about its activities in a clear and precise manner, and helping residents to better manage their territory is the signature of QGEP's operation in neighboring communities.



QGEP implements its projects responsibly, always working in a participatory manner with local communities, both in Manati (where Petrobras is the operator) and in the area where block BM-J-2 is located (where QGEP has 100% interest).

The company has sought to maintain a transparent relationship with the communities surrounding block BM-J-2 since the beginning of the licensing process, in 2005. One such example was the communication to the Management Council of the Canavieiras Extractivist Reserve (RESEX), formed by Instituto Chico Mendes de Conservação da Biodiversidade (ICMBio), and Associação Mãe dos Extrativistas (AMEX), that it had returned a portion of block BM-J-2 to ANP (return of 50% of the area was mandatory after the end of the first exploratory period), located near the extractivist reserve in the region. With this information in hand, the community could request the inclusion of this area to the reserve, thus expanding the limits of the unit.

As a result of this approach, throughout the six-year relationship with the local community, no complaints or protests against the activities developed by the company in the region have been registered.

The use of the wastewater treatment station, water/oil separator, food grinder, disposal beyond the 12-nautical mile limit, disposal of fluids and drill cuttings in areas of water depth greater than 1,000 meters, and the use of water-based, low-toxicity fluids are actions that seek to mitigate environmental impacts. The operation of block BM-J-2 occurred at approximately 22 km from the coast and the only substances to be disposed of in sea, all in compliance with the legislation, were: ground organic waste, treated sewage, treated oily wastewater, water-based drilling fluid, and drill cuttings. 20.23 t of ground food waste, 1,627.54 m^3 of treated sewage, 35.96 m^3 of treated oily water (< 15 ppm), 902.82 m^3 of water-based drilling fluid, and 360.61 m^3 of drill cuttings were discharged. In addition to these discharged substances, we used seawater to produce drinking water, for use in drilling fluid, and to cool engines.

Incentive to local development

Queiroz Galvão Exploração e Produção did not make direct investments in infrastructure in 2011. However, investments in social well-being and research were made in the areas where it operates.

The company supported studies and researches relevant to maintaining the existing ecosystems in the communities surrounding block BM-J-2, such as the mangrove, source of livelihood of many local communities, and fostered the inhabitants' knowledge about the region where they live by making available all environmental research carried out, which includes from the survey and tracking of water quality in the region to the monitoring of wildlife and flora. One of the most important actions is the investment of BRL 4 million in a research and development (R&D) project in the region, which will yield a Socio-environmental Sensitivity Charter, containing relevant data for the sustainable management of the territory (for further information, refer to section "Intangible Assets").

Since the operation lasted four months, it was not possible to detail the impacts of QGEP's activities on the economic development levels of the region. Despite its short duration, the operation in block BM-J-2 will continue to generate investments in infrastructure, such as the implementation of the Fishing Activity Compensation Project (PCAP) in 2012. At the end of 2011, feedback meetings were held in order to inform the community about the projects executed in the region.

It is also QGEP's philosophy to hire, whenever possible, local suppliers. Despite operating for only 141 days, BM-J-2, generated more than 30 jobs and trained the crews of approximately 50 vessels.

Social investments

As a form to contribute towards the sustainable development of these locations and to compensate for their impacts, QGEP directs its social investments to the areas where it operates. In 2011, such investments were geared to the region under direct influence of block BM-J-2 (Ilhéus, Una, Canavieiras, and Belmonte).

In the project Portinari for All, the artist's works are tools for education through art.

ARTISTS SHOULD BE WHERE PEOPLE ARE

The life of Candido Portinari is intertwined with the heritage that the painter left for Brazil. The project, which carries the family name, was implemented 33 years ago by the painter's son, João Candido Portinari. If, on the one hand, in the 1970s, there was the son's growing desire to become intimate with the works of his father, on the other, it was also necessary to recover and reveal to the entire country that which, in fact, was genuinely Brazilian.

In the three decades that followed, in addition to keeping alive the memory of that little boy from Brodósqui, the Portinari Project helped collect one of the greatest artistic and cultural legacies in the history of the country, with over 5,000 works, such as paintings, drawings, engravings, and poems.

QGEP supports this initiative, as the sponsor of all activities of the Portinari Project.

WAR AND PEACE

The War and Peace panels, milestones for Portinari's career and for Brazilian art, were exhibited in Brazil for the first and last time in the late 1950s. This panel was a request from the Brazilian government to Portinari in order to give it as a present to the United Nations's (UN) headquarters, in New York. This painting had not returned to Brazil since then. In 2010, with the UN building undergoing renovations, the Portinari Project arranged for the panels to be brought to Brazil for their restoration and exhibition to the public, in order to show the Brazilian painter's appeal for peace.

The painting's restoration process was open to the public and gathered over 6,000 people over the course of four months.

São Paulo was the city selected for the first exhibition after the restoration of the panel, which will then be sent to Brasília, Paris (France), Hiroshima (Japan), Geneva (Switzerland), and Oslo (Norway), before returning to Rio de Janeiro, at the end of 2013, to be sent back to the UN headquarters.

Within the War and Peace project, QGEP sponsored a new design for Portinari Project's website, which provides online an extensive multimedia collection, with over 30,000 documents. With the upgrade in the database structure, the search will be made more efficiently, with fewer errors and faster cross-referencing of information. In addition, the playful and dynamic interface will allow children and youths to easily perform their search, further contributing for the dissemination of the works of one of the greatest icons in national art.

Portinari for All in numbers

6,045 visitors, 164 teachers trained, 72 schools involved, and 212 chests of teaching material distributed.

Inside the chest of project Portinari for All, teaching material is available to help teachers disseminate culture and environmental awareness.

PORTINARI FOR ALL

Since 1997, one of the main objectives of the Portinari Project has been to use the works of the artist to promote social, human, and civic values. Since 2010, QGEP has worked in partnership with the Portinari Project, and together we developed an action focused on the communities where we operate. The municipalities of Ilhéus, Una, Canavieiras, and Belmonte, located in the south coast of Bahia, were visited by the traveling exhibition Art and the Environment, which presented 22 reproductions of Portinari's paintings. The truck with this exhibition stays 15 days in each place. Teachers received special training on how to deal with subjects such as the preservation of the wildlife and flora, the proper use of natural resources, and the respect for human dignity, through the analysis of the works of Candido Portinari.

The Portinari Project also leaves in schools chests containing teaching material for teachers to pass on this knowledge and raise awareness within the community about how art can transform the individual.

In 2011, 295 children benefited from the Viva Volleyball project.

Sport and education for the promotion of social inclusion

Combining civic awareness, culture, and social inclusion may seem complicated at first. However, the practice of sports can bring together these three items and also add the element of fun for children and youths.

Having in mind the educational potential of sports, QGEP saw on the Viva Volleyball project, founded by the Brazilian Volleyball Confederation (CBV), an opportunity to take education and development to the communities in which the company operates. Thus, through a project promoted by the Sports Incentive Law (Law 11,438/06), QGEP supported the implementation of the Viva Volleyball project in the municipalities of Canavieiras and Ilhéus, giving these children and adolescents the opportunity to learn social values, such as ethics and respect for others, through volleyball. In one year, 295 children from public schools of these two municipalities started practicing the sport, and the goal is to continue with these actions in 2012.

These centers always have teachers and social assistants, who act as mediators between children and their parents. The involvement of teachers is very important, so that parents can realize that the child needs to start practicing from an early age.

Since 2003, when the project was created, Viva Volleyball has already helped over 200,000 children and adolescents from 7 to 14 years of age, from all over the country. The project has become an institute, and is now considered a Civil Organization for Public Interest (OSCIP). The Viva Volleyball project believes that it is possible to develop a culture of peace, based on inclusion and respect, creating a healthy environment for the interaction of children and adolescents, who are often in situations of social vulnerability.

Volleyball on the island

Campinhos, a community with approximately 200 families, is part of the Marine Extractive Reserve (RESEX) of Canavieiras. Being aware of the hardships these families face, QGEP always expressed its desire to develop a special project for this community. With the company's initiative, the Viva Volleyball project established a center on the island, in order to take the sport, culture and civic awareness to the children and adolescents of the region.

For the first time in 13 years, the Viva Volleyball project was established in a place with the characteristics of the island: a fishing village, which first gained access to electricity in 2010 and which had never had contact with this type of sport.

"The change in the behavior of these children is noticeable. Over time and after we gained their trust, they started to interact more easily, and the teacher-student relationship significantly improved", says teacher Boaventura Freire, who emphasizes the importance of this project for the life of the residents of Campinhos. "Viva Volleyball has certainly improved the quality of life of the residents. I see that the children are happier, and that in itself is worth all the effort."

HUMAN RIGHTS

Respect for human dignity

QGEP works towards the appreciation of fair and decent labor and for the defense of individuals' fundamental freedom and rights.

QGEP's operations are guided based on social responsibility and on respect for human and fundamental labor rights, condemning child labor, bonded or slave-like labor in all its supply chain. The company signed the National Pact for the Eradication of Bonded Labor and UN's Global Compact.

This concern is reflected in the contracts for significant investments, which are analyzed by the company's managers, the Executive Board, and the Board of Directors and contain, in most cases, clauses regarding human rights.

In 2011, 24 of 26 significant investment contracts (considering BM-J-2) had clauses regarding human rights, which represented 92% of the total number of contracts. The definition of significant investments is based on criteria established by the International Financial Reporting Standards (IFRS) and includes: contracts of exploration and production accounted for as fixed assets, amounts in excess of BRL 200,000 or equivalent, and contracts that involve donations and sponsorship.

The company also expects its contractors to act respectfully and ethically regarding human rights. In the organization, 100% of contracts entered into with contracted companies and national suppliers already have clauses regarding labor obligations. In total, of 51 contracts with significant national and international suppliers, 48 – or 94% – had clauses regarding human rights.

The goal is that 100% of agreements and contracts have clauses regarding the protection of human rights.

Future actions:

- To implement a control system to monitor the selection of suppliers based on their compliance with regulations regarding human rights;
- To perform regular audits to ensure compliance with these regulations;
- To implement partnerships with suppliers to improve their social responsibility processes and practices and engage them on these issues.

OPEN DOORS TO COMMUNICATION

Labor practices

"Our team is professional and dedicated. We are a productive, respectful, professional, and relaxed team that integrates generations and experience. We are highly motivated and valued, have development opportunities and promote a good work environment." (Code of Ethical Conduct, paragraph 1)

In the relationship with its employees, the keyword for QGEP is partnership. The company invests in respectful relationships and in the communication among teams. There is a feeling of mutual trust, which makes QGEP's employees feel committed to working for the future of the company.

The company appreciates a good work environment and literally maintains an open-door policy. Directors and managers have their office doors constantly open, making themselves available to all employees.

QGEP also maintains a good relationship with the workers union. There is no restriction to freedom of association, and all employees are covered by collective bargaining agreements.

QGEP ended 2011 with 74 employees. For 2012, the goal is to increase the number of employees, with plans to hire 30 professionals, three interns, and one young apprentice. Other goals are to implement a profit share system and a policy for positions and salaries, and to organize policies and procedures for benefits.

Non-discrimination

In spite of QGEP not having formal policies or procedures for non-discrimination in the work place, the presence of employees from different backgrounds and age groups and the balance between the number of male and female employees show that the company understands that diversity enriches the company and can contribute to improving results.

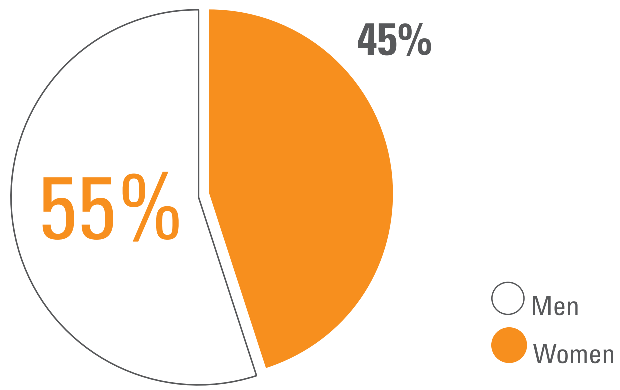
QGEP recognizes that there is more to be done; therefore, the company intends to implement a hiring policy in 2012 to include in its staff social groups that are not currently present.

Staff Profile

The tables on the following page do not include information on outsourced employees, with the exception of the first table, whose data correspond only to the headquarters and do not include operations.

Percentage of employees by gender

PERCENTAGE OF MEN AND WOMEN IN THE STAFF



In 2011, staff is considered even regarding gender and position.

Number of employees

BY POSITION		
	MEN	WOMEN
Executive Board	3	1
Management	6	5
Leadership/Coordination	9	3
Technical/Supervision	5	4
Administrative	9	18
Outsourced employees	8	3
TOTAL	**40**	**34**
BY JOB TYPE		
	MEN	WOMEN
Full time	40	34
Part time	-	-
TOTAL	**40**	**34**
BY CONTRACT TYPE		
	MEN	WOMEN
Fixed term	-	2
Open-ended	40	32
TOTAL	**40**	**34**
BY REGION		
	MEN	WOMEN
South	-	-
Southeast	38	33
Midwest	-	-
Northeast	2	1
North	-	-
TOTAL	**40**	**34**

Number and rate of hires

BY GENDER		(%)
Male	19	47.5
Female	16	47.05
BY AGE GROUP		(%)
Under 30 years of age	9	52.9
Between 30 and 50 years of age	16	51.61
Over 50 years of age	10	66.66
BY REGION		(%)
South	-	-
Southeast	35	49.29
Midwest	-	-
Northeast	-	-
North	-	-

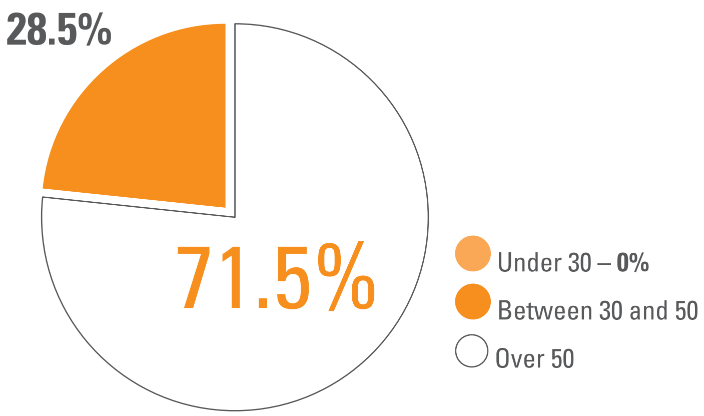
Number of terminations and turnover rate*

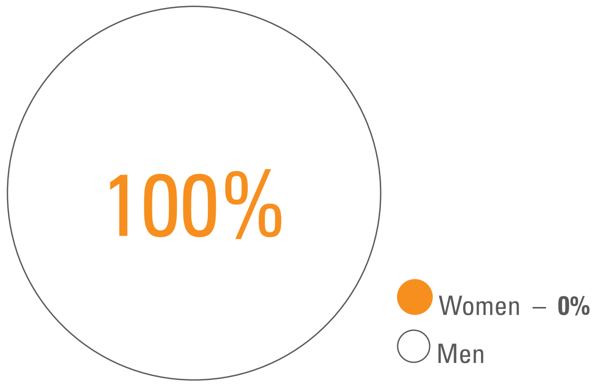
BY GENDER		(%)
Male	3	15.38
Female	-	3.33
BY AGE GROUP		(%)
Under 30 years of age	2	16.67
Between 30 and 50 years of age	1	7.14
Over 50 years of age	-	-
BY REGION		(%)
South	-	-
Southeast	3	9.62
Midwest	-	-
Northeast	-	-
North	-	-

*We understand that the company's turnover rate may be calculated based on the number of terminations and hires already informed.

Board of Directors

BY GENDER AND AGE GROUP





Benefits

BENEFITS*	COVERAGE
Meal allowance	All employees (except directors)
Transportation allowance	According to legislation, to all who request it
Life insurance	All employees
Health insurance	All employees
Coverage for impairment/disability	As determined by legislation
Maternity leave and paternity leave	As determined by legislation
Retirement fund	All employees
Stock option plan	Directors, managers, and employees in key positions
Others (day-care/education assistance)	All employees

*In the reporting period, the company did not have any interns, part-time or temporary employees.

In 2012, BRL 1.7 million will be invested in training and professional development programs.

Training
The oil and gas sector is highly competitive, and training of the technical staff is essential for our future. All QGEP's employees are encouraged to take part in training courses, courses, and workshops. The company bears from 80% to 100% of the investment. In 2011, QGEP funded development courses, such as MBAs and postgraduate studies, to its employees, in addition to professional enhancement in each area.

In 2012, it will structure training policies and procedures and reinforce investments in professional training in the amount of BRL 1.7 million. This amount will be allocated according to the goals planned for the year and to the results of each employee's performance assessment.

Health and safety
QGEP ended 2011 without any accidents in the Rio de Janeiro and Salvador offices. In block BM-J-2, there were two accidents with lost time and one without. No fatalities were registered in the period. The organization has a "zero accident" goal implemented in all its operating units.

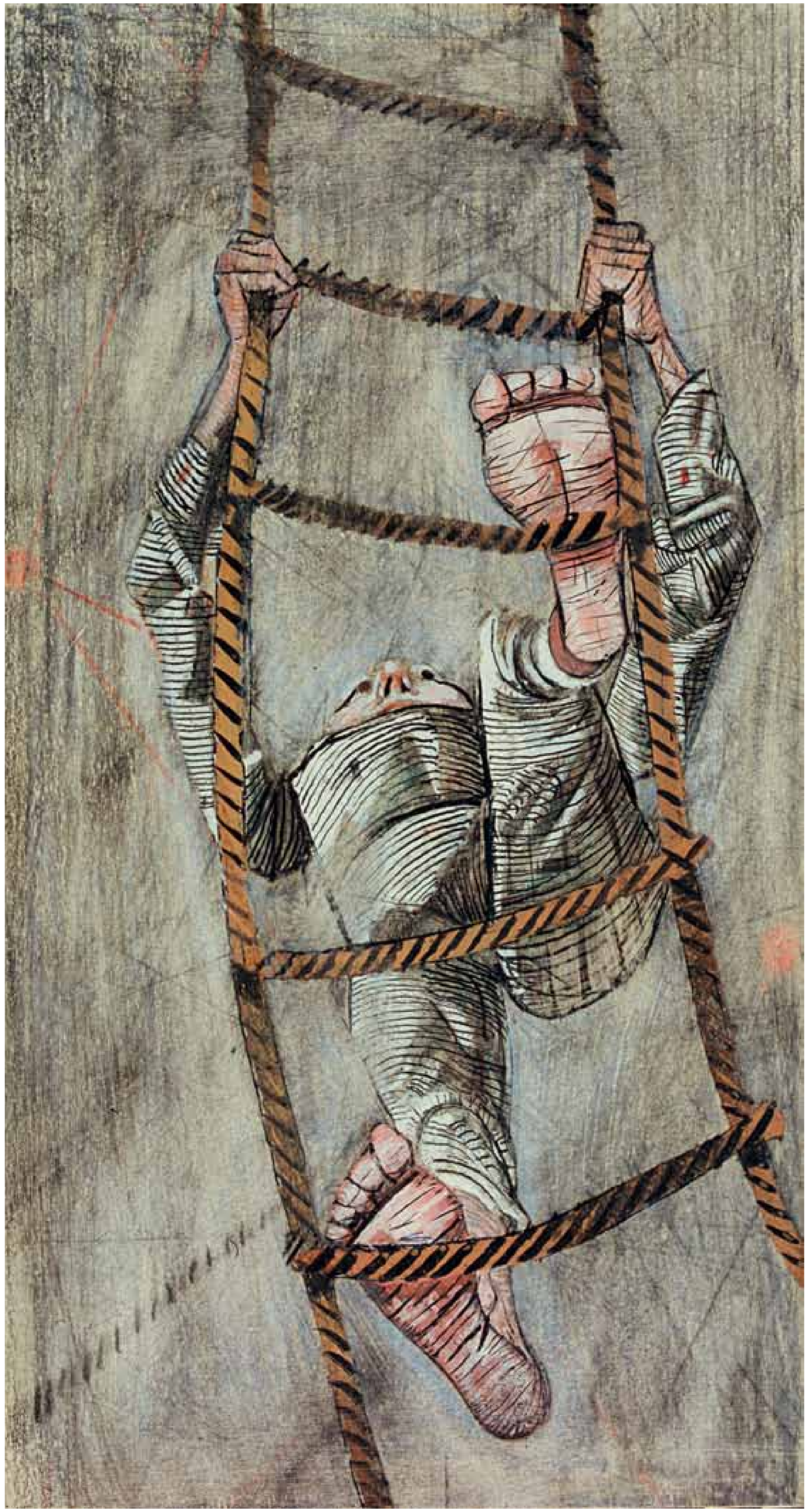
In November 2011, the company held its first Internal Accident Prevention Week (SIPAT), in the Rio de Janeiro office. The event offered lectures on stress and healthy habits, ergonomics, alcohol and drugs, and corporal assessment (weight, height, blood sugar, blood pressure). Two plays were enacted: one on STD/AIDS and another on accident prevention. These subjects were suggested by employees during a survey conducted to define the issues to be approached during SIPAT.

After the event, another survey was conducted to measure the level of satisfaction of QGEP's employees in relation to SIPAT. The level of satisfaction scored 85 out of 100.

Health and safety indices

		HEADQUARTERS AND SALVADOR		BM-J-2	
INDICATOR	EMPLOYEES	RATE	%	RATE	%
TFCA: Lost-time accident rate (per million man-hours)	Employees + contractors	0	0	2	7.5
TFSA: accident rate without lost time (per million man-hours)	Employees + contractors	0	0	1	3.7
TFA: accident frequency rate (including accidents with and without lost time)	Employees + contractors	0	0	3	11.2
TDP: total lost days (in which days mean business or calendar days on which the count of the lost days begins on the day following the accident)	Employees + contractors	0	0	88	N/A
Total fatalities for the period	Employees + contractors	0	0	0	0

The system of rules applied in the recording and reporting of statistics on accidents follows ILO (International Labor Organisation) recommendations.



OPERATIONAL PERFORMANCE

Economic-financial results

“We are an ethical and transparent organization. Our work is based on honesty, credibility, transparency of information, and respect to the interests and rights of our stakeholders. We operate with integrity and always in compliance with legislations, regulatory aspects, and with the best corporate governance practices.”

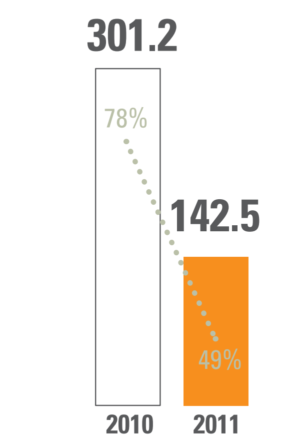
(Code of Ethical Conduct, paragraph 3)

Man Climbing Rope Ladder
1955
Gouache, graphite, colored crayon, sepia, and India ink pen on paper
26.3 x 14 cm
Rio de Janeiro, RJ

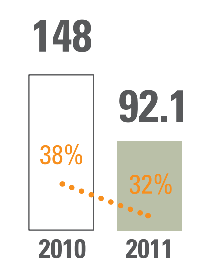
In December 2011, the company had a cash balance of BRL 1.2 billion

Financial results

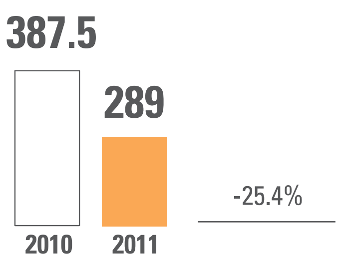
EBITDAX (BRL MILLION)



NET INCOME (BRL MILLION)



NET REVENUE (BRL MILLION)



EBITDAX margin
Net margin
Variation

QGEP ended 2011 with a net income of BRL 92.1 million, 38% below that of 2010, especially due to a lower production in the Manati Field, increased general and administrative expenses, and impacts of exchange rate variations. EBITDAX was BRL 142.5 million, with a 49.3% margin.

In 2011, Manati registered an average daily output of 4.1 million m³ of gas, compared to the 6.2 million m³ produced in 2010. However, the smaller volumes produced were partially offset by the adjustment in the price of gas. The natural gas sale agreement executed with Petrobras is made in Brazilian Reais and adjusted annually, based on the contractual rate defined. Thus, net revenue totaled BRL 289 million, equivalent to a 25.4% reduction in relation to that of the previous year.

The exchange variation had a BRL 40.1 million impact on the remaining installment referring to the acquisition of 30% ownership interest in block BS-4. Of the total US$ 157.5 million, 10% were paid in August, and the remaining 90%, recorded in 2011 as accounts payable, will be paid once ANP approves the transfer of concession rights. Currency devaluation resulted in additional BRL 11.9 million in the accounting provision for the decommissioning fund for the Manati Field. Net financial result of the company for the period was BRL 84.4 million, 761.2% above that of 2010.

Costs were reduced by BRL 128.7 million in 2011, representing a reduction of 8.9%. This reduction is due to an impact of BRL 53.1 million from depreciation; BRL 24.7 million from special ownership interest; BRL 3 million from research & development; and BRL 10.4 million from maintenance costs in the Manati Field, in addition to BRL 37.5 million from the operation of the natural gas plant.

Exploratory costs amounted to BRL 52.1 million, of which BRL 29.7 million refer to the purchase of seismic data related to the areas where blocks BM-S-8 and BS-4 are located. In 2010, exploratory costs reached BRL 40.4 million.

General and administrative expenses amounted to BRL 64.1 million in 2011, representing an increase of 196.3% in relation to the BRL 21.6 million recorded in 2011, due to the expansion of the technical team for the operational activities of block BS-4 and share options offered to employees. General and administrative expenses, excluding those not arising from the incentive for the IPO, in the amount of BRL 23.1 million, reached BRL 41 million in 2011, compared to BRL 21.6 million in 2010.

Positive cash balance and low indebtedness

Even after two significant acquisitions in 2011 (acquisition of blocks BM-S-8 for US$ 175 million and BS-4 for US$ 157 million), the company maintained a comfortable cash balance in 2011, allowing for the continuation of its portfolio expansion projects. On December 31st, net cash was BRL 1.2 billion after payment of BRL 245.8 million corresponding to the last installment for the acquisition of BM-S-8 and 10% of BS-4.

Indebtedness percentage was 55.4% below that of 2010, amounting to BRL 103.6 million, and the operating cash flow remained positive, totaling BRL 194.2 million at the end of 2011.

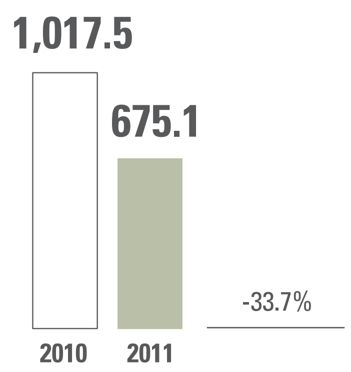
Significant financial aid from the government

Manati S.A., QGEP's subsidiary, has tax incentives for partial reduction of income tax due, for an amount equivalent to the portion provided for in the tax law for exploratory operations conducted in the northeastern region. This incentive is calculated based on the tax profit for the activity (called exploration profit) and considers the allocation of operating profit according to the production levels stimulated during the incentive period for each product. An amount equal to the tax savings must be allocated to a profit reserve account, in net equity, and cannot be paid as dividends to shareholders.

Manati and other companies of the Group also develop incentive programs for the preservation of cultural heritage, which, according to the Rouanet Law, allows deduction of 100% of the investment, up to a cap of 4% of income tax due.

Production of natural gas

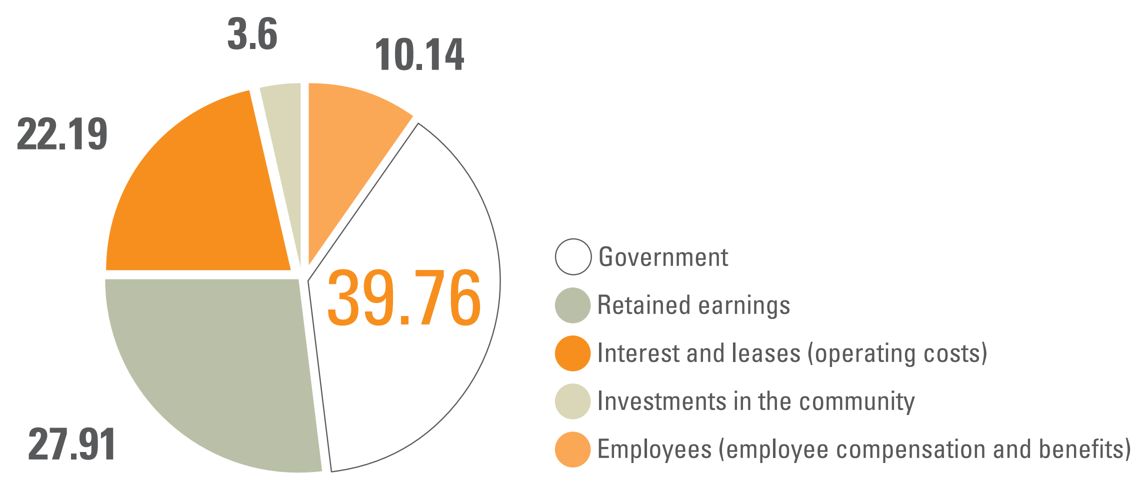
MANATI FIELD - VOLUME IN MILLION CUBIC METERS



Total tax incentives for income tax deduction purposes was BRL 25.1 million in 2011, of which BRL 24.5 million refer to exploration profit and BRL 575,000 to cultural and artistic operations.

Value-added statement

PERCENTAGES



Value-added statement

DESCRIPTION	EXPLANATION	BRL THOUSAND*
Revenue	Net sales and revenue from investments and disposal of assets	898,777
ECONOMIC VALUE DISTRIBUTED		
Operating costs	Payments to suppliers, non-strategic investments, facilitating payments	714,054
Employee compensation and benefits	Total payroll for employees	33,478
Payments to the government	Gross taxes	131,290
Payments to investors (such as shareholders)		-
Investments in the community	Voluntary contributions and investments of resources in the community as a whole, including donations	11,889
Aggregate economic value (economic value generated less economic value distributed)	Investments, mortgages	-
1 – REVENUE	**SUM OF ITEMS 1.1 TO 1.3**	**898,777**
1.1) Sale of goods and services	Including ICMS and IPI levied upon such revenue, i.e., corresponding to the gross revenue or to the gross sales	372,403
1.2) Provision for doubtful debtors – Reversal/Constitution	Constitution/write-off of provision for doubtful debtors	-
1.3) Non-operating	Includes amounts not considered in the main activities of the company, such as: gains or losses on asset write-offs, gains or losses on investments, etc.	526,374
2 – INPUTS ACQUIRED FROM THIRD PARTIES (INCLUDING ICMS AND IPI)	**SUM OF ITEMS 2.1 TO 2.4**	**714,054**
2.1) Raw materials consumed	Included in the cost of goods sold	-
2.2) Cost of goods and services sold	Not including expenses with employees	145,507
2.3) Materials, energy, services from third parties and others	Related to acquisitions and payments to third parties. ICMS and IPI taxes included at the time of purchase of materials, services, energy etc., will be considered in cost of products sold, recoverable or otherwise	561,300
2.4) Loss/Recovery of cost of assets	Amounts related to the market value of inventories and investments, etc. Note: if the net amount is positive, it should be added to item one instead of subtracted	7,247
3 – GROSS VALUE ADDED	**DIFFERENCE BETWEEN ITEMS 1 AND 2 (1-2)**	**184,723**
4 – WITHHOLDINGS	**ITEM 4.1**	**9,024**
4.1) Depreciation, amortization, and depletion	Expense recorded for the period	9,024
5 – NET VALUE ADDED PRODUCED BY THE COMPANY	**DIFFERENCE BETWEEN ITEMS 3 AND 4 (3-4)**	**175,699**
6 – VALUE ADDED RECEIVED IN TRANSFER	**SUM OF ITEMS 6.1 AND 6.2**	**154,480**
6.1) Results of equity accounting	Including amounts received as dividends related to investments valued at cost. The result of equity accounting may represent revenue or expenses. In case of expenses, it must be informed between parentheses	-
6.2) Financial revenue	Include all financial revenue, regardless of origin	154,480
7 – TOTAL VALUE ADDED TO BE DISTRIBUTED	**SUM OF ITEMS 5 AND 6 (5+6)**	**330,179**
8 – DISTRIBUTION OF ADDED VALUE*	**SUM OF ITEMS 8.1 TO 8.5**	**330,179**
8.1) Employees and charges	All charges related to vacations, year-end bonus, FGTS, food, transportation, etc., must be added to the cost of the good or result for the period (except for INSS charges)	33,478
8.2) Taxes, fees, and contributions	In addition to the contributions due to INSS, income tax, social contribution, all other taxes, fees, and contributions must be included in this item. For values related to ICMS and IPI the values due or paid to public treasury must be considered, representing the difference between the taxes on sales and the amounts considered for item 2 - Inputs acquired from third parties	131,290
8.3) Interest and leases	Including financial expenses and interest related to any type of loans and financing from financial institutions, group companies, or others, and leases (including leasing-related expenses) paid or credited to third parties	73,274
8.4) Interest on own capital and dividends	Amounts paid or credited to shareholders. Interest on own capital recorded as reserve must be included in item 8.5	-
8.5) Retained earnings/losses for the fiscal period	Profit for the period allocated to profit reserves and eventual installments without any specific destination must be included	92,137

*Negative values are parenthesized.

GRI Table of Contents and Global Compact

INDICATOR	DESCRIPTION	PAGES	COMPLETE/PARTIAL	RELATED GLOBAL COMPACT PRINCIPLE
1.1	Statement from the CEO.	4, 5	Complete	Statement supporting the Global Compact
2.1	Name of the organization.	13	Complete	-
2.2	Primary brands, products, and/or services.	14	Complete	-
2.3	Operational structure of the organization.	14	Complete	-
2.4	Location of organization's headquarters.	14	Complete	-
2.5	Number of countries where the organization operates.	14, 74	Complete	-
2.6	Nature of ownership and legal form.	13	Complete	-
2.7	Markets served.	14	Complete	-
2.8	Scale of the reporting organization.	14	Complete	-
2.9	Significant changes during the reporting period.	14, 22, 34, 37	Complete	-
2.10	Awards and certifications.	No awards were received during the reporting period	Complete	-
3.1	Reporting period.	8	Complete	-
3.2	Date of most recent previous report.	8	Complete	-
3.3	Reporting cycle.	8	Complete	-
3.4	Contact point for questions regarding the report or its contents.	9	Complete	-
3.5	Process for defining report content.	7	Complete	-
3.6	Boundary of the report.	8	Complete	-
3.7	Scope of the report.	8, 9	Complete	-
3.8	Basis for reporting.	8, 9	Complete	-
3.10	Explanation of the effect of any re-statements of information.		Not applicable, considering that this is the first report issued by the company.	-
3.11	Significant changes in the scope, boundary, or measurement methods applied during the reporting period.		Not applicable, considering that this is the first report issued by the company.	-
3.12	GRI content index.	72, 73	Complete	-
4.1	Governance structure.	21 to 24	Complete	-
4.2	Chair of the highest governance body.	22	Complete	-
4.3	Number and gender of members of the highest governance body that are independent and/or non-executive members.	22	Complete	-
4.4	Mechanisms for shareholders and employees to provide recommendations.	22	Complete	-
4.8	Mission, vision, principles, and code of conduct.	12	Complete	Principle 10
4.14	List of stakeholder groups engaged by the organization.	21	Complete	-
4.15	Basis for identification and selection of stakeholders with whom to engage.	21	Complete	-
EC1	Direct economic value generated and distributed.	69, 70	Complete	-
EC4	Significant financial assistance received from the government.	69	Complete	-
EC8	Impact of infrastructure investments and services provided primarily for public benefit.	55	Complete	-
EC9	Description of significant indirect economic impacts.	55	Complete	-
EN12	Significant impacts of activities, products, and services on biodiversity.	48 to 50	Complete	Principle 8
EN14	Strategies for managing impacts on biodiversity.	48 to 50	Complete	Principle 8
EN16	Total direct and indirect greenhouse gas emissions by weight.	52, 53	Complete	Principle 8
EN17	Other relevant indirect greenhouse gas emissions by weight.	52, 53	Complete	Principle 8
EN22	Total weight of waste by type and disposal method.	53	Complete	Principle 8
EN23	Total number and volume of significant spills.	42	Complete	Principle 8
EN24	Weight of transported waste deemed hazardous.	53	Complete	Principle 8
EN26	Initiatives to mitigate environmental impacts.	52	Complete	Principles 7,8, and 9
EN28	Monetary value of fines and total number of sanctions for noncompliance with environmental laws and regulations.	51	Complete	-
EN30	Total investments and environmental protection expenditures.	51	Complete	Principles 7, 8, and 9
LA1	Total workforce.	61 to 63	Complete	Principle 6
LA2	Total number and rate of employee turnover and hiring.	63	Complete	Principle 6
SO1	Impact assessments and development programs in communities.	48 to 50	Complete	-
SO9	Operations with material negative impacts on local communities.	48 to 50	Complete	Principle 8
SO10	Measures for preventing and mitigating negative impacts on ocal communities.	48 to 50	Complete	Principles 7 and 8
HR1	Percentage and number of significant investment agreements and contracts that include human rights clauses.	59	Complete	Principles 1 and 6
HR2	Percentage of significant contractors, suppliers, and other significant business partners that have undergone screening on human rights.	59	Complete	Principles 1 and 6

Credits

INDIVIDUALS RESPONSIBLE FOR THE INFORMATION

Maria Eduarda Pessôa
HSE Management

Renata Amarante
Investor Relations and Financial Planning Manager

Rebeca Kiperman
Communication and Sustainability Coordination

GRI CONSULTING, TEXT, AND EDITING
Report Sustentabilidade

REVIEW
Assertiva Produções Editoriais

TRANSLATION
Gotcha Idiomas

GRAPHIC DESIGN, LAYOUT, AND GRAPHIC PRODUCTION
Report Sustentabilidade

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QUEIROZ GALVÃO EXPLORAÇÃO E PRODUÇÃO
Rio de Janeiro (headquarters)
Av. Almirante Barroso, 52 sala 1.301
Centro – Rio de Janeiro - RJ
Phone: +55 21 3509-5800

Bahia
Av. Antonio Carlos Magalhães, 1.034, sala 353 – Pituba Parque Center
Itaigara, Salvador - BA
Phone: +55 71 3351-6210

www.qgep.com.br