2023 ANNUAL REPORT

SBM OFFSHORE

4.1.2 FINANCIAL HIGHLIGHTS

The main financial highlights of the year and their associated financial impact are reported in note 4.3.1 Financial Highlights.

4.1.3 FINANCIAL REVIEW IFRS

	IFRS	
in US$ million	FY 2023	FY 2022
Revenue	**4,963**	**4,913**
Lease and Operate	1,563	1,414
Turnkey	3,400	3,499
EBITDA	**1,239**	**1,209**
Lease and Operate	695	719
Turnkey	646	569
Other	(101)	(80)
Profit/(loss) attributable to shareholders	**491**	**450**

PROFITABILITY

Accounting treatment of projects under construction

As stated, Directional reporting differs from IFRS. Under IFRS, the construction of FPSO *ONE GUYANA* and finalized EPC works on FPSO *Prosperity* contributed to both Turnkey revenue and gross margin over the period. This is because these contracts are classified as finance leases as per IFRS 16 and are therefore accounted for as a direct sale under IFRS.

The same treatment applied to the construction of *FPSO Almirante Tamandaré*, *FPSO Alexandre de Gusmão and FPSO Sepetiba*, which fully contributed to both Turnkey revenue and gross margin over the period, given these contracts are classified as finance leases. Under Directional, the contribution to Turnkey revenue and gross margin for these projects is limited to the portion of the sale to partners in the special purpose entity owning the units (i.e. respectively 35.5%, 45% and 45%).

With regards to the FPSO for the Whiptail development project and expected award of construction and installation agreements (subject to necessary government approvals and final work order to be received from the client), these align with Directional. As such, the full revenue and margin will be recognized during the construction period as the FPSO's ownership is expected to be transferred to the client at the end of the construction period and before start of operations in Guyana. It will be recognized as a construction contract falling in the scope of IFRS 15.

Finally, contrary to Directional, the FPSO *Liza Unity* sale did not contribute to revenue and margin in the current year as finance lease arrangements are treated as direct sales under IFRS and therefore revenue and margin are recognized over time during the construction period for the present value of the future lease payments, which include the contractual sale price.

Revenue

Total revenue increased by 1% to US$4,963 million compared with US$4,913 million in 2022.

This increase has driven the Lease and Operate segment. Lease and Operate revenue increased by 11% to US$1,563 million, compared with US$1,414 million in the year-ago period. This reflects mainly the following events: (i) FPSO *Prosperity* joining the fleet upon successful delivery of the EPCI project during the last quarter of 2023 and (ii) an increase in reimbursable scopes and an improved performance of the fleet, partially offset by (iii) *FPSO Capixaba,* which finished production in 2022 (no contribution to revenue in 2023, in the decommissioning phase), (iv) the remeasurement of future demobilization costs in finance lease contracts leading to the recognition of a reduction of revenue, for the present value of the change and (v) a regular declining profile of interest revenue from finance leases.

Turnkey revenue decreased by 3% to US$3,400 million, compared with US$3,499 million in the year-ago period, mainly explained by (i) the completion of the FPSO *Liza Unity* project during the first quarter of 2022, (ii) a reduced level of progress on *FPSO Almirante Tamandaré* and *FPSO Alexandre de Gusmão* during 2023 compared to the prior-year period, consistent with the commencement of topsides integration, and (iii) reduced level of activity on FPSO *Prosperity,* which was in a preparation phase for its first oil in November 2023. This was partially offset by (iv) the higher level of activity on FPSO *ONE GUYANA* during the period and the start of FPSO FEED work for the Whiptail development project and (v) additional variation orders on FPSO *Prosperity* (including the variation orders for the compensation of costs incurred by the Company after topside readiness, before the commencement of the charter at first-oil).

EBITDA

EBITDA based on IFRS accounting policies amounted to US$1,239 million, representing a 2% increase compared with US$1,209 million in the year-ago period.

- Turnkey EBITDA increased to US$646 million in the current year, compared with US$569 million, as a result of (i) the successful close-out of the construction activities of FPSO *Prosperity*, delivered over the last quarter of 2023 and (ii) increase in margin contribution from FPSO *ONE GUYANA*, given that the project only reached the requisite 'stage of completion' to allow margin recognition at the very end of 2022. These positive impacts were partially offset by the same elements impacting the decrease in IFRS Turnkey revenue.
- The Turnkey EBITDA margin was at a robust level of 19% of Turnkey revenue, despite some impacts from macro-environment and associated inflation impacts.
- Lease and Operate EBITDA for the current period decreased by 3% to US$695 million versus US$719 million in the same period prior year. The positive impact from the same drivers as the increase in IFRS Lease and Operate Revenue was offset by additional non-recurring maintenance costs for the fleet under operation and the comparative impact of a number of prior-period positive one-offs, including some insurance recoveries. In relation to *FPSO Cidade de Anchieta*, repair costs of the asset incurred in 2023 did not impact the Lease and Operate EBITDA as they met the criteria of capitalization under IAS 16 and therefore have been recognized as an increase in the property, plant and equipment value of *FPSO Cidade de Anchieta*.

The other non-allocated costs charged to EBITDA amounted to US$(101) million in 2023, a US$(21) million increase, compared with the US$(80) million in the year-ago period, which is mainly explained by the implementation of an optimization plan related to the Company's support functions' activities (including US$11 million of restructuring costs), and continuing investment in the Company's digital initiatives.

EBITDA is reconciled to the consolidated income statement as follows:

in US$ million	*Notes*	FY 2023	FY 2022
Profit/(loss)		**614**	**555**
Add: Income tax expense	*4.3.10*	(25)	104
Less: Share of profit/(loss) of equity accounted investees	*4.3.29*	(19)	(12)
Add: Net financing costs	*4.3.9*	575	373
Operating profit/(loss) (EBIT)		**1,145**	**1,020**
Add: Depreciation, amortization and impairment	*4.3.5*	94	189
EBITDA		**1,239**	**1,209**

Net income

Depreciation, amortization and impairment decreased by US$95 million year-on-year, primarily due to: (i) the US$92 million *FPSO Cidade de Anchieta* impairment booked in the prior year, following the shutdown of the vessel and the capitalization of associated tank repair costs (refer to section 4.3.13 Property Plant and equipment) and (ii) *FPSO Capixaba*, which finished production in 2022.

Net financing costs totalled US$(575) million in 2023, compared with US$(373) million in the year-ago period, an increase of 54% compared with the prior year period, mostly explained by (i) increased project financing to fund continued investment in growth of the five FPSOs under construction during the period, (ii) additional interest expense on FPSO Liza Destiny and FPSO *Liza Unity* project loans and (iii) interest on the US$125 million funding loan agreement secured in 2023 with CMFL in relation to *FPSO Cidade de Ilhabela,* in line with the Company aim to diversify its sources of debt and equity funding and to accelerate equity cash flow from the backlog, partially offset by (iv) the scheduled amortization of project loans.

The effective tax rate over 2023 decreased to (4)%, compared with 16% for the prior year period. The decrease is primarily driven in 2023 by the recognition of a deferred tax asset on a tax goodwill in Switzerland (absent this deferred tax asset, the effective tax rate would stand at 20%).

As a result, 2023 consolidated net income attributable to shareholders stood at US$491million, an increase of US$41 million from the previous year.

STATEMENT OF FINANCIAL POSITION

in millions of US$	2023	2022	2021	2020	2019
Total equity	5,531	4,914	3,537	3,462	3,613
Net debt[1]	8,748	7,881	6,681	5,209	4,416
Cash and cash equivalents	543	683	1,021	414	506
Total assets	17,176	15,889	13,211	11,085	10,287

1 Net debt is calculated as total borrowings (including lease liabilities) less cash and cash equivalents.

Total equity increased from US$4,914 million at December 31, 2022 to US$5,531 million. Notwithstanding the dividend distributed to the shareholders of US$197 million, this increase mainly resulted from (i) the positive result over the current period, (ii) capital contributions from non-controlling interests in special purpose entities and (iii) the increase of the hedging reserves. The movement in hedging reserve is mainly caused by (i) the increase in marked-to-market value of forward currency contracts, mainly driven by the depreciation of the US$ exchange rate versus the hedged currencies (especially EUR and BRL), partially offset by (ii) the decrease in marked-to-market value of the interest rate swaps, due to decreasing US$ market interest rates during the year.

Net debt increased by US$867 million to US$8,748 million at year-end 2023. While the Company's net debt was positively impacted by (i) the amount of the net cash proceeds of the sale of FPSO *Liza Unity* (with a cash consideration of US$1,259 million received, primarily used for the full repayment of the US$1,140 million project financing), (ii) the settlements of interest rate swaps related to the financing of *FPSO Almirante Tamandaré* and *FPSO Alexandre de Gusmão* of US$154 million and (iii) the Lease and Operate segment's strong operating cash flow, as, in order to fund continued investment growth, the Company drew on project finance facilities for FPSO *Prosperity*, FPSO *ONE GUYANA*, *FPSO Almirante Tamandaré, FPSO Alexandre de Gusmão*, the Revolving Credit Facility RCF and the new Revolving Credit Facility for MPF hull financing.

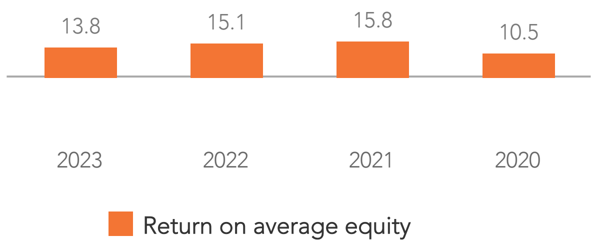
In line with its aim to diversify its sources of debt and equity funding and to accelerate equity cash flow from the backlog, in 2023, the Company finalized the funding loan agreement and received US$125 million from CMFL in relation to *FPSO Cidade de Ilhabela*.

Almost half of the Company's debt, as of December 31, 2023, consisted of non-recourse project financing (US$4 billion) in special purpose investees. The remainder (US$5.2 billion) comprised (i) borrowings to support the on-going construction of FPSO *ONE GUYANA*, *FPSO Almirante Tamandaré*, *FPSO* A*lexandre de Gusmão,* which will become non-recourse following project execution finalization and release of the related parent company guarantee, (ii) a project loan on *FPSO Sepetiba* (the Company is currently going through the process of releasing the corporate guarantee, after which this project loan will become non-recourse), (iii) the Company's RCF,which was drawn for US$550 million as at December 31, 2023, and (iv) the new US$210 million Revolving Credit Facility for MPF hull financing, completed and fully drawn in December 2023. Cash and cash equivalents amounted to US$543 million (December 31, 2022: US$683 million). Lease liabilities totaled US$85 million as of December 31, 2023.

Total assets increased to US$17.2 billion as of December 31, 2023, compared with US$15.9 billion at year end 2022. This primarily resulted from (i) the increase of contract assets related to the FPSO projects under construction at the end of the year, (ii) the increase in inventory balance for the new multipurpose hull for use on a future FPSO project and (iii) the increase of finance lease receivables following first oil of FPSO *Prosperity* during the current period partially offset by (iv) the decrease of finance lease receivables following the sale of FPSO *Liza Unity* during the current period and (v) a reduction of the gross amount of the finance lease receivables, in line with the repayment schedules.

Return On Average Equity

Return on average equity (ROAE) measures the performance of the Company based on the average equity attributable to the shareholders of the parent company. ROAE is calculated as (underlying) profit attributable to shareholders divided by the annual average of equity attributable to shareholders of the parent company.



2023 ROAE stood at 13.8%, in line with the past three-year average of 13.8%.

4.1.4 FINANCIAL REVIEW DIRECTIONAL

	Directional	
in US$ million	FY 2023	FY 2022
Directional Revenue	**4,532**	**3,288**
Directional Lease and Operate revenue	1,954	1,763
Directional Turnkey revenue	2,578	1,525
Directional EBITDA	**1,319**	**1,010**
Directional Lease and Operate EBITDA	1,124	1,080
Directional Turnkey EBITDA	296	7
Other	(101)	(77)
Directional Profit/(loss) attributable to shareholders	**524**	**115**

	Directional	
in US$ billion	FY 2023	FY 2022
Pro-forma Directional backlog	30.3	30.5

BACKLOG – DIRECTIONAL

Change in ownership scenarios and lease contract duration have the potential to significantly impact the Company's future cash flows, net debt balance as well as the profit and loss statement. The Company therefore provides a pro-forma Directional backlog based on the best available information regarding ownership scenarios and lease contract duration for the various projects.

The pro-forma Directional backlog at the end of 2023 reflects the following key assumptions:

- The FPSO *Liza Destiny* contract covers the basic contractual term of 10 years of lease.
- The FPSOs *Prosperity* and *ONE GUYANA* contracts covers a maximum period of lease of two years, within which the FPSO ownership will transfer to the client.
- 10 years of operations and maintenance is considered for FPSOs *Liza Destiny*, *Liza Unity*, *Prosperity* and *ONE GUYANA* following signature of the Operations and Maintenance Enabling Agreement ('OMEA') in 2023.
- The impact of the subsequent sale of FPSOs *Prosperity* and *ONE GUYANA* is reflected in the Turnkey backlog at the end of the maximum two-year period.
- With respect to FPSO for the Whiptail development project, for which the full construction, installation and operations contracts award is subject to necessary government approvals and final work order to be received from the client, the amount included in the pro-forma backlog is limited to the value of the initial limited release of funds to the Company to begin FEED activities and secure a Fast4Ward® hull.
- The 13.5% equity divestment in *FPSO Sepetiba* to CMFL has not yet been reflected in the backlog as the transaction remains subject to various approvals, which include the consent from co-owners, lenders and export credit agencies.

The pro-forma Directional backlog at the end of December 2023 slightly decreased by US$0.2 billion to a total of US$30.3 billion. This was mainly the result of (i) the signed 10-year OMEA for the Guyana FPSO fleet and (ii) the awarded initial scope to begin FEED activities and secure a Fast4Ward® hull for the FPSO for the Whiptail development project, offset by turnover for the period which consumed approximately US$4.5 billion of backlog (including the sale of FPSO *Liza Unity* completed in