2023 ANNUAL REPORT

SBM OFFSHORE

4.3.9 NET FINANCING COSTS

	2023	2022
Interest income on loans & receivables	3	0
Interest income on investments	21	10
Net foreign exchange gain	-	-
Other financial income	1	2
Financial income	**25**	**12**
Interest expenses on financial liabilities at amortized cost	(731)	(352)
Interest income / (expenses) on hedging derivatives	139	(28)
Interest expenses on lease liabilities	(5)	(2)
Interest addition to provisions	(1)	(1)
Net cash flow hedges ineffectiveness	-	(1)
Net foreign exchange loss	(3)	(1)
Financial expenses	**(601)**	**(385)**
Net financing costs	**(575)**	**(373)**

The Company has increased its debt (see note 4.3.23 Borrowings and Lease Liabilities) in order to finance its ongoing construction program of five FPSOs during the period.

The increase in net financing costs is mainly due to (i) increased project financing to fund continued investment in growth on the five FPSOs under construction during the period, (ii) additional interest expense on FPSO *Liza Destiny* and FPSO *Liza Unity* variable rate project loans and (iii) interest expense 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 funding and to accelerate equity cash flow from the backlog, partially offset by (iv) the scheduled amortization of project loans.

4.3.10 INCOME TAX EXPENSE

The relationship between the Company's income tax expense and profit before income tax (referred to as 'effective tax rate') can vary significantly from period to period considering among other factors: (i) changes in the blend of income that is taxed based on revenues versus profit, (ii) the different statutory tax rates in the location of the Company's operations and (iii) the possibility to recognize deferred tax assets on tax losses to the extent that suitable future taxable profits will be available.

Some of the taxes are withholding taxes (paid on revenues). The assessment of whether the withholding tax is in scope of IAS 12 is judgmental; the Company has performed this assessment in the past and some of the withholding taxes that the Company pays in certain countries qualify as income taxes, as it creates an income tax credit or it is considered as deemed profit taxation.

Consequently, income tax expense does not change proportionally with profit before income taxes. Significant decreases in profit before income tax typically lead to a higher effective tax rate, while significant increases in profit before income taxes can lead to a lower effective tax rate, subject to the other factors impacting income tax expense, noted above. Additionally, where a deferred tax asset is not recognized on a loss carry forward, the effective tax rate is impacted by the unrecognized tax loss.