



**OFFSHORE**

ENERGY. COMMITTED.

# ANNUAL REPORT 2021

## 4.3 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4.3.1 FINANCIAL HIGHLIGHTS

#### Impact of COVID-19 pandemic

The COVID-19 pandemic has emerged in 2020 and impacted the global economy and the demand for energy. During 2021, the challenges for and impact on many areas of the global economy due to the pandemic have persisted. Despite this, the Company has been able to continue to manage these challenges.

#### Offshore energy industry

The Company serves the offshore energy industry on a global basis by supplying engineered products, vessels and systems, as well as offshore energy production services. These construction and service activities are rendered based on long-term contracts. Despite of uncertainties of the global pandemic, in 2021 the Company reached a record-breaking backlog demonstrating market confidence in the Company. Consequently, the Company has a substantial proforma contractual backlog, which is not linked to the oil price, amounting to US\$29.5 billion at December 31, 2021 (2020: US\$21.6 billion). This provides the Company with 29 years cash flow visibility up to 2050. The pandemic and associated impact on the oil market has caused oil and gas companies to reassess their portfolios and investments. However, deep water projects in high quality resource basins rank very competitively, as illustrated by the recent several awards of contracts to the Company for *Prosperity* (FPSO) (awarded in October 2020), *FPSO Almirante Tamandaré* (awarded in February 2021), *FPSO Alexandre de Gusmão* (contract awarded November 2021), and limited scope award related to the FPSO for the Yellowtail development project. In this context, the Company continues to foresee further FPSO market opportunities, while continuing to diversify its product offering through innovative solutions for the offshore gas and renewable markets.

Based on the strength and resilience of its business model, as it has demonstrated in the past and since the beginning of the pandemic, the Company has the ability to navigate through the current uncertainties.

#### Operational activities

The Company was able to maintain the fleet's uptime at historical highs by minimizing the impact of COVID-19 environment on the offshore environment. In order to achieve such results, specific measures were implemented by the Company such as: (i) optimization of crew rotations (in order to adjust to the impact of international travel restrictions), (ii) implementation of prescreening protocols prior to offshore embarkation, (iii) creation of local secured quarantine facilities and (iv) development of internal Polymerase Chain Reaction (PCR) testing capability, which is now available in all operating locations. More generally, the Company's COVID-19 response strategy aims to prevent the occurrence of cases on board of the vessels and in onshore locations and to minimize impact on operations if and when cases are identified.

Construction activities were impacted during 2021 for the Company's major projects. These include travel and logistical restrictions, price inflation of materials and services, yard closures and yard and supplier capacity constraints. Project teams have continued to work closely with client teams and contractors to mitigate the impacts on projects' execution. The degree to which these challenges can be mitigated going forward varies from project to project. Based on currently known circumstances, the ultimate delivery of major projects is not considered at risk as of December 31, 2021.

#### Implications on 2021 Financial performance

Due to the COVID-19 pandemic, the Company incurred additional costs in order to satisfy its performance obligations on some of its Turnkey projects. This was mainly due to delay in project delivery following lockdown periods, subsequent acceleration programs negotiated with sub-contractors, international travel restrictions and remote working. The costs contribute to the progress of transfer of control of the construction asset to the customer over the construction period. When the costs are partially recharged to the Company's clients, it is considered as part of the total consideration for the project which is recognized as revenue over time.

On the Lease and Operate segment, the incremental costs from the implementation of additional measures linked to the safe management of the impacts from the COVID-19 pandemic have been partially recharged to clients within the contractual terms of reimbursable contracts

#### Financial risk management

The Company is proactively monitoring challenges caused by the COVID-19 pandemic. As part of this, the Company regularly assesses liquidity, credit and counterparty risks. The Company performed analyses on the credit and counterparty

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risks of its clients and financial partners. The analysis resulted in an assessment of no significant impact which is reflected in the US\$12 million net impairment reversal on financial and contract assets over the period. This is caused by improving credit ratings of the Company's clients compared with last year.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and abnormal conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company regularly conducts various liquidity scenarios, financial stress tests and sensitivity analyses. The conclusion is that the Company's lease portfolio and the existing financing facilities and overall financing capacity are sufficient to ensure that the Company will continue as a going concern in the foreseeable future and that it can sustain future growth plans. Furthermore, under its Lease and Operate contractual arrangements with clients, the Company has considerable time under charters to deal with disruptions from events outside the Company's control, thus providing it with considerable financial protection. As at December 31, 2021 the Company had a total of US\$2.4 billion undrawn credit facilities and unused credit lines, which includes US\$1.0 billion under its Revolving Credit Facility.

### Impairment of non-financial assets

The Company assessed impairment triggers in 2021 and concluded that there were no triggers that have resulted in impairment charges of non-financial assets in 2021 result.

### Successful pricing of US\$850 million senior secured notes

The Company announced on February 9, 2021 the successful pricing of a US\$850 million non-recourse senior secured notes transaction in a 144A/Reg S offering by a subsidiary company. The issuer of the notes is Guara Norte S.à r.l. (Guara Norte), which owns the *FPSO Cidade de Ilhabela*. The Company owns 75% of the equity in Guara Norte and the remaining 25% equity is held by Mitsubishi Corporation.

The transaction was closed on February 11, 2021 at which date the notes were issued and settlement occurred. The notes are rated Ba1 (Moody's) and BB+ (Fitch) and were priced at 99.995% of par value with a 5.198% fixed coupon which is paid semiannually. The notes are fully amortizing over the 13.5 years tenor. The notes trade on the Singapore Stock Exchange. This is the Company's first issuance of a 144A/Reg S bond and as such this offering further diversifies its sourcing for project debt.

### Award for FPSO *Almirante Tamandaré* lease and operate contracts

On February 25, 2021, the Company announced that it has signed a Letter of Intent (LOI) together with *Petróleo Brasileiro S.A. (Petrobras)* for a 26.25 years lease and operate contracts for the *FPSO Almirante Tamandaré*, to be deployed at the Búzios field in the Santos Basin approximately 180 kilometers offshore Rio de Janeiro in Brazil. Subsequently in July 2021, the Company has signed the contracts in line with the terms agreed in the LOI.

Under the contract, the Company is responsible for the engineering, procurement, construction, installation and operation of the FPSO. The Company will design and construct the *FPSO Almirante Tamandaré* using its industry leading Fast4Ward® program as it incorporates the Company's new build, Multi-Purpose Floater (MPF) hull combined with several standardized topsides modules. SBM Offshore's fourth Fast4Ward® MPF hull has been allocated to this project.

The *FPSO Almirante Tamandaré* is expected to be deployed in 2024. The contract is classified as finance lease in accordance with IFRS 16 at inception of the lease.

### Deep Panuke

During the first quarter of 2021 the Company received notification, effective as of April 1, 2021, from the client of the Deep Panuke project of their election, as per the final agreement signed in 2020, to pay the contractually agreed lump sum amount replacing the initial contractual charter payments up to fourth quarter 2021. The lump-sum payment (c. US\$55 million) was received in April 2021. Adding the monthly contractual payments received over the first quarter of 2021, total final cash consideration received by the Company over the period amounted to US\$75 million. These cash receipts were already recognized as accrued income in the statement of financial position as at December 31, 2020.

The cash balance in the debt service account combined with part of the lump-sum payment was used to redeem the outstanding debt held by the noteholders for an amount of c. US\$70 million.

#### **US\$1.05 billion financing of Prosperity (FPSO)**

The Company has completed the project financing of *Prosperity* (FPSO) for a total of US\$1.05 billion on June 25, 2021.

The project financing was secured by a consortium of 11 international banks. The first drawdown on the project loan facility occurred in July 2021. The financing will become non-recourse once the FPSO is completed and the pre-completion guarantee has been released. The project loan has a tenor of two years post completion, in line with the duration of the charter, and carries a variable interest rate plus 1.60%.

#### **Award of FPSO Alexandre de Gusmão lease and operate contracts**

On August 3, 2021, the Company announced that it has signed with Petróleo Brasileiro S.A. (Petrobras) the Letter of Intent for a 22.5 years lease and operate contracts of *FPSO Alexandre de Gusmão*. Following this letter of intent, the Company announced on November 30, 2021 that the contracts were awarded. The unit will be deployed at the Mero field in the Santos Basin offshore Brazil, approximately 160 kilometers from Arraial do Cabo, Rio de Janeiro state, in Brazil.

The Company will design and construct the *FPSO Alexandre de Gusmão* using its industry leading Fast4Ward® program as it incorporates the Company's new build Multi-Purpose Floater (MPF) hull combined with several standardized topsides modules. The Company's fifth MPF hull has been allocated to this project. Completion of the FPSO is expected in 2024.

The contract is classified as finance lease in accordance with IFRS 16 at inception of the lease.

#### **Completion of US\$1.6 billion financing for FPSO Sepetiba**

On September 16, 2021, the Company completed the project financing of *FPSO Sepetiba* for a total of US\$1.6 billion, its largest ever such financing. The project financing was secured by a consortium of 13 international banks with insurance cover from Export Credit Agencies (ECA). The Company is the majority owner of this special purpose company (with 64.5% equity ownership), together with Mitsubishi Corporation (20%) and Nippon Yusen Kabushiki Kaisha (15.5%).

The facility is composed of four separate tranches with a 4.3% weighted average cost of debt, a fourteen-year post-completion maturity for the ECA covered tranches and a fifteen-year post-completion maturity on the uncovered tranches. The financing will become non-recourse once the FPSO is completed and the pre-completion guarantee has been released.

#### **Completion of US\$635 million bridge loan for FPSO Almirante Tamandaré**

On the 23rd of September, the Company secured a US\$635 million bridge loan facility for the financing of the construction of *FPSO Almirante Tamandaré*. The facility was secured by the special purpose company which will own *FPSO Almirante Tamandaré*. The Company was the sole owner of this special purpose company in 2021, however a divestment of 45% of the equity ownership to partners was completed on January 24, 2022.

The facility has been fully drawn over the last quarter of 2021. The tenor of the bridge loan is twelve months with an extension option for another six months. Repayment is expected to take place upon closure and first drawdown of the project loan.

#### **Share Repurchase Program**

On October 11, 2021, the Company completed its EUR150 million (US\$178 million) share repurchase program. Between August 5, 2021 and October 11, 2021 a total of 9,958,318 common shares were repurchased, at an average price of EUR15.06 per share.

The repurchases were made under the EUR150 million (US\$178 million) share repurchase program announced on and effective from August 5, 2021. The objective of the program was to reduce share capital and, in addition, to provide shares for regular management and employee share programs.

#### **Award of contracts for the FPSO for the Yellowtail development project**

On November 17, 2021, the Company announced that it has been awarded contracts to perform Front End Engineering and Design (FEED) for a Floating Production, Storage and Offloading vessel (FPSO) for the Yellowtail development project. The

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FEED contract award triggers the initial release of funds by ExxonMobil's subsidiary Esso Exploration and Production Guyana Limited (EEPGL) to begin FEED activities and secure a Fast4Ward® hull.

Following FEED and subject to government approvals in Guyana of the development plan, project sanction including final investment decision by ExxonMobil, and EEPGL's release of the second phase of work, the Company will construct, install and then lease the FPSO and operate it for a period of up to 2 years. First oil is expected in 2025. The Company will design and construct the FPSO using its industry leading Fast4Ward® program allocating the Company's sixth new build, Multi-Purpose Hull combined with several standardized topsides modules.

In order to strengthen its execution model given the current challenging market environment, the Company established a Special Purpose Company (SPC) with McDermott for the execution of the turnkey phase of the project. This SPC will benefit from the combined engineering and fabrication capacity as well as the experience of both companies in delivering EPC solutions to the energy industry. The Company will hold 70% and McDermott will hold 30% equity ownership in this SPC. The FPSO will be fully owned by the Company.

The contract is classified as finance lease in accordance with IFRS 16 at inception of the lease.

### Conclusion of legacy issue in Switzerland

In November 2020, the Company communicated that three of the Company's subsidiaries in Switzerland received a notification from the Bundesanwaltschaft (federal prosecutor's office) in Bern. It concerned a suspicion that from 2005 till 2012 these subsidiaries failed to take all reasonable and necessary organizational measures to prevent the commission of acts of active bribery of foreign public officials during said period.

On this matter, the Swiss public prosecutor has issued an investigation termination order and a criminal penalty order against the three Swiss subsidiaries, amounting to US\$7.6 million.

The fact pattern and compliance shortcomings prior to 2012 that led to the Swiss penalty were also covered by the legacy resolutions the Company concluded in the Netherlands (2014), the United States (2017), and Brazil (2018). The termination of the investigation and penalty also closed this issue in Switzerland on a full and final basis.

Since 2012, the Company has implemented substantial measures to ensure that it operates with integrity and fully in line with laws, regulations and with its compliance standards. These measures were also recognized by the Swiss Public Prosecutor Office.

### Contract extension for FPSO Kikeh

The Company's investee signed an agreement with its client PTTEP for an additional 6 years' extension for the lease and operate contracts of the *FPSO Kikeh* located in Malaysia. The end of the contractual lease and operate period was extended from January 2022 to January 2028. The Company is the minority owner of the lease and operating companies related to *FPSO Kikeh* with 49% equity ownership, together with MISC with 51% equity ownership. As a result of the revised terms and conditions, the contract remains classified as a Finance lease under IFRS and the Company recognized a profit of US\$76 million corresponding to its share of the increase in the discounted value of future lease payment. This profit is presented in the line item 'Share of profit/(loss) of equity-accounted investees' of the 2021 consolidated Income Statement.

Under Directional segment reporting, the extended lease contract remains classified as operating lease and will follow linear revenue recognition over the extended period of lease.

### Completion of US\$620 million bridge loan for FPSO Alexandre de Gusmão

On December 17, 2021, the Company announced the securing of a US\$620 million bridge loan facility for the financing of the construction of *FPSO Alexandre de Gusmão*.

The facility was secured by the special purpose company which will own *FPSO Alexandre de Gusmão*. Currently, SBM Offshore is the sole owner of this special purpose company. Discussions around the divestment of 45% of the equity ownership to partners continue to progress.

The facility was fully drawn in December 2021. The tenor of the bridge loan is twelve months with an extension option for another six months. Repayment is expected to take place upon closure and first drawdown of the project loan.

## 4.3.2 OPERATING SEGMENTS AND DIRECTIONAL REPORTING

### OPERATING SEGMENTS

The Company's reportable operating segments as defined by IFRS 8 'Operating segments' are:

- Lease and Operate;
- Turnkey
- Other.

### DIRECTIONAL REPORTING

Strictly for the purposes of this note, the operating segments are measured under Directional reporting, which in essence follows IFRS, but deviates on two main points:

- All lease contracts are classified and accounted for as if they were operating lease contracts under IFRS 16. Some lease and operate contracts may provide for defined invoicing ('upfront payments') to the client occurring during the construction phase or at first-oil (beginning of the lease phase), to cover specific construction work and/or services performed during the construction phase. These 'upfront payments' are recognized as revenues and the costs associated with the construction work and/or services are recognized as 'Cost of sales' with no margin during the construction. As a consequence, these costs are not capitalized in the gross value of the assets under construction.
- All investees related to Lease and Operate contracts are accounted for at the Company's share as if they were classified as joint operations under IFRS 11, whereby all lines of the income statement, statement of financial position and cash flow statement are consolidated based on Company's percentage of ownership (hereafter referred to as 'percentage of ownership consolidation'). Yards and installation vessel related joint ventures remain equity accounted.

In 2021, all other accounting principles remain unchanged compared with applicable IFRS standards.

The above differences to the consolidated financial statements between Directional reporting and IFRS are highlighted in the reconciliations provided in this note on revenue, gross margin, EBIT and EBITDA as required by IFRS 8 'Operating segments'. The Company also provides the reconciliation of the statement of financial position and cash flow statement under IFRS and Directional reporting. The statement of financial position and the cash flow statement under Directional reporting are evaluated regularly by the Management Board in assessing the financial position and cash generation of the Company. The Company believes that these disclosures should enable users of its financial statements to better evaluate the nature and financial effects of the business activities in which it engages, while facilitating the understanding of the Directional reporting by providing a straightforward reconciliation with IFRS for all key financial metrics.

### SEGMENT HIGHLIGHTS

The Lease and Operate Directional Revenue and EBITDA decreased versus the year ago period mainly driven by the Deep Panuke MOPU early redelivery in July 2020. That unit has fully contributed to positive results of the Lease and Operate during the year 2020, including (i) accelerated Revenue and EBITDA recognized for US\$77 million following the final settlement signed with the client and (ii) additional one-off contributions from the demobilization activities, while not contributing to the results in 2021.

The Turnkey Directional Revenue and EBITDA increased versus the year ago period, reflecting the general ramp-up of Turnkey activities with (i) five FPSO's under construction, (ii) the awarded limited scope for the FPSO for the Yellowtail development project and (iii) the increase in Offshore services business in 2021. The 2020 Turnkey EBITDA was also impacted by US\$40 million of restructuring costs following the company decision to reorganize the allocation of activities between centers to become more efficient.