OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2021

4.3.9 NET FINANCING COSTS

	2021	2020
Interest income on loans & receivables	1	3
Interest income on investments	1	3
Net foreign exchange gain	-	2
Other financial income	1	1
Financial income	**3**	**9**
Interest expenses on financial liabilities at amortized cost	(202)	(181)
Interest expenses on hedging derivatives	(99)	(76)
Interest expenses on lease liabilities	(2)	(5)
Interest addition to provisions	(1)	(1)
Net cash flow hedges ineffectiveness	-	(3)
Other financial expenses	0	(0)
Financial expenses	**(304)**	**(265)**
Net financing costs	**(301)**	**(257)**

The increase in net financing costs is mainly due to: (i) higher interest expenses as a result of the Company's new project financing obtained for projects under construction, namely project financing of *FPSO Sepetiba* and *Prosperity* (FPSO), as well as bridge loan for *FPSO Almirante Tamandaré* and *FPSO Alexandre de Gusmão*, and (ii) refinancing of *FPSO Cidade de Ilhabela* through non-recourse senior secured notes transaction. Additionally the Company incurred in 2021 one-off additional financial expenses mostly related to *FPSO Cidade de Ilhabela* refinancing.

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 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.

The components of the Company’s income taxes were as follows:

Income tax recognized in the consolidated Income Statement

	Note	2021	2020
Corporation tax on profits for the year		(73)	(47)
Adjustments in respect of prior years		14	(1)
Movements in uncertain tax positions		3	-
Total current income tax		**(56)**	**(48)**
Deferred tax	*4.3.17*	(14)	10
Total		**(71)**	**(38)**

The Company’s operational activities are subject to taxation at rates, which range up to 35% (2020: 35%).

For the year ended December 31, 2021, the respective tax rates, the change in the blend of income tax based on income withholding tax and deemed profit assessment versus income tax based on net profit, the unrecognized deferred tax asset on certain tax losses, tax-exempt profits and non-deductible costs resulted in an effective tax on continuing operations of 16% (2020: 11%).

The reconciliation of the effective tax rate is as follows:

Reconciliation of total income tax charge

	2021		2020	
	%		%	
Profit/(Loss) before income tax		**543**		**366**
Share of profit of equity-accounted investees		110		17
Profit/(Loss) before income tax and share of profit of equity-accounted investees		**433**		**349**
Income tax using the domestic corporation tax rate (25% for the Netherlands)	25%	(108)	25%	(87)
Tax effects of :				
Different statutory taxes related to subsidiaries operating in other jurisdictions	(8%)	34	(24%)	82
Withholding taxes and taxes based on deemed profits	10%	(45)	5%	(18)
Non-deductible expenses	7%	(30)	20%	(71)
Non-taxable income	(21%)	91	(25%)	87
Adjustments related to prior years	(3%)	14	0%	(1)
Adjustments recognized in the current year in relation to deferred income tax of previous year	2%	(11)	(3%)	9
Effects of unrecognized and unused current tax losses not recognized as deferred tax assets	4%	(18)	11%	(39)
Movements in uncertain tax positions	(1%)	3	0%	(1)
Total tax effects	**(9%)**	**38**	**(14%)**	**48**
Total of tax charge on the Consolidated Income Statement	**16%**	**(71)**	**11%**	**(38)**

The 2021 effective tax rate of the Company was primarily impacted by the higher taxes paid in relation to Brazilian fleet, caused by the change in the tax rules applied on charter revenues. For reference, in 2020 the corporate income tax charge was also positively impacted by deferred tax recognition in Canada and Switzerland. Similar to last year, the effective tax was also impacted by unrecognized deferred tax assets concerning Brazil, USA, Switzerland, Luxembourg, Monaco and the Netherlands.

Details of the withholding taxes and other taxes are as follows:

Withholding taxes per country

	2021	2020
Withholding Tax and Overseas Taxes (per location)	Withholding tax	Withholding tax
Angola	-	(1)
Brazil	(23)	(6)
Guyana	(20)	(9)
Other	(2)	(2)
Total withholding and overseas taxes	**(45)**	**(18)**

Brazil withholding tax

The Company incurred a higher withholding tax charge in 2021 in relation to its Brazilian fleet time charter revenue. This is a consequence of change of Brazilian tax law that applied in late December 2020. Four more units are now subject to this taxation with an impact of US$17 million of additional corporate income tax charge in 2021.

Guyana withholding tax

The Company's construction and lease activities are subject of Guyanese withholding tax. The increase of the withholding tax charge in 2021 compared with 2020 relates mainly to the level of construction activities. In 2021, the Company provided specific construction and engineering work subject of the Guyanese withholding tax related mainly to *Liza Unity* (FPSO) approaching finalization of the project (e.g. readiness for operation), while the Company did not incur similar level of activities subject of the withholding tax in 2020.

TAX RETURNS AND TAX CONTINGENCIES

The Company files federal and local tax returns in several jurisdictions throughout the world. Tax returns in the major jurisdictions in which the Company operates are generally subject to examination for periods ranging from three to six years. Tax authorities in certain jurisdictions are examining tax returns and in some cases have issued assessments. The Company believes there is a sound basis for its tax positions in those jurisdictions. The Company provides for taxes that it considers probable of being payable as a result of these audits and for which a reasonable estimate may be made. While the Company cannot predict or provide assurance as to the final outcome of these proceedings, the Company does not expect the ultimate liability to have a material effect on its consolidated statement of financial position or results of operations, although it could have a significant adverse effect on its consolidated cash flows.

Each year management completes a detailed review of uncertain tax positions across the Company and makes provisions based on the probability of the liability arising. The principal risks that arise for the Company are in respect of permanent establishment, transfer pricing and other similar international tax issues. In common with other international groups, the difference in alignment between the Company’s global operating model and the jurisdictional approach of tax authorities often leads to uncertainty on tax positions.

As a result of the above, in the period, the Company recorded a net tax decrease of US$33 million in respect of ongoing tax audits and in respect of the Company’s review of its uncertain tax positions. This decrease is primarily in relation to uncertain tax positions other than corporate income tax. However it is possible that the ultimate resolution of the tax exposures could result in tax charges that are materially higher or lower than the amount provided.

The Company conducts operations through its various subsidiaries in a number of countries throughout the world. Each country has its own tax regimes with varying nominal rates, deductions and tax attributes. From time to time, the Company may identify changes to previously evaluated tax positions that could result in adjustments to its recorded assets and liabilities. Although the Company is unable to predict the outcome of these changes, it does not expect the effect, if any, resulting from these adjustments to have a material effect on its consolidated statement of financial position, results of operations or cash flows.

4.3.11 EARNINGS/(LOSS) PER SHARE

The basic earnings per share for the year amounted to US$2.18 (2020: US$1.00); the fully diluted earnings per share amounted to US$2.16 (2020: US$1.00).

Basic earnings/(loss) per share amounts are calculated by dividing net profit/(loss) for the year attributable to shareholders of the Company by the weighted average number of shares outstanding during the year.

Diluted earnings/(loss) per share amounts are calculated by dividing the net profit/loss attributable to shareholders of the Company by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of all the potential dilutive shares into ordinary shares.