

2022  
ANNUAL  
REPORT



TRUE.  
BLUE.  
TRANSITION.

## 4 FINANCIAL INFORMATION 2022

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. The Company bases its future cash flows on detailed budgets and forecasts.

Non-financial assets, other than goodwill, that have been impaired are reviewed for possible reversal at financial position date when circumstances which caused the initial impairment have improved or no longer exist.

### (d) Revenue

The Company provides design, supply, installation, operation, life extension and demobilization of Floating Production, Storage and Offloading (FPSO) vessels. The vessels are either owned and operated by SBM Offshore and leased to its clients (Lease and Operate arrangements) or supplied on a Turnkey sale basis (construction contracts). Even in the latter case, the vessels can be operated by the Company, under a separate operating and maintenance agreement, after transfer to the clients.

Other products of the Company include: Turret Mooring Systems ('TMS'), Floating Offshore Wind ('FOW'), brownfield and offshore (off)loading terminals. These products are mostly delivered as construction, lease or service type agreements.

Some contracts include multiple deliverables (such as Front-End Engineering Design ('FEED'), engineering, construction, procurement, installation, maintenance, operating services, demobilization). The Company assesses the level of integration between different deliverables and ability of the deliverable to be performed by another party. Based on this assessment the Company concludes whether the multiple deliverables are one, or separate, performance obligation(s).

The Company determines the transaction price for its performance obligations based on contractually agreed prices. The Company has various arrangements with its customers in terms of pricing, but in principle i) the construction contracts have agreed fixed pricing terms, including fixed lump sums and reimbursable type of contracts, ii) the majority of the Company's lease arrangements have fixed lease rates and iii) the operating and service type of contracts can be based on fixed lump sums or reimbursable type of contracts. The Lease and Operate contracts generally include a variable component for which the treatment is described below under 'Lease and Operate contracts'. In rare cases when the transaction prices are not directly observable from the contract, they are estimated based on expected cost plus margin (e.g. based on an operating service component in a lease arrangement).

The Company assesses for each performance obligation whether the revenue should be recognized over time or at a point in time, this is explained more in detail under the below sections 'Construction contracts' and 'Lease and Operate contracts'.

The Company can agree on various payment arrangements which generally reflect the progress of delivered performance obligations. However, if the Company's delivered performance obligation exceeds instalments invoiced to the client, a contract asset is recognized (see note 4.3.3 Revenue). If the instalments invoiced to the client exceed the work performed, a contract liability is recognized (see note 4.3.25 Trade and Other Payables).

Revenue policies related to specific arrangements with customers are described below.

#### Construction contracts:

The Company under its construction contracts usually provides Engineering, Procurement, Construction and Installation ('EPCI') of vessels. The Company assesses the contracts on an individual basis as per the policy described above. Based on the analysis performed for existing contracts:

- The construction contracts generally include one performance obligation due to significant integration of the activities involved; and
- Revenue is recognized over time as the Company has an enforceable right to payment for performance completed to date and the assets created have no direct alternative use.

Based on these requirements, the Company concludes that, in principle, construction contracts meet the criteria of revenue to be recognized over time. Revenue is recognized at each period based upon the advancement of the work, using the input method. The input method is based on the ratio of costs incurred to date to total estimated costs. Up to the moment that the Company can reasonably measure the outcome of the performance obligation, revenue is recognized to the extent of cost incurred.

Complex projects that present a high-risk profile due to technical novelty, complexity or pricing arrangements agreed with the client are subject to independent project reviews at advanced degrees of completion in engineering. An independent project review is an internal but independent review of the status of a project based upon an assessment of a range of project management and company factors. Until this point, and when other significant uncertainties related to the cost at completion are mitigated, revenue is recognized to the extent of cost incurred.

Due to the nature of the services performed, variation orders and claims are commonly billed to clients in the normal course of business. The variation orders and claims are modifications of contracts that are usually not distinct and are therefore normally considered as part of the existing performance obligation. When the contract modification (including claims) is initially approved by oral agreement or implied by customary business practice, the Company recognizes revenue only to the extent of contract costs incurred. Once contract modifications and claims are approved, the revenue is no longer capped at the level of costs and is recognized based on the input method.

Generally, the payments related to the construction contracts (under EPCI arrangements) are corresponding to the work completed to date, therefore the Company does not adjust any of the transaction prices for the time value of money. However the time value of money is assessed on a contract by contract basis and in case the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year, the transaction price is adjusted for the identified and quantified financing component.

Furthermore, finance lease arrangements under which the Company delivers a unit to a client are treated as direct sales (see also point (b) above), therefore revenue is recognized over time during the construction period as the present value of the lease payments accruing to the lessor, discounted using a market rate of interest. In order to determine the revenue to be recognized based on this policy, the Company determines the applicable discount rate using a market rate of interest that takes into account among others: time value of money, financing structure and risk profile of a client and project.

#### **Lease and Operate contracts:**

The Company provides to its customers possibilities to lease the units under charter contracts. The charter contracts are multi-year contracts and some of them contain options to extend the term of the lease or terminate the lease earlier. Some of the contracts also contain purchase options that are exercisable throughout the lease term.

#### *Charter rates*

Charter rates received on long-term operating lease contracts are reported on a straight-line basis over the period of the contract once the facility has been brought into service. The difference between straight-line revenue and the contractual day-rates, which may not be constant throughout the charter, is accounted for as deferred income.

Revenue from finance lease contracts is, as of the commencement date of the lease contract, recognized over the term of the lease using the amortized cost method, which reflects a constant periodic rate of return.

#### *Operating fees*

Operating fees are received by the Company for facilitating receipt, processing and storage of petroleum services on board of the facilities which occur continuously through the term of the contract. As such, they are a series of services that are substantially the same and that have the same pattern of transfer to the customer. Revenue is recognized over time based on input methods by reference to the stage of completion of the service rendered either on a straight-line basis for lump sum contracts or in line with cost incurred on reimbursable contracts.

#### *Bonuses/penalties*

On some contracts the Company is entitled to receive bonuses (incentives) and incurs penalties depending on the level of interruption of production or processing of oil. Bonuses are recognized as revenue once it is highly probable that no significant reversal of revenue recognized will occur, which is generally the case only once the performance bonus is earned. Penalties are recognized as a deduction of revenue when they become probable. For estimation of bonuses and penalties the Company applies the 'most likely' method, where the Company assesses which single amount is the most likely in a range of possible outcomes.

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### Contract costs

The incremental costs of obtaining a contract with a customer are recognized as an asset when the costs are expected to be recovered. The Company uses a practical expedient that permits the costs to be expensed to obtain a contract as incurred when the expected amortization period is one year or less. Costs of obtaining a contract that are not incremental are expensed as incurred unless those costs are explicitly chargeable to the customer. Bid, proposal, and selling and marketing costs, as well as legal costs incurred in connection with the pursuit of the contract, are not incremental, as the Company would have incurred those costs even if it did not obtain the contract.

If the costs incurred in fulfilling a contract with a customer are not within the scope of another IFRS standard (e.g. IAS 2 Inventories, IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets), the Company recognizes an asset for the costs incurred to fulfill a contract only if those costs meet all of the following criteria:

- The costs relate directly to a contract or to an anticipated contract that the Company can specifically identify (for example, costs relating to services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved);
- The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- The costs are expected to be recovered.

An asset recognized for contract costs is amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

### Contract assets

Contract assets as defined in IFRS 15 represent the Company's construction work-in-progress. Construction work-in-progress is the Company's right to consideration in exchange for goods and services that the Company has transferred to the customer. The Company's contract assets are measured as accumulated revenue recognized over time based on progress of the project net of installments invoiced to date. The invoiced installments represent the contractually agreed unconditional milestone payments during the construction period and these amounts are classified as trade receivables until the amount is paid. The Company recognizes any losses from onerous contracts under provisions in line with IAS 37. Further the impairment of contract assets is measured, presented and disclosed on the same basis as financial assets that are within the scope of IFRS 9. The Company applies the simplified approach in measuring expected credit losses for contract assets. In case of contract asset balances relating to the finance lease contracts, the Company applies the low credit risk simplification of IFRS 9 for the computation of the expected credit loss. The simplification is applied as the credit risk profile of these balances has been assessed as low.

In prior consolidated financial statements, the Company presented contract assets as Construction work-in-progress in the consolidated statement of financial position as well as the notes to the consolidated financial statements.

### Contract liabilities

The Company recognizes a contract liability (see note '4.3.25 Trade and Other Payables') where installments are received in advance of satisfying the performance obligation towards the customer.

### (e) Operating segment information

As per IFRS 8, an operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose segmental operating results are regularly reviewed by the entity's chief operating decision maker, and for which distinct financial information is available.

The Management Board, as chief operating decision maker, monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on revenue, gross margin, EBIT and EBITDA, and prepared in accordance with Directional reporting. The Company has two reportable segments:

- The Lease and Operate segment includes all earned day-rates on operating lease and operate contracts.
- The Turnkey segment includes revenues from Turnkey supply contracts and after-sales services, which consist mainly of large production systems, large mooring systems, deep water export systems, fluid transfer systems, tanker loading and discharge terminals, design services and supply of special components and proprietary designs and equipment. The new energy business also forms part of the Turnkey segment, this mainly relates to floating offshore wind solutions.