2022 ANNUAL REPORT

SBM OFFSHORE

TRUE.
BLUE.
TRANSITION.

4.3.9 NET FINANCING COSTS

	2022	2021
Interest income on loans & receivables	0	1
Interest income on investments	10	1
Net foreign exchange gain	-	-
Other financial income	2	1
Financial income	**12**	**3**
Interest expenses on financial liabilities at amortized cost	(352)	(202)
Interest expenses on hedging derivatives	(28)	(99)
Interest expenses on lease liabilities	(2)	(2)
Interest addition to provisions	(1)	(1)
Net cash flow hedges ineffectiveness	(1)	-
Other financial expenses	(0)	0
Financial expenses	**(385)**	**(304)**
Net financing costs	**(373)**	**(301)**

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.

Therefore, the increase in net financing costs is mainly due to: (i) higher interest expenses as a result of the Company's project financing obtained for projects under construction, mostly the project financing of FPSO *ONE GUYANA, FPSO Sepetiba,* FPSO *Prosperity* and bridge loans for *FPSO Almirante Tamandaré* and *FPSO Alexandre de Gusmão*.

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.