



2023 ANNUAL REPORT

BM
OFFSHORE



COMMITMENTS

As at December 31, 2023, the remaining contractual commitments for acquisition of intangible assets, property, plant and equipment and investment in leases amounted to US\$859 million (December 31, 2022: US\$2,201million). Investment commitments have decreased principally on the construction of *FPSO Almirante Tamandaré* and *FPSO ONE GUYANA*.

CONTINGENT LIABILITY

As at December 31, 2023 the Company did not identify any contingent liabilities.

4.3.27 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

This note presents information about the Company's exposure to risk resulting from its use of financial instruments, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further qualitative disclosures are included throughout these consolidated financial statements.

ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

The Company uses the following fair value hierarchy for financial instruments that are measured at fair value in the statement of financial position, which require disclosure of fair value measurements by level:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (Level 3).

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Accounting classification and fair values

			31 December 2023		31 December 2022	
	Notes	Fair value level	Total book value	Total fair value	Total book value	Total fair value
Financial assets measured at amortized cost						
Finance lease receivables	4.3.15	3	6,801	7,053	7,193	7,219
Loans to joint ventures and associates	4.3.16	3	41	42	52	51
Total			6,842	7,095	7,244	7,270
Financial liabilities measured at amortized cost						
US\$ project finance facilities drawn	4.3.23	2	9,543	9,604	8,679	8,678
Lease liabilities		3	85	85	46	46
Other debt	4.3.23	2	134	133	54	54
Total			9,762	9,822	8,780	8,778

Additional information

- In the above table, the Company has disclosed the fair value of each class of financial assets and financial liabilities for which the book value is different than fair value in a way that permits the information to be compared with the carrying amounts.
- There are financial assets and financial liabilities measured at fair value, namely the interest rate swaps, forward currency contracts and commodity contracts which are classified at a Level 2 on the fair value hierarchy. Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The carrying amount for these financial assets and liabilities approximates the fair value as at December 31, 2023.
- The Company has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values as the impact of discounting is insignificant.
- Classes of financial instruments that are not used are not disclosed.
- No instruments were transferred between Level 1 and Level 2.
- No instruments were transferred between Level 2 and Level 3.
- None of the instruments of the Level 3 hierarchy are carried at fair value in the statement of financial position.

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- No financial instruments were subject to offsetting as of December 31, 2023 and December 31, 2022.

The effects of the foreign-currency-related hedging instruments on the Company's financial position and performance including related information are included in the table below:

Effect of the foreign currency, interest swaps and commodity contracts related hedging instruments

	2023	2022
<i>Foreign currency forwards</i>		
Carrying amount	68	(53)
Notional amount	(2,774)	(3,343)
Maturity date	14-8-2024	30-8-2023
Hedge ratio	100%	100%
Change in discounted spot value of outstanding hedging instruments since 1 January	121	27
Change in value hedged rate for the year (including forward points)	(121)	(27)
<i>Interest rate swaps</i>		
Carrying amount	248	463
Notional amount	8,043	7,253
Maturity date	24-3-2033	22-5-2031
Hedge ratio	95%	94%
Change in discounted spot value of outstanding hedging instruments since 1 January	(214)	606
Change in value hedged rate for the year (including forward points)	214	(606)
<i>Commodity contracts</i>		
Carrying amount	(1)	(2)
Notional amount	62	59
Maturity date	5-9-2024	22-12-2023
Hedge ratio	100%	100%
Change in discounted spot value of outstanding hedging instruments since 1 January	1	(2)
Change in value hedged rate for the year (including forward points)	(1)	2

MEASUREMENT OF FAIR VALUES

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

Type	Level 2 and level 3 instruments	Level 3 instruments	
	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial instrument measured at fair value			
Interest rate swaps	Income approach – Present value technique	Not applicable	Not applicable
Commodity contracts	Income approach – Present value technique	Not applicable	Not applicable
Forward currency contracts	Income approach – Present value technique	Not applicable	Not applicable
Financial instrument not measured at fair value			
Loans to joint ventures and associates	Income approach – Present value technique	<ul style="list-style-type: none"> Forecast revenues Risk-adjusted discount rate (5%-11%) 	The estimated fair value would increase (decrease) if: <ul style="list-style-type: none"> the revenue was higher (lower) the risk-adjusted discount rate was lower (higher)
Finance lease receivables	Income approach – Present value technique	<ul style="list-style-type: none"> Forecast revenues Risk-adjusted discount rate (4%-9%) 	The estimated fair value would increase (decrease) if: <ul style="list-style-type: none"> the revenue was higher (lower) the risk-adjusted discount rate was lower (higher)
Loans and borrowings	Income approach – Present value technique	Not applicable	Not applicable
Other long-term debt	Income approach – Present value technique	Not applicable	Not applicable

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DERIVATIVE ASSETS AND LIABILITIES DESIGNATED AS CASH FLOW HEDGES

The following table indicates the period in which the cash flows associated with the cash-flow hedges are expected to occur and the carrying amounts of the related hedging instruments. The amounts disclosed in the table are the contractual undiscounted cash flows. The future interest cash flows for interest rate swaps are estimated using the forward rates as at the reporting date.

Cash flows

	Carrying amount	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
31 December 2023					
Interest rate swaps (USD SOFR 3 Months)	248	22	104	129	255
Forward currency contracts	68	48	14	-	62
Commodity contracts	(1)	(1)	-	-	(1)
31 December 2022					
Interest rate swaps (USD LIBOR 3 Months)	463	19	254	212	486
Forward currency contracts	(53)	(58)	(9)	-	(67)
Commodity contracts	(2)	(1)	(1)	-	(2)

The following table indicates the period in which the cash-flow hedges are expected to impact profit or loss and the carrying amounts of the related hedging instruments.

Expected profit or loss impact

	Carrying amount	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
31 December 2023					
Interest rate swaps (USD SOFR 3 Months)	248	22	104	129	255
Forward currency contracts	68	48	14	-	62
Commodity contracts	(1)	(1)	-	-	(1)
31 December 2022					
Interest rate swaps (USD LIBOR 3 Months)	463	19	254	212	486
Forward currency contracts	(53)	(58)	(9)	-	(67)
Commodity contracts	(2)	(1)	(1)	-	(2)

Interest rate swaps

Gains and losses recognized in the hedging reserve in equity on interest rate swap contracts will be continuously released to the income statement until the final repayment of the hedged items (please refer to note 4.3.22 Equity Attributable to Shareholders).

Forward currency contracts

Gains and losses recognized in the hedging reserve on forward currency contracts are recognized in the income statement in the period or periods during which the hedged transaction affects the income statement. This is mainly within twelve months from the statement of financial position date, unless the gain or loss is included in the initial amount recognized in the carrying amount of fixed assets, in which case recognition is over the lifetime of the asset. If the gain or loss is included in the initial amount recognized in the carrying amount of the cost incurred on construction contracts, the recognition is over time.

Commodities

Gains and losses recognized in the hedging reserve on commodity contracts are recognized in the income statement in the period or periods during which the hedged transaction affects the income statement. If the hedged transaction subsequently results in the recognition of non-financial assets (such as inventory, asset under construction) or non-financial liability, the gain or loss is included in the initial cost or other carrying amount of the asset. In such case, this amount is recognized in profit or loss at the same time as the hedged item affects profit or loss.

LOSS ALLOWANCE ON FINANCIAL ASSETS AND CONTRACT ASSETS

The movement of loss allowance during the year 2023 is summarized as follows:

	Finance lease receivable		Contract assets		Trade receivables		Other financial assets	
	2023	2022	2023	2022	2023	2022	2023	2022
Opening loss allowance as at 1 January	(0)	(0)	(1)	(1)	(2)	(3)	(95)	(108)
Increase in loss allowance recognized in profit or loss during the year	-	(0)	(1)	(1)	(3)	(1)	(28)	-
Receivables written off during the year as uncollectible	-	-	-	-	-	-	-	-
Unused amount reversed	0	0	1	1	1	2	0	14
At 31 December	(0)	(0)	(1)	(1)	(5)	(2)	(123)	(95)

FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, market risks (including currency risk, interest rate risk and commodity risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures. The Company buys and sells derivatives in the ordinary course of business and also incurs financial liabilities in order to manage market risks. All such transactions are carried out within the guidelines set in the Company policy. Generally, the Company seeks to apply hedge accounting in order to manage volatility in the income statement and statement of comprehensive income. The purpose is to manage the interest rate, currency and commodity price risk arising from the Company's operations and its sources of finance. Derivatives are only used to hedge closely correlated underlying business transactions.

The Company's principal financial instruments, other than derivatives, comprise trade debtors and creditors, bank loans, short-term facilities and overdrafts, cash and cash equivalents (including short-term deposits) and financial guarantees. The main purpose of these financial instruments is to finance the Company's operations. Trade debtors and creditors result directly from the business operations of the Company.

Financial risk management is carried out by a central treasury department under policies approved by the Management Board. Treasury identifies, evaluates and hedges financial risks in close co-operation with the subsidiaries and the Chief Financial Officer (CFO) during the quarterly Asset and Liability Committee. The Management Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. It is, and has been throughout the year under review, the Company's policy that no speculation in financial instruments shall be undertaken. The main risks arising from the Company's financial instruments are market risk, liquidity risk and credit risk.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices, will affect the Company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from transactional currency exposures, primarily with respect to the euro, Singapore dollar, Chinese Yuan and Brazilian real. Due to the increase of the activities in China, the Company has included its exposure in Chinese Yuan for the year ended on December 31, 2023. The exposure arises from sales or purchases in currencies other than the Company's functional currency. The Company uses forward currency contracts to eliminate the currency exposure once the Company has entered into a firm commitment of a project contract.

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For foreign currency risk, the principal terms of the forward currency contract (notional and settlement date) and the future expense or revenue (notional and expected cash flow date) are identical. The Company has established a hedge ratio of 1:1 for all its hedging relationships.

The main Company's exposure to foreign currency risk is as follows based on notional amounts:

Foreign exchange risk (summary)

in millions of local currency	31 December 2023				31 December 2022			
	EUR	SGD	BRL	CNY	EUR	SGD	BRL	CNY
Fixed assets	158	-	277	26	133	-	274	24
Current assets	76	7	1,118	32	99	3	606	18
Long-term liabilities	(136)	(0)	(622)	(18)	(105)	-	(685)	(16)
Current liabilities	(198)	(26)	(1,505)	(160)	(183)	(9)	(1,251)	(101)
Gross balance sheet exposure	(100)	(19)	(731)	(120)	(55)	(6)	(1,055)	(75)
Estimated forecast sales	4	-	-	-	27	-	-	-
Estimated forecast purchases	(1,242)	(222)	(2,617)	(1,800)	(1,673)	(383)	(1,779)	(1,344)
Gross exposure	(1,338)	(241)	(3,348)	(1,920)	(1,701)	(388)	(2,834)	(1,419)
Forward exchange contracts	1,362	240	3,129	1,930	1,831	390	2,799	1,439
Net exposure	24	(1)	(219)	10	130	1	(35)	20

The increase of the BRL exposure results from the requirements of the Brazilian operations for the next three years. The decrease of the EUR and SGD exposure is the result of progress on *FPSO Sepetiba*, *FPSO ONE GUYANA*, *FPSO Almirante Tamandaré* and *FPSO Alexandre de Gusmão*. CNY exposure has been added to the foreign exchange risk as a result of the Company's increased presence in China for FPSO construction and hull preparation.

The estimated forecast purchases relate to project expenditure and overhead expenses for up to three years. The main currency exposures of overhead expenses and Brazilian operations are hedged at 100% for the coming year, between 66% and 100% for the year after, and between 33% and 100% for the subsequent year, depending on internal review of the foreign exchange market conditions.

Foreign exchange risk (exchange rates applied)

	2023	2022	2023	2022
	Average rate		Closing rate	
EUR 1	1.0813	1.0530	1.1050	1.0666
SGD 1	0.7445	0.7253	0.7573	0.7459
BRL 1	0.2003	0.1939	0.2061	0.1892
CNY 1	0.1412	0.1488	0.1407	0.1450

The sensitivity on equity and the income statement resulting from a change of 10% of the US dollar's value against the following currencies at December 31, would have increased (decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as for 2022.

Foreign exchange risk (sensitivity)

	Profit or loss		Equity	
	10% increase	10% decrease	10% increase	10% decrease
31 December 2023				
EUR	(0)	0	(139)	139
SGD	(0)	0	(17)	17
BRL	(0)	0	(50)	50
CNY	(0)	0	(26)	26
31 December 2022				
EUR	(0)	0	(189)	189
SGD	(0)	0	(29)	29
BRL	(0)	0	(33)	33
CNY	(0)	0	(20)	20

As set out above, by managing foreign currency risk, the Company aims to reduce the impact of short-term market price fluctuations on the Company's earnings. Over the long-term however, permanent changes in foreign currency rates would have an impact on consolidated earnings.

Interest rate risk

The Company's exposure to risk from changes in market interest rates relates primarily to the Company's long-term debt obligations with a floating interest rate. In respect of controlling interest rate risk, the floating interest rates of long-term loans are hedged by fixed rate swaps for the entire maturity period. The revolving credit facility is intended for the fluctuating needs of construction financing and bears interest at floating rates, which is also swapped for fixed rates when exposure is significant.

For interest rate risk, the principal terms of the interest rate swap (notional amortization, rate-set periods) and the financing (repayment schedule, rate-set periods) are identical. The Company has established a hedge ratio of 1:1, as the hedging layer component matches the nominal amount of the interest rate swap for all its hedging relationships.

Interest rate benchmark reform

The reform and replacement of benchmark interest rates such as USD LIBOR 3M and other interbank offered rates ('IBORs') has become a priority for global regulators. On March 5, 2021, LIBOR's administrator (IBA) set out clear end-dates for new use of USD LIBOR and its cessation as a representative rate:

- December 31, 2021: cessation of USD LIBOR 1W and 2M tenors; deadline for most of new contract to use USD LIBOR as sole reference;
- June 30, 2023: cessation of remaining USD LIBOR tenors.

To transition existing contracts and agreements that reference USD LIBOR to Secured Overnight Financing Rate ('SOFR'), as the benchmark for US\$ denominated derivatives and loans, adjustments for term differences and credit differences might need to be applied to SOFR, to enable the two benchmark rates to be economically equivalent on transition.

Relief applied

The Company has applied the following reliefs that were introduced by the amendments made to IFRS 9 Financial Instruments in September 2019:

- When considering the 'highly probable' requirement, the Company has assumed that the USD LIBOR 3M interest rate on which the Company's hedged debt is based does not change as a result of IBOR reform.
- In assessing whether the hedge is expected to be highly effective on a forward-looking basis, the Company has assumed that the USD LIBOR interest rate on which the cash flows of the hedged debt and the interest rate swap that hedges it are based, is not altered by LIBOR reform.
- The Company has not recycled the cash flow hedge reserve relating to the period after the reforms are expected to take effect.

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Reliefs that were introduced by the amendments made to IFRS 9 Financial Instruments in August 2020 are applied once amendments to financial contracts become effective:

- Changes in the basis for determining contractual cash flows of financial assets and financial liabilities have been reviewed and reflected in updated effective interest rate, once they become effective.
- The Company amended the formal designation of a hedging relationship to reflect the changes that are required by the reform. The reform did not result in a discontinuation of the hedge or designation of a new hedging relationship. When the interest rate benchmark on which the hedged future cash flows had been based is changed, as required by IBOR reform, for the purpose of determining whether the hedged future cash flows are expected to occur, the Group deems that the hedging reserve recognized in OCI for that hedging relationship is based on the alternative benchmark rate on which the hedged future cash flows is based.

In 2021 the Company has started hedging future debt interest rate risk with SOFR interest rate derivatives. For the FPSO *Prosperity* financing, IBOR transition to SOFR principles have been agreed with lenders as of March 31, 2023.

For the FPSO *ONE GUYANA* financing (announced on July 21, 2022), FPSO *Almirante Tamandaré* financing (announced on March 31, 2023) and FPSO *Alexandre de Gusmão* financing (announced on June 20, 2023), the project loans carry a variable interest rate based on SOFR plus margin. No amendments of loan agreements and hedges due to IBOR reform are required.

The Company's Treasury department has completed SBM Offshore's IBOR transition with the support of the Company's Legal department. The amendments to the contractual terms of the USD LIBOR-referenced floating-rate debt and the associated interest rate swaps and the corresponding update of the hedge designation was completed by mid-year 2023. The result of the negotiations with external banks and the implementation of SOFR did not have material impacts on the Company's financial results. The changed reference rate has also been effected in the treasury management system, processes, risk and valuation models.

At the reporting date, the interest rate profile of the Company's interest-bearing financial instruments (excluding transaction costs) was:

Interest rate risk (summary)

	2023	2022
Fixed rate instruments		
Financial assets	6,856	7,232
Financial liabilities	(891)	(985)
Total	5,964	6,247
Variable rate instruments (USD LIBOR 3 Months)		
Financial assets	12	12
Financial liabilities (USD LIBOR 3 Months)	-	(6,317)
Financial liabilities (SOFR)	(8,777)	(1,432)
Financial liabilities (future) (USD LIBOR 3 Months)	-	(652)
Financial liabilities (future) (SOFR)	(1,670)	(1,368)
Total	(10,435)	(9,757)

Interest rate risk (exposure)

	2023	2022
Variable rate instruments (USD LIBOR 3 Months)	-	(6,957)
Variable rate instruments (SOFR)	(10,435)	(2,800)
Less: Reimbursable items (USD LIBOR 3 Months)	-	1,681
Less: Reimbursable items (SOFR)	1,524	321
Less: IRS contracts (USD LIBOR 3 Months)	-	4,774
Less: IRS contracts (SOFR)	8,043	2,479
Exposure	(867)	(502)

Interest rate risk (sensitivity)

	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2023				
Variable rate instruments (USD LIBOR 3 Months)	(9)	9	-	-
Variable rate instruments (SOFR)	-	-	-	-
Interest rate swap (USD LIBOR 3 Months)	-	-	-	-
Interest rate swap (SOFR)	-	-	404	(404)
Sensitivity (net)	(9)	9	404	(404)
31 December 2022				
Variable rate instruments (USD LIBOR 3 Months)	(5)	5	-	-
Variable rate instruments (SOFR)	-	-	-	-
Interest rate swap (USD LIBOR 3 Months)	-	-	211	(211)
Interest rate swap (SOFR)	-	-	95	(95)
Sensitivity (net)	(5)	5	306	(306)

The exposure of US\$867 million is primarily arising from (i) the Company's RCF being partially hedged; (ii) the new Fast4Ward® hull financing, which is unhedged, and (iii) the residual exposure on the unhedged portion of project loan facilities for *FPSO Almirante Tamandaré*, *FPSO Alexandre de Gusmão* and *FPSO ONE GUYANA*. The interest rate exposure arising from these loans is mainly offset by the Cash and Cash Equivalents at December 31, 2023.

The sensitivity on equity and the income statement resulting from a change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown above. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis as for 2022.

At December 31, 2023, it is estimated that a general increase of 100 basis points in interest rates would decrease the Company's profit before tax for the year by approximately US\$8 million (2022: decrease of US\$5 million), mainly related to the residual interest rate exposure.

As set out above, the Company aims to reduce the impact of short-term market price fluctuations on the Company's earnings. Over the long-term however, permanent changes in interest rates could have an impact on consolidated earnings.

Commodity risk

Commodity exposure is defined by the Company as the risk of realizing adverse effects on operating cash flows and future earnings resulting from movement in commodity prices. The Company establishes hedge strategies in order to limit their commodity risk exposure in the following:

- Oil exposure is mostly associated to transportation fuels connected with the Company's prospective contract awards, construction contracts, and future decommissioning.
- Aluminum, steel, copper and iron ore exposures arise from the construction, refurbishment, repair of the products embedded in the Company's prospective contract awards, construction contracts and operation contracts.

Incoming lease payments following the Company's contractual arrangements with its clients are not impacted by the oil price.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's other financial assets, trade and other receivables (including committed transactions), derivative financial instruments and cash and cash equivalents.

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Credit risk

Rating	2023		2022	
	Assets	Liabilities	Assets	Liabilities
AA	32	(9)	55	(34)
AA-	173	(54)	231	(93)
A+	180	(31)	227	(63)
A	30	(3)	69	-
BBB	1	-	1	-
Non-investment grade	-	-	-	-
Derivative financial instruments	416	(97)	583	(190)
AAA	153	-	116	-
AA	6	-	51	-
AA-	343	-	311	-
A+	23	-	178	-
A	10	-	10	-
A-	-	-	0	-
Non-investment grade	8	-	16	-
Cash and cash equivalents and bank overdrafts	543	-	683	-

The Company maintains and reviews its policy on cash investments and limits per individual counterparty are set to:

- BBB- to BBB+ rating: US\$25 million or 10% of cash available.
- A- to A+ rating: US\$75 million or 20% of cash available.
- AA- to AA+ rating: US\$100 million or 20% of cash available.
- Above AA+ rating: no limit.

As per December 31, 2023, cash investments above AA+ rating do not exceed US\$100 million per individual counterparty. Cash held in banks rated A+ has been diversified in cash investments above AA+ rating since year-end.

Cash held in banks rated AA- is mainly linked to cash pledged to loan reimbursements to those same banks. Cash held in banks rated below A- is mainly related to the Company's activities in Brazil (US\$8 million). Cash held in Angola has significantly decreased since 2021 following cash repatriation.

For trade debtors, the credit quality of each customer is assessed, taking into account its financial position, past experience and other factors. Bank or parent company guarantees are negotiated with customers. Individual risk limits are set based on internal or external ratings, in accordance with limits set by the Management Board. At the date of the financial statements, there are two customers that have an outstanding balance with a percentage over 10% of the total of trade and other receivables. Reference is made to note 4.3.19 Trade and Other Receivables for information on the distribution of the receivables by country and an analysis of the ageing of the receivables. Furthermore, limited recourse project financing removes a significant portion of the credit risk on finance lease receivables.

For other financial assets, the credit quality of each counterpart is assessed, taking into account its credit agency rating when available or a comparable proxy.

Regarding loans to joint ventures and associates, the maximum exposure to credit risk is the carrying amount of these instruments. As the counterparties of these instruments are joint ventures, the Company has visibility over the expected cash flows and can monitor and manage credit risk that mainly arises from the joint venture's final client.

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.

In 2023, the Company again conducted various liquidity scenarios, financial stress tests and sensitivity analyses. The conclusion remained 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 it can sustain future growth plans. Furthermore, under its Lease and Operate contractual arrangements with clients, the Company has considerable time under charters in which to deal with disruptions from events outside the Company's control, thus providing it with considerable financial protection.

Liquidity is monitored using rolling forecasts of the Company's liquidity reserves, based on expected cash flows. Flexibility is secured by maintaining availability under committed credit lines.

The table below analyses the Company's non-derivative financial liabilities, derivative financial liabilities and derivative financial assets into relevant maturity groupings, based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The future interest cash flows for borrowings and derivative financial instruments are based on the USD LIBOR/SOFR 3-month rates as at the reporting date.

Liquidity risk 2023

	Note	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
31 December 2023					
Borrowings		436	7,327	6,176	13,939
Lease liabilities		11	44	61	116
Derivative financial liabilities		80	10	-	90
Derivative financial assets		(302)	(539)	(468)	(1,310)
Trade and other payables	4.3.25	1,347	-	-	1,347
Total		1,572	6,841	5,769	14,182

Liquidity risk 2022

	Note	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
31 December 2022					
Borrowings		2,110	5,885	2,908	10,902
Lease liabilities		13	25	8	46
Derivative financial liabilities		201	52	-	253
Derivative financial assets		(365)	(254)	(185)	(805)
Trade and other payables	4.3.25	1,501	-	-	1,501
Total		3,459	5,708	2,730	11,897

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain a capital structure which optimizes the Company's cost of capital while, at the same time, ensuring diversification of sources of external funds.

The Company mainly uses its corporate revolving credit facility (RCF, US\$1 billion) and supply-chain financing (SCF, US\$54 million) and, going forward, the new revolving credit facility for MPF hulls (US\$210 million) to bridge financing requirements on projects under construction prior to putting a dedicated project finance facility in place. When a project finance facility is arranged and draw-downs have started, the RCF is repaid and a corporate guarantee from the Company is put in place for the construction period. When the project facility is drawn in full and the associated FPSO is producing, the corporate guarantee is recovered and the project finance becomes non-recourse debt.

As per December 31, 2023, all the debt associated with operating FPSOs is non-recourse.

The Company has limited appetite to decrease the existing debt in its structure, as this would involve breakage cost, through winding down the hedges and it would decrease the Company's return on equity. From time to time, it may decide to

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refinance existing facilities in order to increase and/or extend the tenor of leverage subject to sufficient charter tenor and income.

Given the non-recourse nature of a large part of its debt, the Company monitors its capital risk, based on the Lease Backlog Cover Ratio, which is also used by the bank consortium supporting the Company's RCF. Generally, this ratio is calculated as the net present value of the future contracted net cash, after deducting the project finance debt and interest payments of a selected group of FPSO owning entities divided by 1.5 (see note 4.3.23 Borrowings and Lease Liabilities).

The gearing ratios at December 31, 2023 and 2022 were as follows:

Capital risk management

	2023	2022
Total borrowings and lease liabilities	9,291	8,564
Less: net cash and cash equivalents	543	683
Net debt	8,748	7,881
Total equity	5,531	4,914
Total capital	14,278	12,795
Gearing ratio	61.3%	61.6%

Climate related risks

The Company has adopted three climate change scenarios to future-proof current strategy and take appropriate action. The scenarios are based on the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC) data, as explained in section 5.1.4 Taskforce for Climate-related Disclosure (TCFD):

- The Stated Policies Scenario (STEPS) is designed to provide a sense of the prevailing direction of energy system progression, based on a detailed review of the current policy landscape.
- The Announced Pledges Scenario (APS), illustrates the extent to which announced ambitions and targets can deliver the emissions reductions needed to achieve net zero emissions by 2050.
- The Net Zero Emissions by 2050 Scenario (NZE) is a normative scenario that shows a pathway for the global energy sector to achieve net zero CO₂ emissions by 2050, as per the Paris Agreement.

Through its strategy process, the Company tests the resilience of its portfolio and business model against each of these scenarios. The Company factors in upsides and downsides to demand for new projects in its financial planning depending on various energy transition scenarios. By applying data and these scenarios as included in 1.4.3 Climate Change Risk & Opportunity, the fleet currently operated for its clients will be contributing to energy demand going forward, also in the low case scenarios where fossil energy sees a steeper decline in demand (NZE scenario). The Company does consider that oil & gas supply would be needed in the coming years.

Financial and non-financial information is aligned in order to ensure that the financial impact of climate-related risks is identified. The Company assessed the physical and transitional risks which are disclosed in 1.4.3 Climate Change Risk & Opportunity from a financial statement perspective. Based on the reasonable and supportable information available to date and the outcome of risk assessments, the Company did not identify any circumstances which had an impact on impairment of non-financial assets, provisions or contingent liabilities and assets in the 2023 consolidated financial statements.

Although climate related risks are key drivers of the Company strategy, budgeting exercise, capital allocation and prospects selection, the Company did not experience any significant impact on the financial statements of the period.

The risks will however remain key points of attention for areas such as impairment testing, estimation of remaining useful life, expected credit losses and provisions for future periods.

Other risks

With respect to controlling political risk, the Company has a policy of thoroughly reviewing risks associated with contracts, whether Turnkey or long-term leases. Where political risk cover is deemed necessary and available in the market, insurance is obtained.