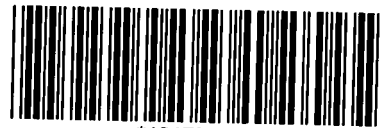


Registration number: 13039768

# **Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

**Annual Report and Financial Statements**  
**for the 14-month period ended 31 December 2021**

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**Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

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**Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

**Company Information**

<b>Directors</b>	Faisal Al-Thani Sean Benson Benjamin Fidler Ralph Hunter William Morris Thomas Samson Paul Stein Mark Thompson Anna Mascolo
<b>Company Secretary</b>	Pamela Coles
<b>Registered office</b>	C/O Rolls-Royce Plc Moor Lane Derby Derbyshire DE24 8BJ
<b>Registration number</b>	13039768
<b>Independent auditors</b>	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Embankment Place London WC2N 6RH

## **Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

### **Directors' Report for the period-ended 31 December 2021**

The Directors present their report together with the audited Financial Statements for Rolls-Royce SMR Limited (formerly LC Nuclear Limited) (the Company) for the 14-month period ended 31 December 2021.

#### **Principal activities**

The principal activities are nuclear engineering and the development of a Small Modular Reactor (SMR) design.

#### **Business Review**

The Company recognised revenue of £262,000 in the 14-month period ended 31 December 2021, this largely related to services provided to other companies within the Rolls-Royce Holdings plc group (the Group).

The Company recorded a loss before taxation of £7,490,000 largely due to income from government grants of £4,399,000 recognised within other income, offset by research and development expenditure incurred of £11,381,000.

At 31 December 2021 the Company had net assets of £49,369,000, this is predominantly due to a cash balance of £40,187,000 driven by shareholder funding received since incorporation.

#### **Key performance Indicators**

The Company's Directors believe that there are no key performance indicators which are necessary or appropriate for an understanding of the Company's specific development, performance or the position of its business.

#### **Principal risks and uncertainties**

The Company acts, where appropriate, in accordance with the policies set by Rolls-Royce Holdings plc. The Group has an established and structured approach to risk management, detailed in the Annual Report of Rolls-Royce Holdings plc which is publicly available from the address in note 15.

The principal risk recognised by the Directors is that the SMR design does not generate a viable product at the conclusion of the project. To mitigate this the Company is consolidating proven, existing technology to form the basis of the SMR design and has partnered with shareholders who are industry leaders with expertise in this field.

#### **Directors**

The Directors who held office since incorporation and up to the date of signing the Financial Statements were as follows:

Faisal Al-Thani (appointed 10 January 2022)

Sean Benson (appointed 5 November 2021)

Benjamin Fidler (appointed 5 November 2021)

Ralph Hunter (appointed 5 November 2021)

Thomas Samson (appointed 5 November 2021)

Paul Stein (appointed 6 September 2021)

William Morris (appointed 28 July 2021)

Mark Thompson (appointed 24 November 2020)

Anna Mascolo (appointed 1 June 2022)

#### **Qualifying third-party indemnity provisions**

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors which were in place during the period and remain in force at the date of the approval of these Financial Statements.

## **Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

### **Directors' Report for the period-ended 31 December 2021 (continued)**

#### **Results and dividends**

The Company made £7,490,000 loss after taxation for the year. The net assets of the Company are £49,369,000.

The Directors' do not recommend the payment of a dividend.

#### **Future developments**

The Directors expect to continue to progress the development of the SMR design.

#### **Research and development**

During the period the Company spent £11,381,000 on research and development.

#### **Financial risk management**

The Company has an established, structured approach to risk management. The following risks are considered key by the Directors:

##### *Credit risk*

The Company's credit risk is primarily attributable to its amounts receivable from other group undertakings. The amounts in the Balance Sheet are stated after provisions for impairment. Amounts due from other group undertakings are supported by Rolls-Royce plc. Therefore the overall credit risk to the Company is considered to be low.

##### *Interest risk*

Cash balances are held at floating rates and the Company is therefore exposed to movements in interest rates which is mitigated as part of the Group's policies for managing the overall interest risk at group level.

#### **Going concern**

The Financial Statements have been prepared on a going concern basis. In forming this judgement the Directors have taken account of the current and forecast working capital requirements of the business for the period to 30 September 2023. The Company has net assets of £49,369,000. The Company is in a net intercompany debtor position of £1,974,000 with other Group companies.

After considering the above, the Directors are satisfied that it remains appropriate to prepare the Company Financial Statements on a going concern basis.

#### **Post balance sheet events**

On 4 January 2022 the Company issued 15,000 ordinary shares for £15,000,000.

On 5 January 2022 the Company issued 20,000 ordinary shares for £20,000,000.

These were both issued for cash, the funds received for the issue of 15,000 ordinary shares on 4 January 2022 were received pre-period end and forms part of the cash balance as at 31 December 2021.

On 1 June 2022 the Company issued 5,620 ordinary shares for £5,620,000.

On 4 July 2022 the Company issued 40,000 ordinary shares for £40,000,000. These were issued for cash and the funds were received on 1 July 2022.

#### **Small company exemption**

The Company has taken the small companies' exemption to prepare a Strategic Report under Section 414B of the Companies Act 2006.

#### **Independent auditors**

In accordance with section 485 of the Companies Act 2006, the Directors' have appointed PricewaterhouseCoopers LLP as the Company's auditor. PricewaterhouseCoopers LLP have indicated their willingness to be in office and are deemed to be appointed under section 487(2) of the Companies Act 2006.

**Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

**Directors' Report  
for the period-ended 31 December 2021 (continued)**

**Statement of Directors' Responsibilities In respect of the Financial Statements**

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under Company law, Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006.


**Directors' confirmations**

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board on 18<sup>th</sup> AUG and signed on its behalf by:

2022

  
Thomas Samson  
Director

**Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

**Independent auditor's report to the members of Rolls-Royce SMR Limited  
(formerly LC Nuclear Limited)**

**Report on the audit of the financial statements**

**Opinion**

In our opinion, Rolls-Royce SMR Limited (formerly LC Nuclear Limited)'s financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss for the 14 month period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2021; the Income Statement, Statement of Comprehensive Income and Statement of Changes in Equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

**Conclusions relating to going concern**

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## **Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

### **Independent auditor's report to the members of Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

#### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

#### **Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the period ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

#### **Responsibilities for the financial statements and the audit**

##### **Responsibilities of the directors for the financial statements**

As explained more fully in the Statement of Directors' Responsibilities in respect of the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

##### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



## **Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

### **Independent auditor's report to the members of Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to applicable taxation and health and safety legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results. Audit procedures performed by the engagement team included:

- Enquiries with management and those charged with governance, including consideration of any known or suspected instances of non-compliance with laws and regulations and fraud;
- Reviewing minutes of meetings of the Board of directors and of those charged with governance;
- Enquiries with the company's General Counsel in regards to any known or suspected instances of non compliance with laws and regulations;
- Challenging assumptions and judgements made by management in determining significant accounting estimates (because of the risk of management bias)
- Reviewing financial statement disclosures and testing to supporting documentation
- Identifying and testing unusual journal entries, in particular journal entries posted with unusual account combinations; and
- Review of the Rolls-Royce group whistleblowing records and matters reported through the whistleblowing facility that relate to the company.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### **Use of this report**

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

**Independent auditor's report to the members of Rolls-Royce SMR Limited  
(formerly LC Nuclear Limited)**

**Other required reporting**

**Companies Act 2006 exception reporting**

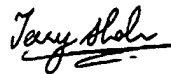
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

**Entitlement to exemptions**

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Terry Shah (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
18 August 2022

**Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

**Income Statement  
for the period-ended 31 December 2021**

	Note	14-month period to 31 December 2021 £ 000
Revenue		262
Cost of sales		<u>(165)</u>
Gross profit		97
Other income	4	4,399
Research and development expenses		(11,381)
Administrative expenses		<u>(605)</u>
Loss before taxation	4	(7,490)
Taxation	8	<u>-</u>
Loss for the financial period		<u>(7,490)</u>

The above results were derived from continuing operations. The Company did not present Financial Statements for any previous periods than that outlined above.

The notes on pages 13 to 22 form an integral part of these Financial Statements.

**Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

**Statement of Comprehensive Income  
for the period-ended 31 December 2021**

	14-month period to 31 December 2021 £ 000
Loss for the financial period	<u>(7,490)</u>
Total comprehensive expense for the period	<u>(7,490)</u>

The notes on pages 13 to 22 form an integral part of these Financial Statements.

**Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

**Balance Sheet  
as at 31 December 2021  
(Registration number: 13039768)**

	Note	2021 £ 000
<b>Current assets</b>		
Trade and other receivables (falling due after one year: £3,450,000)	9	17,851
Cash and cash equivalents		<u>40,187</u>
		<b><u>58,038</u></b>
<b>Current liabilities</b>		
Trade and other payables	10	<u>(8,669)</u>
<b>Net assets</b>		<b><u>49,369</u></b>
<b>Equity</b>		
Called-up share capital	12	535
Share premium		41,300
Other reserves		15,000
Retained earnings		<u>(7,466)</u>
<b>Total equity</b>		<b><u>49,369</u></b>

The Financial Statements on pages 9 to 22 were approved and authorised for issue by the Directors on 18 Aug 2022 and signed on its behalf by:

  
Thomas Samson  
Director

The notes on pages 13 to 22 form an integral part of these Financial Statements.

**Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

**Statement of Changes in Equity  
for the period-ended 31 December 2021**

	Note	Called up share capital £ 000	Share premium £000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
At 24 November 2020 <sup>1</sup>		-	-	-	-	-
Loss for the financial period		-	-	-	(7,490)	(7,490)
Total comprehensive expense		-	-	-	(7,490)	(7,490)
Proceeds from shares issued		535	41,300	-	-	41,835
Shares to be issued <sup>2</sup>		-	-	15,000	-	15,000
Share-based payment transactions	11	-	-	-	24	24
<b>At 31 December 2021</b>		<b>535</b>	<b>41,300</b>	<b>15,000</b>	<b>(7,466)</b>	<b>49,369</b>

<sup>1</sup> Capital issued on incorporation was one ordinary share for £1.

<sup>2</sup> Represents funds received pre-year end for shares to be issued after the 31 December 2021.

**Share premium**

Proceeds received in excess of the nominal value of ordinary shares issues, less the costs of issue of £450,000.

**Other reserves**

Other reserves relate to amounts received in December 2021 for equity instruments not yet issued.

The notes on pages 13 to 22 form an integral part of these Financial Statements.

## Rolls-Royce SMR Limited (formerly LC Nuclear Limited)

### Notes to the Financial Statements for the period-ended 31 December 2021

#### 1 General Information

The Company is a private company limited by shares, incorporated and domiciled in the East Midlands, United Kingdom. The address of its registered office is C/O Rolls-Royce plc, Moor Lane, Derby, Derbyshire, DE24 8BJ.

##### Principal activities

The principal activities are nuclear engineering and the development of a small modular reactor design.

#### 2 Significant accounting policies

The significant accounting policies set out below have, unless otherwise stated, been applied consistently throughout the period presented in these Financial Statements.

##### Basis of preparation

The Company was incorporated on 24 November 2020 and began trading on 5 November 2021. These are therefore the Company's first Financial Statements prepared in accordance with FRS 101.

The Financial Statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The Financial Statements have been prepared under the historical cost convention, except where fair value requirements have been applied under the framework, in accordance with the Companies Act 2006.

In these Financial Statements the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- The following paragraphs of IAS 1, *Presentation of Financial Statements*:
  - 10(d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS); and
  - III (statement of cash flows information).
- IAS 7, *Statement of cash flows*;
- Paragraphs 30 and 31 of IAS 8 *Accounting policies, changes in accounting estimates and error* (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- The requirements in IAS 24 *Related party disclosures*, to disclose related party transactions entered into between two or more members of a group;
- Paragraphs 45(b) and 46 to 52 of IFRS 2, *Share-based payment* (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined);
- Paragraph 38 of IAS 1, *Presentation of Financial Statements* to present comparative information requirements in respect of paragraph 73(e) of IAS 16 *Property, plant and equipment*;
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a), 120 to 127 and 129 of IFRS 15: *Revenue from Contracts with Customers*;
- IFRS 7 *Financial Instruments: Disclosures*; and
- Paragraph 17 of IAS 24, *Related party disclosures* (key management compensation).

**Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

**Notes to the Financial Statements  
for the period-ended 31 December 2021 (continued)**

**2 Significant accounting policies (continued)**

**New standards, amendments and IFRIC Interpretations**

There are no amendments to accounting standards, no new standards or IFRIC interpretations that are effective for the period-ended 31 December 2021 that have a material impact on the Company's Financial Statements.

**Critical accounting judgements and key sources of estimation uncertainty**

**Key source of estimation uncertainty – Accrued grant income**

The Company has a grant funding agreement with Innovate UK to cover research and development expenditure on the SMR project. At the period end, the Company made an estimate of the amount expected to be recoverable at 40% of the total business expenditure incurred during the period, as per the grant funding agreement with Innovate UK. This was on the assumption that a small element of the expenditure during the period may be determined to be ineligible for grant funding. During the period £4,399,000 of accrued grant income was recognised.

The Financial Statements are not considered to contain any area involving a higher degree of judgement in applying the Company's accounting policies and therefore no further consideration is required.

The principal accounting policies applied in the preparation of these Financial Statements are set out below.

**Going concern**

The Financial Statements have been prepared on a going concern basis. In forming this judgement the Directors have taken account of the current and forecast working capital requirements of the business for the period to 30 September 2023. The Company has net assets of £49,369,000. The Company is in a net intercompany debtor position of £1,974,000 with other Group companies.

After considering the above, the Directors are satisfied that it remains appropriate to prepare the Company Financial Statements on a going concern basis.

**Functional and presentational currency**

The functional and presentational currency of the Company is Pounds Sterling. All amounts in the Financial Statements and notes have been rounded to the nearest thousand Pounds Sterling unless otherwise stated.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for the services provided recognised over time, stated net of value added taxes.

Revenue is recognised when services are provided to a customer. A five-step recognition model is used to apply the standard as follows: (1) identify the contract(s) with the customer; (2) identify the separate performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognise revenue when (or as) each performance obligation is satisfied. Sales of services in the Income Statement are recognised by the Company when the service has been transferred, being when all performance obligations have been fulfilled.



**Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

**Notes to the Financial Statements  
for the period-ended 31 December 2021 (continued)**

**2 Significant accounting policies (continued)**

**Government grants**

Government grants received are recognised in the income statement within Other Income so as to match them with the related expenses that they are intended to compensate. Grants are recognised at their fair value where there is reasonable assurance that the grant will be received, and the Company will comply with all attached conditions.

Government grants relating to costs incurred are accrued on the balance sheet within Trade and other receivables if not paid.

**Research and development**

Expenditure incurred on research and development is distinguished as relating either to a research phase or to a development phase. All research phase expenditure is charged to the income statement. Development expenditure is recognised as an internally generated intangible asset (programme asset) only if it meets strict criteria, relating in particular to technical feasibility and generation of future economic benefits.

More specifically, development costs are capitalised from the point at which the following conditions have been met:

- the technical feasibility of completing the programme and the intention and ability (availability of technical, financial and other resources) to complete the programme asset and use or sell it;
- the probability that future economic benefits will flow from the programme asset; and
- the ability to measure reliably the expenditure attributable to the programme asset during its development.

At 31 December 2021, no such research and development expenditure has been capitalised.

**Foreign currency transactions and balances**

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the Company at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates. Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on foreign exchange transactions and the retranslation of monetary items into functional currencies would be included within net financing.

**Taxation**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

**Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

**Notes to the Financial Statements  
for the period-ended 31 December 2021 (continued)**

**2 Significant accounting policies (continued)**

**Taxation (continued)**

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

**Financial assets and liabilities**

**Classification**

All recognised financial assets that are within the scope of IFRS 9 *Financial Instruments* are required to be measured subsequently at amortised cost or fair value on the basis of the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

**Impairment of financial assets**

In relation to the impairment of financial assets the expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

**Financial liabilities**

Financial liabilities primarily consist of trade and other payables to group undertakings and accruals. All other financial liabilities are classified and measured at amortised cost.

**Trade and other receivables**

Trade and other receivables relate to amounts due from customers and group undertakings for goods sold or services provided in the ordinary course of business, accrued grant income, social security and prepayments. These balances, excluding prepayments, are classified as financial assets and are subject to IFRS 9 expected credit loss model. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment.

When assessing impairment of trade and other receivables, the Directors consider factors including the credit rating of the receivable and the ageing profile of receivables and historical experience. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

Prepayments relate to payments made by the Company in advance to cover fees for share issues to be made in future periods.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and is subject to an insignificant risk of changes in value.

**Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

**Notes to the Financial Statements  
for the period-ended 31 December 2021 (continued)**

**2 Significant accounting policies (continued)**

**Share-based payments**

The parent company on behalf of the Company provides share-based payment arrangements to certain employees. These are equity-settled arrangements and are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant.

The fair value is expensed on a straight-line basis over the vesting period. The amount recognised as an expense is adjusted to reflect the actual number of shares or options that will vest, except where additional shares vest as a result of the Total Shareholder Return (TSR) performance condition in the Performance Share Plan.

The costs of these share-based payments are treated as a capital contribution from the parent company. Any payments made by the Company to its parent company, in respect of these arrangements, are treated as a return of this capital contribution.

The fair values of the share-based payment arrangements are measured as follows:

- i) ShareSave plans - using the binomial pricing model; and
- ii) Long-term incentive plan - using a pricing model adjusted to reflect non-entitlement to dividends (or equivalent) and the TSR market-based performance condition.

**Share capital**

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Transaction costs incurred in anticipation of an equity issuance are deferred on the balance sheet until the equity instrument is recognised.

**3 Revenue**

All revenue is generated from the provision of services and is derived from within the United Kingdom.

**4 Operating loss**

Arrived at after (charging)/crediting:

	2021 £ 000
Gross research and development costs	(11,381)
Government grant funding <sup>1</sup>	<u>4,399</u>

<sup>1</sup> Credited to other income.

The Company has obtained government grant funding from Innovate UK, a part of UK Research and Innovation, for the establishment of an SMR design.

**Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

**Notes to the Financial Statements  
for the period-ended 31 December 2021 (continued)**

**5 Staff costs**

The aggregate payroll costs were as follows:

	Note	2021 £ 000
Wages and salaries		1,913
Social security costs		197
Other pension costs		176
Share-based payments	11	<u>24</u>
		<u>2,310</u>

The monthly average number of persons employed (including Directors) by the Company during the period, analysed by category was as follows:

	2021 No.
Salaried staff	<u>24</u>

The monthly average number of persons employed (including Directors) by the Company during the two months of trading was 168.

**6 Directors' remuneration**

The Directors' remuneration for the period was as follows:

	2021 £ 000
Remuneration	<u>76</u>

Remuneration does not include contributions to pensions or amounts receivable under long-term incentive schemes.

Contributions to defined benefit pension schemes during the period were £nil and contributions to defined contribution pension schemes during the period were £nil. Aggregate amounts receivable under long-term incentive schemes were £nil.

The above details of directors' remuneration do not include the remuneration of those Directors who either received no remuneration during the period or their remuneration is paid by the parent company which makes no recharge to the Company. Those individuals also act as a Director for a number of fellow subsidiaries, and it is not possible to make an accurate apportionment of their remuneration in respect of each subsidiary.

**7 Auditors' remuneration**

The fee for the audit of these Financial Statements is £40,000. £nil was paid to the Company's auditors for non-audit services.

**Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

**Notes to the Financial Statements  
for the period-ended 31 December 2021 (continued)**

**8 Taxation**

Tax (credited)/charged in the income statement:

	2021 £ 000
<b>Current tax</b>	
UK corporation tax	-
Total current tax (credit)/charge	-
<b>Deferred taxation – origination and reversal of timing differences</b>	
In respect of the period	-
In respect of an increase in the tax rate	-
Total deferred taxation	-
<b>Tax (credit)/expense in the income statement</b>	-

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 19%. The differences are reconciled below:

	2021 £ 000
<b>Loss before tax</b>	(7,490)
Loss before tax multiplied by the standard rate of corporation tax in the UK of 19%	(1,423)
<b>Effects of:</b>	
Expenses not deductible	11
Tax losses not utilised against current tax	1,412
<b>Total tax (credit)/charge</b>	-

The Spring 2021 Budget announced a change to the UK corporation tax rate. The change will increase the main rate to 25% from 1 April 2023. As there is no deferred tax asset recognised there is no quantification of the potential impact of the rate change.

**Deferred tax**

The Company has recognised no deferred tax balances. The Company has tax losses in the period on which a potential deferred tax asset (unrecognised £1,412,000) has not been recognised as the Company does not have sufficient taxable profits and history against which those losses could be offset in future periods.

**Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

**Notes to the Financial Statements  
for the period-ended 31 December 2021 (continued)**

**9 Trade and other receivables**

Amounts due in more than one year:

	2021 £ 000
Prepayments	3,450

Amounts due within one year:

	2021 £ 000
Accrued grant income	4,399
Amounts due from group undertakings	7,549
Social security and other taxes	502
Prepayments	1,950
Other receivables	1
	<u>14,401</u>

Amounts due from group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

No provision has been recognised for expected credit losses on amounts due from group undertakings.

Prepayments relate to equity issuance transaction costs paid in advance to HSBC Bank plc for share subscription payments due in line with the Company's investment schedule agreed with shareholders.

**10 Trade and other payables**

Amounts due within one year:

	2021 £ 000
Trade payables	285
Amounts due to group undertakings	5,575
Social security and other taxes	323
Accrued expenses	2,486
	<u>8,669</u>

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

**Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

**Notes to the Financial Statements  
for the period-ended 31 December 2021 (continued)**

**11 Shared-based payments**

Charges for share-based payments in the period were £24,000.

During the period, the Company participated in the following share-based payment plans operated by Rolls-Royce Holdings plc:

**Long Term Incentive Plan (LTIP)**

These plans involve the award of shares to participants subject to performance conditions. Vesting of the performance shares is based on the achievement of both non-market based conditions (EPS and cash flow per share) and a market based performance condition (TSR) over a three-year period.

**ShareSave share option plan**

Based on a three or five year monthly savings contract, eligible employees are granted share options with an exercise price of up to 20% below the share price when the contract is entered into. Vesting of the options is not subject to the achievement of a performance target. The plan is HM Revenue & Customs approved.

No share options were exercised during the period. The closing price at 31 December 2021 was 123p. There were no exercisable options outstanding at 31 December 2021.

Share options outstanding at 31 December 2021 have the following expiry dates and exercise prices:

	Expiry date	Exercise price in pence per share option	ShareSave share options (2021)
Grant - vest	(31 January)		
2021 - 2025	2025	97	<u>47,576</u>

**12 Called-up share capital**

	31 December 2021	
	No. 000	£000
Allotted and fully paid		
Ordinary shares of £1 each	<u>535</u>	<u>535</u>

**Rights, preferences and restrictions**

Ordinary shares are the only share type and have the following rights, preferences and restrictions:

Any proxy appointed by a member will be entitled to vote on a show of hands or a poll, with each member entitled to one vote. The Company may declare dividends by ordinary resolution but no dividend should exceed the amount recommended by the Directors.

On 5 November 2021, 35,000 ordinary shares were issued for £35,000,000. A further 499,999 ordinary shares were issued for £7,284,985 on the same day. Total fees paid for these share issues were £450,000 which have been deducted from equity.

The Company received funds of £15,000,000 in advance of the period end for the issue of 15,000 ordinary shares on the 4 January 2022. This forms part of the cash balance as at 31 December 2021 and is shown within Other Reserves.

**Rolls-Royce SMR Limited (formerly LC Nuclear Limited)**

**Notes to the Financial Statements  
for the period-ended 31 December 2021 (continued)**

**13 Related party transactions**

Related party transactions took place with Limond Partnership, an entity which a member of the Executive Leadership Team has an interest in. During the period HR Consulting services were provided to the Company by Limond Partnership for £79,000.

**14 Post balance sheet events**

On 4 January 2022 the Company issued 15,000 ordinary shares for £15,000,000.

On 5 January 2022 the Company issued 20,000 ordinary shares for £20,000,000.

These were both issued for cash, the funds received for the issue of 15,000 ordinary shares on 4 January 2022 were received pre-period end and forms part of the cash balance as at 31 December 2021.

On 1 June 2022 the Company issued 5,620 ordinary shares for £5,620,000.

On 4 July 2022 the Company issued 40,000 ordinary shares for £40,000,000. These were issued for cash and the funds were received on 1 July 2022.

**15 Parent and ultimate parent undertaking**

The Company's immediate parent is Rolls-Royce plc.

The ultimate parent undertaking and controlling party is Rolls-Royce Holdings plc, which is the parent undertaking of the largest group to consolidate these Financial Statements. Rolls-Royce plc is the parent undertaking of the smallest group to consolidate these Financial Statements.

Both sets of Financial Statements are available upon request from Kings Place, 90 York Way, London, N1 9FX, United Kingdom.