

Registration number: 13039768

Rolls-Royce SMR Limited

Annual Report and Financial Statements

for the year ended 31 December 2022

Rolls-Royce SMR Limited
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Rolls-Royce SMR Limited

Company Information

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

Rolls-Royce SMR Limited

Strategic Report

for the year ended 31 December 2022

The Directors present their Strategic Report on Rolls-Royce SMR Limited (the Company) together with the Directors' Report and the audited Financial Statements for the year ended 31 December 2022.

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 £866,000 (14-month period ended 31 December 2021: £262,000), this related to services provided to other companies within the Rolls-Royce Holdings plc group (the Group).

The Company recorded a loss before taxation of £60,956,000 (14-month period ended 31 December 2021: £7,490,000) largely due to research and development expenditure incurred of £77,757,000 and administrative expenses of £20,452,000 partly offset by income from government grants of £37,270,000 recognised within other income.

At 31 December 2022 the Company had net assets of £56,492,000 (31 December 2021: £49,369,000), this is predominantly due to a significant net intercompany debtor position.

The Company has successfully completed the first step in the assessment by the UK's independent nuclear regulators and has progressed to step 2 of the Generic Design Assessment (GDA).

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 18.

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.

Section 172(1) statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, Section 172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- the interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly between members of the company.

Rolls-Royce SMR Limited

Strategic Report

for the year ended 31 December 2022 (continued)

Section 172(1) statement (continued)

Likely consequences of any decisions in the long-term

To discharge their Section 172 duties, the Company's Directors had regard to the factors set out above in making the principal decisions taken by the Company.

The Board fulfils its duties to act in good faith to promote the success of the Company through its implementation of its Strategic Plan. The Board has defined the vision of the Company as 'Clean Affordable Energy for All' with its mission to create a world class enduring enterprise to design and deploy a global fleet of standardised and investible nuclear power stations.

The Board ensures that priorities and initiatives feed directly into one or more of the following fundamental strategic goals – design the power station; grow the business; build the power station, deliver a fleet. The Board review and consider the various stakeholders when arriving at recommended business decisions consistent with the strategy.

During the year, the Directors considered the Company's strategic direction. This in turn, creates the long-term value for shareholders, recognising that the longer-term success of the business depends on the effects of the SMR business activities on a wider society. In a year marked by external shocks, both geopolitical and macro-economic, the Board discussions focused on order readiness and supply chain strategies. Examples of Board decisions during 2022 include:

- review of the Company's operational structure to ensure the organisational model remains fit for the future;
- appointment of key executives to support the business strategy;
- approval of key policies to support the GDA regulatory process; and
- approval of key contracts to support the design priorities.

The interests of the Company's employees

The Directors recognise that the success of the business depends on attracting, retaining and motivating talented people. The Directors consider and assess the implications of decisions on our people, where relevant and feasible. The Directors seek to ensure that the Company remains a responsible employer, including with respect to pay and benefits, health and safety issues and the workplace environment.

Our workforce is our most valuable asset. The Company invests in training and coaching. The personal development of our employees is a key pillar of the Company's strategy.

Examples of the Board's engagement with employees during 2022 include:

- requesting that all employees participate in an online Culture survey in order to help in the assessment of employees' concerns and aspirations;
- reviewing feedback from the regular townhalls held with all employees; and
- reviewing salary scales and benefit provisions, to ensure that there was an agreed framework for reward and recognition for all employees.

The need to foster the Company's business relationships with suppliers, customers and others.

Delivering our strategy requires a strong, mutual and beneficial relationship with suppliers, customers, governments and joint venture partners. The Directors receive updates on engagement at Board meetings.

In making decisions the Board considers outcomes from engagements with stakeholders as well as the importance of maintaining the Company's integrity, brand and reputation.

Rolls-Royce SMR Limited
Strategic Report
for the year ended 31 December 2022 (continued)

Section 172(1) statement (continued)

Examples of the Board's engagement with stakeholders during 2022 include:

- receiving regular updates and feedback from customer opportunities to assist in decision making regarding customer focussed initiatives and priorities; and
- supporting executives with Government led discussions.

The impact of the Company's operations on the community and the environment

As part of the Rolls-Royce Group, the Company has sustainability and environmental goals firmly embedded in the Company's culture and strategy. The Board recognises the relevance of leading the Company in such a way that it contributes to wider society. A key focus for the Directors during the year, was the impact of the economic climate.

During 2022 the Board:

- considered benefit initiatives, including one-off payments to employees in light of the economic climate and additional annual leave to align leave entitlement for all.

The desirability of the Company maintaining a reputation for high standards of business conduct

The Board reviewed and approved the ethics and compliance frameworks. This, in conjunction with the Board monitoring compliance with governance standards, helps to ensure that Board-level decisions and decisions of the executive team promote high standards of business conduct. Our Code of Conduct ensure high standards are approved and communicated throughout the Company.

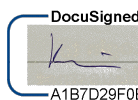
The need to act fairly between members of the Company.

After weighing up all relevant factors, the Directors consider which action best enables delivery of the Company strategy through the long-term, taking into consideration the effect on the Company's stakeholders.

Climate-related corporate reporting

The Company adopts the policies and frameworks set by the Group which include the sustainability measures set out in the Rolls-Royce Holdings plc Annual Report on pages 30 to 36. The Company is aligned to the objectives of the Group. The Directors fully recognise their responsibility to have regard to the impact of the Company's operations on the community and environment.

Approved by the Board on _____ and signed on its behalf by:

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Paul Stein
Director

Rolls-Royce SMR Limited

Directors' Report

for the year ended 31 December 2022

The Directors present their report together on the Company together with the Strategic Report and the audited Financial Statements for the year ended 31 December 2022.

Directors

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

Faisal Al-Thani (appointed 10 January 2022)

Sean Benson

Benjamin Fidler (resigned 23 February 2023)

Neil Fleming (appointed 23 February 2023)

Ralph Hunter

Anna Mascolo (appointed 1 June 2022)

William Morris

Thomas Samson (resigned 31 March 2023)

Paul Stein

Mark Thompson

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.

Results and dividends

The Company made a £60,956,000 loss after taxation for the year (14-month period ended 31 December 2021: £7,490,000 loss). The net assets of the Company are £56,492,000 (31 December 2021: £49,369,000).

The Directors do not recommend the payment of a dividend.

Post balance sheet events

On 6 January 2023, 45,000 ordinary shares were issued for a cash consideration of £45,000,000.

On 1 June 2023, 3,195 ordinary shares were issued for a consideration of £3,195,000.

Future developments

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

Research and development

During the period the Company spent £77,757,000 (14-month period ended 31 December 2021: £11,381,000) on research and development.

Financial risk management

The Company has an established, structured approach to risk management. The following financial 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.

Rolls-Royce SMR Limited

Directors' Report for the year ended 31 December 2022 (continued)

Going concern

The Company incurred a loss of £60,956,000 in the year as it continues to engage in the development of a SMR design. At 31 December 2022 the Company had net assets of £56,492,000 (2021: 49,369,000) and was in a net intercompany debtor position of £48,584,000 (2021: £1,974,000) with other group companies which is recoverable on demand.

The Financial Statements have continued to be prepared using the going concern basis of accounting. In forming this judgement, the Directors have taken account of the current and forecast working capital requirements of the business for the 18-month period to 31 December 2024. The Directors consider that there is sufficient headroom to meet forecast cashflow requirements in the next 15 months under a stressed downside scenario. In line with the current positioning of the Company, the Directors have considered a forecast reduction in headroom in the final three-month period of this 18-month forecast period under a stressed downside scenario and have made the judgement that sufficient mitigating actions could be taken if required.

Employees

There are regular and topical engagements with employees through structured programmes, including:

- Let's Talk Forum-regular meetings with employee representatives and the executive, this is a consulting and informing body wherein the executives engage on key topics.
- Town Halls-regular meetings with all employees and the executive team, this forum enables engagement with all employees on activities.
- There is also an Annual Employee Engagement Survey which engages with all employees and a Pulse Survey which is completed twice a year, testing key themes through employee focus groups.

The Company want all employees to be at their best. There is a responsibility on all of the Company to create an inclusive culture, free from bullying and harassment, and where everyone is treated with dignity and respect. There is a duty of care to the Company's people, which includes workplace adjustments that will create a better work experience for anyone who is unable to effectively perform their role due to a disability or condition. The Workplace Adjustments policy enables the business to support those with disabilities – new starters or existing employees with a newly acquired disability – to do just that. The Workplace Adjustments policy is available to all employees on the intranet.

The application process for all candidates carries the following statements in relation to our culture and recruitment process:

- At Rolls-Royce SMR, we are committed to ensuring that our teams reflect the communities we serve and that everyone can be themselves at work. We know that diverse teams are more innovative and get better results, and that our people can thrive and be more successful in truly inclusive cultures. Join us and help shape our culture. [Find out more about our inclusion pledge.](#)
- Your candidate experience is at the utmost importance to us. If you are not yet ready to apply but would like to discuss any of the above or require any reasonable adjustments (e.g. being able to apply in a different format), please contact recruitment@rolls-royce-smr.com to arrange a confidential conversation with a recruitment partner.

The Company can accommodate reasonable adjustments at interview in line with our Reasonable Adjustments Policy and issue all new starters with a voluntary survey to help understand the diversity of the Company's people, and new starters are asked to declare whether they consider themselves disabled. Around 50% of new starters since the start of 2022 have completed this survey, of which 2.4% considered themselves to be disabled and 0.4% declined to answer.

Within Rolls Royce SMR, there have been few promotions within the business in 2022/2023. The Company works towards an inclusive culture for career development and would make reasonable adjustments to aid disabled candidates.

Rolls-Royce SMR Limited

Directors' Report for the year ended 31 December 2022 (continued)

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.

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.

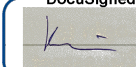
Directors' confirmations

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

and signed on its behalf by:

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Paul Stein
Director

Rolls-Royce SMR Limited

Independent auditor's report to the members of Rolls-Royce SMR Limited Report on the audit of the financial statements

Opinion

In our opinion, Rolls-Royce SMR Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including 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 2022; the Income Statement, Statement of Comprehensive Income and Statement of Changes in Equity for the year 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

Independent auditor's report to the members of Rolls-Royce SMR 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 Strategic report and 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.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2022 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 Strategic report and 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

Independent auditor's report to the members of Rolls-Royce SMR 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 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 and applicable tax legislation. 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 its committees;
- Enquiries with the company's in-house General Counsel in regards to any known or suspected instances of non-compliance with laws and regulations and fraud;
- Challenging assumptions and judgements made by management in determining significant accounting estimates (because of the risk of management bias);
- Reviewing the financial statement disclosures and testing them to supporting documentation;
- Identifying and testing unusual journal entries, in particular journal entries posted with unusual account combinations;
- Review of company related matters reported through the Rolls-Royce group whistleblowing facility; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our audit testing.

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. 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

Independent auditor's report to the members of Rolls-Royce SMR 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.



Terry Shah (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 June 2023

Rolls-Royce SMR Limited
Income Statement
for the year ended 31 December 2022

		Year ended 31 December 2022 £ 000	14-month period to 31 December 2021 £ 000
	Note		
Revenue		866	262
Cost of sales		<u>(918)</u>	<u>(165)</u>
Gross (loss)/profit		(52)	97
Other income		37,270	4,399
Research and development expenses		(77,757)	(11,381)
Administrative expenses		<u>(20,452)</u>	<u>(605)</u>
Loss before financing and taxation	4	(60,991)	(7,490)
Finance income		<u>35</u>	<u>-</u>
Loss before taxation		(60,956)	(7,490)
Tax on loss	8	<u>-</u>	<u>-</u>
Loss for the financial period		<u>(60,956)</u>	<u>(7,490)</u>

The above results were derived from continuing operations.

The notes on pages 16 to 32 form an integral part of these Financial Statements.

Rolls-Royce SMR Limited

Statement of Comprehensive Income
for the year ended 31 December 2022

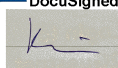
	Year ended 31 December 2022 £ 000	14-month period to 31 December 2021 £ 000
Loss for the financial period	<u>(60,956)</u>	<u>(7,490)</u>
Total comprehensive expense for the period	<u>(60,956)</u>	<u>(7,490)</u>

The notes on pages 16 to 32 form an integral part of these Financial Statements.

Rolls-Royce SMR Limited
Balance Sheet
as at 31 December 2022
(Registration number: 13039768)

	Note	Year ended 31 December 2022 £ 000	14-month period ended 31 December 2021 £ 000
Non-current assets			
Intangible assets	9	99	–
Property, plant and equipment	10	1,224	–
Right-of-use assets	11	1,349	–
		2,672	–
Current assets			
Trade and other receivables (falling due after one year: £1,050,000 (14-month period ended 31 December 2021: £3,450,000))	12	79,648	17,851
Cash and cash equivalents		2,190	40,187
		81,838	58,038
Current liabilities			
Lease liabilities	13	(303)	–
Trade and other payables	14	(25,566)	(8,669)
		(25,869)	(8,669)
Total assets less current liabilities		58,641	49,369
Non-current liabilities			
Lease liabilities	13	(1,051)	–
Trade and other payables	14	(1,098)	–
		(2,149)	–
Net assets		56,492	49,369
Equity			
Called up share capital	16	619	535
Share premium		123,363	41,300
Other reserves		–	15,000
Accumulated losses		(67,490)	(7,466)
Total equity		56,492	49,369

The Financial Statements were approved and authorised for issue by the Directors on and signed on its behalf by:

DocuSigned by:


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Paul Stein
Director

The notes on pages 16 to 32 form an integral part of these Financial Statements.

Rolls-Royce SMR Limited
Statement of Changes in Equity
for the year ended 31 December 2022

	Note	Called up share capital £ 000	Share premium £000	Other reserves £ 000	Accumulated losses £ 000	Total £ 000
At 1 January 2022		535	41,300	15,000	(7,466)	49,369
Loss for the financial year		-	-	-	(60,956)	(60,956)
Total comprehensive expense		-	-	-	(60,956)	(60,956)
Transactions with owners in their capacity as owners						
Reclassification between reserves ²		-	15,000	(15,000)	-	-
Proceeds from shares issued		75	57,692	-	-	57,767
Share issues for services rendered	15	9	9,371	-	(9,380)	-
Share-based payment transactions	15	-	-	-	10,312	10,312
At 31 December 2022		<u>619</u>	<u>123,363</u>	<u>-</u>	<u>(67,490)</u>	<u>56,492</u>
	Note	Called up share capital £ 000	Share premium £000	Other reserves £ 000	Accumulated losses £ 000	Total £ 000
At 24 November 2020 ¹		-	-	-	-	-
Loss for the financial period		-	-	-	(7,490)	(7,490)
Total comprehensive expense		-	-	-	(7,490)	(7,490)
Transactions with owners in their capacity as owners						
Proceeds from shares issued		535	41,300	-	-	41,835
Shares to be issued ²		-	-	15,000	-	15,000
Share-based payment transactions	15	-	-	-	24	24
At 31 December 2021		<u>535</u>	<u>41,300</u>	<u>15,000</u>	<u>(7,466)</u>	<u>49,369</u>

¹ Capital issued on incorporation was one ordinary share for £1.

² Represents funds received pre-year end for shares to be issued after 31 December 2021.

Share premium

Proceeds received in excess of the nominal value of ordinary shares issues, less the costs of issue of £2,231,000 (14-month period ended 31 December 2021: £450,000).

Other reserves

Other reserves related to amounts received in December 2021 for equity instruments not yet issued at 31 December 2021 but have been issued during the current year.

The notes on pages 16 to 32 form an integral part of these Financial Statements.

Rolls-Royce SMR Limited

Notes to the Financial Statements

for the year ended 31 December 2022

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 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
 - 111 (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);
- 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*;
- Paragraph 17 of IAS 24, *Related party disclosures* (key management compensation); and
- Paragraph 52 of IFRS 16, *Leases*.

New standards, amendments and IFRIC interpretations

There are no amendments to accounting standards, no new standards or IFRIC interpretations that are effective for the year ended 31 December 2022 that have a material impact on the Company's Financial Statements.

Rolls-Royce SMR Limited

Notes to the Financial Statements

for the year ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

Going concern

The Company incurred a loss of £60,956,000 in the year as it continues to engage in the development of a SMR design. At 31 December 2022 the Company had net assets of £56,492,000 (2021: 49,369,000) and was in a net intercompany debtor position of £48,584,000 (2021: £1,974,000) with other group companies which is recoverable on demand.

The Financial Statements have continued to be prepared using the going concern basis of accounting. In forming this judgement, the Directors have taken account of the current and forecast working capital requirements of the business for the 18-month period to 31 December 2024. The Directors consider that there is sufficient headroom to meet forecast cashflow requirements in the next 15 months under a stressed downside scenario. In line with the current positioning of the Company, the Directors have considered a forecast reduction in headroom in the final three-month period of this 18-month forecast period under a stressed downside scenario and have made the judgement that sufficient mitigating actions could be taken if required.

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 year end, the Company made an estimate of the amount expected to be recoverable at 40% of the total business expenditure incurred during the period, which was lower than the grant funding rate per the grant funding agreement with Innovate UK. This was on the assumption that an element of the expenditure during the period may be determined to be ineligible for grant funding. During the year £37,270,000 (14-month period to 31 December 2021: £4,399,000) of accrued grant income was recognised.

Critical accounting judgement – Value of share-based payment in exchange for services

The Company receives services from a supplier as consideration for its equity instruments which meets the definition as a share-based payment. The Company values the share-based payments using the direct method in line with IFRS 2 *Share-based payments*. The services received are for bespoke activities that in many instances cannot be procured elsewhere or benchmarked against similar services received from other third parties. As a result, the Company makes a judgement that the fair value of the share-based payments is equal to the market value of the services receivable. See note 15 for further detail.

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

Foreign currency transactions and balances

Items included in the Financial Statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The Financial Statements are presented in 'Pounds Sterling' (£), which is also the Company's functional currency.

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.

Rolls-Royce SMR Limited
Notes to the Financial Statements
for the year ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

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.

Government grants

Government grants receivable 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 2022, no such research and development expenditure has been capitalised.

Tax on profit/loss

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
Notes to the Financial Statements
for the year ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

Tax on profit/loss (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.

Intangible assets

The cost of acquiring software that is not specific to an item of property, plant and equipment is classified as an intangible asset and amortised on a straight-line basis over its useful economic life, up to a maximum of five years

Property, plant and equipment

Property, plant and equipment assets are stated at cost less accumulated depreciation and any provision for impairment in value.

Depreciation

Land is not depreciated. Depreciation on other assets is provided on a straight-line basis to write off the cost, less the estimated residual value, of property, plant and equipment and right-of-use assets over their estimated useful lives.

Asset class

Plant and machinery

Depreciation method and rate

5 to 20 years

Depreciation methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each balance sheet date.

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.

Rolls-Royce SMR Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

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.

Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentive receivable;
- variable lease payments that are based on an index or a rate; and
- payments of penalties for termination of the lease, if the lease term reflects the Company exercising that option.

Where leases commence after the initial IFRS 16 *Leases* transition date, the lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability or a revaluation of the liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Each right-of-use asset is depreciated over the shorter of its useful economic life and the lease term on a straight-line basis unless the lease is expected to transfer ownership of the underlying asset to the Company, in which case the asset is depreciated to the end of the useful life of the asset.

Payments associated with the short-term leases are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less.

Rolls-Royce SMR Limited

Notes to the Financial Statements for the year ended 31 December 2022 (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.

Where services are received as consideration for the Company's equity instruments, the fair value of the services received is measured using the direct method.

Called up 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.

Rounding of amounts

All amounts in the Financial Statements have been rounded to the nearest thousand Pounds Sterling unless otherwise stated.

3 Revenue

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

Rolls-Royce SMR Limited
Notes to the Financial Statements
for the year ended 31 December 2022 (continued)

4 Operating loss

Arrived at after (charging)/crediting:

	Year ended 31 December 2022 £ 000	14-month period ended 31 December 2021 £ 000
Gross research and development costs	(77,757)	(11,381)
Government grant funding ¹	<u>37,270</u>	<u>4,399</u>

¹ Credited to other income.

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

5 Staff costs

The aggregate payroll costs were as follows:

	Note	Year ended 31 December 2022 £ 000	14-month period ended 31 December 2021 £ 000
Wages and salaries		28,439	1,913
Social security costs		3,024	197
Other pension costs		2,184	176
Share-based payments	15	<u>207</u>	<u>24</u>
		<u>33,854</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:

	Year ended 31 December 2022 No.	14-month period ended 31 December 2021 No.
Salaried staff	<u>337</u>	<u>24</u>

The monthly average number of persons employed (including Directors) by the Company during the two months of trading in 2021 was 168.

Rolls-Royce SMR Limited
Notes to the Financial Statements
for the year ended 31 December 2022 (continued)

6 Directors' remuneration

The Directors' remuneration for the year was as follows:

	Year ended 31 December 2022 £ 000	14-month period ended 31 December 2021 £ 000
Remuneration	<u>516</u>	<u>76</u>

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

Contributions to defined contribution pension schemes during the period were £4,000 (14-month period ended 31 December 2021: £nil). Aggregate amounts receivable under long-term incentive schemes were £nil (14-month period ended 31 December 2021: £nil). No (14-month period ended 31 December 2021: no) share options were exercised during the period.

In respect of the highest paid Director:

	Year ended 31 December 2022 £ 000	14-month period ended 31 December 2021 £ 000
Remuneration	<u>471</u>	<u>76</u>

Aggregate of remuneration does not include contributions to pensions but does include amounts receivable under long-term incentive schemes.

Contributions to defined contribution pension schemes were £4,000 (14-month period ended 31 December 2021: £nil). No (14-month period ended 31 December 2021: no) share options were exercised during the period.

The above details of directors' remuneration do not include the remuneration of those Directors who received no remuneration during the period or were paid by Rolls-Royce plc. 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. One Director's fees were paid by Rolls-Royce plc and the amount attributable to the qualifying services provided by the Director to the Company has been included in the aggregate. However, no charge has been made to the Company for the qualifying services.

7 Auditors' remuneration

The fee for the audit of these Financial Statements is £46,000 (14-month period ended 31 December 2021: £40,000). £95,000 (14-month period ended 31 December 2021: £nil) was due to the Company's auditors for non-audit services.

Rolls-Royce SMR Limited
Notes to the Financial Statements
for the year ended 31 December 2022 (continued)

8 Tax on loss

Tax (credited)/charged in the income statement:

	Year ended 31 December 2022 £ 000	14-month period ended 31 December 2021 £ 000
Current tax		
UK corporation tax	—	—
Total current tax (credit)/charge	—	—
Deferred taxation – origination and reversal of timing differences		
In respect of the period	—	—
Total deferred taxation	—	—
Tax (credit)/expense in the income statement	—	—

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 19% (14-month period ended 31 December 2021: 19%). The differences are reconciled below:

	Year ended 31 December 2022 £ 000	14-month period ended 31 December 2021 £ 000
Loss before tax	(60,956)	(7,490)
Loss before tax multiplied by the standard rate of corporation tax in the UK of 19% (14-month period ended 31 December 2021: 19%).	(11,582)	(1,423)
Effects of:		
Expenses not deductible	1,964	11
Movement in unprovided deferred tax	557	—
Tax losses not utilised against current tax	9,061	1,412
Total tax charge	—	—

Rolls-Royce SMR Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

8 Tax on loss (continued)

Deferred tax

The Company has recognised no deferred tax balances (14-month period ended 31 December 2021: none). The Company has tax losses in the period on which a potential deferred tax asset (unrecognised £14,497,000 (14-month period ended 31 December 2021: 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.

9 Intangible assets

	Software £ 000	Total £ 000
Cost		
At 1 January 2022	–	–
Additions	104	104
At 31 December 2022	104	104
Accumulated amortisation		
At 1 January 2022	–	–
Amortisation charge	(5)	(5)
At 31 December 2022	(5)	(5)
Net book value		
At 31 December 2022	99	99
At 31 December 2021	–	–

Amortisation of £5,000 (14-month period to 31 December 2021: £nil) is included in administrative expenses in the income statement.

Rolls-Royce SMR Limited
Notes to the Financial Statements
for the year ended 31 December 2022 (continued)

10 Property, plant and equipment

	Plant and equipment £ 000	Total £ 000
Cost		
At 1 January 2022	–	–
Additions	1,341	1,341
At 31 December 2022	<u>1,341</u>	<u>1,341</u>
Accumulated depreciation		
At 1 January 2022	–	–
Charge for the year	(117)	(117)
At 31 December 2022	<u>(117)</u>	<u>(117)</u>
Net book value		
At 31 December 2022	<u>1,224</u>	<u>1,224</u>
At 31 December 2021	<u>–</u>	<u>–</u>

Depreciation of £117,000 (14-month period ended 31 December 2021: £nil) is included in administrative expenses the income statement.

11 Right-of-use asset

	Land and buildings £ 000	Total £ 000
Cost		
At 1 January 2022	–	–
Additions	1,389	1,389
At 31 December 2022	<u>1,389</u>	<u>1,389</u>
Accumulated depreciation		
At 1 January 2022	–	–
Charge for the year	(40)	(40)
At 31 December 2022	<u>(40)</u>	<u>(40)</u>
Net book value		
At 31 December 2022	<u>1,349</u>	<u>1,349</u>
At 31 December 2021	<u>–</u>	<u>–</u>

Depreciation of £40,000 (14-month period ended 31 December 2021: £nil) is included in administrative expenses in the income statement.

Rolls-Royce SMR Limited
Notes to the Financial Statements
for the year ended 31 December 2022 (continued)

12 Trade and other receivables

Amounts due in more than one year:

	Year ended 31 December 2022 £ 000	14-month period ended 31 December 2021 £ 000
Prepayments	1,050	3,450

Amounts due within one year:

	Year ended 31 December 2022 £ 000	14-month period ended 31 December 2021 £ 000
Amounts due from group undertakings	49,849	7,549
Accrued grant income	22,263	4,399
Prepayments	2,760	1,950
Social security and other taxes	3,673	502
Contract assets	53	–
Other receivables	–	1
	78,598	14,401

Amounts due from group undertakings are unsecured, accrue interest at the Bank of England base rate - 0.06% and are repayable on demand.

Amounts due from group undertakings are stated after provisions for impairment of £nil (14-month period ended 31 December 2021: £nil) for expected credit losses in accordance with IFRS 9.

Prepayments mainly 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 expected to be fully realised in 2024.

Rolls-Royce SMR Limited
Notes to the Financial Statements
for the year ended 31 December 2022 (continued)

13 Leases

Amounts recognised in the Balance Sheet

The balance sheet shows the following amounts relating to leases:

	Year ended 31 December 2022 £ 000	14-month period ended 31 December 2021 £ 000
Right-of-use assets		
Land and buildings	1,349	—
	<u>1,349</u>	<u>—</u>
Lease liabilities		
Current lease liabilities	303	—
Non-current lease liabilities	1,051	—
	<u>1,354</u>	<u>—</u>

	Year ended 31 December 2022 £ 000	14-month period ended 31 December 2021 £ 000
Future minimum lease payments on leases as at 31 December:		
Within one year	325	—
In one to two years	325	—
In two to five years	848	—
Total gross payments	<u>1,498</u>	<u>—</u>
Impact of finance expense	(144)	—
Carrying amount of liability	<u>1,354</u>	<u>—</u>

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 31 December 2022 was 6% (14-month period ended 31 December 2021: none).

Rolls-Royce SMR Limited
Notes to the Financial Statements
for the year ended 31 December 2022 (continued)

13 Leases (continued)

Amounts recognised in the Income Statement

The Income Statement shows the following amounts relating to leases:

	Year ended 31 December 2022 £ 000	14-month period ended 31 December 2021 £ 000
Depreciation charge on right-of-use assets	40	–
Interest expense (included in finance cost)	12	–

The leases primarily relate to office premises leased for 5 years.

The total cash outflow for leases in 2022 was £96,000 (14-month period ended 31 December 2021: £nil).

14 Trade and other payables

Amounts due in more than one year:

	Year ended 31 December 2022 £ 000	14-month period ended 31 December 2021 £ 000
Other payables	1,098	–

Amounts due within one year:

	Year ended 31 December 2022 £ 000	14-month period ended 31 December 2021 £ 000
Amounts due to group undertakings	1,265	5,575
Accrued expenses	15,463	2,486
Social security and other taxes	256	323
Other payables	6,423	–
Trade payables	2,159	285
	25,566	8,669

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

Rolls-Royce SMR Limited
Notes to the Financial Statements
for the year ended 31 December 2022 (continued)

15 Share-based payments

Charges for share-based payments to employees in the year were £207,000 (14-month period ended 31 December 2021: £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 2022 was 93p (14-month period ended 31 December 2021: 123p). There were no exercisable options outstanding at 31 December 2022 (14-month period ended 31 December 2021: £nil).

Share options outstanding at 31 December 2022 have the following expiry dates and exercise prices:

			ShareSave share options	
	Expiry date (31-January)	Exercise price in pence per share option	Year ended 31 December 2022	14-month period ended 31 December 2021
Grant - vest				
2021 - 2025	2025	97	42,807	47,576

Share-based payments in exchange for services

During the year, the Company received services from a supplier as consideration for its own equity instruments. The fair value of the services received is measured using the direct method and reflects the market value of the services received during the period – see note 2 for more information. During the year, an expense of £10,105,000 (14-month period ended 31 December 2021: £nil) was incurred. At 31 December 2022, 9,380 shares had vested as part of this share-based payment transaction.

Rolls-Royce SMR Limited
Notes to the Financial Statements
for the year ended 31 December 2022 (continued)

16 Called up share capital

Allotted and fully paid

	No. 000	Year ended 31 December 2022 £ 000	No. 000	14-month period ended 31 December 2021 £ 000
Ordinary shares of £1 each	619	619	535	535

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 4 January 2022, 15,000 ordinary shares were issued for a cash consideration of £15,000,000.

On 5 January 2022, 20,000 ordinary shares were issued for a cash consideration of £20,000,000.

On 1 June 2022, 5,620 ordinary shares were issued for a consideration of £5,620,000. See note 15.

On 1 July 2022, a total of 40,000 ordinary shares were issued for a cash consideration of £40,000,000.

On 1 December 2022, 3,760 ordinary shares were issued for a consideration of £3,760,000. See note 15.

17 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 £75,000 (14-month period ended 31 December 2021: £79,000).

During the year, the Company transacted with other members of the Group.

Sales with other group undertakings

	Year ended 31 December 2022 £ 000	14-month period ended 31 December 2021 £ 000
Rolls-Royce Power Engineering Limited	221	262
Rolls-Royce Submarines Limited	373	–
Rolls-Royce plc	272	–

Rolls-Royce SMR Limited
Notes to the Financial Statements
for the year ended 31 December 2022 (continued)

17 Related party transactions (continued)

Purchases with other group undertakings

	Year ended 31 December 2022 £ 000	14-month period ended 31 December 2021 £ 000
Rolls-Royce Power Engineering Limited ¹	455	4,931
Rolls-Royce Submarines Limited	33	–
Rolls-Royce plc ¹	3,445	438
Rolls-Royce Turkey Güç Çözümleri san. Ve Tic.Ltd.Şti	140	–

¹ Includes pass through charges of £205,000 in relation to non-qualifying services provided by a former director in 2021 prior to being appointed as a director of the Company.

Receivables with other group undertakings

	Year ended 31 December 2022 £ 000	14-month period ended 31 December 2021 £ 000
Rolls-Royce plc	49,849	7,549

Payables with other group undertakings

	Year ended 31 December 2022 £ 000	14-month period ended 31 December 2021 £ 000
Rolls-Royce plc	1,191	398
Rolls-Royce Submarines Limited	42	–
Rolls-Royce Power Engineering Ltd	32	5,177

18 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.

19 Post balance sheet events

On 6 January 2023, 45,000 ordinary shares were issued for a cash consideration of £45,000,000. On 1 June 2023, 3,195 ordinary shares were issued for a consideration of £3,195,000.