Registered Number: 04066211

PPL WEM LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2016

WESTERN POWER DISTRIBUTION

Serving the Midlands, South West and Wales

Contents

Strategic report

For the year ended 31 March 2016

The directors present their annual report and audited financial statements of PPL WEM Limited (the "Company"), company number 04066211, for the year ended 31 March 2016.

During the year the Company transitioned from previously extant UK Generally Accepted Accounting Practice to FRS 101 - Reduced Disclosure Framework and has taken advantage of the disclosure exemptions allowed under this standard. The Company's parent undertaking, PPL UK Investments Limited, was notified of and did not object to the use of the EU-adopted IFRS disclosure exemptions. There were no material recognition or measurement differences arising on the adoption of FRS 101.

Ownership

PPL WEM Limited is a wholly-owned indirect subsidiary of Western Power Distribution plc ("WPD") which is owned by PPL Corporation, an electricity utility of Allentown, Pennsylvania, United States of America ("US"). The principal activity of WPD and its subsidiaries (the "WPD Group") is the distribution of electricity in the South West and Midlands regions in England, and in South Wales.

Business review

The principal activity of the Company is that of an investment company. At 31 March 2016, the Company held a 32.9% interest in the ordinary share capital of WPD Distribution Network Holdings Limited ("DNH"). The remaining 67.1% interest is held by WPD. DNH is an intermediate holding company in the WPD Group and owns the WPD Group's operating companies.

The Company's financial key performance indicators during the year were as follows :

	2016	2015
	£m	£m
Profit/(loss) for the financial year	**11.2**	(112.0)
Fixed asset investments	**1,303.7**	1,023.1

Dividends of £73.6m were paid in the year (2015: £136.2m).

Principal risks and uncertainties

The principal risk is in respect of adverse movements in the fair value of the Company's investment in DNH or that it will no longer be able to distribute dividends. DNH is controlled by the Company's immediate parent undertaking WPD, who also control the Company. The Directors consider this common control helps mitigate the risk of adverse movements in the fair value of the Company. The principal risks and uncertainties for these businesses are included within the strategic report of WPD.

As described in the Annual Report and Financial Statements for the year ended 31 March 2015, in October 2014, WPD (i) became a co-obligor and agreed to make all future payments on the $460m 3.900% notes due 1 May 2016 and the $500m 5.375% notes due 1 May 2021 issued by the Company (the "WEM Bonds") (ii) entered into a reimbursement agreement in relation to payments under the WEM Bonds. As a consequence, the Company and WPD are jointly and severally, and fully and unconditionally, liable on the WEM Bonds. Under the terms of the reimbursement agreement, where the Company has given notice of its intention to make payments to the holders of the WEM Bonds, WPD will make payments to the Company equal to such amounts. The Company has made no payments to the holders of the WEM Bonds under the agreement and there is no intention to do so in the future. Having in substance transferred the rights and obligations of the WEM bonds to WPD, the Company has derecognised its obligations under the WEM bonds and has not recognised any amounts in respect of its receivable under the reimbursement agreement.

Strategic report
For the year ended 31 March 2016

Future developments
There are no plans to change the principal activity of the Company in the foreseeable future. The Company intends to convert its 32.9% investment in the ordinary shares of DNH into preference shares later in 2016.

By order of the Board

D C S Oosthuizen
Director

18 July 2016

Directors' report

For the year ended 31 March 2016

The directors present their report for the year ended 31 March 2016.

Directors

The directors who served during the year were:-

R A Symons
D C S Oosthuizen
P Swift
I R Williams
R L Klingensmith (resigned 16 July 2015)
W H Spence (appointed 16 July 2015)
V Sorgi
A J Torok
M F Wilten (resigned 31 December 2015)
S K Breininger, alternate director to V Sorgi

Alternate directors have the right to attend Board meetings but can only vote if the person for whom they are the alternate is not present.

During or at the end of the year, no director was materially interested in any contract of significance in relation to the Company's business.

Insurance in respect of directors and officers is maintained by the Company's ultimate parent, PPL Corporation. The insurance is subject to the conditions set out in the companies acts and remains in force at the date of signing the Directors' report.

Going concern

The Directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future due to the overall strength of its balance sheet and the level for forecast future cashflows with the Company's affiliates.

Future developments

Comment on future development is included in the Strategic Report (page 2).

Disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Directors' report

For the year ended 31 March 2016

Independent auditors

The Company's ultimate parent undertaking, PPL Corporation, has adopted a policy of tendering for its world-wide audit services at least every ten years. This is to ensure that best practice is followed in relation to corporate governance and that fees are competitive. Following a tender exercise, PPL Corporation has selected Deloitte LLP to replace Ernst & Young LLP during 2016 for their various world-wide audits. Following approval of these financial statements, Ernst & Young LLP will therefore resign as auditor to the Company and the directors will appoint Deloitte LLP to fill the casual vacancy.

By Order of the Board

D C S Oosthuizen
Director

18 July 2016

PPL WEM Limited
Avonbank
Feeder Road
Bristol, BS2 0TB

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether UK applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that the financial statements have complied with the above requirements.

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

Independent auditor's report
to the members of PPL WEM Limited

We have audited the financial statements of PPL WEM Limited for the year ended 31 March 2016 which comprise the profit and loss account, the statement of comprehensive income, the balance sheet, the statement of changes in equity, and the related Notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities (set out on page 5), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially incorrect with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

• give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its profit for the year then ended;

• have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and

• have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report

to the members of PPL WEM Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Ernst & Young LLP

Christabel Cowling, Senior statutory auditor
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol

19 July 2016

Profit and loss account

For the year ended 31 March 2016

	Note	2016 £m	2015 £m
Operating costs		-	(0.1)
Operating loss		-	(0.1)
Income from fixed asset investments	6	-	2,146.6
Profit on transfer of subsidiary		-	2.2
Impairment of fixed asset investments	6	-	(2,179.9)
Loss on ordinary activities before interest and tax		-	(31.2)
Interest receivable and similar income	7	**40.2**	12.4
Interest payable and similar charges	7	**(29.0)**	(31.3)
Loss on derecognition of US$ bonds/ novation of associated cross currency swaps		-	(61.9)
Profit/(loss) on ordinary activities before tax		**11.2**	(112.0)
Tax on profit/(loss) on ordinary activities	8	-	-
Profit/(loss) for the financial year		**11.2**	(112.0)

All operations are continuing.

The accompanying notes are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 March 2016

	Note	2016 £m	2015 £m
Profit/(loss) for the financial year		**11.2**	(112.0)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets:			
Gains on valuation of available-for-sale investments	10	**280.6**	-
Cash flow hedges:			
Reclassification adjustments for gains/losses included in profit or loss		-	(23.8)
Gains/losses arising during the year		-	25.4
Transfer to income on transfer of derivatives and associated hedged debt to Group undertakings		-	8.0
Tax on items relating to components of other comprehensive income		-	(1.9)
Other comprehensive income for the year, net of tax		**280.6**	7.7
Total comprehensive income/(loss) for the year		**291.8**	(104.3)

The accompanying notes are an integral part of these financial statements.

Balance sheet

As at 31 March 2016

	Note	**2016 £m**	2015 £m
Fixed assets			
Available-for-sale investments	10	**1,303.7**	1,023.1
Current assets			
Debtors: amounts falling due within one year	11	**925.5**	1,038.9
Creditors: amounts falling due within one year	12	**(580.5)**	(631.5)
Net current assets		**345.0**	407.4
Net assets		**1,648.7**	1,430.5
Capital and reserves			
Called up share capital	13	**1,050.1**	1,050.1
Available-for-sale reserve	14	**280.6**	-
Profit and loss account	15	**318.0**	380.4
Equity shareholder's funds		**1,648.7**	1,430.5

The accompanying notes are an integral part of these financial statements.

The financial statements on pages 8 to 20 were approved and authorised for issue by the Board of Directors on 18 July 2016 and were signed on its behalf by:

D C S Oosthuizen
Director

Statement of changes in equity

For the year ended 31 March 2016

	Called up share capital £m	Hedging reserve £m	Available-for-sale reserve £m	Profit and loss reserve £m	Total £m
At 1 April 2014	**1,550.1**	**(7.7)**	**-**	**128.6**	**1,671.0**
Loss for the financial year	-	-	-	(112.0)	(112.0)
Other comprehensive income	-	7.7	-	-	7.7
Total comprehensive income/(loss) for the year	**-**	**7.7**	**-**	**(112.0)**	**(104.3)**
Capital reduction	(500.0)	-	-	500.0	-
Dividend paid	-	-	-	(136.2)	(136.2)
At 31 March 2015	**1,050.1**	**-**	**-**	**380.4**	**1,430.5**
Profit for the financial year	-	-	-	11.2	11.2
Other comprehensive income	-	-	280.6	-	280.6
Total comprehensive income for the year	-	-	280.6	11.2	291.8
Dividend paid	-	-	-	(73.6)	(73.6)
At 31 March 2016	**1,050.1**	**-**	**280.6**	**318.0**	**1,648.7**

Notes to the financial statements

For the year ended 31 March 2016

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of PPL WEM Limited (the "Company") for the year ended 31 March 2016 were authorised for issue by the board of directors on 18 July 2016 and the Balance Sheet was signed on the board's behalf by D C S Oosthuizen. PPL WEM Limited is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and in accordance with applicable accounting standards.

The Company's financial statements are presented in Sterling and all values are rounded to the nearest hundred thousand pounds except when otherwise indicated.

2. Significant accounting policies

Basis of preparation

The Company has transitioned to FRS 101 from previously extant UK Generally Accepted Accounting Practice for all periods presented. There were no material recognition or measurement differences on the adoption of FRS 101.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets, and related party transactions.

Where required, equivalent disclosures are given in the group accounts of Western Power Distribution plc. The group accounts of Western Power Distribution plc are available to the public and can be obtained as set out in Note 16.

The financial statements have been prepared on the historical cost basis modified to include the revaluation of investments. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The principal accounting policies adopted are set out below.

Going concern

The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

2. Significant accounting policies (continued)

Taxation (continued)
Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the profit and loss account.

Investment income
Investment income is included in the financial statements of the year in respect of which it is receivable.

Financial assets
Financial assets are classified as loans and receivables, financial assets at fair value through profit or loss, held-to-maturity financial assets or as available-for-sale financial assets, as appropriate. The Company's financial assets include trade and other receivables and available-for-sale financial assets. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value plus directly attributable transaction costs.

The subsequent measurement of financial assets depends on their classification, as follows:

Loans and receivables
Loans and receivables are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes trade and other receivables.

Available-for-sale financial assets
Available for sale financial assets include investments in equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. After initial measurement, available for sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income; or determined to be impaired, at which time the cumulative loss is recognised in the income statement in other operating expenses and removed from the unrealised gains and losses reserve.

Impairment of financial assets
The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognised in the profit and loss account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed what its amortised cost would have been at the reversal date had the impairment not been recognised.

In the case of equity investments classified as held for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost, where 'significant' is estimated to be around 20% of the original cost of the investment and 'prolonged' is more than 12 months. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit and loss account – is removed from other comprehensive income and recognised in the profit and loss account. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

2. Significant accounting policies (continued)

Financial liabilities
Financial liabilities are classified as financial liabilities at fair value through profit or loss; derivatives designated as hedging instruments in an effective hedge; or as financial liabilities measured at amortised cost, as appropriate. The Company's financial liabilities include inter-company loans and accruals. The Company determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities measured at amortised cost
Financial liabilities are initially recognized at fair value. After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised in profit or loss.

Share capital
Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs. Where shares are issued above par value, the proceeds in excess of par value are recorded in the share premium account.

3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Classification of investments
The accounting treatment in respect of the Company's 32.9% investment in the ordinary shares of DNH, which it acquired in December 2014 as part of an intra-group reorganisation, is dependent on whether the investment is considered to be an associate or a simple investment. The key criteria is whether the Company has significant influence over DNH.

In the directors judgement, the Company does not have significant influence over DNH, due primarily to the fact that the Company's own indirect parent, WPD, also directly owns the other 67.1% of DNH. Therefore the Company's influence over DNH is reduced to a level which is not considered to be significant. Also, the directors consider that the Company's inability to have significant influence over DNH is further evidenced by steps being taken which are intended to result in the conversion of the Company's 32.9% equity investment into preference shares with reduced voting rights, which is expected to occur later in 2016.

The directors have therefore concluded that the investment should be considered a simple investment for accounting purposes.

Revaluation of available-for-sale investments
The fair value is based upon discounted future cash flows. The assumptions underlying these calculations, such as the discount rate, future revenues, and other asset specific factors, are judgemental. See Note 10 for further detail.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Derecognition of corporate bonds

As described in the Annual Report and Financial Statements for the year ended 31 March 2015, in October 2014, WPD (i) became a co-obligor and agreed to make all future payments on the $460m 3.900% notes due 1 May 2016 and the $500m 5.375% notes due 1 May 2021 issued by the Company (the "WEM Bonds") (ii) entered into a reimbursement agreement in relation to payments under the WEM Bonds. As a consequence, the Company and WPD are jointly and severally, and fully and unconditionally, liable on the WEM Bonds. Under the terms of the reimbursement agreement, where the Company has given notice of its intention to make payments to the holders of the WEM Bonds, WPD will make payments to the Company equal to such amounts. The Company has made no payments to the holders of the WEM Bonds under the agreement and there is no intention to do so in the future. Having in substance, in the directors judgement, transferred the rights and obligations of the WEM bonds to WPD, the Company has derecognised its obligations under the WEM bonds and has not recognised any amounts in respect of its receivable under the reimbursement agreement.

4. Operating expenses

Operating expenses comprise an allocation of a management charge from an affiliate. This includes an audit fee of £2,400 (2015: £28,900).

5. Employees and directors

The directors did not receive remuneration in either the current or prior year for their services as directors of the Company as they are incidental to their roles elsewhere in the Group. The Company has paid a management charge of £11,400 (2015: £68,800) to an affiliate which include directors' emoluments allocated to the Company as part of these management fees.

The Company had no employees during either financial year.

6. Income from fixed asset investments and impairment of fixed asset investments

In the comparative year ended 31 March 2015, in addition to the payment to the Company of a cash dividend of £117.7m, as part of an intra-group reorganisation, PPL Midlands Limited:

- transferred its holding in the entire issued share capital of Western Power Distribution (East Midlands) plc, Western Power Distribution (West Midlands) plc and WPD Midlands Properties Limited to WPD Distribution Network Holdings Limited ('DNH') at fair value. The consideration for the transfer was £1,000.0m in cash, settled by the issue of an inter-company loan note, and the issue by DNH to PPL Midlands Limited of 595,498,922 ordinary shares of £1 each in the capital of DNH representing 32.9% of DNH's issued share capital. As a consequence of the transaction being recorded at fair value, the Company reviewed the carrying amount of its investment in PPL Midlands Limited and recorded an impairment charge of £156.8m.

- paid a dividend in specie to the Company comprising its 32.9% holding in the ordinary share capital of DNH at a fair value of £1,023.1m and its £1,000.0m loan note receivable from DNH plus £5.8m unpaid interest accrued thereon. The dividend was recorded at its fair value of £2,028.9m. As a consequence of the reduction in value of PPL Midlands Limited arising on payment of the dividend, the Company reviewed the carrying amount of its investment in PPL Midlands Limited and recorded an impairment charge of £2,023.1m.

Notes to the financial statements

For the year ended 31 March 2016

7. Interest

	2016 £m	2015 £m
Interest payable and similar charges:		
On loans and bonds	-	18.1
On loans from Group undertakings	**29.0**	13.2
	29.0	31.3
Interest receivable and similar income:		
On loans to Group undertakings	**(40.2)**	(12.4)
Net interest (income)/expense	**(11.2)**	18.9

8. Tax on loss on ordinary activities

There was no current or deferred tax recognised in the profit and loss account in either year.

The tax assessed is different from the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are explained below:

	2016 £m	2015 £m
Profit/(loss) on ordinary activities before tax	**11.2**	(112.0)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2015: 21%)	**2.2**	(23.5)
Effects of:		
Expenses not deductible and income not taxable for tax purposes	-	(438.2)
Impairment of investment	-	457.8
Group relief (received)/surrendered at non-standard rates	**(2.2)**	3.9
Total tax on profit/(loss) on ordinary activities	-	-

The Finance (No 2) Act 2015 reduced the standard rate of corporation tax from 20% to 19% with effect from 1 April 2017 and then to 18% effective 1 April 2020. These changes have been enacted but had no impact in these financial statements. Legislation will be introduced in the Finance Bill 2016, to be enacted later in 2016, to reduce the rate further to 17% effective 1 April 2020 (superseding the 18% rate). The impact, if any, has not been included in these financial statements.

9. Dividends

	2016 £m	2015 £m
Dividends paid on equity shares - 7.01p (2015: 6.34p) per £1 share	**73.6**	98.3
Dividend in specie	**-**	37.9
	73.6	136.2

10. Available-for-sale investments

	Total £m
At 1 April 2015	1,023.1
Fair value adjustments recognised in other comprehensive income	280.6
At 31 March 2016	**1,303.7**

Investments held at 31 March 2016 were:

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
WPD Distribution Network Holdings Limited	England & Wales	Ordinary shares	32.9%	Investment company

The shares included within available-for-sale investments above represent investments in unlisted equities. For such investments, fair value is estimated using a discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates.

The WPD Group calculates fair value using a discounted cash flow model. The key assumptions for the value in use calculations are those regarding the discount rate, expected cash flows arising from revenues, direct costs, and capital expenditure during the period, and the premium applied to the Regulatory Asset Value ("RAV") at the end of the period.

The future cash flows are discounted using a pre-tax rate adjusted for risks specific to the Group. The discount rate is derived from the WPD Group's post-tax weighted average cost of capital and is adjusted where applicable to take into account any specific risks relating to the Group. The key assumptions during the electricity price control period from 1 April 2015 to 31 March 2023 ("RIIO-ED1") are based on revenues allowed and cost of capital assumptions agreed at the most recent electricity price control review, together with management's expectation of the related cost and capital expenditure requirements during that period. Assumptions beyond this period are based on management's expectation of the outcome of future price control reviews. The premium applied to the RAV at the end of the period is 25%. This is based on management's estimation of the premium to RAV that may be realised at the end of the period taking into account past experience and possible future changes to achievable premiums.

The pre-tax rate used to discount the forecast cash flows is 6.3% (2015: 6.9%).

10. Available-for-sale investments (continued)

Cash flows are derived from the corporate business plan approved by the Board. For determining the value in use, cash flows for a period of 11 years have been discounted and aggregated with a terminal value, which is based on a premium to the RAV at the end of the period. A period of greater than five years has been used as the period is covered by the corporate business plan and more accurately reflects the timing of cash outflows associated with major capital replacement cycles and their subsequent recovery under regulation.

Sensitivity analysis:	Reduction in Fair value £m
0.1% increase in the discount rate	24.7
1.0% decrease in the premium on the RAV	22.7
A £5.0m real reduction in projected net pre-tax cash flows in each of the 11 years used in the discounted cash flow model	53.4

Fair value hierarchy
The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 March 2016, the Company held the following financial instruments measured at fair value:

2016	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets measured at fair value				
Available-for-sale investments	-	-	**1,303.7**	**1,303.7**

2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value				
Available-for-sale investments	-	-	1,023.1	1,023.1

During the reporting period ending 31 March 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of the Level 3 fair value measurements.

Notes to the financial statements
For the year ended 31 March 2016

11. Debtors

	2016 £m	2015 £m
Amounts falling due within one year		
Amounts owed by Group undertakings	**925.5**	1,036.6
Group relief receivable	**-**	2.3
	925.5	1,038.9

Amounts owed by Group undertakings comprise intercompany notes of £909.4m (2015: £1,000.0m) and £nil (2015: £18.7m) due from WPD Distribution Network Holdings Limited together with accrued interest of £16.1m (2015: £17.8m) and £nil (2015: £0.1m) thereon. The £909.4m note accrues interest at a fixed rate of 4.25% per annum and is unsecured and repayable on demand. The £18.7m note accrued interest at a rate of 3 month libor plus a margin of between 1.10% and 1.60% based on the company's credit rating and was repaid in May 2015.

The amounts owed by Group undertakings are unsecured and repayable on demand.

12. Creditors

	2016 £m	2015 £m
Amounts falling due within one year		
Amounts owed to Group undertakings	**579.9**	631.1
UK corporation tax	**0.2**	-
Accruals and deferred income	**0.4**	0.4
	580.5	631.5

Amounts owed to other Group undertakings include an intercompany note of £567.5m (2015: £617.3m) to Western Power Distribution plc ("WPD") together with accrued interest of £11.8m (2015: £13.1m). This note accrues interest at a fixed rate of 5.0% per annum, is unsecured and repayable on demand.

In October 2014, as part of an intra-group reorganisation, WPD became a co-obligor and agreed to make all future payments on the $460m 3.900% notes due 1 May 2016 and the $500m 5.375% notes due 1 May 2021 issued by the Company (the "WEM Bonds") and entered into a reimbursement agreement in relation to payments under the WEM Bonds. As a consequence, the Company and WPD are jointly and severally, and fully and unconditionally, liable on the WEM Bonds. Under the terms of the reimbursement agreement, where the Company has given notice of its intention to make payments to the holders of the WEM Bonds, WPD will make payments to the Company equal to such amounts. The Company has made no payments to the holders of the WEM Bonds under the agreement and there is no intention to do so in the future. Having in substance transferred the rights and obligations of the WEM bonds to WPD, the Company has derecognised its obligations under the WEM bonds and has not recognised any amounts in respect of its receivable under the reimbursement agreement.

13. Called up share capital

	2016 £m	2015 £m
Allotted, called up and fully paid:		
1,050,051,000 (2015: 1,050,051,000) ordinary shares of £1 each	**1,050.1**	1,050.1

Notes to the financial statements
For the year ended 31 March 2016

14. Available-for-sale reserve

	2016 £m	2015 £m
At 1 April	-	-
Net gain on available-for-sale investments	280.6	-
At 31 March	**280.6**	-

The balance held in the available-for-sale reserve relates to the changes in the fair value of available-for-sale investments.

15. Profit and loss account

	2016 £m	2015 £m
At 1 April	380.4	128.6
Profit/(loss) for the financial year	11.2	(112.0)
Capital reduction	-	500.0
Dividends	(73.6)	(136.2)
At 31 March	**318.0**	380.4

16. Ultimate parent undertaking

The immediate parent undertaking of the Company is PPL UK Investments Limited, which is registered in England and Wales.

The smallest group in which the results of PPL WEM Limited are consolidated is that headed by Western Power Distribution plc, which is registered in England and Wales. Copies of their accounts may be obtained from the Company's registered office as stated below.

The largest group in which the results of PPL WEM Limited are consolidated is that headed by PPL Corporation, which is the ultimate parent undertaking. Copies of their accounts may be obtained from Two North Ninth Street, Allentown, Pennsylvania, PA 18101-1179, US.

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Bristol BS2 0TB

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