

ZEPHYR INVESTMENTS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006



Registered Number 4712921

Zephyr Investments Limited
Directors' report and financial statements
Year ended 31 December 2006

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Zephyr Investments Limited
Directors' report and financial statements
Year ended 31 December 2006

Directors' report for the year ended 31 December 2006

The directors present their report and audited financial statements of both the Company, and for the group of companies (together "the Group") for the year ended 31 December 2006. The comparatives are for the year ended 31 December 2005.

Principal activities

The principal activity of the Group is the investment in electricity generation projects which utilise wind power. The principal activities of its subsidiaries are detailed on page 28 to these financial statements.

Business review

The business continues to invest in Beaufort Wind Limited which during the year owned and operated an existing portfolio of 15 wind farms in the UK. These investments performed in line with expectations in 2006.

The principal risk and uncertainty facing the business is that in the event average wind speeds fall significantly below expectations this would have a negative impact on revenues and cash flows.

On 29 December 2006, Beaufort Wind Limited, a subsidiary of Zephyr Investments Limited, purchased 100% of the shares in Farr Windfarm Limited and Ffynnon Oer Windfarm Limited from Npower Renewables Limited. The funds were raised for this transaction by the issue of Deep Discount Bonds, and drawing down on debt finance from a consortium of banks.

The results for the year are dealt with on page 8 of the financial statements. The Group loss on ordinary activities after taxation for the year ended 31 December 2006 was £4,715,636 (year ended 31 December 2005 £3,005,305).

The position of the Group at the end of the year is provided on page 9 of the financial statements. The group net deficit as at 31 December 2006 was £5,693,230 (net deficit as at 31 December 2005 £977,594).

During the year the Group repaid £105,745,212 (year ended 31 December 2005 £112,317,163) of debt.

Notwithstanding the net liability position of the Group at the year end the going concern basis is considered to be appropriate by the Directors, based on forecast cash flows.

Future Developments

The business will continue to operate wind farms through its subsidiary Beaufort Wind Limited but does not expect to make any further acquisitions in the foreseeable future.

Dividends

The directors have not recommended payment of a dividend (year ended 31 December 2005 £nil).

Directors' report for the year ended 31 December 2006 *(continued)*

Financial risks

(a) Interest rate risk

The Group's activities expose it to interest rate risk. The Group's risk management programme seeks to minimise potential adverse effects on the Group's financial performance arising from the unpredictability of financial markets.

The Group manages its interest rate risk by using floating to fixed interest rate swaps.

(b) Currency risk

All of the Group's trading activities are within the United Kingdom. Some services are purchased in non-sterling currencies and the Group manages this risk, where possible, by using forward exchange contracts.

(c) Price risk

The Group's exposure to price risk is not significant as the price achieved for electricity generation is pre-determined under separate long term power purchase agreements with Npower Limited and Non-Fossil Fuel Obligation (NFFO)/Scottish Renewables Obligation (SRO) contracts with the Non-Fossil Fuel Purchasing Agency (NFPA)/NFPA (Scotland) for each windfarm.

(d) Credit risk

The Group's exposure to credit risk in the event that Npower Limited defaulted on the terms of the power purchase agreement is mitigated by a guarantee provided by RWE AG.

The NFPA and the NFPA (Scotland) are governmental agencies and are therefore not considered to be a significant risk.

(e) Liquidity and cash flow risk

Liquidity risk is not considered to be a significant issue for the Group as the operational wind farm assets generate sufficient positive cash flows to service the bank loans and early redemption of deep discount bonds is only permitted when the Group has surplus cash after meeting all other obligations.

The Group has no significant exposure to cash flow risk as the timing of receipt of revenues for electricity generation is incorporated into the power purchase agreement with Npower Limited and NFFO/SRO contracts with the NFPA/NFPA (Scotland).

Cash flows in respect of senior debt servicing are set out in the schedule of repayments with the respective loan agreements.

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Directors' report for the year ended 31 December 2006 *(continued)*

Directors and their interests

The directors who held office during the period were as follows

S Abboud
K Akhurst
V B Beckers
E Lazarus
P Lo Greco (appointed 1 February 2007)
K McCullough
D H Shorthouse
A Zafar (resigned 1 February 2007)
Q Zaman

According to the register required to be kept under section 325 of the Companies Act 1985, none of the directors held any interest in the share options or debentures of Zephyr Investments Limited ("Zephyr") group companies incorporated in the UK at the end of the financial period. As permitted by statutory instrument, the register does not include shareholdings of directors in companies incorporated outside Great Britain.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period. In preparing those 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 applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

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Directors' report for the year ended 31 December 2006 *(continued)*

Provision of information to auditors

In so far as the directors are aware

- there is no relevant audit information of which the Group and Company's auditors are unaware, and
- the directors have taken all reasonable steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

Appointment of auditors

Pursuant to Section 386 of the Companies Act 1985, the Group and the Company has dispensed with the obligation to appoint auditors annually PricewaterhouseCoopers LLP have indicated their willingness to continue in office

By order of the board

C Barras
Company Secretary



30/03/07

Trigonos
Windmill Hill Business Park
Whitehill Way
Swindon
Wiltshire
SN5 6PB

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Independent auditors' report to the members of Zephyr Investments Limited

We have audited the group and parent company financial statements (the "financial statements") of Zephyr Investments Limited for the year ended 31 December 2006 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

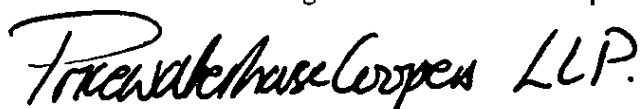
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Independent auditors' report to the members of Zephyr Investments Limited *(continued)*

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and Company's affairs as at 31 December 2006 and the Group's loss and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985,
- the information given in the directors' report is consistent with the financial statements



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

19 APRIL 2007

Zephyr Investments Limited
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Group profit and loss account
For the year ended 31 December 2006

	<i>Note</i>	2006 £	2005 £
Turnover		45,578,259	16,713,257
Cost of sales	2	(27,895,965)	(10,960,643)
Gross Profit		17,682,294	5,752,614
Administrative expenses		(1,020,695)	(1,581,885)
Profit on ordinary activities before interest and taxation		16,661,599	4,170,729
Interest receivable and similar income		702,473	344,561
Interest payable and similar charges	5	(19,397,405)	(7,176,067)
Loss on ordinary activities before taxation		(2,033,333)	(2,660,777)
Tax charge on loss on ordinary activities	6	(2,682,303)	(344,528)
Loss on ordinary activities after taxation		(4,715,636)	(3,005,305)
Loss for the financial year		(4,715,636)	(3,005,305)

The above results all arise from continuing operations

The company has no recognised gains or losses other than those included in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented

There are no material differences between the loss on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents

The accounting policies and notes on pages 11 to 28 form an integral part of these financial statements

Zephyr Investments Limited
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Group balance sheet

As at 31 December 2006

	<i>Note</i>	2006 £	2005 £
Fixed assets			
Tangible assets	7	<u>372,062,889</u>	<u>250,572,743</u>
		372,062,889	250,572,743
Current assets			
Stocks	9	165,600	160,517
Renewables Obligation Certificates	10	8,086,615	8,548,805
Debtors recoverable within one year	11	12,981,115	20,123,832
Cash at bank and in hand	13	<u>31,201,399</u>	<u>16,865,702</u>
Total current assets		52,434,729	45,698,856
Creditors: amounts falling due within one year	14	<u>(63,653,357)</u>	<u>(50,654,400)</u>
Net current liabilities		(11,218,628)	(4,955,544)
Total assets less current liabilities		360,844,261	245,617,199
Creditors: amounts falling due after more than one year	15	(327,029,417)	(214,143,629)
Government grants	16	(8,624,891)	(9,118,821)
Provisions for liabilities	17	(9,853,541)	(9,419,772)
Deferred taxation	18	<u>(21,029,642)</u>	<u>(13,912,571)</u>
Net liabilities		(5,693,230)	(977,594)
Capital and reserves			
Called up share capital	19	99,999	99,999
Profit and loss account	20	<u>(5,793,229)</u>	<u>(1,077,593)</u>
Equity shareholders' deficit	24	(5,693,230)	(977,594)

The financial statements on pages 7 to 28 were approved by the board of directors and signed on its behalf by



Kevin Akhurst
Director

30/3/07

The accounting policies and notes on pages 11 to 28 form an integral part of these financial statements

Zephyr Investments Limited
Directors' report and financial statements
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Company balance sheet
As at 31 December 2006

	<i>Note</i>	2006 £	2005 £
Fixed assets			
Investments	8	<u>100,000</u>	<u>9,555,522</u>
		100,000	9,555,522
Current assets			
Debtors recoverable within one year	11	4,819,370	7,395,024
Cash at bank and in hand	13	<u>2,974</u>	<u>323</u>
Total current assets		4,822,344	7,395,347
Creditors: amounts falling due within one year	14	<u>(7,621,914)</u>	<u>(17,044,478)</u>
Net current liabilities		(2,799,570)	(9,649,131)
Debtors recoverable after more than one year	12	78,836,338	47,264,089
Total assets less current liabilities		76,136,768	47,170,480
Creditors: amounts falling due after more than one year	15	<u>(78,836,338)</u>	<u>(47,264,089)</u>
Net liabilities		<u>(2,699,570)</u>	<u>(93,609)</u>
Capital and reserves			
Called up share capital	19	99,999	99,999
Profit and loss account	20	<u>(2,799,569)</u>	<u>(193,608)</u>
Equity shareholders' deficit	24	<u>(2,699,570)</u>	<u>(93,609)</u>

The financial statements on pages 7 to 28 were approved by the board of directors and signed on its behalf by



Kevin Akhurst
Director

30/3/07

The accounting policies and notes on pages 11 to 28 form an integral part of these financial statements

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Group cash flow statement
For the year ended 31 December 2006

	<i>Note</i>	2006 £	2005 £
Net cash inflow from operating activities	26	33,551,514	8,359,525
Returns on investments and servicing of finance			
Interest received		702,473	344,561
Interest paid		(10,131,058)	(4,870,248)
Taxation		(67,613)	(179,177)
Acquisitions and disposals			
Payments to acquire investments in subsidiary undertakings		(42,339,118)	(56,292,335)
Net cash acquired with subsidiary undertaking		(457,977)	(1,519,446)
		(18,741,779)	(54,157,120)
Management of liquid resources and financing			
Increase in debt		138,405,742	174,499,577
Capital element of debt repayments		(105,745,212)	(112,317,163)
		32,660,530	62,182,414
Increase in cash in the period		13,918,751	8,025,294

On 29 December 2006, cash of £42,046,805 was used to acquire investments in subsidiaries. The cashflow statement does not include the cashflows of these subsidiaries, as they were owned for two days only.

Reconciliation of net cash flow to movement in net debt

	<i>Note</i>	2006 £	2005 £
Increase in cash in the period		13,918,751	8,025,289
Cash inflow from increase in debt		(32,660,530)	(62,182,414)
Change in net debt resulting from cash flows		(18,741,779)	(54,157,120)
Cash acquired with subsidiary		457,977	1,560,477
Overdrafts acquired with subsidiary		-	(41,031)
Loans acquired with subsidiaries		(87,635,599)	(109,016,517)
Movement in net debt in the period		(105,919,401)	(161,654,191)
Opening net debt		(217,933,101)	(56,278,905)
Closing net debt	27	(323,852,502)	(217,933,101)

The accounting policies and notes on pages 11 to 28 form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2006

1. Accounting policies

Basis of preparation

These financial statements are prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards. Notwithstanding the net liability position of the Group and the Company at the year end the going concern basis is considered to be appropriate by the Directors, based on forecast cash flows. Under the terms of the investor agreement, payments in respect of Deep Discount Bonds can only be made where cash is available in excess of the Group's forecast working capital requirements. The principal accounting policies are set out below.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the Company and its subsidiary undertakings. The results of the subsidiaries sold or acquired are included in the consolidated profit and loss account up to, or from, the date control passes. Intra group sales and profit are eliminated fully on consolidation. On acquisition of a subsidiary all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their full values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses that arise after the Group has gained control of the subsidiaries are reflected in the post acquisition financial statements. The subsidiary undertakings, Farr Windfarm Limited and Ffynnon Oer Windfarm Limited, have been consolidated into the group at the end of their accounting reference period which is 29 December 2006.

Turnover

Turnover represents income from the generation of electricity. Turnover is stated net of value added tax and is generated entirely within the United Kingdom.

Foreign exchange

Transactions denominated in foreign currencies arising in the normal course of business are translated into sterling at the exchange rate ruling at the date of the transaction unless related or matching forward exchange contracts have been entered into, when the rate specified in the contract is used. Monetary assets and liabilities in foreign currencies that are not covered by hedging arrangements are translated into sterling at the rates of exchange ruling at the balance sheet date and any differences arising on the retranslation of these amounts are taken to the profit and loss account in the period in which they arise.

Operating leases

Rentals payable under operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the profit and loss account evenly over the term of the lease.

Notes to the financial statements for the year ended 31 December 2006 *(continued)*

Finance costs

Implied discount attributable to Deep Discount Bonds ("DDB's") is charged to the profit and loss account as it is accrued. When early redemptions are made on the DDB's the discount is recalculated using an updated forecast.

Interest payable on bank loans is charged to the profit and loss account as it is accrued.

Issue costs in respect of capital instruments are recognised in the profit and loss account within interest, allocated to periods over the term of the instrument at a constant rate based on the carrying amount, in accordance with the provisions of FRS 4.

Taxation

The charge for taxation is based on the profit for the period and takes into account deferred taxation.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at original cost less accumulated depreciation.

For tangible fixed assets relating to wind farms under Non-Fossil Fuel Obligation or Scottish Renewables Obligation contracts depreciation

During the NFFO/SRO contract period when the price of electricity will be sold at a premium to market price, 80% of the wind farm costs will be depreciated during this period, and then,

During the post-NFFO/SRO contract period when the price of electricity will be set according to prevailing open market conditions, 20% of the wind farm cost will be depreciated over the remainder of its estimated useful economic life.

For all other tangible fixed assets depreciation is provided on a monthly basis to write off the cost less the estimated residual value of the assets by equal instalments over their estimated useful economic life of twenty years.

Fixed asset investments

All fixed asset investments are stated at cost less any provisions for impairments.

Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition, or net realisable value which is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Renewables Obligation Certificates

The group holds Renewables Obligation Certificates. As the Group does not have a Renewables Obligation, there are contracts for the sale of these assets at the end of the compliance period. The certificates granted are recognised as current intangible assets as eligible electricity is generated, and are revalued to their current estimated market value at year end.

Notes to the financial statements for the year ended 31 December 2006 *(continued)*

Financial instruments

Deep Discount Bonds are recognised at the date of issue under the terms of the instrument at a discount to their par value less issue costs. The discount is then unwound back to its par value over the period to maturity and charged to the profit and loss account in the accounting period to which it relates. Deep Discount Bonds are derecognised on redemption.

Bank loans are recognised on drawdown of funds under the terms of the loan agreement at the value of the principal on the drawdown date less issue costs. Interest payable is charged to the profit and loss account as it is accrued. Bank loans are derecognised on repayment of principal.

Issue costs in respect of capital instruments are recognised in the profit and loss account within interest, allocated to periods over the term of the instrument at a constant rate based on the carrying amount, in accordance with the provisions of FRS 4.

The Group uses financial instruments, such as interest rate swaps and forward currency contracts, for hedging purposes. The Group does not enter into speculative derivative contracts. All such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the Group in line with Group's risk management policies. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustment to interest expense over the period of the contracts.

Related party transactions

The Company is exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Zephyr Investments Limited group.

Government Grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to operating profit over the expected useful economic life of the assets to which they relate.

Decommissioning of wind farms

A provision and related fixed asset is recognised in respect of the estimated total discounted cost of decommissioning generating assets. The resulting assets are depreciated on a straight line basis, and the discount is amortised over the useful life of the wind farm. The amortisation or 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the profit and loss account in each accounting period. The amortisation of the discount is shown as a financial cost rather than as an operating cost.

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Notes to the financial statements for the year ended 31 December 2006 (continued)

Deferred taxation

Provision is made in full for deferred tax liabilities that arise from timing differences where transactions or events that result in an obligation to pay more tax in the future have occurred by the balance sheet date. Deferred taxation assets are recognised to the extent that they are regarded as recoverable. Deferred tax is measured at the average tax rates that are expected to apply in the years in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

2. Operating profit

	2006	2005
	£	£
Group		
Operating profit is stated after charging		
Depreciation of owned tangible fixed assets	17,378,944	4,710,029
Operating lease charges – other	831,151	398,991
Audit services – company	5,000	2,000
Audit services – group	45,000	40,000

3. Directors' emoluments

The directors did not receive any remuneration during the year (2005 £nil)

4. Employee information

Other than the directors, the company had no employees for the year under review (2005 nil)

5. Interest payable and similar charges

	2006	2005
	£	£
Group		
Amortisation of debt issue costs	873,842	581,001
Accrued discount on Deep Discount Bonds	8,093,020	3,214,751
Debt interest	9,990,845	3,380,315
Decommissioning provision – unwind of discount	438,769	-
Bank interest payable	929	-
	<u>19,397,405</u>	<u>7,176,067</u>

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Notes to the financial statements for the year ended 31 December 2006 (continued)

6. Tax on loss on ordinary activities

	2006	2005
	Group £	Group £
Current tax:		
Corporation tax	455,301	-
Adjustment in respect of prior periods	-	(3,483)
Total current tax (see below)	<u>455,301</u>	<u>(3,483)</u>
Deferred tax (see note 18):		
Origination and reversal of timing differences	1,744,789	(259,954)
Adjustment in respect of prior periods	482,213	607,965
Total deferred tax	<u>2,227,002</u>	<u>348,011</u>
Tax charge on loss on ordinary activities	<u>2,682,303</u>	<u>344,528</u>

The tax assessed for the year is higher (2005 lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below

	2006	2005
	Group £	Group £
Loss on ordinary activities before tax	<u>(2,033,333)</u>	<u>(2,660,777)</u>
Loss on ordinary activities multiplied by the standard rate in the UK – 30%	(610,000)	(798,233)
Expenses not deducted for tax purposes	1,834,395	80,460
Depreciation in excess of capital allowances	(2,147,625)	259,955
Depreciation in respect of assets acquired intragroup	975,695	457,818
Other timing differences	404,651	-
Utilisation of losses brought forward	(1,815)	-
Adjustment in respect of prior periods	-	(3,483)
Current tax charge/(credit) for the year	<u>455,301</u>	<u>(3,483)</u>

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Notes to the financial statements for the year ended 31 December 2006 (continued)

7. Tangible fixed assets

Group	Operating wind farms £
Cost	
At 1 January 2006	263,881,551
Additions	138,869,090
At 31 December 2006	402,750,641
Depreciation	
At 1 January 2006	13,308,808
Charge for year	17,378,944
At 31 December 2006	30,687,752
Net book value at 31 December 2006	372,062,889
Net book value at 31 December 2005	250,572,743

See Note 28 for details of the charges over the assets

8. Fixed asset investments

Company	Shares in group undertakings £
Cost	
At 1 January 2006	9,555,522
Write down of investment in group undertakings	(9,455,522)
At 31 December 2006	100,000

During the year the Zephyr Investments Limited commenced liquidation proceedings for the following subsidiaries

Bryn Titli Windfarm Limited
Taff-Ely Windfarm Limited
Trydan Gwynt Cyfyngedig

On 11 May 2006 the entities listed above declared dividend in specie of £8,684,746 in total

The principal subsidiaries of the Group are listed on page 28

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Notes to the financial statements for the year ended 31 December 2006 (continued)

9. Stocks

	2006	2005
Group	£	£
Consumables	165,600	160,517

10. Renewables Obligation Certificates

	2006	2005
Group	£	£
Renewables Obligation Certificates	8,086,615	8,548,805

Renewables Obligation Certificates held by the Group at 31 December 2006 were acquired through the purchase of Farr Windfarm Limited and Ffynnon Oer Windfarm Limited on 29 December 2006. As the Group does not have a Renewables Obligation, there are contracts for the sale of these assets at the end of the current compliance period.

Renewables Obligation Certificates held by the Group at 31 December 2005 were acquired through the purchase of NWP Offshore Limited and Causeymire Windfarm Limited on 30 December 2005. The certificates were redeemed on 24 November 2006.

11. Debtors: recoverable within one year

	2006		2005	
	Group	Company	Group	Company
	£	£	£	£
Trade debtors	3,516,036	-	7,254,140	-
Amounts owed by group undertakings	-	88,981	-	88,981
Deferred tax	-	538,085	-	-
Other debtors	1,015,088	-	8,510,316	13,533
Prepayments and accrued income	8,449,991	-	4,359,376	-
Deep discount bonds (Note 21)	-	4,192,304	-	7,292,510
	12,981,115	4,819,370	20,123,832	7,395,024

Amounts owed by group undertakings are unsecured, interest free and are repayable on demand.

The company disclosure for amounts owed by group undertakings includes £88,981 (2005 £88,981) of group relief receivable.

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Notes to the financial statements for the year ended 31 December 2006 (continued)

12. Debtors: recoverable after more than one year

	2006		2005	
	Group £	Company £	Group £	Company £
Deep discount bonds (Note 21)	-	78,836,338	-	47,264,089

13. Cash at bank and in hand

At 31 December 2006 group cash balances with banks include £1,156,453 (2005 £720,473) of cash that is subject to either a legal assignment or a charge in favour of a third party. It is expected that they will be released in line with the decommissioning of the Wind Farms to which the funds relate.

14. Creditors: amounts falling due within one year

	2006		2005	
	Group £	Company £	Group £	Company £
Deep discount bonds (Note 22)	4,178,288	4,192,304	7,212,217	7,292,510
Bank loans (Note 22)	23,846,190	-	13,401,919	-
Bank overdraft (Note 22)	5	-	41,036	-
Trade creditors	325,577	-	779,390	-
Amounts owed to group undertakings	-	2,974,309	-	9,751,968
Corporation tax	455,301	455,301	67,613	-
Other taxation and social security	3,775,511	-	2,208,869	-
Other creditors	23,096,762	-	22,690,207	-
Accruals and deferred income	7,975,723	-	4,253,149	-
	<u>63,653,357</u>	<u>7,621,914</u>	<u>50,654,400</u>	<u>17,044,478</u>

Amounts owed to group undertakings includes £1,725,170 (2005 £nil) of group relief payable.

Details of security given in respect of long term borrowings are provided in note 28.

15. Creditors: amounts falling due after more than one year

	2006		2005	
	Group £	Company £	Group £	Company £
Deep discount bonds (Note 22)	77,854,331	78,836,338	46,668,741	47,264,089
Bank loans (Note 22)	249,175,086	-	167,474,888	-
	<u>327,029,417</u>	<u>78,836,338</u>	<u>214,143,629</u>	<u>47,264,089</u>

Details of security given in respect of long term borrowings are provided in note 28.

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16. Government grants

	2006 £	2005 £
Amounts brought forward	9,118,821	7,311,475
Amounts acquired	-	2,300,000
Released to profit and loss account in period	(493,930)	(492,654)
Amounts carried forward	<u>8,624,891</u>	<u>9,118,821</u>
Due for release within one year	492,654	492,654
Due for release in two to five years	1,971,965	1,971,965
Due for release in more than five years	<u>6,160,272</u>	<u>6,654,202</u>
	<u>8,624,891</u>	<u>9,118,821</u>

17. Provisions for liabilities

	31 December 2005 £	Charged/ (released) £	Unwinding of discount £	31 December 2006 £
Decommissioning costs	9,395,100	-	438,769	9,833,869
Eagle Habitat rehabilitation	24,672	(5,000)	-	19,672
Total	<u>9,419,772</u>	<u>17,695,000</u>	<u>438,769</u>	<u>9,853,541</u>

The provision for decommissioning of windfarms represents the net present value of the group's best estimate of the costs to decommission the windfarms at the end of their useful lives. The provision has been discounted to its present value at 4.53%.

Under the terms of the share purchase agreement for Farr Windfarm Limited contingent consideration is payable, up to a maximum of £17,700,000 should the average wind speeds during 2007, to be verified by Garrad Hassan (an independent consultancy), exceed the original estimates which were used in the valuation of the wind farm at Farr. Based on currently available data for the period since acquisition the Group does not expect average wind speeds to exceed the original estimate and has therefore valued the contingent consideration at £nil.

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18. Deferred taxation

	2006	2005
	£	£
Analysis of deferred tax balance		
Timing differences in respect of capital allowances	21,594,168	14,018,264
Other timing differences	(538,085)	-
Losses carried forward	(26,441)	(105,693)
	<u>21,029,642</u>	<u>13,912,571</u>

Group	2006	2005
	£	£
Deferred tax brought forward	13,912,571	368,550
Charge for the year (see note 6)	2,227,002	348,011
Acquired with subsidiary companies	4,897,654	13,196,010
Prior year adjustment in respect of acquired with subsidiary companies	(7,585)	-
Closing provision	<u>21,029,642</u>	<u>13,912,571</u>

19. Share capital

Group

Authorised:

On incorporation 1,000 ordinary shares of £1 each	1,000
On 17 February 2004 99,000 ordinary shares of £1 each	99,000
100,000 ordinary shares of £1 each	<u>100,000</u>

Allotted, called up and fully paid:

On incorporation 1 ordinary share of £1 each	1
On 17 February 2004 99,998 ordinary shares of £1 each	99,998
99,999 ordinary shares of £1 each	<u>99,999</u>

20. Reserves

	2006		2005	
	Group £	Company £	Group £	Company £
Opening profit and loss account	(1,077,593)	(193,608)	1,927,712	(95,540)
Loss for the financial year	(4,715,636)	(2,605,961)	(3,005,305)	(98,068)
Closing profit and loss account	<u>(5,793,229)</u>	<u>(2,799,569)</u>	<u>(1,077,593)</u>	<u>(193,608)</u>

Zephyr Investments Limited has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The company's loss for the financial period was £2,605,961 (2005 loss £98,068)

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Notes to the financial statements for the year ended 31 December 2006 (continued)

21. Financial assets

(a) Deep Discount Bonds

Deep Discount Bonds	2006		2005	
	Group £	Company £	Group £	Company £
Due within one year	-	4,192,304	-	7,292,510
Due in more than one year but less than two	-	3,892,532	-	2,864,678
Due in more than two years but less than three	-	1,285,682	-	369,648
Due in more than three years but less than four	-	602,035	-	49,734
Due in more than four years but less than five	-	419,790	-	(249,571)
Due in more than five years	-	72,636,299	-	44,229,600
Total Deep Discount Bonds	-	83,028,642	-	54,556,599

On 29 December 2006, the company subscribed for Beaufort Wind Limited unsecured Deep Discount Bonds to the value of £32,212,822, which are redeemable on 17 February 2026 for £600,089,016. This debt carries an implied discount rate of 16.49% per annum for the period of the instrument.

On 30 December 2005, the company subscribed for Beaufort Wind Limited unsecured Deep Discount Bonds to the value of £35,890,969, which are redeemable on 17 February 2026 for £973,680,780. This debt carries an implied discount rate of 17.74% per annum for the period of the instrument.

On 17 February 2004 the company subscribed for Beaufort Wind Limited unsecured Deep Discount Bonds to the value of £17,841,785, which are redeemable on 17 February 2026 for £564,322,362. This debt carries an implied discount rate of 18.49% per annum for the period of the instrument.

The unwinding of the discount is charged to the profit and loss account to the period which it relates. As a result of the discounting the fair value of the Deep Discount Bonds are not considered to be materially different to their carrying value at the balance sheet date.

The instruments in respect of the Deep Discount Bonds provide the option to redeem a variable amount of bonds in advance of the redemption date. The amount is determined on a six monthly basis and is dependent on cash being in excess of the Group's forecast working capital requirements.

The Group is not exposed to interest rate risk as under the terms of the Deep Discount Bonds interest is not chargeable.

Credit risk on the Deep Discount Bonds held by the Company relates entirely to the amounts due from Beaufort Wind Limited and the maximum exposure at 31 December 2006 was £83,028,642 (2005 £54,556,599).

(b) Cash

The book value of cash approximates to its fair value because it is available on demand.

Notes to the financial statements for the year ended 31 December 2006 (continued)

22. Financial liabilities

(a) Deep Discount Bonds

Deep Discount Bonds	2006		2005	
	Group £	Company £	Group £	Company £
Due within one year	4,178,289	4,192,304	7,212,217	7,292,510
Due in more than one year but less than two	3,842,667	3,892,532	2,828,183	2,864,678
Due in more than two years but less than three	1,269,649	1,285,682	365,970	369,648
Due in more than three years but less than four	595,145	602,035	48,474	49,734
Due in more than four years but less than five	415,281	419,790	(250,200)	(249,571)
Due in more than five years	71,731,589	72,636,299	43,676,314	44,229,600
Total Deep Discount Bonds	82,032,620	83,028,642	53,880,958	54,556,599

On 29 December 2006, the company issued unsecured Deep Discount Bonds to the value of £32,212,822, which are redeemable on 17 February 2026 for £600,089,016. This debt carries an implied discount rate of 16.49% per annum for the period of the instrument.

On 30 December 2005, the company issued unsecured Deep Discount Bonds to the value of £35,890,969, which are redeemable on 17 February 2026 for £973,680,780. This debt carries an implied discount rate of 17.74% per annum for the period of the instrument.

On 17 February 2004 the company issued unsecured Deep Discount Bonds to the value of £17,841,785, which are redeemable on 17 February 2026 for £564,322,362. This debt carries an implied discount rate of 18.49% per annum for the period of the instrument.

The aggregate amount of the Deep Discount Bonds comprises, £83,028,642 principal less £996,022 issue costs.

The unwinding of the discount is charged to the profit and loss account to the period which it relates. As a result of the discounting the fair value of the Deep Discount Bonds are not considered to be materially different to their carrying value at the balance sheet date.

The instruments in respect of the Deep Discount Bonds provide the option to redeem a variable amount of bonds in advance of the redemption date. The amount is determined on a six monthly basis and is dependent on cash being in excess of the Group's forecast working capital requirements.

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Notes to the financial statements for the year ended 31 December 2006 (continued)

22. Financial Liabilities (continued)

The Group is not exposed to interest rate risk as the under the terms of the Deep Discount Bonds interest is not chargeable

There is an inter company relationship between Zephyr Investments Limited and Beaufort Wind Limited regarding the deep discounted bonds

(b) Bank loans

Bank loans	2006		2005	
	Group £	Company £	Group £	Company £
Due within one year	23,846,191	-	13,401,919	-
Due in more than one year but less than two	23,032,739	-	15,477,884	-
Due in more than two years but less than three	21,873,700	-	15,116,294	-
Due in more than three years but less than four	21,442,425	-	14,669,693	-
Due in more than four years but less than five	21,440,475	-	14,489,175	-
Due in more than five years	161,385,746	-	107,721,842	-
Total bank loans	273,021,276	-	180,876,807	-

The aggregate amount of the bank loans comprises, £281,848,735 principal less £8,827,459 issue costs

Bank loan repayments are based on a debt service coverage requirement. The bank loans have a floating interest rate of LIBOR plus 90 basis points

Tranche A of the bank loans is repayable in half yearly instalments over the life of the loan, which ends on 15 December 2013

The terms of this debt were amended on 30 December 2005. Additional bank loans were drawn on 30 December 2005 in two tranches (Tranche "B" and Tranche "C"). Tranche B is repayable in half yearly instalments over the life of the loan which ends on 15 June 2021

Tranche C is repayable in half yearly instalments over the life of the loan which ends on 15 December 2020

The terms of this debt were further amended on 29 December 2006 with additional bank loans drawn down from Tranche B. This second block of Tranche B debt is repayable in half yearly instalments over the life of the loan which ends on 15 December 2021

Exposure to cash flow interest rate risk arising from the floating interest rate on the bank loans has been mitigated by a floating to fixed interest rate swap as detailed in Note 23

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22. Financial Liabilities (continued)

The total interest payable on the bank loans for the year ended 31 December 2006 was £9,990,845 (2005 £3,380,315)

The fair value of the bank loans as at 31 December 2006 is not considered to be materially different from their nominal values

23. Other financial instruments

(a) Interest rate exposure

The group's activities expose it to interest rate risk. The group's risk management programme seeks to minimise potential adverse effects on the group's financial performance arising from the unpredictability of financial markets.

The group's interest rate risk arises from long term borrowing at variable rates.

The group manages its interest rate risk by using floating to fixed interest rate swaps. Using interest rate swaps the group agrees with other parties to exchange half yearly the difference between the fixed contract rates and floating rate amounts calculated by reference to the notional principal amounts.

The group's policy is to hedge 100% of its net exposure to interest rate risk, taking into account the inherent hedge from cash balances. 93% of the bank loan is at fixed rates after taking account of interest rate swaps.

The nominal values of the swaps are shown below -

Derivative Financial Instruments	2006		2005	
	Group £	Company £	Group £	Company £
Interest Rate Swaps	<u>262,678,221</u>	<u>-</u>	<u>176,219,296</u>	<u>-</u>

At 31 December 2006 the fixed interest rates varied from 5.53% to 6.21% (as at 31 December 2005 fixed rates varied from 5.53% to 5.92%)

As at 31 December 2006, the fair value of the interest rate swaps was £4,316,480 and are calculated using mark-to-market data provided by third parties.

The maturity dates of the interest rate swaps are

Tranche A loan	15 December 2013
Tranche B loan (2005 acquisitions)	15 June 2021
Tranche B loan (2006 acquisitions)	15 December 2021
Tranche C loan	15 December 2020

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Notes to the financial statements for the year ended 31 December 2006 (continued)

23. Other financial instruments (continued)

(b) Currency exposure

All of the Group's trading activities are located in the United Kingdom. Accordingly the majority of the Group's transactions are denominated in sterling and do not give rise to a foreign currency exposure. Some services are purchased in non-sterling currencies. Forward foreign currency contracts are used to hedge these exposures as the liability arises.

Based on exchange rates prevalent as at 31 December 2006 the amounts payable that have been hedged under forward foreign currency contracts was £55,056 higher than the amounts payable had the Group not entered into these contracts.

24. Reconciliation of movements in shareholders' funds

	2006		2005	
	Group £	Company £	Group £	Company £
Loss for the financial year	(4,715,636)	(2,605,961)	(3,005,305)	(98,068)
Opening shareholders' deficit	(977,594)	(93,609)	2,027,711	4,459
Closing shareholders' deficit	<u>(5,693,230)</u>	<u>(2,699,570)</u>	<u>(977,594)</u>	<u>(93,609)</u>

25. Acquisitions

Group

On 29 December 2006, the group purchased 100% of the share capital in Farr Windfarm Limited and Ffynnon Oer Windfarm Limited from Npower Renewables Limited. Details of these transactions are set out below.

	Farr Windfarm Limited	Ffynnon Oer Windfarm Limited	Total
Net Assets Acquired	963,672	310,617	1,274,289
Fair Value Adjustment - Revaluation of tangible fixed assets	39,627,159	11,904,590	51,531,749
Cost of Investment	<u>40,590,831</u>	<u>12,215,207</u>	<u>52,806,038</u>
Satisfied by Cash	32,502,140	9,219,558	41,721,698
Deferred consideration	8,088,691	2,995,649	11,084,340
Total	<u>40,590,831</u>	<u>12,215,207</u>	<u>52,806,038</u>

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25. Acquisitions (continued)

The deferred consideration due is payable after the completion of a working capital exercise, due to be updated during 2007

Details of the contingent consideration due are given in note 17

The fair value of the assets is estimated as the present value of the predicted future cash flows of each of the operating wind farm assets. The fair value calculation is provisional

No changes to accounting policies have been required in order to bring them in line with the Zephyr Group policies

The entities acquired both have an accounting reference date of 29 December 2006 to enable clear identification of pre-acquisition and post acquisition results. For the year ended 31 December 2007 and all subsequent year ends the acquired entities will amend their accounting reference date to be coterminous with that of the parent company and the rest of the group

Pre-acquisition profit and loss information for substantial acquisitions is as follows

363 days to 29 December 2006	Farr Windfarm Limited	Ffynnon Oer Windfarm Limited
Turnover	3,806,123	1,297,554
Other operating income	7,637,005	1,682,565
Operating profit	6,999,273	2,093,239
Profit before taxation	<u>4,072,571</u>	<u>904,815</u>
Taxation	(1,221,771)	(285,302)

Year ended 31 December 2005

Loss after taxation	<u>(701,142)</u>	<u>(134,588)</u>
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26. Reconciliation of operating profit to net cash inflow from operating activities

	2006	2005
	£	£
Operating profit	16,661,598	4,170,729
Depreciation charges	17,378,944	4,733,819
Increase in stocks	(5,083)	(15,045)
Decrease in debtors	19,840,459	893,092
Decrease in creditors	(20,324,404)	(1,423,070)
Net cash inflow from operating activities	<u>33,551,514</u>	<u>8,359,525</u>

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27. Analysis of net debt

	At 1 January 2006	Cash Flow	Acquired with subsidiaries	At 31 December 2006
	£	£	£	£
Cash in hand, at bank	16,865,702	13,877,720	457,977	31,201,399
Overdrafts	(41,036)	41,031	-	(5)
Debt due within 1 year	(20,614,136)	341,811	(7,752,154)	(28,024,479)
Debt due after 1 year	(214,143,631)	(33,002,341)	(79,883,445)	(327,029,417)
Total	<u>(217,933,101)</u>	<u>(18,741,779)</u>	<u>(87,177,622)</u>	<u>(323,852,502)</u>

28. Financial commitments

At 31 December 2006 the group had annual commitments of £648,417 (2005 £399,131) under non-cancellable operating leases for land which expire after more than five years

On 28 December 2006 a charge over Beaufort Wind Limited assets was registered in favour of The Bank of Tokyo-Mitsubishi UFJ Ltd, with respect to a loan which was advanced on 29 December 2006

On 29 December 2005 a charge over Beaufort Wind Limited assets was registered in favour of The Bank of Tokyo-Mitsubishi UFJ Ltd, with respect to a loan which was advanced on 30 December 2005

On 17 February 2004 a charge over Beaufort Wind Limited assets was registered in favour of The Bank of Tokyo-Mitsubishi UFJ Ltd, with respect to a loan which was advanced on 18 February 2004

On 30 December 2005 a charge over the group's distribution reserve bank account was registered in favour of Npower Renewables Limited as security for the discharge of the group's obligations under a decommissioning agreement between the group, its subsidiary NWP Offshore Limited and Npower Renewables Limited

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Notes to the financial statements for the year ended 31 December 2006 (continued)

29. Other related party transactions

During the year the group entered into the following transactions, in the ordinary course of business, with other related parties. On 31 December 2006 the following balances were held with related parties

	Related party transactions	31 December 2006
	£	£
Englefield Custody Ltd management fees and costs	(70,000)	-
RWE Npower plc management fees	(2,105,250)	(526,312)
Npower Ltd electricity purchases	(332,135)	(165,715)
Wind Power First Euro (Finance) Investments LP management fees and costs	(70,000)	-
Npower Ltd electricity sales	27,780,785	3,163,484

Wind Power First Euro (Finance) Investments LP, The Englefield Zephyr Partnership LP and RWE Npower plc are all investors in Zephyr Investments Limited

Npower Limited is a subsidiary of RWE Npower plc

30. Ultimate parent company

On 31 December 2006, 33.33% of Zephyr's share capital was owned by Wind Power First Euro (Finance) Investments LP, 33.33% by The Englefield Zephyr Partnership LP and 33.33% by RWE Npower plc and therefore at that date there was no single company with a controlling interest

Principal subsidiaries

Subsidiaries	Country of Incorporation	Holding	Share Capital Held	Nature of business
Beaufort Wind Limited	England & Wales	Ordinary shares	100%	Generation and sale of electricity
NWP Offshore Limited	England & Wales	Ordinary shares	100%	Generation and sale of electricity
Causeymire Windfarm Limited	Scotland	Ordinary shares	100%	Generation and sale of electricity
Bears Down Windfarm Limited	England & Wales	Ordinary shares	100%	Generation and sale of electricity
Windy Standard Limited	Scotland	Ordinary shares	100%	Generation and sale of electricity
Farr Windfarm Limited	Scotland	Ordinary shares	100%	Generation and sale of electricity
Ffynnon Oer Windfarm Limited	England & Wales	Ordinary shares	100%	Generation and sale of electricity
Polwhat Rig Windfarm Limited	Scotland	Ordinary shares	100%	Non trading
Gallow Rig Windfarm Limited	Scotland	Ordinary shares	100%	Non trading

On 29 December 2006, the group acquired 100% of the share capital in Farr Windfarm Limited and Ffynnon Oer Windfarm Limited. Details on the acquisitions are provided in note 25.

During the year the Zephyr Investments Limited commenced proceedings to liquidate the following wholly owned subsidiaries:

Bryn Titli Windfarm Limited
Taff-Ely Windfarm Limited
Trydan Gwynt Cyfyngedig