ZEPHYR INVESTMENTS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

Registered Number 4712921

Contents

Directors' report for the year ended 31 December 2007

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 2007. The comparatives are for the year ended 31 December 2006

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 17 wind farms in the UK These investments performed in line with expectations in 2007

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 2007 results in this report include a full year of operational results from these two windfarms

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 2007 was £3,431,696 (year ended 31 December 2006 £4,715,636)

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 2007 was £9,124,926 (net deficit as at 31 December 2006: £5,693,230).

During the year the Group repaid £43,786,692 (year ended 31 December 2006: £105,745,212) 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 2006 £nil)

Directors' report for the year ended 31 December 2007 *(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 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

Directors' report for the year ended 31 December 2007 *(continued)*

Directors and their interests

The directors who held office during the period were as follows

Appointments

H Bunting		(appointed 1 February 2008)
J Cooper	(Alternate)	(appointed 13 November 2007)
J Zibarras		(appointed 31 August 2007)
A Penna	(Alternate)	(appointed 22 August 2007)
M Chladek		(appointed 22 August 2007)
M Nagle		(appointed 22 August 2007)
G Chatas	(Alternate)	(appointed 7 June 2007)
S Lilley		(appointed 7 June 2007)
K McCullough		(appointed 5 May 2004)

Resignations

K Akhurst		(resigned 1 February 2008)
V B Beckers		(resigned 1 February 2008)
M Lennon	(Alternate)	(appointed 31 August 2007 & 13 November 2007)
N Tyrrell		(appointed 7 June 2007 & resigned on 31 August 2007)
Q Zaman		(resigned 22 August 2007)
P Lo Greco		(appointed 1 February 2007 & resigned on 22 August 2007)
S Abboud		(resigned 7 June 2007)
E Lazarus		(resigned 7 June 2007)
D H Shorthouse	(Alternate)	(resigned 7 June 2007)
A Zafar		(resigned 1 February 2007)

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.

Directors' report for the year ended 31 December 2007 *(continued)*

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.

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 27/3/08
Company Secretary

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

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

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

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

28 March 2008

Group profit and loss account
For the year ended 31 December 2007

	Note	2007 £	2006 £
Turnover		**72,092,179**	45,578,259
Cost of sales	2	**(40,276,197)**	(27,895,965)
Gross profit		**31,815,982**	17,682,294
Administrative expenses		**(484,333)**	(1,020,695)
Profit on ordinary activities before interest and taxation		**31,331,649**	16,661,599
Interest receivable and similar income		**1,727,498**	702,473
Interest payable and similar charges	5	**(31,986,633)**	(19,397,405)
Profit/(loss) on ordinary activities before taxation		**1,072,514**	(2,033,333)
Tax charge on profit/(loss) on ordinary activities	6	**(4,504,210)**	(2,682,303)
Loss on ordinary activities after taxation		**(3,431,696)**	(4,715,636)
Loss for the financial year		**(3,431,696)**	(4,715,636)

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.

Group balance sheet
As at 31 December 2007

	Note	2007 £	2006 £
Fixed assets			
Tangible assets	7	**353,072,159**	372,062,889
		353,072,159	372,062,889
Current assets			
Stocks	9	**79,100**	165,600
Renewables Obligation Certificates	10	-	8,086,615
Debtors recoverable within one year	11	**17,915,186**	12,981,115
Cash at bank and in hand	13	**4,245,146**	31,201,399
Total current assets		**22,239,432**	52,434,729
Creditors: amounts falling due within one year	14	**(36,185,687)**	(63,653,357)
Net current liabilities		**(13,946,255)**	(11,218,628)
Total assets less current liabilities		**339,125, 904**	360,844,261
Creditors: amounts falling due after more than one year	15	**(304,880,626)**	(327,029,417)
Government grants	16	**(8,232,387)**	(8,624,891)
Provisions for liabilities	17	**(10,843,093)**	(9,853,541)
Deferred taxation	18	**(24,294,724)**	(21,029,642)
Net liabilities		**(9,124,926)**	(5,693,230)
Capital and reserves			
Called up share capital	19	**99,999**	99,999
Profit and loss account	20	**(9,224,925)**	(5,793,229)
Equity shareholders' deficit	24	**(9,124,926)**	(5,693,230)

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

K. McC 27/3/08

Kevin McCullough
Director

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

Company balance sheet
As at 31 December 2007

	Note	2007 £	2006 £
Fixed assets			
Investments	8	**100,000**	100,000
		100,000	100,000
Current assets			
Debtors recoverable within one year	11	**4,929,872**	4,819,370
Cash at bank and in hand	13	**3,077**	2,974
Total current assets		**4,932,949**	4,822,344
Creditors: amounts falling due within one year	14	**(9,219,155)**	(7,621,914)
Net current liabilities		**(4,286,206)**	(2,799,570)
Debtors, recoverable after more than one year	12	**74,818,807**	78,836,338
Total assets less current liabilities		**70,632,601**	76,136,768
Creditors: amounts falling due after more than one year	15	**(74,818,807)**	(78,836,338)
Net liabilities		**(4,186,206)**	(2,699,570)
Capital and reserves			
Called up share capital	19	**99,999**	99,999
Profit and loss account	20	**(4,286,207)**	(2,799,569)
Equity shareholders' deficit	24	**(4,186,206)**	(2,699,570)

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

K. McCullough 27/3/08

Kevin McCullough
Director

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

Group cash flow statement
For the year ended 31 December 2007

	Note	2007 £	2006 £
Net cash inflow from operating activities	25	**55,681,938**	33,551,514
Returns on investments and servicing of finance			
Interest received		**1,727,498**	702,473
Interest paid		**(17,014,604)**	(10,131,058)
Taxation		**(1,513,677)**	(67,613)
Acquisitions and disposals			
Payments to acquire investments in subsidiary undertakings		**(27,098,791)**	(42,339,118)
Net cash acquired with subsidiary undertaking		-	(457,977)
		11,782,364	(18,741,779)
Management of liquid resources and financing			
Increase in debt		**5,048,080**	138,405,742
Capital element of debt repayments		**(43,786,692)**	(105,745,212)
		(38,738,612)	32,660,530
Increase / (Decrease) in cash in the period		**(26,956,248)**	13,918,751

Reconciliation of net cash flow to movement in net debt

	Note	2007 £	2006 £
Increase in cash in the period		**(26,956,248)**	13,918,751
Cash inflow from increase in debt		**38,738,612**	(32,660,530)
Change in net debt resulting from cash flows		**11,782,364**	(18,741,779)
Cash acquired with subsidiary		-	457,977
Unwind of Discount on Deep Discounted Bond		**(13,531,175)**	-
Amortisation of transaction costs		**(1,103,161)**	
Accrued interest on debt		**(337,692)**	
Loans acquired with subsidiaries			(87,635,599)
Movement in net debt in the period		**(3,189,664)**	(105,919,401)
Opening net debt		**(323,852,502)**	(217,933,101)
Closing net debt	26	**(327,042,166)**	(323,852,502)

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 2007

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 subsidiaries 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

Turnover

Turnover represents income from the generation of electricity and includes asset manufacturer warranty income claims for lost generation. 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 2007 *(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

Notes to the financial statements for the year ended 31 December 2007 *(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

Notes to the financial statements for the year ended 31 December 2007 *(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 tax 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

	2007	2006
	£	£
Group		
Operating profit is stated after charging		
Depreciation of owned tangible fixed assets	**23,863,531**	17,378,944
Operating lease charges – other	**1,366,863**	831,151
Audit services – company	**7,000**	5,000
Audit services – group	**58,000**	45,000

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

	2007	2006
Group	£	£
Amortisation of debt issue costs	**1,103,161**	873,842
Accrued discount on Deep Discount Bonds	**13,531,175**	8,093,020
Debt interest	**16,000,960**	9,990,845
Decommissioning provision – unwind of discount	**658,138**	438,769
Bank interest payable	**693,199**	929
	31,986,633	19,397,405

Notes to the financial statements for the year ended 31 December 2007 *(continued)*

6. Tax on profit / (loss) on ordinary activities

	2007	2006
	Group	Group
	£	£
Current tax:		
Corporation tax	**1,489,059**	455,301
Adjustment in respect of prior years	**(249,931)**	-
Total current tax (see below)	**1,239,128**	455,301
Deferred tax (see note 18):		
Origination and reversal of timing differences	**4,004,477**	1,744,789
Adjustment in respect of prior periods	**995,942**	482,213
Impact of change in UK tax rate	**(1,735,337)**	-
Total deferred tax	**3,265,082**	2,227,002
Tax charge on profit/(loss) on ordinary activities	**4,504,210**	2,682,303

Under an existing arrangement agreed at the time of the acquisition, the post-tax benefit of additional ROC income arising in respect of these pre-acquisition ROC's is payable to the original vendor On this basis, the additional ROC income and tax thereon has been transferred to reserves This has resulted in a decrease in the current tax charge in the year arising from pre-acquisition ROC income not reflected in the consolidated profit before tax The post tax-benefit of ROC income paid to the vendor has been treated as additional deferred consideration in fixed asset investments.

The tax assessed for the year is higher (2006: higher) than the standard rate of corporation tax in the UK (30%) The differences are explained below

	2007	2006
	Group	Group
	£	£
Profit/(loss) on ordinary activities before tax	**1,072,514**	(2,033,333)
Profit/(loss) on ordinary activities multiplied by the standard rate in the UK – 30%	**321,753**	(610,000)
Expenses not deducted for tax purposes	**2,375,081**	346,464
Non tax-deductible fair value amortisation arising on consolidation	**2,351,015**	1,487,931
Depreciation in excess of capital allowances	**(5,167,563)**	(2,147,625)
Depreciation in respect of assets acquired intragroup	**445,688**	975,695
Other timing differences	**1,186,295**	404,651
Utilisation of losses brought forward	**(23,210)**	(1,815)
Adjustment in respect of prior years	**(249,931)**	-
Current tax charge for the year	**1,239,128**	455,301

Factors that may affect future tax charges.

The standard rate of Corporation Tax in the UK changes to 28% with effect from 1 April 2008

Notes to the financial statements for the year ended 31 December 2007 *(continued)*

7. Tangible fixed assets

Group	Operating wind farms £
Cost	
At 1 January 2007	402,750,641
Additions	4,872,801
At 31 December 2007	**407,623,442**
Depreciation	
At 1 January 2007	30,687,752
Charge for year	23,863,531
At 31 December 2007	**54,551,283**
Net book value at 31 December 2007	**353,072,159**
Net book value at 31 December 2006	372,062,889

See Note 28 for details of the charges over the assets

8. Fixed asset investments

Company	Shares in group undertakings £
Cost	
At 1 January 2007	100,000
Write down of investment in group undertakings	-
At 31 December 2007	**100,000**

The principal subsidiaries of the Group are listed on page 28

Notes to the financial statements for the year ended 31 December 2007 *(continued)*

9. Stocks

Group	2007 £	2006 £
Consumables	**79,100**	165,600

10. Renewables Obligation Certificates

Group	2007 £	2006 £
Renewables Obligation Certificates	-	8,086,615

Income from Renewable Obligation Certificates is recognised as other operating income. The difference between the actual income received on redemption and the amount accrued as at 29 December 2006 has been taken through the profit and loss account for the period ended 31 December 2007.

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.

11. Debtors: recoverable within one year

	2007		2006	
	Group £	**Company £**	Group £	Company £
Trade debtors	**8,231,913**	-	3,516,036	-
Amounts owed by group undertakings	-	**88,981**	-	88,981
Deferred tax	-	**1,609,422**	-	538,085
Other debtors	**773,839**	**7,418**	1,015,088	-
Corporation tax debtor	-		-	-
Prepayments and accrued income	**8,909,434**	-	8,449,991	-
Deep discount bonds (Note 21)	-	**3,224,051**	-	4,192,304
	17,915,186	**4,929,872**	12,981,115	4,819,370

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 (2006: £88,981) of group relief receivable.

Notes to the financial statements for the year ended 31 December 2007 *(continued)*

12. Debtors: recoverable after more than one year

	2007 Group	2007 Company	2006 Group	2006 Company
	£	£	£	£
Deep discount bonds (Note 21)	-	74,818,807	-	78,836,338

13. Cash at bank and in hand

At 31 December 2007 group cash balances with banks include £ 1,346,246 (2006: £1,156,453) 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

	2007 Group	2007 Company	2006 Group	2006 Company
	£	£	£	£
Deep discount bonds (Note 22)	3,187,990	3,224,051	4,178,288	4,192,304
Bank loans (Note 22)	23,218,695	-	23,846,190	-
Bank overdraft (Note 22)	-	-	5	-
Trade creditors	311,999	-	325,577	-
Amounts owed to group undertakings	-	5,388,267	-	2,974,309
Corporation tax	606,837	606,837	455,301	455,301
Other taxation and social security	3,619,083	-	3,775,511	-
Other creditors	688,480	-	23,096,762	-
Accruals and deferred income	4,552,603	-	7,975,723	-
	36,185,687	9,219,155	63,653,357	7,621,914

Amounts owed to group undertakings includes £3,227,050 (2006 £1,725,170) 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

	2007 Group	2007 Company	2006 Group	2006 Company
	£	£	£	£
Deep discount bonds (Note 22)	73,877,983	74,818,807	77,854,331	78,836,338
Bank loans (Note 22)	231,002,643	-	249,175,086	-
	304,880,626	74,818,807	327,029,417	78,836,338

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

Notes to the financial statements for the year ended 31 December 2007 *(continued)*

16. Government grants

	2007 £	2006 £
Amounts brought forward	**8,624,891**	9,118,821
Amounts acquired	**100,000**	-
Released to profit and loss account in period	**(492,504)**	(493,930)
Amounts carried forward	**8,232,387**	8,624,891
Due for release within one year	**493,853**	492,654
Due for release in two to five years	**1,971,365**	1,971,965
Due for release in more than five years	**5,767,169**	6,160,272
	8,232,387	8,624,891

17. Provisions for liabilities

	31 December 2006 £	Charged/ (released) £	Unwinding of discount £	**31 December 2007 £**
Decommissioning costs	9,833,869	-	658,137	**10,492,006**
Ffynnon Oer curtailment	-	334,170	-	**334,170**
Eagle Habitat rehabilitation	19,672	(2,755)	-	**16,917**
Total	9,853,541	331,415	658,137	**10,843,093**

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 4.48%.

Notes to the financial statements for the year ended 31 December 2007 *(continued)*

18. Deferred taxation

	2007	2006
Analysis of deferred tax balance	**£**	£
Timing differences in respect of capital allowances	**25,907,757**	21,594,168
Other timing differences	**(1,609,422)**	(538,085)
Losses carried forward	**(3,611)**	(26,441)
	24,294,724	21,029,642

Group	2007	2006
	£	£
Deferred tax brought forward	**21,029,642**	13,912,571
Charge for the year (see note 6)	**3,274,625**	2,227,002
Acquired with subsidiary companies	**-**	4,897,654
Prior year adjustment in respect of acquired with subsidiary companies	**(9,543)**	(7,585)
Closing provision	**24,294,724**	21,029,642

A number of changes to the UK Corporation Tax system were announced in the March 2007 Budget Statement and are expected to be enacted in the 2008 Finance Act The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

The effect of the changes to be enacted in the Finance Act 2008 would be to increase the deferred tax liability provided at 31 December 2007 by approximately £3,025,000 in 2008. This £3,025,000 increase in the deferred tax liability would decrease profit for the year by £3,025,000. This increase in the deferred tax liability is due to the phasing out of industrial buildings allowances from 2008 onwards

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	100,000
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	99,999

Notes to the financial statements for the year ended 31 December 2007 *(continued)*

20. Reserves

	2007		2006	
	Group	**Company**	Group	Company
	£	**£**	£	£
Opening profit and loss account	**(5,793,229)**	**(2,799,569)**	(1,077,593)	(193,608)
Loss for the financial year	**(3,431,696)**	**(1,486,638)**	(4,715,636)	(2,605,961)
Closing profit and loss account	**(9,224,925)**	**(4,286,207)**	(5,793,229)	(2,799,569)

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 £1,486,638 (2006 loss £2,605,961)

21. Financial assets

(a) Deep Discount Bonds

	2007		2006	
Deep Discount Bonds	**Group**	**Company**	Group	Company
	£	**£**	£	£
Due within one year	-	**3,224,050**	-	**4,192,304**
Due in more than one year but less than two	-	**213,421**	-	**3,892,532**
Due in more than two years but less than three	-	**410,292**	-	**1,285,682**
Due in more than three years but less than four	-	**453,870**	-	**602,035**
Due in more than four years but less than five	-	**(27,051)**	-	**419,790**
Due in more than five years	-	**73,768,276**	-	**72,636,299**
Total Deep Discount Bonds	-	**78,042,858**	-	**83,028,642**

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 15 81% 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 15.92% 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 19.10% per annum for the period of the instrument.

Notes to the financial statements for the year ended 31 December 2007 *(continued)*

21. Financial assets *(continued)*

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 £78,042,858 (2005· £83,028,642)

(b) Cash

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

22. Financial liabilities

(a) Deep Discount Bonds

	2007		2006	
Deep Discount Bonds	**Group**	**Company**	Group	Company
	£	**£**	£	£
Due within one year	**3,187,990**	**3,224,050**	4,178,289	4,192,304
Due in more than one year but less than two	**208,724**	**213,421**	3,842,667	3,892,532
Due in more than two years but less than three	**404,838**	**410,292**	1,269,649	1,285,682
Due in more than three years but less than four	**448,012**	**453,870**	595,145	602,035
Due in more than four years but less than five	**(28,341)**	**(27,051)**	415,281	419,790
Due in more than five years	**72,844,750**	**73,768,276**	71,731,589	72,636,299
Total Deep Discount Bonds	77,065,973	78,042,858	82,032,620	83,028,642

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 15 81% 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 15 92% per annum for the period of the instrument.

Notes to the financial statements for the year ended 31 December 2007 *(continued)*

22. Financial Liabilities *(continued)*

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 19.10% 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

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

	2007		2006	
Bank loans	**Group**	**Company**	Group	Company
	£	**£**	£	£
Due within one year	**23,218,695**	-	23,846,191	-
Due in more than one year but less than two	**22,155,685**	-	23,032,739	-
Due in more than two years but less than three	**21,729,974**	-	21,873,700	-
Due in more than three years but less than four	**21,742,540**	-	21,442,425	-
Due in more than four years but less than five	**22,178,629**	-	21,440,475	-
Due in more than five years	**143,195,815**	-	161,385,746	-
Total bank loans	**254,221,338**	-	273,021,276	-

The aggregate amount of the bank loans comprises, £261,964,772 principal less £7,743,434 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.

Notes to the financial statements for the year ended 31 December 2007 *(continued)*

22. Financial Liabilities *(continued)*

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

The total interest payable on the bank loans for the year ended 31 December 2007 was £16,000,960 (2006 £9,990,845)

The fair value of the bank loans as at 31 December 2007 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 -

	2007		2006	
Derivative Financial Instruments	**Group**	**Company**	Group	Company
	£	**£**	£	£
Interest Rate Swaps	**245,308,333**	-	262,678,221	-

Notes to the financial statements for the year ended 31 December 2007 *(continued)*

23. Other financial instruments *(continued)*

At 31 December 2007 the fixed interest rates varied from 4.62% to 6 25% (as at 31 December 2006 fixed rates varied from 5.53% to 6.21%)

As at 31 December 2007, the fair value of the interest rate swaps was £2,050,229 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

(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 2007 the amounts payable that have been hedged under forward foreign currency contracts was £76,938 lower than the amounts payable had the Group not entered into these contracts.

24. Reconciliation of movements in shareholders' funds

	2007		2006	
	Group £	**Company** £	Group £	Company £
Loss for the financial year	**(3,431,696)**	**(1,486,636)**	(4,715,636)	(2,605,961)
Opening shareholders' deficit	**(5,693,230)**	**(2,699,570)**	(977,594)	(93,609)
Closing shareholders' deficit	**(9,124,926)**	**(4,186,206)**	(5,693,230)	(2,699,570)

25. Reconciliation of operating profit to net cash inflow from operating activities

	2007 £	2006 £
Operating profit	**31,331,649**	16,661,598
Depreciation charges	**23,863,531**	17,378,944
Decrease in stocks	**86,500**	(5,083)
Decrease in debtors	**3,152,541**	19,840,459
Decrease in creditors	**(2,752,283)**	(20,324,404)
Net cash inflow from operating activities	**55,681,938**	33,551,514

Notes to the financial statements for the year ended 31 December 2007 *(continued)*

26. Analysis of net debt

	At 1 January 2007	Cash Flow	Other Non-Cash items	At 31 December 2007
	£	£	£	£
Cash in hand, at bank	31,201,399	(26,956,253)	-	4,245,146
Overdrafts	(5)	5	-	-
Debt due within 1 year	(28,024,479)	29,448,026	(28,968,867)	(27,545,320)
Debt due after 1 year	(327,029,417)	9,290,586	13,996,839	(303,741,992)
Total	**(323,852,502)**	**11,782,364**	**(14,972,028)**	**(327,042,166)**

27. Financial commitments

At 31 December 2007 the group had annual commitments of £675,895 (2006· £648,417) 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

Notes to the financial statements for the year ended 31 December 2007 *(continued)*

28. 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 2007 the following balances were held with related parties.

	Related party transactions £	31 December 2007 £
Englefield Custody Ltd: management fees and costs	30,273	-
RWE Npower plc· management fees	2,570,530	648,097
Npower Ltd electricity purchases	385,370	83,258
Wind Power First Euro (Finance) Investments LP· management fees and costs	45,082	(7,418)
JPMorgan Investment Management Inc management fees	32,323	-
M&G Investment Management Limited management fees	32,323	-
Npower Ltd· electricity sales	54,166,029	12,054,791

Wind Power First Euro (Finance) Investments LP and The Englefield Zephyr Partnership LP disposed of their investment in Zephyr Investments Limited during the year

Infracapital Partners LP acting by its manager M&G Investment Management Limited, Infrastructure Investments Fund (IIF) being advised by JPMorgan Investment Management Inc and RWE Npower plc are all investors in Zephyr Investments Limited

Npower Limited is a subsidiary of RWE Npower plc

29. Ultimate parent company

As at 31 December 2007, 33.33% of Zephyr's share capital was owned by Zelda Acquisitions Limited, 33 33% by IIF Zelda DDB Short Term UK Holdco Limited and 33 33% by RWE Npower plc and therefore at that date there was no single company with a controlling interest.

On the 1 February 2008 RWE Npower plc transferred its 33.33% shareholding in Zephyr Investments Limited to RWE Innogy UK Limited.

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