

ZEPHYR INVESTMENTS LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

Registered Number 4712921

WEDNESDAY



A19 *A9Q7Z8NA* 151
01/04/2009
COMPANIES HOUSE

Contents	Page
Directors' report	1
Auditors' report	5
Group profit and loss account	7
Group balance sheet	8
Company balance sheet	9
Group cash flow statement	10
Notes to the financial statements	11
Principal subsidiaries	25

Directors' report for the year ended 31 December 2008

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 2008.

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 25 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 2008.

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.

The results for the year are dealt with on page 7 of the financial statements. The Group profit on ordinary activities after taxation for the year ended 31 December 2008 was £2,245,045 (year ended 31 December 2007: loss £3,431,696).

The position of the Group at the end of the year is provided on page 8 of the financial statements. The group net deficit as at 31 December 2008 was £6,879,881 (net deficit as at 31 December 2007: £9,124,926).

During the year the Group repaid £40,619,989 (year ended 31 December 2007: £43,786,692) 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.

Dividends

The directors have not recommended payment of a dividend (year ended 31 December 2007: £nil).

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.

Financial risk management

The Company's operations expose it to a variety of financial risks that include interest rate risk, currency risk, price risk, credit risk, liquidity and cash flow risk. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs.

Directors' report for the year ended 31 December 2008 (continued)

Financial risks

(a) Interest rate risk

The Group's only interest bearing asset is cash, which earns interest at variable rate.

The Group maintains a policy, in line with loan facility agreement, of using floating to fixed interest rate swaps for bank debt. This policy ensures stability of future interest cash out flows and hence manages interest rate risk.

The directors will revisit the appropriateness of this policy should the Company's operations change in size or nature.

(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 (NFFA)/NFFA (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.

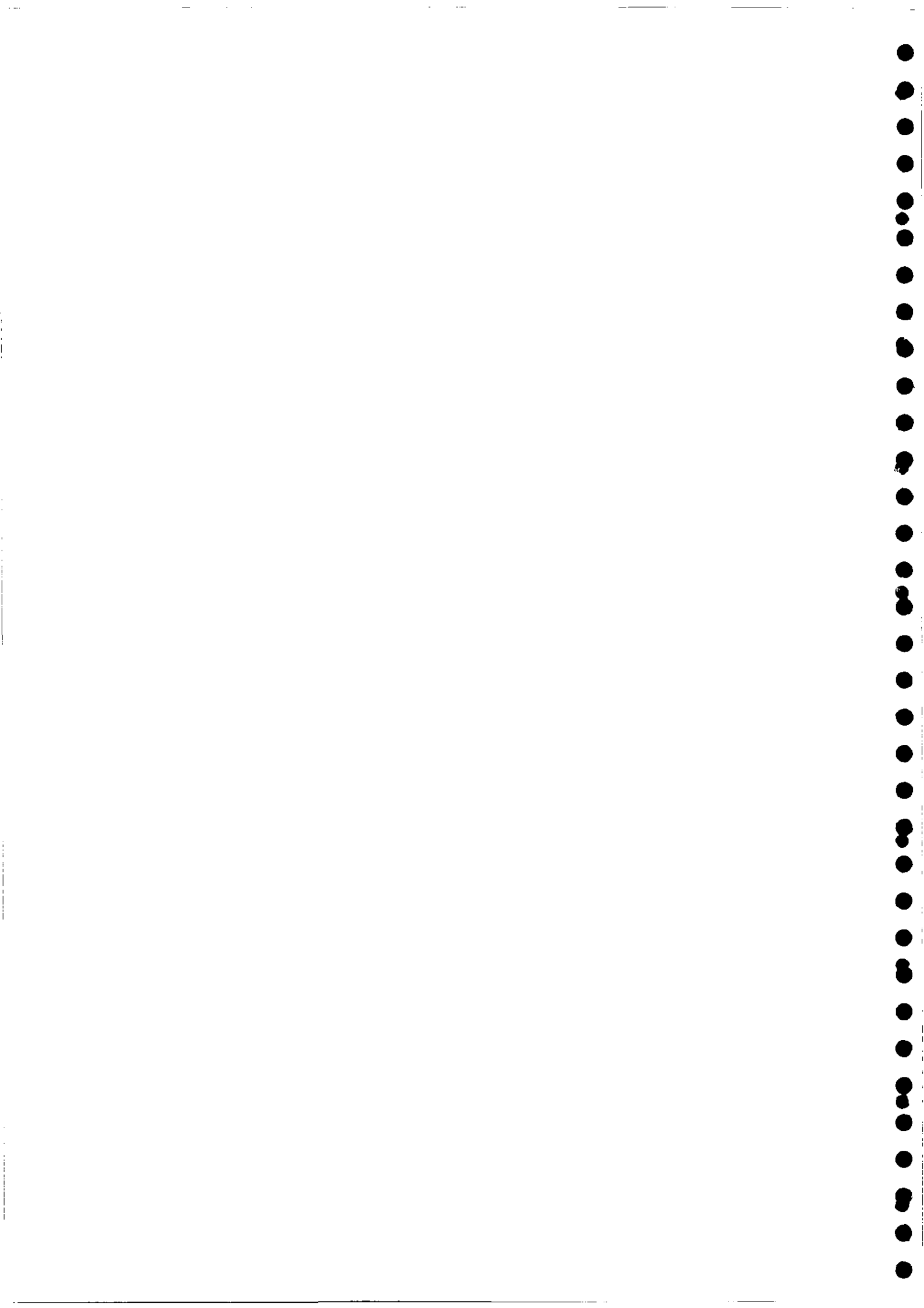
The NFFA and the NFFA (Scotland) are governmental agencies are therefore not considered to be a significant risk.

(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 NFFA/NFFA (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 2008 (continued)

Directors and their interests

The directors who held office during the year were as follows:

H Bunting	(appointed 1 February 2008)
G Chatas	(Alternate)
M Chladek	
J Cooper	(Alternate)
P Cowling	(Alternate) (appointed 24 April 2008)
S Lilley	
K McCullough	
M Nagle	
A Pena	(Alternate)
S Toor	(appointed 4 December 2008)
J Zibbarras	(resigned 4 December 2008)
K Akhurst	(resigned 1 February 2008)
V B Beckers	(resigned 1 February 2008)

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 year. As permitted by statutory instrument, the register does not include shareholdings of directors in companies incorporated outside Great Britain.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that year.

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 UK 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 Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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 that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report for the year ended 31 December 2008 (*continued*)

Auditors and disclosure 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

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

25 March 2009

We have audited the Group and parent company financial statements (the "financial statements") of Zephyr Investments Limited for the year ended 31 December 2008 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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 also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we 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 other 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 Group's and 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.

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 the parent company's affairs as at 31 December 2008 and of the Group's profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
26 March 2009

Zephyr Investments Limited
Directors' report and financial statements

Group profit and loss account
For the year ended 31 December

	Note	2008 £	2007 £
Turnover		74,611,040	72,092,179
Cost of sales	2	(39,082,519)	(40,276,197)
Gross profit		35,528,521	31,815,982
Administrative expenses		(1,436,194)	(484,333)
Profit on ordinary activities before interest and taxation		34,092,327	31,331,649
Interest receivable and similar income		867,676	1,727,498
Interest payable and similar charges	5	(29,398,972)	(31,986,633)
Profit on ordinary activities before taxation		5,561,031	1,072,514
Tax charge on profit on ordinary activities	6	(3,315,986)	(4,504,210)
Profit/(loss) for the financial year		2,245,045	(3,431,696)

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 25 form an integral part of these financial statements.



Zephyr Investments Limited
Directors' report and financial statements

Group balance sheet
As at 31 December

	Note	2008 £	2007 £
Fixed assets			
Tangible assets	7	334,064,546	353,072,159
		334,064,546	353,072,159
Current assets			
Stocks	9	423,114	79,100
Debtors: recoverable within one year	10	8,271,500	17,915,186
Cash at bank and in hand	12	11,450,929	4,245,146
		20,145,543	22,239,432
Creditors: amounts falling due within one year	13	(28,586,915)	(36,185,687)
Net current liabilities		(8,441,372)	(13,946,255)
Total assets less current liabilities		325,623,174	339,125,904
Creditors: amounts falling due after more than one year	14	(282,522,144)	(304,880,626)
Government grants	15	(7,832,237)	(8,232,387)
Deferred tax	17	(27,375,849)	(24,294,724)
Provisions for liabilities and charges	16	(14,772,825)	(10,843,093)
Net liabilities		(6,879,881)	(9,124,926)
Capital and reserves			
Called up share capital	18	99,999	99,999
Profit and loss account	19	(6,979,880)	(9,224,925)
Equity shareholders' deficit	23	(6,879,881)	(9,124,926)

The financial statements on pages 7 to 25 were approved by the board of directors and signed on its behalf by



Paul Cowling
 Director
 25 March 2009

The accounting policies and notes on pages 11 to 25 form an integral part of these financial statements.

Zephyr Investments Limited
Directors' report and financial statements

Company balance sheet
As at 31 December

	Note	2008 £	2007 £
Fixed assets			
Investments	8	100,000	100,000
		100,000	100,000
Current assets			
Debtors: recoverable within one year	10	3,983,026	4,929,872
Cash at bank and in hand		3,163	3,077
		3,986,189	4,932,949
Creditors: amounts falling due within one year	13	(1,543,622)	(9,219,155)
Net current assets/(liabilities)		2,442,567	(4,286,206)
Debtors: recoverable after more than one year	11	74,616,003	74,818,807
Total assets less current liabilities		77,158,570	70,632,601
Creditors: amounts falling due after more than one year	14	(74,616,003)	(74,818,807)
Net assets/(liabilities)		2,542,567	(4,186,206)
Capital and reserves			
Called up share capital	18	99,999	99,999
Profit and loss account	19	2,442,568	(4,286,205)
Total shareholders' funds/(deficit)	23	2,542,567	(4,186,206)

The financial statements on pages 7 to 25 were approved by the board of directors and signed on its behalf by



Paul Cowling
 Director
 25 March 2009

The accounting policies and notes on pages 11 to 25 form an integral part of these financial statements.

Group cash flow statement
For the year ended 31 December

	Note	2008 £	2007 £
Net cash inflow from operating activities	24	63,518,034	55,681,938
Returns on investments and servicing of finance			
Interest received		867,676	1,727,498
Interest paid		(15,865,181)	(17,014,604)
Taxation		(841,698)	(1,513,677)
Acquisitions and disposals			
Payments to acquire investments in subsidiary undertakings		146,941	(27,098,791)
		47,825,772	11,782,364
Management of liquid resources and financing			
Increase in debt		-	5,048,080
Capital element of debt repayments		(40,619,989)	(43,786,692)
		(40,619,989)	(38,738,612)
Increase / (Decrease) in cash in the year		7,205,783	(26,956,248)

Reconciliation of net cash flow to movement in net debt

	Note	2008 £	2007 £
Increase in cash in the year		7,205,783	(26,956,248)
Cash inflow from increase in debt		40,619,989	38,738,612
Change in net debt resulting from cash flows		47,825,772	11,782,364
Unwind of Discount on Deep Discounted Bond		(12,923,145)	(13,531,175)
Amortisation of transaction costs		(1,138,637)	(1,103,161)
Accrued interest on debt		51,278	(337,692)
Movement in net debt during the year		33,815,268	(3,189,664)
Opening net debt		(327,042,166)	(323,852,502)
Closing net debt	25	(293,226,898)	(327,042,166)

The accounting policies and notes on pages 11 to 25 form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2008

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 year 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.

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.

Taxation

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

Notes to the financial statements for the year ended 31 December 2008

Tangible fixed assets and depreciation

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

For all tangible fixed assets depreciation is provided on a daily 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.

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.

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.

Stock relates to component spares for consumption within assets held by the Group.

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.

Notes to the financial statements for the year ended 31 December 2008

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.

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

	2008	2007
	£	£
Group		
Operating profit is stated after charging:		
Depreciation of owned tangible fixed assets	22,782,997	23,863,531
Operating lease charges – other	1,475,720	1,366,863
Audit services – Company	7,690	7,000
Audit services – Group	64,076	58,000
Non-audit services	65,517	-

3. Directors' emoluments

The directors did not receive any remuneration during the year (2007: £nil).

4. Employee information

Other than the directors, the Company had no employees for the year under review (2007: nil).

5. Interest payable and similar charges

	2008	2007
	£	£
Group		
Amortisation of debt issue costs	1,138,636	1,103,161
Accrued discount on Deep Discount Bonds	12,923,145	13,531,175
Debt interest	15,023,661	16,000,960
Decommissioning provision – unwind of discount	205,024	658,138
Bank and other interest	108,506	693,199
	29,398,972	31,986,633

Notes to the financial statements for the year ended 31 December 2008

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

Group	2008 £	2007 £
Current tax:		
Corporation tax	2,006,297	1,489,059
Adjustment in respect of prior years	(1,771,436)	(249,931)
Total current tax (see below)	234,861	1,239,128
Deferred tax (see note 17):		
Origination and reversal of timing differences	2,183,692	4,004,477
Adjustment in respect of prior periods	(60,438)	995,942
Impact of change in UK tax rates and laws	957,871	(1,735,337)
Total deferred tax	3,081,125	3,265,082
Tax charge on profit on ordinary activities	3,315,986	4,504,210

The tax assessed for the year is lower (2007: higher) than the standard rate of corporation tax in the UK (28.5%) (2007: 30%). The differences are explained below:

Group	2008 £	2007 £
Profit on ordinary activities before tax	5,561,032	1,072,514
Profit on ordinary activities multiplied by the standard rate in the UK – 28.5% (2007: 30%)	1,584,894	321,753
Expenses not deducted for tax purposes	203,135	2,375,081
Non tax-deductible fair value amortisation arising on consolidation	2,033,350	2,351,015
Depreciation in excess of capital allowances	(2,180,081)	(5,167,563)
Depreciation in respect of assets acquired intragroup	407,604	445,688
Other timing differences	-	1,186,295
Utilisation of losses brought forward	(3,611)	(23,210)
Impact of change in UK tax rate	(38,994)	-
Adjustment in respect of prior years	(1,771,436)	(249,931)
Current tax charge for the year	234,861	1,239,128

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



Notes to the financial statements for the year ended 31 December 2008

7. Tangible fixed assets

Group	Decommissioning asset £	Operating wind farms £	Total £
Cost			
At 1 January 2008	9,000,000	398,623,442	407,623,442
Additions	3,368,180	-	3,368,180
Revisions during the year	-	407,204	407,204
At 31 December 2008	12,368,180	399,030,646	411,398,826
Accumulated Depreciation			
At 1 January 2008	1,553,773	52,997,510	54,551,283
Charge for the year	445,105	22,337,892	22,782,997
At 31 December 2008	1,998,878	75,335,402	77,334,280
At 31 December 2008	10,369,302	323,695,244	334,064,546
At 31 December 2007	7,446,227	345,625,932	353,072,159

See Note 26 for details of the charges over the assets.

8. Fixed asset investments

Company	£
Cost	
At 1 January 2008	100,000
At 31 December 2008	100,000

Investments comprise of shares in group undertakings. The principal subsidiaries of the Group are listed on page 25.

9. Stocks

Group	2008 £	2007 £
Consumables	423,114	79,100



Notes to the financial statements for the year ended 31 December 2008

10. Debtors: recoverable within one year

	2008		2007	
	Group £	Company £	Group £	Company £
Trade debtors	1,743,924	-	8,231,913	-
Amounts owed by group undertakings	-	1,804,686	-	88,981
Deferred tax	-	-	-	1,609,422
Other debtors	33,791	7,418	773,839	7,418
Corporation tax debtor	164,625	2,170,922	-	-
Prepayments and accrued income	6,329,160	-	8,909,434	-
Deep discount bonds (note 20)	-	-	-	3,224,051
	8,271,500	3,983,026	17,915,186	4,929,872

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

The Company disclosure for amounts owed by group undertakings includes £1,804,686 (2007: £88,981) of group relief receivable.

11. Debtors: recoverable after more than one year

	2008		2007	
	Group £	Company £	Group £	Company £
Deep discount bonds (Note 20)	-	74,616,003	-	74,818,807

12. Cash at bank and in hand

At 31 December 2008 group cash balances with banks include £1,376,990 (2007: £1,346,246) 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.

13. Creditors: amounts falling due within one year

	2008		2007	
	Group £	Company £	Group £	Company £
Deep discount bonds (Note 21)	-	-	3,187,990	3,224,051
Bank loans (Note 21)	22,155,685	-	23,218,695	-
Trade creditors	94,531	-	311,999	-
Amounts owed to group undertakings	-	1,543,622	-	5,388,267
Corporation tax	-	-	606,837	606,837
Other taxation and social security	1,527,181	-	3,619,083	-
Other creditors	-	-	688,480	-
Accruals and deferred income	4,809,518	-	4,552,603	-
	28,586,915	1,543,622	36,185,687	9,219,155

Amounts owed to group undertakings includes £358,904 (2007: £3,227,050) of group relief payable.

Details of security given in respect of long term borrowings are provided in note 26.

Notes to the financial statements for the year ended 31 December 2008

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

	2008		2007	
	Group	Company	Group	Company
	£	£	£	£
Deep discount bonds (Note 21)	73,675,183	74,616,003	73,877,983	74,818,807
Bank loans (Note 21)	208,846,961	-	231,002,643	-
	282,522,144	74,616,003	304,880,626	74,818,807

Details of security given in respect of long term borrowings are provided in note 26.

15. Government grants

Group	2008	2007
	£	£
Amounts brought forward	8,232,387	8,624,891
Amounts acquired	100,000	100,000
Released to profit and loss account during the year	(500,150)	(492,504)
Amounts carried forward	7,832,237	8,232,387
Due for release within one year	508,531	493,853
Due for release in two to five years	2,034,126	1,971,365
Due for release in more than five years	5,289,580	5,767,169
	7,832,237	8,232,387

16. Provisions for liabilities and charges

Group	1 January	Charged	Unwinding of	31 December
	2008		discount	2008
	£	£	£	£
Decommissioning costs	10,492,006	3,368,183	205,024	14,065,213
Ffynnon Oer curtailment	334,170	-	-	334,170
Eagle Habitat rehabilitation	16,917	9,804	-	26,721
Construction outstanding	-	346,721	-	346,721
Total	10,843,093	3,724,708	205,024	14,772,825

The provision for decommissioning of wind farms represents the net present value of the Group's best estimate of the costs to decommission the wind farms at the end of their useful lives. The provision has been discounted to its present value at 3.91%.

Notes to the financial statements for the year ended 31 December 2008

17. Deferred taxation

Group	2008	2007
	£	£
Analysis of deferred tax balance		
Timing differences in respect of capital allowances	27,375,849	25,907,757
Other timing differences	-	(1,609,422)
Losses carried forward	-	(3,611)
	27,375,849	24,294,724

Group	2008	2007
	£	£
Deferred tax brought forward	24,294,724	21,029,642
Charge for the year (see note 6)	3,081,125	3,274,625
Prior year adjustment in respect of acquired with subsidiary companies	-	(9,543)
Closing provision	27,375,849	24,294,724

18. 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 2008

19. Reserves

	2008		2007	
	Group £	Company £	Group £	Company £
Opening profit and loss account	(9,224,925)	(4,286,205)	(5,793,229)	(2,799,569)
Profit/(loss) for the financial year	2,245,045	1,699,413	(3,431,696)	(1,486,636)
Dividend received during the year	-	5,029,364	-	-
Closing profit and loss account	(6,979,880)	2,442,568	(9,224,925)	(4,286,205)

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 profit for the financial year was £1,699,413 (2007: loss £1,486,636).

20. Financial assets

(a) Deep Discount Bonds

	2008		2007	
	Group £	Company £	Group £	Company £
Deep Discount Bonds				
Due within one year	-	-	-	3,224,050
Due in more than one year but less than two	-	770,572	-	213,421
Due in more than two years but less than three	-	1,005,681	-	410,292
Due in more than three years but less than four	-	385,399	-	453,870
Due in more than four years but less than five	-	159,145	-	(27,051)
Due in more than five years	-	72,295,206	-	73,768,276
Total Deep Discount Bonds	-	74,616,003	-	78,042,858

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.

A shareholders agreement permits early redemption of the deep discount bonds and the above maturity profile reflects the expected redemptions based on available cash flows.

Notes to the financial statements for the year ended 31 December 2008

20. Financial assets (continued)

The unwinding of the discount is charged to the profit and loss account to the year to 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 2008 was £74,616,003 (2007: £78,042,858).

(b) Cash

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

21. Financial liabilities

(a) Deep Discount Bonds

Deep Discount Bonds	2008		2007	
	Group £	Company £	Group £	Company £
Due within one year	-	-	3,187,990	3,224,050
Due in more than one year but less than two	753,098	770,572	208,724	213,421
Due in more than two years but less than three	997,216	1,005,681	404,838	410,292
Due in more than three years but less than four	381,839	385,399	448,012	453,870
Due in more than four years but less than five	157,350	159,145	(28,341)	(27,051)
Due in more than five years	71,385,679	72,295,206	72,844,750	73,768,276
Total Deep Discount Bonds	73,675,182	74,616,003	77,065,973	78,042,858

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.

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.

Notes to the financial statements for the year ended 31 December 2008

21. Financial Liabilities (continued)

The unwinding of the discount is charged to the profit and loss account to the year to 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.

A shareholders agreement permits early redemption of the deep discount bonds and the above maturity profile reflects the expected redemptions based on available cash flows.

(b) Bank loans

Bank loans	2008		2007	
	Group £	Company £	Group £	Company £
Due within one year	22,155,685	-	23,218,695	-
Due in more than one year but less than two	21,729,974	-	22,155,685	-
Due in more than two years but less than three	21,742,539	-	21,729,974	-
Due in more than three years but less than four	22,178,628	-	21,742,540	-
Due in more than four years but less than five	21,995,440	-	22,178,629	-
Due in more than five years	121,200,380	-	143,195,815	-
Total bank loans	231,002,646	-	254,221,338	-

The aggregate amount of the bank loans comprises; £237,643,503 principal less £6,640,857 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.

Notes to the financial statements for the year ended 31 December 2008

21. Financial Liabilities (continued)

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 22.

The total interest payable on the bank loans for the year ended 31 December 2008 was £15,023,661 (2007: £16,000,960).

The fair value of the bank loans as at 31 December 2008 is not considered to be materially different from their nominal values.

22. 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	2008		2007	
	Group £	Company £	Group £	Company £
Interest Rate Swaps	221,061,278	-	245,308,333	-

At 31 December 2008 the fixed interest rates varied from 4.62% to 5.3% (as at 31 December 2007 fixed rates varied from 4.62% to 5.3%)

As at 31 December 2008 the fair value of the interest rate swaps would have created a liability of £18,256,656 as the instrument is 'out of the money' at the balance sheet date. This has been 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 2021

(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.

Notes to the financial statements for the year ended 31 December 2008

22. Other financial Instruments (*continued*)

Based on exchange rates prevalent as at 31 December 2008 the amounts payable that have been hedged under forward foreign currency contracts was £397,954 higher than the amounts payable had the Group not entered into these contracts.

23. Reconciliation of movements in shareholders' funds

	2008		2007	
	Group £	Company £	Group £	Company £
Profit/(loss) for the financial year	2,245,045	1,699,411	(3,431,696)	(1,486,636)
Dividend paid in year	-	5,029,364	-	-
Opening shareholders' deficit	(9,124,926)	(4,186,206)	(5,693,230)	(2,699,570)
Closing shareholders' deficit	(6,879,881)	2,542,569	(9,124,926)	(4,186,206)

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

Group	2008 £	2007 £
Operating profit	34,092,327	31,331,649
Depreciation charges	22,782,997	23,863,531
(Increase)/decrease in stocks	(344,014)	86,500
Decrease in debtors	9,243,980	3,152,541
Decrease in creditors	(2,257,256)	(2,752,283)
Net cash inflow from operating activities	63,518,034	55,681,938

25. Analysis of net debt

Group	At 1 January 2008 £	Cash Flow £	Other Non- Cash Items £	At 31 December 2008 £
Cash in hand, at bank	4,245,146	7,205,783	-	11,450,929
Debt due within one year	(27,545,320)	40,182,086	(34,530,879)	(21,894,113)
Debt due after one year	(303,741,992)	437,903	20,250,376	(282,783,713)
Total	(327,042,166)	47,825,772	(14,280,503)	(293,226,897)



Notes to the financial statements for the year ended 31 December 2008

26. Financial commitments

At 31 December 2008 the group had annual commitments of £682,778 (2007: £675,895) 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.

27. 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 2008 the following balances were held with related parties:

Group	Related party transactions	31 December 2008
	£	£
RWE Npower Renewables Limited: management fees	(2,647,695)	-
RWE Npower Renewables Limited: scheduled maintenance fees	(171,330)	-
Npower Ltd: electricity purchases	(429,739)	(108,199)
JP Morgan	(74,447)	-
M&G Investment Management	(70,000)	-
Npower Ltd: electricity sales	53,482,355	4,519,775

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 Renewables Limited are all investors in Zephyr Investments Limited.

Npower Limited is a subsidiary of RWE Npower plc.

28. Ultimate parent Company

As at 31 December 2008, 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 Innogy (UK) Limited and therefore at that date there was no single Company with a controlling interest.

On 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