ZEPHYR INVESTMENTS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

Registered number: 04712921

Contents

Directors' report for the year ended 31 December 2011

The directors present their report and the audited consolidated financial statements of both Zephyr Investments Limited ("the Company") and for the group of companies (together referred to as "the Group") for the year ended 31 December 2011

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

The results for the year are dealt with on page 6 of the financial statements The Group profit on ordinary activities after taxation for the year ended 31 December 2011 was £1,201,831 (2010 loss £17,096,071)

The position of the Group at the end of the year is provided on page 7 of the financial statements The net liabilities of the Group as at 31 December 2011 was £24,624,593 (2010 £27,626,424)

During the year the Group repaid £22,925,281 (2010 £22,879,888) of debt

Principal risk and uncertainties

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

Dividends

The directors do not recommend the payment of a dividend (2010 £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

Based on the future forecasted cashflows from these wind farms, the Directors of the Group have deemed it appropriate to prepare these accounts on a going concern basis

Financial risk management

The Group'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 Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of debt finance and the related finance costs

Financial risks

(a) Interest rate risk

The Group's only interest bearing asset is cash, which earns interest at a 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

Directors' report for the year ended 31 December 2011

Financial risks *(continued)*

(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 wind farm

(d) Credit risk

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

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

(e) Liquidity and cash flow risk

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

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

Cash flows in respect of senior debt servicing are set out in the schedule of repayments with the respective loan agreements (see note 20)

Directors and their interests

The directors who held office during the year and up to the date of signing the financial statements were as follows

P Coffey	
M Nagle	
K Bradbury	
J Cooper	
H Bunting	
A Pena	(Alternate)
R Hardy	(Alternate)
J Lynch-Williams	
M Walters	

Directors' report for the year ended 31 December 2011

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and Company and of the loss or profit for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business,

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Disclosure of information to auditors

Each director of the Company confirms that

(a) so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(b) that each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

By order of the Board

D. Robinson

D Robinson
Company secretary

Auckland House
Lydiard Fields
Great Western Way
Swindon
Wiltshire
SN5 8ZT

19th March 2012

Registered number 04712921

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 2011 which comprise the Group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Reconciliation of Net Cash Flow to movement in Net Debt, and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2011 and of the group's profit and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditors' report to the members of Zephyr Investments Limited

Matters on which we are required to report by exception

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

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

Jason Burkitt

Jason Burkitt (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH
20 March 2012

Group profit and loss account
For the year ended 31 December 2011

	Note	2011 £	2010 £
Turnover		**72,572,436**	53,446,377
Cost of sales		**(46,967,846)**	(45,966,803)
Gross profit		**25,604,590**	7,479,574
Administrative expenses		**(480,155)**	(373,698)
Operating profit	2	**25,124,435**	7,105,876
Interest receivable and similar income		**74,143**	51,150
Interest payable and similar charges	5	**(21,488,499)**	(27,650,809)
Profit/(loss) on ordinary activities before taxation		**3,710,079**	(20,493,783)
Tax (charge)/credit on profit/(loss) on ordinary activities	6	**(2,508,248)**	3,397,712
Profit/(loss) for the financial year		**1,201,831**	(17,096,071)

The above results all arise from continuing operations

The Group 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 profit on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalents

Group balance sheet
As at 31 December 2011

	Note	2011 £	2010 £
Fixed assets			
Tangible assets	7	**284,441,973**	302,548,016
		284,441,973	302,548,016
Current assets			
Stocks	9	**1,119,833**	834,040
Debtors	10	**20,300,262**	6,621,476
Cash at bank and in hand	11	**11,286,885**	9,797,150
		32,706,980	17,252,666
Creditors amounts falling due within one year	12	**(32,815,471)**	(30,017,792)
Net current liabilities		**(108,491)**	(12,765,126)
Total assets less current liabilities		**284,333,482**	289,782,890
Creditors: amounts falling due after more than one year	13	**(240,779,800)**	(254,315,107)
Provision for liabilities			
Government grants	14	**(6,315,878)**	(6,820,869)
Deferred tax	16	**(23,024,840)**	(24,807,461)
Provisions for liabilities and charges	15	**(38,837,557)**	(31,465,877)
		(68,178,275)	(63,094,207)
Net liabilities		**(24,624,593)**	(27,626,424)
Capital and reserves			
Called up share capital	17	**279,999**	99,999
Share premium account	18	**1,620,000**	-
Profit and loss account	18	**(26,524,592)**	(27,726,423)
Total shareholders' deficit	22	**(24,624,593)**	(27,626,424)

The financial statements on pages 6 to 25 were approved by the board of directors and signed on its behalf by

Paul Coffey
Director
19th March 2012

Company balance sheet
As at 31 December 2011

	Note	2011 £	2010 £
Fixed assets			
Investments	8	**1,900,001**	100,001
		1,900,001	100,001
Current assets			
Debtors (including £98,447,626 (2010 £90,966,997) due after one year)	10	**105,389,781**	95,888,767
Cash at bank and in hand		**3,392**	2,931
		105,393,183	95,891,698
Creditors: amounts falling due within one year	12	**(4,871,924)**	(3,829,409)
Net current assets		**100,521,257**	92,062,289
Total assets less current liabilities		**102,421,258**	92,162,290
Creditors amounts falling due after more than one year	13	**(98,447,626)**	(89,866,997)
Net assets		**3,973,632**	2,295,293
Capital and reserves			
Called up share capital	17	**279,999**	99,999
Share premium account	18	**1,620,000**	-
Profit and loss account	18	**2,073,633**	2,195,294
Total shareholders' funds	22	**3,973,632**	2,295,293

The financial statements on pages 6 to 25 were approved by the Board of directors and signed on its behalf by

Paul Coffey
Director
19th March 2012

Group cash flow statement
For the year ended 31 December 2011

	Note	2011 £	2010 £
Net cash inflow from operating activities	23	**33,743,964**	33,809,028
Financing activities			
Interest received		**74,125**	51,150
Interest paid		**(10,479,832)**	(11,749,124)
Capital element of debt repayments		**(22,925,281)**	(22,879,888)
Proceeds on issue of ordinary shares		**1,800,000**	-
Net cash outflow from financing activities		**(31,530,988)**	(34,577,862)
Taxation		**(723,241)**	-
Increase/(decrease) in cash in the year		**1,489,735**	(768,834)
Opening cash at bank and in hand		**9,797,150**	10,565,984
Closing cash at bank and in hand		**11,286,885**	9,797,150

Reconciliation of net cash flow to movement in net debt

	Note	2011 £	2010 £
Increase/(decrease) in cash in the year		**1,489,735**	(768,834)
Cash outflow from decrease in debt		**22,925,281**	22,879,888
Change in net debt resulting from cash flows		**24,415,016**	22,111,054
Unwind of discount on Deep Discounted Bond		**(8,636,444)**	(13,540,161)
Amortisation of transaction costs		**(1,196,797)**	(1,151,961)
Accrued interest on debt		**7,179**	(3,916)
Movement in net debt during the year		**14,588,954**	7,415,016
Opening net debt		**(266,260,497)**	(273,675,513)
Closing net debt	24	**(251,671,543)**	(266,260,497)

Company cash flow statement
For the year ended 31 December 2011

	Note	2011 £	2010 £
Net cash outflow from operating activities	23	**(31)**	(226)
Investing activities			
Investment in subsidiaries		**(1,800,000)**	-
		(1,800,000)	-
Financing activities			
Interest received		**492**	11
Proceeds on issue of ordinary shares		**1,800,000**	-
		1,800,492	11
Increase/(decrease) in cash in the year		**461**	(215)
Opening cash at bank and in hand		**2,931**	3,146
Closing cash at bank and in hand		**3,392**	2,931

Notes to the financial statements for the year ended 31 December 2011

1. Accounting policies

Basis of preparation

These financial statements are prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom

Notwithstanding the net liability position of the Group at the year end, the going concern basis is considered to be appropriate by the Directors, as the Group has forecasted cashflows to meet any financial obligations falling due within the next 12 months from the date of the signing of these financial statements

Zephyr Investments Limited has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006

The principal accounting policies are set out below, which are applied consistently across the Group

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 fixed price contracts relating to the generation of electricity inclusive of associated benefits for Renewable Obligation Certificates (ROCS) and Levy Exemption Certificates (LEC's) where applicable Turnover also 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 Turnover is recognised as income in the period in which it is earned

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

Interest receivable and similar income

Finance income is recognised as income in the period in which it is earned

Notes to the financial statements for the year ended 31 December 2011

Interest payable and similar charges

The difference between the issue price and the nominal value on the Deep Discount Bonds ("DDB's") is the discount value which is expensed as an implied discount rate over the term of the DDB's The accrued discount on the DDB's is recognised over the period of the DDB's using the effective interest method at the date of issue for each tranche

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 deferred taxation into account

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 the 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 impairment in value A review of the investments held is performed to determine whether an impairment trigger has occurred during the year Any impairment in the value of the investment is charged to the profit and loss account in the year it is identified

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 their 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

Notes to the financial statements for the year ended 31 December 2011

Financial instruments *(continued)*

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 the Group's risk management policies Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments 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 Note 26 details transactions the Company entered into, in the ordinary course of business, with other related parties

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

	2011	2010
	£	£
Group		
Operating profit is stated after charging		
Depreciation of owned tangible fixed assets	**24,321,858**	24,071,086
Operating lease charges – other than plant and machinery	**1,668,861**	1,183,125
Release of the government grant	**(504,991)**	(504,996)
Fees payable to the Group's auditors		
Audit services – Company	**10,204**	9,765
Audit services – Group	**87,120**	77,078
Non-audit services	**10,000**	-

3. Directors' emoluments

The directors received emoluments in respect of their services of £159,783 (2010 £152,378)

4. Employee information

The Company had no employees for the year under review (2010 none)

Notes to the financial statements for the year ended 31 December 2011

5. Interest payable and similar charges

Group	2011 £	2010 £
Amortisation of debt issue costs	**1,196,797**	1,151,961
Unwind of Discount on Deep Discount Bonds	**8,636,444**	13,540,161
Debt interest	**10,472,656**	11,740,855
Decommissioning provision – unwind of discount	**1,182,602**	1,205,562
Bank and other interest	-	12,270
	21,488,499	27,650,809

The basis of calculating the implied discount rate over the term of the DDB's has been changed in the year to reflect the underlying nature of the DDB's This has resulted in a £5,555,507 decrease to the carrying value of the DDB's and a corresponding reduction to the accrued discount on DDB's included within interest payable and similar charges in 2011

6. Tax on loss on ordinary activities

Group	2011 £	2010 £
Current tax:		
Corporation tax	**4,614,208**	-
Adjustment in respect of prior years	**(323,339)**	(86)
Total current tax (see below)	**4,290,869**	(86)
Deferred tax (see note 16):		
Origination and reversal of timing differences	**(367,509)**	(2,481,229)
Adjustment in respect of prior periods	**426,875**	2,398
Impact of change in UK tax rates and laws	**(1,841,987)**	(918,795)
Total deferred tax	**(1,782,621)**	(3,397,626)
Tax charge/(credit) on profit/(loss) on ordinary activities	**2,508,248**	(3,397,712)

The tax assessed for the year is higher (2010 lower) than the standard rate of corporation tax in the UK (26 5%) (2010 28%) The differences are explained below

Group	2011 £	2010 £
Profit/(loss) on ordinary activities before tax	**3,710,079**	(20,493,783)
Loss on ordinary activities multiplied by the standard rate in the UK – 26 5% (2010 28%)	**983,171**	(5,738,259)
Expenses not deducted for tax purposes	**842,544**	736,240
Non tax-deductible fair value amortisation arising on consolidation	**1,885,493**	1,992,219
Depreciation in excess of IBA's	**164,216**	129,088
Depreciation in excess of capital allowances	**367,509**	2,481,229
Depreciation in respect of assets acquired intragroup	**378,082**	399,483
Adjustment in respect of prior years	**(323,339)**	(86)
Impact of change in UK tax rate	**(6,807)**	-
Current tax charge/(credit) for the year	**4,290,869**	(86)

Notes to the financial statements for the year ended 31 December 2011

6. Tax on loss on ordinary activities *(continued)*

During the year, the relevant deferred tax balances have been re-measured as a result of the change in the UK main corporation tax rate to 26%, which was substantively enacted on 29 March 2011 and is effective from 1 April 2011, and to 25%, which was substantively enacted on 5 July 2011 and will be effective from 1 April 2012

Further reductions to the UK corporation tax rate were announced in the March 2011 Budget The changes, which are expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 23% by 1 April 2014 The changes had not been substantively enacted at the balance sheet date and therefore are not recognised in these financial statements

7. Tangible fixed assets

Group	Decommissioning asset £	Operating wind farms £	Total £
Cost			
At 1 January 2011	28,000,787	399,030,646	427,031,433
Additions	6,215,815	-	6,215,815
At 31 December 2011	**34,216,602**	**399,030,646**	**433,247,248**
Accumulated depreciation			
At 1 January 2011	4,463,191	120,020,226	124,483,417
Charge for the year	1,933,019	22,388,839	24,321,858
At 31 December 2011	**6,396,210**	**142,409,065**	**148,805,275**
Net book value			
At 31 December 2011	**27,820,392**	**256,621,581**	**284,441,973**
At 31 December 2010	23,537,596	279,010,420	302,548,016

8. Investments

Company		£
Cost and net book value	**2011** **£**	2010 £
Investment in subsidiary undertakings	**1,900,001**	100,001

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

9. Stocks

Group	**2011** **£**	2010 £
Consumables	**1,119,833**	834,040

Notes to the financial statements for the year ended 31 December 2011

10. Debtors

(a) Debtors: amounts falling due within one year

	2011		2010	
	Group £	Company £	Group £	Company £
Trade debtors	**7,949,523**	-	1,813,704	-
Amounts owed by Group undertakings	-	**5,958,606**	-	5,818,148
Other debtors	-	-	200,001	-
Deep Discount Bonds (Note 19a)	-	**55,814**	-	-
Corporation tax debtor	-	**927,743**	203,708	203,622
Prepayments and accrued income	**12,350,739**	-	4,404,063	-
	20,300,262	**6,942,163**	6,621,476	6,021,770

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

The Company disclosure for amounts owed by Group undertakings includes £1,944,712 (2010 £1,900,848) of group relief receivable

(b) Debtors: amounts falling due after more than one year

	2011		2010	
	Group £	Company £	Group £	Company £
Deep Discount Bonds (Note 19a)	-	98,447,626	-	89,866,997

11. Cash at bank and in hand

At 31 December 2011, Group cash balances with banks include £1,496,355 (2010 £1,436,136) 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

12. Creditors: amounts falling due within one year

	2011		2010	
	Group £	Company £	Group £	Company £
Bank loans (Note 20b)	**22,178,629**	-	21,742,540	-
Trade creditors	**640,088**	-	317,766	-
Other creditors	**852,545**	-	1,160,738	-
Corporation tax creditor	**3,363,993**	-	-	-
Deep Discount Bonds (Note 20a)	-	**55,814**	-	-
Amounts owed to Group undertakings	-	**4,816,110**	-	3,829,409
Other taxation and social security	**2,325,672**	-	1,657,509	-
Accruals	**3,454,544**	-	5,139,239	-
	32,815,471	**4,871,924**	30,017,792	3,829,409

Amounts owed to Group undertakings include £358,904 (2010 £358,904) of group relief payable

Notes to the financial statements for the year ended 31 December 2011

13. Creditors· amounts falling due after more than one year

	2011		2010	
	Group	**Company**	Group	Company
	£	**£**	£	£
Deep Discount Bonds (Note 20a)	97,583,981	98,447,626	88,940,659	89,866,997
Bank loans (Note 20b)	143,195,819	-	165,374,448	-
	240,779,800	98,447,626	254,315,107	89,866,997

14. Government grant

Group	**2011** **£**	2010 £
Amounts brought forward	**6,820,869**	7,325,865
Amounts acquired	**-**	-
Released to the profit and loss account during the year	**(504,991)**	(504,996)
Amounts carried forward	**6,315,878**	6,820,869
Due for release within one year	**506,376**	504,996
Due for release in two to five years	**2,019,968**	2,019,968
Due for release in more than five years	**3,789,534**	4,295,905
	6,315,878	6,820,869

15. Provisions for liabilities and charges

Group	1 January 2011 £	Unwinding of discount £	Additions/ (utilisation) £	**31 December 2011 £**
Decommissioning costs	31,439,140	1,182,602	6,215,815	**38,837,557**
Eagle Habitat rehabilitation	26,737	-	(26,737)	**-**
Total	31,465,877	1,182,602	6,189,078	**38,837,557**

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 for each wind farm has been discounted to its present value based on the yield on a 20 year gilt from the point of first commercial operation

16. Deferred taxation

Group	**2011**	**2010**
Analysis of deferred tax balance	**£**	**£**
Timing differences in respect of capital allowances	**23,024,840**	24,807,461
	23,024,840	24,807,461

Group	**2011** **£**	2010 £
Opening provision	**24,807,461**	28,205,087
Credit for the year (note 6)	**(1,782,621)**	(3,397,626)
Closing provision	**23,024,840**	24,807,461

Notes to the financial statements for the year ended 31 December 2011

17. Called up share capital

Group	2011 £	2010 £
Authorised:		
On incorporation 1,000 ordinary shares of £1 each	1,000	1,000
On 17 February 2004 99,000 ordinary shares of £1 each	99,000	99,000
On 1 August 2011 510,000 ordinary shares of £1 each	510,000	-
610,000 ordinary shares of £1 each	**610,000**	100,000
Allotted and fully paid:		
On incorporation 1 ordinary share of £1 each	1	1
On 17 February 2004 99,998 ordinary shares of £1 each	99,998	99,998
On 1 September 2011 180,000 ordinary shares of £1 each	180,000	-
279,999 ordinary shares of £1 each	**279,999**	99,999

The Company issued 180,000 ordinary shares of £1 each during the year at a premium £9 per share giving a total consideration of £1,800,000

18. Profit and loss account

(a) Profit and loss account

	2011 Group £	2011 Company £	2010 Group £	2010 Company £
Opening balance	**(27,726,423)**	**2,195,294**	**(10,630,352)**	**2,322,355**
Profit/(loss) for the financial year	**1,201,831**	**(121,661)**	**(17,096,071)**	**(127,061)**
Closing balance	**(26,524,592)**	**2,073,633**	**(27,726,423)**	**2,195,294**

Zephyr Investments Limited has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006 The Company's loss for the financial year was £121,661 (2010 £127,061)

(b) Share premium account

	2011 Group £	2011 Company £	2010 Group £	2010 Company £
Opening balance	-	-	-	-
Share premium on issue of 180,000 ordinary shares	**1,620,000**	**1,620,000**	-	-
Closing balance	**1,620,000**	**1,620,000**	-	-

Notes to the financial statements for the year ended 31 December 2011

19. Financial assets

(a) Deep Discount Bonds

	2011		2010	
Deep Discount Bonds	**Group £**	**Company £**	Group £	Company £
Due within one year	-	55,814	-	-
Due within one year	**-**	**55,814**	**-**	**-**
Due in more than one year but less than two	-	1,200,517	-	-
Due in more than two years but less than three	-	7,585,619	-	-
Due in more than three years but less than four	-	7,666,903	-	7,084,469
Due in more than four years but less than five	-	9,227,326	-	6,787,823
Due in more than five years	-	72,767,261	-	75,994,705
Due after more than one year	**-**	**98,447,626**	**-**	**89,866,997**
Total Deep Discount Bonds	**-**	**98,503,440**	**-**	**89,866,997**

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

On 29 December 2006, the Company issued unsecured Deep Discount Bonds to the value of £32,212,822, which are redeemable on 17 February 2026 for £600,089,016 This debt carries an implied discount rate of 16 5% per annum for the period of the instrument

On 30 December 2005, the Company issued unsecured Deep Discount Bonds to the value of £35,890,969, which are redeemable on 17 February 2026 for £973,680,780 This debt carries an implied discount rate of 17 8% 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 17 0% 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

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

With respect to the Deep Discounted Bonds, the Group is not exposed to interest rate risk as under the terms of the Deep Discount Bonds interest is not chargeable

Notes to the financial statements for the year ended 31 December 2011

19. Financial assets *(continued)*

(a) Deep Discount Bonds *(continued)*

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 2011 was £98,503,440 (2010 89,866,997)

(b) Cash

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

20. Financial liabilities

(a) Deep Discount Bonds

	2011		2010	
Deep Discount Bonds	**Group** £	**Company** £	Group £	Company £
Due within one year	-	55,814	-	-
Due within one year	**-**	**55,814**	**-**	**-**
Due in more than one year but less than two	855,716	1,200,517	-	-
Due in more than two years but less than three	7,524,897	7,585,619	-	-
Due in more than three years but less than four	7,600,992	7,666,903	7,004,733	7,084,469
Due in more than four years but less than five	9,227,326	9,227,326	6,740,558	6,787,823
Due in more than five years	72,375,050	72,767,261	75,195,368	75,994,705
Due after more than one year	**97,583,981**	**98,447,626**	**88,940,659**	**89,866,997**
Total Deep Discount Bonds	**97,583,981**	**98,503,440**	**88,940,659**	**89,866,997**

On 29 December 2006, the Company issued unsecured Deep Discount Bonds to the value of £32,212,822, which are redeemable on 17 February 2026 for £600,089,016 This debt carries an implied discount rate of 16 5% per annum for the period of the instrument

On 30 December 2005, the Company issued unsecured Deep Discount Bonds to the value of £35,890,969, which are redeemable on 17 February 2026 for £973,680,780 This debt carries an implied discount rate of 17 8% 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 17 0% per annum for the period of the instrument

The aggregate amount of the Deep Discount Bonds comprises, £98,503,440 principal less £919,459 issue costs

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

Notes to the financial statements for the year ended 31 December 2011

20. Financial liabilities *(continued)*

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

With respect to the Deep Discounted Bonds, the group is not exposed to interest rate risk as under the terms of the Deep Discount Bonds interest is not chargeable

There is an intercompany 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

	2011		2010	
Bank loans	**Group**	**Company**	Group	Company
	£	**£**	£	£
Due within one year	22,178,629	-	21,742,540	-
Due within one year	**22,178,629**	**-**	**21,742,540**	-
Due in more than one year but less than two	21,995,440	-	22,178,629	-
Due in more than two years but less than three	16,259,272	-	21,995,440	-
Due in more than three years but less than four	16,712,912	-	16,259,272	-
Due in more than four years but less than five	16,240,562	-	16,712,912	-
Due in more than five years	71,987,633	-	88,228,195	-
Due after more than one year	**143,195,819**	**-**	**165,374,448**	-
Total bank loans	**165,374,448**	**-**	**187,116,988**	-

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

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

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

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

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

Exposure to cash flow interest rate risk arising from the floating interest rate on the bank loans has been mitigated by a floating to fixed interest rate swap as detailed in Note 21

Notes to the financial statements for the year ended 31 December 2011

20. Financial liabilities *(continued)*

(b) Bank loans *(continued)*

The total interest payable on the bank loans for the year ended 31 December 2011 was £10,472,656 (2010 £11,740,855)

The fair value of the bank loans as at 31 December 2011 is not considered to be materially different from their nominal values

21. 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	**2011** Group £	Company £	2010 Group £	Company £
Interest rate swaps	**179,550,393**	-	**195,031,468**	-

At 31 December 2011 the fixed interest rates varied from 4 61% to 5 3% (as at 31 December 2010 fixed rates varied from 4 61% to 5 3%)

As at 31 December 2011 the fair value of the interest rate swaps would have created a liability of £22,025,957 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 2020

Notes to the financial statements for the year ended 31 December 2011

21. Other financial instruments *(continued)*

(b) Currency exposure

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

Based on exchange rates prevalent as at 31 December 2011 the amounts payable that have been hedged under forward foreign currency contracts was £22,902 higher than the amounts payable had the Group not entered into these contracts

22. Reconciliation of movements in shareholders' (deficit)/ funds

	2011		2010	
	Group	**Company**	Group	Company
	£	**£**	£	£
Opening shareholders' (deficit)/ funds	**(27,626,424)**	**2,295,293**	(10,530,353)	2,422,354
Proceeds on issue of ordinary shares	**1,800,000**	**1,800,000**	-	-
Profit/(loss) for the financial year	**1,201,831**	**(121,661)**	(17,096,071)	(127,061)
Closing shareholders' (deficit)/ funds	**(24,624,593)**	**3,973,632**	(27,626,424)	2,295,293

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

	2011		2010	
	Group	**Company**	Group	Company
Group	**£**			£
Operating profit	**25,124,435**	**(166,733)**	7,105,876	(176,486)
Depreciation charges	**24,321,858**	**-**	24,071,086	-
Increase in stocks	**(285,793)**	**-**	(394,975)	-
(Increase)/decrease in debtors	**(13,882,409)**	**(9,501,022)**	1,792,796	(13,589,572)
(Decrease)/increase in creditors	**(1,534,127)**	**9,667,724**	1,234,245	13,765,832
Net cash inflow from operating activities	**33,743,964**	**(31)**	33,809,028	(226)

24. Analysis of net debt

Group	**At 1 January 2011 £**	**Cash Flow £**	**Other non-cash items £**	**At 31 December 2011 £**
Cash in hand, at bank	9,797,150	1,489,735	-	11,286,885
Debt due within one year	(21,742,540)	13,160,387	(13,596,477)	(22,178,630)
Debt due after one year	(254,315,107)	9,764,894	3,770,413	(240,779,798)
Total	**(266,260,497)**	**24,415,016**	**(9,826,064)**	**(251,671,543)**

Notes to the financial statements for the year ended 31 December 2011

25. Financial commitments

At 31 December 2011 the Group had annual commitments of £709,606 (2010 £696,534) 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 Limited, 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 Limited, 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 Limited, 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 RWE 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 RWE Npower Renewables Limited

26. 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 2011 the following balances were held with related parties

Group	Related party transactions £	31 December 2011 receivable/ (payable) £
RWE Npower Renewables Limited scheduled maintenance	1,236,194	(115,465)
RWE Npower Renewables Limited unscheduled maintenance	916,140	(131,303)
RWE Npower Renewables Limited repowering services agreement	1,324,326	(1,027,593)
JP Morgan Investment Management Inc	70,283	-
M&G Investment Management	89,500	-
RWE Npower Renewables Limited management services agreement	2,181,484	(741,565)
Npower Limited unscheduled maintenance	21,977	-
Npower Limited electricity purchases	851,885	(220,969)
Npower Limited electricity sales	53,600,685	13,782,096

Infracapital Partners LP acting by its manager M&G Investment Management Limited and Infrastructure Investments Fund (IIF) being advised by JP Morgan Investment Management Inc are investors in Zephyr Investments Limited

RWE Npower Renewables Limited is a subsidiary of RWE Innogy (UK) Limited

Npower Limited is a subsidiary of RWE Npower plc

27. Ultimate parent company

As at 31 December 2011, 33 33% of Zephyr's share capital was owned by Zelda Acquisitions Limited, 16 67% by IIF Zelda DDB Short Term UK Holdco Limited, 16 66% by IIF Int'l Holding LP and 33 33% by RWE Innogy UK Limited and therefore at that date there was no single company with a controlling interest

Notes to the financial statements for the year ended 31 December 2011

28. 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
Headwind Taff Ely Wind Farm Limited	England & Wales	Ordinary shares	100%	Wind Farm Repowering
Headwind Beinn Ghlas Wind Farm Limited	England & Wales	Ordinary shares	100%	Wind Farm Repowering
Headwind Kirkby Moor Wind Farm Limited	England & Wales	Ordinary shares	100%	Wind Farm Repowering
Headwind Development Services Limited	England & Wales	Ordinary shares	100%	Repowering Management services
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