

ZEPHYR INVESTMENTS LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

Registered number 04712921



Zephyr Investments Limited
Directors' report and financial statements

| Contents | Page |
|---|-------------|
| Directors' report | 1 – 4 |
| Independent auditors' report | 5 – 6 |
| Group profit and loss account | 7 |
| Group balance sheet | 8 |
| Company balance sheet | 9 |
| Group cash flow statement | 10 |
| Reconciliation of net cash flow to movement in net debt | 10 |
| Notes to the financial statements | 11 – 24 |

Directors' report for the year ended 31 December 2009

The directors present their report and the audited consolidated financial statements of both the Company and for the group of companies (together referred to as "the Group") for the year ended 31 December 2009

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 24 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 2009

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 loss on ordinary activities after taxation for the year ended 31 December 2009 was £3,650,472 (2008 profit £2,245,045)

The position of the Group at the end of the year is provided on page 8 of the financial statements. The group net liabilities as at 31 December 2009 was £10,530,353 (net liabilities as at 2008 £6,879,881)

During the year the Group repaid £34,593,807 (2008 £40,619,989) 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 do not recommend the payment of a dividend (2008 £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 2009 (continued)

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.

(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 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 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 2009

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

| | | |
|--------------|-------------|---|
| S Toor | | |
| P Cowling | (Alternate) | |
| P Coffey | | (appointed 1 October 2009) |
| M Nagle | | |
| K Bradbury | | (appointed 1 April 2009) |
| H Bunting | | |
| G Chatas | (Alternate) | (resigned 26 February 2010) |
| A Pena | (Alternate) | |
| J Cooper | | (resigned 1 July 2009, reappointed 27 October 2009) |
| K McCullough | | (resigned 30 September 2009) |
| M Chladek | | (resigned 27 October 2009) |
| S Lilley | | (resigned 27 October 2009) |

According to the register required to be kept under section 809 of the Companies Act 2006, 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 Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the 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.

Directors' report for the year ended 31 December 2009 *(continued)*

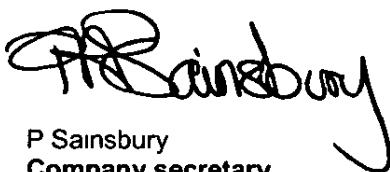
Statement of disclosure of information to auditors

In accordance with Section 418, directors' reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that

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

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

By order of the board



P Sainsbury
Company secretary

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

12 April 2010

Company 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 2009 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 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.

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 2009 and of the group's loss 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 (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

13 April 2010

Zephyr Investments Limited
Directors' report and financial statements

Group profit and loss account
For the year ended 31 December

| | Note | 2009 £ | 2008 £ |
|---|------|--------------------|--------------|
| Turnover | | 69,787,015 | 74,611,040 |
| Cost of sales | | (42,035,727) | (39,082,519) |
| Gross profit | | 27,751,288 | 35,528,521 |
| Administrative expenses | | (617,035) | (1,436,194) |
| Operating profit | 2 | 27,134,253 | 34,092,327 |
| Interest receivable and similar income | | 98,856 | 867,676 |
| Interest payable and similar charges | 5 | (28,170,656) | (29,398,972) |
| (Loss)/profit on ordinary activities before taxation | | (937,547) | 5,561,031 |
| Tax charge on (loss)/profit on ordinary activities | 6 | (2,712,925) | (3,315,986) |
| (Loss)/profit for the financial year | | (3,650,472) | 2,245,045 |

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

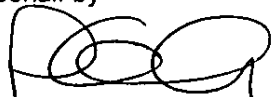
There are no material differences between the (loss)/profit on ordinary activities before taxation and the loss/ profit for the financial year stated above and their historical cost equivalents

Zephyr Investments Limited
Directors' report and financial statements

Group balance sheet
As at 31 December

| | Note | 2009 £ | 2008 £ |
|--|------|----------------------|----------------------|
| Fixed assets | | | |
| Tangible assets | 7 | 323,705,710 | 334,064,546 |
| | | 323,705,710 | 334,064,546 |
| Current assets | | | |
| Stocks | 9 | 439,065 | 423,114 |
| Debtors | 10 | 8,414,272 | 8,271,500 |
| Cash at bank and in hand | | 10,565,899 | 11,450,929 |
| | | 19,419,236 | 20,145,543 |
| Creditors amounts falling due within one year | 12 | (28,265,985) | (28,586,915) |
| Net current liabilities | | (8,846,749) | (8,441,372) |
| Total assets less current liabilities | | 314,858,961 | 325,623,174 |
| Creditors: amounts falling due after more than one year | 13 | (262,511,439) | (282,522,144) |
| Provision for liabilities | | | |
| Government grants | 14 | (7,325,865) | (7,832,237) |
| Deferred tax | 16 | (28,205,087) | (27,375,849) |
| Provisions for liabilities and charges | 15 | (27,346,923) | (14,772,825) |
| | | (62,877,875) | (49,980,911) |
| Net liabilities | | (10,530,353) | (6,879,881) |
| Capital and reserves | | | |
| Called up share capital | 17 | 99,999 | 99,999 |
| Profit and loss account | 18 | (10,630,352) | (6,979,880) |
| Total shareholders' deficit | 22 | (10,530,353) | (6,879,881) |

The financial statements on pages 7 to 24 were approved by the board of directors and signed on its behalf by




Paul Cowling
Director
12 April 2010

Zephyr Investments Limited
Directors' report and financial statements

Company balance sheet
As at 31 December

| | Note | 2009 £ | 2008 £ |
|---|------|--------------------|--------------------|
| Fixed assets | | | |
| Investments | 8 | 100,001 | 100,000 |
| | | 100,001 | 100,000 |
| Current assets | | | |
| Debtors (including £76,326,838 (2008 £74,616,003) due after one year) | 10 | 82,299,195 | 78,599,029 |
| Cash at bank and in hand | | 3,146 | 3,163 |
| | | 82,302,341 | 78,602,192 |
| Creditors: amounts falling due within one year | 12 | (3,653,150) | (1,543,622) |
| Net current assets | | 78,649,191 | 77,058,570 |
| Total assets less current liabilities | | 78,749,192 | 77,158,570 |
| Creditors amounts falling due after more than one year | 13 | (76,326,838) | (74,616,003) |
| Net assets | | 2,422,354 | 2,542,567 |
| Capital and reserves | | | |
| Called up share capital | 17 | 99,999 | 99,999 |
| Profit and loss account | 18 | 2,322,355 | 2,442,568 |
| Total shareholders' funds | 22 | 2,422,354 | 2,542,567 |

The financial statements on pages 7 to 24 were approved by the board of directors and signed on its behalf by



Paul Cowling
Director
 12 April 2010

Group cash flow statement
For the year ended 31 December

| | Note | 2009 £ | 2008 £ |
|--|------|---------------------|---------------------|
| Net cash inflow from operating activities | 23 | 47,998,110 | 63,518,034 |
| Returns on investments and servicing of finance | | | |
| Interest received | | 98,856 | 867,676 |
| Interest paid | | (12,504,502) | (15,865,181) |
| Taxation | | (1,883,687) | (841,698) |
| Acquisitions and disposals | | | |
| Payments to acquire investments in subsidiary undertakings | | - | 146,941 |
| | | 33,708,777 | 47,825,772 |
| Financing | | | |
| Capital element of debt repayments | | (34,593,807) | (40,619,989) |
| | | (34,593,807) | (40,619,989) |
| Increase / (Decrease) in cash in the year | | (885,030) | 7,205,783 |

Reconciliation of net cash flow to movement in net debt

| | Note | 2009 £ | 2008 £ |
|--|------|----------------------|----------------------|
| (Decrease) / increase in cash in the year | | (885,030) | 7,205,783 |
| Cash inflow from increase in debt | | 34,593,808 | 40,619,989 |
| Change in net debt resulting from cash flows | | 33,708,778 | 47,825,772 |
| Unwind of discount on Deep Discounted Bond | | (13,230,837) | (12,923,145) |
| Amortisation of transaction costs | | (1,118,894) | (1,138,637) |
| Accrued interest on debt | | 192,338 | 51,278 |
| Movement in net debt during the year | | 19,551,385 | 33,815,268 |
| Opening net debt | | (293,226,898) | (327,042,166) |
| Closing net debt | 24 | (273,675,513) | (293,226,898) |

Notes to the financial statements for the year ended 31 December 2009

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

In adopting the going concern assumption, the directors considered the Company's and group's existing cash on hand and committed borrowing facilities as well as the forecast wind from generation revenues

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 subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their full values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses that arise after the Group has gained control of the subsidiaries are reflected in the post acquisition financial statements.

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. 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.

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 deferred taxation into account.

Notes to the financial statements for the year ended 31 December 2009

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 the 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 2009

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

| | 2009 | 2008 |
|--|------------|------------|
| | £ | £ |
| Group | | |
| Operating profit is stated after charging | | |
| Depreciation of owned tangible fixed assets | 23,078,051 | 22,782,997 |
| Operating lease charges – other than plant and machinery | 1,403,474 | 1,475,720 |
| Release of the government grant | (506,372) | (500,150) |
| Audit services – Company | 9,481 | 7,690 |
| Audit services – Group | 66,981 | 64,076 |
| Non-audit services | 58,500 | 65,517 |

3. Directors' emoluments

The directors did not receive any emoluments in respect of their services to the company (2008 £nil)

4. Employee information

Other than the directors, the Company had no employees for the year under review (2008 none)

5 Interest payable and similar charges

| | 2009 | 2008 |
|--|------------|------------|
| | £ | £ |
| Group | | |
| Amortisation of debt issue costs | 1,118,894 | 1,138,636 |
| Accrued discount on Deep Discount Bonds | 13,230,837 | 12,923,145 |
| Debt interest | 13,283,844 | 15,023,661 |
| Decommissioning provision – unwind of discount | 535,760 | 205,024 |
| Bank and other interest | 1,321 | 108,506 |
| | 28,170,656 | 29,398,972 |

Notes to the financial statements for the year ended 31 December 2009

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

| Group | 2009 £ | 2008 £ |
|--|-------------------|-------------------|
| Current tax: | | |
| Corporation tax | 1,911,003 | 2,006,297 |
| Adjustment in respect of prior years | (27,316) | (1,771,436) |
| Total current tax (see below) | 1,883,687 | 234,861 |
| Deferred tax (see note 16): | | |
| Origination and reversal of timing differences | 759,830 | 2,183,692 |
| Adjustment in respect of prior periods | 69,408 | (60,438) |
| Impact of change in UK tax rates and laws | - | 957,871 |
| Total deferred tax | 829,238 | 3,081,125 |
| Tax charge on profit on ordinary activities | 2,712,925 | 3,315,986 |

The tax assessed for the year is higher (2008 lower) than the standard rate of corporation tax in the UK (28%) (2008 28.5%). The differences are explained below

| Group | 2009 £ | 2008 £ |
|---|-------------------|-------------------|
| (Loss)/profit on ordinary activities before tax | (937,547) | 5,561,031 |
| (Loss)/profit on ordinary activities multiplied by the standard rate in the UK – 28% (2008 28.5%) | (262,513) | 1,584,894 |
| Expenses not deducted for tax purposes | 466,312 | 203,135 |
| Non tax-deductible fair value amortisation arising on consolidation | 1,992,219 | 2,033,350 |
| Depreciation in excess of IBA's | 79,900 | - |
| Capital allowances in excess of depreciation | (759,830) | (2,180,081) |
| Depreciation in respect of assets acquired intragroup | 394,915 | 407,604 |
| Utilisation of losses brought forward | - | (3,611) |
| Impact of change in UK tax rate | - | (38,994) |
| Adjustment in respect of prior years | (27,316) | (1,771,436) |
| Current tax charge for the year | 1,883,687 | 234,861 |

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 2009

7. Tangible fixed assets

| Group | Decommissioning asset £ | Operating wind farms £ | Total £ |
|---|-------------------------------|------------------------------|--------------------|
| Cost | | | |
| At 1 January 2009 | 12,368,180 | 399,030,646 | 411,398,826 |
| Change in decommissioning estimate in year | 12,719,215 | - | 12,719,215 |
| At 31 December 2009 | 25,087,395 | 399,030,646 | 424,118,041 |
| Accumulated depreciation | | | |
| At 1 January 2009 | 1,998,878 | 75,335,402 | 77,334,280 |
| Charge for the year | 790,483 | 22,287,568 | 23,078,051 |
| At 31 December 2009 | 2,789,361 | 97,622,970 | 100,412,331 |
| Net book value | | | |
| At 31 December 2009 | 22,298,034 | 301,407,676 | 323,705,710 |
| At 31 December 2008 | 10,369,302 | 323,695,244 | 334,064,546 |

8. Investments

| Company | £ |
|----------------------------|----------------|
| Cost | |
| At 1 January 2009 | 100,000 |
| Addition in the year | 1 |
| At 31 December 2009 | 100,001 |

Investments comprise shares in group undertakings. The principal subsidiaries of the Group are listed on page 24.

9. Stocks

| Group | 2009 £ | 2008 £ |
|-------------|-----------|-----------|
| Consumables | 439,065 | 423,114 |

10 Debtors

(a) Debtors: Recoverable within one year

| | 2009 Group £ | 2009 Company £ | 2008 Group £ | 2008 Company £ |
|------------------------------------|--------------------|----------------------|--------------------|----------------------|
| Trade debtors | 2,246,742 | - | 1,743,924 | - |
| Amounts owed by group undertakings | - | 3,857,732 | - | 1,804,686 |
| Other debtors | 200,001 | - | 33,791 | 7,418 |
| Corporation tax debtor | 203,622 | 2,114,625 | 164,625 | 2,170,922 |
| Prepayments and accrued income | 5,763,907 | - | 6,329,160 | - |
| | 8,414,272 | 5,972,357 | 8,271,500 | 3,983,026 |

Notes to the financial statements for the year ended 31 December 2009

10 Debtors (continued)

(a) Debtors. Recoverable within one year (continued)

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

The Company disclosure for amounts owed by group undertakings includes £1,851,435 (2008 £1,804,686) of group relief receivable

(b) Debtors. Recoverable after more than one year

| | 2009 | | 2008 | |
|--------------------------------|------------|--------------|------------|--------------|
| | Group £ | Company £ | Group £ | Company £ |
| Deep discount bonds (Note 20a) | - | 76,326,838 | - | 74,616,003 |

11. Cash at bank and in hand

At 31 December 2009, group cash balances with banks include £1,432,917 (2008 £1,376,990) 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

| | 2009 | | 2008 | |
|------------------------------------|------------|--------------|------------|--------------|
| | Group £ | Company £ | Group £ | Company £ |
| Bank loans (Note 20b) | 21,729,974 | - | 22,155,685 | - |
| Trade creditors | - | - | 94,531 | - |
| Other creditors | 250,000 | - | - | - |
| Amounts owed to group undertakings | - | 3,653,150 | - | 1,543,622 |
| Other taxation and social security | 1,263,572 | - | 1,527,181 | - |
| Accruals and deferred income | 5,022,439 | - | 4,809,518 | - |
| | 28,265,985 | 3,653,150 | 28,586,915 | 1,543,622 |

Amounts owed to group undertakings includes £358,904 (2008 £358,904) of group relief payable

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

| | 2009 | | 2008 | |
|--------------------------------|-------------|--------------|-------------|--------------|
| | Group £ | Company £ | Group £ | Company £ |
| Deep discount bonds (Note 20a) | 75,394,451 | 76,326,838 | 73,675,183 | 74,616,003 |
| Bank loans (Note 20b) | 187,116,988 | - | 208,846,961 | - |
| | 262,511,439 | 76,326,838 | 282,522,144 | 74,616,003 |

Notes to the financial statements for the year ended 31 December 2009

14 Government grant

| Group | 2009 £ | 2008 £ |
|---|-------------------|-------------------|
| Amounts brought forward | 7,832,237 | 8,232,387 |
| Amounts acquired | - | 100,000 |
| Released to the profit and loss account during the year | (506,372) | (500,150) |
| Amounts carried forward | 7,325,865 | 7,832,237 |
| Due for release within one year | 506,376 | 508,531 |
| Due for release in two to five years | 2,025,504 | 2,034,126 |
| Due for release in more than five years | 4,793,985 | 5,289,580 |
| | 7,325,865 | 7,832,237 |

15 Provisions for liabilities

| Group | 1 January 2009 £ | Additions/ utilisation £ | Unwinding of discount £ | 31 December 2009 £ |
|------------------------------|---------------------------------|---|--|-----------------------------------|
| Decommissioning costs | 14,065,213 | 12,719,213 | 535,760 | 27,320,186 |
| Ffynnon Oer curtailment | 334,170 | (334,170) | - | - |
| Eagle Habitat rehabilitation | 26,721 | 16 | - | 26,737 |
| Construction outstanding | 346,721 | (346,721) | - | - |
| Total | 14,772,825 | 12,038,338 | 535,760 | 27,346,923 |

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 | 2009 £ | 2008 £ |
|---|-------------------|-------------------|
| Analysis of deferred tax balance | | |
| Timing differences in respect of capital allowances | 28,205,087 | 27,375,849 |
| | 28,205,087 | 27,375,849 |

| Group | 2009 £ | 2008 £ |
|----------------------------------|-------------------|-------------------|
| Opening provision | 27,375,849 | 24,294,724 |
| Charge for the year (see note 6) | 829,238 | 3,081,125 |
| Closing provision | 28,205,087 | 27,375,849 |

Notes to the financial statements for the year ended 31 December 2009

17. Called up share capital

| | 2009 | 2008 |
|---|----------------|----------------|
| Group | £ | £ |
| 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 |
| 100,000 ordinary shares of £1 each | 100,000 | 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 |
| 99,999 ordinary shares of £1 each | 99,999 | 99,999 |

18. Profit and loss account

| | 2009 | | 2008 | |
|--------------------------------------|---------------------|------------------|--------------------|------------------|
| | Group | Company | Group | Company |
| | £ | £ | £ | £ |
| Opening balance | (6,979,880) | 2,442,570 | (9,224,925) | (4,286,206) |
| (Loss)/profit for the financial year | (3,650,472) | (120,215) | 2,245,045 | 1,699,411 |
| Dividend received during the year | - | - | - | 5,029,364 |
| Closing balance | (10,630,352) | 2,322,355 | (6,979,880) | 2,442,569 |

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 £120,215 (2008 profit £1,699,411)

19 Financial assets

(a) Deep Discount Bonds

| | 2009 | | 2008 | |
|---|--------------|-------------------|--------------|-------------------|
| | Group | Company | Group | Company |
| | £ | £ | £ | £ |
| Deep Discount Bonds | | | | |
| Due within one year | - | - | - | - |
| Due in more than one year but less than two | - | - | - | 770,572 |
| Due in more than two years but less than three | - | - | - | 1,005,681 |
| Due in more than three years but less than four | - | - | - | 385,399 |
| Due in more than four years but less than five | - | 3,678,893 | - | 159,145 |
| Due in more than five years | - | 72,647,945 | - | 72,295,206 |
| Total Deep Discount Bonds | - | 76,326,838 | - | 74,616,003 |

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.

Notes to the financial statements for the year ended 31 December 2009

19. Financial assets (continued)

(a) Deep Discount Bonds (continued)

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.

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.

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 2009 was £76,326,838 (2008 £74,616,003).

(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

| Deep Discount Bonds | 2009 | | 2008 | |
|---|-------------------|-------------------|-------------------|-------------------|
| | Group £ | Company £ | Group £ | Company £ |
| Due within one year | - | - | - | - |
| Due in more than one year but less than two | - | - | 753,098 | 770,572 |
| Due in more than two years but less than three | - | - | 997,216 | 1,005,681 |
| Due in more than three years but less than four | - | - | 381,839 | 385,399 |
| Due in more than four years but less than five | 3,600,707 | 3,678,893 | 157,350 | 159,145 |
| Due in more than five years | 71,793,744 | 72,647,945 | 71,385,679 | 72,295,206 |
| Total Deep Discount Bonds | 75,394,451 | 76,326,838 | 73,675,182 | 74,616,003 |

Notes to the financial statements for the year ended 31 December 2009

20. Financial liabilities (continued)

(a) Deep Discount Bonds (continued)

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, £76,326,838 principal less £932,387 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.

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 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 | 2009 | | 2008 | |
|---|--------------------|--------------|--------------------|--------------|
| | Group £ | Company £ | Group £ | Company £ |
| Due within one year | 21,729,974 | - | 22,155,685 | - |
| Due in more than one year but less than two | 21,742,540 | - | 21,729,974 | - |
| Due in more than two years but less than three | 22,178,629 | - | 21,742,539 | - |
| Due in more than three years but less than four | 21,995,440 | - | 22,178,628 | - |
| Due in more than four years but less than five | 16,259,272 | - | 21,995,440 | - |
| Due in more than five years | 104,941,107 | - | 121,200,380 | - |
| Total bank loans | 208,846,962 | - | 231,002,646 | - |

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.

Notes to the financial statements for the year ended 31 December 2009

20 Financial liabilities (continued)

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 22.

The total interest payable on the bank loans for the year ended 31 December 2009 was £13,283,844 (2008 £15,023,661).

The fair value of the bank loans as at 31 December 2009 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 | 2009 | | 2008 | |
|----------------------------------|-------------|--------------|-------------|--------------|
| | Group £ | Company £ | Group £ | Company £ |
| Interest rate swaps | 212,287,281 | - | 221,061,278 | - |

At 31 December 2009 the fixed interest rates varied from 4.61% to 5.3% (as at 31 December 2008 fixed rates varied from 4.62% to 5.3%).

As at 31 December 2009 the fair value of the interest rate swaps would have created a liability of £13,311,177 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.

Notes to the financial statements for the year ended 31 December 2009

21. Other financial instruments (continued)

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.

Based on exchange rates prevalent as at 31 December 2009 the amounts payable that have been hedged under forward foreign currency contracts was £170,535 higher than the amounts payable had the Group not entered into these contracts.

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

| | 2009 | | 2008 | |
|---------------------------------------|--------------|--------------|-------------|--------------|
| | Group £ | Company £ | Group £ | Company £ |
| (Loss)/ Profit for the financial year | (3,650,472) | (120,215) | 2,245,045 | 1,699,411 |
| Dividend paid in the year | - | - | - | 5,029,364 |
| Opening shareholders' funds/(deficit) | (6,879,881) | 2,542,569 | (9,124,926) | (4,186,206) |
| Closing shareholders' funds/(deficit) | (10,530,353) | 2,422,354 | (6,879,881) | 2,542,569 |

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

| Group | 2009 £ | 2008 £ |
|--|-------------------|-------------------|
| Operating profit | 27,134,253 | 34,092,327 |
| Depreciation charges | 23,078,051 | 22,782,997 |
| Decrease in stocks | (15,951) | (344,014) |
| Decrease in debtors | (142,772) | 9,243,980 |
| Decrease in creditors | (2,055,471) | (2,257,256) |
| Net cash inflow from operating activities | 47,998,110 | 63,518,034 |

24. Analysis of net debt

| Group | At 1 January 2009 £ | Cash Flow £ | Other non- cash items £ | At 31 December 2009 £ |
|--------------------------|------------------------------|-------------------|-------------------------------|--------------------------------|
| Cash in hand, at bank | 11,450,929 | (885,030) | - | 10,565,899 |
| Debt due within one year | (22,155,685) | 34,440,209 | (34,014,498) | (21,729,974) |
| Debt due after one year | (282,522,142) | 153,598 | 19,857,106 | (262,511,438) |
| Total | (293,226,898) | 33,708,777 | (14,157,392) | (273,675,513) |

Notes to the financial statements for the year ended 31 December 2009

25. Financial commitments

At 31 December 2009 the group had annual commitments of £685,072 (2008 £682,778) 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 2009 the following balances were held with related parties

| Group | Related party transactions | 31 December 2009 |
|---|-----------------------------------|-------------------------|
| | £ | £ |
| RWE Npower Renewables Limited management fees | 2,394,736 | 1,076,661 |
| RWE Npower Renewables Limited scheduled maintenance fees | 157,956 | - |
| RWE Npower Renewables Limited Repowering Services Agreement | 250,000 | 250,000 |
| Npower Limited electricity purchases | 633,691 | 151,980 |
| JP Morgan | 92,428 | - |
| M&G Investment Management Limited | 70,000 | - |
| Npower Limited electricity sales | 50,071,832 | 3,469,662 |

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

Npower Limited is a subsidiary of RWE Npower plc

27. Ultimate parent company

As at 31 December 2009, 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

Notes to the financial statements for the year ended 31 December 2009

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 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 |