

ZEPHYR INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

Registered number: 04712921

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Strategic report for the year ended 31 December 2014

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. The principal activity of the Company is to act as a holding company for all its subsidiaries.

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. As the operational wind farms reach the end of their design life Headwind Development Services Limited, a subsidiary of the Group, is considering ways to maximise future value from these sites by investigating repowering opportunities.

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 2014 was £24,988,282 (2013: £9,878,169).

The position of the Group at the end of the year is provided on page 8 of the financial statements. The net liabilities of the Group as at 31 December 2014 was £68,660,431 (2013: £44,428,149).

During the year the Group repaid £29,463,651 (2013: £30,065,697) of debt.

There have been no significant events since the balance sheet date.

Principal risk and uncertainties

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

Key performance indicators

The Company's directors are of the opinion that there are no meaningful financial or non-financial key performance indicators that would be necessary or appropriate for an understanding of the development, performance or position of the Company's activities.

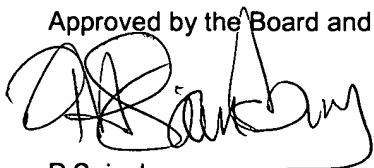
Future developments

The business will continue to operate wind farms through its subsidiary Beaufort Wind Limited. As existing supply contracts ("power purchase agreements") fall due for renewal, the business is negotiating improved terms with existing and new customers.

The business also continues with the investigation of repowering opportunities through its subsidiary Headwind Development Services Limited.

Strategic report for the year ended 31 December 2014 (continued)

Approved by the Board and signed on its behalf by

A handwritten signature in black ink, appearing to read 'P Sainsbury', written over a horizontal line.

P Sainsbury
Company Secretary

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

1st May 2015

Registered number: 04712921

Directors' report for the year ended 31 December 2014

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 2014.

Dividends

The directors do not recommend the payment of a dividend (2013: £nil).

Going concern

The Group and Company made a loss in the year and the Group is also in a net liabilities position. The directors have fully considered the risks and uncertainties of the Group and Company's cash flow forecasts and projections, taking into account reasonable possible changes in average wind speeds, expected increased revenue due to new power purchase agreements and repayment obligations in respect of its bank loans, which are disclosed in note 20.

On this basis, the directors have a reasonable expectation that the Group and Company will have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in note 1 of the financial statements.

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 the 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 as values are relatively low, the Group does not use foreign currency exchange contracts with any difference being recognised in the profit and loss account.

Directors' report for the year ended 31 December 2014 (continued)

(c) Price risk

The Group's exposure to price risk is potentially significant given the volatile electricity market. However, the Group has mitigated the exposure by entering into separate long term power purchase agreements with RWE Npower Limited, Smartest Energy, and Non-Fossil Fuel Obligation (NFFO) with the Non-Fossil Fuel Purchasing Agency (NFFA) for each wind farm. As these contracts become due for renewal, the Group is actively seeking to negotiate improved terms.

(d) Credit risk

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

The NFFA are governmental agencies and are therefore not considered to be a significant credit 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 RWE Npower Limited, Smartest Energy and NFFO contracts with the NFFA.

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:

M G Dellacha	
D Simons	
M Walters	
A Pena	(Alternate to M Nagle until 28 th April 2014, then S Stavnsbro from 28 th April 2014)
M Chladek	(appointed 27 th April 2015)
S Stavnsbro	(appointed 28 th April 2014)
M LeBlanc	(appointed 29 th January 2014 as Alternate to M Walters)
M Parker	(appointed 28 th April 2014 as Alternate to P Coffey and D Simons) (appointed Director 1 st March 2015)
B Freeman	(appointed Alternate to M Parker and D Simons 1 st March 2015)
P Coffey	(resigned 28 th February 2015)
K Bradbury	(resigned 27 th April 2015)
M Nagle	(resigned 28 th April 2014)
J Lynch-Williams	(resigned 31 st March 2014)

Directors' responsibilities statement

The directors are responsible for preparing the strategic and 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

Directors' report for the year ended 31 December 2014 (continued)

Directors' responsibilities statement (continued)

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

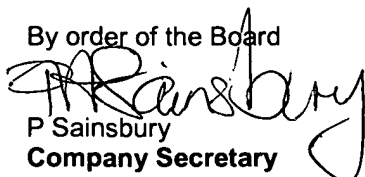
Each of the persons who is a director at the date of approval of this report confirms that:

- (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.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

By order of the Board


P Sainsbury
Company Secretary

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

1st May 2015

Registered number: 04712921

Independent auditor's report to the members of Zephyr Investments Limited

We have audited the financial statements of Zephyr Investments Limited for the year ended 31 December 2014 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement, the Reconciliation of net cash flow to movement in net debt and the related notes 1 to 28. 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).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, 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.

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 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 annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 of the parent Company's affairs as at 31 December 2014 and of the Group's loss 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 matters prescribed by the Companies Act 2006

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

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

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.



James Leigh FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London UK

1st May 2015

Zephyr Investments Limited
Strategic Report, Directors' Report and Financial Statements

Group profit and loss account
For the year ended 31 December 2014

	Note	2014 £	2013 £
Turnover		72,724,414	69,608,091
Cost of sales		(49,904,355)	(53,422,945)
Gross profit		22,820,059	16,185,146
Administrative expenses		(901,550)	(1,010,248)
Operating profit	2	21,918,509	15,174,898
Exceptional Items	5	(12,456,793)	-
Interest receivable and similar income		89,466	80,186
Interest payable and similar charges	6	(34,284,066)	(26,885,803)
(Loss) on ordinary activities before taxation		(24,732,884)	(11,630,719)
Tax charge on (loss) on ordinary activities	7	(255,398)	1,752,550
(Loss) for the financial year		(24,988,282)	(9,878,169)

The above results 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.

Zephyr Investments Limited
Strategic Report, Directors' Report and Financial Statements

Group balance sheet
As at 31 December 2014

	Note	2014 £	2013 £
Fixed assets			
Tangible assets	8	193,977,018	225,167,884
		193,977,018	225,167,884
Current assets			
Stocks	10	1,412,451	1,390,778
Debtors	11	14,040,786	11,598,779
Cash at bank and in hand	12	13,775,488	15,173,071
		29,228,725	28,162,628
Creditors: amounts falling due within one year	13	(26,431,370)	(23,057,763)
Net current assets		2,797,355	5,104,865
Total assets less current liabilities		196,775,273	230,272,749
Creditors: amounts falling due after more than one year	14	(211,222,723)	(222,114,024)
Government grants	15	(4,750,171)	(5,249,829)
Deferred tax	17	(16,388,583)	(17,366,569)
Provisions for liabilities and charges	16	(33,074,227)	(29,970,476)
		(54,212,981)	(52,586,874)
Net liabilities		(68,660,431)	(44,428,149)
Capital and reserves			
Called up share capital	18	545,499	469,899
Share premium account	19	4,009,500	3,329,100
Profit and loss account	19	(73,215,430)	(48,227,148)
Total shareholders' deficit	23	(68,660,431)	(44,428,149)

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



Mark Walters
Director
1st May 2015

Zephyr Investments Limited
Strategic Report, Directors' Report and Financial Statements

Company balance sheet
As at 31 December 2014
(Registered number: 04712921)

	Note	2014 £	2013 £
Fixed assets			
Investments	9	4,555,001	3,799,001
		4,555,001	3,799,001
Current assets			
Debtors (including £123,507,300 (2013: £117,725,312) due after one year)	11	130,466,206	124,638,113
Cash at bank and in hand		4,029	3,990
		130,470,235	124,642,103
Creditors: amounts falling due within one year	13	(5,315,850)	(5,149,032)
Net current assets		125,154,385	119,493,071
Total assets less current liabilities		129,709,386	123,292,072
Creditors: amounts falling due after more than one year	14	(123,507,300)	(117,725,312)
Net assets		6,202,086	5,566,760
Capital and reserves			
Called up share capital	18	545,499	469,899
Share premium account	19	4,009,500	3,329,100
Profit and loss account	19	1,647,087	1,767,761
Total shareholders' funds	23	6,202,086	5,566,760

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



Mark Walters
Director
 1st May 2015

Group cash flow statement
For the year ended 31 December 2014

	Note	2014 £	2013 £
Net cash inflow from operating activities	24	43,610,212	37,933,532
Financing activities			
Interest received		89,466	80,186
Interest paid		(14,451,123)	(7,891,374)
Capital element of debt repayments		(29,463,651)	(30,065,697)
Proceeds on issue of ordinary shares		756,000	249,000
Net cash outflow from financing activities		(43,069,308)	(37,627,885)
Taxation		(1,938,493)	(326,833)
(Decrease) in cash in the year		(1,397,585)	(21,186)
Opening cash at bank and in hand		15,173,071	15,194,257
Closing cash at bank and in hand		13,775,488	15,173,071

Reconciliation of net cash flow to movement in net debt

	Note	2014 £	2013 £
(Decrease)/increase in cash in the year		(1,397,583)	(21,186)
Cash outflow from decrease in debt		29,463,651	30,065,697
Change in net debt resulting from cash flows		28,066,068	30,044,511
Non cash movements			
Unwind of discount on Deep Discounted Bond		(18,853,474)	(17,410,667)
Amortisation of debt issue cost		(169,549)	(1,107,845)
Accrued interest on debt		(2,968)	37,359
Movement in net debt during the year		9,040,077	11,563,356
Opening net debt		(223,200,224)	(234,763,582)
Closing net debt	25	(214,160,147)	(223,200,224)

Notes to the financial statements for the year ended 31 December 2014

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.

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

Accounting policies have been applied consistently throughout the current and preceding year. The principal accounting policies are set out below.

Going concern

The Group and Company's business activities, together with the factors likely to affect its future development and performance are set out in the strategic and directors' reports. The strategic and directors' reports also describes the financial position of the Group, the Group's objectives, policies and processes for managing its capital and financial risk. The Group's borrowing facilities and associated repayment obligations are set out in note 20. Details of the Group's financial instruments and hedging activities; and its exposure to credit and liquidity risk are set out in note 21.

The operational wind farm assets provide sufficient positive cash flows to allow the Group and to meet its day to day working capital requirements. In the event average wind speeds fall significantly below expectations or wind farm availability falls significantly, this would have a negative impact on revenues and cash flows.

Notwithstanding the loss in the year for the Company and the Group and the net liability position of the Group, the Group and Company's forecasts and projections, taking into account reasonable possible changes in average wind speeds, wind farm availability, and the repayment obligations of the debt, show that the Group and Company should have sufficient cash flows to meet its financial obligations falling due for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year. 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 (LECs) 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, when generation meets the grid supply point at which time it is measured by the appointed meter operator agent.

Notes to the financial statements for the year ended 31 December 2014

1. Accounting policies *(Continued)*

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 on a straight line basis over the term of the lease, even if the payments are not made on that basis.

Interest receivable and similar income

Finance income is earned on cash deposits and is recognised as income in the period in which it is earned.

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 incurred.

Issue cost in respect of the DDB's are allocated to periods based on their forecast redemption profiles.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred taxation assets are recognised to the extent that they are regarded as recoverable. Deferred tax is measured at the average tax rates that are expected to apply in the years in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation and any provision for impairment in value. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Notes to the financial statements for the year ended 31 December 2014

1. Accounting policies *(Continued)*

Tangible fixed assets and depreciation *(Continued)*

Depreciation of tangible fixed assets is provided on a straight line basis to write off the cost less the estimated residual value of the assets by equal instalments over their estimated useful economic life.

At 31 December 2013 the total useful economic life of each wind farm was amended to between 20 and 25 years after a reassessment exercise was performed.

Decommissioning of wind farms

A provision is made for the decommissioning of the wind farms based on the Group's best estimate of the current cost of decommissioning. These costs are a contractual obligation when the planning consent is granted to ensure appropriate restoration of the land.

Provisions for decommissioning are recognised in full when the related facilities are constructed. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related plant and equipment. The amount recognised is the estimated cost of decommissioning, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing and value of decommissioning costs estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to the wind farm cost. The unwinding of the discount on the decommissioning provision is included as a finance cost.

As at 31 December 2014, after a reassessment of the useful economic life of each operating wind farm, decommissioning is expected to take place between 2017 and 2026.

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 components and spares held by the Group in relation to the windfarm assets.

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 incurred. Bank loans are derecognised on repayment of principal.

The issue costs are netted against the financial instruments to which they relate.

Notes to the financial statements for the year ended 31 December 2014

1. Accounting policies (Continued)

Financial instruments (Continued)

The Group uses financial instruments, such as interest rate swaps 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.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Government grants

Capital based government grants are treated as deferred income and credited to operating profit over the expected useful economic life of the assets to which they relate.

Contingent Liabilities

Zephyr assesses its liabilities and contingencies for all tax years open to audit based upon the latest information available. For those matters where it is probable that an adjustment will be made, the Group records its best estimate of these tax liabilities, including related interest charges. Inherent uncertainties exist in estimates of tax contingencies due to complexities of interpretation and changes in tax laws. Whilst Zephyr believes it has adequately provided for the outcome of these matters, future results may include favourable or unfavourable adjustments to these tax liabilities in the period the assessments are made or resolved.

2. Operating profit

	2014	2013
	£	£
Group		
Operating profit is stated after charging:		
Depreciation of tangible fixed assets	21,029,971	25,385,269
Operating lease charges	2,345,837	2,032,686
Release of the government grant	(499,658)	(499,660)
Fees payable to the Group's auditors		
Audit services – Company	5,265	5,167
Audit services – Group total	78,973	77,500
Non-audit services	-	-

3. Directors' emoluments

Directors are seconded to the Group by their respective shareholders. In consideration for their services, the Group paid £140,141 (2013: £140,269).

Notes to the financial statements for the year ended 31 December 2014

4. Employee information

The Group and Company had no employees for the year under review (2013: none).

5. Exceptional items

	2014	2013
Group	£	£
Other exceptional item	12,456,793	-
	12,456,793	-

Management has reviewed the fixed assets for impairment and found that the assets in North Hoyle wind farm rendered further investigation. The outcome of the review has resulted in the Group recognising an impairment loss of £12,456,793 in the year. In calculating the recoverable amount, the Group projected cash flows over the remaining life of the assets. The Group used a growth rate in line with an industry calculation for stand-alone electricity generating businesses and subsequently discounted the cash flows using a WACC rate of 9%. Further, the impairment relates to a fair value adjustment held at Group level, meaning that no further adjustment is required in any subsidiary company.

6. Interest payable and similar charges

	2014	2013
Group	£	£
Amortisation of debt issue costs	169,549	1,107,845
Unwind of Discount on Deep Discount Bonds	18,853,474	17,410,667
Debt interest	6,873,821	7,854,017
Charge on early redemption of Deep Discount Bonds	7,580,269	-
Decommissioning provision – unwind of discount (note 15)	806,953	513,274
	34,284,066	26,885,803

Following a clarification of the existing provisions in the DDB agreement with the bond holders, management has applied an early redemption charge in the current year which has been calculated from a discount rate calculated using the simple average of The Modified Spens Clause and Risk Premium approaches and which relates to the redemptions made in 2014. Such a charge is expected to be applied to future early redemptions.

Notes to the financial statements for the year ended 31 December 2014

7. Tax on loss on ordinary activities

Group	2014 £	2013 £
Current tax:		
Corporation tax	764,267	1,890,683
Adjustment in respect of prior years	469,118	74,337
Total current tax (see below)	1,233,385	1,965,020
Deferred tax (see note 16):		
Origination and reversal of timing differences	(1,063,377)	(1,140,500)
Adjustment in respect of prior periods	7,338	(799)
Impact of change in UK tax rates and laws	78,052	(2,576,272)
Total deferred tax	(977,987)	(3,717,570)
Tax (credit)/charge on (loss)/profit on ordinary activities	255,398	(1,752,550)

The tax assessed for the year is lower (2013: lower) than the standard rate of corporation tax in the UK (21.5%) (2013: 23.25%). The differences are explained below:

Group	2014 £	2013 £
(Loss)/profit on ordinary activities before tax*	(24,732,884)	(11,630,719)
(Loss)/profit on ordinary activities multiplied by the standard rate in the UK – 21.5% (2013: 23.25%)	(5,317,570)	(2,704,112)
Expenses not deducted for tax purposes	5,024,705	3,470,923
Depreciation in excess of capital allowances	1,059,513	1,123,872
Adjustment in respect of prior years	469,119	74,337
Effects of other tax rates/credits	(2,209)	-
Current tax charge for the year	1,233,458	1,965,020

The 2013 Budget on 20 March 2013 announced that the UK Corporation tax rate will reduce to 20% by 2015. A reduction from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012, and further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This change has impacted the reversal of the temporary difference, reducing the Group's UK deferred tax assets and liabilities.

The deferred tax liability at 31 December 2014 has been calculated based on the rate of 20% effective from 2015.

Notes to the financial statements for the year ended 31 December 2014

8. Tangible fixed assets

Group	Decommissioning asset £	Operating wind farms £	Total £
Cost			
At 1 January 2014	23,971,434	399,030,646	423,002,080
Change in estimates	2,296,798	-	2,296,798
At 31 December 2014	26,268,232	399,030,646	425,298,878
Accumulated depreciation			
At 1 January 2014	10,924,300	186,909,896	197,834,196
Charge for the year	1,832,243	19,197,728	21,029,971
Impairment of fixed asset	-	12,456,793	12,456,793
At 31 December 2014	12,756,543	218,564,417	231,320,960
Net book value			
At 31 December 2014	13,511,689	180,466,229	193,977,918
At 31 December 2013	13,047,134	212,120,750	225,167,884

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

In accordance with Group policy, management reviewed the cost of decommissioning during the year. Changes in the estimated timing and cost of decommissioning are dealt with prospectively by recording an adjustment to the provision (note 15), and a corresponding adjustment to the wind farm cost.

9. Investments

Company	2014 £	2013 £
Cost and net book value		
Investment in subsidiary undertakings	4,555,001	3,799,001

Investments comprise shares in group undertakings. The principal subsidiaries of the Group are listed on page 25. The Company invested in 75,600 ordinary shares of £1 each issued by Headwind Development Services Limited during the year at a premium of £9 per share giving a total consideration of £756,000.

The directors believe that the carrying value of the investments is supported based on the underlying assets expected future cash flows.

10. Stocks

Group	2014 £	2013 £
Consumables	1,412,451	1,390,778

Notes to the financial statements for the year ended 31 December 2014

11. Debtors

(a) Debtors: amounts falling due within one year

	2014		2013	
	Group £	Company £	Group £	Company £
Trade debtors	1,993,578	-	158,800	-
Amounts owed by Group undertakings	-	6,050,769	-	6,050,769
Corporation tax debtor	-	-	-	862,032
Prepayments and accrued income	12,047,208	-	11,439,979	-
	14,033,874	6,050,769	11,598,779	6,912,801

The Company disclosure for amounts owed by Group undertakings are unsecured, interest free and are repayable on demand. The balance includes £46,105 (2013: £1,677,972) of group relief receivable.

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

	2014		2013	
	Group £	Company £	Group £	Company £
Deep Discount Bonds (Note 19a)	-	123,507,300	-	117,725,312

12. Cash at bank and in hand

At 31 December 2014, Group cash balances with banks include £1,456,034 (2013: £1,445,844) of cash that is subject to either a legal assignment or a charge in favour of a third party. It is expected that they will be released in line with the decommissioning of the wind farms to which the funds relate.

13. Creditors: amounts falling due within one year

	2014		2013	
	Group £	Company £	Group £	Company £
Bank loans (Note 20b)	16,712,912	-	16,259,272	-
Trade creditors	2,732,431	-	70,447	-
Corporation tax creditor	243,050	-	948,158	-
Amounts owed to Group undertakings	-	5,315,856	-	5,149,032
Other taxation and social security	1,339,877	-	1,379,805	-
Accruals	5,403,100	-	4,400,081	-
	26,431,370	5,315,856	23,057,763	5,149,032

The Company disclosure for amounts owed to Group undertakings include £nil (2013: £nil) of group relief payable.

Notes to the financial statements for the year ended 31 December 2014

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

	2014		2013	
	Group	Company	Group	Company
	£	£	£	£
Deep Discount Bonds (Note 20a)	122,994,528	123,507,300	117,172,917	117,725,312
Bank loans (Note 20b)	88,228,195	-	104,941,107	-
	211,222,723	123,507,300	222,114,024	117,725,312

15. Government grant

Group	2014	2013
	£	£
Amounts brought forward	5,249,829	5,749,489
Released to the profit and loss account during the year	(499,658)	(499,660)
Amounts carried forward	4,750,171	5,249,829
Due for release within one year	499,658	499,660
Due for release in two to five years	1,998,632	1,998,640
Due for release in more than five years	2,251,881	2,751,529
	4,750,171	5,249,829

North Hoyle wind farm received a capital grant of £10,000,000 in 2004. This is being released on a straight line basis over the wind farm estimated useful economic life of 20 years.

16. Provisions for liabilities and charges

	1 January 2014	Unwinding of discount in the year	Change in estimate in the year	31 December 2014
Group	£	£	£	£
Decommissioning costs	29,970,476	806,953	2,296,798	33,074,227

The provision for the decommissioning of the wind farm represents the net present value of the Group's best estimate of the costs to decommission the wind farm at the end of its useful life. The provisions were re-estimated at the end of the year to reflect current management expectations of the future liability.

The closing provision has been discounted to its present value for each wind farm separately, based on the yield on a UK gilt maturing at the end of each wind farm's economic life (between 2017 and 2026).

17. Deferred taxation

Group	2014	2013
	£	£
Analysis of deferred tax balance		
Timing differences in respect of capital allowances	16,388,583	17,366,569
	2014	2013
Group	£	£
Opening provision	17,366,569	21,084,139
Credit for the year (note 6)	(977,987)	(3,717,570)
Closing provision	16,388,583	17,366,569

Notes to the financial statements for the year ended 31 December 2014

18. Called up share capital

	2014	2013
	£	£
Group and Company		
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: 410,000 ordinary shares of £1 each	410,000	410,000
On 26 March 2013: 490,000 ordinary shares of £1 each	490,000	490,000
1,000,000 ordinary shares of £1 each	1,000,000	1,000,000
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	180,000
On 21 March 2012: 165,000 ordinary shares of £1 each	165,000	165,000
On 19 November 2013: 24,900 ordinary shares of £1 each	24,900	24,900
On 16 March 2014: 26,100 ordinary shares of £1 each	26,100	-
On 28 November 2014: 49,500 ordinary shares of £1 each	49,500	-
469,899 ordinary shares of £1 each	545,499	469,899

The Company issued 75,600 ordinary shares of £1 each during the year at a premium of £9 per share giving a total consideration of £756,000.

19. Reserves

(a) Profit and loss account

	2014		2013	
	Group £	Company £	Group £	Company £
Opening balance	(48,227,148)	1,767,761	(38,348,979)	1,957,228
(Loss)/profit for the financial year	(24,988,282)	(120,674)	(9,878,169)	(189,467)
Closing balance	(68,660,431)	1,647,087	(48,227,148)	1,767,761

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 £166,779 (2013: loss of £189,467).

(b) Share premium account

	2014		2013	
	Group £	Company £	Group £	Company £
Opening balance	3,329,100	3,329,100	3,105,000	3,105,000
Share premium on issue of 75,600 ordinary shares	680,400	680,400	-	-
Share premium on issue of 24,900 ordinary shares	-	-	224,100	224,100
Closing balance	4,009,500	4,009,500	3,329,100	3,329,100

Notes to the financial statements for the year ended 31 December 2014

20. Financial assets

(a) Deep Discount Bonds

	2014		2013	
Deep Discount Bonds	Group £	Company £	Group £	Company £
Total Deep Discount Bonds	-	123,507,300	-	117,725,312

There is an intercompany relationship between Zephyr Investments Limited and Beaufort Wind Limited regarding the Deep Discounted Bonds. The Company subscribed bonds to Beaufort Wind Limited of the same value and terms as those issued by the Group in 2004, 2005 & 2006. The details of which can be found in note 20(a).

21. Financial liabilities

(a) Deep Discount Bonds

	2014		2013	
Deep Discount Bonds	Group £	Company £	Group £	Company £
Total Deep Discount Bonds	122,994,528	123,507,300	117,172,917	117,725,312

On 29 December 2006, the Group and 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 Group and 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 Group and 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; £123,507,300 principal less £512,773 issue costs. The issue costs were incurred by one of the subsidiaries in the Group.

The unwinding of the discount is charged to the profit and loss account to the year to which it relates based on the Deep Discount Bonds' implied discount rate. 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.

Notes to the financial statements for the year ended 31 December 2014

21. Financial liabilities (continued)

(b) Bank loans

Bank loans	2014 Group £	Company £	2013 Group £	Company £
Due within one year	16,712,912	-	16,259,272	-
Due within one year	16,712,912	-	16,259,272	-
Due in more than one year but less than two	16,240,562	-	16,712,912	-
Due in more than two years but less than three	15,641,567	-	16,240,562	-
Due in more than three years but less than four	15,956,162	-	15,641,567	-
Due in more than four years but less than five	16,212,768	-	15,956,162	-
Due in more than five years	24,177,196	-	40,389,904	-
Due after more than one year	88,228,195	-	104,941,107	-
Total bank loans	104,941,107	-	121,200,379	-

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 was fully repaid on 16 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 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.

The total interest payable on the bank loans for the year ended 31 December 2013 was £6,873,821 (2013: £7,854,017).

The fair value of the bank loans as at 31 December 2014 is not considered to be materially different from their nominal values.

Notes to the financial statements for the year ended 31 December 2014

22. Other financial instruments

(a) Interest rate exposure

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

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

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

The Group's policy is to hedge 100% of its net exposure to interest rate risk, taking into account the inherent hedge from cash balances. 94% 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	2014		2013	
	Group £	Company £	Group £	Company £
Interest rate swaps	110,847,658	-	127,138,107	-

At 31 December 2014 the fixed interest rates varied from 4.62% to 5.30% (as at 31 December 2013 fixed rates varied from 4.62% to 5.30%).

As at 31 December 2014 the fair value of the interest rate swaps would have created a liability of £12,173,734 (2013: £12,616,223) 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 B loan (2005 acquisitions)	15 June 2021
Tranche B loan (2006 acquisitions)	15 December 2021
Tranche C loan	15 December 2020

(b) Currency exposure

All of the Group's trading activities are located in the United Kingdom. Accordingly the majority of the Group's transactions are denominated in sterling and do not give rise to a foreign currency exposure. Some services are purchased in non-sterling currencies.

Notes to the financial statements for the year ended 31 December 2014

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

	2014	Company	2013	Company
	Group	£	Group	£
Opening shareholders' (deficit)/ funds	(44,428,149)	5,566,760	(34,798,980)	5,507,227
Proceeds on issue of ordinary shares	756,000	756,000	249,000	249,000
(Loss) for the financial year	(24,988,282)	(120,674)	(9,878,169)	(189,467)
Closing shareholders' (deficit)/ funds	(68,660,431)	6,202,086	(44,428,149)	5,566,760

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

	2014	2013
Group	£	£
Loss for year	24,988,282	9,878,169
Impairment Charge	(12,456,793)	-
Depreciation Charges	21,029,971	25,385,269
Increase in stocks	(21,678)	(183,395)
Decrease/(increase in debtors)	(2,442,009)	(1,311,099)
Decrease in creditors	12,512,439	4,164,588
Net cash inflow from operating activities	43,610,212	37,933,532

25. Analysis of net debt

	At 1	Cash Flow	Other non-	At 31
	January		cash items	December
Group	2014			2014
	£	£	£	£
Cash in hand, at bank	15,173,071	(1,397,583)	-	13,775,488
Debt due within one year	(16,259,272)	16,392,167	(16,845,807)	(16,712,912)
Debt due after one year	(222,114,024)	13,071,484	(2,180,182)	(211,222,723)
Total	(223,200,225)	28,066,068	(19,025,989)	(214,160,147)

26. Financial commitments

Commitments under non-cancellable operating leases for land are as follows:

	2014	2013
	£	£
Expiry date:		
Less than one year	104,692	150,361
After five years	8,611,172	9,058,994
	8,715,864	9,209,355

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.

Notes to the financial statements for the year ended 31 December 2014

26. Financial commitments (continued)

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 30 December 2005 a charge over the group's distribution reserve bank account was registered in favour of RWE Innogy UK 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 Innogy UK Limited.

27. Other related party transactions

During the year the Group entered into the following transactions, in the ordinary course of business, with other related parties. On 31 December 2014 the following balances were held with related parties:

Group	Related party transactions	31 December 2014 receivable/ (payable)
	£	£
RWE Innogy UK Limited: scheduled maintenance	2,210,613	(278,538)
RWE Innogy UK Limited: unscheduled maintenance	2,054,753	(902,466)
RWE Innogy UK Limited: other income	30,000	-
JP Morgan Investment Management Inc: Directors Fees	71,497	(113,750)
M&G Investment Management Limited: Directors Fees	70,000	-
RWE Innogy UK Limited: management services agreement	2,523,386	(1,254,294)
RWE Innogy UK Limited: recharge telephone charges	113,199	(17,770)
Npower Limited: electricity purchases	348,277	(79,994)
Npower Limited: electricity sales	52,747,197	6,957,810
RWE Innogy UK Limited: repowering services agreement	1,688,488	(1,450,898)
RWE Innogy UK Limited: legal fees recharge	24,639	(24,639)
RWE Innogy UK Limited: fuel recharge	77,121	-
JP Morgan Investment Management Inc: DDB Interest & Early Redemption Charge	6,883,917	-
M&G Investment Management Limited: DDB Interest & Early Redemption Charge	6,883,917	-
RWE Innogy UK Limited: DDB Interest & Early Redemption Charge	6,883,917	-

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 Innogy UK Limited is a subsidiary of RWE Innogy UK Holdings Limited.

Npower Limited is a subsidiary of RWE Npower plc which is part of the RWE Group.

28. Ultimate parent company

As at 31 December 2014, 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 Holdings 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 2014

29. 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 Lambrigg 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