

ZEPHYR INVESTMENTS LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Registered number: 04712921



Zephyr Investments Limited
Directors' report and financial statements

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Directors' report for the year ended 31 December 2012

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 2012

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 2012 was £11,824,387 (2011 profit £1,201,831).

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 2012 was £34,798,980 (2011 £24,624,593).

During the year the Group repaid £30,512,165 (2011 £22,925,281) of debt.

In accordance with the Group policy, management reviewed the cost of decommissioning during the year. Management commissioned an independent recognised body to estimate the cost of decommissioning for all wind farms in the Group and the management estimate was updated accordingly. This resulted in a net decrease in the provision of £7,772,818.

Principal risk and uncertainties

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

Dividends

The directors do not recommend the payment of a dividend (2011 £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.

Going concern

The Group and Company made a loss in the year and the Group is also in a net current 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 of reasonable possible changes in average wind speeds 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.

Directors' report for the year ended 31 December 2012

Going concern *(Continued)*

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 the Group manages this risk, where possible, by using foreign exchange contracts

(c) Price risk

The Group's exposure to price risk is significant given the volatile electricity market. However, the Group has mitigated the exposure by entering into separate long term power purchase agreements at pre-determined prices 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 wind farm

(d) Credit risk

The Group's exposure to credit risk relates to its trade receivables and arises in the event that Npower Limited defaulted on the terms of the power purchase agreement this 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

Directors' report for the year ended 31 December 2012

Financial risks *(Continued)*

(e) Liquidity and cash flow risk *(Continued)*

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 agreements with Npower Limited and NFFO/SRO contracts with the NFPA/NFPA (Scotland)

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

Directors and their interests

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

P Coffey	
M Nagle	
K Bradbury	
J Cooper	(resigned 6 December 2012)
G Dellacha	(appointed 7 December 2012)
H Bunting	(resigned 30 June 2012)
D Simons	(appointed 1 July 2012)
A Pena (Alternate)	
R Hardy (Alternate)	
J Lynch-Williams	
M Walters	

Directors' responsibilities statement

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

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

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business,

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

Zephyr Investments Limited
Directors' report and financial statements

Directors' report for the year ended 31 December 2012

Disclosure of information to auditors

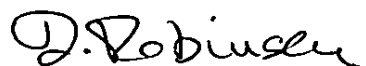
Each of the persons who is a director at the date of approval of this report confirms that

(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

By order of the Board



D Robinson
Company secretary

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

25th March 2013

Registered number 04712921

Independent auditors' report to the members of Zephyr Investments Limited

We have audited the financial statements of Zephyr Investments Limited for the year ended 31 December 2012 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 auditors' 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 auditors

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 2012 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

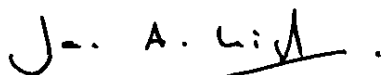
In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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



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

25 March 2013

Zephyr Investments Limited
Directors' report and financial statements

Group profit and loss account
For the year ended 31 December 2012

	Note	2012 £	2011 £
Turnover		66,949,066	72,572,436
Cost of sales		(52,315,960)	(46,967,846)
Gross profit		14,633,106	25,604,590
Administrative expenses		(656,212)	(480,155)
Operating profit	2	13,976,894	25,124,435
Interest receivable and similar income		83,623	74,143
Interest payable and similar charges	5	(27,679,357)	(21,488,499)
(Loss)/profit on ordinary activities before taxation		(13,618,840)	3,710,079
Tax credit/(charge) on (loss)/profit on ordinary activities	6	1,794,453	(2,508,248)
(Loss)/profit for the financial year		(11,824,387)	1,201,831

The above results all arise from continuing operations

The Group has no recognised gains or losses other than those included in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented

Zephyr Investments Limited
Directors' report and financial statements

Group balance sheet
As at 31 December 2012

	Note	2012 £	2011 £
Fixed assets			
Tangible assets	7	253,025,503	284,441,973
		253,025,503	284,441,973
Current assets			
Stocks	9	1,207,383	1,119,833
Debtors	10	10,287,680	20,300,262
Cash at bank and in hand	11	15,194,257	11,286,885
		26,689,320	32,706,980
Creditors amounts falling due within one year	12	(27,788,224)	(32,815,471)
Net current liabilities		(1,098,904)	(108,491)
Total assets less current liabilities		251,926,599	284,333,482
Creditors: amounts falling due after more than one year	13	(227,962,399)	(240,779,800)
Government grants	14	(5,749,489)	(6,315,878)
Deferred tax	16	(21,084,139)	(23,024,840)
Provisions for liabilities and charges	15	(31,929,552)	(38,837,557)
		(58,763,180)	(68,178,275)
Net liabilities		(34,798,980)	(24,624,593)
Capital and reserves			
Called up share capital	17	444,999	279,999
Share premium account	18	3,105,000	1,620,000
Profit and loss account	18	(38,348,979)	(26,524,592)
Total shareholders' deficit	22	(34,798,980)	(24,624,593)

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



Julia Lynch-Williams
Director
25th March 2013

Zephyr Investments Limited
Directors' report and financial statements

Company balance sheet
As at 31 December 2012
(Registered number: 04712921)

	Note	2012 £	2011 £
Fixed assets			
Investments	8	3,550,001	1,900,001
		3,550,001	1,900,001
Current assets			
Debtors (including £107,314,644 (2011 £98,447,626) due after one year)	10	114,250,792	105,389,781
Cash at bank and in hand		3,910	3,392
		114,254,702	105,393,183
Creditors: amounts falling due within one year	12	(4,982,832)	(4,871,924)
Net current assets		109,271,870	100,521,257
Total assets less current liabilities		112,821,871	102,421,258
Creditors amounts falling due after more than one year	13	(107,314,644)	(98,447,626)
Net assets		5,507,227	3,973,632
Capital and reserves			
Called up share capital	17	444,999	279,999
Share premium account	18	3,105,000	1,620,000
Profit and loss account	18	1,957,228	2,073,633
Total shareholders' funds	22	5,507,227	3,973,632

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

Julia Lynch-Williams

Julia Lynch-Williams
Director
 25th March 2013

Zephyr Investments Limited
Directors' report and financial statements

Group cash flow statement
For the year ended 31 December 2012

	Note	2012 £	2011 £
Net cash inflow from operating activities	23	46,198,567	33,743,964
Financing activities			
Interest received		83,623	74,125
Interest paid		(9,312,392)	(10,479,832)
Capital element of debt repayments		(30,512,164)	(22,925,281)
Proceeds on issue of ordinary shares		1,650,000	1,800,000
Net cash outflow from financing activities		(38,090,933)	(31,530,988)
Taxation		(4,200,262)	(723,241)
Increase in cash in the year		3,907,372	1,489,735
Opening cash at bank and in hand		11,286,885	9,797,150
Closing cash at bank and in hand		15,194,257	11,286,885

Reconciliation of net cash flow to movement in net debt

	Note	2012 £	2011 £
Increase in cash in the year		3,907,372	1,489,735
Cash outflow from decrease in debt		30,512,164	22,925,281
Change in net debt resulting from cash flows		34,419,536	24,415,016
Non cash movements			
Unwind of discount on Deep Discounted Bond		(16,011,204)	(8,636,444)
Amortisation of debt issue cost		(1,529,406)	(1,196,797)
Accrued interest on debt		29,035	7,179
Movement in net debt during the year		16,907,961	14,588,954
Opening net debt		(251,671,543)	(266,260,497)
Closing net debt	24	(234,763,582)	(251,671,543)

Notes to the financial statements for the year ended 31 December 2012

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 directors' report. The directors' report 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 current liability position of the Group, the Group and Company's forecasts and projections, taking into account of 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 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 fixed price contracts relating to the generation of electricity inclusive of associated benefits for Renewable Obligation Certificates (ROCS) and Levy Exemption Certificates (LEC's) where applicable. Turnover also includes asset manufacturer warranty income claims for lost generation. Turnover is stated net of value added tax and is generated entirely within the United Kingdom. Turnover is recognised as income in the period in which it is earned, 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 2012

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 accrued.

Issue costs in respect of capital instruments are recognised in the profit and loss account within interest, allocated to periods over the term of the instrument at a constant rate based on the carrying amount, in accordance with the provisions of FRS 4. 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 2012

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 as follows

Wind farms	20 years
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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

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 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.

Fixed asset investments

All fixed asset investments are stated at cost less any provisions for impairment in value. A review of the investments held is performed to determine whether an impairment trigger has occurred during the year. Any impairment in the value of the investment is charged to the profit and loss account in the year it is identified.

Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition, or net realisable value which is based on estimated selling price less further costs expected to be incurred to completion and disposal.

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

Financial instruments

Deep Discount Bonds are recognised at the date of issue under the terms of the instrument at a discount to their par value less issue costs. The discount is then unwound back to their par value over the period to maturity and charged to the profit and loss account in the accounting period to which it relates. Deep Discount Bonds are derecognised on redemption.

Bank loans are recognised on drawdown of funds under the terms of the loan agreement at the value of the principal on the drawdown date less issue costs. Interest payable is charged to the profit and loss account as it is accrued. Bank loans are derecognised on repayment of principal.

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. Issue cost in respect of the DDB's are allocated to periods based on their forecast redemption profiles. The issue costs are netted against the financial instruments to which they relate.

Notes to the financial statements for the year ended 31 December 2012

1. Accounting policies (Continued)

Financial instruments (Continued)

The Group uses financial instruments, such as interest rate swaps and forward currency contracts, for hedging purposes. The Group does not enter into speculative derivative contracts. All such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the Group in line with the Group's risk management policies. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contracts.

Related party transactions

The Company is exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Zephyr Investments Limited group. Note 27 details transactions the Company entered into, in the ordinary course of business, with other related parties.

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

	2012	2011
	£	£
Group		
Operating profit is stated after charging		
Depreciation of tangible fixed assets	23,643,652	24,321,858
Operating lease charges – other than plant and machinery	1,874,888	1,668,861
Release of the government grant	(566,389)	(504,991)
Fees payable to the Group's auditors		
Audit services – Company	5,000	10,204
Audit services – Group	75,000	87,120
Non-audit services	-	10,000

3. Directors' emoluments

The directors received emoluments in respect of their services of £141,497 (2011: £159,783).

4. Employee information

The Group and Company had no employees for the year under review (2011: none).

Zephyr Investments Limited
Directors' report and financial statements

Notes to the financial statements for the year ended 31 December 2012

5. Interest payable and similar charges

Group	2012 £	2011 £
Amortisation of debt issue costs	1,529,406	1,196,797
Unwind of Discount on Deep Discount Bonds	16,011,204	8,636,444
Debt interest	9,273,934	10,472,656
Decommissioning provision – unwind of discount (note 15)	864,813	1,182,602
	27,679,357	21,488,499

6. Tax on loss on ordinary activities

Group	2012 £	2011 £
Current tax:		
Corporation tax	468,461	4,614,208
Adjustment in respect of prior years	(322,213)	(323,339)
Total current tax (see below)	146,248	4,290,869
Deferred tax (see note 16):		
Origination and reversal of timing differences	(666,674)	(367,509)
Adjustment in respect of prior periods	572,983	426,875
Impact of change in UK tax rates and laws	(1,847,010)	(1,841,987)
Total deferred tax	(1,940,701)	(1,782,621)
Tax (credit)/charge on (loss)/profit on ordinary activities	(1,794,453)	2,508,248

The tax assessed for the year is higher (2011 higher) than the standard rate of corporation tax in the UK (24 5%) (2011 26 5%) The differences are explained below

Group	2012 £	2011 £
(Loss)/profit on ordinary activities before tax	(13,618,840)	3,710,079
(Loss)/profit on ordinary activities multiplied by the standard rate in the UK – 24 5% (2011 26 5%)	(3,336,616)	983,171
Expenses not deducted for tax purposes	3,138,403	842,544
Non tax-deductible fair value amortisation arising on consolidation	-	1,885,493
Depreciation in excess of IBA's	-	164,216
Depreciation in excess of capital allowances	666,674	367,509
Depreciation in respect of assets acquired intragroup	-	378,082
Adjustment in respect of prior years	(322,213)	(323,339)
Impact of change in UK tax rate	-	(6,807)
Current tax charge for the year	146,248	4,290,869

Notes to the financial statements for the year ended 31 December 2012

6. Tax on loss on ordinary activities (Continued)

From 1 April 2013, the main UK corporation tax rate will be 23%, subsequently reducing to 21% in 2014. The change in the main UK rate to 23% was substantively enacted as at the balance sheet date. This change will impact the reversal of the temporary difference from this date onwards, reducing the Group's UK deferred tax assets and liabilities for the year ended 31 December 2012. The subsequent reduction is expected to be included within Finance Bill 2013 and therefore is not yet substantively enacted so should not be reflected in the financial statements.

7. Tangible fixed assets

Group	Decommissioning asset £	Operating wind farms £	Total £
Cost			
At 1 January 2012	34,216,602	399,030,646	433,247,248
Change in estimates	(7,772,818)	-	(7,772,818)
At 31 December 2012	26,443,784	399,030,646	425,474,430
Accumulated depreciation			
At 1 January 2012	6,396,210	142,409,065	148,805,275
Charge for the year	1,365,737	22,277,915	23,643,652
At 31 December 2012	7,761,947	164,686,980	172,448,927
Net book value			
At 31 December 2012	18,681,837	234,343,666	253,025,503
At 31 December 2011	27,820,392	256,621,581	284,441,973

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. Management commissioned an independent recognised body to estimate the cost of decommissioning for each wind farm and the management estimate was updated accordingly. 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.

8. Investments

Company	2012 £	2011 £
Cost and net book value		
Investment in subsidiary undertakings	3,550,001	1,900,001

Investments comprise shares in group undertakings. The principal subsidiaries of the Group are listed on page 25. The directors believe that the carrying value of the investments is supported based on the underlying assets expected future cash flows.

9. Stocks

Group	2012 £	2011 £
Consumables	1,207,383	1,119,833

Notes to the financial statements for the year ended 31 December 2012

10. Debtors

(a) Debtors. amounts falling due within one year

	2012		2011	
	Group £	Company £	Group £	Company £
Trade debtors	1,356,708	-	7,949,523	-
Amounts owed by Group undertakings	-	6,008,405	-	5,958,606
Other debtors	-	-	-	-
Deep Discount Bonds (Note 19a)	-	-	-	55,814
Corporation tax debtor	690,028	927,743	-	927,743
Prepayments and accrued income	8,240,944	-	12,350,739	-
	10,287,680	6,936,148	20,300,262	6,942,163

The Company disclosure for amounts owed by Group undertakings are unsecured, interest free and are repayable on demand. The balance includes £1,635,608 (2011 £1,944,712) of group relief receivable

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

	2012		2011	
	Group £	Company £	Group £	Company £
Deep Discount Bonds (Note 19a)	-	107,314,644	-	98,447,626

11. Cash at bank and in hand

At 31 December 2012, Group cash balances with banks include £1,447,563 (2011 £1,496,355) 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

	2012		2011	
	Group £	Company £	Group £	Company £
Bank loans (Note 20b)	21,995,440	-	22,178,629	-
Trade creditors	321,197	-	640,088	-
Other creditors	-	-	852,545	-
Corporation tax creditor	-	-	3,363,993	-
Deep Discount Bonds (Note 20a)	-	-	-	55,814
Amounts owed to Group undertakings	-	4,982,832	-	4,816,110
Other taxation and social security	1,714,210	-	2,325,672	-
Accruals	3,757,377	-	3,454,544	-
	27,788,224	4,982,832	32,815,471	4,871,924

The Company disclosure for amounts owed to Group undertakings include £nil (2011 £358,904) of group relief payable

Notes to the financial statements for the year ended 31 December 2012

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

	2012		2011	
	Group	Company	Group	Company
	£	£	£	£
Deep Discount Bonds (Note 20a)	106,762,020	107,314,644	97,583,981	98,447,626
Bank loans (Note 20b)	121,200,379	-	143,195,819	-
	227,962,399	107,314,644	240,779,800	98,447,626

14. Government grant

Group	2012	2011
	£	£
Amounts brought forward	6,315,878	6,820,869
Released to the profit and loss account during the year	(566,389)	(504,991)
Amounts carried forward	5,749,489	6,315,878
Due for release within one year	499,658	506,376
Due for release in two to five years	2,000,000	2,019,968
Due for release in more than five years	3,249,831	3,789,534
	5,749,489	6,315,878

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.

15. Provisions for liabilities and charges

Group	1 January 2012	Unwinding of discount in the year	Change in estimate in the year	31 December 2012
	£	£	£	£
Decommissioning costs	38,837,557	864,813	(7,772,818)	31,929,552

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 (20 years).

16. Deferred taxation

Group	2012	2011
	£	£
Analysis of deferred tax balance		
Timing differences in respect of capital allowances	21,084,139	23,024,840
	2012	2011
Group	£	£
Opening provision	23,024,840	24,807,461
Credit for the year (note 6)	(1,940,701)	(1,782,621)
Closing provision	21,084,139	23,024,840

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17 Called up share capital

	2012	2011
	£	£
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 510,000 ordinary shares of £1 each	510,000	510,000
610,000 ordinary shares of £1 each	610,000	610,000
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	-
444,999 ordinary shares of £1 each	444,999	279,999

The Company issued 165,000 ordinary shares of £1 each during the year at a premium of £9 per share giving a total consideration of £1,650,000

18. Reserves

(a) Profit and loss account

	2012		2011	
	Group	Company	Group	Company
	£	£	£	£
Opening balance	(26,524,592)	2,073,633	(27,726,423)	2,195,294
(Loss)/profit for the financial year	(11,824,387)	(116,405)	1,201,831	(121,661)
Closing balance	(38,348,979)	1,957,228	(26,524,592)	2,073,633

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 £116,405 (2011 loss of £121,661)

(b) Share premium account

	2012		2011	
	Group	Company	Group	Company
	£	£	£	£
Opening balance	1,620,000	1,620,000	-	-
Share premium on issue of 180,000 ordinary shares	-	-	1,620,000	1,620,000
Share premium on issue of 165,000 ordinary shares	1,485,000	1,485,000	-	-
Closing balance	3,105,000	3,105,000	1,620,000	1,620,000

Notes to the financial statements for the year ended 31 December 2012

19. Financial assets

(a) Deep Discount Bonds

	2012		2011	
	Group	Company	Group	Company
	£	£	£	£
Deep Discount Bonds				
Total Deep Discount Bonds	-	107,314,644	-	98,503,440

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).

(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

	2012		2011	
	Group	Company	Group	Company
	£	£	£	£
Deep Discount Bonds				
Total Deep Discount Bonds	106,762,020	107,314,644	97,583,981	98,503,440

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, £107,314,644 principal less £552,624 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.

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20. Financial liabilities (*continued*)

(b) Bank loans

Bank loans	2012 Group £	Company £	2011 Group £	Company £
Due within one year	21,995,440	-	22,178,629	-
Due within one year	21,995,440	-	22,178,629	-
Due in more than one year but less than two	16,259,272	-	21,995,440	-
Due in more than two years but less than three	16,712,912	-	16,259,272	-
Due in more than three years but less than four	16,240,562	-	16,712,912	-
Due in more than four years but less than five	15,641,567	-	16,240,562	-
Due in more than five years	56,346,066	-	71,987,633	-
Due after more than one year	121,200,379	-	143,195,819	-
Total bank loans	143,195,819	-	165,374,448	-

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

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

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

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

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

Exposure to 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 2012 was £9,273,934 (2011 £10,472,656).

The fair value of the bank loans as at 31 December 2012 is not considered to be materially different from their nominal values.

Notes to the financial statements for the year ended 31 December 2012

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. 97% 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	2012		2011	
	Group £	Company £	Group £	Company £
Interest rate swaps	156,887,139	-	179,550,393	-

At 31 December 2012 the fixed interest rates varied from 4.62% to 5.30% (as at 31 December 2011 fixed rates varied from 4.61% to 5.30%).

As at 31 December 2012 the fair value of the interest rate swaps would have created a liability of £21,438,498 as the instrument is 'out of the money' at the balance sheet date. This has been calculated using mark-to-market data provided by third parties.

The maturity dates of the interest rate swaps are:

Tranche A loan	15 December 2013
Tranche B loan (2005 acquisitions)	15 June 2021
Tranche B loan (2006 acquisitions)	15 December 2021
Tranche C loan	15 December 2020

(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 2012 the amounts payable that have been hedged under forward foreign currency contracts would be £17,812 higher than the amounts payable had the Group not entered into these contracts. The total fair value of the contracts are £4,837,568.

Notes to the financial statements for the year ended 31 December 2012

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

	2012	Company	2011	Company
	Group	£	Group	£
Opening shareholders' (deficit)/ funds	(24,624,593)	3,973,632	(27,626,424)	2,295,293
Proceeds on issue of ordinary shares	1,650,000	1,650,000	1,800,000	1,800,000
(Loss)/profit for the financial year	(11,824,387)	(116,405)	1,201,831	(121,661)
Closing shareholders' (deficit)/ funds	(34,798,980)	5,507,227	(24,624,593)	3,973,632

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

	2012	2011
Group	£	£
Operating Profit	13,976,894	25,124,435
Depreciation Charges	23,643,652	24,321,858
Increase in stocks	(87,550)	(285,793)
Decrease/(increase in debtors)	10,012,596	(13,882,409)
Decrease in creditors	(1,347,025)	(1,534,127)
Net cash inflow from operating activities	46,198,567	33,743,964

24. Analysis of net debt

	At 1	Cash Flow	Other non-	At 31
Group	January		cash items	December
	2012			2012
	£	£	£	£
Cash in hand, at bank	11,286,885	3,907,372	-	15,194,257
Debt due within one year	(22,178,630)	29,019,510	(28,836,320)	(21,995,440)
Debt due after one year	(240,779,798)	1,492,654	11,324,745	(227,962,399)
Total	(251,671,543)	34,419,536	(17,511,575)	(234,763,582)

25. Financial commitments

Annual commitments under non-cancellable operating leases for land are as follows

	2012	2011
	£	£
Expiry date		
Within one year	717,723	709,606
Between two and five years	2,870,893	2,838,426
After five years	5,307,431	5,972,980
	8,896,047	9,521,012

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 2012

25. 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 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 2012 the following balances were held with related parties

Group	Related party transactions	31 December 2012 receivable/ (payable)
	£	£
RWE Npower Renewables Limited scheduled maintenance	1,553,546	(176,413)
RWE Npower Renewables Limited unscheduled maintenance	1,075,638	(280,569)
JP Morgan Investment Management Inc	71,497	(11,250)
M&G Investment Management Limited	70,000	-
RWE Npower Renewables Limited management services agreement	2,431,656	(808,876)
Npower Limited unscheduled maintenance	54,512	-
RWE Npower Renewables Limited repowering services agreement	1,080,112	(423,810)
RWE Npower Renewables Limited recharge telephone charges	100,742	(13,355)
Npower Limited electricity purchases	689,508	(90,527)
Npower Limited electricity sales	58,231,990	7,449,805

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

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

Npower Limited is a subsidiary of RWE Npower plc

27. Ultimate parent company

As at 31 December 2012, 33.33% of Zephyr's share capital was owned by Zelda Acquisitions Limited, 16.67% by IIF Zelda DDB Short Term UK Holdco Limited, 16.66% by IIF Int'l Holding LP and 33.33% by RWE Innogy UK Limited and therefore at that date there was no single company with a controlling interest

Notes to the financial statements for the year ended 31 December 2012

28. Principal Subsidiaries

Subsidiaries	Country of Incorporation	Holding	Share Capital Held	Nature of business
Beaufort Wind Limited	England & Wales	Ordinary shares	100%	Generation and sale of electricity
NWP Offshore Limited	England & Wales	Ordinary shares	100%	Generation and sale of electricity
Causeymire Windfarm Limited	Scotland	Ordinary shares	100%	Generation and sale of electricity
Bears Down Windfarm Limited	England & Wales	Ordinary shares	100%	Generation and sale of electricity
Windy Standard Limited	Scotland	Ordinary shares	100%	Generation and sale of electricity
Farr Windfarm Limited	Scotland	Ordinary shares	100%	Generation and sale of electricity
Headwind Taff Ely Wind Farm Limited	England & Wales	Ordinary shares	100%	Wind Farm Repowering
Headwind Beinn Ghlas Wind Farm Limited	England & Wales	Ordinary shares	100%	Wind Farm Repowering
Headwind Kirkby Moor Wind Farm Limited	England & Wales	Ordinary shares	100%	Wind Farm Repowering
Headwind 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