

Registration number: 04712921

Zephyr Investments Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2016



Zephyr Investments Limited

Contents

Company Information	1
Strategic Report	2 to 3
Directors' Report	4 to 6
Statement of Directors' Responsibilities	7
Independent Auditor's Report to the Members of Zephyr Investments Limited	8 to 9
Consolidated Income Statement	10
Consolidated Statement of Comprehensive Income	11
Consolidated Statement of Financial Position	12 to 13
Consolidated Statement of Changes in Equity	14
Consolidated Statement of Cash Flows	15
Company Statement of Financial Position	16
Company Statement of Changes in Equity	17
Company Statement of Cash Flows	18
Notes to the Financial Statements	19 to 43

Zephyr Investments Limited

Company Information

Directors	M Walters
	A Pena
	S Stavnsbo
	M LeBlanc
	O M Kramer
	D Rifai
Company secretary	Maples Fiduciary Services (UK) Limited
Registered office	11th Floor 200 Aldersgate Street London England EC1A 4HD
Auditor	Deloitte LLP (Chartered Accountants and Statutory Auditor) 2 New St Square London United Kingdom EC4A 3BZ

Zephyr Investments Limited

Strategic Report for the Year Ended 31 December 2016

The directors present their strategic report for the year ended 31 December 2016.

Fair review of the business

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 presented on page 10 of the financial statements. The Group loss on ordinary activities after taxation for the year ended 31 December 2016 was £12,679,585 (2015: £485,998 profit).

The financial position of the Group at the end of the year is provided on page 12 of the financial statements. The net liabilities of the Group as at 31 December 2016 were £83,220,450 (2015: £72,607,446).

The drop in the financial performance of the Group is mainly driven by the lower volume of wind that has consequently led to lower revenue for the current year (further details are provided below within the Key Performance Indicators section).

On 29 July 2016, RWE Innogy UK Holdings Limited sold its shares in Zephyr Investments Limited to IIF Int'l Homarus Investment L.P. The sale has resulted in a transfer of Deep Discount Bonds held by RWE Innogy UK Holdings Limited to IIF Int'l Homarus Investment L.P. This share sale and transfer of Deep Discount Bonds have no impact on the financial statements.

There have been no significant events since the year end, except for the change in shareholders (see note 23).

During the year the Group repaid £30,015,769 (2015: £35,172,323) of debt (see page 15).

The group's key financial and other performance indicators during the year were as follows:

Revenue

Revenue has decreased by 19% (2016: £67,626,405) from prior year (2015: £84,035,734) which has contributed to a weaker financial performance in 2016. This decrease is primarily down to volume generated in the year as provided below.

Availability

The availability % in 2016 for all assets was 93.3% which is up from prior year (2015: 92%).

	Unit	2016	2015
Volume generated	GWh	851.50	1,061.00
Availability	%	93.30	92.00

Principal risks 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 resulting in potential impairment of the Property, Plant and Equipment, ability to pay Deep Discount Bonds and risk of not being able to repower and renegotiate leases.

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 and agreeing improved terms with existing and new customers.

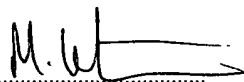
An independent company has an option to purchase the wind farm that falls under the ownership of Windy Standard Limited in 2017. The current year financial statements has been amended accordingly to reflect this highly probable future transaction.

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

Zephyr Investments Limited

Strategic Report for the Year Ended 31 December 2016 (continued)

Approved by the Board on 24 March 2017 and signed on its behalf by:

A handwritten signature in black ink, appearing to be 'M. Walters', written over a dotted line.

M Walters
Director

Zephyr Investments Limited

Directors' Report for the Year Ended 31 December 2016

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2016.

The directors have addressed principal risks and uncertainties; key performance indicators and events after the Statement of Financial Position date in the strategic report.

Directors of the group

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

M Walters

A Pena

M Chladek (resigned 31 July 2016)

S Stavnsbo

M LeBlanc

M Parker (resigned 11 October 2016)

B Freeman (resigned 11 October 2016)

H Himmel (appointed 1 January 2016 and resigned 11 October 2016)

N Roessner (resigned 7 March 2017)

S Johnson (appointed 31 July 2016 and resigned 7 March 2017)

O M Kramer (appointed 11 October 2016)

D Rifai (appointed 11 October 2016)

Principal activity

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 note 22 to these financial statements.

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

Dividends

The directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2016 (2015: £nil).

Zephyr Investments Limited

Directors' Report for the Year Ended 31 December 2016 (continued)

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 to the Group and Company's cash flow forecasts and projections, taking into account reasonably possible changes in average wind speeds, expected increased revenue due to new power purchase agreements and repayment obligations in respect of its bank loans.

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 risks

Objectives and policies

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.

(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. On occasion services are purchased in non-sterling currencies however values are relatively low and as such the Group does not use foreign currency exchange contracts with any difference being recognised directly in the income statement.

(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 for each wind farm by entering into separate long term power purchase agreements with RWE Npower Limited and Smartest Energy. As these contracts become due for renewal, the Group seeks 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.

(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 and is at the discretion of management considering the future cash flow requirements of the group, further, no annual interest is payable on the deep discount bonds. 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 and Smartest Energy.

Cash flows in respect of senior debt servicing are set out in the schedule of repayments with the respective loan agreements (see note 13).

Zephyr Investments Limited

Directors' Report for the Year Ended 31 December 2016 (continued)

Disclosure of information to auditor

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 Group'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 Group'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.

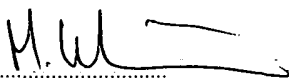
Reappointment of auditor

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements are being made to consider this reappointment.

Important non adjusting events after the financial period

On 3 March 2017, Zelda Acquisitions Limited also sold its shares in Zephyr Investments Limited to IIF Int'l Homarus Investment L.P. Therefore, at the date of signing these financial statements, 16.67% of Zephyr Investments Limited's share capital was owned by IIF Zelda DDB Short Term UK Holdco Limited, 16.66% by IIF Int'l Holding LP and 66.67% by IIF International Homarus Investment L.P.

Approved by the Board on 24 March 2017 and signed on its behalf by:



M Walters
Director

Zephyr Investments Limited

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 profit or loss of the group and company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the group's and company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Zephyr Investments Limited

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 2016 which comprise of the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Cash Flows, the Consolidated and Company Statements of Changes in Equity and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the 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 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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.

Zephyr Investments Limited

Independent Auditor's Report to the Members of Zephyr Investments Limited (continued)



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William Brooks FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP (Chartered Accountants and Statutory Auditor)
London, United Kingdom

24 March 2017

Zephyr Investments Limited

Consolidated Income Statement for the Year Ended 31 December 2016

	Note	2016 £	2015 £
Revenue		67,626,405	84,035,734
Cost of sales		<u>(46,569,336)</u>	<u>(47,130,951)</u>
Gross profit		21,057,069	36,904,783
Distribution costs		1	-
Administrative expenses		(899,002)	(901,382)
Derecognition of decommissioning asset and provision		-	1,100,479
Other operating income	2	<u>54,722</u>	<u>-</u>
Operating profit	3	<u>20,212,790</u>	<u>37,103,880</u>
Finance income		1,513,470	3,640,582
Finance costs		<u>(35,503,823)</u>	<u>(39,974,493)</u>
Net finance cost	4	<u>-(33,990,353)</u>	<u>(36,333,911)</u>
(Loss)/profit before tax		(13,777,563)	769,969
Income tax credit/(expense)	6	<u>1,097,978</u>	<u>(283,971)</u>
(Loss)/profit for the year		<u>(12,679,585)</u>	<u>485,998</u>
(Loss)/Profit attributable to:			
Owners of the company		<u>(12,679,585)</u>	<u>485,998</u>

The above results were derived from continuing operations.

Zephyr Investments Limited

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2016

	Note	2016 £	2015 £
(Loss)/profit for the year		<u>(12,679,585)</u>	<u>485,998</u>
Items that may be reclassified subsequently to profit or loss			
Amortisation of hedging reserve	4	2,066,582	3,411,572
Tax expense on items classified within other comprehensive income	6	<u>-</u>	<u>(854,831)</u>
		<u>2,066,582</u>	<u>2,556,741</u>
Total comprehensive income for the year		<u><u>(10,613,003)</u></u>	<u><u>3,042,739</u></u>
Total comprehensive income attributable to:			
Owners of the company		<u><u>(10,613,003)</u></u>	<u><u>3,042,739</u></u>

The notes on pages 19 to 43 form an integral part of these financial statements.

Zephyr Investments Limited

(Registration number: 04712921)

Consolidated Statement of Financial Position as at 31 December 2016

	Note	31 December 2016 £	31 December 2015 £
Assets			
Non-current assets			
Property, plant and equipment	7	156,872,969	173,854,220
Current assets			
Inventories	9	1,707,319	1,971,982
Trade and other receivables	10	12,504,514	14,279,050
Cash and cash equivalents	11	13,022,435	16,646,108
		<u>27,234,268</u>	<u>32,897,140</u>
Total assets		<u>184,107,237</u>	<u>206,751,360</u>
Equity and liabilities			
Current liabilities			
Trade and other payables	19	(9,185,126)	(11,398,101)
Loans and borrowings	13	(15,688,433)	(16,288,682)
Other Provisions	17	(897,000)	-
		<u>(25,770,559)</u>	<u>(27,686,783)</u>
Non-current liabilities			
Loans and borrowings	13	(56,230,938)	(71,847,511)
Derivative financial instruments	14	(7,189,793)	(8,625,845)
Decommissioning Provisions	16	(34,481,029)	(31,705,889)
Government grant	18	(3,749,487)	(4,250,513)
Other non-current financial liabilities	20	(129,099,630)	(122,859,996)
Deferred tax liabilities	6	(10,806,251)	(12,382,269)
		<u>(241,557,128)</u>	<u>(251,672,023)</u>
Total liabilities		<u>(267,327,687)</u>	<u>(279,358,806)</u>
Equity			
Share capital	12	719,964	719,964
Share premium		5,579,685	5,579,685
Hedging reserve		(2,427,968)	(5,349,381)
Retained earnings		<u>(87,092,131)</u>	<u>(73,557,714)</u>
Total Equity		<u>(83,220,450)</u>	<u>(72,607,446)</u>
Total equity and liabilities		<u>(184,107,237)</u>	<u>(206,751,360)</u>

The notes on pages 19 to 43 form an integral part of these financial statements.

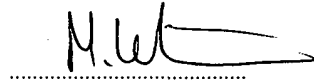
Zephyr Investments Limited

(Registration number: 04712921)

Consolidated Statement of Financial Position as at 31 December 2016 (continued)

The consolidated statement of financial position has been prepared in accordance with IFRS as adopted by the European Union.

Approved by the Board on 24 March 2017 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'M. Walters', is written over a dotted line.

M Walters

Director

The notes on pages 19 to 43 form an integral part of these financial statements.

Zephyr Investments Limited

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2016

	Share capital £	Share premium £	Retained earnings £	Cash flow hedging reserve £	Total equity £
At 1 January 2016	719,964	5,579,685	(73,557,715)	(5,349,381)	(72,607,447)
Loss for the year	-	-	(12,679,585)	-	(12,679,585)
Other comprehensive income	-	-	-	2,066,582	2,066,582
Total comprehensive income	-	-	(12,679,585)	2,066,582	(10,613,003)
Transfer from other comprehensive income	-	-	(854,831)	854,831	-
At 31 December 2016	719,964	5,579,685	(87,092,131)	(2,427,968)	(83,220,450)

	Share capital £	Share premium £	Retained earnings £	Cash flow hedging reserve £	Total equity £
At 1 January 2015	545,499	4,009,500	(74,043,712)	(7,906,122)	(77,394,835)
Profit for the year	-	-	485,998	-	485,998
Other comprehensive income	-	-	-	2,556,741	2,556,741
Total comprehensive income	-	-	485,998	2,556,741	3,042,739
New share capital subscribed	174,465	1,570,185	-	-	1,744,650
At 31 December 2015	719,964	5,579,685	(73,557,714)	(5,349,381)	(72,607,446)

The notes on pages 19 to 43 form an integral part of these financial statements.

Zephyr Investments Limited

Consolidated Statement of Cash Flows for the Year Ended 31 December 2016

	Note	2016 £	2015 £
Cash flows from operating activities			
(Loss)/profit for the year		(12,679,585)	485,998
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	3	19,310,526	19,348,625
Derecognition of decommissioning assets and provision at Windy Standard		-	(1,100,479)
Finance income	4	(1,513,470)	(3,640,582)
Finance costs	4	35,503,823	39,974,493
Income tax (credit)/expense	6	(1,097,978)	283,971
		39,523,316	55,352,026
Working capital adjustments			
Decrease/(increase) in inventories	9	264,663	(559,531)
Decrease/(increase) in trade and other receivables		1,774,536	(238,264)
Increase/(decrease) in trade and other payables		139,024	(447,568)
Increase in provisions	17	897,000	-
Decrease in deferred income, including government grants	18	(501,026)	(499,658)
Cash generated from operations		42,097,513	53,607,005
Income taxes paid	6	(2,830,039)	(834,302)
Net cash flow from operating activities		39,267,474	52,772,703
Cash flows from investing activities			
Interest received		77,417	92,695
Acquisitions of property plant and equipment		(16,654)	-
Net cash flows from investing activities		60,763	92,695
Cash flows from financing activities			
Interest paid		(12,936,141)	(16,567,104)
Proceeds from issue of ordinary shares, net of issue costs	12	-	1,744,650
Repayment of bank borrowing and deep discount bonds.		(30,015,769)	(35,172,323)
Net cash flows from financing activities		(42,951,910)	(49,994,777)
Net (decrease)/increase in cash and cash equivalents		(3,623,673)	2,870,621
Cash and cash equivalents at 1 January		16,646,108	13,775,487
Cash and cash equivalents at 31 December		13,022,435	16,646,108

The consolidated statement of cash flows has been prepared in accordance with IFRS as adopted by the European Union.

Zephyr Investments Limited

(Registration number: 04712921)

Company Statement of Financial Position as at 31 December 2016

	Note	31 December 2016 £	31 December 2015 £
Assets			
Non-current assets			
Investments	8	6,299,651	6,299,651
Trade and other receivables	10	131,204,602	124,904,606
		<u>137,504,253</u>	<u>131,204,257</u>
Current assets			
Trade and other receivables	10	4,080,054	4,031,578
Cash and cash equivalents	11	6,084	6,098
		<u>4,086,138</u>	<u>4,037,676</u>
Total assets		<u>141,590,391</u>	<u>135,241,933</u>
Equity and liabilities			
Current liabilities			
Current liabilities	19	(2,714,288)	(2,515,673)
		<u>(2,714,288)</u>	<u>(2,515,673)</u>
Non-current liabilities			
Other non-current financial liabilities	20	(131,204,602)	(124,904,606)
Equity			
Share capital	12	719,964	719,964
Share premium		5,579,685	5,579,685
Retained earnings		<u>1,371,852</u>	<u>1,522,005</u>
Total equity		7,671,501	7,821,654
Total liabilities		<u>(133,918,890)</u>	<u>(127,420,279)</u>
Total equity and liabilities		<u>141,590,391</u>	<u>135,241,933</u>

The company statement of financial position has been prepared in accordance with IFRS as adopted by the European Union.

Zephyr Investments Limited, the parent company of the Group has applied the exemption set out in section 408 of the Companies Act and is therefore not required to publish a separate Income Statement.

Approved by the Board on 24 March 2017 and signed on its behalf by:



M Walters

Director

Zephyr Investments Limited

Company Statement of Changes in Equity for the Year Ended 31 December 2016

	Share capital £	Share premium £	Retained earnings £	Total £
At 1 January 2016	719,964	5,579,685	1,522,005	7,821,654
Loss for the year	-	-	(150,153)	(150,153)
Total comprehensive income	-	-	(150,153)	(150,153)
At 31 December 2016	719,964	5,579,685	1,371,852	7,671,501

	Share capital £	Share premium £	Retained earnings £	Total £
At 1 January 2015	545,499	4,009,500	1,647,087	6,202,086
Loss for the year	-	-	(125,082)	(125,082)
Total comprehensive income	-	-	(125,082)	(125,082)
New share capital subscribed	174,465	1,570,185	-	1,744,650
At 31 December 2015	719,964	5,579,685	1,522,005	7,821,654

The notes on pages 19 to 43 form an integral part of these financial statements.

Zephyr Investments Limited

Company Statement of Cash Flows for the Year Ended 31 December 2016

	Note	2016 £	2015 £
Cash flows from operating activities			
Loss for the year		(150,153)	(125,082)
Adjustments to cash flows from non-cash items			
Income tax credit		<u>(48,476)</u>	<u>(44,431)</u>
		(198,629)	(169,513)
Working capital adjustments			
(Increase)/decrease in trade and other receivables	10	(48,476)	2,927,333
Increase/(decrease) in trade and other payables	19	<u>198,615</u>	<u>(2,800,183)</u>
Cash generated from operations		(48,490)	(42,363)
Income taxes received		<u>48,476</u>	<u>44,431</u>
Net cash flow from operating activities		(14)	2,068
Cash flows from investing activities			
Purchase of ordinary shares in Headwind Development Services Limited	8	-	(1,744,650)
Cash flows from financing activities			
Proceeds from issue of ordinary shares, net of issue costs	12	<u>-</u>	<u>1,744,650</u>
Net (decrease)/increase in cash and cash equivalents		(14)	2,068
Cash and cash equivalents at 1 January		<u>6,098</u>	<u>4,030</u>
Cash and cash equivalents at 31 December		<u><u>6,084</u></u>	<u><u>6,098</u></u>

The company statement of cash flows has been prepared in accordance with IFRS as adopted by the European Union.

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

1 Accounting policies

General information and basis of accounting

Zephyr Investments Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the group's operations and its principal activities are set out in the Strategic and Directors' report on pages 2 to 3.

The financial statements have been prepared under historical cost accounting rules except where balances are required to be measured at fair value at each period end.

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The Group and Company financial statements have been prepared in accordance with IFRS and its interpretations adopted by the EU ("IFRS's").

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

Parent company financial statements

No income statement is presented for Zephyr Investments Limited in accordance with the exemptions allowed by the Companies Act 2006 section 408.

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

1 Accounting policies (continued)

New standards and interpretations

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

International Accounting Standards (IFRS / IAS)	IASB Effective Date - periods commencing on or after	EU-endorsed effective Date - periods commencing on or after
New standards		
IFRS 9 - Financial Instruments	1 January 2018	TBC – endorsement outstanding
IFRS 15 - Revenue from Contracts with Customers	1 January 2018	TBC – endorsement outstanding
IFRS 16 - Leases	1 January 2018	TBC – endorsement outstanding
Amendments to standards		
IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	TBC – endorsement outstanding
IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2017	TBC – endorsement outstanding

Basis of consolidation

The consolidated income statement and statement of financial position 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 income statement 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.

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 13 and 20. The total repayments contractually due on bank debt is £71,919,371 and on Deep Discount Bonds are £129,099,630.

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.

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

1 Accounting policies (continued)

Revenue recognition

Revenue 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. Revenue also includes asset manufacturer warranty income claims for lost generation. Revenue is stated net of value added tax and is generated entirely within the United Kingdom. Revenue is recognised as income in the period in which it is being earned, when generation meets the grid supply point at which time it is measured by the appointed meter operator agent.

The company recognises revenue when:

- The amount of revenue can be reliably measured;
- It is probable that future economic benefits will flow to the entity;

Government grants

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

Finance income and costs

Finance income

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

Finance cost

The difference between the issue price and the nominal value on the Deep Discount Bonds ("DDB's") is the discount value which are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

Interest payable on bank loans is charged to the income statement as it is incurred.

Issue cost in respect of the DDB's are amortised using the effective interest rate method based on the term of the DDB's.

Foreign currency transactions and balances

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.

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

1 Accounting policies (continued)

Tax

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 substantially enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and on unused tax losses or tax credits in the group. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

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.

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

1 Accounting policies (continued)

Asset class	Depreciation method and rate
Operating wind farms	Straight line basis over 20-25 years
Decommissioning asset	Straight line basis over 20-25 years

Impairment

At each statement of financial position date, management reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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 income statement in the year it is identified. The investments are reviewed for impairment as and when an indicator arises.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits.

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Accrued income

Accrued income is income which has been earned but not yet received. Income is recognised in the accounting period in which it is earned rather than in the subsequent period in which it will be received.

Inventories

Inventories 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.

Inventories are valued at the weighted average cost method.

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

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

1 Accounting policies (continued)

Provisions

Decommissioning of wind farms

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

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 as a decommissioning asset. 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 2016, after a reassessment of the useful economic life of each operating wind farm, decommissioning is expected to take place before 2026.

Leases

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

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

1 Accounting policies (continued)

Financial assets and liabilities

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 income statement in the accounting period to which it relates via the effective interest method. Deep Discount Bonds are derecognised on redemption.

Bank loans are recognised on drawdown of funds under the terms of the loan agreement at the fair value of the principal on the drawdown date less issue costs. Interest payable is charged to the income statement as it is incurred using the effective interest method. Bank loans are derecognised on repayment of principal.

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

The early redemption charge (payable if early repayment of Deep Discount Bonds are made) is charged straight to the income statement in the accounting period to which it relates.

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. The Group uses derivative financial instruments such as interest rate swaps to hedge its interest rate risks respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial liabilities when the fair value is negative.

Related party transactions

The Company is exempt under the terms of IAS 24 from disclosing related party transactions with entities that are part of the Zephyr Investments Limited group. Note 21 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.

Hedging reserve

As a result of the transition to IFRS, the Group recognised derivative financial instruments on the statement of financial position in respect of interest rate swaps, which led to an increase in liabilities of £12,616,223 at 1 January 2014. A corresponding adjustment was made to the hedging reserve in accordance with IFRS 1 First Time Adoption of International Financial Reporting Standards. Amounts recorded in the hedging reserve are amortised to the income statement on a straight line basis over the life of the related instrument.

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.

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

1 Accounting policies (continued)

Critical accounting judgements and estimates

Property, plant and equipment

Property, plant and equipment also represent a significant proportion of the assets of the Group being 79% (2014: 81%) of the Group's total assets. Therefore the estimates and assumptions made to determine their carrying value and related depreciation are critical to the Group's financial position and performance.

Estimation of useful economic life

The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced depreciation charge in the profit and loss account. The useful lives and residual values of the Group's assets are determined by management at the time the asset is acquired and is based on the shorter of technical life, economic life and contractual rights. This then reviewed annually for appropriateness and extended to the extent that the contractual rights allow it to be extended.

Decommissioning provision

Amounts used in recording a provision for decommissioning of wind farms are estimates based on current legal and constructive requirements. Due to changes in relation to these items, the future actual cash outflows in relation to decommissioning are likely to differ in practice. To reflect the effects due to changes in legislation, requirements and technology and price levels, the carrying amounts of decommissioning provisions are reviewed on a regular basis. The effects of changes in estimates do not give rise to prior year adjustments and are dealt with prospectively over the estimated remaining useful lives for each wind farm. While the Group uses its best estimates and judgement, actual results could differ from these estimates. In estimating decommissioning provisions, the Group applies annual inflation rates of 2.1% to 2.4% (2015: 1.3% to 1.76%) and annual discount rates of 0.02% to 1.46% (2015: 0.36% to 1.98%).

Furthermore, a judgement has been made on whether it is probable that an independent company will exercise their option to buy Windy Standard, at which point the decommissioning obligation is transferred to them.

Valuation of derivatives

The fair value of financial instruments is determined based on quoted market prices, where available, or on estimates using present values or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Where market prices are not readily available, fair value is based either on estimates obtained from independent experts or quoted market prices of comparable instruments. In that regard, the derived fair value estimates cannot be substantiated by comparison with independent markets and, in many cases, could not be realised immediately.

The principal methods and assumptions used by the Group in estimating the fair value of the following financial instruments are as follows:

- The fair value of borrowings, which are carried at amortised cost, is estimated using discounted cash flow calculations based upon the Group's current borrowing rates based upon the bank's current borrowing rate
- Fair value measurements for derivative financial instruments (interest rate swaps) are obtained from quoted market prices

2 Other operating income

	2016 £	2015 £
Profit on sale of surplus inventory	<u>(54,722)</u>	<u>-</u>

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

3 Operating profit

Arrived at after charging/(crediting)

	2016 £	2015 £
Depreciation expense	19,310,526	19,348,625
Exceptional item - Derecognition of decommissioning assets and provision in Windy Standard Ltd	-	(1,100,479)
Audit services - Company	8,467	9,655
Release of the government grant	(501,026)	(499,658)
Audit services - Group (excluding company)	118,543	135,161
Operating lease expense - land rent	<u>2,223,051</u>	<u>2,675,816</u>

4 Finance income and costs

	2016 £	2015 £
Finance income		
Change in fair value of interest rate derivatives	(1,436,052)	(3,547,889)
Interest income on bank deposits	<u>(77,418)</u>	<u>(92,693)</u>
Total finance income	<u>(1,513,470)</u>	<u>(3,640,582)</u>
Finance costs		
Interest on bank overdrafts and borrowings	3,594	-
Amortisation of debt issue costs	151,665	(306,015)
Unwind of discount on Deep Discount Bonds	19,886,918	19,722,759
Debt interest	4,949,829	5,995,613
Charge on early redemption of Deep Discount Bonds	7,982,717	10,643,353
Amortisation of hedging reserve	2,066,582	3,411,572
Decommissioning provision – unwind of discount	<u>462,518</u>	<u>507,211</u>
Total finance costs	<u>35,503,823</u>	<u>39,974,493</u>
Net finance costs	<u><u>33,990,353</u></u>	<u><u>36,333,911</u></u>

Following a clarification of the existing provisions in the DDB agreement with the bond holders, management applied an early redemption charge in 2015 and 2016. This is calculated from a discount rate calculated using the simple average of The Modified Spens Clause and Risk Premium approach which relates to the redemptions made in 2015 and 2016. Such a charge will be applied to future early redemptions.

5 Directors' remuneration

Directors are seconded to the Group by their respective shareholders. In consideration for their services, the Group paid £190,534 (2015: £144,900). Further details are provided within the related parties disclosure (note 21).

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

6 Income tax

Tax charged/(credited) in the income statement:

	2016 £	2015 £
Current taxation		
UK corporation tax	505,720	2,961,513
UK corporation tax adjustment to prior periods	(27,680)	-
	<u>478,040</u>	<u>2,961,513</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	(1,069,032)	(1,142,948)
Arising from changes in tax rates and laws	(506,986)	(1,534,594)
Total deferred taxation	<u>(1,576,018)</u>	<u>(2,677,542)</u>
Tax (credit)/expense in the income statement	<u>(1,097,978)</u>	<u>283,971</u>

The debit for the full year can be reconciled to the profit/(loss) in the income statement as follows:

	2016 £	2015 £
(Loss)/profit before tax	<u>(13,777,563)</u>	<u>769,969</u>
Corporation tax at the standard UK corporation tax rate of 20% (2015: 20.25%)	(2,755,513)	161,341
Decrease in current tax from adjustment for prior periods	(27,680)	-
Increase from effect of capital allowances depreciation	3,331	-
Decrease from effect of different UK tax rates on some earnings	(626,073)	(1,534,594)
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	2,307,957	1,657,221
Increase from transfer pricing adjustments	-	3
Total tax (credit)/charge	<u>(1,097,978)</u>	<u>283,971</u>

The tax assessed for the year is the same as (2015: higher) the standard rate of corporation tax in the UK (20%) (2015: 20.25%).

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

Income tax (continued)

Group

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior reporting period:

	Accelerated tax depreciation £	Capitalised revenue expenditure £	Revaluation of financial liabilities £	Government Grant £	Liability/(asset) £
As at 1 January 2015	17,378,763	(40,148)	(2,183,601)	(950,034)	14,204,980
Charge to income statement	(1,250,802)	4,516	2,176	101,164	(1,142,948)
Charge to other comprehensive income	-	-	854,831	-	854,831
Effect of change in tax rate	(1,599,257)	3,514	(22,629)	83,778	(1,534,594)
As at 31 December 2015	<u>14,528,704</u>	<u>(32,118)</u>	<u>(1,349,223)</u>	<u>(765,092)</u>	<u>12,382,269</u>

	Accelerated tax depreciation £	Capitalised revenue expenditure £	Revaluation of financial liabilities £	Government Grant £	Liability/(asset) £
As at 1 January 2016	14,528,704	(32,119)	(1,349,224)	(765,092)	12,382,269
Charge to income statement	(1,412,631)	4,461	357,077	100,205	(950,888)
Charge to other comprehensive income	-	-	-	-	-
Effect of change in tax rate	(594,381)	1,115	(59,338)	27,474	(625,130)
As at 31 December 2016	<u>12,521,692</u>	<u>(26,543)</u>	<u>(1,051,485)</u>	<u>(637,413)</u>	<u>10,806,251</u>

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

7 Property, plant and equipment

Group

	Operating wind farms £	Decommissioning asset £	Total £
Cost or valuation			
At 1 January 2015	399,030,646	26,268,232	425,298,878
Change in estimates	-	(277,520)	(277,520)
Disposals	-	(1,527,773)	(1,527,773)
At 31 December 2015	399,030,646	24,462,939	423,493,585
At 1 January 2016	399,030,646	24,462,939	423,493,585
Change in estimate and additions	16,654	2,312,621	2,329,275
At 31 December 2016	399,047,300	26,775,560	425,822,860
Depreciation			
At 1 January 2015	218,564,417	12,756,543	231,320,960
Charge for year	17,566,445	1,782,180	19,348,625
Disposal	-	(1,030,220)	(1,030,220)
At 31 December 2015	236,130,862	13,508,503	249,639,365
At 1 January 2016	236,130,862	13,508,503	249,639,365
Charge for the year	17,797,007	1,513,519	19,310,526
At 31 December 2016	253,927,869	15,022,022	268,949,891
Carrying amount			
At 31 December 2016	145,119,431	11,753,538	156,872,969
At 31 December 2015	162,899,784	10,954,436	173,854,220
At 1 January 2015	180,466,229	13,511,689	193,977,918

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

8 Investments

Summary of the company investments

	2016	2015
	£	£
Investments in subsidiaries	<u>6,299,651</u>	<u>6,299,651</u>
Subsidiaries		£
Cost or valuation		
At 1 January 2015		4,555,001
Additions		<u>1,744,650</u>
At 31 December 2015		<u>6,299,651</u>
At 1 January 2016		<u>6,299,651</u>
At 31 December 2016		<u>6,299,651</u>
Carrying amount		
At 31 December 2016		<u>6,299,651</u>
At 31 December 2015		<u>6,299,651</u>

Investments comprise shares in group undertakings. All subsidiaries of the Group are listed in note 22.

9 Inventories

	Group	
	31 December	31 December
	2016	2015
	£	£
Spares	<u>1,707,319</u>	<u>1,971,982</u>

The cost of group inventories recognised as an expense in the year amounted to £308,473 (2015 - £93,330). This is included within cost of sales.

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

10 Trade and other receivables

	Group	
	31 December 2016	31 December 2015
	£	£
Trade receivables	2,090,067	125,027
Accrued income	9,728,826	13,650,409
Prepayments	645,737	463,730
Other receivables	39,884	39,884
Total current trade and other receivables	<u>12,504,514</u>	<u>14,279,050</u>

	Company	
	31 December 2016	31 December 2015
	£	£
Amounts owed from Group undertakings	4,080,048	4,031,572
Other receivables	6	6
Total current trade and other receivables	<u>4,080,054</u>	<u>4,031,578</u>

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

10 Trade and other receivables (continued)

Non current trade and other receivables

	Company 31 December 2016 £	Company 31 December 2015 £
Deep Discount Bonds	<u>131,204,602</u>	<u>124,904,606</u>

The Company disclosure for amounts owed by Group undertakings are unsecured, interest free and are repayable on demand. The balance includes £Nil (2015: £Nil) of group relief receivable.

No provisions for impairment of trade receivables (2015: £Nil) were required within the Group and Company financial statements. The Company's policy is to review any past-due receivables based on management's knowledge of each counter-party, and provide for anything where they believe there is a risk of non-payment.

11 Cash and cash equivalents

	Group	
	31 December 2016 £	31 December 2015 £
Cash at bank	<u>13,022,435</u>	<u>16,646,108</u>

	Company	
	31 December 2016 £	31 December 2015 £
Cash at bank	<u>6,084</u>	<u>6,098</u>

At 31 December 2016, Group cash balances with banks include £1,465,230 (2015: £1,461,555) 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.

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

12 Share capital

Fully paid ordinary shares

	31 December 2016 £	31 December 2015 £
Share Capital	719,964	719,964
Share Premium	5,579,685	5,579,685
Total	<u>6,299,649</u>	<u>6,299,649</u>

	Number of Shares	Share Capital £	Share Premium £
Balance at 1 January 2014	469,899	469,899	3,329,100
26,100 fully paid ordinary shares	26,100	26,100	234,900
49,500 fully paid ordinary shares	49,500	49,500	445,500
Balance at 31 December 2014	<u>545,499</u>	<u>545,499</u>	<u>4,009,500</u>
1,744,650 fully paid ordinary shares	1,744,650	174,465	1,570,185
Balance at 31 December 2015 and 2016	<u>2,290,149</u>	<u>719,964</u>	<u>5,579,685</u>

13 Loans and borrowings

	Group 31 December 2016 £	31 December 2015 £
Non-current loans and borrowings		
Bank borrowings	<u>56,230,938</u>	<u>71,847,511</u>

	Group 31 December 2016 £	31 December 2015 £
Current loans and borrowings		
Bank borrowings	<u>15,688,433</u>	<u>16,288,682</u>

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

13 Loans and borrowings (continued)

	Group 31 December 2016 £	Group 31 December 2015 £
Due within one year	(15,688,433)	(16,288,682)
Due in more than one year but less than two	(15,930,531)	(15,616,572)
Due in more than two years but less than three	(16,186,642)	(15,930,531)
Due in more than three years but less than four	(16,326,376)	(16,186,642)
Due in more than four years but less than five	(7,787,389)	(16,326,376)
Due in more than five years	-	(7,787,389)
Total bank loans	<u>(71,919,371)</u>	<u>(88,136,193)</u>

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

13 Loans and borrowings (continued)

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.

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 20.

The total interest payable on the bank loans for the year ended 31 December 2016 was £4,949,829 (2015: £5,920,563).

The fair value of the bank loans as at 31 December 2016 is not considered to be materially different from their nominal values.

Financial instruments (Deep Discount Bonds)

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. The Company repaid £nil during the year and the liability outstanding at the end of 2016 is £94,601,167 (2015: £81,111,721).

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 Company repaid £13,647,283 (2015: £18,325,454) during the year and the liability outstanding at the end of 2016 is £34,498,463 (2015: £41,748,275).

The aggregate amount of the Deep Discount Bonds comprises; £129,501,394 (2015: £123,325,944) principal less £401,764 (2015: £465,948) 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.

The instruments in respect of the Deep Discount Bonds require approval from the board 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.

Following a clarification of the existing provisions in the DDB agreement with the bond holders in 2014, management has applied an early redemption charge in the current and prior 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 2015 and 2016. Such a charge is expected to be applied to future early redemptions.

14 Derivative financial instruments

	Group 31 December 2016 £	Group 31 December 2015 £
Opening fair value of Interest rate swaps	8,625,845	12,173,734
Changes in fair value	(1,436,052)	(3,547,889)
Closing fair value of Interest rate swaps	<u>7,189,793</u>	<u>8,625,845</u>

Further details of derivative financial instruments are provided in note 20.

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

15 Obligations under leases and hire purchase contracts

Group

Operating leases

The total future value of minimum lease payments is as follows:

	2016 £	2015 £
Within one year	808,515	882,205
In two to five years	2,728,350	3,319,005
In over five years	2,854,618	3,669,863
	<u>6,391,483</u>	<u>7,871,073</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £882,205 (2015 - £877,414).

The amount of contingent operating lease payments recognised as an expense during the year is £1,340,846 (2015 - £1,798,404).

16 Decommissioning provision

Group

	Group 31 December 2016 £	Group 31 December 2015 £
Opening balance	31,705,889	33,074,227
Increase (decrease) due to passage of time or unwinding of discount	462,519	507,217
Increase (decrease) in existing provisions	2,312,621	(277,520)
Derecognition of provision at Windy Standard	-	(1,598,035)
Closing balance	<u>34,481,029</u>	<u>31,705,889</u>

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.

As a result of an increased likelihood that the Windy Standard wind farm will be sold in 2017 upon exercise of an existing option held by an independent company, the decommissioning asset and provision were derecognised as at 31 December 2015 and should the option not be exercised, the decommissioning provision and related asset would need to be rerecognised.

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).

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

17 Other Provisions

In March 2016, there was a change in legislation announced by the Scottish Government that the Renewable Energy Generation Relief (REGR) which was applied to the business rates for all Scottish sites would be removed with immediate effect. As a result of this change, there is a possibility that any relief's claimed by the Scottish sites prior to this change could be clawed back by Government. Hence, a provision has been recognised in the year ending 31 December 2016 which equals the total REGR claimed over the prior years.

	2016 £	2015 £
REGR Provision	<u>897,000</u>	<u>-</u>

18 Government grant

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.

	Group 31 December 2016 £	Group 31 December 2015 £
Amounts brought forward	4,250,513	4,750,171
Released to the income statement during the year	(501,026)	(499,658)
Amounts carried forward	<u>3,749,487</u>	<u>4,250,513</u>

Included in the closing balance as at 31 December 2016 is a current liability of £499,658 and £3,249,829 is non-current liabilities.

19 Trade and other payables

	Group 31 December 2016 £	31 December 2015 £
Trade payables	2,138,034	1,562,921
Accrued expenses	5,725,856	5,447,131
Social security and other taxes	1,302,974	2,017,788
Corporation tax	<u>18,262</u>	<u>2,370,261</u>
	<u>9,185,126</u>	<u>11,398,101</u>

	Company 31 December 2016 £	31 December 2015 £
Amounts owed to Group undertakings	<u>2,714,288</u>	<u>2,515,673</u>

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

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

20 Financial instruments

Group

Financial liabilities

Derivative financial liabilities at fair value through profit and loss designated on initial recognition

	Group Fair value 31 December 2016 £	Group Fair value 31 December 2015 £
Interest rate swaps designated at FVTPL	<u>7,189,793</u>	<u>8,625,845</u>

Interest rate swaps

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 value of the swaps as at 31 December 2016 was £74,011,508 (2015: £91,739,300)

At 31 December 2016 the fixed interest rates varied from 4.62% to 5.30% (as at 31 December 2015 fixed rates varied from 4.62% to 5.30%).

As at 31 December 2016 the fair value of the interest rate swaps creates a liability of £7,189,793 (2015: £8,625,845) 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

Currency exposure

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

Financial liabilities at amortised cost

	Group Carrying value 31 December 2016 £	Group Carrying value 31 December 2015 £
Deep Discount Bonds	<u>129,099,630</u>	<u>122,859,996</u>

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

20 Financial instruments (continued)

Fair value hierarchy

IFRS 13 requires fair value measurements to be recognised using a fair value hierarchy that reflects the significance of the inputs used in the measurements, according to the following levels:

Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - inputs for the asset or liability that are not based on observable market data.

The table below shows the level in the fair value hierarchy into which fair value measurements have been categorised:

	Group Fair value 31 December 2016 £	Group Fair value 31 December 2015 £
Level 2		
Derivative financial instruments		
Interest rate swaps designated at FVTPL	7,189,793	8,625,845

There were no transfers between Levels 1, 2 and 3 fair value measurements during the current or prior year.

Company

Financial assets

Loans and receivables

	Company Carrying value 31 December 2016 £	Company Carrying value 31 December 2015 £
Deep Discount Bonds	131,204,602	124,904,606

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.

Financial liabilities

Financial liabilities at amortised cost

	Company Carrying value 31 December 2016 £	Company Carrying value 31 December 2015 £
Deep Discount Bonds	131,204,602	124,904,606

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

20 Financial instruments (continued)

The Group enters into derivative financial instruments to manage its exposure to interest rate risk using interest rate swaps.

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date. The average interest rate is based on the outstanding balances at the end of the financial year.

There have been no movements between categories of financial instruments.

21 Related party transactions

Summary of transactions with other related parties

During the year the Group entered into the following transactions, in the ordinary course of business, with other related parties.

	2016 £	2015 £
RWE Innogy UK Limited: Operation and Maintenance Services	4,605,021	8,662,199
JP Morgan Investment Management Inc: Directors Fees	120,534	71,497
M&G Investment Management Limited: Directors Fees	70,000	70,000
npower Limited: electricity purchases	218,410	348,277
npower Limited: electricity sales	(26,944,793)	(52,747,197)
JP Morgan Investment Management Inc: DDB Interest & Early Redemption Charge	9,920,000	9,656,269
M&G Investment Management Limited: DDB Interest & Early Redemption Charge	7,210,000	9,656,269
RWE Innogy UK Limited: DDB Interest & Early Redemption Charge	4,500,000	9,656,269
RWE Generation plc	49,099	134,952
	<u>(251,729)</u>	<u>(14,491,465)</u>

Infracapital Partners LP acting by its manager M&G Investment Management Limited, the parent company of Zelda Acquisitions Limited: On 3 March 2017, Zelda Acquisitions Limited sold its shares in Zephyr Investments Limited to IIF Int'l Homarus Investment L.P.

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 which was an investor in Zephyr Investments Limited until 29 July 2016 at which point it disposed of its investment.

Npower Limited and RWE Generation UK Plc were subsidiaries of RWE Npower plc which was part of the RWE Group.

Included above for 2016 is the value of transactions relating to the RWE Group up to the 29 July 2016.

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

22 Information on subsidiaries

All the subsidiaries incorporated in England & Wales have registered offices as follows:

11th Floor 2
200 Aldersgate Street
London, England
EC1A 4HD

All the subsidiaries incorporated in Scotland have registered offices as follows:

The Ca'D'Oro
45 Gordon Street
Glasgow, Scotland
G1 3PE

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
Headwind Beinn Ghlas Wind Farm Limited	England & Wales	Ordinary Shares	100%	Repowering Wind Farm
Headwind Kirkby Moor Wind Farm Limited	England & Wales	Ordinary Shares	100%	Repowering Wind Farm
Headwind Lambrigg Wind Farm Limited	England & Wales	Ordinary Shares	100%	Repowering Wind Farm
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

Zephyr Investments Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

23 Parent and ultimate parent undertaking

On 29 July 2016, RWE Innogy UK Holdings Limited sold its shares in Zephyr Investments Limited to IIF Int'l Homarus Investment L.P.

As at 31 December 2016, 33.33% of Zephyr Investments Limited's share capital was owned by Zelda Acquisitions Limited (a subsidiary of M&G Investment Management Limited), 16.67% by IIF Zelda DDB Short Term UK Holdco Limited, 16.66% by IIF Int'l Holding LP and 33.33% by IIF International Homarus Investment L.P.

On 3 March 2017, Zelda Acquisitions Limited also sold its shares in Zephyr Investments Limited to IIF Int'l Homarus Investment L.P. Therefore, at the date of signing these financial statements, 16.67% of Zephyr Investments Limited's share capital was owned by IIF Zelda DDB Short Term UK Holdco Limited, 16.66% by IIF Int'l Holding LP and 66.67% by IIF International Homarus Investment L.P. IIF International Homarus Investment L.P. is incorporated and registered in Cayman Island and is considered to be the immediate parent company.

IIF Zelda DDB Short Term UK Holdco Limited and IIF International Homarus Investment L.P. are controlled by IIF Int'l Holding L.P. IIF Int'l Holding L.P. is incorporated and registered in Cayman Island and is therefore considered to be the ultimate controlling party of Zephyr Investments Limited. JP Morgan Investment Management Inc. is the investment adviser to IIF Int'l Holding L.P. and its designated subsidiaries.