



WINDFLOW TECHNOLOGY LTD **HALF YEAR REPORT**

FOR THE SIX MONTH PERIOD ENDED 31st DECEMBER 2009



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Overview

Windflow's major achievements in the first half of the 09/10 financial year were:

- Installing and commissioning the remainder of Stage 3 to take Te Rere Hau (TRH) wind farm to a total of 65 turbines.
- Delivering TRH turbines operating availability to above 93% for calendar 2009, and starting 2010 above 95% availability.
- Submitting (as part of International Electrotechnical Commission (IEC) Type Certification) the final documents to Lloyd's Register in Britain for Class 1A Design Evaluation of the Windflow 500.
- Gaining resource consent to develop the 25 turbine Long Gully wind farm in Wellington.

Financial Results

Windflow continued to produce a positive gross profit for the half year. Consolidated revenue for the six months was \$13.597 million (compared with \$11.834 million for the last comparable six month period). Direct production costs including turbine costs for the same period were \$12.694 million (compared with \$10.841 million for the last year) resulting in a gross profit of \$0.903 million for the period (compared with \$0.993 million for the last year). The result is that Windflow has recorded a half-year loss of \$1.628 million (compared with \$ 1.082 million last year).

Cash held at 31 December 2009 was \$2.034 million, a reduction of \$9.693 million for the six months. The reduction in cash held is attributable to an anticipated cash outflow during the latter stages of production, the dispute with NZ Windfarms, and some production related timing impacts. Windflow expects to generate a cash surplus from operations over the coming period with a corresponding improvement in its cash position.

Windflow's short-term cash situation is dependent on that of its customer NZ Windfarms, which placed an order in September 2008 with Windflow for the final 32 turbines for the Te Rere Hau wind farm and which has released various statements about its need to raise additional funding to complete the wind farm. If NZ Windfarms is not successful in raising sufficient additional funding or if it were to again to withhold significant payments, then Windflow could have major cash flow issues.

For the full year ending 30 June 2010 Windflow expects a positive gross profit and an overall net loss higher than last year.

Windflow's financial statements have been prepared using the assumption that Windflow is a going concern. Windflow's directors believe that the going concern assumption is appropriate because the NZ Windfarms board has expressed confidence in NZ Windfarms ability to raise additional funding and continue as a going concern. Should NZ Windfarms be unable to raise additional funding then there is uncertainty as to whether Windflow can continue as a going concern and therefore whether it will be able to pay its debts as and when they become due and payable. If the going concern assumption was inappropriate the amounts at which items were recorded in the financial statements could change significantly.

Te Rere Hau wind farm performance

With 65 turbines operating, TRH is establishing the reputation of the Windflow 500 as a cost-effective, efficient, and robust design. On a site regularly experiencing severe gales (90-120 km/h), and hurricane force winds (>120 km/h), the Windflow 500 turbines achieved availability of 93.3% - a significant accomplishment in first year, large scale operation. For comparison the international norm for wind farms deploying turbines from long established manufacturers is 94% availability in the first year of operation.

Windflow and its suppliers have rectified under warranty some non-recurring issues which arose during 2009. These issues caused overall availability in 2009 to be below 95%, triggering a warranty payment of \$41,453 being payable to NZ Windfarms.

First-year issues typically arise in the wind industry, and Windflow's financial warranty provisions have proved adequate. The work which Windflow carried out in 2009 has ensured that availability has stayed above 95% in 2010 to date. Warranty, operating and maintenance costs are being managed within competitive budgets and lower than industry benchmark figures. The lightest machine on the market for its output, the Windflow 500 is now proving at TRH that it is one of the most reliably cost-effective.

IEC Certification

For the last four years, Windflow has worked assiduously towards gaining the highest standard Class 1A Edition 3, IEC Type Certification for the Windflow 500 turbine. Granted ISO 9001 certification in June 2008, Windflow submitted final IEC calculations to Lloyds Register (LR) in July 2009. LR has issued the Design Appraisal Document (DAD) for the Windflow 500's blades. The DAD's for the nacelle, covering almost all major components, and the tower are expected within weeks. These will complete the package of three DAD's required by Lloyds Register to complete the Design Evaluation part of IEC Type Certification.

Te Rere Hau wind farm completion

Windflow continues to manufacture the balance of Stage 4 (the last 32 turbines for the Te Rere Hau wind farm), which NZ Windfarms Ltd ordered in September 2008. The completion of this order has been delayed as a result of a dispute with NZ Windfarms covering a range of issues including project delays, funding uncertainty and concerns about design differences between the first 49 turbines ordered for TRH and the last 48 turbines.

The concerns about the design differences have been addressed and quantified by an independent expert report which Windflow commissioned and provided to NZ Windfarms. Since then NZ Windfarms has ceased withholding invoices over this matter and paid the invoices that were outstanding. In the current calendar year, the two companies have reached a conditional agreement which resolves the outstanding issues and puts processes in place to deal with any future issues that arise. NZ Windfarms advised Windflow in July 2009 that it wishes to delay Stage 4 and use the turbines at the extension site which has higher wind speeds but which was subject to consent. At the time of writing a clean consent has now been obtained and the NZ Windfarms shareholders have approved the Directors' capital raising plans at a Special General Meeting enabling the proposed rights issue to proceed.

The resource consent for the Te Rere Hau extension is for 56 turbines. Assuming the 32 turbines for Stage 4 of Te Rere Hau are relocated to the extension, there will remain 56 sites, across both the original and extension TRH sites, which are consented for the Windflow turbine.

Long Gully Wind Farm

With cornerstone shareholder Mighty River Power (MRP), Windflow is developing the Long Gully wind farm situated near the Wellington suburb of Brooklyn. Resource Consent for up to 25 Windflow 500 turbines was obtained in October. Subsequently two appeals were lodged. Windflow and MRP are working with the appellants seeking a mediated or, if necessary, Environment Court resolution. At the same time Windflow and MRP are negotiating the details of a turbine sale and purchase agreement in anticipation of all outstanding conditions being satisfied.

Other Projects in the Pipeline

Whilst building on its strong commitment to work with wind farm developers and consultants nationally, Windflow continues to explore projects and opportunities globally which might extend the scope of the Windflow 500's reach beyond New Zealand's shores.

Production

Quality is fundamental to success, and Windflow continues to work with suppliers to ensure components of world class standard. Windflow is also working to qualify alternative suppliers for many of the key components in the turbine, including some which Windflow has previously obtained from only a single supplier.

Production figures for the Financial Year 09/10 will be similar to 08/09 at around 40 turbines, with further orders in prospect both from domestic and international markets.

Outlook

2009 was a year in which all businesses faced up to the global financial crisis. The wind industry was not immune to this and growth slowed but was still significant. Global growth was 31%, adding 37.5 GW in 2009 (the equivalent of 75,000 Windflow 500's and about \$90 billion worth of business) to bring total installations up to 158 GW. A third of these additions were made in China, which experienced over 100% growth in 2009.

The lower than anticipated growth has led to an oversupply of wind turbines (outside of China), and competitive price pressure from the large established manufacturers. The NZ\$ exchange rate has fluctuated significantly, at first to the advantage of local producers, but then returning to similar levels against the US\$ and Euro as in mid-2008. Thus the net effect is still slightly positive as regards Windflow's competitive position against European turbines.

Encouraged by the growing track record of the Windflow 500, the Directors remain convinced that both expanding into global markets and growing domestic market share are eminently achievable goals.

The Directors would like to thank the Shareholders for their continuing strong commitment to Windflow Technology. They also wish to thank Windflow's staff, whose talent, professionalism, expertise and creative drive have made an important contribution to Windflow's prospects and the New Zealand knowledge economy.

Twelve Months to 30th June 2009 (\$ 000)	Notes	Six Months to 31st Dec 2009 (\$ 000)	Six Months to 31st Dec 2008 (\$ 000)
Revenue			
29,522	Operating Revenue	13,597	11,834
26,169	Cost of Sales	12,694	10,841
3,353	Gross Profit from Operations	903	993
2,080	Other Revenue	996	910
Expenses			
6,758	Operating Expenses	3,565	3,036
(1,325)		(1,666)	(1,133)
(92)	Share of Associates (Surplus)	(38)	(51)
(1,233)		(1,628)	(1,082)
(1,233)	Net Surplus / (Deficit)	(1,628)	(1,082)
Net Surplus / (Deficit) comprises:			
(1,453)	Parent Interests	(1,951)	(1,118)
-	Minority Interest to Date of Acquisition	-	-
128	Subsidiary	285	(15)
92	Associate	38	51
(1,233)		(1,628)	(1,082)

Twelve Months to 30th June 2009 (\$ 000)	Notes	Six Months to 31st Dec 2009 (\$ 000)	Six Months to 31st Dec 2008 (\$ 000)
7,274	Equity at Beginning of Period	16,265	7,275
-	- Adjustment of Associate Equity at beginning of year due to new issue	-	-
-	- Adjustment of Associate Equity opening balance due to losses	-	-
<hr/> 7,274		<hr/> 16,265	<hr/> 7,275
(1,453)	Net Surplus / (Deficit) comprising Parent Interests	(1,951)	(1,118)
128	Subsidiary	285	(15)
92	Associate	38	51
<hr/> (1,233)	Total Net Deficit	<hr/> (1,628)	<hr/> (1,082)
10,614	Contributions from Owners Ordinary Shares Issued during the Year	-	10,484
(390)	Revaluation of shares NZ Windfarms Ltd	(1,140)	(690)
-	- Gain due to Issue of Shares by Associates	-	-
<hr/> 16,265	Equity at End of Period	<hr/> 13,497	<hr/> 15,987

As at 30th June 2009 (\$ 000)		As at 31st Dec 2009 (\$ 000)	As at 31st Dec 2008 (\$ 000)
	Shareholders' Equity		
28,400	Contributed Capital	28,394	28,269
(13,688)	Retained Earnings Account	(15,310)	(13,535)
14,712		13,084	14,734
	<i>Minority Interest</i>		
-	Contributed Capital	-	-
-	Retained Earnings Account	-	-
-		-	-
1,553	Revaluation Reserve	413	1,253
16,265	Total Shareholders' Equity	13,497	15,987
	Current Liabilities		
11,764	Progress Payments Held	6,413	18,744
3,436	Accounts Payable	1,463	2,330
17	GST Payable	34	13
2,197	Provisions	3,224	571
17,414	Total Current Liabilities	11,134	21,658
33,679	Total Equity and Liabilities	24,631	37,645

As at 30th June 2009 (\$ 000)		As at 31st Dec 2009 (\$ 000)	As at 31st Dec 2008 (\$ 000)
Current Assets			
583	Cash on Hand and at Bank	2,034	2,710
11,144	Term Deposits	-	13,194
470	Interest Accrued	337	388
1,067	Accounts Receivable	1,809	3,399
437	Prepayments and Accruals	379	566
-	GST Refund	69	489
27	Tax Refund	27	2
3,193	Retentions Held Sale of Turbines	4,558	-
3,905	Stock Prepaid	3,547	10,183
6,350	Work in Progress and Stock on Hand	6,615	1,236
-	Other Assets	-	-
27,176	Total Current Assets	19,375	32,167
Non Current Assets			
1,004	Fixed Assets	902	1,165
2,751	Intangible Assets	2,710	2,136
92	Investments in Associates	128	51
26	Advances to Windpower Otago Limited	26	26
230	Advances to Wind Gears Limited	230	-
2,400	Shares - NZ Windfarms Limited	1,260	2,100
6,503	Total Non Current Assets	5,256	5,478
33,679	Total Assets	24,631	37,645

Signed for and on behalf of the Board



Geoff Henderson
Director



Keith McConnell
Director

Dated: 14 March 2008

Twelve Months to 30th June 2009 (\$ 000)	Six Months to 31st Dec 2009 (\$ 000)	Six Months to 31st Dec 2008 (\$ 000)
Cash flows from operating activities		
<i>Cash was provided from:</i>		
- Recoveries	181	597
900 Receipts from Consulting Fees	210	191
32,710 Sales (Part) of Turbines	5,621	15,399
- Sale of Power	-	14
- Foreign Currency Gains	(74)	(33)
42 Funding Received	-	-
64 Other Income	74	13
- Income Tax Refunded	-	-
669 Interest Received	179	528
- Net GST Inflows	(165)	(769)
34,385	6,026	15,940
<i>Cash was disbursed to:</i>		
32,342 Payments to suppliers	12,934	13,453
4,067 Payments to employees	2,454	1,552
209 Marketing Expenses	51	224
- Income Tax Paid	-	-
29 Foreign Currency Losses	-	-
- Net GST Outflows	21	-
203 Development Expenses	108	-
36,850	15,568	15,229
(12,465)	(9,542)	711
Net Cash Flows from operating activities		
Cash flows from investing activities		
<i>Cash was provided from:</i>		
13 Sale of Fixed Assets	-	-
- Sale of Intangible Assets	-	-
- Disbursed from Term Deposit Accounts	-	-
13	-	-
<i>Cash was disbursed to:</i>		
642 Purchase of Fixed Assets	120	119
- Development of the Wind Turbine	-	-
- Disbursed to Term Deposit Accounts	-	8,131
1,235 Purchase of Intangibles	31	541
1,877	151	8,791
(1,864)	(151)	(8,791)
Net Cash Flows from investing activities		

Twelve Months to 30th June 2009 (\$ 000)	Six Months to 31st Dec 2009 (\$ 000)	Six Months to 31st Dec 2008 (\$ 000)
Cash flows from financing activities		
<i>Cash was provided from:</i>		
10,614	-	10,484
-	-	-
-	-	-
10,614	-	10,484
<i>Cash was disbursed to:</i>		
-	-	-
-	-	-
-	-	-
-	-	-
10,614	-	10,484
6,285	(9,693)	2,404
5,442	11,727	306
11,727	2,034	2,710

1. Accounting Policies

These Group Financial Statements comply with the New Zealand Equivalents International Financial Reporting Standards (NZ IFRS).

The consolidated interim Financial Statements have been prepared in accordance with NZ IAS 34 Interim Financial Statements and do not include all the information required for full annual financial statements, they should be read in conjunction with the 2009 Annual Report.

There have been no material changes in accounting policies. All policies have been applied on basis consistent with those used in previous interim and Annual Financial Statements.

2. Unaudited

The Financial Statements for the current six month period are unaudited.

The Financial Statements for the twelve months to 30th June 2009 have been audited.

3. Subsidiary Companies

	Percentage Owned
Wind Blades Limited	100
Pacific Windfarms Limited	100
Windflow Hawaii Limited	100

Pacific Windfarms Limited and Windflow Hawaii Limited have not traded since incorporation.

4. Associate Investments

	Percentage Owned
Windpower Otago Limited	20
Wind Gears Limited	50

5. Provisions

On each turbine sold to date, the Company gives a 5 year warranty cover. The Directors and Management have assessed, and made provision for the likely cost of expenditure arising from the warranty. The Provision for Warranty Expenditure is raised upon the final commissioning of the completed turbine. Consequently, the Company has increased the Provision for Warranty as 19 Turbines were commissioned during the 6 months under review.

6. Changes in Contingent Liabilities or Contingent Assets since the last annual balance date

There have been no changes in contingent liabilities or contingent assets since the last annual balance date.

7. Seasonality or cyclicity of interim operations

The operations are not subject to seasonal fluctuations but are subject to the effects of the timely completion of the batches of turbines ordered.

8 Related Party Disclosures

No related party debts have been written off or forgiven.

The Company paid fees for services to the Chairman Mr B Leay of \$nil (31st Dec 2008 \$5,805l).

The Company paid project management fees and fees for other services to Directors:

Mr K McConnell - \$1,878 (31st Dec 2008 \$21,746);

Mr H Kelly - \$32,245 (31st Dec 2008 \$9,520);

Mrs C Parlane - \$nil (31st Dec 2008 \$3,532).

These fees for services were charged at normal market terms and conditions.

9. Earnings per Share

Twelve Months to June 2009		Six Months to 31st Dec 2009	Six Months to 31st Dec 2008
	Earnings (loss) attributable to the		
(1,233,576)	Parent Issue	(1,627,102)	(1,081,750)
11,993,489	Shares on Issue	11,993,489	11,942,309
0.10	Amount per Security	(0.13)	(0.09)

10. Net Tangible Assets per Security

0.54

0.44

0.46

11. Reconciliation of reported deficit with Cash Flows from Operating Activities

Twelve Months to June 2009 (\$ 000)		Six Months to 31st Dec 2009 (\$ 000)	Six Months to 31st Dec 2008 (\$ 000)
(1,233)	Net Deficit	(1,628)	(1,082)
	<i>Plus</i>		
	<i>Non Cash Items and Non Operating Items</i>		
-	Equity Earnings	-	-
-	Interest Received	179	528
-		179	528
	<i>Less</i>		
	<i>Non Cash Items and Non Operating Items</i>		
146	Amortisation of Licences and Wind Rights	73	67
-	Deferred Tax Movement	-	-
	Impairment of Intangible Assets	-	-
659	Depreciation	223	320
-	Equity Earnings	-	-
-	Interest Charged	-	-
-	Issue Costs of Equity	-	-
-	Loss on Transfer of Blade to Research and Development	-	-
805		296	387
(428)	<i>Cash Flow from Operations before working capital changes</i>	(1,511)	(1,223)
	<i>Movements in Working Capital</i>		
(456)	Increase (Decrease) in accounts payable	(1,147)	(541)
(1,376)	Increase (Decrease) in progress payments held	(5,351)	5,594
2,130	Increase (Decrease) in Provisions	781	129
-	Increase (Decrease) in GST payable	16	13
(25)	Decrease (Increase) in tax refund	-	(2)
5,770	Decrease (Increase) in accounts receivable and Interest Accrued	(1,315)	2,815
(4,470)	Decrease (Increase) in Work in Progress/Stock	94	(5,530)
(3,193)	Decrease (Increase) in Retentions	(1,365)	-
-	Decrease (Increase) in Other	198	(143)
(409)	Decrease (Increase) in Prepayments	58	(401)
(8)	Decrease (Increase) in GST receivable	-	-
(2,037)		(8,031)	1,934
(2,465)	<i>Net Cash Flows from Operating Activities</i>	(9,542)	711

12. Going Concern Matters

In the full year report to 30th June 2009 the directors commented on two matters of fundamental uncertainty, namely the disputed withholding of payments by its client NZ Windfarms and secondly NZ Windfarms own full year report raising uncertainty as to whether they could continue as a going concern. This in turn led to an uncertainty as to whether Windflow could itself continue as a going concern.

The directors are pleased to report that NZ Windfarms are no longer withholding payments over the dispute surrounding the IEC Certification status of the turbines supplied to Te Rere Hau. The two companies have now reached formal resolution of this matter and the delay to the installation of the Batch 4 order to allow it to be placed on the Te Rere Hau Extension. However, the agreement is conditional on a successful capital raising by NZ Windfarms and should NZ Windfarms begin withholding payments again then Windflow could have major cash flow issues.



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