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A Global Leader in Wind Turbine Technology Innovation



HALF YEAR REPORT FOR THE SIX MONTH PERIOD  
ENDED 31st DECEMBER 2007



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Windflow Technology has had one of the most rewarding 6 months in its brief business history. It is our pleasure to set out the milestones that have been achieved.

- The raising of \$5.04 million in our November Rights Issue, which was fully subscribed. This also has the potential to raise a further \$5.5 million in September 2008 when the tradable options, attached to the shares issued last year, are exercisable.
- Moving of the office to leased factory and office space in Mandeville Street, Christchurch and the setting up of a nacelle assembly line capable of producing 5 turbines per month, and expansion to 20 per month.
- Acquisition of the remaining 50% of Wind Blades Ltd, our Auckland-based blade supplier.
- Receipt of further orders for 30 turbines for the Te Rere Hau windfarm (which is jointly owned by NZ Windfarms and by Babcock & Brown/NP Power). This brings to 44 the number of turbines either in production, or scheduled for production, at our new Mandeville Street factory. They will join the five already installed at Te Rere Hau.
- Continuing progress towards achieving Class 1A Certification of the Windflow 500 turbine to the International Electro-technical Committee (IEC) Standard WT-01.

## Financial Results

The Consolidated Results for the Windflow Group of companies are set out in the Financial Statements section of this report.

In addition to these formal statements, we are pleased to report that, for the first time, the parent company produced a positive gross profit from the manufacture of turbines, while (as expected) remaining in a loss position overall, once overheads (including non-recurring expenditure) are deducted.

Sales Revenue of \$2,792,409 (last year \$2,017,862) has been recognised in the parent company. The main component of this figure is the sale of wind turbines to the Te Rere Hau Joint Venture. The direct production costs, including turbine components, for the six month period were \$2,732,965 (not stated last year), giving a gross profit of \$59,444 (not stated last year).

There was additional income of \$482,722 (last year \$402,023) but overhead expenses (including depreciation and amortisation) of \$2,344,216 have brought this down to an interim loss of \$2,284,772 (last year \$3,252,698). These figures are attributable to the parent company only.

In reviewing the level of these overheads, shareholders should consider the following points:

- IEC certification expenditure (\$ 816,914) is essentially a non-recurring expense associated with the first-time nature of this exercise. While we can expect to have some ongoing IEC expenditure (as we maintain the certification of the basic Windflow 500 turbine and proceed to certify the variants we will develop), the sums involved will be nothing like the amounts required to clear the hurdles posed by first-time certification.
- The administration overheads include \$169,453 for the preparation and marketing of the Rights Issue Prospectus.

- Against the above two non-recurring items, it needs to be borne in mind that the Company is going through a rapid growth phase where it is increasing its ongoing overheads (principally for salaries and for the lease and running of the factory) in order to ramp up production of the Windflow 500, develop further variants, and continue to provide support for the turbines in the field (at Te Rere Hau and Gebbies Pass). Inevitably these overheads will be incurred ahead of the resulting revenue. For example we have increased staff numbers in Christchurch from about 20 to 35 in the six months to December. Together with the 12 staff in the blade factory in Auckland, there are now nearly 50 people employed full-time by Windflow and Wind Blades. For the next year or two we expect to have total overheads (including production staff) of about \$5.5 million annually which needs to be compared to expected revenue (which will lag slightly behind) of about \$40 million.

Looking ahead to the end of this current financial year (June 2008), we would expect that the basic position above (a small but positive gross profit but a significant overall accounting loss) will be repeated for the reasons explained. However, the Directors are confident that once IEC Certification is behind us, and we are not just incurring the overheads required to run a 60 turbine/year operation but also producing that number of turbines a year, that our shareholders' patience will be rewarded.

## Marketing

Our win in the product category of the EECA Energy Wise industry awards reinforced our standing in the renewable energy sector and occurred very shortly after an equally pleasing award from the Sustainable Business Network at their national awards dinner in Auckland.

Less visible but equally significant has been the Company's decisive response to new sales opportunities as they have emerged in New Zealand and markets around the world and particularly the United States. Windflow Technology has been actively following up these leads and building a definite appreciation of the strengths and suitability of the Windflow 500 turbine over other models being manufactured to provide wind energy in vastly different conditions. Related to this sales and relationship building process, our new office and manufacturing facility provides us with the means to host prospective buyers and show them the assembly line in action.

All of these developments have taken place against a backdrop of positive media coverage and a very respectable share price, which has remained stable and withstood the disruptive market influences from abroad.

But there is no let up. Following our successful capital raising, which benefited from the combined expertise of both the board and senior management, we are now continuing our recruitment drive to add engineering and operational depth to the company.

## Developments

In late December MainPower, the company that owns and operates the power lines used to supply electricity to the people and businesses of North Canterbury and Kaikoura, lodged a resource consent application for a wind farm on Mt Cass in the Hurunui District. In a first for Windflow Technology our Windflow 500 was included as one of three wind farm design envelopes. This places our Windflow 500 (R33) turbine in direct comparison with the larger European three-bladers (designated R60 and R90) and therefore also represents the first time that the Windflow 500 turbine has been assessed for resource consent purposes alongside major international wind turbine manufacturers. The inclusion of the Windflow 500 adds to our credibility and enables us to actively educate and promote its strengths to a much larger audience within a competitive

context. The strengths range from lower environmental impact to economic gains (at a local and regional level) to reduced transport and logistics throughout the construction phase.

In summary, the progress outlined on each activity and towards each milestone reinforces our mission to become a global leader in wind turbine technology innovation. We have not strayed from this business purpose and we do not intend to.

## IEC Certification

Overall we are making steady progress towards this goal although it has continued to be frustratingly slow in some areas. By the end of December 2007:

- We have completed the "Type Testing" phase of data collection from the Gebbies Pass prototype.
- We have incurred delays with the "Type Testing" of the fatigue properties of our blade. A perverse outcome of the excellent fatigue properties of wood-epoxy is that the IEC safety factors require us to demonstrate a 900 year achievable life (45 times the duty of 20 years!). The test results to date imply ample fatigue strength, in the range of 400-900 years of achievable life. We will submit the results of our testing to Lloyds Register for evaluation.
- We have completed most of the other work required for IEC certification except for a critical task of validating Garrad Hassan's computer model "Bladed".

Overall our IEC certification process has an element of "trail-blazing" which, while it befits a trail-blazing turbine, is necessarily slow and painstaking. And, most importantly, it has allowed us to continue production of the turbine more than confident that the basic turbine design is sound.

## Summary

The six months to 31 December, 2007 have been a period of major milestones as the Company moves into commercial production of the Windflow 500:

- A small gross profit on wind turbine production.
- A fully subscribed Rights Issue which raised \$5.04 million.
- Setting up a nacelle assembly factory to produce 5 turbines per month in Christchurch.
- Further orders for 30 turbines placed by the Te Rere Hau Joint Venture.
- Completing the acquisition of Wind Blades Ltd in Auckland.
- Increasing staff numbers in Christchurch and Auckland to about 47.
- Completing the Type Testing phase of data collection from the Gebbies Pass prototype towards Class 1A IEC Certification of the Windflow 500 turbine.

We look forward to the further stages of exciting growth as the Company completes the transition towards commercial production backed up by extensive engineering capabilities, working to international standards for quality in wind turbine design and production.

**CONSOLIDATED INCOME STATEMENT**

 For the six month period  
ended 31st December 2007

Twelve Months to 30th June 2007 \$	Notes	Six Months to 31st Dec 2007 \$	Six Months to 31st Dec 2006 \$	Parent \$
	<b>Revenue</b>			
2,411,390	Operating Revenue	2,910,052	2,003,496	2,792,409
399,967	Other Revenue	489,724	249,801	482,722
<b>2,811,357</b>		<b>3,399,776</b>	<b>2,253,297</b>	<b>3,275,131</b>
	<b>Expenses</b>			
6,125,738	Operating Expenses	5,647,930	3,376,657	
<b>6,125,738</b>		<b>5,647,930</b>	<b>3,376,657</b>	
-	Share of Associates Surplus	-	(217,447)	
<b>6,125,738</b>		<b>5,647,930</b>	<b>3,159,210</b>	
<b>(3,314,381)</b>	<b>Net Surplus / (Deficit)</b>	<b>(2,248,154)</b>	<b>(905,913)</b>	
	Net Surplus / (Deficit) comprises:			
(3,283,540)	Parent Interests	(2,266,463)	(862,871)	
(30,841)	Minority Interest to Date of Acquisition	18,309	(43,042)	
<b>(3,314,381)</b>		<b>(2,248,154)</b>	<b>(905,913)</b>	2,284,351

**CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY**

 For the six month period  
ended 31st December 2007

<b>Twelve Months to 30th June 2007</b> \$	Notes	<b>Six Months to 31st Dec 2007</b> \$	<b>Six Months to 31st Dec 2006</b> \$
6,006,854	<b>Equity at Beginning of Period</b>	4,648,765	<b>6,006,854</b>
222,084	Adjustment of Associate Equity at beginning of year due to new issue.	-	72,736
950	Adjustment of Associate Equity opening balance due to losses.	-	-
<u>6,229,888</u>		<u>4,648,765</u>	<u>6,079,590</u>
(3,283,540)	Net Surplus / (Deficit) comprising Parent Interests	(2,266,463)	(862,871)
(30,841)	Minority Interest to Date of Acquisition	18,309	(43,043)
<u>(3,314,381)</u>	<b>Total Net Deficit</b>	<u>(2,248,154)</u>	<u>(905,914)</u>
-	Acquisition of Minority Interest	38,170	-
67,958	Contributions from Owners Ordinary Shares Issued during the Year	5,418,782	67,970
1,665,300	Revaluation of shares NZ Windfarms Ltd	(300,000)	-
-	Gain due to Issue of Shares by Associates	-	400,673
<u><b>4,648,765</b></u>	<b>Equity at End of Period</b>	<u><b>7,557,563</b></u>	<u><b>5,642,319</b></u>

**CONSOLIDATED BALANCE SHEET**

 As at 31st  
December 2007

As at 30th June 2007 \$		As at 31st Dec 2007 \$	As at 31st Dec 2006 \$
	<b>Shareholders' Equity</b>		
12,360,950	Contributed Capital	17,779,733	12,360,963
(10,409,220)	Retained Earnings Account	(12,675,684)	(8,138,849)
1,951,730		5,104,049	4,222,114
	<i>Minority Interest</i>		
22,375	Contributed Capital	-	22,375
(78,854)	Retained Earnings Account	-	(91,057)
(56,479)		-	(68,682)
2,753,514	Revaluation Reserve	2,453,514	1,488,887
<b>4,648,765</b>	<b>Total Shareholders' Equity</b>	<b>7,557,563</b>	<b>5,642,319</b>
	<b>Current Liabilities</b>		
6,552,000	Progress Payments Held	10,392,250	2,646,000
668,516	Accounts Payable	4,338,438	556,343
360,317	GST Payable	17,135	-
558,667	Provisions	414,256	-
<b>8,139,500</b>	<b>Total Current Liabilities</b>	<b>15,162,079</b>	<b>3,202,343</b>
<b>12,788,265</b>	<b>Total Equity and Liabilities</b>	<b>22,719,642</b>	<b>8,844,662</b>

**CONSOLIDATED BALANCE SHEET (Continued)**

 As at 31st  
December 2007

As at 30th June 2007 \$		As at 31st Dec 2007 \$	As at 31st Dec 2006 \$
<b>Current Assets</b>			
1,002,090	Cash on Hand and at Bank	752,073	467,061
1,159,281	Term Deposits	9,191,569	221,552
1,059	Interest Accrued	28,400	1,003
3,785,201	Accounts Receivable	815,455	3,171,841
55,250	Prepayments and Accruals	217,724	38,911
-	GST Refund	428,511	2,259
52,624	Tax Refund	52,943	-
315,000	Retentions Held Sale of Turbines	3,025,159	315,000
1,333,650	Stock Prepaid	2,005,677	-
416,141	Work in Progress and Stock on Hand	1,378,891	204,740
-	Other Assets	-	52,687
<b>8,120,296</b>	<b>Total Current Assets</b>	<b>17,896,402</b>	<b>4,475,054</b>
<b>Non Current Assets</b>			
882,456	Fixed Assets	1,020,085	877,255
158,611	Intangible Assets	476,253	196,130
-	Investments in Associates	-	2,403,678
26,902	Advances to Equity Investment	26,902	892,545
3,600,000	Shares - NZ Windfarms Limited	3,300,000	-
<b>4,667,969</b>	<b>Total Non Current Assets</b>	<b>4,823,240</b>	<b>4,369,608</b>
<b>12,788,265</b>	<b>Total Assets</b>	<b>22,719,642</b>	<b>8,844,662</b>

Signed for and on behalf of the Board



**Geoff Henderson**  
Director



**Keith McConnell**  
Director

Dated: 14 March 2008

**CONSOLIDATED STATEMENT OF CASH FLOWS**

 For the six month period  
ended 31st December 2007

<b>Twelve Months to 30th June 2007</b>	<b>Six Months to 31st Dec 2007</b>	<b>Six Months to 31st Dec 2006</b>
\$	\$	\$
<b>Cash flows from operating activities</b>		
<i>Cash was provided from:</i>		
-	-	190,191
117,148	91,690	-
5,546,109	9,271,152	1,642,182
	14,001	16,250
-	2,999	-
13,660	19,183	-
255,592	67,223	7,296
-	434	-
214,510	213,105	43,870
28,675	-	15,694
6,175,694	9,679,787	1,915,483
<i>Cash was disbursed to:</i>		
4,090,699	5,154,203	2,184,473
1,320,153	1,149,252	601,075
50,573	-	37,197
123	753	258
20,389	4	6,391
-	183,520	-
5,481,937	6,487,732	2,829,394
<b>693,757</b>	<b>3,192,055</b>	<b>(913,911)</b>
<b>Cash flows from investing activities</b>		
<i>Cash was provided from:</i>		
-	700	-
-	-	-
333,276	-	1,277,341
333,276	700	1,277,341
<i>Cash was disbursed to:</i>		
-	250,000	-
195,146	231,134	67,586
-	7,987,044	-
195,146	8,468,178	67,586
<b>138,130</b>	<b>(8,467,478)</b>	<b>1,209,755</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)**

 For the six month period  
ended 31st December 2007

<b>Twelve Months to 30th June 2007</b> \$	<b>Six Months to 31st Dec 2007</b> \$	<b>Six Months to 31st Dec 2006</b> \$
<b>Cash flows from financing activities</b>		
<i>Cash was provided from:</i>		
67,958	5,194,260	67,972
-	-	-
67,958	5,194,260	67,972
<i>Cash was disbursed to:</i>		
-	168,854	-
-	-	-
1,000	-	-
1,000	168,854	-
<b>66,958</b>	<b>5,025,406</b>	<b>67,972</b>
898,845	(250,017)	363,816
103,245	1,002,090	103,245
1,002,090	752,073	467,061

## 1. Accounting Policies

These financial statements are the first financial statements for the Group that 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 2007 Annual Report.

The financial statements are also in accordance with NZ IFRS 1 "First time adoption of New Zealand Equivalents to International Financial Reporting Standards". NZ IFRS 1 requires an entity to use the same accounting policies in its opening NZ IFRS balance sheet and throughout all the periods presented in its first NZ IFRS financial statements.

The Group has prepared these six monthly accounts in accordance with this requirement.

There have been no other material changes in accounting policies. All policies have been applied on bases consistent with those used in previous interim and annual financial statements.

## 2. Unaudited

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

The Financial Statements for the twelve months to 30th June 2007 have been audited.

## 3. Subsidiary Companies

	Percentage Owned
Wind Blades Limited	100.00
Pacific Windfarms Limited	100.00
Windflow Hawaii Limited	100.00

During the six month financial period Windflow Technology Ltd acquired the remaining 50% of the shares in Wind Blades Limited, previously it had been determined that Windflow Technology Limited had control over this entity and had been consolidated as a subsidiary company.

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

## 4. Associate Investments

	Percentage Owned
Windpower Otago Limited	20.00
Windpower Maungatua Limited	16.66

The equity method of accounting should be discontinued when the effect of equity accounting losses causes the carrying amount of the investment to fall below zero, Accordingly the minor losses incurred by the two associate companies have not been equity accounted.

## 5. Significant Events Subsequent to Balance Date

There were no significant events subsequent to Balance Date.

## 6. 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.

## 7. 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.

## 8. 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.

## 9. Related Party Disclosures

The Company completed the royalty payment of \$157,500 exclusive of GST outstanding to Mr G Henderson, a Director of the Company, as at the 30th June 2007, which is pursuant to the Licence Agreement that it has with Mr Henderson.

A further royalty payment of \$160,000 exclusive of GST was completed during the six month period to Mr G Henderson and this has been included as a "Sundry Prepayment"

The Company also acquired from Mr G Henderson (Henderson Inventions) the US Patent 5140170 for \$250,000 exclusive of GST. Of this amount \$150,000 is to be satisfied by the issue of shares in Windflow Technology Limited, the total of \$281,250 inclusive of GST has been included as an amount outstanding at balance date.

All other related party transactions are at normal market terms and conditions.

No related party debts have been written off or forgiven.

The Company paid project management fees and fees for services to a Director, Mr K McConnell \$68,797 (30th June 2007 \$57,854) and fees for services to a second Director, Mr H Kelly \$1,012 (30th June 2007 \$1,000).

The fees were charged on normal market terms and conditions.

The amount outstanding at balance date to Mr McConnell, and included within accounts payable is \$3,957.62 (30th June 2007 \$14,382) and the fees were charged on normal market terms and conditions.

**10. Earnings per Share**

The earnings per share are calculated using the net results attributable to shareholders as the numerator.

<b>Twelve Months to 30th June 2007</b>		<b>Six Months to 31st Dec 2007</b>	<b>Six Months to 31st Dec 2006</b>
\$		\$	\$
	Earnings (loss) attributable to the		
(3,283,540)	Parent Issue	(2,266,463)	(862,871)
6,721,867	Shares on Issue	8,538,511	6,721,867
(0.48)	Amount per Security	(0.27)	(0.12)

**11. Net Tangible Assets per Security**

<b>Twelve Months to 30th June 2007</b>		<b>Six Months to 31st Dec 2007</b>	<b>Six Months to 31st Dec 2006</b>
\$		\$	\$
0.67		0.83	0.81

**12. Reconciliation of reported deficit with Cash Flows from Operating Activities**

<b>Twelve Months to 30th June 2007</b>		<b>Six Months to 31st Dec 2007</b>	<b>Six Months to 31st Dec 2006</b>
\$		\$	\$
(3,314,381)	Net Deficit	2,248,154)	(905,913)
	<i>Plus</i>		
	<i>Non Cash Items and Non Operating Items</i>		
-	Equity Earnings	-	217,447
-	Interest Received	-	36,709
-		-	254,156
	<i>Less</i>		
	<i>Non Cash Items and Non Operating Items</i>		
75,038	Amortisation of Licences and Wind Rights	37,519	37,519
-	Deferred Tax Movement	-	-
	Impairment of Intangible Assets	-	-
291,140	Depreciation	241,545	136,400
-	Equity Earnings	-	-
-	Interest Charged	-	22
-	Issue Costs of Equity	66,989	-
-	Loss on Transfer of Blade to Research and Development	-	-
366,178		346,053	173,941
(2,948,203)	<i>Cash Flow from Operations before working capital changes</i>	1,902,101)	(986,128)
	<i>Movements in Working Capital</i>		
85,974	Increase (Decrease) in accounts payable excluding asset purchases	3,404,704	(646,494)
6,214,000	Increase (Decrease) in progress payments held	3,840,250	2,308,000
558,667	Increase (Decrease) in Provisions	(115,000)	-
-	Increase (Decrease) in GST payable	-	387,892
(23,456)	Decrease (Increase) in tax refund	(319)	(23,519)
(2,723,756)	Decrease (Increase) in accounts receivable and Interest Accrued	3,245,002	(2,607,112)
(559,476)	Decrease (Increase) in Work in Progress	(4,659,936)	985,575
(315,000)	Decrease (Increase) in Retentions	315,000	(315,000)
(34,188)	Decrease (Increase) in Other	-	-
703	Decrease (Increase) in Prepayments	(177,474)	(17,125)
438,492	Decrease (Increase) in GST receivable	(758,071)	-
3,641,960		5,094,156	72,217
693,757	Net Cash Flows from Operating Activities	3,192,055	(913,911)