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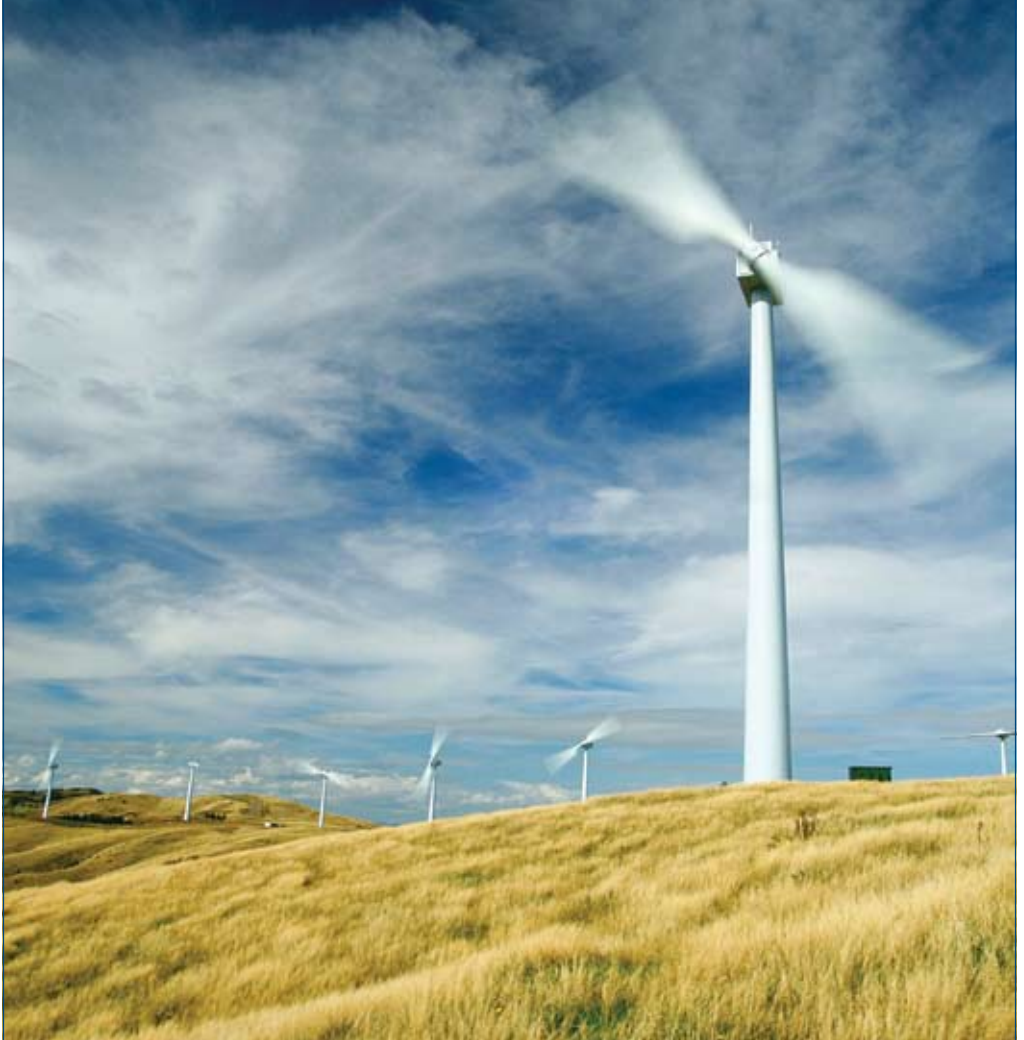
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A Global Leader in Wind Turbine Technology Innovation



HALF YEAR REPORT FOR THE SIX MONTH PERIOD
ENDED 31st DECEMBER 2008



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Overview

Windflow has had a busy first six months of the 2008/09 financial year and we are pleased to report on several milestones achieved during this period:

- Agreement with State owned electricity generator/retailer Mighty River Power to become a cornerstone shareholder, resulting in an investment by it of over \$7.1million (at \$3.00 per share) which was approved by shareholders at a special general meeting in August 2008.
- Receiving the order for the remaining 32 turbines of the existing contract for the Te Rere Hau wind farm from the TRH Joint Venture in September 2008.
- Raising \$2.6 million through the second stage options exercise which closed on 30 September 2008 at \$3.30 per share.
- Further raising almost \$580,000 through private placements, also made at \$3.30 a share, despite weaker conditions generally on the New Zealand market, in early October 2008.
- Beginning the turnkey solution with Mighty River Power to consent and develop the Long Gully wind farm in Wellington.
- Completing production and delivery of turbines for Stage 2 of the Te Rere Hau wind farm.
- Election of new independent Director Ian Fraser who officially started his directorship in January 2009.

Financial Results

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

The additional turbine orders for Te Rere Hau and the successful capital raising held in the first half of 2008/09 have resulted in Windflow being in a strong cash position. The company is currently holding in excess of \$15.8 million in cash deposits.

Windflow has continued to produce a positive gross production margin for the half year. However this has not yet produced a net profit.

Revenue for the six months was \$11,834,000 (compared with \$2,910,000 for the comparable six month period). Although this is a substantial and welcome increase on previous periods the revenue figure is less than had been anticipated and is due to a number of issues ranging from supplier quality control through to wind farm development delays, (not all of which have been within the company's control).

Direct production costs, including turbine costs, for the same period were \$10,841,000 (compared with \$2,503,000 for the previous year) resulting in a gross profit of \$ 993,000 for the period (compared with \$ 407,000 for the previous year).

The result is a recorded loss for the first half of 2008/09 of \$1,082,000 (compared with \$ 2,248,000 last year).

IEC expenses capitalised for the six month period were \$541,000; the IEC process to date is therefore now valued in the company's books at \$1,804,000.

For the full year ending 30 June 2009 Windflow expects to make a positive gross profit . However, as with last year, the full year period will produce a net loss.



IEC Certification

Continued progress in the last half of 2008 has brought us closer to achieving this milestone. We have been working closely with our independent testing bodies, our auditors, and the certifying body, who have been giving us confidence that the work submitted to date is sound.

The blade passing its fatigue test early in 2009 has been a notable step towards achieving IEC certification. Reaching the IEC testing standard required the blade to complete almost two million cycles, and it has since gone on to achieve over three million cycles without any damage evident. It is the first time that this test has been conducted and achieved in New Zealand and the dedicated support of Industrial Research Limited (IRL) in Parnell is acknowledged.

With this milestone, Windflow has effectively completed most components towards IEC Class 1A Edition 3 certification for the Windflow 500 turbine; namely the ISO 9001:2000 certification, Type Testing, and Manufacturing Evaluation. Only a few calculations and specifications remain to be submitted (of the original 200 that were required), as part of the Design Evaluation.

The directors believe that setting the toughest certification standards for the Windflow 500 gives the highest level of confidence in the technology and that the company will reap the rewards in the future.

Te Rere Hau wind farm

With all 97 turbines now ordered, the Te Rere Hau wind farm continues to grow and be our key site for the Windflow 500 turbine. NZ Windfarms announced at the end of 2008 that it intended to buy the 50% stake from JV partners NP Power / Babcock & Brown and become 100% owners of the Te Rere Hau wind farm.

Most of the 28 Stage 2 turbines were installed at Te Rere Hau before the end of December 2008, joining the existing five Stage 1 turbines. The new electrical line, which has the capacity to take the full wind farm output of 48.5 MW when completed, was operational in November and Stage 2 turbines are progressively being commissioned and injecting into the grid, and are programmed to be completed by the end of February 2009.

Production

Ensuring the quality of the turbines is the highest priority of the Windflow production team. We continue to work with our component suppliers, including our wind blade manufacturing subsidiary (Wind Blades) and joint venture Wind Gears, as well as our internal nacelle assembly processes, to ensure the turbine is the best that it can be.

- Production figures for the FY 2008/09 will be below the 60 turbines that we targeted. However, we expect to achieve and maintain our target production of five turbines a month going forward.
- We have continued to upgrade the factory, adding a 15 tonne gantry crane, removing the dividing wall, and creating a single flow through production line and storage space which will enable an easier ramp up to increased production when required in the future.

- Both Wind Gears and Wind Blades have grown to match the increased production levels and are functioning well as an integral part of our supply chain

Project Pipeline

Windflow continues to manufacture the balance of turbines to complete the Te Rere Hau wind farm order. The production of these turbines is scheduled to be completed in early 2010.

NZ Windfarms has indicated that they intend to apply for resource consent for a Te Rere Hau extension which may lead to a future order for further Windflow 500 turbines.

Long Gully wind farm, where Windflow is both project manager and turbine supplier, bodes well for the company. Long Gully is situated behind the Wellington suburb of Brooklyn on a ridge line that is largely hidden from view.

The Long Gully consent proposal is for up to 25 Windflow 500 turbines (12.5 MW). The resource consent for this site was lodged with the consenting authority, the Wellington City Council on the 27th February 2009.

Windflow continues to work with local North Canterbury lines company Mainpower on their proposed wind farm on Mt Cass. The Windflow 500 is one of three possible turbine choices included in the consenting envelope.

Windflow continues to work with wind farm developers and consultants in New Zealand to evaluate the Windflow 500 turbine for their potential projects. Although our current focus is New Zealand, we are also investigating other markets for the Windflow 500 turbine and variants going forward.

Outlook

Following the election of the National government in October 2008, Windflow has engaged in a series of discussions with relevant Ministers. Changes to the Resource Management Act (RMA), the review of the Emissions Trading Scheme, and the new focus on securing base load supply of energy for industry will be carefully watched.

Since the 'Wall Street meltdown' we have been highlighting that every Windflow turbine sold represents 10 jobs in New Zealand and the flow-on effects of these on the local economy should not be underestimated. The recent exchange rate movements put Windflow, as the only turbine manufacturer in Australasia, in a much stronger competitive position in the New Zealand market as imported turbines become prohibitively more expensive, and may assist our market entry in certain export markets.

The focus of the new USA administration on renewable energy is also creating opportunities which we are exploring, and globally calls to stimulate economies by investing in renewable energy infrastructure and climate change reduction measures positively match our philosophy on global warming and climate change.

These are very challenging times. However, we are optimistic that we are in a strong position to build our market share.

We thank all our shareholders for their continuing strong commitment to Windflow Technology, and our staff for continuing to resolve the challenges which constantly arise in a rapidly growing, leading edge, technology company.

CONSOLIDATED INCOME STATEMENT

For the six month period
ended 31st December 2008

Twelve Months to 30th June 2008 (\$ 000)	Notes	Six Months to 31st Dec 2008 (\$ 000)	Six Months to 31st Dec 2007 (\$ 000)
	Revenue		
10,991	Operating Revenue	11,834	2,910
10,235	Cost of Sales	10,841	2,503
756	Gross Profit from Operations	993	407
1,117	Other Revenue	910	490
	Expenses		
3,894	Operating Expenses	3,036	3,145
(2,021)		(1,133)	(2,248)
23	Share of Associates (Surplus)	(51)	-
(2,044)		(1,082)	(2,248)
(2,044)	Net Surplus / (Deficit)	(1,082)	(2,248)
	Net Surplus / (Deficit) comprises:		
(2,044)	Parent Interests	(1,118)	(2,266)
-	Minority Interest to Date of Acquisition	-	18
	Subsidiary	(15)	-
	Associate	51	-
(2,044)		(1,082)	(2,248)

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

 For the six month period
ended 31st December 2008

Twelve Months to 30th June 2008 (\$ 000)	Notes	Six Months to 31st Dec 2008 (\$ 000)	Six Months to 31st Dec 2007 (\$ 000)
4,649	Equity at Beginning of Period	7,275	4,649
-	Adjustment of Associate Equity at beginning of year due to new issue	-	-
-	Adjustment of Associate Equity opening balance due to losses	-	-
<hr/> 4,649		<hr/> 7,275	<hr/> 4,649
(2,044)	Net Surplus / (Deficit) comprising		
-	Parent Interests	(1,118)	(2,266)
-	Subsidiary	(15)	18
-	Associate	51	-
<hr/> (2,044)	Total Net Deficit	<hr/> (1,082)	<hr/> (2,248)
-	Acquisition of Minority Interest	-	38
5,424	Contributions from Owners Ordinary Shares Issued during the Year	10,484	5,419
(810)	Revaluation of shares NZ Windfarms Ltd	(690)	(300)
56	Gain due to Issue of Shares by Associates	-	-
<hr/> 7,275	Equity at End of Period	<hr/> 15,987	<hr/> 7,558

CONSOLIDATED BALANCE SHEET

 As at 31st
December 2008

As at 30th June 2008 (\$ 000)		As at 31st Dec 2008 (\$ 000)	As at 31st Dec 2007 (\$ 000)
	Shareholders' Equity		
17,785	Contributed Capital	28,269	17,780
(12,455)	Retained Earnings Account	(13,535)	(12,676)
5,330		14,734	5,104
	<i>Minority Interest</i>		
-	Contributed Capital	-	-
-	Retained Earnings Account	-	-
-		-	-
1,944	Revaluation Reserve	1,253	2,454
7,274	Total Shareholders' Equity	15,987	7,558
	Current Liabilities		
13,150	Progress Payments Held	18,744	10,392
2,871	Accounts Payable	2,330	4,338
-	GST Payable	13	18
442	Provisions	571	414
16,463	Total Current Liabilities	21,658	15,162
23,737	Total Equity and Liabilities	37,645	22,720

CONSOLIDATED BALANCE SHEET (Continued)

 As at 31st
December 2008

As at 30th June 2008 (\$ 000)		As at 31st Dec 2008 (\$ 000)	As at 31st Dec 2007 (\$ 000)
Current Assets			
306	Cash on Hand and at Bank	2,710	752
5,136	Term Deposits	13,194	9,192
11	Interest Accrued	388	28
6,591	Accounts Receivable	3,399	815
165	Prepayments and Accruals	566	218
-	GST Refund	489	429
-	Tax Refund	2	52
-	Retentions Held Sale of Turbines	-	3,025
4,827	Stock Prepaid	10,183	2,006
1,062	Work in Progress and Stock on Hand	1,236	1,379
-	Other Assets	-	-
18,098	Total Current Assets	32,167	17,896
Non Current Assets			
1,162	Fixed Assets	1,165	1,022
1,661	Intangible Assets	2,136	476
-	Investments in Associates	51	-
26	Advances to Equity Investment	26	26
2,790	Shares - NZ Windfarms Limited	2,100	3,300
5,639	Total Non Current Assets	5,478	4,824
23,737	Total Assets	37,645	22,720

Signed for and on behalf of the Board



Geoff Henderson
Director



Keith McConnell
Director

Dated: 25 February 2009

CONSOLIDATED STATEMENT OF CASH FLOWS

 For the six month period
ended 31st December 2008

**Twelve Months to
30th June 2008
(\$ 000)**
**Six Months to
31st Dec 2008
(\$ 000)**
**Six Months to
31st Dec 2007
(\$ 000)**
Cash flows from operating activities
Cash was provided from:

-	Recoveries	597	-
221	Receipts from Consulting Fees	191	92
14,219	Sales (Part) of Turbines	15,399	9,271
31	Sale of Power	14	14
-	Foreign Currency Gains	(33)	3
74	Funding Received	-	19
464	Other Income	13	68
-	Income Tax Refunded	-	-
536	Interest Received	528	213
(581)	Net GST Inflows	(769)	-
<hr/>			
14,964		15,940	9,680

Cash was disbursed to:

12,011	Payments to suppliers	13,453	5,154
2,393	Payments to employees	1,552	1,149
270	Marketing Expenses	224	-
2	Income Tax Paid	-	1
1	Interest Paid	-	-
-	Net GST Outflows	-	184
197	Development Expenses	-	-
<hr/>			
14,874		15,229	6,488

90 Net Cash Flows from operating activities
711
3,192
Cash flows from investing activities
Cash was provided from:

-	Sale of Fixed Assets	-	1
30	Sale of Intangible Assets	-	-
-	Disbursed from Term Deposit Accounts	-	-
<hr/>			
30		-	1

Cash was disbursed to:

809	Purchase of Fixed Assets	119	231
-	Development of the Wind Turbine	-	250
-	Disbursed to Term Deposit Accounts	8,131	7,987
1,514	Purchase of Intangibles	541	-
<hr/>			
2,323		8,791	8,468

(2,293) Net Cash Flows from investing activities
(8,791)
(8,467)

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

 For the six month period
ended 31st December 2008

Twelve Months to 30th June 2008 (\$ 000)	Six Months to 31st Dec 2008 (\$ 000)	Six Months to 31st Dec 2007 (\$ 000)
Cash flows from financing activities		
<i>Cash was provided from:</i>		
5,552	10,484	5,194
(63)	-	-
-	-	-
5,489	10,484	5,194
<i>Cash was disbursed to:</i>		
-	-	169
-	-	-
5	-	-
5	-	169
5,484	10,484	5,025
Net Cash Flows from financing activities		
3,281	2,404	(250)
Net Increase (Decrease) in cash held		
2,161	306	1,002
Cash at beginning of year		
5,442	2,710	752
Cash at end of year		

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 2008 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 2008 have been audited.

3. Subsidiary Companies

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

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
Wind Gears Limited	50.00

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 royalty payments of \$480,000 exclusive of GST to Mr G Henderson, a Director of the Company, during the six month period ending on the 31st December 2008, which is pursuant to the Licence Agreement that it has with Mr Henderson. All of the \$480,000 is shown as a prepayment made in the six monthly accounts.

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 fees for services to the Chairman Mr B Leay of \$5,805(31st Dec 2007 \$ nil).

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

Mr K McConnell - \$21,746 (31st Dec 2007 \$68,797);

Mr H Kelly - \$9,520 (31st Dec 2007 \$1,012);

Mrs C Parlane - \$3,532 (31st Dec 2007 \$ nil).

The fees were charged on normal market terms and conditions.

Of the related party transactions the only amount outstanding and included within accounts payable at balance date is due to Mr McConnell \$3,923 (31st December 2007 \$3,958) and has subsequently been paid in January 2009.

10. Earnings per Share

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

Twelve Months to 30th June 2008 (\$ 000)		Six Months to 31st Dec 2008 (\$ 000)	Six Months to 31st Dec 2007 (\$ 000)
	Earnings (loss) attributable to the		
(2,044)	Parent Issue	(1,082)	(2,248)
8,831,485	Shares on Issue	11,942,309	8,538,511
(0.23)	Amount per Security	(0.09)	(0.27)

11 Net Tangible Assets per Security

0.64

0.46

0.83

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

Twelve Months to 30th June 2008 (\$ 000)		Six Months to 31st Dec 2008 (\$ 000)	Six Months to 31st Dec 2007 (\$ 000)
(2,044)	Net Deficit	(1,082)	(2,248)
	<i>Plus</i>		
	<i>Non Cash Items and Non Operating Items</i>		
-	Equity Earnings	-	-
-	Interest Received	528	-
-		528	-
	<i>Less</i>		
	<i>Non Cash Items and Non Operating Items</i>		
116	Amortisation of Licences and Wind Rights	67	38
-	Deferred Tax Movement	-	-
	Impairment of Intangible Assets	-	-
558	Depreciation	320	241
-	Equity Earnings	-	-
-	Interest Charged	-	-
-	Issue Costs of Equity	-	67
-	Loss on Transfer of Blade to Research and Development	-	-
674		387	346
(1,370)	<i>Cash Flow from Operations before working capital changes</i>	(1,223)	(1,902)
Twelve Months to 30th June 2008 (\$ 000)		Six Months to 31st Dec 2008 (\$ 000)	Six Months to 31st Dec 2007 (\$ 000)
	<i>Movements in Working Capital</i>		
2,147	Increase (Decrease) in accounts payable	(541)	3,405
6,598	Increase (Decrease) in progress payments held	5,594	3,840
(117)	Increase (Decrease) in Provisions	129	(115)
-	Increase (Decrease) in GST payable	13	-
(1)	Decrease (Increase) in tax refund	(2)	-
(2,816)	Decrease (Increase) in accounts receivable and Interest Accrued	2,815	3,244
(4,139)	Decrease (Increase) in Work in Progress/Stock	(5,530)	(4,660)
315	Decrease (Increase) in Retentions	-	315
-	Decrease (Increase) in Other	(143)	-
(57)	Decrease (Increase) in Prepayments	(401)	(177)
(470)	Decrease (Increase) in GST receivable	-	(758)
1,460		1,934	5,094
90	Net Cash Flows from Operating Activities	711	3,192

