



Windflow Technology Limited

Annual Report 2013

Directors' declaration

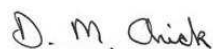
In the opinion of the directors of Windflow Technology Limited (the "Company"), the financial statements of Windflow Technology Limited for the year ended 30 June 2013 and notes, on pages 2 to 28:

- comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Company and the Group as at 30 June 2013 and the results of its operations and cash flows for the 12 months ended on that date.
- have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

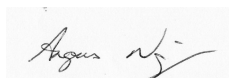
The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider that they have taken adequate steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

For and on behalf of the Board of Directors:



Chairman
7 November 2013



Director
7 November 2013

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Annual Financial Statements

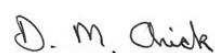
Balance Sheet

As at 30 June

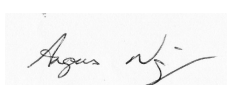
	Note	2013		2012	
		Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Current assets					
Cash on hand and at bank	16	188	148	40	35
Income earned not invoiced	17	199	126	126	126
Trade and other receivables	17	1,589	1,723	1,031	1,029
Prepayments	17	216	18	124	8
Retentions	18	167	167	1,036	1,036
Inventory and work in progress	13	1,011	945	1,335	1,244
Value added goods and services tax refund		185	10	64	62
Total current assets		3,555	3,137	3,756	3,540
Non-current assets					
Property, plant & equipment	21	2,287	304	405	333
Intangible assets	22	1,872	1,871	2,119	2,119
Retentions	18	250	250	-	-
Advances to subsidiaries	25c)	-	1,436	-	496
Total non-current assets		4,409	3,861	2,524	2,948
Total assets		7,964	6,998	6,280	6,488
Equity					
Contributed capital	12	37,927	37,927	33,238	33,238
Accumulated losses		(37,131)	(36,438)	(32,764)	(32,531)
Total equity		796	1,489	474	707
Current liabilities					
Trade and other payables	19	2,504	2,112	1,194	1,096
Prepayments received from subsidiary	19	-	490	-	73
Provisions	15	2,158	2,158	2,696	2,696
Total current liabilities		4,662	4,760	3,890	3,865
Non-current liabilities					
Loan from shareholder	20	1,757	-	-	-
Provisions	15	749	749	1,916	1,916
Total non-current liabilities		2,506	749	1,916	1,916
Total equity and liabilities		7,964	6,998	6,280	6,488

The notes on pages 6 to 28 are an integral part of these financial statements.

For and on behalf of the Board of Directors who authorise these financial statements for issue on 7 November 2013:



Chairman



Director

Statement of Comprehensive Income

For the year ended 30 June

	Note	2013		2012	
		Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Operating revenue	5	146	1,338	1,803	1,793
Cost of sales		272	781	1,365	1,353
Gross profit / (loss)		(126)	557	438	440
Other revenue	5	356	539	237	280
Licensing revenue	5	405	405	937	937
Less:-					
Depreciation	6, 21	(147)	(101)	(172)	(153)
Amortisation of licences and patents	6, 22	(257)	(257)	(258)	(258)
General and administration costs		(1,132)	(1,070)	(1,719)	(1,217)
Interest expense		(179)	-	-	-
Engineering costs		(1,457)	(1,457)	(1,116)	(1,116)
Research and development costs	6	(122)	(122)	(196)	(196)
Marketing costs		(649)	(59)	(559)	(502)
Wind farm development, operations & maintenance		(942)	(725)	(1,691)	(1,691)
Loss from operating activities		(4,250)	(2,290)	(4,099)	(3,476)
Impairment provision	25 c)	-	(1,500)	-	(208)
Finance income	5	8	8	16	16
Loss before income tax		(4,242)	(3,782)	(4,083)	(3,460)
Taxation	9	-	-	-	-
Loss after tax for the year	26	(4,242)	(3,782)	(4,083)	(3,668)
Basic Loss per Share	8	\$(0.21)	\$(0.19)	\$(0.21)	\$(0.21)
Diluted Loss per Share	8	\$(0.11)	\$(0.10)	\$(0.20)	\$(0.18)

Loss after tax for the year is equal to the total comprehensive loss for the year attributable to equity holders of the Company.

The notes on pages 6 to 28 are an integral part of these financial statements.

Statement of Changes in Equity

	Note	Share Capital (\$000's)	Retained Earnings (\$000's)	Total Equity (\$000's)
Group				
Balance at 1 July 2011		31,298	(28,668)	2,630
Total comprehensive loss		-	(4,083)	(4,083)
Adjustment for Windflow UK (Pty) Ltd		-	(13)	(13)
Ordinary Shares Issued	12	1,940	-	1,940
Balance at 30 June 2012		33,238	(32,764)	474
Total comprehensive loss		-	(4,242)	(4,242)
Preferential dividends	10		(125)	(125)
Redeemable Convertible Preference Shares	12	4,512	-	4,512
Issue costs of Preference Shares	12	(173)	-	(173)
Ordinary shares issued	12	350	-	350
Balance at 30 June 2013		37,927	(37,131)	796
Company				
Balance at 1 July 2011		31,298	(28,863)	2,435
Total comprehensive loss		-	(3,668)	(3,668)
Ordinary Shares Issued		1,940	-	1,940
Balance at 30 June 2012		33,238	(32,531)	707
Total comprehensive loss		-	(3,782)	(3,782)
Preferential dividends	10		(125)	(125)
Redeemable Convertible Preference Shares	12	4,512	-	4,512
Issue costs of Preference Shares	12	(173)	-	(173)
Ordinary shares issued	12	350	-	350
Balance at 30 June 2013		37,927	(36,438)	1,489

The notes on pages 6 to 28 are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 30 June

	Note	2013		2012	
		Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Cash flows from operating activities					
Cash receipts from customers					
Consulting fees		7	7	48	48
Sales of turbines and components		-	1,222	2,949	2,949
Licensing revenue		606	606	520	520
Other		(675)	(473)	168	168
Interest received		8	8	16	16
Cash paid to suppliers and employees					
Suppliers		(2,640)	(1,433)	(3,720)	(3,562)
Employees		(1,976)	(1,654)	(2,044)	(1,775)
Other		(1,314)	(421)	(619)	(619)
Net cash used in operating activities	26	(5,984)	(2,138)	(2,682)	(2,255)
Cash flows from investing activities					
Disposal of property plant and equipment		-	-	34	4
Disposal of investment		-	-	48	48
Acquisition of property plant, equipment and capital WIP		(151)	(15)	(144)	(28)
Net cash used in investing activities		(151)	(15)	(62)	24
Cash flows from financing activities					
Issue of redeemable convertible preference shares		4,862	4,862	2,002	2,002
Loan from a shareholder		1,594	-	-	-
Issue costs of equity		(173)	(173)	(62)	(62)
Advance to subsidiary company		-	(2,423)	-	(437)
Net cash from financing activities		6,283	2,266	1,940	1,503
Net increase (decrease) in cash and cash equivalents		148	113	(804)	(728)
Cash and cash equivalents at beginning of year	16	40	35	844	763
Cash and cash equivalents at end of year	16	188	148	40	35

The notes on pages 6 to 28 are an integral part of these financial statements.

Notes to the Financial Statements

1. REPORTING ENTITY

Windflow Technology Ltd (the “Company”, the “Parent” or “Windflow”) is a company incorporated and domiciled in New Zealand. The Company, its subsidiaries and associates comprise the Windflow Technology Group (the “Group”).

The Company is an issuer for the purpose of the Financial Reporting Act 1993. The Financial Statements of the Company and the Group have been prepared in accordance with the Financial Reporting Act 1993 and Companies Act 1993.

The Financial Statements comprise the Consolidated Financial Statements of the Group and the separate Financial Statements of the Company.

These statements were approved by the Board of Directors on 7 November 2013.

The Company is profit oriented and undertakes wind turbine development and manufacture, and operates in New Zealand and the United Kingdom.

2. BASIS OF PREPARATION

a) Functional and presentation currency

Items included in the Financial Statements are measured using the New Zealand Dollar, the currency of the primary economic environment in which the entity operates. The Financial Statements are presented in New Zealand dollars, which is the Group's functional and presentation currency. All values are rounded to the nearest thousand dollars (\$000's).

b) Measurement base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis are followed by the Windflow Technology Group.

c) Statement of compliance

These financial statements of the Parent and Group have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP') and the requirements of the Financial Reporting Act 1993 and the Companies Act 1993. They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards ('FRS') as applicable for profit oriented entities. The Financial Statements comply with International Financial Reporting Standards ('IFRS').

d) Critical judgements in applying accounting policy

In the process of applying the Group's accounting policies, management is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and are reviewed on an on-going basis. The results of these actions form the basis of making the judgements about carrying values of assets and liabilities of the Company and Group. Actual results may differ from these estimates under different assumptions and conditions.

Details of material accounting judgements and assumptions are:

i. Provisions for warranty.

In determining the level of provision required for warranties, the Group has made judgements in respect of the expected performance of products and the cost of rectifying any items that do not meet contractual standards. Historical experience and the determinations of qualified employees have been used by management in determining the appropriate provision required.

ii. Revenue recognition

Operating revenue arising from the completion of a contract is calculated in accordance with the relevant stage of completion. The extent of completion is calculated with reference to the terms of the contract, the costs incurred and management input as to the stage of completion.

iii. Estimation of the useful lives of assets

The estimation of the useful lives of assets, including fixed life intangible assets and property, plant and equipment, has been based on historical experience, manufacturer's warranties, lease terms and managements' judgement on the performance of the asset. Adjustments to useful lives are made when considered necessary.

iv. Impairment of assets

The Group assesses impairment of all assets at each reporting date, by evaluating conditions specific to the group and to the particular assets held. The assessment made includes product and manufacturing performances, technology, economic environments and future product expectations. If an impairment exists the recoverable amount is determined and the asset written down to the recoverable amount.

As at 30 June 2013 Windflow Technology Ltd, the parent Company, had advanced net funds of \$2.7million to its subsidiary, Windflow UK. An impairment provision of \$1.5 million was made at 30 June 2013, reducing the balance outstanding to \$1.2 million. The provision reflects the short-term uncertainty regarding the ability of Windflow UK to repay the loan in full.

v. Preference share capital

The redeemable convertible preference shares that were issued in March 2013 have been accounted for as equity because the Company has discretion to convert these shares to ordinary shares at any time during the five year period to maturity. This feature enables the Company to immediately extinguish any further liabilities, in the form of dividends that accrue on a 10% annual rate of return, associated with this financial instrument therefore this entire instrument has been accounted for as equity.

The Company's Directors sought independent professional advice to confirm that this accounting treatment was appropriate, recognising that the terms of the issue are such that the dividends payable prior to conversion to ordinary shares need to be paid in cash.

e) **Going concern**

These Financial Statements have been prepared on a going concern basis. In using the going concern basis for accounts preparation, the matters considered, and assumptions made, by the Directors in reaching this conclusion are detailed in Note 32.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies that materially affect the measurement of financial performance, financial position and cash flows are set out below. These accounting policies have been applied consistently to all periods presented in these Financial Statements. The accounting policies have been applied consistently by all Group entities.

a) **Basis of Consolidation**

i. **Subsidiaries**

The Group Financial Statements consolidate the Financial Statements of the Parent and all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

ii. **Associates (equity accounted investees)**

Associate companies are companies in which the Group has significant influence, but not control, over the financial and operating policies of the entity so as to obtain benefit from its activities. Associate companies have been reflected in the Consolidated Financial Statements using the equity method, which shows the Group's share of retained surpluses or losses in the Consolidated Statement of Comprehensive Income, and its share of post-acquisition increases or decreases in net assets in the Consolidated Balance Sheet. Where the Group's share of losses exceed its interest in an associate, the carrying amount of the interest is reduced to nil and the recognition of further losses is discontinued except to the extent the Group has an obligation or has made payments on behalf of the investee.

iii. **Transactions eliminated on consolidation**

Intra-group balances, and any unrelated income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) **New Accounting Standards and Interpretations**

NZ IFRS Standards which have been issued but not yet effective and have not been adopted for the Financial Statements ending on 30 June 2013, are as follows:

Reference	Title	Summary	Application date of standard	Impact on Group Financial Statements	Application date for the Group
NZ IFRS 9	Financial Instruments	This standard is part of the IASB's project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i> . The standard applies to financial assets, their classification and measurement. All financial assets are required to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs and subsequently measured at amortised cost or fair value.	1 January 2015	These amendments are expected only to affect the presentation of the Group's Financial Statements and have no material impact on the measurement and recognition of amounts in the Financial Statements.	1 July 2015 onwards
NZ IFRS 10	Consolidated Financial Statements	The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee.	1 January 2013	It is not expected to have a material impact on the company.	1 July 2013 onwards
NZ IFRS 12	Disclosure of Interests in Other Entities	The standard requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows.	1 January 2013	It is not expected to have a material impact on the present structure of the Group.	1 July 2013 onwards
NZ IFRS 13	Fair Value Measurement	The Standard replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs.	1 January 2013	It is not expected to have a material impact on the company	1 July 2013 onwards

c) Revenue Recognition

Operating revenues are recognised by reference to the stage of completion of the sales contract. Contract revenue is matched with contract costs incurred in reaching the relevant stages of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed. Foreseeable losses on a contract are recognised in the Statement of Comprehensive Income immediately.

d) Investment Revenue

Investment revenue from investments and deposits is recognised on an accrual basis using the effective interest method.

e) Foreign Currency Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised as profit or loss within the Statement of Comprehensive Income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

f) Inventories

Inventory of component parts is recognised at lower of cost determined on a first-in first-out basis and net realisable value and includes expenditure incurred in acquiring inventory and bringing it to its existing location and condition. Provision has been made for any obsolete stock on hand and has been recognised within the Statement of Comprehensive Income.

Work in Progress includes the cost of direct materials, components, direct labour and an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

g) Supplier Prepayments

Supplier prepayments comprise deposits paid to suppliers and goods paid for but not on hand at the factory site. Typically such items include gearbox components, tower steel and nacelle claddings.

h) Goods and Services Tax (GST) and UK Value Added Tax (VAT)

The Financial Statements have been prepared on a GST exclusive basis, except that all receivables and payables have been shown GST inclusive to the extent that GST is payable or receivable on the transaction that gave rise to the payable or receivable.

i) Interest Expense

Where interest expense has been directly incurred in the construction of an asset the cost has been recognised to the cost of construction of the asset.

j) Financial Instruments

i. Non-derivative financial instruments

Non-derivative financial instruments are recognised within the Balance Sheet when the Group becomes party to a financial contract. They include cash, bank deposits, receivables, payables and investment in equities.

Recognition and measurement:

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and Cash Equivalents

Cash includes bank balances, demand deposits and other highly liquid investments readily convertible into cash as part of the Group's day-to-day cash management and are subject to an insignificant risk of changes in value.

Trade and Other Receivables

Trade receivables, which generally have terms of 30 to 60 days, are measured at cost, which approximates fair value at each reporting date. Recoverability of trade receivables is reviewed on an on-going basis. Individual debts that are known to be unrecoverable are written off when identified.

Trade and Other Payables

Trade and other payables are carried at amortised cost. Due to their short term nature they are not discounted.

Investments in Equity Securities

Shares in equity securities are designated as available-for-sale financial assets except for investments in equity securities of subsidiaries or associates which are measured at cost in the Financial Statements of the Company and are initially recorded at cost and subsequently revalued to fair value by reference to published price quotations from an active market. Any revaluation surplus or deficit (other than impairment losses) arising on the revaluation of an investment is transferred directly to the asset revaluation reserve. A revaluation deficit in excess of the asset revaluation reserve balance for the asset is recognised as profit or loss within the Statement of Comprehensive Income in the period it arises. When an investment is de-recognised, the cumulative gain or loss in equity is recognised as profit or loss within the Statement of Comprehensive Income.

ii. Derivative financial instruments and hedging

The Group uses derivative financial instruments to hedge its risk associated with foreign currency fluctuations arising from operational, financing and investment activities. Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and subsequently re-measured to their fair value at each reporting date. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as fair value hedges.

Fair Value Hedge

Changes in the fair value of derivatives that do not qualify as a cash flow hedge are recorded in the Statement of Comprehensive Income.

Cash flow Hedge

The effective portion of changes in the fair value of derivatives that are designated as qualifying as cash flow hedges is recognised in equity in the cash flow hedge reserve. Any ineffective portion is designated as a fair value hedge with the gain or loss recognised within the Statement of Comprehensive Income.

If the hedging instrument no longer meeting the criteria for hedge accounting expires, is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The accumulated gain or loss recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit and loss.

k) Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or subsequently enacted at the reporting date, or any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit nor differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is possible that future profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

l) Property, Plant and Equipment

i. Recognition and measurement

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment.

Cost includes expenditure directly attributable to the acquisition or construction of the asset.

When major components of plant and equipment have different useful lives, they are accounted for as separate items of plant and equipment.

ii. Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment at depreciation rates calculated to allocate the asset's cost, less the residual value, over its estimated useful life.

No depreciation is charged on partially constructed assets.

The estimated useful lives for the current and comparative periods are:

Wind turbine and associated assets	20 years
Motor vehicles	5 years
Leasehold improvements	12 years
Office equipment	2 to 12 years
Equipment and tooling	1 to 14 years
Blade moulds	amortised over 50 pairs of blades

iii. Disposals

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is recognised within the Statement of Comprehensive Income.

m) Intangible Assets

Intangible assets that are acquired by the Group are recognised if it is probable that the expected future economic benefits relating to the intangible assets will accrue to the Company and the cost is able to be reliably measured.

Intangible assets including patents, licenses and certifications that are assessed as having a finite life are amortised equally over their useful lives from the time the patent, license or certification is available or registered.

Where estimated useful lives or recoverable values have diminished due to market conditions, amortisation is accelerated or the carrying value is impaired. Where the life of the intangible asset is finite, the value of the asset is amortised over the determined period.

n) Impairments

The carrying values of the Group's assets are reviewed at each reporting date to determine whether there is any objective evidence of impairment. An impairment loss is recognised whenever the carrying amount exceeds its recoverable amount. Impairments that directly affect the carrying value of assets are recognised as losses in the Statement of Comprehensive Income.

The recoverable amount of plant and equipment is the greater 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.

i. **Impairment of receivables**

All significant receivables are individually reviewed by management and impairments or provisions are made if deemed necessary.

ii. **Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the Statement of Comprehensive Income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

The Directors and management have reviewed and have determined that there are no material impairments of non-financial assets at each reporting date that have not been recorded in the Financial Statements.

iii. **Impairment of equity instruments**

Equity instruments are deemed to be impaired whenever there is significant or prolonged decline in fair value below the original purchase price. For this purpose prolonged is regarded as any period longer than nine months and significant as more than 20 percent of the original purchase price of equity instrument.

Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss within the Statement of Comprehensive Income.

o) **Progress Payments**

At the time of ordering turbines, customers are requested to pay a deposit calculated on a percentage of the total contract value. This deposit is systematically released and recognised as revenue over the contract period.

p) **Warranty Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Each turbine commissioned includes warranty cover. The full warranty cover, which extended for five years, was in previous years expensed in the Statement of Comprehensive Income when the turbine was commissioned for a customer. The practice for the turbine commissioned and capitalised in the year to 30 June 2013 will be to recognise these expenses in the year they occur.

As turbines are commissioned, the Company assesses, and makes provision for, the likely expenditure arising from the warranty. Various suppliers will also give warranties to the Company, which may offset the Company's gross cost for any warranty claims, and the amount of such recovery is based on an assessment of the probability that such recovery will eventuate.

At the end of each reporting period, the warranty records of all turbines are reviewed and the adequacy of the amounts provided for the remainder of the warranty period are reassessed. The provision will be increased or decreased depending on turbine history and expected future warranty expenses.

Any costs arising from the warranty during a period are charged to warranty expense and any warranty received from suppliers is credited to warranty monies received.

q) **Retentions**

Retentions represent the final payment of the selling price of the turbines that have been commissioned. These amounts are included in total revenue and are due and payable at specific periods following the commissioning of each turbine.

r) **Research and Development Costs**

Research costs are recognised as incurred in the Statement of Comprehensive Income.

Development costs are capitalised where future economic benefits are expected to exceed those costs, otherwise such costs are recognised in the Statement of Comprehensive Income in the period in which they are incurred. Development expenditure, recognised as an intangible asset, is stated at cost and amortised in the Statement of Comprehensive Income over the period of expected benefits. All other development expenditure is expensed as incurred.

s) **Employee Entitlements**

A liability for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave is recognised in the Balance Sheet when it is probable that settlement will be required and that these costs are capable of being quantified. The liability is equal to the present value of the estimated future cash outflows as a result of employee services provided at each reporting date.

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured as the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

The Group contributes to defined contribution superannuation for employees. The expense is recognised in the Statement of Comprehensive Income when incurred. The Group's legal and constructive liability is limited to these contributions.

An employee share option scheme is offered to employees of the Company (refer Note 14). Employees within the Group are granted share appreciation rights, which can only be settled in cash ("cash settled transactions"). The cost of cash settled transactions is measured initially at fair value at the grant date based on the Black-Scholes-Merton model. This fair value is expensed over the period until the vesting date with the recognition of a corresponding liability. The liability is pre-measured to fair value at each reporting date, up to and including the settlement date, with changes in fair value recognised in employee benefits expense.

t) Reserves

i. Cash flow hedge reserve

A cash flow hedge reserve records gains or losses on forward foreign currency cash flow hedges that are recognised directly in equity.

ii. Employee share entitlement reserve

An employee share entitlement reserve recognises the fair value of shares granted but not vested. Amounts are transferred to share capital when the shares vest to the employee.

u) Loss per share

The Group presents basic and diluted earnings / loss per share (EPS) data for its Ordinary Shares. Basic EPS is calculated by dividing the loss attributable to ordinary shareholders of the Company by the weighted average number of Ordinary Shares outstanding during the period. Diluted EPS is determined by adjusting the loss attributable to ordinary shareholders and the weighted average number of Ordinary Shares outstanding for the effects of all dilutive potential Ordinary Shares.

v) Dividends of preference share capital

Dividends payable on redeemable convertible preference shares issued in March 2013 accrue on a daily basis. Until paid, this liability is reflected as a current liability and directly through the statement of movement in equity, given the determination that this is an equity instrument (see Note 2 d) v)).

w) Reclassifications of liabilities and provisions

i. **Staff annual leave entitlements** have been reclassified to 'Trade and other payables' from 'Provisions', which better represents the nature of the liability.

ii. **Impairment provisions** deducted from investments in subsidiaries have been reclassified to report the recoverable value of the investments in current assets. Previously, the provisions were disclosed separately under current liabilities and the investments at their value before deduction of provisions.

There have been no other reclassifications for the current year or prior reporting period.

4. SEGMENTAL REPORTING

The Group operates in two separately reportable business segments; the Wind Turbines segment and the Licensing segment, which are reviewed by the chief operating decision maker. All other activities are aggregated as 'all other segments'. Transactions between reporting segments are accounted for on the accruals basis.

Wind Turbines Segment: Represents manufacturing, installing, commissioning, operating and maintaining wind turbines. It is an aggregation of the activities in New Zealand and the United Kingdom.

Licensing Segment: Derives revenue from licensing agreements with other manufacturers of wind turbines. In these financial statements all such revenue was from engineering services provided to GD SATCOM Technologies Inc., USA.

All Other Segments: Represents the design and development of the Wind Turbine, general marketing and administration expenses; it includes the parent and subsidiary companies and their general central administration income and expenses that are not applicable to the Licensing Segment nor the Turbine Construction Segment.

a) Business Segmental Analysis

GROUP: For the year ended 30 June 2013

	Wind Turbines	Licensing	All Other Segments	Total
	(\$000's)	(\$000's)	(\$000's)	(\$000's)
Total revenue : Sales to customers	127	405	383	915
Less:- Operating expenses	1,295	-	3,862	5,157
(Loss)/Profit before income tax	(1,168)	405	(3,479)	(4,242)
Assets and Liabilities				
Segment assets	2,762	-	5,202	7,964
Segment liabilities	2,478	-	4,690	7,168
Total equity	284	-	512	796

Business Segmental Analysis

GROUP: For the year ended 30 June 2013

	Wind Turbines (\$000's)	Licensing (\$000's)	All Other Segments (\$000's)	Total (\$000's)
CASH FLOW				
Cash receipts from customers				
Consulting Fees	-	-	7	7
Sales of turbines and components	-	-	-	-
Licensing revenue	-	606	-	606
Other	5	-	-	5
Interest received	-	-	8	8
Cash paid to suppliers and employees				
Suppliers	(1,218)	-	(1,422)	(2,640)
Employees	(323)	-	(1,653)	(1,976)
Other	(899)	-	(1,095)	(1,994)
Net cash used in operating activities	(2,435)	606	(4,155)	(5,984)

GROUP: For the year ended 30 June 2012

	Licensing (\$000's)	All Other Segments (\$000's)	Total (\$000's)
Total revenue : Sales to customers	937	2,056	2,993
Less:- Operating expenses	-	7,076	7,076
Profit/(Loss) before income tax	937	(5,020)	(4,083)
Assets and Liabilities			
Segment assets	-	6,280	6,280
Segment liabilities	-	5,806	5,806
Total equity	-	474	474

CASH FLOW

Cash receipts from customers			
Consulting Fees	-	48	48
Sales of turbines and components	-	2,949	2,949
Licensing revenue	520	-	520
Other	-	168	168
Interest received	-	16	16
Cash paid to suppliers and employees			
Suppliers	-	(3,720)	(3,720)
Employees	-	(2,044)	(2,044)
Other	-	(619)	(619)
Net cash used in operating activities	520	(3,202)	(2,682)

b) Geographic Revenue

Revenue from external customers by geographic locations is detailed below. Revenue is attributed to each geographic location based on the location of the customer. Differences in foreign currency transactions can impact funds received.

For the year ended 30 June 2013

	Turbine Construction (\$000's)	Licensing (\$000's)	Corporate (\$000's)	Total (\$000's)
New Zealand	113	-	153	266
United Kingdom and Europe	-	-	87	87
North America	-	405	-	405
Total revenue	113	405	240	758

Customers representing more than 10% of a segment's Total revenue:

	Turbine Construction (\$000's)	Licensing (\$000's)	Corporate (\$000's)	Total (\$000's)
New Zealand – sale of parts	68	-	-	68
United Kingdom – sale of electricity	-	-	78	78
North America – engineering services	-	405	-	405

For the year ended 30 June 2012

	Licensing (\$000's)	Corporate (\$000's)	Total (\$000's)
New Zealand	-	2,056	2,056
North America	937	-	937
Total revenue	937	2,056	2,993

Customers representing more than 10% of a segment's Total revenue:

	Licensing (\$000's)	Corporate (\$000's)	Total (\$000's)
New Zealand – sale of turbines and parts	-	1,736	1,736
North America – engineering services	937	-	937

c) Non-current Assets by Geographic Location

The non-current segment assets are scheduled by the geographic location where the asset is held.

The non-current assets which include property, plant and equipment, intangible assets and advances for each geographical location is as follows:

Group: For the year ended 30 June 2013

	Turbine Construction (\$000's)	Licensing (\$000's)	Corporate (\$000's)	Total (\$000's)
New Zealand	250	-	2,323	2,573
United Kingdom and Europe	1,765	-	71	1,836
North America	-	-	-	-
Total Non-current Assets	2,015	-	2,394	4,409

Group: For the year ended 30 June 2012

	Licensing (\$000's)	Corporate (\$000's)	Total (\$000's)
New Zealand	-	2,524	2,524
North America	-	-	-
Total Non-current Assets	-	2,524	2,524

Company: For the year ended 30 June 2013

	Turbine Construction (\$000's)	Licensing (\$000's)	Corporate (\$000's)	Total (\$000's)
New Zealand	250	-	3,611	3,861
United Kingdom and Europe	-	-	-	-
North America	-	-	-	-
Total Non-current Assets	250	-	3,611	3,861

Company: For the year ended 30 June 2012

	Licensing (\$000's)	Corporate (\$000's)	Total (\$000's)
New Zealand	-	2,948	2,948
North America	-	-	-
Total Non-current Assets	-	2,948	2,948

5. REVENUE

	2013		2012	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Operating revenue:				
Sale of turbines to customer	-	-	76	76
Sale of turbines to subsidiary	-	1,223	-	-
Sale of electricity generated	78	-	-	-
Maintenance fees	2	2	160	160
Other	3	3	(170)	(180)
Sale of turbine components	63	110	1,737	1,737
	146	1,338	1,803	1,793
Licensing revenue:	405	405	937	937
Other revenue:				
Consultancy fees	-	2	19	19
Fixed asset disposal	-	-	(39)	4
Foreign currency losses	135	135	(45)	(45)
Management Fees from subsidiaries	-	346	-	-
Sale of subsidiary company	-	-	48	48
New Zealand Trade and Enterprise grant	-	-	36	36
Sundry income	221	56	218	218
	356	539	237	280
Interest received	8	8	16	16
Total revenue	915	2,290	2,993	3,026

6. OPERATING EXPENSES

	2013		2012	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Operating expenses include:				
Amortisation of licences and patents	257	257	258	258
Depreciation	147	101	172	153
Research and development	122	122	196	196
Audit fees	38	38	24	24
Directors' fees	143	143	153	148
Rent and leases	236	236	369	263
Write down of investment in subsidiaries and associate company loans	-	1,500	-	208
Loss on sale of fixed assets	-	-	46	3
Employee benefit expense:				
Wages and salaries	2,110	1,654	1,856	1,774
Defined contribution & superannuation	75	66	65	61

7. DIRECTORS' COMPENSATION

	2013		2012	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Salaries and remuneration	312	232	312	232
Directors' fees	143	143	153	148

8. EARNINGS PER SHARE

	2013 Group	2012 Group
Weighted average number of shares on issue	20,159,764	19,722,264
Additional shares if all preference shares converted	18,048,690	-
Additional shares if all staff options converted	1,334,688	761,407
Total potential shares	39,543,142	20,483,671
Loss for the period	\$4.242 million	\$4.083 million
Basic earnings/(loss) per share	\$(0.21)	\$(0.21)
Diluted earnings/(loss) per share	\$(0.11)	\$(0.20)

9. TAXATION

Taxation expense	2013		2012	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Operating deficit	(4,242)	(3,782)	(4,083)	(3,668)
Prima facie taxation expense at 28% (2012:28%)	(1,188)	(1,059)	(1,143)	(1,027)
Add back permanent differences:				
Non-deductible entertainment & legal fees			-	-
Amortisation of intangibles	71	71	71	71
Provision against intercompany investment	-	-	-	-
Provision against intercompany account balance	-	420	-	58
Current year's loss for which no deferred tax benefit is recognised	(1,117)	(568)	(1,072)	(898)
Income tax	-	-	-	-
Deferred tax	2013		2012	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Resident withholding tax (RWT on interest received to be refunded)	-	-	6	4

The deferred tax benefit of the Group as at 30 June 2013 is \$8,929,000 (2012: \$7,812,000) and the Company as at 30 June 2013 is \$7,973,000 (2012: \$7,405,000). This has not been recognised in the financial statements due to the lack of certainty that such benefits will be able to be utilised by the Company.

10. DIVIDENDS

In March 2013 the Company allotted 9,024,345 Redeemable Convertible Preference Shares with a 10% per annum dividend rate and a five year term to maturity. The total capital raised amounted to \$4,512,173. The preferential dividends are cumulative and payable quarterly. The Company declared and accrued preferential dividends of \$125,546 for the period from date of allotment to 30 June 2013 (2012: nil). During the remaining period to maturity from 1 July 2013 to March 2018, cash dividends of \$2,130,540 are scheduled to be paid unless the shares are redeemed or converted (see also Notes 2d)v) and 12).

No ordinary dividend was declared or paid during the year (2012: nil).

11. IMPUTATION CREDIT ACCOUNT

	2013		2012	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Imputation credits available for use in subsequent period	-	-	6	4

12. CONTRIBUTED CAPITAL

	2013		2012	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Balance at beginning of year	33,238	33,238	31,298	31,298
Ordinary shares issued	350	350	1,940	1,940
Redeemable Convertible Preference Shares	4,512	4,512	-	-
Issuing costs of Preference Shares	(173)	(173)	-	-
Balance at end of year	37,927	37,927	33,238	33,238
Number of ordinary shares				
	2013		2012	
	Group	Company	Group	Company
Balance at beginning of year	19,722,264	19,722,264	15,718,264	15,718,264
Placements	875,000	875,000	4,004,000	4,004,000
Balance at end of year	20,597,264	20,597,264	19,722,264	19,722,264

On 7 December 2012, the Company allotted 875,000 ordinary shares at a subscription price of \$0.40 per share, raising \$350,000. All Ordinary Shares have equal voting rights and share equally in dividends and surplus on winding up. The shares have no par value and are all fully paid.

In March the Company allotted Redeemable Convertible Preference Shares; the total capital raised amounted to \$4,512,173 from which was deducted underwriting costs and other costs of raising capital totalling \$172,741. The Redeemable Convertible Preference Shares do not have voting rights except on matters affecting those shares. They bear a 10% per annum preferential dividend which is payable quarterly, and may be redeemed by the Company at their issue price of \$0.50 at any time from 18 months after their allotment dates of 21 and 22 March 2013, until their 5 year maturity date. They may be converted to ordinary shares by either the Company or the holder at any time and will be converted by the Company to ordinary shares if not

redeemed by the 5 year maturity date. If converted by the holder they will convert to ordinary shares at 1:1. If converted by the Company they will convert into two ordinary shares for each preference share.

13. INVENTORY AND WORK IN PROGRESS

	2013		2012	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Inventory on hand	996	945	1,334	1,244
Work in progress	15	-	1	-
Inventory and work in progress	1,011	945	1,335	1,244

Inventory on hand of \$996,000 is net of an obsolescence expense of \$62,247 (2012 \$62,247) and an impairment provision of \$127,406 (2012: nil), reflecting the age of some inventory held by the Parent and by Wind Blades Limited.

14. SHARE OPTION PLANS

a) Employee Share Options

The Company, on 19 December 2002, entered into a cash settled share option plan for the benefit of all employees of the Company who have attained the age of twenty years and who have been employed by the Company for at least one year. The selection of the participants and the number of shares are determined by the Directors. Any offer of an option is at a price equal to the market price at the date of the resolution by the Directors to make an offer.

Movements in share options issued during the year:

	Year of Issue				
	2013	2012	2011	2010	Total
Exercise Price	\$0.20	\$0.50	\$0.86	\$0.93	
Expiry Date	15/07/2017	4/01/2013	20/03/14	20/06/13	
Balance at 30 June 2012	-	530,000	193,560	357,808	1,081,368
Granted during year	1,141,128	-	-	-	1,141,128
Lapsed during the year	-	(530,000)	-	(357,808)	(887,808)
Balance at 30 June 2013	1,141,128	-	193,560	-	1,334,688

Share Options Outstanding

The weighted average remaining contractual life for the share options outstanding at 30 June 2013 is 42 months (2012: 14 months). The exercise prices for option outstanding at the end of the year were \$0.20 or \$0.86 (2012: \$0.50 or \$0.93). The weighted average fair value of options granted in the year was \$0.31 (2012: \$0.50).

No cash settled awards vested during the year to 30 June 2013 (2012: nil). In determining fair value, weighted average volatility was assessed at 55% based on experience over the previous 12 month period, a nil dividend expectation was assumed and the 5.15% risk free interest rate was assumed based on the 10 year NZ Government Bond Yield.

b) Royalty Share Options

The Company, on the 22 January 2002, entered into an agreement wherein a royalty was payable to Mr Henderson for each wind turbine sold or retained by the company (other than any turbines retained as demonstration turbines). The amount of the royalty is currently \$5,000 per turbine plus 10,000 share options of \$1.00 each. The total number of options able to be issued is limited so that if exercised they do not represent more than either 1,000,000 shares in Windflow Technology Ltd or more than 20% of the issued share capital of Windflow Technology Ltd.

Each option to purchase shares shall expire 7 months after the end of the calendar quarter. The option price is \$1.00, or if a market price for Windflow Technology Ltd shares has been established at a level which raises concerns for the Directors that the option price is not fair and reasonable to existing shareholders, the option price will be determined as the average market price in the last month of the quarter less one third.

There were no royalty options issued or outstanding or exercised during the year (2012: nil).

15. PROVISIONS

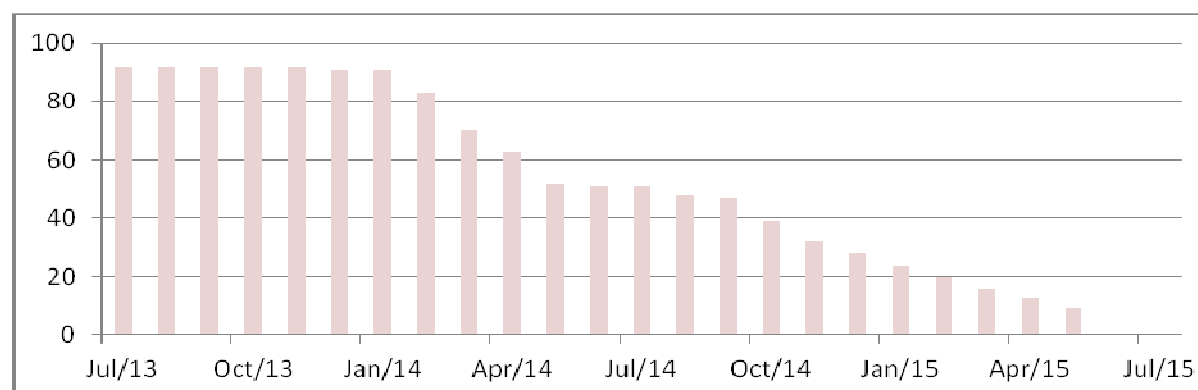
Provision for warranties:

	2013		2012	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Balance at beginning of year	4,612	4,612	5,386	5,386
Amounts added to warranty provision	273	273	1,211	1,211
Amount released from warranty provision	(1,977)	(1,977)	(1,985)	(1,985)
Increase in discounted amount	(1)	(1)	-	-
Balance at end of year	2,907	2,907	4,612	4,612
Expected to be utilised within one year	2,158	2,158	2,696	2,696
Provision for remainder of warranty period	749	749	1,916	1,916
Balance at end of year	2,907	2,907	4,612	4,612

Warranty provisions are an estimate of the future costs to fulfil the obligations the Company has in respect of product warranty for turbines sold. The actual liability could be higher or lower than the warranty provision.

These warranties extend for 5 years from the date of commissioning, plus such recurring 2 year time periods as are required for a warranty repair to last for 2 years following the date of that repair. The number of turbines under warranty as at 30 June 2013 was 92, falling to nil by June 2015.

The following graph illustrates the number of turbines under warranty; all are at the Te Rere Hau wind farm.



The Company has provided \$1.33 million in respect of possible future failures of specific components for the period to July 2015, where there has historically been a higher than expected failure rate. The majority of the provision relates to possible future pitch bearing, sprag clutch and gearbox failures.

In addition, an estimated 'general provision' totalling \$1.23 million has been provided against the general costs anticipated from a turbine through the warranty period to July 2015.

During the 2010 financial year, the Company and NZ Windfarms Ltd ("NZ Windfarms") reached agreement on a monitoring programme with respect to some components in the early turbines at Te Rere Hau which were subsequently modified as part of the Company's International Electrotechnical Commission Certification (IEC) process because they did not meet IEC requirements for a 20 year life. Under this agreement, NZ Windfarms is entitled to retain a sum of \$417,000 (being the estimated total maximum upgrade cost left from that of \$966,200 calculated in 2010) from the proceeds of the retentions (refer to Note 18). This sum will be released to the Company if and when the Company discharges certain obligations during the 5 year warranty period, outlined as follows. Upgrade works may be undertaken or, if a report from an independent consultant provides an opinion that the affected components are expected to achieve a 20 year life and accordingly do not need to be upgraded. In the absence of such a report, the Company will provide a 20 year warranty against defects for those particular components. The Company has provided \$350,484 against the expected cost of these obligations.

The Company has provided several other warranties to NZ Windfarms under the sale and purchase agreement for the turbines. These warranties apply to turbines for 5 years from their commissioning date.

- a) The Company has provided a Sound Level Warranty in respect of two matters:
 - i) A turbine must operate within its Resource Consent for 5 years from the commissioning date. The consequence of failure to comply with this warranty is that the turbine may be required to be shut down which in turn would affect the availability warranty referred to later in this note.
 - ii) The turbine must achieve a sound power level less than 104 dBA. The consequence of non compliance with this warranty is that such failure is deemed a defect under the General Warranty against Defects requiring remediation.

NZ Windfarms has been involved in an Environment Court hearing and High Court appeal with respect to certain declarations sought by the Palmerston North City Council relating to sound emissions from their wind farm. The High Court judgement of 20 June 2013 found in favour of NZ Windfarms that the Te Rere Hau wind farm complies with the specific noise conditions of its consent.

Palmerston North City Council has been granted leave to appeal the High Court decision. NZ Windfarms has stated its intention to contest the appeal.

No provision is considered necessary for this warranty as the turbines are believed to be well within the specific sound level conditions of the consent.

- b) The Company has provided a turbine availability warranty wherein the turbine availability across the wind farm must be greater than 95% for the year. The penalty for non-compliance is a make-good calculation for the lost revenue up to the 95% availability. To date, the availability percentage for the wind farm is comfortably above the 95% level. No provision is considered necessary in respect of this item.
- c) The Company has provided a warranty to NZ Windfarms for power curve performance of 95%. The realisation of any claim under this warranty crystallises as the turbines exit their 5 year warranty period in July 2015. NZ Windfarms has expressed its intent to seek unspecified compensation under this warranty. The Company disputes any liability. Accordingly at this point no provision has been made relating to this warranty (see also Note 29).

The provision is based on estimates made by the engineering staff of the Company from historical warranty data. In determining these estimates, the Company has undertaken rigorous analysis of all material warranty issues, including a probabilistic assessment of the likely recovery from suppliers.

16. CASH ON HAND AND AT BANK

	2013		2012	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Trading accounts balances	155	115	19	14
Deposits held as security	33	33	21	21
Balance at end of year	188	148	40	35

The Company had \$15,000, \$6,000 and \$12,400 deposited as security with financial institutions as at 30 June 2013. These served as security in respect of the NZAX, for the company credit cards and security for a forward exchange contract in place at 30 June 2013. The Company earned interest on two of the three deposits at a rate between 3.5% - 4.4% depending on the term the funds are deposited. The Company had the same deposits of \$15,000 and \$6,000 as at 30 June 2012.

17. TRADE AND OTHER RECEIVABLES

	2013		2012	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Trade and other receivables	1,589	1,723	1,031	1,029
Accrued income not invoiced	199	126	126	126
Prepayments	216	18	124	8

In 2013 no allowance for doubtful debts was made, balances past due at balance date amount to \$1.0 million, (2012: \$0.6 million). (See note 24 b) i)). The Group has no receivables due from related parties. The Company trade receivables include \$130,000 due from a subsidiary (2012 nil).

The Company had accrued operations and maintenance fee income of \$126,000 that was part of an amount of \$366,000 plus GST that was the subject of arbitration (see Note 31a). The Group's additional \$73,000 of accrued income is for electricity generated in the United Kingdom.

18. RETENTIONS

Retentions represent contractual amounts withheld by the customer as a surety against the operational performance of the wind turbines. Retentions are payable by the customer in the 12 months following commissioning.

	2013		2012	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Within one year	167	167	1,037	1,037
Between one and two years	250	250	-	-
Total	417	417	1,037	1,037

As referred to in Note 15, the payment of all or part of the \$417,000 (being a portion of the total retentions) (2012: \$1,037,000) is contingent on the Company discharging its obligations to NZ Windfarms. \$620,000 was released during the year and reported as trade receivables as at 30 June 2013. The Company has provided \$405,000 against the expected cost of these obligations.

19. TRADE AND OTHER PAYABLES

	2013		2012	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Trade payables	2,092	1,860	807	802
Staff annual leave entitlements	131	131	164	164
Sundry creditors and accruals	281	121	223	130
	2,504	2,112	1,194	1,096
Related party payables:				
Subsidiaries	-	490	-	73
Balance at end of year	2,504	2,602	1,194	1,169

The Directors consider the carrying amounts recognised in the balance sheet to be a reasonable approximation of their fair value.

20. SHAREHOLDER LOAN

In July 2012, a construction financing agreement (Shareholder Loan Facility) was reached with a shareholder, David Iles, wherein the Company, together with its wholly owned subsidiaries Windflow UK Limited (WUK) and Windflow Hammer Limited (WHL), will undertake up to 3 wind turbine projects in Scotland (the "Projects").

The Shareholder Loan Facility provides for advances up to £3,380,000 (NZ\$6,650,000 as at 30 June 2013 exchange rate) to WUK to fund the Projects, provided certain conditions set out in the loan documents are satisfied. The Company and WHL are covenantors and guarantors of WUK's obligations.

As at 30 June 2013 the aggregate liability under these loans was \$1,757,010, with a security over the 'wind turbine' fixed asset (\$1,793,000 see Note 21) and capital work in progress (\$117,000 see Note 21). At the date of signing these financial statements the aggregate liability under these secured loans had increased to \$4.0 million and the turbine asset and capital work in progress \$2.8 million.

The loan facilities incorporate the following documents:

- i. Term Loan Agreement wherein interest will accrue on the amounts advanced to WUK from the date of draw down at a rate of 20% per annum compounding daily, equivalent to an annual percentage rate of 22.134% per annum. Repayments under the Term Loan Agreement are scheduled to commence on the date that is 3 years from the date of each loan agreement. No repayments are required before August 2015.
- ii. General Security Agreement (in respect of parts and assemblies of the turbines owned by the Company).
- iii. Guarantee and Indemnity wherein the Company and WHL jointly and severally guarantee WUK's obligations to the lender under the Term Loan Agreement.
- iv. Debenture over the assets of WUK granting a general and floating charge over all the assets and undertakings of WUK securing its obligations under the loan (English law).
- v. Debenture over the assets of WHL granting a general and floating charge over the assets and undertakings of WHL, securing WHL's obligations as guarantor of WUK's obligations under the loan (English law).
- vi. Floating Charge over assets of WHL granting a general and floating charge over project equipment owned by WUK and the Company securing WUK's obligations under the loan (as the borrower under the Term Loan Agreement) and the Company's obligations as guarantor of WUK's obligations to the lender (Scottish Law).

21. FIXED ASSETS

PROPERTY, PLANT & EQUIPMENT

COMPANY – (\$000's)

	<i>Office Equipment</i>	<i>Plant & Equipment</i>	<i>Leasehold Improvements</i>	<i>Motor Vehicles</i>	<i>Components</i>	<i>Assets under Construction</i>	<i>Total</i>
Cost							
Balance at 30 June	474	1,111	144	189	980	1	2,899
Additions	2	-	-	26	-	5	33
Disposals	(37)	(60)	-	(146)	-	-	(243)
Balance at 30 June	439	1,051	144	69	980	6	2,689
Additions	17	55	-	-	-	-	72
Disposals	-	-	-	-	-	-	-
Balance at 30 June	456	1,106	144	69	980	6	2,761
Depreciation and impairment losses							
Balance at 30 June	417	817	32	89	978	-	2,333
Depreciation for Year	27	96	12	17	1	-	153
Disposals	(34)	(25)	-	(71)	-	-	(130)
Balance at 30 June	410	888	44	35	979	-	2,356
Depreciation for Year	18	58	12	13	-	-	101
Disposals	-	-	-	-	-	-	-
Balance at 30 June	428	946	56	48	979	-	2,457
Carrying amounts							
At 30 June 2011	57	294	112	100	2	1	566
At 30 June 2012	29	163	100	34	1	6	333
At 30 June 2013	28	160	88	21	1	6	304

21. FIXED ASSETS (CONT'D)

PROPERTY, PLANT & EQUIPMENT

GROUP – (\$000's)

	<i>Office Equipment</i>	<i>Plant & Equipment</i>	<i>Wind Turbine & Components</i>	<i>Leasehold Improvements</i>	<i>Motor Vehicles</i>	<i>Assets under Construction</i>	<i>Total</i>
Cost							
Balance at 30 June 2011	474	1,369	980	186	189	1	3,199
Additions	10	-	-	-	26	5	41
Disposals	(37)	(127)	-	(42)	(146)	-	(352)
Balance at 30 June 2012	447	1,242	980	144	69	6	2,888
Additions	19	90	1,793	-	10	117	2,029
Disposals	-	-	-	-	-	-	-
Balance at 30 June 2013	466	1,332	2,773	144	79	123	4,917
Depreciation and impairment							
Balance at 30 June 2011	418	935	978	48	89	-	2,468
Depreciation for Year	37	106	1	12	17	-	173
Disposals	(37)	(34)	-	(16)	(71)	-	(158)
Balance at 30 June 2012	418	1,007	979	44	35	-	2,483
Depreciation for Year	18	76	28	12	13	-	147
Disposals	-	-	-	-	-	-	-
Balance at 30 June 2013	436	1,083	1,007	56	48	-	2,630
Carrying amounts							
At 30 June 2011	56	434	2	138	100	1	731
At 30 June 2012	29	235	1	100	34	6	405
At 30 June 2013	30	249	1,766	88	31	123	2,287

Impairment

During the financial year the property, plant and equipment of the Group and Company have been examined for impairment. No indicators of impairment have been identified and no material items of property, plant and equipment are considered to be impaired.

22. INTANGIBLE ASSETS

	Group (\$'000's)			Company (\$'000's)		
	Licences and Patents	IEC Certification Costs	Total	Licences and Patents	IEC Certification Costs	Total
Cost						
Balance 30 June 2011	859	2,563	3,422	859	2,563	3,422
Additions	-	-	-	-	-	-
Balance 30 June 2012	859	2,563	3,422	859	2,563	3,422
Additions	9	-	9	9	-	9
Balance 30 June 2013	868	2,563	3,431	868	2,563	3,431
Amortisation and impairment losses						
Balance 30 June 2011	853	192	1,045	853	192	1,045
Amortisation for the year	2	256	258	2	256	258
Balance 30 June 2012	855	448	1,303	855	448	1,303
Amortisation for the year	1	256	257	1	256	257
Balance 30 June 2013	856	704	1,560	856	704	1,560
Carrying amounts						
At 30 June 2011	6	2,371	2,377	6	2,371	2,377
At 30 June 2012	4	2,115	2,119	4	2,115	2,119
At 30 June 2013	12	1,859	1,871	12	1,859	1,871

a) Patents

Low Noise Gearing Patent No. 538381 dated 10 July 2008 was procured for \$7,348 and terminates on 5 February 2017. This cost is amortised over the remaining period of the patent. Management has assessed the value of this patent in respect of prospective sales and licensing opportunities and are satisfied that the carrying value of this item is not impaired.

b) International Electrotechnical Commission (IEC) Certification

These costs generated both internally and externally, represent the costs incurred by the Company in obtaining IEC Certification on 17 September 2010, which expires on 16 September 2015. The IEC certification only applies to the Class 1A, 2 bladed, 500KW turbine, under IEC standard 61400:1 2005. The total cost of certification is amortised over a 10 year period, being the term over which the Company anticipates being able to use this asset limited by the likely term of the legal right. Accordingly, the Company envisages renewing its Class 1A IEC Certification for a further 5 year period. The Board has assessed the value of this certification in respect of prospective export sales and licensing opportunities and are satisfied that the carrying value of this item is not impaired at 30 June 2013 (2012 nil impairment).

23. SUBSIDIARY AND ASSOCIATED COMPANIES

a) Subsidiaries within the Group comprise:

	Nature of business	Interest percentage	
		2013	2012
Wind Blades Ltd	Construction of blades for Wind turbines	100	100
Windflow International Ltd	Non trading	100	100
Windflow UK Ltd	Trading	100	100
Windflow Hammer Ltd	Trading	100	100
Hammer Westray LLP	Trading	100	100
Our Wind Ltd	Trading	100	100

All assets and liabilities of Wind Blades Limited are being transferred to Windflow Technology Limited effective 1 November 2013. Wind Blades Limited will be a non-trading company from 1 November 2013.

b) Associated companies within the Group comprise:

	Nature of business	Interest percentage	
		2013	2012
Windpower Otago Ltd	Non trading	20	20

24. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, foreign currency and interest rate risk arise in the normal course of the Group's business.

a) Policy disclosure

i) Credit risk

To the extent that the Group has a receivable from another party, there is a credit risk in the event of non-performance by that counter party. Financial instruments, which potentially subject the Group to credit risk, principally consist of bank balances, receivables, and term deposits.

The Group monitors the credit quality of its investments and manages its exposure to credit risk. The ability of the Group to limit its credit risk is constrained by having only four major customers (2012: 2).

ii) Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an on-going basis. The Group is undertaking certain strategies to meet its medium term business plan (refer Note 32).

iii) Foreign Exchange Risk

The Company has exposure to foreign exchange risk as a result of transactions, in particular purchases of raw materials and components, denominated in Australian Dollars, Euro and UK Pounds, and revenues in US Dollars and UK Pounds. The Company has an approved treasury policy that sets out the parameters under which foreign exchange cover is to be taken.

iv) Interest Rate Risk

The Group has exposure to interest rate risk to the extent that it invests for a fixed term at fixed rates. The Group endeavours to deposit funds at the best available rate, for the selected term, at a range of registered banks. At each reporting date, there were no term deposits held for periods greater than 90 days. The Group has an interest bearing debt as detailed in Note 20.

b) Quantitative disclosures

i) Credit risk

The carrying amount of financial assets in the balance sheet represents the Group's maximum credit exposure.

The Group does not have any significant concentrations of non-customer credit risk apart from advances to associated companies as disclosed in the balance sheet and its deposits with New Zealand registered banks as disclosed in Note 16. Funds are held at registered banks with a Standard and Poor's credit rating of not less than AA.

There is a credit risk arising in that the Group has only 4 customers. The risk arising from this is closely managed. No collateral is held, nor any credit enhancement, for this risk, other than the ability to offset amounts receivable from one customer against warranty payments due to that company. The Directors are satisfied with the management of this exposure. At this stage in the development of the Company it has not been possible to diversify this credit risk.

The status of trade receivables at each reporting date was as follows:

	2013		2012	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Not past due	568	568	467	467
Past due 31-60 days	249	287	217	217
Past due 61-90 days	2	2	57	55
Past due 91-120 days	2	2	290	290
Past due 121 days	768	864	-	-
Balance at end of the period	1,589	1,723	1,031	1,029

The Group envisages all aged debtors of \$1,330,011 being fully offset against "Trade Payables" owed to the same company. Accordingly, neither the Group nor the Company has provided for the impairment of any receivable.

The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due or avoid a possible past due status.

ii) Liquidity risk

The Company had no borrowings at 30 June 2013 or at 30 June 2012. The Group had secured borrowings of \$1,757,010 as at 30 June 2013 (2012 \$nil), see Note 20. Other financial liabilities are comprised of the short terms payables disclosed in Note 19.

The Group monitors its future cash requirements through rolling cash flow forecasts.

Liquidity risk maturity analysis

Group				
30 June 2013	Carrying amount	Less than 12 months	1 - 2 years	2 - 5 years
Non derivative financial liabilities				
Trade and other payables	2,504	2,504	-	-
Shareholder loan	1,757	-	-	1,757
Derivative financial liabilities				
FX exchange contracts for hedging	-	-	-	-
Parent				
30 June 2013	Carrying amount	Less than 12 months	1 - 2 years	2 - 5 years
Non derivative financial liabilities				
Trade and other payables	2,112	2,112	-	-
Shareholder loan	-	-	-	-
Derivative financial liabilities				
FX exchange contracts for hedging	-	-	-	-
Group				
30 June 2012	Carrying amount	Less than 12 months	1 - 2 years	2 - 5 years
Non derivative financial liabilities				
Trade and other payables	1,194	1,194	-	-
Shareholder loan	-	-	-	-
Derivative financial liabilities				
FX exchange contracts for hedging	-	-	-	-
Parent				
30 June 2012	Carrying amount	Less than 12 months	1 - 2 years	2 - 5 years
Non derivative financial liabilities				
Trade and other payables	1,169	1,169	-	-
Shareholder loan	-	-	-	-
Derivative financial liabilities				
FX exchange contracts for hedging	-	-	-	-

iii) *Foreign Exchange Risk*

At the reporting date, the Group and Company had exposure to foreign currency risk through the operations, assets and liabilities of its UK subsidiaries. The Company takes out forward cover contracts for major transactions in foreign currencies. At 30 June 2013 the Company had one fully hedged forward exchange contract for the receipt of US\$200,000 that matured on 9 July 2013.

Underlying exposure

A 5% weakening of the NZD against the British Pound (GBP) at 30 June 2013 would have increased (decreased) equity and profit or loss by the amounts shown below:

Currency	2013		2012	
	Group (\$000's)		Group (\$000's)	
	Equity	P&L	Equity	P&L
GBP	78	78	-	-

A 5% strengthening of the NZD against GBP at 30 June 2013 would have had the opposite effect.

iv) *Interest rate risk*

At the reporting date, the Group has financial liabilities, but no exposure to interest rate derivatives. All cash and term deposits held by the Group and Company are short term. The Group is not exposed to any variable interest rate risks as all interest-bearing liability instruments have specified fixed interest rates (see Note 20).

c) **Capital Management**

When managing capital (contributed capital and accumulated losses (see Statement of Changes in Equity)), the Directors' objective is to ensure the Group continues as a going concern, as well as maintaining optimal returns for shareholders and benefits for other stakeholders.

The Group's capital is managed at Company level. The Group's capital structure is managed to ensure that the funds sourced from shareholders and external debt is maintained at a level which minimises the credit or liquidity risk to the Group. Adjustments are made, with Board approval, to the structure in light of economic conditions at the time. There were no changes to objectives, policies or processes during the current financial year.

The Company is listed on the NZ Stock Exchange, requiring continuous disclosure obligations and obligations to inform the shareholders and the market of any matters which affect the capital of the Company. This includes changes to the capital structure, new share issues, dividend payments and any other significant matters which could affect the credit-worthiness or liquidity of the Group.

The Group is not currently, and was not subject to any external capital requirements in either reporting period.

d) **Fair Value**

The carrying amounts of the financial instruments in the Group and Company balance sheet are the same as their fair value in all material aspects.

e) **Classification and fair values**

The Group's fair values of the following Financial Instruments are compared to their carrying value shown in the balance sheet:

Group: as at 30 June 2013

	Note	Held to maturity	Loans and receivables (\$000)	Other amortised cost (\$000)	Total carrying amount (\$000)	Fair value (\$000)
Assets						
Cash and cash equivalents	16	-	188	-	188	188
Retentions	18	-	167	-	167	167
Trade and other receivables	17	-	1,589	-	1,589	1,589
Total current assets		-	1,944	-	1,944	1,944
Non-current assets - retentions		-	250	-	250	250
Total assets		-	2,194	-	2,194	2,194
Current Liabilities						
Trade and other payables	19	-	-	2,504	2,504	2,504
Total current liabilities		-	-	2,504	2,504	2,504
Non-current Liabilities	20			1,757	1,757	1,757
Total liabilities		-	-	4,261	4,261	4,261

Group: as at 30 June 2012

	Note	Held to maturity	Loans and receivables (\$000)	Other amortised cost (\$000)	Total carrying amount (\$000)	Fair value (\$000)
Assets						
Cash and cash equivalents	16	-	40	-	40	40
Retentions	18	-	1,036	-	1,036	1,036
Trade and other receivables	17	-	1,031	-	1,031	1,031
Total current assets		-	2,107	-	2,107	2,107
Total assets		-	2,107	-	2,107	2,107
Liabilities						
Trade and other payables	19	-	-	1,194	1,194	1,194
Total current liabilities		-	-	1,194	1,194	1,194
Non-current Liabilities	20	-	-	-	-	-
Total liabilities		-	-	1,194	1,194	1,194

Company: as at 30 June 2013

	Note	Held to maturity	Loans and receivables (\$000)	Other amortised cost (\$000)	Total carrying amount (\$000)	Fair value (\$000)
Assets						
Cash and cash equivalents	16	-	148	-	148	148
Retentions	18	-	167	-	167	167
Trade and other receivables	17	-	1,723	-	1,723	1,723
Total current assets		-	2,038	-	2,038	2,038
Non-current assets – retentions		-	250	-	250	250
Advances to subsidiaries		-	1,436	-	1,436	1,436
Total assets		-	3,724	-	3,724	3,724
Current Liabilities						
Trade and other payables	19	-	-	2,112	2,112	2,112
Total current liabilities		-	-	2,112	2,112	2,112
Non-current Liabilities	20	-	-	-	-	-
Total liabilities		-	-	2,112	2,112	2,112

Company: as at 30 June 2012

	Note	Held to maturity	Loans and receivables (\$000)	Other amortised cost (\$000)	Total carrying amount (\$000)	Fair value (\$000)
Assets						
Cash and cash equivalents	16	-	35	-	35	35
Retentions	18	-	1,036	-	1,036	1,036
Trade and other receivables	17	-	1,029	-	1,029	1,029
Total current assets		-	2,100	-	2,100	2,100
Total assets		-	2,100	-	2,100	2,100
Liabilities						
Trade and other payables	19	-	-	1,169	1,169	1,169
Total current liabilities		-	-	1,169	1,169	1,169
Non-current Liabilities	20	-	-	-	-	-
Total liabilities		-	-	1,169	1,169	1,169

25. RELATED PARTY DISCLOSURES

a) Transactions with key management personnel:

Key management personnel are classified as any persons, including the Directors, who have the authority and responsibility for planning, directing and controlling the activities of the Group.

i) Loans to Directors

There were no loans to Directors issued during the period to 30 June 2013 (2012: nil).

ii) Key management personnel compensation

Other than their salaries and incentives, there were no other cash benefits to Directors or executive officers.

b) Payments to directors

Mr G. Henderson provided the Company with various bridging finance prior to the capital raising of March 2013. This bridging finance was repaid in March 2013 after the capital raising. The Company paid an interest charge of \$7,043 for these loans. The duration of the loan period was 139 days.

Other transactions with key management personnel

Person	Transaction	Note	Transaction value		Balance outstanding ⁽²⁾	
			2013	2012	2013	2012
M Chick, Chairman	Nil		-	-	-	-
H Kelly, Director	Management services	(1)	\$1,226	\$9,000	-	-
A Napier, Director	Management services	(2)	\$4,000	-	\$4,000	-
K McConnell, Past Director	Management services	(1)	\$4,841	\$45,189	-	\$3,640
S Young, Past Director	Management services	(1)	-	\$4,350	-	-
G Henderson, Director, CEO	Employee remuneration		\$200,000	\$200,000	-	-

Notes:

(1) Transactions during the period relate to management services provided on market terms and conditions.

(2) Balances outstanding at 30 June 2013 relate to director related expenses unpaid.

c) Transactions with parent company

Company	Transaction	Note	Transaction value		Balance outstanding	
			2013 (\$000's)	2012 (\$000's)	2013 (\$000's)	2012 (\$000's)
Wind Blades Ltd	Loan	(2)	3	-	76	73
Windflow UK Ltd	Loan	(1)	2,744	422	1,244	422
Windflow Hammer Ltd	Loan		115	-	115	-
Our Wind Limited	Loan	(3)	-	-	1	1
Total			2,862	422	1,436	496
Hammer Westray LLP			-	-	-	-
Wind Power Otago Limited		(4)	-	-	-	-
Windflow UK Ltd	Trade receivables		130	-	130	-

Notes:

(1) Windflow Technology Ltd has advanced funds to that company to assist with initial set up costs and to fund turbine sales, development projects, parts and operating costs. The advance is interest bearing and repayable upon demand. An impairment provision of \$1,500,000 was made at 30 June 2013, reducing the transaction value to the balance outstanding at that date. The provision reflects the short-term uncertainty regarding the ability of Windflow UK to repay the loan in full.

(2) The advance is interest free and repayable upon demand. The balance outstanding is after deducting an impairment provision of \$708,000. Wind Blades Ltd. will be amalgamated into Windflow Technology Ltd on 31 December 2013.

(3) The carrying value is after deduction of a provision of \$166,736.

(4) A provision of \$26,052 has been made against the Company's investment in Wind Power Otago Limited.

Windflow Technology Ltd earns income from selling turbines, spare parts and tools to Windflow UK, charging management fees to Windflow UK and Windflow Hammer Limited and charging interest on funds advanced. Windflow UK earns income by selling turbines to third parties and to Windflow Hammer Limited, the Group's developer of turbine 'projects'. Hammer Westray LLP is a Group entity that owns the commissioned wind turbine 'project' on the Isle of Westray in the Orkney Islands. As included in Note 5, revenues from Group companies amounted to \$1.569 million (2012 nil).

Transactions between associate parties are on normal commercial terms and conditions. There are no guarantees given or received apart from the normal warranty terms that are in force in a normal commercial contract.

d) Key management personnel compensation

	2013		2012	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Short term employee benefits	548	468	541	461

e) Transactions with a shareholder

The shareholder providing a loan facility is the Company's largest shareholder and a related party (see Note 20). The same shareholder contributed \$350,000 of ordinary share capital during the year (see Note 12) and purchased \$3.3m of redeemable convertible preference shares (see Note 12).

26. RECONCILIATION OF REPORTED DEFICIT WITH CASH FLOWS FROM OPERATING ACTIVITIES

	2013		2012	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Net Deficit	(4,242)	(3,782)	(4,083)	(3,668)
Less Non-cash items:				
Amortisation of licences & patents	257	257	258	258
Depreciation	149	101	173	153
Loss on sale of fixed asset	-	-	46	2
Impairment provision	-	1,500	-	-
Other	275	-	11	-
	681	1,858	488	413
Cash flow from operations before working capital changes	(3,561)	(1,924)	(3,595)	(3,255)
Movements in working capital:				
Movement in accounts payable excluding asset purchases	1,310	943	46	160
Increase in progress payments held	-	490	-	-
Movement in holiday pay	(33)	(33)	(138)	(138)
Decrease in accruals	53	(4)	(9)	(3)
Movement in provisions	(1,705)	(1,705)	(763)	(562)
(Increase)/Decrease in other assets	(2,011)	(45)	37	39
Movement in maintenance accrual	-	-	258	258
Movement in accounts receivable & interest accrued	(723)	(694)	(404)	(639)
Decrease in stock & WIP	324	299	514	507
Movement in prepayments	(10)	(10)	48	48
Movement in retentions	618	618	1,320	1,320
Movement in GST	(121)	52	4	10
Preferential dividends payable	(125)	(125)	-	-
Net cash flows from operating activities	(5,984)	(2,138)	(2,682)	(2,255)

27. OPERATING LEASES

Leases held are non-cancellable operating leases which are payable as follows:

	2013		2012	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Within one year	52	52	208	208
Between one and two years	-	-	52	52

The 2013 operating lease relates to the leasing of warehouse space and office premises. As at 30 June 2012, they also related to motor vehicles and a fork lift. All leases are reviewed on a regular basis. In September 2013 the Company became a sub-tenant of its warehouse space and office premises, which are at the same location.

28. SEASONALITY OF INTERIM OPERATIONS

The operations are not subject to seasonal fluctuations but are subject to the effects of the timely completion of orders.

29. CONTINGENT LIABILITIES

- Sound Level performance:** As disclosed in Note 15, the Company has provided a Sound Level warranty in respect of the turbines.
- Power curve:** As discussed in Note 15, the Company has provided NZ Windfarms with a warranty for power curve performance of 95% which crystallises as the turbines exit their 5 year warranty period in July 2015. The calculation of the power curve performance contains several adjustments, some of which remain to be agreed with NZ Windfarms. A programme has been in place to finalise the adjustments and to seek NZ Windfarms' agreement. NZ Windfarms has expressed its intent to seek unspecified compensation under this warranty. The Company disputes any liability. Accordingly, no provision has been made in these Financial Statements.
- Leading edge tape:** Leading edge tape on turbine blades is a wearing item and the question has arisen at Te Rere Hau (NZ Windfarms) as to what is an acceptable wear rate. Agreement in principle has been reached. The cost to the Company is not known at the time of authorising these financial statements for issue but is not expected to be significant.

30. CAPITAL COMMITMENTS

The Group had capital commitments amounting to \$330,000 as at 30 June 2013 (2012:\$45,000).

31. SIGNIFICANT EVENTS AFTER THE REPORTING DATE

- a) **Arbitration:** The Company provided NZ Windfarms with notice of Arbitration in August 2012, in respect of part period maintenance due from NZ Windfarms to the Company amounting to \$366,000 plus GST. The \$366,000 of income has been included in the Company and Group current assets as at 30 June 2013.

On 25 September 2013 the arbitrator found in favour of Windflow, thereby resolving the dispute.

- b) **GD SATCOM Warranty Insurance:** In September 2012, the Company entered into a Memorandum of Understanding with General Dynamics SATCOM Technologies Inc (GD SATCOM) wherein GD SATCOM agreed to provide financial support for the Company's sales into the United Kingdom market. The form of this support includes:
- the provision of warranty insurance to the owners of commissioned turbines
 - the provision of performance assurance to buyers of turbines covering the period from time of order until 6 months after commissioning.

In July 2013 Windflow and GD SATCOM entered into a formal warranty insurance agreement, pursuant to which GD SATCOM has in August 2013 issued the first warranty insurance certificate for a single turbine project in the Orkneys. The Company has granted GD SATCOM rights to use certain intangible assets and intellectual property in the event that the Company ceases to trade, to enable GD SATCOM to step in to meet their commitments to the end customer pursuant to the above support arrangements.

- c) **Sub-lease of premises:** in September 2013 the Company became a sub-tenant of its warehouse space and office premises, which are at the same location.

32. GOING CONCERN ASSUMPTION

These Financial Statements have been prepared using the going concern assumption. There is a significant element of uncertainty as to the Group's ability to remain a going concern, which is contingent on it being able to raise further capital for its development programme in the United Kingdom, which in turn will enable the parent company to meet its ongoing overheads and warranty obligations.

The significant element of uncertainty arises because the budgeted financial performance for the year to 30 June 2013 assumed the commencement of orders from the United Kingdom. These orders are now expected in the current year to 30 June 2014, having been delayed due to:

- delays in resolving grid constraint issues in the Orkney Islands after a September 2012 announcement by the local network operator of a temporary moratorium on new grid connections;
- delays in the completion of the warranty insurance facility with GDST (Note 31b).

The above lack of sales has set back the Group's programme for achieving profitability. To facilitate and expedite projects proceeding in its target market in the North of Scotland and the offshore islands, the Group is focussing increasingly on development activities which are relatively capital intensive, but which are expected to be more profitable.

The Company estimates that it can make the transition to profitability in 2015 with projects proceeding at a rate of 1 turbine per month in the years to 30 June 2014 and 2015. While there have been no further turbine sales or development projects confirmed at the date of issuing these financial statements, there has been good progress with two prospects totalling four turbines and the Company expects to be able to announce further details in the near future.

A successful capital raising will be needed to ensure these projects (the majority of which in the short term will be development projects by the Group) can proceed. Based on experience to date, including the capital raising earlier this year, the Company believes it is likely to raise capital for investment in turbine projects under the Feed In Tariff. To this end, before the end of 2013, the Directors will seek at least a further \$3.4 million of new share capital supported by a shortfall placement agreement and shareholder approval for additional construction funding. The construction funding is for the installation of turbines in the UK, which is drawn only after a project has been confirmed by the Company and the lender as commercially viable. Depending on progress with growing revenue from its various activities (licensing, engineering services, turbine sales, project sales and electricity sales), the Directors may or may not carry out further capital raising in 2014 or 2015.

Since early 2011 the Company has been committed to the following course of action:

- License its intellectual property internationally;
- Develop its market presence in the UK to achieve turbine sales;
- Continue to meet its maintenance and warranty obligations for Te Rere Hau wind farm (TRH).

Windflow has made progress and passed positive milestones in the year to 30 June 2013, tempered by the significant setback of the SSE moratorium on Orkney grid connections which was announced in September 2012.

In summary, based on the Group's generally positive progress in its 1-2-3 strategy (more fully outlined in the Directors' Review), the Directors consider the going concern assumption to be a valid basis on which to prepare these Financial Statements. This conclusion was reached giving due regard to circumstances likely to affect the company within the period to 30 June 2014, and to circumstances which may occur beyond that date which may affect the going concern assumption.

The Directors stress that there exists significant risk because of the need to raise further capital. Should this be unsuccessful, the Directors would have to re-consider the going concern assumption and take appropriate action. If that process results in the Directors concluding that the Group was no longer a going concern, the net assets of the Company and the Group would reduce significantly and this would result in significant negative equity.

Independent Auditor's Report

Audit**Grant Thornton New Zealand Audit Partnership**

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Addington
PO Box 2099
Christchurch 8140

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To the Shareholders of Windflow Technology Limited**Report on the financial statements**

We have audited the parent and group financial statements of Windflow Technology Limited and Group on pages 2 to 28, which comprise the balance sheet as at 30 June 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibilities

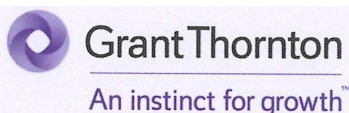
The Directors are responsible for the preparation of parent and group financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our responsibility is to express an opinion on the parent and group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the parent and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the parent and group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the parent and group financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors, we have no relationships with, or interest in, Windflow Technology Limited.

Opinion

In our opinion, the financial statements on pages 2 to 28:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the parent and group as at 30 June 2013 and their financial performance and cash flows for the year ended on that date.

Emphasis of Matter

We draw attention to Note 32 to the financial statements, which describe the Group's reliance on being able to raise further funding for its development programme in the United Kingdom along with further capital to support the wider operations of the Group. Our opinion is not modified in respect of this matter.

Other Matter

The financial statements of Windflow Technology Limited for the year ended 30 June 2012 were audited by another auditor who expressed an unmodified opinion with emphasis of matter on those financial statements on 20 September 2012.

Report on other legal and regulatory matters

Per the Financial Reporting Act 1993:

- we have obtained all the information and explanations that we have required;
- in our opinion, proper accounting records have been kept by Windflow Technology Limited as far as appears from an examination of those records.

Grant Thornton New Zealand Audit Partnership
Christchurch, New Zealand
7 November 2013

Directors' Annual Review to 30 June 2013

Overview

Windflow Technology has continued to rebuild value and improve its prospects for a sustainable business. It has adhered to the 1-2-3 course of action which it has been following since early 2011 and has made positive progress overall, although slower than anticipated. As a result Windflow has experienced further delays in achieving sustainable revenue, which has resulted in a Group loss of \$4.2 million being recorded.

Windflow intends to raise further capital to enable continuation of its development activities in the UK which the Directors believe to be positive long-term investments. Together with the cash-flow generated from technology licensing and a mix of revenue from projects in the UK, the gross margin for the parent company on turbine manufacturing arising from such development projects is expected to be sufficient to cover its overheads and outgoings with regard to meeting its warranty obligations to NZ Windfarms, and thus enable Windflow within the next two years to complete the transition to profitability envisaged under the 1-2-3 strategy.

The major positive milestones for the year were:

- July - the shareholders approved a loan facility being provided by a shareholder
- July – four engineers travelled to Texas for week-long meetings with General Dynamics SATCOM Technologies (GD SATCOM)¹ to review the preliminary design of the Class 2A turbine
- September – Windflow and GD SATCOM signed a Memorandum of Understanding detailing how GD SATCOM will provide warranty insurance for Windflow's UK customers
- October – the first turbine exported to the UK was shipped from New Zealand to Westray in the Orkney Islands
- December – two more turbine projects were confirmed for the Orkneys
- March - construction of the first turbine at Westray was completed and it has since been generating into the UK national grid
- March – a successful capital raising of \$4.5 million for the issue of preferential shares
- May – the engineering team presented the final design of the Class 2A turbine to GD SATCOM
- May – a new Windflow UK team formed and assembled for the first time in its new base of Inverness.



Figure 1 - the Westray turbine "Barrie"

Subsequent to balance date:

- in July 2013 Windflow and GD SATCOM entered into a formal warranty insurance agreement, pursuant to which GD SATCOM has in August issued the first warranty insurance certificate for a single turbine project in the Orkneys

¹ For more information about GD SATCOM and the license agreement see each company's announcement at <http://www.windflow.co.nz/news> and <http://www.gdsatcom.com/email/3-8-12.htm>. It is appropriate to emphasize that this Review is on behalf of the Windflow directors, and is not intended to represent GD SATCOM's opinions. Neither GD SATCOM nor General Dynamics has endorsed these statements.

- in September 2013, an independent consultant has provided a report on sound level data from the Westray turbine showing that sound levels are considerably lower than measurements based on the turbines previously installed in New Zealand. (Some reduction had been expected based on an improved design being piloted at Westray.) This will improve the marketability of the turbine for the UK.

The major setback for the year was:

- September 2012 – the electricity network operator for the Orkney Islands, Scottish and Southern Energy (SSE), announced a moratorium on further grid connection offers which disrupted our pipeline of projects, which included eight turbines with planning permission on the Orkneys. While two of these were able to proceed (as confirmed in December) the other six have been delayed and Windflow had to adjust its plans to the reality that no further Orkney Islands projects would be forthcoming in the year to 30 June 2013.

Consequently Windflow has shifted its focus in the UK to the north of mainland Scotland, progressed other projects in its existing pipeline and added new projects in these windier parts of the UK. Grid constraint remains a common issue that has been encountered in these windy, less populous parts, which limits the addressable market. While this makes early-stage development relatively difficult, this is consistent with Windflow's modest, niche market aspirations. At the same time the grid constraints play to one of Windflow's strengths being the excellent voltage stability achievable with a synchronous generator. For example all turbines above 50 kW on the Orkneys are required to be able to control both voltage and power continuously, capabilities which the Windflow 500 can readily provide.

Windflow remains committed to the UK market and is increasingly taking a developer role there. The Westray turbine has been generating power for half a year now and Windflow is actively seeking buyers for this project. At the same time it intends to be a long-term holder of at least some of the turbines it develops in the UK, subject to availability of adequate finance.

To this end Windflow needs to raise further capital in the near future, to fund profitable opportunities and to improve sales prospects with a strengthened balance sheet. While the all-important challenge of converting UK opportunities to regular revenue has been delayed, the Directors believe the Company has made good progress towards the business model envisaged by the 1-2-3 strategy. Windflow intends to complete this transition by realising its opportunities with GD SATCOM and the UK market.

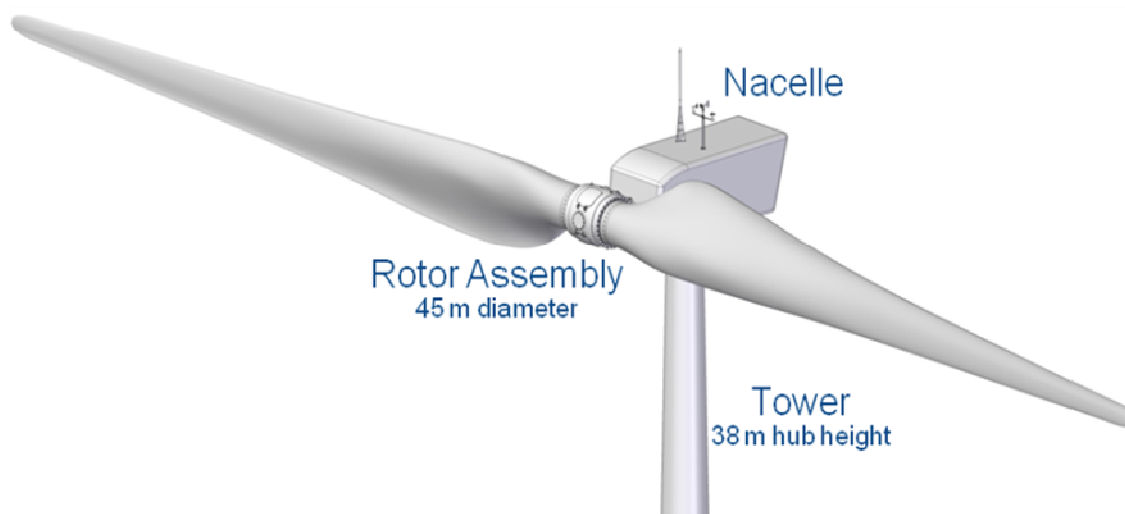


Figure 2 - Class 2A Design, the “GD 45-500” in GD SATCOM Territories

The Company's 1-2-3 Course of Action

Since early 2011 the Company has been committed to the following course of action:

1. License its intellectual property internationally;
2. Develop its market presence in the UK to achieve turbine sales, both external and internal (as developer of turbine projects);
3. Continue to meet its maintenance and warranty obligations for Te Rere Hau wind farm (TRH).

Since July 2012:

- Windflow has completed for GD SATCOM the design of the 60 Hz Class 2A turbine, the prototype of which is now under construction for installation in Texas in early 2014. Windflow continues to earn revenue by providing engineering services to GD SATCOM to support the establishment of their wind turbine manufacturing business.
- GD SATCOM has commenced marketing of the Class 1A and 2A turbines (the GD33-500 and the GD45-500) in its target markets. To this end Windflow has supported GD SATCOM by attending conferences in South Africa (where Windflow and GD SATCOM made a joint presentation in October 2012) and Chicago (the American Wind Energy Association conference in May 2013), as well as introducing GD SATCOM to its network of experienced wind power professionals who have over the years promoted Windflow turbines in California, Hawaii, Chile and Africa.
- GD SATCOM has supported Windflow in its target market of the UK by completing the warranty insurance agreement and issuing the first warranty insurance certificate for a project on the Orkneys.
- Windflow has manufactured, exported, installed and commissioned its first turbine on Westray in the Orkneys.
- Windflow UK has expanded its team to enable a significant sales and marketing drive in the north of mainland Scotland as well as the offshore islands including the Orkneys. To this end Windflow UK has established an office in Inverness.
- Windflow has continued to meet its warranty obligations for TRH:
 - Availability for year to 30 June 2013 was 95.4% which exceeded warranty
 - As set out in previous years, certain major items have failed prematurely on some turbines, being pitch bearings, gearboxes, generators, one-way clutches, and torque limiting pumps. Every six months the failure rates and costs of these items are re-assessed to determine the specific provision Windflow should make.
 - Continuing to resolve outstanding matters of interpretation of the split responsibilities since October 2011 – making regular warranty payments
 - Hub cage work platform was completed and successfully demonstrated
 - Windflow's warranty costs were \$2.0 million for the year. After reassessment, the remaining warranty provisions are \$2.9 million, being \$2.2 million in the year to June 2014, and about \$0.8 million for the following year (because around two-thirds of the turbines will have come out of warranty by 30 June 2014).
 - Regarding sound levels at TRH, with NWF winning its appeal to High Court and despite Palmerston North City Council's decision to appeal to the Court of Appeal, it seems unlikely WTL will incur liabilities under this warranty

The financial situation for the Company over the past year has been that revenue from GD SATCOM associated with the licensing agreement has met some of its cash-flow requirements. The major part of the Company's cash requirements has been obtained from funding raised through the March 2013 issue of preferential shares and from a shareholder's loan for construction of turbine projects in the UK.

The Directors stated last year that they believed that the Company needed revenue from the sale in the UK of approximately twelve turbines per year, or the equivalent revenue from the sale of turbine projects, in order to generate sufficient revenue both to meet the remaining warranty obligations and to strengthen its balance sheet to achieve further sales. However the setback on the Orkneys due to the SSE moratorium on grid connections has delayed progress of its pipeline, resulting in only the first three projects being confirmed in the financial year, being the Westray turbine which was installed in the year and the New Holland and Ludenhill turbines which are underway in the current year.

Financial Results

The consolidated annual results to 30 June 2013 show the Windflow Group incurred a loss before taxation of \$4.242 million (\$4.083 million 2012). Operating revenue (including licensing and other revenue) was \$0.915 million (\$2.977 million 2012).

Group overheads have continued to fall to about \$3.4 million, down from \$3.6 million last year. The loss before taxation can be attributed predominantly to the delays in achieving expected revenue from UK projects.

At 30 June 2013, total Group equity was \$0.796 million compared to the \$0.474 million in the prior period. This change was due to the \$4.5 million of capital raised in the period, offset by the trading loss.

Summary

Windflow has made progress and passed positive milestones in the year to 30 June 2013. However it received a significant setback when a major element in its strategy was disrupted by the SSE moratorium on Orkney grid connections which was announced in September 2012. As a result, disappointingly, the Company has yet to achieve profitability.

With the backing of shareholders, who have shown to date that they share the Directors view that Windflow represents a good long-term investment, Windflow has persevered. The progress being made in the licensing partnership with GD SATCOM, and the significant progress with the sales and marketing drive in the north of mainland Scotland and the offshore islands since May 2013, has in the opinion of the Directors, confirmed that the current 1-2-3 course of action continues to be the most promising way for Windflow to rebuild value for the shareholders and transition to profitability.

The successful capital raising in March 2013, when the Company issued preference shares to raise \$4.5 million, enabled the Company to maintain and grow its presence in the UK, while maintaining its other activities. In spite of the one significant setback experienced last September, the Directors believe that the Company's best option is to persevere.

At the same time the Directors note that there is a significant element of uncertainty as to the Group's ability to remain a going concern, which is contingent on it being able to raise further capital for its development programme in the United Kingdom, which in turn will enable the parent company to meet its ongoing overheads and warranty obligations. The significant element of uncertainty arises because the budgeted financial performance for the year to 30 June 2013 assumed the commencement of orders from the United Kingdom, which are now expected in the current year to 30 June 2014, having been delayed for reasons set out above.

In summary, in spite of ongoing uncertainty, the Directors report that the Group has made generally positive progress in its 1-2-3 course of action, and will be recommending continuing support from shareholders in a second, similar capital raising, planned to take place before the end of 2013.

Corporate Governance

INTRODUCTION

The Board of Directors is elected by the shareholders and is responsible for the corporate governance of the Windflow Technology (Company). The Board is the final body responsible for the decision making within the Company and has the requirement to work to enhance the value of the Company in the interests of the Company and its shareholders.

Corporate Governance encompasses the requirement for the Board to discharge such responsibilities, to be accountable to the shareholders and other stakeholders for the performance of the Company and to ensure that the Company is compliant with the applicable laws and standards.

The Board establishes the objectives of the Company and is engaged in ongoing strategic planning in order to meet these objectives. It provides an oversight of compliance and risk, it measures and monitors management performance and it sets in place the policy framework within which the Company operates.

The Board monitors financial results and compares them to the budgets and annual plans at the regular monthly meetings.

The following headings reflect the corporate governance principles recommended by the New Zealand Securities Commission in February 2004.

Reference has also been made to the Corporate Governance Best Practice Code (the NZX code).

BOARD COMPOSITION AND MEMBERSHIP

As at the 30 June 2013 the Board comprised four Directors. This included Michael Chick, a non-executive Chairman, Geoff Henderson an executive Director (the Chief Executive Officer), Angus Napier and Heugh Kelly the other two non-executive Directors. Simon Young and Keith McConnell who were both non-executive directors on the Board on 1 July 2012 stood down from the Board at the Annual Meeting of shareholders in October 2012.

The Board has a broad base of energy, marketing, sales, engineering, financial, legal and other skills, experience and expertise to meet its objectives.

The details and background of the Directors are detailed elsewhere within this Annual Report.

The Chairman is elected by the Board of Directors and it is his role to manage the Board in the most effective manner and to provide a conduit between the Board and the Chief Executive Officer. He has no significant external commitments that conflict with this role.

Procedures for the operation of the Board, including the appointment and removal of Directors, are governed by the Constitution.

The Board held twelve regular scheduled monthly meetings during the 12 month period ended 30th June 2013. In addition to these formal meetings the Board met on other occasions both in person and by telephone conference, to discuss specific issues.

Chief Executive Officer Performance Review

The Board is responsible for the evaluation of the Chief Executive Officer against his key performance objectives and is responsible for the setting of these objectives on a periodic basis and ensuring that they are an appropriate measure.

Directors' Shareholdings as at the 30th June 2013

There is a Share Option Plan with Mr G Henderson, the Chief Executive Officer, which relates to royalties payable under licence. This is detailed within note 14b of the Notes to the Financial Statements.

The Directors' disclosure of their shareholdings pursuant to the New Zealand Exchange's Alternative Market (NZAX) listing rule are shown as at 30 June, 2013 in the list below.

Ordinary Shares Held

Director	Beneficially	Interest of Associated Persons	Non-Beneficially
Geoff Henderson	702,564	727,091	
Heugh Kelly	39,625		
Michael Chick			
Angus Napier	102,000		

Preference Shares Held

Director	Beneficially	Interest of Associated Persons	Non-Beneficially
Geoff Henderson	100,000	137,111	
Heugh Kelly			
Michael Chick	100,000		
Angus Napier	51,000		

Independence of Directors

To be "independent" a Director must, in the opinion of the Board, be removed from any relationship or business that could interfere materially or be reasonably perceived to interfere materially with the exercise of his or her independent judgement.

It has been determined by the Board that of the four Directors all Directors were independent apart from Mr Geoff Henderson. Mr Henderson is the Chief Executive Officer.

All Directors are required to immediately advise if any new relationships would interfere with such independence and so enable the Board to consider and determine the materiality of the relationship.

Board Committees

There is an Audit Committee consisting of Angus Napier (Chairman), and Michael Chick. Geoff Henderson also attends the meetings but in his capacity as Chief Executive Officer. This Audit Committee meets at least quarterly, (generally on the same day as board meetings), in order to review the financial reports with the CEO and the Company's accounting staff. In addition to these scheduled meetings, the Audit Committee also meets on other occasions to review amongst other things the Company's Annual and Half-Yearly accounts.

At this stage no other Board Committees are established to assist in the execution of the Board's responsibilities. All such matters are conducted at the regular full Board meetings.

ETHICAL STANDARDS

Code of Ethics

The Company expects all its employees and Directors to maintain high ethical standards.

The Directors support the principles set out in the "Codes of Proper Practice for Directors" issued by the Institute of Directors in New Zealand. Whilst recognizing that the Code expresses principles and does not purport to determine the detailed course of conduct by Directors on any particular matter, the Directors are committed to the highest standards of behaviour and accountability.

Interests Register

In accordance with the Companies Act 1993 the Company maintains an Interest Register in which the particulars of certain transactions and matters involving Directors are recorded. The following table summarises details of entries made in the Interests Register that relate to the Company and its subsidiaries during the financial year:

Director	Counterparty	Nature of Interest
Geoff Henderson	Not applicable	Not applicable
Heugh Kelly	Not applicable	Not applicable
Michael Chick	Windflow UK Limited Windflow Hammer Limited	Director – appointed 15 Nov 2012 Director – appointed 28 Dec 2012
Angus Napier	Windflow UK Limited Windflow Hammer Limited	Director – appointed 28 Dec 2012 Director – appointed 28 Dec 2012
Simon Young (stood down from Board on 31 October 2012)	Not applicable	Not applicable
Keith McConnell (stood down from Board on 31 October 2012)	Not applicable	Not applicable

Conflicts of Interest

If conflicts of interest do exist then the policy of the Board is that Directors must declare their interest and do not exercise their right to vote in respect of such matters.

Insider Trading

Directors and employees of the Company are subject to the limitations on their ability to buy or sell Windflow Technology Limited shares under the NZAX Listing Rules and the Securities Markets Act 1988. No one at Windflow Technology is permitted to, directly or through other persons or entities, buy or sell Windflow Technology shares or advise someone else to buy or sell Windflow Technology shares on the basis of inside information about the Company, its joint venture partners and subsidiaries.

AUDIT GOVERNANCE AND INDEPENDENCE

Shareholders approved the Board setting the remuneration of the Auditors at the Annual Meeting in November 2012. Grant Thornton was appointed as the Company Auditor for the year ended 30th June 2013.

The work of the external Auditor is limited to audit and related work and the Company is committed to auditor independence. The Board annually reviews the independence and objectivity of the external Auditors. No employees, Partners or Directors of the Audit firm hold shares in the Company.

Representatives of the Company's external Auditor (Grant Thornton) will be invited to the Annual General Meeting.

DIRECTORS' REMUNERATION

The current annual Directors' fees paid to all Directors within the Company total \$144,500 per annum, each Director receiving \$27,500, the Chairman of the Board of Directors receiving \$55,000, the Chairman of the Audit Committee receiving an additional \$5,000 and any director who is a member of the Audit Committee receiving an additional \$2,000.

The remuneration package of the Chief Executive Officer as at the 30 June 2013 was \$220,000.

The following table summarises the remuneration paid to the Directors for the period to 30 June 2013:

Name	Directors Fees	Salary	Other Fees
Michael Chick	\$36,664		
Geoff Henderson	\$27,500	\$200,000	
Heugh Kelly	\$32,083		\$1,226
Angus Napier	\$21,667		\$4,000
Keith McConnell	\$10,833		\$4,841
Simon Young	\$14,417		

Fees for management services supplied to the Company by the Directors are disclosed in note 25 b) of the Financial Statements. No other benefits were received by the Directors of the Company. Reimbursements of appropriate costs (mainly travel to meetings) were made.

As previously advised, Mr McConnell and Mr Young stood down from the Board on 31 October 2012.

REPORTING AND DISCLOSURE

Annual and Interim Reports in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the NZAX Listing Rules are communicated on a periodic basis to all shareholders.

A web site is maintained and contains regular updates to shareholders as well as the Annual and Interim Reports.

The Chief Executive Officer and other Senior Officers have conducted regular information meetings and discussions with shareholders and interested persons.

RISK MANAGEMENT

The Company has a policy of identifying, assessing and managing risks arising from its business direction and also from the strategic environment.

It implements risk management through its business processes of planning, budgeting, investment and project analysis, and operations management.

SHAREHOLDER RELATIONS

The Board's policy is to ensure that shareholders are informed of all material and strategic developments affecting the Company's state of affairs.

All material disclosures are disclosed to the NZX and posted to the Company's web site on a timely basis. Regular media releases are made and copied to shareholders by email.

COMPANY SECRETARY

Terry Moon, Company Secretary, co-ordinates all the reporting and compliance requirements of the Company throughout the financial year.

OTHER STATUTORY INFORMATION

EMPLOYEE REMUNERATION

For the period to 30 June 2013, there were 4 employees in the Company who earned more than NZD \$100,000 and one employee in Windflow UK Limited who earned more than NZD \$100,000.

Remuneration Range NZ\$	Number of Employees
200,001 – 220,000	1
180,001 – 200,000	
160 001 – 180 000	2
140 001 – 160 000	
130,001 – 140,000	
120,001 – 130,000	
110,001 – 120,000	2
100,000 – 110,000	

DIRECTORS INDEMNITY AND INSURANCE

The Company has Directors' and Officers Liability Insurance to the sum of \$10,000,000 in the aggregate.

SUBSIDIARIES AND DIRECTORS THEREOF

Windflow Technology Limited has six subsidiary companies with directors as set out below: Windflow International Limited is non-trading. The Company's Directors do not receive separate director remuneration, nor do they have interests to disclose, in relation to the subsidiaries.

Subsidiaries

Our Wind Ltd
Wind Blades Ltd
Windflow UK Ltd
Windflow International Ltd
Windflow Hammer Ltd
Hammer Westray Limited Liability Partnership

Those charged with Governance

Morgan Williams, Jeanette Fitzsimons, Duncan Currie, Geoff Henderson
Peter Brooking, Geoff Henderson
Michael Chick, Angus Napier, Geoff Henderson, Heugh Kelly
Geoff Henderson, Heugh Kelly
Michael Chick, Angus Napier, Geoff Henderson, Heugh Kelly
Michael Chick, Angus Napier, Geoff Henderson, Heugh Kelly, Colin Risbridger

DONATIONS

The Company's Directors have decided that no donations to charity will be made until the Company has paid an ordinary dividend to its shareholders. Therefore no donations have been made on behalf of the Company or any of its subsidiaries in the financial year being reported on.

AUDIT FEES

Fees paid to the Auditor to audit the Company accounts and Company Share Register totalled \$31,338 for the year ending 30 June 2013. No fees were paid to the Auditor in respect of other work undertaken for the Company. None of the Company's subsidiary companies have been audited in the year to 30 June 2013.

Shareholder Information

The ordinary shares of the Company are listed on the NZAX. The information in the disclosures below has been taken from the Company's register at 6 November 2013. The total number of issued voting securities as at 30th June 2013 was 20,597,264.

TWENTY LARGEST ORDINARY SHAREHOLDINGS

Shareholder	Address	Ordinary Shares	%	Preference Shares
David Iles	USA	3,222,901	15.65	6,522,683
Mighty River Power Limited	Auckland	2,382,496	11.57	
Delane Wycoff	USA	1,100,000	5.34	
New Zealand Central Securities Depository Limited	Wellington	902,895	4.38	419,272
Geoff Henderson	Christchurch	702,564	3.41	100,000
Jennifer Henderson	Christchurch	550,000	2.67	100,000
Reda Holdings Limited	Cayman Islands	241,000	1.17	
FNZ Custodians Limited	Wellington	213,953	1.04	
Jeanette Fitzsimons	Thames	211,513	1.03	20,000
J&T Gribben Family Account	Auckland	165,000	0.80	
Sheila Kolstad	Christchurch	165,000	0.80	82,500
Anthony Bowen	Christchurch	154,379	0.75	30,000
Ian Shearer & Mary Newman	Wellington	126,908	0.62	63,454
Caroline Stockdale	Nelson	123,738	0.60	
Paul Simmons	Christchurch	118,149	0.57	
Bremca Holdings Limited	Christchurch	118,000	0.57	
Brett Whiston	Manukau	115,689	0.56	57,845
Alastair Nicholson & Celia Wade-Brown	Wellington	114,836	0.56	
Margaret Simmons	Christchurch	108,149	0.53	
Oliver Powell	Christchurch	105,803	0.51	
Neale Erik Blaymires	Te Puke	102,201	0.50	
Totals		11,045,174	53.62	7,395,754

DISTRIBUTION OF SHAREHOLDERS

Holdings Ranges	Number of Holders	Number of Shares	%
1 - 1,000	119	72,053	0.35
1,001 - 5,000	339	943,082	4.58
5,001 - 10,000	157	1,185,342	5.76
10,001 - 50,000	233	5,042,481	24.48
50,001 - 100,000	31	2,093,700	10.16
100,001 - 1,000,000	20	4,555,209	22.12
1,000,001 - and over	3	6,705,397	32.55
Totals	902	20,597,264	100.00

SUBSTANTIAL SECURITY HOLDERS

The following information is given in accordance with Section 26 of the Securities Markets Act 1988. According to notices received and the Company's register of disclosures of substantial holdings, the following persons were substantial security holders in the Company at 30th June 2013.

Shareholder	Number of shares directly held		% of Ordinary Shares Held
	Ordinary Shares	Preference Shares	
David Iles	3,222,901	6,522,683	15.65
Mighty River Power Limited	2,382,496		11.57
Delane Wycoff	1,100,000		5.34
Henderson Family Interests – made up of	1,436,206		6.97
• Geoff Henderson	702,564	100,000	
• Jenny Henderson	550,000	100,000	
• Est. J. M. & F. M. Henderson	54,220		
• Carl Henderson	54,221		
• Lyndall Henderson	74,221	37,111	
• Est. Jon Henderson	980		
Totals	8,141,603	6,759,794	39.53

Directory

The Directors of the Company are:



Michael Chick, Board Chairman

14A Rata St, Riccarton, Christchurch

Michael Chick has some 40 years of experience in medium and high technology companies focused on international growth since qualifying in electrical engineering in Wales. Until 2009 he was CEO of Tait Ltd, a Christchurch based high growth radio equipment manufacturer with revenue in excess of \$200M and close to 1000 staff. He remains a Director of Tait and a Trustee of its controlling shareholder as well as being Chairman of some smaller electronic companies. Michael has held CEO/MD positions in a number of different companies having also undertaken a successful management buyout of one of the operations. He is a Chartered Engineer and Fellow of the Institution of Engineering and Technology. Michael is also director and chairman of the company's subsidiary Windflow UK Ltd and joined the Boards of both Companies to assist them to successfully build upon the strong engineering base to one with equally strong commercial capability.

Geoff Henderson, Director and Chief Executive Officer

50 Waiwetu Street, Fendalton, Christchurch

A registered mechanical engineer, Geoff Henderson has been involved in wind power engineering for twenty years, including seven years in California and England working at the forefront of wind power technology. During that time he invented the torque limiting gearbox (TLG) system which has been patented in New Zealand, Australia, and the USA. In 1994 he received the Communications Award from the Institution of Professional Engineers (IPENZ) for his contribution to the engineering profession as a proponent of wind power. Geoff is past-chairman of the Canterbury Branch of IPENZ and in 2005 was elected a Fellow of IPENZ. He is also a director of the Aeolian Property Company Ltd and six companies in which the Company has shares, Wind Blades Ltd, TRH Services Ltd, Our Wind Ltd, Windpower Otago Ltd, Windflow UK Ltd and Windflow International Ltd (non-trading).



Heugh Kelly, Director

Shegadeens Road, R.D. 1, Wellsford

Heugh Kelly is a barrister and solicitor with over 20 years experience of commercial law. Educated at Auckland Grammar School and the University of Auckland, he has been in practice on his own account since 1984. He is a director of the Environmental Defence Society which is a position he has held since 1981 and was a member of the legal committee of the Maruia Society for some years.

Angus Napier, Director

220 Cockayne Rd, Ngaio, Wellington

Angus Napier qualified as a Chartered Accountant and was for many years a member of the Institute of Chartered Accountants in England and Wales and in New Zealand. Prior to April 2000 Angus held a variety of full-time employment positions, most latterly as Senior Advisor, State-Owned Enterprises, to the Crown Company Monitoring Advisory Unit within the Treasury. Earlier positions were Internal Audit Manager, Standard Chartered Bank, Hong Kong; and financial management consultancy and external audit roles with KPMG Peat Marwick, in New Zealand, Hong Kong and England. Since 2000 his focus has been as an Independent Management Consultant.



Management Team	Chief Executive Officer Geoff Henderson UK General Manager..... Andy Strowbridge Supply Chain Manager Mike Palmer Financial Controller..... Martin Richardson Company Secretary..... Terry Moon
Solicitor	Lane Neave Lawyers 137 Victoria St Christchurch
Registered Office	HFK Ltd 4/567 Wairakei Road Christchurch
Auditor	Grant Thornton L3, 2 Hazeldean Road Addington Christchurch
Share Registry	Link Market Services Ltd 138 Tancred St Ashburton
Bankers	Bank of New Zealand 81 Riccarton Rd Christchurch
Insurance Brokers	Marsh Limited Level 1, 447 Blenheim Rd Christchurch
Principal Suppliers	Blades..... Wind Blades Ltd of Auckland Gearbox..... David Brown Gear Industries Ltd of Australia Electrical Control..... Bremca Ltd of Christchurch Hub Bradken Engineering Ltd of Dunedin Generator Cummins Generator Technologies of UK Hydraulics Eaton Hydraulics Group of Christchurch Nacelle Cladding..... Wind Blades Ltd of Auckland Pallet..... Allied Industrial Engineering of Kawerau Tower..... SIAG Tube and Tower GmbH of Germany

