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WDS LIMITED MARKET UPDATE

As outlined in our previous market update of 27 October 2009, WDS' financial outlook for FY10 was subject to the pace of macro economic recovery driving increased activity in:

- Energy, pipeline and infrastructure projects,
- The rate of development of domestic CSG gas projects,
- The long term development of the Queensland CSG-LNG projects.

This outlook indicated a 1HFY10 result in line with 2HFY09 and a recovery towards 2HFY10 and into FY11. The primary risk associated with the outlook was timing of pipeline construction and associated activities. This update now details the WDS outlook on these issues.

First Half FY10 Performance

The Mining division has continued to perform strongly in 1HFY10 consistent with the October guidance, as illustrated by the award of significant new contracts.

However, the results of the Infrastructure & Services and Oil & Gas divisions have disappointed, primarily due to:

- An aggressive bid environment resulting in increased tender competition and reduced margins,
- Continuing delays in project commencements. This has occurred generally across sectors, but the gas market in particular. This continues to negatively impact profitability given the associated overheads, plant utilisation and carrying costs,
- Project management and execution issues primarily within the micro-tunnelling business unit resulting in completion delays and cost overruns,
- Increased costs associated with the upturn in bidding activity. WDS has responded to double the number of projects in 2QFY10 versus the pcp. The revenue benefit of the larger projects is not expected in FY10.

WDS expects to report results that are materially different to our previous October market update. The unaudited 1HFY10 results inclusive of Titeline are an EBITDA of $9.9M and break even at the NPAT level.

Direct steps are being undertaken to address the above performance issues and ensure the business is right sized. These include:

- Ongoing delivery of operational savings identified during Stage 1 of the restructure
- Changes in organisational structure,
- Realignment of resources to match current business requirements,
- Continued diversification such as expansion of facilities in WA and the growth of pipeline and tunnelling businesses in the Middle East.

Outlook

The revised FY10 guidance is for EBITDA of approximately $31M and NPAT of approximately $7M.The revised guidance incorporates the following:

- Actual performance 1HFY10,
- Recovering general market conditions in 2HFY10 demonstrated by increased bid activity but reflective of the delays in the re-start of this bidding activity (circa 6-12 months),
- The most recent guidance from customers regarding the timing of key projects either awarded or foreshadowed,
- Corrective actions required to address the underperformance of specific business units,
- Current public statements relative to FID and contracting strategies of the major Queensland CSG-LNG proponents.

WDS enters 2HFY10 with a number of positive developments which provide management with a high level of confidence for the business platform. These include:

- Increased tender activity across all sectors,
- Continued strong performance of the Mining division along with expected expansion in this sector,
- Negotiations on a number of key projects we expect to be awarded in the current quarter (however due to the delayed commencement, the revenue from these contracts is not expected to be material in FY10),
- Integration of the Titeline business and diversification of the customer base through the recent contract award for methane drainage drilling with Narrabri Coal resulting in the fleet being fully deployed,
- Commencement of tunnelling activities on the Sabah Al Salem (Kuwait) Sewage improvement project,
- Extension of our current debt facility with GE Capital until 2HFY13 has received credit approval and documentation is underway.

Accordingly WDS continues to have a high level of confidence in our strategic positioning across our targeted market sectors and is well placed within each of the sectors to capture growth.

For further information please contact:

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ABOUT WDS LIMITED: *WDS is a leading integrated provider of specialist development, design, engineering, construction, fabrication and maintenance related services to the cross section of energy, mining and infrastructure sectors.*

Important Information