30th November 2010

NZX Release

Wellington Drive Technologies Limited – Market Update

Wellington Drive Technologies Limited (Wellington) advises that it is proposing to undertake a discounted rights issue to raise up to NZ$8.4m.

Wellington's working capital position continues to be complex with a number of drivers influencing short term movements in the Company's inventory position and hence its cash requirements. Several recent events have meant that the reduction in inventory level that was targeted in the Company's interim result is taking longer to achieve than expected. One major customer for Wellington's "ECR" commercial refrigeration motors has deferred the bulk of its projected 4th quarter deliveries. This has been partly offset by increased sales to others, and projected demands for January are above earlier expectations, but in the short term we will be holding stocks above normal or desirable levels. There has also been delay in the timing of shipments to customers for our ventilation products. We now expect to finish 2010 with increased levels of inventory, which will begin to reduce in the first quarter of 2011.

One option is to sharply reduce production to manage down inventory. However, Wellington's overall forward order indications for 2011 are strong to the extent that increased levels of production are projected to be necessary, particularly for our commercial refrigeration products. Preparations to satisfy that demand have to be made now: orders must be placed for materials and related production equipment, and support from suppliers has to be maintained. Directors believe that a program of aggressive inventory reduction at this point would repeat the externally driven supply issues that negatively impacted Wellington's performance in 2010. This would in turn put at risk the market position that has been established over the last few years. Instead Directors intend to prepare now for increased production and sales in 2011, and to manage the business towards a lower level of working capital in a more gradual fashion through the first half of 2011 - ensuring that customer demand is met. This requires more capital and has given rise to the decision to undertake a rights offering.

From an operating perspective, Wellington has continued to be successful in winning significant new business for its ECR commercial refrigeration products. However, meeting customers' short notice order requirements by air freight has necessitated a greater level of freight costs than expected, which affects our margins. At the same time the Group's overall gross margin continues to suffer from the negative

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consequence of (historical) Euro-based pricing within the ventilation business, combined with the decline in the value of the Euro, as has been discussed previously. Gross margin performance has been well below expectations this year.

Notwithstanding the above points, Wellington has programs in place to reduce product cost, while a move to US dollar prices for most ventilation products will also improve margins. The current inventory position and projected production levels mean that the Company is expected to face less requirement for air freight in 2011. Wellington has also recently made several management appointments to improve the operating performance of the Company.

The fundamental position of Wellington's business has improved substantially over the last year and is expected to continue to improve: the commercial refrigeration market's switch to EC motors is still gathering pace and, through its actions to maintain supplies in difficult conditions this year – together with our launch of several new products - Wellington has entrenched its leadership position with key customers.

Given the size of the business (both in terms of operating costs and revenue); the geographical spread of operations across the globe; and the challenge of capturing important, targeted OEMs with competitive pricing and service, the company has been vulnerable to adverse events with its limited cash buffer,. Hence it is prudent to raise further cash now to protect and grow the longer term value of the Company.

Directors expect 2011 to demonstrate the substantial improvement in financial performance that has been sought for some time. This will in turn result in a much improved position for shareholders. Directors remain convinced that Wellington's medium and longer term outlook is highly positive.

For further information visit www.wdtl.com.

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