

**ASX / MEDIA RELEASE****9 FEBRUARY 2010****D2 MARKETING LTD  
ACN 123 287 025 (d2 or COMPANY)****MARKET UPDATE*****Trading and Guidance Update***

The Company previously provided updated earnings guidance on 15th December 2009, stating that the financial results for the five months ending November 2009 indicated an annualised (pre-restructuring cost) EBITDA margin of around 5% (the middle of the range) whereas revenues were trending toward the lower end of the \$61.9m-\$68.9m range. Further, the Company indicated that there was not sufficient visibility to determine whether the full year result would exceed or fall short of the current run rate.

As the turnaround process has unfolded over the past seven months, several important structural initiatives have been implemented and/or completed, including:

1. changes in senior management at the parent company level, Next Digital and Austral Media;
2. significant reduction in the Company's debt levels;
3. sale or closing of underperforming and non-core businesses;
4. agreement with shareholders on a programme for recapitalisation;
5. rebranding of the Company;
6. improved internal processes;
7. the development of insertmo.com from a merger of three existing businesses/technologies;
8. a material reduction in Head Office and divisional costs; and
9. an agreement to settle a legal dispute with LCW Private Equity.

Directors remain confident in the prospects for the Company and its core businesses. The restructuring process continues and the turnaround is expected to continue to gain momentum in the second half of this fiscal year.

Notwithstanding the success of the restructuring programme, the business is underperforming against budget and it is now clear that there is a lag effect between the restructuring process and the delivery of improved financial results. This lag makes it difficult to predict with precision when the turnaround in financial results will occur.

Accordingly, having now reviewed the draft management accounts for the half year and for January 2010, Directors advise that in the absence of materially improved trading over the remainder of the financial year, the Company's earnings are likely to trend towards or below the bottom end of the guidance range.

Interim unaudited results for the half year ending December 31, 2009 will be released on or about 25 February 2010.

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### ***Amendment to Convertible Note Deed***

On 22 September 2009, the Company entered into a convertible note deed with Co-Investor Capital Partners Pty Ltd (**Convertible Note Deed**) for the issue of 8 million convertible notes having a coupon rate of 13% per annum and a term of 3 years (**Convertible Notes**).

At its Annual General Meeting held on 10 November 2009 the Company sought (and obtained) shareholder approval under Listing Rule 10.11 for the issue to Co-Investor of ordinary shares in the Company on conversion of any unpaid interest which accrues on the Convertible Notes (**Note Interest**) in accordance with the terms of the Convertible Note Deed (**Approval**).

Listing Rule 10.13.3 requires shares the subject of a Listing Rule 10.11 approval to be issued not be more than 1 month after the date of the meeting at which the approval was obtained.

In its Notice of 2009 Annual General Meeting, the Company advised the market that it had sought a waiver from ASX under LR 10.13.3 to enable the Company to issue shares the subject of the Approval at any time prior to the expiry of the term of the Convertible Notes (being 11 November 2012).

The ASX granted the waiver to the Company conditional on the following (**Waiver**):

- the Company includes in each annual report a statement setting out the formula for calculating the number of shares which may be issued upon such conversion;
- unpaid Note Interest may compound for a maximum period of three months at a time, at the end of which the shares must be issued, or the right of conversion of the interest for that three month period lapses (**Ongoing Conversion**); and
- shares which may be issued to Co-Investor on conversion of unpaid Note Interest are to be issued no later than 30 November 2012.

The Company has worked with ASX to clarify the mechanism by which the Ongoing Conversion process will operate. ASX has confirmed that, if the Company and Co-Investor elect not to pay the Note Interest which has accrued during each 3 month period in cash, then the Company must convert that Note Interest into shares in the Company under the formula set out in the Convertible Note Deed otherwise the ability to convert that Note Interest in reliance on the Waiver lapses (although interest will continue to accrue on that Note Interest).

In its current form, the Convertible Note Deed only permits the Company and Co-Investor to agree to convert unpaid Note Interest on Convertible Notes the subject of a conversion notice provided by Co-Investor in circumstances where the cash flows of the Company are not sufficient to pay the interest in cash.

As a result, the Company and Co-Investor have agreed to amend the Convertible Note Deed (subject to documentation) to enable it to comply with the Waiver to provide for the following:

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- Co-Investor may provide a conversion notice to the Company in respect of Convertible Notes or accrued and unpaid Note Interest at any time during the term of the Convertible Notes;
- If, at or before each 3 month period from the date of issue of the Convertible Notes, the Company and Co-Investor agree to convert the interest which has accrued on the Convertible Notes during that period into shares then Co-Investor must issue a conversion notice to the Company in respect of that Note Interest; and
- Co-Investor may issue a conversion notice to the Company (whether for conversion of Convertible Notes or Note Interest) at any time prior to the expiry of the term of the Convertible Notes (previously Co-Investor were not permitted to issue a conversion notice to the Company prior to the record date for the rights issue which the Company intends to conduct in March/April 2010).

The Company expects to finalise the Deed of Amendment setting out these terms by 9 February 2010. The terms of the Convertible Note Deed are otherwise unchanged.

#### **Conversion of Convertible Notes**

The Company also advises that in an effort to reduce the total interest bearing liabilities of the Company and the interest expense associated with the Convertible Notes:

- Co-Investor has agreed to convert 2.5 million of the 8 million Convertible Notes issued to it on 11 November 2009; and
- the Company and Co-Investor have agreed to convert all Note Interest which has accrued on the Convertible Notes to 9 February 2010, in accordance with the Waiver (described above).

The conversion of the 2.5 million Convertible Notes and all accrued Note Interest will result in:

- the issue of 333,333,333 shares in the Company to Co-Investor (conversion of the 2.5 million notes);
- the issue of approximately 34,953,525 shares in the Company to Co-Investor (through the conversion of \$262,284 of Note Interest which has accrued on the Convertible Notes since the date of issue); and
- a reduction in the Company's interest bearing liabilities of \$2,500,000.

The Company expects to finalise the issue of the above shares by 9 February 2010.

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#### **About D2 Marketing Ltd**

d2 Marketing is a holding company for a group of Digital and Direct marketing companies.

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