



**DARK BLUE SEA LIMITED**  
**ACN 091 509 796**

**Company Announcement**

**Date: 29 March, 2007**

**Update on Recent Activities**

Dark Blue Sea Ltd (ASX listing code DBS) today released an update on its recent activities.

This release contains information about:

- March 2007 Quarter Trading Performance and Key Performance Indicators
- Secondary Market Domain Sales

**March Quarter Trading Performance**

The Company has had a good trading performance in the March 2007 quarter. Revenue from the company's own domain name portfolio has been very strong. Throughout most of the quarter, internal revenue has been traveling at a rate above the top end of the US\$6 to US\$7 million annualized guidance range that has been previously provided.

Internal Revenue (i.e. revenue from the Company's own domain name portfolio) for the March 2007 quarter is expected to be in excess of US\$1.8 million, an annualized rate of US\$7.2 million. This is up from the US\$1.655 million (or US\$6.6 million annualized rate) generated in the December 2006 quarter. The Company now expects annual revenue from its domain name portfolio to be in the US\$6.5 to US\$7.5 range going forward.

Secondary market sales of the Company's domain names are expected to be approximately US\$350,000 in the March quarter, up from US\$318,000 in the December quarter.

Revenue from the company's external business in the March quarter was down on the previous quarter but the margin on that traffic increased so that gross profitability on the external business in the March 2007 quarter was ahead of the December quarter.

The Company releases some key financial performance indicators ("KPI's") for comparative purposes. These indicators are based on unaudited management accounts.



KPI's for the March 2007 quarter will be released when available at the end of April 2007. In the interim, contained below (as previously released) are the comparative KPI's for the Company to December 2006:

	<b>Qtr end 31.12.05</b>	<b>Qtr end 31.03.06</b>	<b>Qtr end 30.06.06</b>	<b>Qtr end 30.09.06</b>	<b>Qtr end 31.12.06</b>
<b>Revenue (US\$'000)</b>					
Internal Traffic – Profitable Domain Names	879	923	1,256	1,841	1,587
Internal Traffic – Unprofitable Domain Names	68	80	72	66	68
Total Internal Traffic	947	1,003	1,328	1,907	1,655
Internal Domain Name Sales	286	336	295	297	318
Total Internal Revenue	1,233	1,339	1,623	2,205	1,971
External Traffic	4,191	4,547	4,804	5,001	3,709
Total Traffic Revenue	5,138	5,550	6,132	6,909	5,362
<b>Revenue Margin (%)</b>					
Internal Traffic Revenue	89	88	89	91	90
– Profitable Domain Names					
Total Internal Revenue	43	51	47	64	52
External Revenue	23	25	31	27	26
Total Traffic Revenue	23	27	31	35	31
<b>Number of Profitable Domains</b>	65,000	72,000	91,000	113,000	110,000



A more detailed explanation on the Key Performance Indicators is provided in the “Background on Key Performance Indicators Section” below.

### **Update on Secondary Market Domain Sales**

The Company continues to roll out Fabulous Domains, the Company’s secondary market domain sales business.

The Company is at advanced stage of negotiations with a number of retail registrars in relation to secondary market domain sales. The Company now has distribution agreements in place with registrars that represent more than half of the total retail (SME) industry demand for new domain name registrations. This is the key target market for the secondary market sale of domain names.

Senior executives from the Company have recently been in the United States attending a large industry trade show where discussions in respect of expanding and improving the secondary market domain sales have been ongoing. In addition to the efforts of DBS in this regard, there is also activity by other participants in relation to the establishment of a significantly improved secondary market industry.

The Company currently expects that tangible financial benefits from the secondary market domain sales initiative will become progressively clearer over the next one to three months, with the full financial benefits expected to be realised over the next couple of years.

The magnitude of the potential growth from secondary market domain sales is difficult to quantify. Retail domain name registrars are the largest natural supply channel through which to satisfy the demand for secondary market domain names. However, for a variety of reasons, retail registrars have not to date had the required inventory distribution systems in place. This is the primary initiative that DBS is currently implementing.

The reason why many of the largest domain name portfolio owners (the source of domain name inventory) have not to date, been selling significant volumes of domain names is because the logistics have been too complicated. The Company believes that by working together with a number of strategic partners to congregate this supply and demand in a more effective way, it may materially change the entire secondary domain sales market. Other significant industry stakeholders share similar views.

### **Key Performance Indicators Background Information**

The Company releases some key financial performance indicators for comparative purposes. These indicators are based on unaudited management accounts.



From an overall financial performance perspective, it is important to understand that the Company generates all its revenue in US dollars and it pays all its traffic sources in US dollars, so the Company earns a gross profit which is denominated in US dollars.

However, the Company's overheads which are primarily staffing related are denominated in Australian dollars so the \$A/\$US exchange rate can have a significant impact on the Company's financial performance.

The Company generates the bulk of its revenue from selling traffic. A segmentation by traffic source provides the best indicators of the overall trends in the financial performance of the Company.

In any Internet business that generates revenue from traffic, it is important to distinguish between revenue generated from **Internal** and **External** traffic sources. **Internal** traffic sources are ones that are owned and operated by the Company. **External** traffic sources are ones that are owned by customer's of the Company.

As **Internal** traffic sources are controlled by the Company they form a reliable annuity style revenue stream. **External** traffic sources are much less reliable as they are subject to competition in the traffic market. Almost all traffic arrangements can be cancelled on short notice and contracted deals rarely extend beyond one or two years.

Dark Blue Sea's **Internal** traffic is almost exclusively sourced from the Company's domain name portfolio. Dark Blue Sea's **External** traffic sources are primarily other domain name portfolio owners. The Company uses its unique platform, good relationships with domain name portfolio owners and competitive pricing as the primary methods of acquiring and maintaining **External** traffic sources.

The Company earns different margins on **Internal** and **External** traffic sources. For **Internal** traffic sources, the main expense is domain name registration fees. These are a fixed cost and so the margins can be high and expand as the industry grows. For **External** traffic sources, the arrangements are typically revenue share based and hence the margins are much lower. Good traffic sources have excellent bargaining power.

A further segmentation of the Company's **Internal** traffic sources provides additional clarity. A breakdown of the Internal Revenue into the revenue that is generated from **profitable domain names** (i.e. those domain names that earn sufficient revenue to cover the annual registration expense) and **unprofitable domain names**, the number of profitable domain names and the margin achieved on the profitable names is provided. It should be noted that the portfolio of profitable domain names generates the bulk of the **Internal** revenue and is a very high margin business.



Domain sales revenues include revenue from all domains the Company sold during the period. These include sales from the Company's main web site (FabulousDomains.com) as well as ad-hoc sales (typically for a large number of domains) that are agreed external to the web site.

It should be noted that the Company has additional revenue sources that are not included in these numbers. These revenue sources do not currently have a material impact on the overall financial performance of the Company.

### **Accounting Treatment of the Domain Name Portfolio**

For both new domain name registrations and renewals, it costs the Company US\$6 to hold each domain name for a period of one year. The \$US6 cost is paid in advance and so has an immediate cash flow impact. It is viewed by the Company as a prepayment of traffic for twelve months and is recorded as a short term asset in the balance sheet. Domain name registrations are also recorded as operational cash flow in the reported cash flow statements.

The Company amortises that US\$6 short term prepaid traffic asset over the subsequent 12 month period, effectively passing that cost through as an expense in the profit and loss statement.

Notwithstanding the accounting treatment of domain name registrations and renewals, the domain name portfolio is viewed by the Company as of a capital nature, ie. an enduring asset having long term revenue generating capabilities.

In regard to the Company's domain name sales, the proceeds of sales are treated as operating income, and the component in excess of the registration expense is recorded as operating profit.

### **About Dark Blue Sea**

Dark Blue Sea is an online advertising intermediary or "internet traffic" broker servicing a global customer base from its office in Brisbane. Dark Blue Sea has developed and successfully manages a number of world-class commercial Internet properties including:

- Roar and Pageseecker, pay-per-click advertising portals;
- Fabulous, an ICANN accredited domain name registrar and domain name management system;
- Dark Blue, an online advertising affiliate network; and
- Its Domain Name Portfolio.

Fabulous, Dark Blue and Roar / PageSeeker provide a fully integrated package for the generation, management and monetization of "internet traffic". "Internet traffic" is directly analogous to shopping centre floor traffic.



The ability to offer traffic sources and advertisers a platform consisting of an integrated domain name registrar, advertiser affiliate network and a pay-per-click advertising portal is a compelling value-added proposition that the Company believes is unique in the global marketplace.

Dark Blue Sea currently owns a portfolio of approximately 545,000 internet domain names.

The vast majority of Dark Blue Sea's domain names are what are termed generic keyword domain names. These are domains such as [www.bedroomfurniture.com](http://www.bedroomfurniture.com) that are constructed from generic keywords or phrases ("bedroom furniture" in this case). Users find Dark Blue Sea's domain names by typing simply typing domain names such as [www.bedroomfurniture.com](http://www.bedroomfurniture.com) into the address bar of their browser (e.g. Internet Explorer). Of the 545,000 domain names the Company owns, approximately 515,000 are generic domains.

Approximately 170,000 people (or "unique visitors") from around the world type in (or "directly navigate" to) one of Dark Blue Sea's domain names every day.

The "internet traffic" that is generated from Dark Blue Sea's portfolio of domain names can be sold to online advertisers. Advertisers can purchase the "internet traffic" from either Roar / PageSeeker or Dark Blue, the companies online advertising properties. Dark Blue Sea also has commercial relationships with many other leading online advertiser networks that effectively also buy the "internet traffic" from Dark Blue Sea's domain name portfolio.

Fabulous was developed to help the Company manage its own domain name portfolio and to provides services to other domain name portfolio owners. The Company combines the internet traffic from its own and other portfolios to try to negotiate the best possible advertising deals.

Fabulous also provides domain name registration services. Fabulous is currently the 16<sup>th</sup> largest domain name registrar in the world.

Domain names are the real estate of the internet – it is the first step for any business wanting to establish a presence on the Internet. Like offline real estate, domain names can be bought, sold, rented, leased, etc.

Domain names can trade at wildly inconsistent prices in the secondary market but, like offline real estate, prices are broadly underwritten by financial investors. Such investors (including domain name portfolio owners) are willing to purchase domain names by capitalising current or potential leasing revenue.

Businesses such as Fabulous help establish base line valuations of domain names by determining a base line leasing potential of any domain name. This is done by selling the direct navigation (or domain name type in) traffic to advertisers.



The Company believes it is well-positioned in a small but important niche of rapidly growing global US\$17 billion per annum online advertising market.

Dark Blue Sea is listed on the Australian Stock Exchange (code: DBS) and has a Level 1 over-the-counter ADR program through the Bank of New York (code: DKBLY).

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