



DARK BLUE SEA LIMITED
ACN 091 509 796

Company Announcement

Date: 5 November, 2007

September 2007 - Quarterly Update

Dark Blue Sea Ltd (ASX listing code DBS) today released an update on its quarterly performance for the three months to 30 September, 2007.

As advised with the release of the March 2006 quarterly cash flow statement, the Company will no longer lodge Appendix 4C statements with the Australian Stock Exchange. The company has previously announced some Key Performance Indicators (KPIs) coincident with these releases. It is the company's intention to continue to release these KPIs on a quarterly basis.

This release contains information about:

- Key Performance Indicators
- September Quarter Trading Performance
- Update on Secondary Market Domain Sales
- Outlook for the December 2007 Quarter
- Financial Impact of the Australian Dollar versus the US Dollar

Key Performance Indicators

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

The updated Key Performance Indicators for the September 2007 Quarter are on the following page.



	Qtr end 30.09.06	Qtr end 31.12.06	Qtr end 31.03.07	Qtr end 30.06.07	Qtr end 30.09.07
Revenue (US\$'000)					
Internal Traffic – Profitable Domain Names	1,841	1,587	1,871	1,963	1,923
Internal Traffic – Unprofitable Domain Names	66	68	78	88	87
Total Internal Traffic	1,907	1,655	1,949	2,051	2,010
Internal Domain Name Sales	297	318	333	638	857
Total Internal Revenue	2,205	1,971	2,281	2,688	2,866
External Traffic	5,001	3,709	2,912	2,547	2,759
Total Traffic Revenue	6,909	5,362	4,859	4,597	4,768
Revenue Margin (%)					
Internal Traffic – Profitable Domain Names	91	90	90	89	88
Total Internal	64	52	59	69	68
External	27	26	28	31	27
Total Traffic	35	31	38	44	39
Number of Profitable Domains	113,000	110,000	129,000	150,000	153,000

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



September Quarter Trading Performance

The company has had a good trading performance in the September quarter. The September quarter is seasonally the weakest for internet traffic as it coincides with the northern hemisphere summer.

Revenue from the company's own domain name portfolio has remained strong. Revenue from the Company's domain name portfolio was approximately US\$2 million, an annualized rate of approximately US\$8 million, at the top end of the guidance range of US\$7 to US\$8 million previously provided.

Gross secondary market sales of the Company's domain names were US\$857,000 in the September quarter, up from US\$638,000 in the June quarter. The significant improvement reflects the first full quarter of the financial benefits from the roll out of the Domain Distribution Network ("DDN"), the Company's domain's secondary market domains for sale network.

Trading in the Company's external business in the September quarter has been similar to the June quarter. Whilst revenues were slightly better in the September quarter, the margin achieved was lower.

Update on Secondary Market Domain Name Sales

The Company continues to roll out the Domain Distribution Network ("DDN"), the Company's secondary market domain sales business.

The Company is now live with most of the major retail registrars including GoDaddy, Network Solutions, Register.com, Tucows and Moniker. This is the key target market for the secondary market sale of domain names.

The Company continues to work on additional improvements. It is still early days and there are still a significant number of issues (optimisation, implementation and commercial) to work through but the initial results remain very encouraging.

The Company also believes that it now has a business model which is commercially viable for all interested parties on a long term basis. The Company is now confident that the DDN, or a variation, will become an integral part of the domain name industry. In this regard, the Company expects to have access to a quality distribution system to sell its domain names on a trend basis. In essence, the Company believes the secondary market via the retail registrars has been enabled.

The Company expects that tangible financial benefits from the DDN will continue to become progressively clearer over the coming quarters, with the full financial benefits expected to be realised over the next couple of years.



The magnitude of the potential growth from the DDN is still difficult to quantify but is expected to be significantly more than current levels on a trend basis. Retail domain name registrars are the largest natural supply channel through which to satisfy the demand for secondary market domain names. Prior to the launch of the DDN, retail registrars have not had the required inventory distribution systems in place.

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 bringing together these demand and inventory sources in an effective way, together with a number of strategic partners, may materially change the entire secondary domain sales market. Other significant stakeholders in the industry share similar views.

Outlook for December 2007 Quarter

The Company expects internal revenue from its domain name portfolio to be in the US\$7.5 to US\$8.5 million annualized range for the December quarter and future periods. This is up from the previously stated range of US\$7 to US\$8 million annualized range.

On the basis of October trading, gross secondary market domain name sales are expected to be approximately US\$1 million. This is up from the September quarter but includes the sale of bedroomfurniture.com (the reference domain that the company had been using in its shareholder communications). The major retail registrars distributing the Company's domain names have all been testing a range of different web site configurations over the last couple of months. Whilst this has impacted the positive trajectory of sales in the short term, there are considerable longer term benefits (such as optimization and innovation) in this activity.

Based on October trading, the external business is expected to perform similarly in the December quarter to the September quarter on a gross operating profit basis.

Financial Impact of the Australian Dollar versus the US dollar

The Company continues to be adversely affected by the rise in the Australian dollar versus the US dollar. Even though the company reports in Australian dollars, most of the company's business is transacted in US dollars. The effect is seen in the translation of balance sheet items and is explicitly recognised in the Profit and Loss. There is also a through the period effect which is not explicitly recognised but is observed as a reduction in the operating margin.

The Company's internal modelling indicates the explicitly recognised (i.e. balance sheet translation related) EBITDA sensitivity to be approximately A\$50,000 per one cent move in the Australian dollar / US dollar exchange rate. The operating margin impact of currency movements is more difficult to quantify exactly. The Company's internal modelling estimates the current sensitivity on 2007/08 EBITDA to be



approximately A\$150,000 per one cent change (based on current levels of financial performance being maintained). Since June 30, 2007, the exchange rate has moved adversely by approximately seven cents.

In addition to this impact, the Company expects to generate significant additional revenue (and EBITDA) from increased secondary market domain name sales over the coming financial periods. All this incremental revenue will be denominated in US dollars and will increase the currency sensitivity of the Company in absolute terms.

The Company manages the operational aspects of the business from a US dollar perspective and keeps excess cash in US dollars. The Company brings back sufficient US dollars on a regular basis to fund its future Australian dollar liabilities (overheads, tax and dividends) but doesn't actively hedge for exchange rate movements. In this regard, the Company continues to be exposed to a rising Australian dollar versus the US dollar.

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 source.

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 Domain Distribution Network, 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\$6.42 to hold each domain name for a period of one year. The \$US6.42 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\$6.42 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;
- The Domain Distribution 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 more than half a million 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.booksellers.com that are constructed from generic keywords or phrases (“book sellers” in this case). Users find Dark Blue Sea’s domain names by typing simply typing domain names such as www.booksellers.com into the address bar of their browser (e.g. Internet Explorer).

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 Company’s 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 20th 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. Domain names can trade in the secondary market. Through the Domain Distribution Network, small businesses and individuals can purchase secondary market domain names through their preferred retail registrar.

The Company believes it is well-positioned in a small but important niche of rapidly growing global US\$18 billion per annum online advertising market as well as the emerging domain name secondary 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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