



DARK BLUE SEA LIMITED
ACN 091 509 796

Company Announcement

13 November, 2008

ANNUAL GENERAL MEETING - CHAIRMAN'S ADDRESS

In accordance with Listing Rule 3.13.3, we disclose below, the contents of the Chairman's Address to be delivered at the Company's Annual General Meeting to be held at the HopgoodGanim Presentation Room, Level 7 Waterfront Place, 1 Eagle Street, Brisbane on Thursday, 13 November 2008 commencing at 10.00am.

Introduction

Dark Blue Sea was founded in 1999 and its current business activities involve the provision of a range of internet related services, most particularly in the professional domain name ownership sector of the market.

Over the last seven years, the Company has been progressively transformed from a relatively small online advertising intermediary into a leading full service provider in an important niche of the Internet, namely domain names.

Throughout this process, the Company has also accumulated its own portfolio of more than 500,000 domain names.

Today, the Company's domain name portfolio represents the significant majority of the value in the Company.

In 2007/08, the Company generated revenue of approximately US\$12.2 million from its domain name portfolio (comprising US\$6.2 million in advertising revenue and US\$6.0 million from domain name sales).

This compares to approximately US\$9.1 million in 2006/07 (comprising US\$7.5 million in advertising revenue and US\$1.6 million from domain name sales).

Most of the effort over the last year has been directed to developing the secondary market domain sales business and there has been significant improvement in this area over the prior period.

In March 2008, Dark Blue Sea signed an important agreement with GoDaddy which we expect will significantly improve secondary market domain sales over the next five years.

I will expand on our secondary market domain sales efforts and the GoDaddy agreement later in this address.

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Financial Results

2007/08 was a challenging year for the Company.

The reported financial results were disappointing relative to the prior year as the direct navigation advertising market turned weaker with the downturn in the US economy and due to a range of structural changes occurring in the industry.

We also battled the headwind of the strong Australian dollar which finished the year at 96 cents.

The financial results for Dark Blue Sea for the 2008 financial year were weaker than the prior year.

Revenue from ordinary activities was down slightly from \$32.4 million in 2006/07 to approximately \$31.3 million in 2007/08.

EBITDA for the current year was approximately \$4.0 million, compared to \$5.4 million in the previous year, a decrease of 26%.

The group recorded a net profit from ordinary activities after income tax of approximately \$2.7 million in the current year, a 25% decrease compared to the \$3.6 million the previous year.

At year end the Company had cash on hand at approximately \$5 million, and whilst there are debt facilities in place, these were undrawn.

The Board declared a final dividend half a cent per ordinary share, fully franked.

This brings the total dividend for the 2007/08 financial year to two cents per ordinary share fully franked.

Domain Names

At previous Dark Blue Sea Annual General Meetings, I have outlined the positive characteristics of domains.

As so much of the Company's value resides in its domain name portfolio it is worth reiterating why domain names are attractive assets.

Domain names that satisfy certain criteria have attractive financial characteristics for two primary reasons.

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Characteristic One - Domain Names are the real estate of the internet

The first and most important characteristic is that domain names are the real estate of the Internet.

Domain names were created to make it easy to find websites on the Internet.

Domain names have very similar characteristics to offline real estate.

Using this comparison, it is best to think of domain names being the land and websites as the buildings or other improvements on the land.

There is a secondary market for domain names.

In the same way that land values tend to rise and fall in line with economic activity in the offline world, domain name values should continue to rise and fall with overall e-commerce activity.

Domain names have proven to be natural exposure to the Internet.

Despite the recent economic concerns which have weakened e-commerce activity (and hence domain name prices), the longer term outlook for Internet activity remains strong.

Characteristic Two - Domain names are a source of very high quality traffic

The second characteristic is that domain names are a source of high quality traffic that generates advertising revenue.

Many Internet users type domain names directly into the address bar of their internet browser software (e.g. internet explorer) to try to find websites, a process the industry terms "direct navigation".

An example is helpful.

A user who is interested in "book sellers" may type in the domain name www.booksellers.com into the address bar of their browser.

Dark Blue Sea owns the domain name booksellers.com and we have built a website which includes advertisements from book sellers.

The direct navigation process generates a flow of traffic that is uniquely targeted and monetized through advertising to produce an annuity style income flow.

The size of the direct navigation industry is currently estimated to be approximately US\$1 billion per annum, a significant component of the US\$25 billion per annum turnover of the overall US online advertising industry.

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Secondary Market Domain Sales / Go Daddy Agreement

Despite the challenging operating environment, we achieved a very important milestone during the year.

A multi-year domain sales agreement was established with GoDaddy, the market leading domain name registrar in March 2008.

The full financial impact of this agreement will be realized over the next five years and is expected to contribute very favourably to earnings over this period.

The deal with GoDaddy is one part of a wider program of establishing the Domain Distribution Network (the Company's secondary market domain name sales platform) as a sustainable market for selling the Company's domain names at retail prices.

Apart from GoDaddy, the Domain Distribution Network is now well established in other major registrars including Network Solutions, Register.com, Tucows, Melbourne IT and Moniker.

A significant flow on effect of having a sustainable secondary market for domain names is improving confidence in the asset based pricing of domain names.

This is an important element of our domain name sales efforts and a key point that is worth reinforcing.

We see domain names first and foremost as assets that have similar characteristics to real estate.

Whilst important, domain names are more than simply an advertising revenue stream derived from direct navigation.

2008/09 Outlook

Dark Blue Sea is a US centric business that generates most of its revenue from direct navigation advertising which is part of the US online advertising industry.

The key factors that are currently driving the direct navigation advertising industry are

- the weaker economic environment in the US
- generally fewer advertisers leading to a reduction in bid prices and coverage and hence overall yield
- changes to the way that online advertisers can place advertisements via the advertiser interfaces of the major search advertising networks; and
- an overall uncertain strategic landscape stemming from the unsuccessful takeover bid for Yahoo by Microsoft and the subsequent failed Google / Yahoo search advertising deal

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There has been a progressive deterioration in the direct navigation advertising industry through the 2008 calendar year.

Direct navigation advertising revenues are currently travelling at less than half the levels they were twelve months ago.

Given the outlook for the US (and global) economy remains weak, there is currently little expectation of improvement in advertising revenues over the balance of this financial year.

On a positive note, the substantial decline in the Australian dollar since the end of the 2007/08 financial year has provided a significant positive benefit to the Company and helped offset some of the decline in advertising revenue.

The Company generates its revenue in US dollars but most of its costs are linked to the Australian dollar.

The Company's internal modelling estimates the current sensitivity on 2008/09 EBITDA to be approximately A\$100,000 per one cent change.

To date, during 2008/09, the exchange rate has moved favourably by approximately 30 cents.

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 favourably to a decreasing Australian dollar versus the US dollar.

Current Financial Position

As at the end of October, the Company had approximately A\$2 million net cash at bank.

In late September, the Company prepaid approximately US\$1.2 million of domain registrations prior to the recent domain registry price increases.

The Company now has limited registration related financial commitments until Q2 2009 and it is expected that this registration prepayment will progressively flow back into cash at bank over this period.

The Company continues to maintain its debt facilities (A\$1 million and US\$4 million) which have remained substantially unused.

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The Company also continues to have the ability to generate liquidity reasonably quickly if required by selling some domain names to other professional domain name owners.

The key drivers for the Company's revenue are advertising and domain sales revenue from the Company's own domain name portfolio, intermediary business gross profits and the level of the \$A / \$US exchange rate.

The main cost drivers are domain registrations for the Company's own portfolio and overheads.

Most of the revenue drivers have been extremely volatile (some favourably, some not) in recent times so it is difficult to get a true reading on the financial outlook for the Company.

Overall, the Company is very well positioned to weather the current financial storm, unlike some other industry participants that have considerable debt levels or dependence on single income streams such advertising intermediary revenues.

Restoring the Company to acceptable levels of profitability is clearly extremely important.

In this context, the Company continues to review all of these key profit drivers in parallel with some strategic initiatives I will now outline.

Strategic Direction

2008 has been a turbulent year for the domain name industry with most (if not all) domain name owners seeing substantial declines in advertising revenue.

This is particularly the case in circumstances where there is revenue concentration on either Google or Yahoo which is most of the industry (including Dark Blue Sea's own portfolio).

Historically, the domain services businesses (i.e. those businesses which provide registration, advertising and secondary market sales services) to third-party domain name owners (including Fabulous) has generated the majority of their gross profit from intermediating advertising revenue.

As the advertising component of the industry has declined, industry profitability has plummeted.

Many services businesses that rely exclusively on advertising are no longer viable and the industry is, in our view, ready for consolidation.

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In a strategic context, Dark Blue Sea is relatively well positioned as it has established businesses in the full range of domain name services - advertising (Fabulous), domain registration (Fabulous) and secondary market domain sales (Domain Distribution Network).

Dark Blue Sea is one of the few companies in the world that can provide all these services and is certainly on the best integrated solutions.

Dark Blue Sea also has its own domain name portfolio that underwrites the entire business and is a source of liquidity if required.

Going forward, the Company sees secondary market domain name sales becoming a much more significant component of the industry (and for its own portfolio).

In this regard, Dark Blue Sea is very well positioned to benefit as it was first to market with a fully scalable secondary market domain names solution through the retail registrars (via the Domain Distribution Network) and as at today remains one of only a couple of access points to that distribution channel.

In the context of the expected industry consolidation, the Company is currently exploring a range of strategic options with other domain industry service providers.

Whilst it is a difficult time to consummate transactions given the industry-specific and general economic uncertainty as well as market volatility, discussions with other industry participants suggests the timing is appropriate.

Our People

Firstly, I would like to thank Joe Ganim, my fellow non-executive Board member for performing his duties in a professional and diligent manner throughout the year.

I would also like to thank the Company's Chief Executive Officer, Mr Richard Moore and other key members of senior management - Mr Greg Platz, the Chief Financial Officer and Mr Dan Warner, the Chief Operating Officer, all of whom are extremely passionate and knowledgeable about the industry.

They are doing an excellent job and I thank them all for their continued efforts.

The Company also has an outstanding group of technical development staff that has created products that are of the same or better standard as those of companies with much greater levels of resources.

Our 24 hour customer service team is recognized within the industry as offering one of the best levels of customer support.

These two aspects have provided a very solid foundation for the sales and marketing group to promote our products in the market, and they have made considerable progress over the last year.

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I would like to take this opportunity to thank all employees of the Company for their outstanding efforts over the last twelve months.

Conclusion

Dark Blue Sea operates in a very dynamic industry which continues to show positive signals for the future.

It is an exciting and challenging business to be in, but one which still offers opportunities for industry specialists such as Dark Blue Sea.

I take this opportunity to thank you for your continued support.

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