



DARK BLUE SEA LIMITED
ACN 091 509 796

Company Announcement

19 November, 2007

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 Earl of Inchcape Room, Polo Club, Naldham House, Cnr of Eagle and Felix Streets on Monday, 19 November 2007 commencing at 10.30am.

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 professional domain name ownership sector of the market.

Over the last six 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 2006/07, the Company generated revenue of approximately US\$9.1 million from its domain name portfolio (comprising US\$7.5 million in advertising revenue and US\$1.6 million from domain name sales).

This compares to approximately US\$5.7 million in 2005/06 (comprising US\$4.4 million in advertising revenue and US\$1.3 million from domain name sales).

The company has been and continues to invest in technology and business development to try to improve the value of its portfolio.

Most of the effort over the last year has been directed to developing the secondary market domains for sale business.

During the year the Company launched a very innovative product to facilitate secondary market domain name sales called the Domain Distribution Network or the DDN.



I will discuss the DDN in more detail later.

Financial Results

The financial results for Dark Blue Sea for the 2007 financial year were solid but adversely impacted by the significant increase in the Australian dollar / US Dollar exchange rate over the period.

Revenue from ordinary activities was down slightly from \$33.5 million in 2005/06 to approximately \$32.4 million in 2006/07

EBITDA for the current year was approximately \$5.4 million, compared to \$4.4 million in the previous year, an increase of 23%.

The group recorded a net profit from ordinary activities after income tax of approximately \$3.6 million in the current year, a 26% increase compared to the \$2.9 million the previous year.

The positive cash flow position of the consolidated entity in the current year has resulted in cash on hand at the end of the current year increasing to \$6.2 million, (up from the \$5.5 million on hand at the end of the previous year).

The Board declared a final dividend of one and a half cents per ordinary share, fully franked.

This brings the total dividend for the 2006/07 financial year to three 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.



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 in line with economic activity in the offline world, domain name values should continue to rise as overall e-commerce activity increases over the next few years and beyond.

Domain names have proven to be naturally appreciating assets.

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 US\$800 million per annum, a significant component of the US\$20 billion per annum turnover of the overall online advertising industry.



Secondary Market Domain Sales and the Domain Distribution Network

Dark Blue Sea generates most of its revenue today from the second characteristic – advertisers buying the high quality direct navigation traffic from domain names.

Secondary market domain names sales is about the first characteristic – domains as real estate.

To help understand what we are trying to achieve, I will give you some examples.

AlmondMacaroons.com, BaltimoreHardware.com, FlashDiffuser.com, MagnetSupplier.com, RubberLinedPipe.com and SteelStairways.com are all domain names that we owned and sold earlier this year.

Each of these domain names were sold for US\$1000 or more to an SME.

A “retail buyer” bought these domain names at “retail prices”.

The retail buyer wanted a domain name for their business.

All of these domain names had less than US\$6 of advertising revenue in the prior twelve months – it now costs \$6.42 per domain name in registration fees.

Whilst, we were actually losing money holding these domain names for advertising revenue only, they have proven their value as asset.

In the life of the company, we have sold a couple of thousand domain names in this way to retail buyers.

We have also regularly sold domain names for five figure and six figure amounts and recently sold bedroomfurniture.com, our IR reference domain, for more than a quarter of a million US dollars.

We still have over 500,000 domain names left and we have the expertise and industry knowledge to be able to find similar domain names to replace the ones we sell.

The secondary market domain sales challenge is all about establishing retail distribution channels that allows us to sell as many of our domain names at retail prices as we want to sell.

The Domain Distribution Network (“DDN”) is the key component of the Company’s secondary market domain sales strategy.



Technically, the DDN is an Application Programming Interface (or “API”) that domain name registrars can use to offer secondary market domain names to their customers and settle secondary market domain name transactions in real time.

From a practical perspective, the DDN is a very efficient way of matching the natural buyers and sellers of domain names.

The natural buyers are SMEs and individuals.

These are customers of the major domain name registrars – the retail registrars.

The natural sellers are the large scale professional domain name owners such as Dark Blue Sea.

The DDN is now live with most of the major retail registrars including GoDaddy, Network Solutions, Register.com, Tucows, Moniker and others.

Where are we with the DDN today?

We have achieved technical integration of the DDN with the major retail registrars;

The DDN has achieved adoption by a critical mass of registrars;

And we have demonstrated the commercial viability to have secondary market domain name offered for sale by the retail registrars.

But perhaps the most important milestone is we have effectively enabled the natural retail secondary domain sales market.

And like all markets that get enabled, there is ongoing scope for innovation which benefits everyone involved in the market – buyers, sellers and intermediaries.

We believe that the size of the retail secondary market in two or three years time will be many times larger than it is today.

And, in that environment, we expect we will be able to sell our domain names at a much faster rate than we are currently.

There is still a lot to do and we will continue to work on additional improvements to the DDN.

But, going forward, most of the work will need to be done by the retail registrars.

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



The rollout and market acceptance of the DDN makes the end of an important phase in Dark Blue Sea's history that extends back a few years.

Four years ago, the company decided to start investing the bulk of its free cash flow into building up its domain name portfolio.

This was partly in expectation of a strongly growing online advertising market, which has proved to be the case.

But we also had the expectation that domain names would become viewed more as an asset than can be traded rather than simply a cash flow stream.

The DDN has demonstrated this asset characteristic.

Strategic Direction

I would now like to make a few comments on Dark Blue Sea's strategic direction.

The Company's domain name portfolio is and will likely remain the major component of shareholder value.

So a key strategic objective is to continue to try to improve the value of the portfolio.

In this regard, real estate analogies are helpful to explain what we are trying to achieve.

A domain name portfolio is the online equivalent of a land bank.

Monetizing the direct navigation traffic on our domain names is like having a billboard on every block of land in the land bank.

On the internet, this is easy to do in scale and this is essentially what we do to generate the annuity style advertising revenue.

Today, this is fairly well established and understood market.

Valuing domain names on the basis of this billboard style advertising involves capitalizing the annuity style cash flows.

It is equivalent to buying properties based solely on a rental yield – it is a financially driven transaction.

But this valuation approach is only a floor on the value of the property or the domain name.

Another way to demonstrate value in a land bank is by progressively selling some of the blocks of land, ideally to "retail buyers" that want to build their own house.



Land sold this way will typically be based on comparable sales in the area and often well in excess of the prices suggested by “billboard” advertising based valuations.

The current market for domain names sold to “retail buyers” is an order of magnitude (i.e. ten times) higher than the capitalized advertising revenue.

Liquidity is an important factor in determining value.

As at today, the value of the land is a significant liquidity discount to comparable retail sales.

But more real estate agents, a smoother sales process, more comparable sales will all help improve liquidity and lessen the liquidity discount.

This is what we are trying to achieve with the DDN.

And it is still early days but the market has been enabled.

The final way to demonstrate value of the land is to view it as a development opportunity.

Instead of selling the vacant land, build a house on it and then sell the finished product.

In these cases, the value of the land becomes the value of the finished house less the cost of developing the house less a cost of capital.

Whilst development involves the use of additional capital, the returns versus simply selling the land can be massive.

In the same way that no two property development deals are completely the same, domain development deals can vary significantly.

Here are a couple of examples of domain development to provide some indication of the potential returns.

In 2001, during the middle of the dot com bust, a professional domain name owner bought CreditCards.com for US\$100,000.

In mid 2004, CreditCards.com was sold by that professional domain name owner to an entrepreneur for US\$2.75 million.

With a few staff and some capital to do online advertising, a successful online credit card business was built using CreditCards.com as the centerpiece.

In late 2006, the CreditCards.com business was sold to a private equity buyer for US\$95 million cash and approximately 16% equity in the new company.



Today, CreditCards.com is in the process of finalizing its IPO with a valuation of several hundred million dollars.

Dealtime, a shopping comparison website, was founded in 1998.

After the tech bubble burst, DealTime was one of a number of comparison shopping web sites struggling to gain traction.

In 2001, DealTime bought Shopping.com from Altavista for approximately \$500,000 – a great deal!

In 2003, DealTime was rebranded Shopping.com and immediately attracted both customers and major retailers, becoming the third most visited consumer site in the US after Ebay and Amazon.

In mid 2004, the company was bought by Ebay for US\$620 million.

In both the CreditCards.com and the Shopping.com cases, the domain name was not the only reason for success – these businesses required both capital and good management.

But, like a prime piece of real estate, the domain name was and remains an intrinsic part of the success.

The domain name provided a natural competitive advantage.

Now Dark Blue Sea doesn't own any super-premium domain names like CreditCards.com or Shopping.com.

But we believe the development principles illustrated by these two examples will, in the fullness of time, be applicable to the whole spectrum of generic domains, including many domain names we own.

This is the challenge and the context for defining the next phase of the company.

If generic domain name development can ever be proven in scale, the value of our domain names will have scope to improve further.

We will try to use our domain name assets, our relationships and our internet expertise on domain development related opportunities to try to add shareholder value.

Financing Opportunities

Until recently, the domain name industry was substantially funded by equity.

It was very difficult to borrow money using a domain name as security.



Domain names as assets, secondary market domain sales and the DDN has opened the door to more creative financing, in particular the use of debt.

As secondary market domain name sales are substantially independent of the advertising revenue stream, domain names have become much more bankable.

In the US, there has been a number of debt transactions over the last year or so based on domain names.

From a strategic perspective, we see debt becoming an increasingly important part of the domain financing landscape.

As at today, Dark Blue Sea still has a significant cash position and no debt.

Recently the Company has established debt facilities of approximately \$6 million.

The company intends to continue to expand these debt facilities and seek domain related acquisition opportunities to add shareholder value.

We are mindful of the current fragility of the credit markets and will likely move cautiously.

But such market environments can also present opportunities.

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 the 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.



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 exciting and dynamic industry which continues to show very positive signals for the future.

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

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