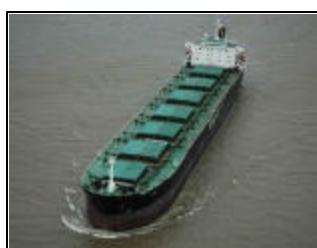
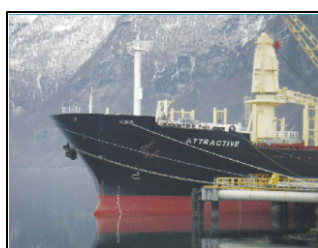


# DRY BULK SHIPPING: THE ENGINE OF GLOBAL TRADE

By Nicolas Bornozis



## A Review of the Dry Bulk Sector



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# Dry Bulk Shipping: The Engine of Global Trade

by Nicolas Bornozis

The strong industrial development in the economies of China, India and Southeast Asia, since the turn of the twenty first century, has resulted in a significant increase of the annual growth rate of the demand for dry bulk commodities. This in turn strengthened the freight rate environment, leading freight rates to all time highs. As dry cargo markets fundamentals changed, a significant number of dry bulk companies entered the U.S. public market in 2005 raising close to \$2.0 billion, in primary and follow-on offerings helping these companies to fund the expansion of their fleets. Ten dry bulk companies are currently listed in the US markets compared to one prior to 2005.

## Shipping a Vital Link in Global Trade

International shipping plays a vital role in global trade given that 2/3 of the world's goods are transported by sea. Tankers, which carry liquid fuels such as oil, oil products and chemicals account for about 40% of total sea borne trade, whereas dry bulk commodities represent about 38% and the rest is general cargo and containers. Dry bulk commodities are divided into

two distinct categories, major bulks and minor bulks. Major bulks include iron ore, coal and grain, which are shipped on the larger size Capesize and Panamax vessels and comprise 67% of dry bulk trade. Minor bulks are fertilizers, steels, sugars, cement etc., which are shipped in smaller more versatile vessels such as Handymax and Handysize, and comprise about 33% of the dry bulk commodities trade.

Iron ore and coal are the two most important major bulk commodities with 27% and 26% of total dry bulk trade respectively, with grain accounting for the remaining 14%. Iron ore is used to make steel; coal has two primary uses, it is used to generate electricity as thermal coal and for the production of steel as coking coal. The supply of coal is abundant with reserves at over 200 years versus the 41-year life of oil reserves and 67 year life for gas reserves.

The global dry bulk fleet includes about 6,271 vessels which are distinguished into four basic categories based on their carrying capacity in deadweight tons (dwt).

Vessel Type	Carrying Capacity (dwt)	Number of Vessels	Capacity (million dwt)	% of Global Fleet Capacity	Main Trade Characteristics
Capesize	100,000 +	688	116.4	32 %	Iron ore and coal
Panamax	60,000– 99,999	1,365	99.0	28 %	Iron ore, coals, grain
Handymax	40,000– 59,999	1,464	69.7	19 %	Grain & minor bulks
Handysize	10,000 -39,999	2,754	73.6	21 %	Grain & minor bulks
Totals		6,271	358.8	100%	

Source: Statistics by Clarkson Research Services, September 2006

Unlike tankers, which are required to have double hulls, dry bulk vessels are single hull, as dry bulk cargoes do not pose a significant environmental risk. Also, unlike the tanker market that shows high concentration among a few major owners, the dry bulk sector is highly fragmented with significant consolidation opportunities. There are over 1,000 private and public companies. Excluding COSCO, owned by the Chinese government, the top 19 owners control just about 20% of the global dry bulk fleet capacity with the 10 US listed dry bulk companies controlling less than 3%.

Dry bulk shipping is a global business but there are a few major trade routes for the major bulk commodities between exporting and consuming regions. Coal is mainly shipped from Australia and Canada to the Far East and Europe, whereas iron ore is mainly shipped from Australia and Brazil –which account for almost 70% of global iron ore production- to China, Japan and Europe. Grain is shipped mainly from the US Gulf, Brazil or Argentina to Europe and to the Far East. Furthermore, there are a multitude of other routes for the minor commodities and general cargo.

Dry bulk vessels are employed either in the spot or the period time charter markets. The spot market refers to contracts for one or more voyages than can last up to a few months. Period time charters can range from several months to several years. In general, spot rates tend to be higher than time charter rates. For example, between 2002 and 2006 the average daily earnings of a Capesize vessel were \$ 43,269 in the spot market, \$ 38,756 under a one-year time charter and \$ 29,189 under a three-year time charter. While strong spot rates can generate higher earnings in good markets, time charters provide for a steadier income stream over a longer period of time and reduce short-term market volatility. The mix between spot and period employment varies by company depending on its interpretation of market trends and its overall corporate strategy.

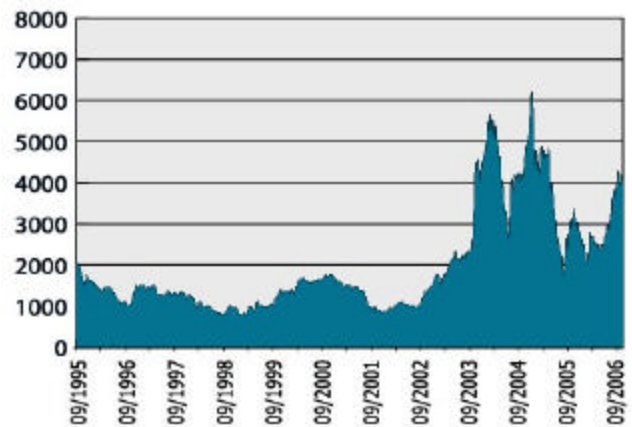
**Freight Rates in a New Trading Range**

Freight rates in dry bulk shipping are driven by demand and supply. Global economic conditions affect the demand side, while the size and availability of the global fleet affect the supply side. Shipping is a cyclical industry and as history has shown, imbalances between demand and supply have a direct impact on asset values, freight rates and earnings. Furthermore, dry bulk shipping is also affected by seasonality, as hurricanes, monsoons and cold weather may affect the demand for iron ore, coal, grain or other commodities.

The Baltic Dry Index (BDI) of the Baltic Exchange tracks the performance of the overall dry bulk sector and reflects the rate development of the Capesize, Panamax and Supramax vessels. The industry tracks freight rate evolution –including spot market and time charter rates- on a daily Time Charter Equivalent (TCE) basis, which reflects rates paid to shipping companies per day net of voyage related expenses that are customarily borne by the charterers.



**Baltic Dry Index 1995 – 2006**



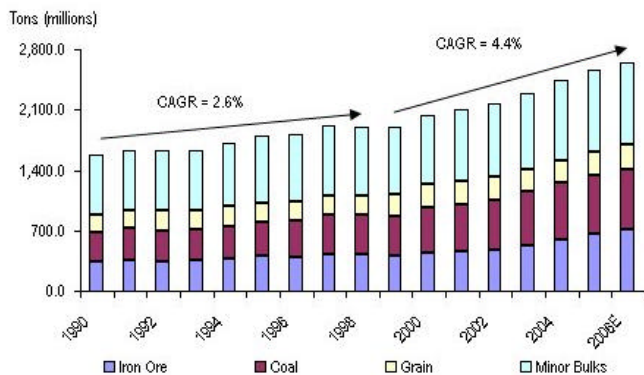
Dates: 01/09/2005 – 20/10/2006.

Source: Clarkson Research Services

“The increased demand from China, especially since it joined the World Trade Organization and the other developing economies of Asia since 2001 has propelled dry bulk shipping to a new era” states **Omar Nokta of Dahlman Rose**. Prior to 2001, the shipping markets were operating under completely different conditions than today and freight rates were less than half what they are today. For example, based on data provided by Jefferies, a 150,000 dwt Capesize vessel under a one year time charter earned on average about \$ 14,000 per day between 1996 and 2001, \$ 30,000 per day between 2001 and 2005, and \$ 50,000 in September 2006. The average daily revenues of a 70,000 dwt Panamax were about \$ 10,000 between 1996 and 2000, rose to \$ 20,000 between 2001 and 2005 and to \$ 30,000 in September 2006.

“Dry bulk shipping used to be event driven”, comments **Joe Royce, the CEO of TBS International**. “Notwithstanding the cyclicity and volatility which are inherent in the shipping business, dry bulk shipping is now affected by the sustainable year over year increase in global trade.” Seaborne dry bulk trade grew at a compound annual rate of 2.6% between 1990 and 1999 and 4.4% between 2000 and 2005. “The current cycle started in 2002” comments **Dan Barrett of Fortis Securities**. “The previous four cycles since 1977 lasted 6, 4, 12 and 3 years respectively and were triggered by major macroeconomic events. Major and minor bulks are the foundations of the world economy and the

consensus for World GDP forecasts are 5% for 2006 and 2007” concludes **Dan Barrett of Fortis Securities**.



Source: Jefferies

### 2006 A Transition Year

The BDI and freight rates follow the evolution of the demand and supply balance. During the years of excess demand, as in 2004, the BDI reached all time highs. Whereas, in 2005 and the first half of 2006, which saw a higher rate of supply versus demand, the BDI declined. Since the second half of 2006, the market has been on the rebound.

“To start with, a major factor which had a negative impact on shipping especially in the first quarter of 2006 was the post-Katrina effects” comments **Joe Royce of TBS**. “For several months, cargo inflows and outflows in the Gulf area were severely hampered with adverse impact on shipping.”

“We anticipated that the cumulative effect of a large new-building supply, coupled with seasonal factors such as heavy rains in Brazil, the Monsoon season in India and adverse weather conditions in Australia, was likely to result in a weaker freight environment for the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2006. Much to everyone’s surprise, the market reacted very differently. The principal factor for the underlying market strength can again be traced to China”, comments **Christopher Georgakis of Excel Maritime**.

“On June 19, 2006, China was the last country to agree to a 19% increase in the price of iron ore”, points out **Stamatis Molaris of Quintana Maritime**. “Leading into the negotiations, Chinese import demand was slower, as the country drew down on its inventories and used India as iron ore supplier at a more pronounced pace in an effort to enhance its bargaining position. However, once

negotiations were over, Chinese iron imports surged as the country’s steel mills replenished inventories following months of restraint.”

“As demand for dry bulk commodities surpassed expectations and newbuilding deliveries did not arrive as quickly as anticipated, spot rates spiked from their first quarter and early second quarter trading ranges” comments **Douglas Mavrinc of Jefferies** with Capesize rates passing \$ 50,000 per day in September, up from the \$ 30,000-35,000 per day range in the first half 2006 and Panamax rates vaulting to \$ 20,000-30,000 per day up from \$16,000-18,000.”

With 2006 drawing to a close, all eyes are now to 2007 and beyond.

### Positive Sector Outlook

Most industry participants agree on the positive outlook for the dry bulk sector. Since September of this year, industry analysts have been upgrading their earnings expectations by 20-30% from previous estimates for the companies they follow.

“Our view of our industry has not changed since we went public in February 2005” insists **George Economou of DryShips**. “We believe the long-term fundamentals for the dry bulk market are very positive over the next three years, through 2008”. “Obviously, we have to cope with the short term volatility of freight markets” adds **Christopher Georgakis of Excel Maritime**, “but we, as operators, take the medium and longer term view and we believe in the positive outlook for our sector.”

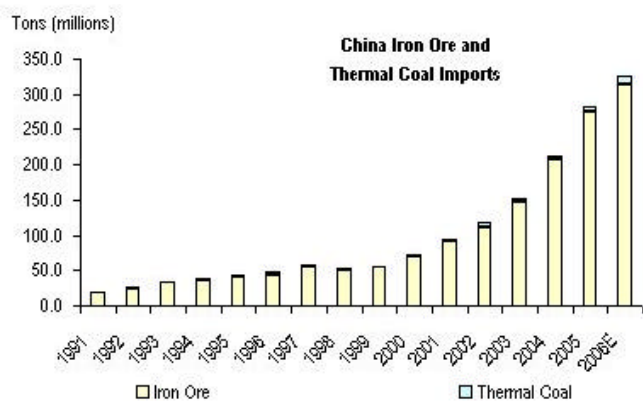
“Notwithstanding freight rate volatility” notes **Stamatis Molaris of Quintana** “dry bulk shipping is a highly profitable business. So, even if freight rates occasionally decline, as long as they remain in this new trading range, where they have been since 2001, dry bulk shipping is much more profitable than other businesses in the transportation sector and beyond.”

On average, daily operating expenses for are around \$6,500 for Capesize vessels, \$5,000 for Panamax and \$4,000 for Handysize. Voyage expenses incurred for a specific voyage, such as fuel, port and canal fees, are usually picked up by the charterers. So, based on current daily TCE rates of \$50,000 for Capesize, \$30,000 for

Panamax and \$24,000 for Handysize, shipping companies enjoy sizeable operating margins.

### **Sustainable Demand Growth**

On the demand side, China is expected to continue to be the driving force of the dry bulk market. This is complemented by demand from the economically developed countries of South East Asia -Japan, Korea and Taiwan- as well as the developing economies of India and Indonesia. Furthermore, comments **Douglas Mavrinc of Jefferies**, “The healthy expansion in industrial production has proven to be sustainable in the both the developed and the developing world. The U.S. industrial production grew year-to-date by 3.8% and that of Japan by 3.3%, much higher than their respective historic averages of 2.5% and 1.3%, creating a strong platform for continued expansion”.



Source: Jefferies

As **Stamatis Molaris of Quintana** describes “We believe in the sustainability of Chinese demand for good reasons. Their demand for iron ore and other core commodities is not consumer driven, but a direct result of infrastructure development and industrial activity necessary for China’s preparation for the 2008 Olympics, the 2010 World Expo in Shanghai, as well as for series of significant other projects such as the construction of a national electricity grid, a national highway system, and the Yangtse-Huangpu canal, to name just a few.”

“China is not a bubble ready to burst” adds **George Economou** of DryShips. “When the financial community talks about the possibility of a soft landing for China, they refer to a potential slowing in annual GDP growth from 9% to 8%. We do not believe that this is likely to happen, but even if it did, it would have little impact on the demand for dry bulk commodities and hence

freight rates.” He continues “Comparing the development of China to that of Japan and Korea, we can say that China is about 10 years into a 30 year cycle.”

“There is a boom around the world” adds **Joe Royce of TBS International** whose company focuses on non-containerized bulk and parcel cargoes, “as countries invest in infrastructure, construction and urbanization, and this goes beyond the major bulk commodities. We see an increased volume of import and export activity in our core markets of Asia and Latin America, as well as in the Middle East with project cargo shipped from one destination to another, steel products, cement, fertilizers and aggregates.”

“Add India to the equation” comments **Natasha Boyden of Cantor Fitzgerald**. “It is definitely becoming a larger player in the dry bulk markets. We expect coal demand to increase as the country continues to expand its steel production capacity as it industrializes.”

“Finally, another factor” adds **Douglas Mavrinc of Jefferies** “is that the northern hemisphere harvest season starts in October. As the grain trade comprises over 10% of the global dry bulk trade, we believe that this seasonal ramp in the grain trade may absorb excess capacity and therefore dry bulk rates should remain firm into the winter.”

### **Longer Voyages Mean More Demand for Ships**

The industry measures the overall demand in ton-miles, which includes both the demand for commodities and the distances these cargoes have to travel. Longer ton-miles mean the need for more ships. “The expansion of the Brazilian iron ore mines is almost complete” points out **Christopher Georgakis of Excel Maritime** “so the increasing Chinese demand will now also be met by Brazilian ore. It takes 30 days to travel from Brazil to China compared to 15 days from Australia to China. So, the fact that cargoes will travel longer distances to reach their destination will affect vessel availability and add to the demand for vessels.”

“The fact that routes become longer helps absorb excess new capacity. We think this is an important part of the market that is generally overlooked.” adds **Natasha Boyden of Cantor Fitzgerald**.

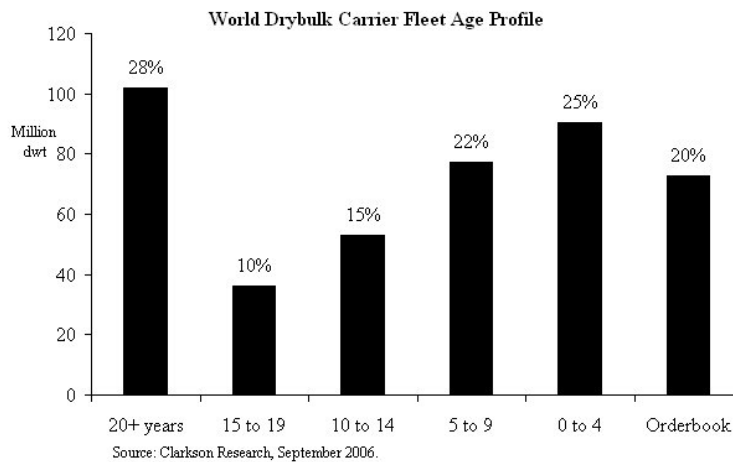
### Decreasing Supply of New Buildings

While the demand side for shipping tonnage is a variable that analysts and owners try to estimate using various assumptions and scenarios, the supply side is known with relative precision. The orderbook for new buildings, their delivery schedule and the estimated retirement of old vessels through scrapping are the key determinants of the supply side, with scrapping being the only wild card in this equation. Other factors, such as port congestion, can also affect the availability of the global dry bulk fleet and thus impact freight rates.

Dry bulk carriers take between 12 and 18 months to build and have the lowest profit margin for

shipyards, which prefer to focus on other higher margin vessels such as LNG carriers, containers and tankers. Currently, shipyard capacity is fully booked until 2009.

Based on data from Clarkson, the average age of the global dry bulk fleet is currently about 15 years with the economic life span of a dry bulk vessel between 25 and 30 years. Today, 47% of the dry bulk fleet is less than 10 years old, whereas about 28% is older than 20 years, and 15% is older than 25 years. As a comparison, the total orderbook for dry bulk vessels today represents 20 % of the fleet with deliveries extended out to 2010.



### Tight Supply & Demand Balance in 2007 & 2008

Industry analysts seem to agree on the overall trend despite differences among them in the final figures. Decreasing fleet growth and sustainable demand should translate into strong dry bulk shipping markets in 2007 and 2008.

For example, Jefferies expects demand growth of 4% in 2006, 2007 and 2008, against gross fleet growth before scrapping of 6.8%, 4.1% and 3.2% respectively. Dalhman Rose expects demand growth of 6.0% in 2006 and 5.5% in 2007 and 2008 against gross fleet growth of 6.9%, 6.5% and 5.3% respectively. Fearnleys expects annual demand growth of 5.0% in 2006, 4.7% in 2007 and 4.5% in 2008, with gross fleet growth of 8.1%, 4.8% and 4.0% respectively.

Scrapping is the wild card which can tip the balance. "Scrapping which has been almost non

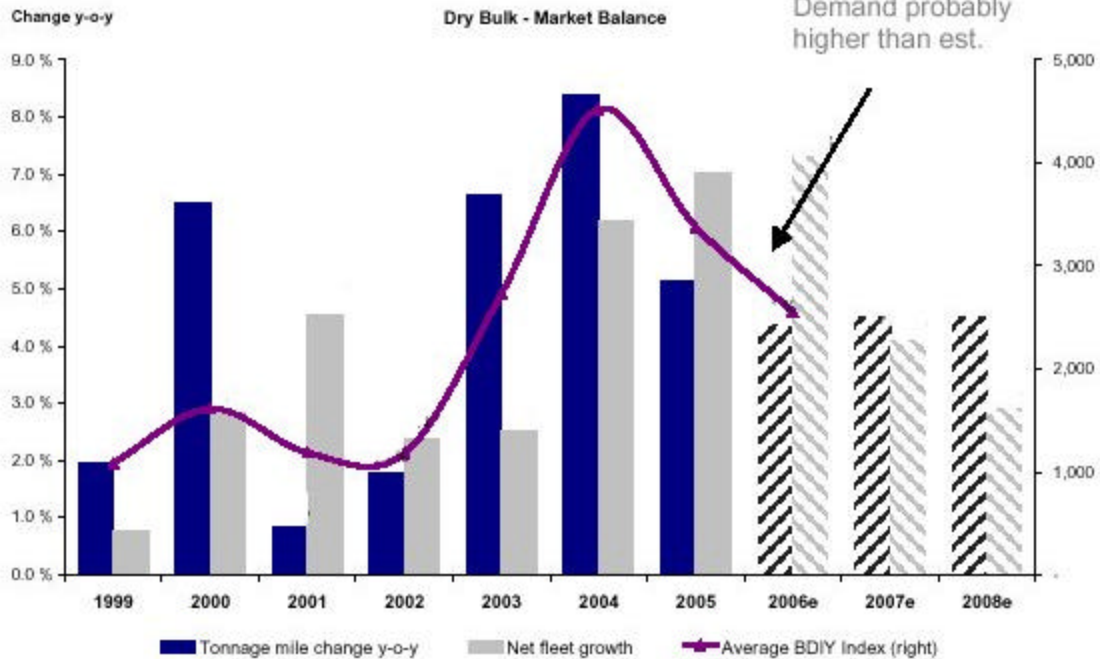
existent for the last couple of years" comments **Rikard Vabo of Fearnleys** "has created an overhang of old vessels that would normally have been scrapped in a weaker market. There has been an increase in scrapping during the first half of 2006 despite a relatively good market and we expect this trend to continue." Fearnleys estimates a scrapping of 1% of the fleet in 2006, 1.6% in 2007 and 1.5% in 2008.

**Douglas Mavrinc of Jefferies** concurs "Dry bulk vessel scrappings have been minimal over the past three years as very few vessels approached their 25th anniversary date. With 6.4 million deadweight tons of Capesize and Panamax dry bulk vessel capacity turning 25 years of age next year, and an additional 9.1 million deadweight tons approaching the key 25th year anniversary date in 2008, we believe scrapping is likely to increase as owners have historically chosen to cash in on the

scrap value of their vessels rather than pay for a costly 5th special survey which is required to keep vessels operating beyond 25 years of age”.

Jefferies estimates scrapings of 1.2% of the fleet in 2006, 2.1% in 2007 and 1.6% in 2008.

### Supply/Demand balance



Source: Fearnley's

### Attractive Valuation

Dry bulk shipping is a relative newcomer to the US equity markets. Until the beginning of 2005, Excel Maritime was the only listed company on a US Exchange. Nine companies became public since, but the sector is still relatively small with a total of 10 listed companies and an aggregate market capitalization of \$ 3.7 billion compared to the tanker sector with 15 companies and a market cap of \$ 17.2 billion. Overall, the US listed maritime industry includes 43 companies with a market cap of \$ 37.3 billion.

“Even though we are listed in the US and we are a US dollar denominated business, as an industry, dry bulk shipping is not correlated just to

the US economy but to the global economy with particular emphasis on the Far East right now” comments **Christopher Georgakis of Excel Maritime**. “So, the evolution of our dry bulk stocks should follow the positive fundamentals of our sector and not that of the Dow Jones, the various US transportation indices, or for that matter any other US based transportation industries.”

Compared to other transportation sectors, and despite the fact that the sector has the highest dividend yield, dry bulk stocks trade at substantial discount from sectors such as trucking, railroads and airlines, which also face the same cyclical issues.

### Comparative Valuation of Various Transportation Sectors

Sector	P/E 2006e	P/E 2007e	EV/EBIT DA 2006e	EV/EBIT DA 2007e	DIV 2006e	DIV 2007e	Market Cap
Dry Bulk	9.8x	9.9x	8.0x	6.9x	7.8%	7.0%	3.7
Tankers	7.9x	10.5x	7.2x	8.1x	7.0%	5.4%	17.2
Barges	22.7x	17.6x	10.3x	8.4x	0.0%	0.0%	3.7
LNG	24.4x	17.9x	16.5x	13.0	3.3%	3.6%	1.9
Offshore	9.5x	8.4x	6.8x	5.9x	3.6%	3.9%	4.5
Total Maritime Industry	11.4x	11.4x	7.8x	7.5x	4.9%	4.1%	37.3
Trucking	17.5x	13.1x	5.5x	5.1x	0.7%	0.8%	20.8
Railroads	15.3x	13.3x	7.5x	6.8x	1.0%	1.0%	119.3
Airlines	23.7x	13.2x	6.9x	5.3x	0.7%	0.8%	32.9
S@P 500	15.8x	14.8					

Source: First Call Consensus Estimates, based on closing prices of October 9, 2006, provided courtesy of Bear Stearns EV= Enterprise Value equals market capitalization plus debt

“Actually, dry bulk companies should command what I call a consolidation premium” states **Stamatis Molaris of Quintana**. “The dry bulk sector, which is highly fragmented, will consolidate along the same lines as the tanker industry a few years ago. And, the publicly listed dry bulk companies are the appropriate vehicles to this consolidation.”

Furthermore, there are also valuation disparities within the dry bulk sector itself. The ten publicly listed dry bulk companies differ in terms of fleet profile, chartering strategies, capital structures, growth models and dividend payouts and thereby

they present investors who want to invest in shipping with several alternatives. In terms of chartering strategies, some companies are period minded, such as Quintana, which has the longest charter coverage in the industry extending to 2010, while others such as Excel Maritime prefer a mix of spot and period, with DryShips being currently the most spot market oriented. TBS follows a different model, as the company focuses on providing complete transportation solutions to its customers, and thereby differs from the traditional dry bulk operators.

### Comparative Valuations of Dry Bulk Stocks

Ticker	Company Name	P/E 2006e	P/E 2007e	EV/EBI TDA 2006e	EV/EBI TDA 2007e	DIV 2006e	DIV 2007e
BULK	Navios Maritime	6.6x	5.2x	7.5x	5.1x	5.5%	5.5%
DRYS	DryShips	5.1x	6.0x	5.2x	4.8x	6.0%	6.0%
DSX	Diana Shipping	11.5x	11.1x	9.4x	8.2x	9.8%	7.8%
EGLE	Eagle Bulk	12.2x	14.0x	9.5x	10.1x	12.0%	10.3%
EUSEF	Euroseas	5.1x	4.4	3.8x	3.0x	9.0%	10.9%
EXM	Excel Maritime	6.8x	9.2x	5.1x	6.5x	0.0%	0.0%
FREE	FreeSeas	N/A	N/A	N/A	N/A	N/A	N/A
GSTL	Genco Shipping	9.4x	12.1x	7.4x	7.7x	9.3%	8.4%
QMAR	Quintana Maritime	13.1x	8.7x	14.4x	7.0x	8.0%	8.0%
TBSI	TBS International	6.8x	5.2x	4.4x	4.1x	0.00	0.00
Dry Bulk Sector		9.8x	9.9x	8.0x	6.9x	7.9%	7.1%
S & P 500		15.8x	14.8x				

Source: First Call Consensus Estimates, based on closing prices of October 9, 2006 provided courtesy of Bear Stearns EV= Enterprise Value equals market capitalization plus debt



"We believe the dry bulk shipping sector represents an attractive investment opportunity as many of the growth companies in the sector trade at single digit multiples while many of the yield oriented names trade at double digit dividend yields" states **Douglas Mavrincac of Jefferies**. "Furthermore, we believe there is significant upside to current 2007 street estimates as we believe current charter rate assumptions are likely to prove conservative."

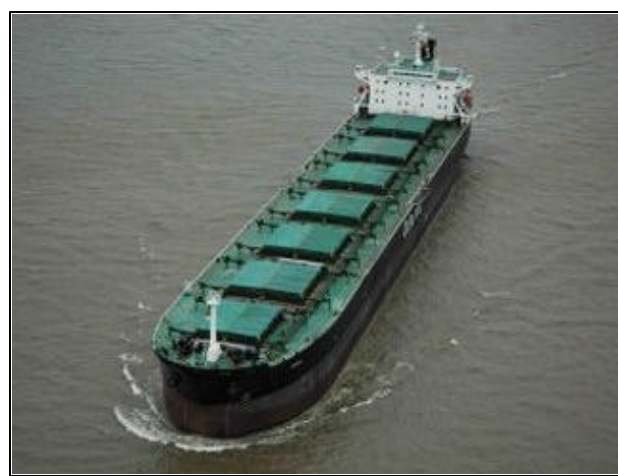
"If the current rate environment holds in 2007, which we think there is a very good chance it will, given the industry fundamentals, earnings expectations will improve and valuations will continue to become more attractive" adds **Natasha Boyden of Cantor Fitzgerald**.

"The dry bulk outlook appears very favorable over the next few years. Forecasts for global

economic growth and dry bulk commodity demand are still quite robust, especially in China, Japan, India and Europe. Factor that against a lower growth profile of newbuild ships and an aging fleet; the outlook is promising" concludes **Omar Nokta from Dahlman Rose**.

"I feel that the dry bulk sector has a very bright future" states **Seth Glickenhau of Glickenhau and Company**, a highly respected Wall Street figure. "International trade will continue growing, and the developing countries of China, India and also countries in Asia and Africa will become a constant and much bigger factor in world trade. With diminishing supply of new vessels and a number of the older ships inevitably retiring freight rates should remain very healthy." "The dry bulk sector is one of our favorite sectors" he concludes.

Nicolas Bornozis is the President of Capital Link, a New York based Investor Relations and Financial Communications firm specializing, among other, in shipping. Capital Link works with several listed companies including DryShips, Excel Maritime, Quintana Maritime and TBS International. [www.capitallink.com](http://www.capitallink.com)





### Company Profile:

DryShips (NASDAQ: DRYS) is the largest US listed dry bulk company in terms of fleet size and revenue and the second largest Panamax owner in the world. Panamaxes are considered the workhorse of the dry bulk industry. DryShips has a diversified and modern fleet of 34 vessels consisting of 4 Capesize, 27 Panamax and 3 Handymax carriers, with a combined capacity of approximately 2.7 million dwt and an average age of about 10 years compared to an industry average age of about 15 years. The company has also two Panamax new buildings on order with deliveries scheduled for the end of 2009 and beginning of 2010.



### CEO Message:

**George Economou, Chairman and CEO** comments "We believe that our company is strategically positioned to capitalize on the fundamental industry change. With sustainable

demand for commodities coming from China and India, as well as the economically developed countries of South East Asia –Japan, Korean and

Taiwan- and declining supply of new buildings, our sector enjoys a positive fundamental outlook and DryShips has a leadership position in it.

Our strategic objective has been to be an industry consolidator through accretive acquisitions. In this context, within 18 months since our listing in February 2005, we expanded our fleet from 6 vessels to 34, while maintaining a consistent debt to capitalization ratio of 62%."

"Our business model includes an aggressive but diversified chartering strategy with a unique combination of spot, period and pool employment, which is possible because of the large size of our fleet. We run the business with a focus on financial returns, aiming to maximize Return on Capital Employed (ROCE) and Return on Equity (ROE), achieving in the 12 month period ended June 30, 2006 ROCE of 12.5% and ROE of 23.7%. Our strong cash flow generation provides us with substantial financial flexibility to meet our operational and expansion goals."

"46% of the operating days of our fleet during the fourth quarter 2006 and 82% in 2007 are unfixed, presenting us with significant earnings leverage, which we believe to be the strongest in our peer group. With the size and deployment of our fleet we are now confident that going forward we can take full advantage of the strong drybulk market and maximize earnings for the shareholders"

"In addition to earnings growth, we also reward our shareholders with a consistent dividend policy which produces an attractive dividend yield. DryShips pays quarterly a dividend of \$ 0.20 per share and since we went public we have declared six consecutive dividends."

"Management has a 44% stake in DryShips and has not sold any of its shares since the IPO, indicating our confidence in the company's prospects and growth potential."

[www.dryships.com](http://www.dryships.com)

### Company Profile:

Excel Maritime (NYSE: EXM) is an owner and operator of dry bulk carriers and a provider of worldwide seaborne transportation services for dry bulk cargoes. The company has been a publicly traded corporation since April 1998 and its common stock is listed on the New York Stock Exchange (NYSE), under the symbol "EXM". Excel Maritime has an established reputation for safety and reliability in the international shipping community and has delivered seven consecutive years of profitability to its shareholders.



The company's current fleet of 17 dry bulk carriers consists of ten Panamax and seven Handymax vessels, representing a total carrying capacity of 1,004,930 dwt and an average age of approximately 13.8 years.

The fleet is managed by Maryville Maritime Inc, one of the company's wholly owned subsidiaries, which carries the distinction of being the first Greece-based ship management company to have been awarded simultaneous ISM and ISO 9002:1994 certification by Bureau Veritas in 1996.



### CEO Message: Christopher Georgakis, President and CEO

comments: "The recently appointed senior executive management team successfully delivered on a growth mandate ratified by the Board and transformed the company in terms of fleet composition, organizational structure and corporate governance."

"Through the implementation of an effective strategy of acquisitions and divestitures, management increased the deadweight capacity of the fleet by 180%, expanding from 5 to 17 vessels in less than six months, while simultaneously reducing the fleet average age by 12 years. Moreover, building on the company's rich technical heritage of proactive preventative maintenance programs both ashore and at sea, management successfully integrated "in-house" the technical fleet management function, thus further enhancing an established tradition for operating efficiency. Finally, in response to requests for forward visibility of earnings by the company's shareholder constituency, management implemented a consistent fleet deployment strategy of mostly period charters, delivering predictable cash-flows and effective protection against volatile market environments".

"It's noteworthy that the rapid implementation of this expansionary face in the company's development was achieved without deviation from our commitment to maintaining low leverage, as demonstrated by our net debt to total capitalization ratio of 28% and cash reserves of approximately \$ 90 million as of June 30, 2006".

"Going forward we will seek to continue the expansion of our fleet through timely and selective acquisitions of well-maintained second hand dry bulk carriers. We believe that our prudent management of cash flows and our strategy of warehousing liquidity will enable us to realize these objectives and create sustainable shareholder value for the long term."

[www.excelmaritime.com](http://www.excelmaritime.com)



Quintana Maritime

### Company Profile:

With a fleet of 20 dry bulk carriers and 7 more on the way (2 Capesize, 11 Panamax and 14 Kamsarmax vessels), totaling 2.3 million dwt in carrying capacity, Quintana (NASDAQ: QMAR) is one of the largest US listed dry bulk companies, the biggest owner of Kamsarmax vessels and among the largest Panamax owners in the world. Its fleet has an average age of 4 years, the youngest in the industry. Quintana focuses on larger vessels and caters primarily to the global iron ore, coal and grain trades.



In May of 2006, Quintana concluded one of largest acquisitions in the dry bulk shipping market as it agreed to acquire 17 vessels, all chartered to Bunge, a major agricultural company listed in NYSE. The fleet was acquired from Metrobulk, an unaffiliated seller, for a total of \$ 735 million. Ten of the 17 vessels have already been delivered to Quintana, four to be delivered by year-end and three in early 2007.



**CEO Message:**  
**Stamatis Molaris, President and CEO**, comments: "In less than seventeen months since the

company's inception, we have succeeded in creating one of the largest US-listed dry bulk companies, which we believe has the youngest and most modern fleet within our peer group and enjoys the longest charter coverage for its fleet. The timing of this acquisition enabled our company to benefit from the strong market which ensued, both in terms of rising freight rates and asset values.

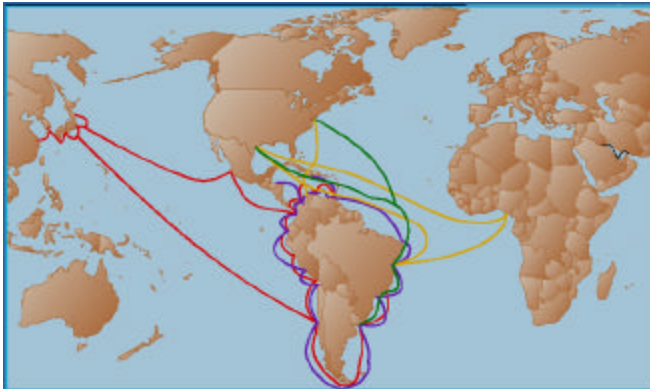
"Our strategy is to pursue stable growth with consistent delivery of dividends to our shareholders. In this context we pursue a long term charter strategy which generates stable and predictable cash flows. The 17 vessels acquired from Metrobulk are under a master charter agreement with Bunge (NYSE:BG), which extends to 2010. The rates are negotiated annually, in November of every year, within specified floor and ceiling rates. This unique structure enables us to achieve earnings stability, while sharing into the market's upside potential, as we demonstrated recently when we fixed all 17 ships for 2007 ahead of schedule and in stages in tandem with market developments.

"Currently, Quintana has secured almost 89% of its expected net operating days in 2007, corresponding to almost \$180 million in net revenues. . Our charter coverage for 2008 is 75%, for 2009 is 70% and for 2010 is 62%."

"We seek to develop long term relationships with major end users and producers of commodities. Currently, approximately 75% of our client base consists of such companies.

"Finally, we have a consistent dividend policy balanced with growth potential. For 2006, Quintana has set a minimum annual dividend of \$ 0.84 per share, payable in quarterly installments upon declaration by Quintana's board of directors."

[www.quintanamaritime.com](http://www.quintanamaritime.com)



**Our Trade Routes**

**Company Profile:**

TBS (NASDAQ: TBSI) is an ocean transportation services company that offers worldwide shipping solutions through liner, parcel and bulk services, and vessel chartering. TBS has developed its business around key trade routes between Latin America and China, Japan and South Korea, as well as select ports in North America, Africa and the Caribbean. TBS provides frequent regularly scheduled voyages in its network, as well as cargo scheduling, loading and discharge for its customers. TBS' current fleet consists of 33 vessels with a total carrying capacity of 983,000 dwt, including 19 Multipurpose Tweendeckers and 14 Handysize / Handymax bulk carriers. These vessels are optimally suited for the markets and cargoes TBS serves.



**CEO Message:**

**Joe Royce, Chairman, President and CEO**, comments:

"TBS is a unique and growing shipping franchise whose business model differentiates us from traditional dry bulk operators.

Furthermore, our strategy of providing complete and customized transportation solutions to our clients involves complex and extensive logistics and the utilization of our global infrastructure, assets which we consider significant competitive advantages for our company as well as barriers of entry to others."

"Our business model includes a mixture of tariff-based liner, parcel and bulk transportation services focusing on non-containerized cargoes. We target niche markets, including trade routes,

ports and cargoes not efficiently served by container and large dry bulk operators. We focus on Latin American markets and we link these markets with East Asia, North America and West Africa. We also provide transportation services between the East and West Coasts of South America and have recently established a regional service in the Middle East. We have a long standing presence especially in our core markets of Latin America and Asia where we have been capturing an increasing volume of regional trade flows. Our revenue base is well balanced by cargoes, geographies and customers enhancing our business stability."

"Our long-term business strategy is to continue solidifying and expanding our franchise business while researching and developing new growth opportunities. We grow our fleet in response to the growth in our business, a business first – fleet second strategy. New growth opportunities are identified and tested primarily with chartered vessels."

"Our policy to retain capital, coupled with moderate leverage, provides us with significant financial flexibility. At the end of the second quarter 2006, our net debt to capitalization ratio stood at 34%."

"Finally, we have a strong management team which has been together for the last 20 years, 13 of which as TBS, with a substantial stake in TBS aligning their interests with that of the stockholders."

"During the previous years and despite market weakness, we expanded our business volumes, customers and trade routes and we believe we are strategically positioned to benefit from the current recovery of the shipping markets. We will continue looking for acquisitions of additional vessels. Our moderate leverage and the recent completion of the \$140 million credit facility will enable us to pursue our growth strategy expanding our controlled fleet in response to the growth of our business."

[www.tbsship.com](http://www.tbsship.com)