# Corporate Participants

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# Presentation

**Operator:**
Thank you for standing by, ladies and gentlemen. Welcome to the Star Bulk Carriers conference call third-quarter 2016 financial results.

We have with us Mr. Petros Pappas, Chief Executive Officer; Mr. Simos Spyrou and Mr. Christos Begleris, co-Chief Financial Officers of the Company.

At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session at which time if you wish to ask a question via the telephone, you will need to press star and one on your telephone keypad and wait for your name to be announced

I must advise you that this conference is being recorded today.

We now pass the floor to one of your speakers today, Mr. Pappas. Please go ahead, sir.

**Petros Pappas:**
Thank you, Operator. I'm Petros Pappas, Chief Executive Officer of Star Bulk Carriers. And I would like to welcome you to the Star Bulk Carriers conference call regarding our financial results for the third quarter of 2016. Before we begin, I kindly ask you to take a moment to read the Safe Harbor statement on slide number 2 of our presentation.

Let us now turn to slide number 3 of the presentation for a summary of our third-quarter 2016 financial highlights in comparison to the same period last year. In the three months ending September 30, 2016, net revenues, adjusted for non-cash items less volume expenses, amounted to $43.7 million, 11 percent less than the $49.1 million for the same period in 2015.

Adjusted EBITDA for the third quarter 2016 was $11.9 million versus $6.1 million in the third quarter 2015, an increase of 93.7 percent. Excluding non-cash items and one-off expenses, our adjusted net loss for the third quarter amounted to $20.3 million or $0.44 loss per share versus $25 million adjusted net loss or $0.57 loss per share in Q3 2015.

Our time charter equivalent rate during this quarter was $7,558 a day compared to $8,691 per day in the same quarter last year. Our average daily operating expenses were $3,784 per vessel per day, a reduction of 10.7 percent compared to the Q3 2015 figure of $4,207 per day per vessel per day, adjusted for $1.6 million of nonrecurring predelivery expenses.

Having said that, I will now pass the floor to our co-CFO Simos Spyrou for an update on our operational performance for the quarter.

**Simos Spyrou:**
Thank you, Petros. Slide number 4 summarizes a strong liquidity position that Star Bulk enjoys currently. Following our recently announced agreement with our lenders for the restructuring of our debt facilities, our all-in cash breakeven, which includes OpEx, corporate overhead, interest, principle, and dry-docking provision, has been reduced significantly from approximately $10,900 per day per vessel to $7,800 per day per vessel. This reduction of approximately 28 percent has decreased our cash burn and enables the Company to have positive cash flow when rates are stronger.

On the right-hand side, we provide recent balance sheet information on our cash and debt positions. As of November 18, our total cash balance stood at $203.9 million. Total debt as of the same date stood at $968.7 million. The remaining CapEx on the five Newcastlemax vessels that we are due to take delivery is $193.4 million. $119.1 million is due in 2017 when we take delivery of 3 vessels, and $74.3 million is due in early 2018 when we take delivery of our final two vessels.

Three of the five vessels have variable financing with fixed debt amounts and no LTV test to draw down. We are currently in negotiation for a minimum of 60 percent LTV financing on the remaining 2 vessels that will leave little equity required in order to take delivery of the vessels.

Please turn now to slide 5, where we summarize our operational performance for the third quarter 2016. We believe that the combination of our in-house management abilities and the scale of the Group provide us significant operating leverage and advantages in terms of cost and quality, which our shareholders can enjoy.

We have improved our average daily operating expenses to $3,784 per day per vessel in the third quarter of 2016, a significant reduction of 10.7 percent compared to the same period one year ago and a small reduction of approximately 0.3 percent compared to the second quarter of 2016.

In the middle of the page, you can see that over 90 percent of the vessels manned by Star Bulk have a maximum rating of 5 stars by Rightship. We are very focused on having the highest standards of vessel safety and maintenance. And over the past two years, we have been able to increase the percentage of vessels under management that have 5 star rating from 84 percent to 90 percent. Our fleet is maintained in good condition to meet the requirements of our strictest and most demanding clients.

On the right-hand side, you can see the evolution of our average daily net cash and G&A expenses per vessel. Our expenses per vessel are 0.9 percent lower than the third quarter of 2015, at $1,047 per day per vessel for the third quarter of 2016. The reduction of both our daily operating expenses and our daily G&A expenses result from the economies of scale of a larger fleet as well as the discipline and dedication our employees have shown with respect to cost control.

Slide number 6 shows that Star Bulk is one of the lowest cost operators among US-listed dry bulk peers based on the latest publicly available information. Star Bulk is one of the leaders of the cost containment that is taking place industrywide, with OpEx approximately 21 percent below the industry average. We continue paying a lot of attention on the condition of our vessels and all cost categories in order to remain attractive and competitive commercially.

Having said that, I will now pass the floor back to Petros for a market update and his closing remarks.

**Petros Pappas:**
Thank you, Simos. Please turn to slide 7 for a brief update of supply. During the first 10 months of 2016, the dry bulk fleet has grown by 2 percent. A total 43 million deadweight was delivered and 27 million deadweight was sent for demolition.

Limited ordering, cancellations, and conversions have helped trim the dry bulk order book to approximately 12 percent from 18 percent during the same month last year. Dry bulk contracting, if we exclude the 30 Valemaxes, has been minimal, with a total of 600,000 deadweight ordered year to date.

For as long as cutting is higher than ordering, this is a positive development, which, along with further potential cancellations, will support a dearth of supply of vessels during 2018 and 2019. We expect that the result full-year net fleet growth to decrease from 2.4 percent during 2015 to approximately 2.2 percent during 2016 to below 2 percent during 2017 and below 1 percent in 2018.

Let's now turn to slide 8 for a brief update of demand. After more than two years of strong declines, commodity prices appear to have reached a bottom during the first half of 2016 and have experienced a strong recovery rally during the last couple of months.

We believe that the monetary and fiscal stimulus that took place in China during 2015 and first half 2016 has resulted in a healthy recovery of steel consumption as well as electricity requirements. Home prices have continued to increase, while steel mill production and profitably has also improved.

It is encouraging that both iron ore and coal internal production in China have continued to record strong declines during the first 10 months of 2016. This has partly been the result of government regulation, such as a 276-workday restriction on coal mining that came into effect during the second quarter of 2016.

Over the past 2 months, China coal imports have rebounded by 45 percent year on year. Coal stocks at Chinese ports and power plants also stand at relatively low levels, meaning that imports may remain strong during the next few quarters.

According to Clarkson's, total dry bulk rate growth during 2016 is projected to stabilize and experience a marginal increase of approximately 2 percent. From the middle of 2017, we expect iron ore, coal, bauxite, and grain ton-miles to increase due to Brazilian iron ore and West African bauxite exports, a reduction in substitution of Indonesian coal exports, and healthy grain demand from the Pacific.

We believe that the first half of 2016 will go on record as the most challenging period in recent dry bulk history. Despite the latest improvement in rates, 2017 will see an influx of up to 55 million tons of deadweight, and whoever becomes too optimistic may be disappointed.

We therefore highlight once again that the most important factor for market balance is honest supply discipline. Absence of ordering and increased demolition will ultimately put a cap on fleet growth for 2018 onwards and will lay the foundation for a sustainable recovery to take place sometime thereafter.

If, however, we resume ordering newbuildings on the basis of a misguided hope, potential shipping spring will never take place.

Without taking any more of your time, I will now pass the floor over to the operator to answer any questions you may have.

**Operator:**
Thank you. As a reminder, if you wish to like to ask a question, please press star one on your telephone and wait for your name to be announce. If you wish to remove your request, press the hash key.

Our first question comes from the line of Noah Parquette with JPMorgan.

**Noah Parquette:**
I wanted to ask what are your thoughts on how the next year of the ballast water treatment regulations -- what does that do to the fleet? How much scrapping do you think can occur because of that? And how are you positioned?

**Petros Pappas:**
This is starting I think on September 1, 2017. Our view is that the biggest percentage of shipowners will have gated for that and will have affected their last special survey by either during 2016 or 2017. And therefore, IMO-wise, they probably will have four or five years to abide by that rule.

Now, the States is a bit different. I think that the season -- it is that it has to be installed by 2019. But it is also possible that we will get some additional time on that.

The problem is that there aren't any ballast water treatment plants that have been really approved yet. Therefore, we are kind of in limbo. My personal view is that we will -- it will not make a huge difference at the beginning. It will start making a difference towards 2019 onwards.

**Noah Parquette:**
OK, that's very helpful. And you just talked a little bit about now that you have stabilized liquidity situation and you are in a much better footing, talk a little bit about your strategy for the next year or two in terms of what the Company wants to do to deploy cash. Or is it just kind of a wait and see and wait for the market to recover?

**Petros Pappas:**
You mean commercial strategy?

**Noah Parquette:**
Yes.

**Petros Pappas:**
Well, our commercial strategy basically is to fix our vessels forwards. We are seeing a decent market right now in Kamsarmaxes, Panamax, Capes, and even on Ultramaxes. And then for what we are doing is we're fixing for some months ahead for upgrade year ahead of us.

And along with the agreements we have with the banks, I think that the rate at which we are fixing will maintain our liquidity to a very good level for at least the next several months. But as nobody knows what is happening going forward, and as I said, there is 55 million tons deadweight destined to come to the market in 2017.

And as it is not as easy anymore to prolong those deliveries, because already, most of our shipowners have prolonged their deliveries, we may see a slowdown in the market. So we are trying to fix as much as we can to be able to overcome a potential slowdown of the market exactly because there's going to be more business coming in.

Of course by the end of next year, the order book less is going to be a very minimal. With 55 million tons coming this year and there is not a lot of ordering, then the order book is going to be to the tune of like 4 percent or 5 percent, which will be historically low. And then that is one of the reasons that we think that the market will start improving as of 2018 onwards. So if we take therefore 2017 income-wise, I think that our liquidity will be fine.

**Noah Parquette:**
OK, that's really good. Thank you.

**Operator:**
Your next question comes from the line of Amit Mehrotra of Deutsche Bank.

**Amit Mehrotra:**
So Petros, or maybe Christos or Simos, maybe if I could just ask a question related to the first quarter of next year. Because that seems -- it does seem like we are in a little bit of a more rational market, which is great, just based on where the FFAs are. But clearly, the first quarter of next year is kind of what a lot of the shipowners are scared about.

So just Petros, just to your point about sort of fixing on a forward basis, how much exposure do you guys have on a spot basis to the first quarter? Just so we can get a sense maybe of what the sequential decline in cash flow can be and just what your exposure is to maybe the weakest point in the market? Thank you.

**Petros Pappas:**
OK, our -- let's see. Our exposure -- first of all, Q4 is very little, where it's below 20 percent for Q4. Now our exposure for Q1 next year is about 78 percent, but we are fixing continuously. So I suppose that we will try to get it -- to get our exposure down to 60 percent or thereabouts.

However, Amit, Amit, however, our analysis of the market is indicating that potentially the Q1 is not going to be as bad as we -- as this year. Actually, we think it's going to be much better, and we think that this may be the case because coal will be traded during the cold months of the year, exactly because China has a very low stocks. So Q1 might not be as bad as people think.

**Amit Mehrotra:**
Great. And then if I remember correctly, like two years ago around this time, you guys had basically tried to fix vessels out on a forward basis. But essentially the market was open for only a very short period of time, maybe a week or two in terms, of the charter market.

And so I'm just trying to sort of compare that to the period you have today. If you wanted to fix all your vessels out at least through April of next year, I understand that maybe you don't want to do that because you are a little more bullish on the market. But is there an appetite for that in terms of your customers wanting to do that?

**Petros Pappas:**
Well, you know, first of all, you have a good memory, Amit. It's not up to us. Obviously it's up to the market. The market is still looking for vessels to charter in for certain periods. It's not like there is a bump in demand. But there is a trickle.

And what we're doing is we're fixing two, three vessels every week, and we think that this might even be sustained for a little bit longer. So that's why we are thinking that we may be going down to 60 percent -- 40 percent coverage for Q1 or even perhaps Q2. What was the rest of your question?

**Amit Mehrotra:**
That was it; that was it. Thank you very much. And then one other market one just before I just get into one quick specific question on the numbers.

But one of the things that is a little bit of a problem in predicting this type of market -- I've learned the hard way -- is that there is a psychology element to the market. And so people that we've been talking to, for example, maybe six months ago are saying that six months ago, the owners were much more depressed and a little bit much more willing to fix vessels at really almost any cost. And certainly the fixture showed that.

And now it seems like the owners, from a sentiment standpoint, are getting a little bit more positive, and so the negotiations are little bit more difficult, which is also driving the market. So I know it's a hard question, but I'm just trying to understand if you can maybe help us in terms of this improvement that we've seen in the market, how much of it is actual like supply and demand? Which obviously a certain percentage is, but how much is also this psychology element that's driving up the market?

**Petros Pappas:**
I think it's a combination of both, as you also probably believe. The thing is that like, you know, right now, for example, a Kamsarmax we can fix anywhere between low eights and mid-eights for a year, which is exactly because we have very low operating expenses.

It actually becomes profitable for us. Not hugely profitable, but we cover our interest and costs in dry docks and commissions and everything -- chartering commissions, I mean, and everything else. And we still have something left for capital repayment. So it's not that we fix not because we are afraid, but because we kind of like these levels for now and during a year that we think is not going to be really that busy.

And you know why it's not going to be that busy? It's not just because they will have 55 million tons deadweight coming in. I don't know if all of it will come, but a substantial part of it will get in the market.

The major problem is if we become too positive about the market, which I don't think there is a basis right now. I think there is a basis to become very positive about the market after 2018, 2019. I think we will see a very strong market after that.

But for 2017, I don't see the reason to be that positive. I believe that this additional deadweight will require demand of about 4 percent to 5 percent, which we will probably not see. And the problem is going to be that people might stop scrapping. Not to mention potentially some people ordering.

But scrapping is more important because I don't think people will order that much. It's too premature. There's not enough money. Banks don't lend. CPRs are going down. It's not going to be as easy to order, but if we stop scrapping, this will delay the upturn in the market later on in time.

Therefore, this psychology going up, which perhaps partly assists in fixing better on the chartering front, is going to hurt us on the scrapping front. And that could push the upturn further back.

**Amit Mehrotra:**
Right, OK. That's helpful. Just two really quick ones from a numbers standpoint, Simos. Can you -- just piggybacking on Noah's question on the ballast water, I know you guys did a bunch of proactive drydockings maybe last year to push out the necessary CapEx if it was ratified.

Can you just give us your expectation of what you think maintenance CapEx will be in 2017 so we can just get a sense of the cash calls there? That's it for me. Thanks.

**Christos Begleris:**
Hi, Amit. This is Christos. Our dry dock budget for 2017 is to the tune of $3 million simply because, as you said, in 2015 and then to a lesser extent 2016, we had quite a few dry docks essentially to be able to push out the requirement for the ballast water treatment system down to 2020, 2021.

**Amit Mehrotra:**
OK. So minimal CapEx requirements then next year on that.

**Christos Begleris:**
Correct.

**Amit Mehrotra:**
OK, that's all I had. Thank you so much for taking my questions, guys. Bye-bye.

**Operator:**
Your next question comes from the line of Herman Hildan of Clarksons Platou.

**Herman Hildan:**
I just have a very short question. I'm wondering whether you've seen any change in, call it, behavior from the charters, if they were trying to lock in more longer-term rates now. I mean, obviously, given the supply side outlook and then the currently strong rates, do you see an increase in requirements for, call it, longer than one-year time charters? Or has there been no real change on that?

**Petros Pappas:**
Well, first of all, I think that charters believe that the market is not sustainable. That's number one. So they would not experience for let's say one year because they probably think that at some point later on in time, the rate would fall again.

However, as the market is pretty strong right now, and especially in the Atlantic, what charters do is they give us like one-year charters. Because if they don't, they will have to pay $15,000 and $17,000 and $18,000 a day for the next trip.

And therefore what they do is they take the vessels that are in the Far East at $8,500 -- talking mostly about Kamsarmax -- and the balance impact to the Atlantic. And that way, at least for their first voyage, they cut their costs and hope for the best going down the road. So I think that they are fixing mostly because of the short-term pressure they have and not because they have any long-term views about the market.

Now, if they offer the two-year charter, I'm not sure owners would take it right now because maybe 2017 is going to be difficult, but 2018 could be better or much better. So even if charters would offer two years, I'm not sure owners would take it unless if they saw figures that made a lot of sense.

Because, you know, if you make, let's say, $8,500 and you pay 5 percent commission for that to the brokers and to the charter for that commission, basically you make $8,000 net. $8,000 net is not enough. I mean, we have OpEx of $3,800 and we can make potentially $1,000 above interest. But most of the companies have OpEx which are around $5,000.

So $8,000 net doesn't really cover much except interest. So to fix two years forward just to cover your interest, it's probably better to just take the risk and fix only for a year and hope for better times in 2018.

**Herman Hildan:**
You talk about it almost in third person, but basically what you are saying is that Star Bulk would not be interested in doing more than one-year time charters unless you see a significant improvement in swap rates. Or sorry, in long-term rates, I mean.

**Petros Pappas:**
Yes, you can (occilate it) like that, yes.

**Herman Hildan:**
And then finally, you've been obviously quite active in the S&P market. And it seems that there's a lot of activity on the inspections of different transactions and so on. How do you kind of -- what's your feel on asset prices at the moment?

**Petros Pappas:**
Well, prices -- prices of smaller vessels have gone up between 20 percent and 35 percent from a very, very low level in last February and March. But prices of Capes have not really gone up. I would say they are about where they were or a little bit above, just a little bit.

And I think the reason is that now that there is no loans available for the average shipowner, owners can only afford to buy vessels that are cheap in price. So I mean, at the rates that we are seeing at $8,000 a day, if you bought a Kamsarmax at $8 million, you actually make a profit.

So that -- this market is very quick to respond to things like that. So the minute that Kamsarmaxes were at $7 million and $8 million and the minute the charter rates started moving up was a good combination for people to buy.

I think that prices have seen their upside for now on vessels. That's my view. I think that we may even see some slowdown at some point next year, especially because we see a number of deadweight coming in. But I mean, I may sound short-term there. But I'm medium/longer-term bull.

I think that provided that we don't order more vessels, I think we may see the market improving 2018 onwards. And then you will always, of course, see prices moving up again towards the end of next year at some point in 2018.

**Herman Hildan:**
And then just finally, again, you know, talking about scrapping and other shipowners doing it. What's your thinking on near-term fleet? Are you -- will you -- do you feel like you are done scrapping? I mean, you obviously have done a lot of scrapping, so should we expect to see further scrapping of your older tonnage? Or are you happy on your position there?

**Petros Pappas:**
We have a couple of I think 1990s built vessels. One is on time charter for another three or four months. The other one is laid up, but we're -- it was the one Cape that we had laid up and now we are putting back into action. If the market improves, we will trade it. If the market doesn't improve, we will scrap that one. So I think that we're almost done with scrapping.

**Herman Hildan:**
Yes. You've done your fair share. Thank you very much.

**Operator:**
Your next question comes from the line of Ben Nolan of Stifel.

**Ben Nolan:**
My first question relates to something that you, Petros, have been talking about in almost all of your answers to questions that -- about owners being disciplined and not ordering additional vessels.

I'm curious of how the availability of capital factors into that equation. Is it your belief that there is sufficient either equity capital or bank financing to really go out and start to opportunistically chase newbuilding orders in the market?

Obviously it's somewhat incumbent on the market -- on the outlook for the market being a little bit higher for owners to do that. But it sounds like that's what you are concerned about, and I guess my question is how readily available is capital to be able to execute on that if it were the case.

**Petros Pappas:**
Ben, thank you for the question. I think that first of all, equity capital is much less than what it used to be. We have lost -- all of us have lost a lot of money. So on that side, I don't see much capability for newbuildings. Also, the Western banks will probably not finance newbuildings. I mean, the banks have talked -- I think it's the last thing in their agenda right now.

I think the only risk of ordering comes through China in case Chinese banks in cooperation with the state decide to give 90 percent finance to finance vessels in their home yards. That that's I think the only risk that we are in right now.

Of course, I don't know how heroic shipowners would be to go and order in second-tier yards. There is a number of first-tier yards in China -- I would say 8 to 10 of them -- where -- which would probably get orders if it gave 80 percent to 90 percent finance.

But then I think that the Chinese banks are learning quickly that it's not just good times all the time and money can be lost from lending on vessels. So I would say there is a moderate risk from China. I don't see much risk elsewhere.

**Ben Nolan:**
OK. To follow on to that, and I appreciate that you guys are probably not in the market to be placing ship orders. But have you heard the -- at this point those Chinese banks being aggressive yet at this point trying to fill the yards a little bit and support the -- is that happening? Or is that just sort of a risk of something that may happen at some point?

**Petros Pappas:**
Well, we were like two or three weeks ago, we were in China seeing some -- in a conference that was being organized by Exane Bank where we saw a number of banks. I cannot say that we saw great interest in investing -- in giving loans to -- for newbuildings.

But on the other hand, we did hear that the Chinese banks are there to assist the shipbuilding business. So I think that to a degree this will happen. I don't think it's going to be huge, at least for now. Now, if you see the market turnaround strong, then I think people will start ordering again somehow. But for now, I'm not so worried.

**Simos Spyrou:**
And Petros, I may add the Chinese banks that we saw have mostly done already financings in the container industry and have financed the major liners like CMA or MSC. There has been some hype about Chinese banks potentially financing dry bulk. However, we haven't seen it in practice. Therefore, it remains to be seen whether they will enter also the dry bulk space. So far, they are being extremely skeptical.

**Ben Nolan:**
OK. That's good color. I appreciate that. And then lastly from me, I appreciate that this is a little further out, but on the regulation front, obviously there was the new IMO emissions standards that were ratified for 2020.

Is that something that you guys are at all spending any time on at maybe thinking sort of putting scrubbers on some of your newer ships? Or is it just something that is far enough away that you will cross that bridge when you come to it?

**Petros Pappas:**
That was a good question, Ben. First of all, this is a good development for shipping. Not only dry, for every type of shipping. Because vessels will have to be scrubbed. Older vessels cannot install scrubbers. It's still going to be too expensive. And if we are going to be using gas oil or diesel oil or some mixture of similar, the vessels that burn a lot are going to be phased out because it will be very expensive.

So this is going -- and in combination with a ballast water treatment plant, which around 2019, 2020, we'll start having to install it on a lot of vessels. And of course, some of them will have to be scrapped and not installed on the older ones.

So what the effect of this 3.5 percent down to 0.5 percent [software comp] is going to be is either vessels will have to install the scrubbers, but you don't really know whether you should do that or not. For example, what if 3.5 percent (software) is phased out of the picture? Then you have installed your scrubber and you -- and maybe you don't have a use for it.

So what I think is going to happen is that people will not immediately react. They will see how things move. Also, scrubbers will probably get cheaper as time goes by and they will get better, especially for bigger vessels. I read that scrubbers are not efficient as they are for smaller vessels.

So what vessels will do is they will probably start slow steaming and scrubbing and delaying to -- for the ones that are going to install scrubbers. And then it's going to be issues of which tanks you have on board and what kind of fuel oil you are putting in them, because you cannot really mix up bunkers. Sometimes you have problems if you do that.

So, you know, when there is havoc, shipping -- it's good for shipping. I think this is going to be a great development for shipping, but not yet, in three years from now.

**Ben Nolan:**
OK, that's a very helpful and again very detailed answer and I appreciate that. And that does it for my questions. Thanks a lot, guys.

**Operator:**
Thank you. As a reminder, if you would like to ask a question, please press star one on your telephone and wait for your name to be announce.

Your next question comes from the line of Fotis Giannakoulis of Morgan Stanley.

**Fotis Giannakoulis:**
Petros, you have been one of the first companies that reached an agreement with its banks and postpone debt repayments. We heard last week that one of your peers ended the discussions with its lenders.

Can you give us an overview of how do you view the aptitude of the banks, of the lenders, towards the dry bulk sector? If you see that they have become stricter with the lenders, and if you foresee that that might create problems to some of your competitors. Not anyone in particular, but in general both private and public.

**Petros Pappas:**
Right. First of all, hi, Fotis. I would not want to comment about my colleague. And I don't know details exactly what happened there, and so we'll see what happens as time goes by. Diana is a good company and I'm sure they know what they are doing.

The (ag dealer) banks. I can only comment about the banks how they deal with us. I would say that the banks were very cooperative with us. It took us 6.5 months to finish this. We did not use any advisors.

We did it on our own. We used our personal relationships. We were very candid with the banks, and I think that they saw that it was to their advantage to allow a company that has the potential to flourish to allow a company like that to survive.

Now, I think that's what they saw in us. They saw in us that we could survive and that we had very low cost and we were doing a great effort and all that stuff. And so I think that this is what played a major role. And we were not aggressive with them. We cooperated and it worked out.

Now, I think that they will be stricter with smaller owners. I think they will be stricter with owners that are taking an aggressive attitude and do not cooperate. And, also, they will probably either be stricter or just give up with owners where the companies have no possibility to recover from where they are.

Now, how do they do that? I'm not sure. I mean, I saw an example yesterday; a company which sells at I think a 50 percent discount on the vessel with the bank. That bank gave up. So I think that with a bigger cooperative and companies that have a future, the bank will continue to be cooperative. With the rest, they will find ways to cut the cords.

**Fotis Giannakoulis:**
Thank you, Petros. One last question about the demand. You presented a very detailed your outlook about the supply, expecting that supply growth will decline by -- to 1 percent or 2 percent next year.

I assume that that will continue to decline in 2018, but what about the demand? Where do you view demand in 2017 and 2018? And if you have any comment about the potential -- the discussions that China might be trying to increase the domestic mining in order to put the brake on the commodity rally?

**Petros Pappas:**
OK, I think that China will have to do that, actually, because prices have gone up and it may make some of the mines in China competitive, especially on the iron ore side. So I think this is probably going to happen.

But I consider it a temporary development. The minute that China does that, and in case it reduces imports for a little while, I would say we'll have to replace with domestic production. Then prices will fall again and I think that's what will probably happen. Although, demand in China is increasing.

So it is possible that they will increase their production to a level -- I'm not too worried about it. I think it will happen to a certain degree, but not in a catastrophic way.

Now as far as demand, what I think is going to happen is that we will be seeing more ton-miles going forward. I think we will see more ton-miles on the iron ore side because Brazil, as of the middle of 2017 onwards, will put the S-11 mining action and some capacity that had issues will come back from the San Marco mine on the iron ore. And if Brazil exports more then to China, especially then ton-miles will go up 2.5 times for those tons.

As I said in the past, 100 million more tons -- 100 million of new tons from Brazil to China would require 26 million deadweight to carry them. That would give a huge boost to the market. I'm not saying it's going to happen immediately, but it will happen at some point going forward because that capacity coming out of Brazil will probably have to go to China more than anywhere else. Then we think that

China will have more coal import going forward because they might have opted for cleaner air rather than jobs to people.

So we think that there is great scope for cutting down production and increasing imports. Because let's not forget that they need about 3.8 billion tons of coal every year, and they are cutting down their internal production substantially.

Same thing will happen with what I discussed with iron ore. I think that as prices go up, they will probably produce again a bit more or much more for a while. They ballasted 276 days back to 330 until March, so that will increase production. Then prices will fall and then they will import more again.

And we think that Indonesia will cut down on coal exports because they want to use them internally. And therefore, China will import more from Australia and South Africa. Therefore, more ton-miles as well.

Same thing is happening with bauxite. They are importing now from East and West Africa. And grain trade will increase going forward because China -- the middle class of China is increasing and they eat more meat. They therefore need more feedstock.

We see it happening all the time, and grains are great cargo for shipping because they come from very far away. 9,000 miles on average. And they give a great boost to demand. So overall, I think that demand will do better mostly because of ton-miles.

Now I don't know what the Donald Trump affect is going to be in the market. You guys are all in the States. You can probably judge better than I can. On the one hand, maybe there's going to be measures that boost the American economy.

On the other hand, if there is issues with the trade act with other countries, that could create protectionist -- build protectionist walls for trade. So I don't know the plus or minus what is going to be the final effect there.

**Fotis Giannakoulis:**
Thank you very much, Petros. That's very helpful.

**Operator:**
Your next question comes from the line of Harsha Gowda of Blue Shore.

**Harsha Gowda:**
It sounds like this is a good time to accumulate secondhand vessels for the brave of soul. My question for you is putting together the pieces that you just mentioned, how the banks are being a little stricter with the smaller owners, how they have been very flexible with you, and also how they appreciate how efficiently you operate your fleet compared to everyone else in the market, it seems to me like there would be, at least on the part of the banks, a big advantage for them to allow Star Bulk to manage these vessels that they might find themselves now holding.

So is it possible that in light of a potential recovery that the Company could enter into maybe some creative strategies, joint venture strategies, with the banks to potentially get some upside in a recovery after the banks recover their funds that they've invested in these vessels? Especially in light of everything that's going on and with the banks that you already have a very good relationship with.

Is that possible? Could we be seeing something like that? And that was my only question. Thank you.

**Petros Pappas:**
And another very easy one, Harsha. Yes, I think that sometimes we will actually -- we are in discussions with banks about that, about taking vessels in management. Now whether we can get into creative agreements or not with them, it will have a lot to do with the restructuring agreement that we finished with the banks a few months ago and whether these allow us to get into such agreement.

But we are thinking about what you said. And if we can do it within the parameters of our agreement with banks, then we will do them, yes.

**Harsha Gowda:**
Great. Thank you very much.

**Petros Pappas:**
Thank you, Harsha.

**Operator:**
Thank you. There are no further questions at this time. Please continue.

**Petros Pappas:**
Well, nothing else on our side, Operator. Thank you very much. Thank you, everybody.

**Operator:**
Thank you. That does conclude the conference for today. Thank you all for your participation and you may now all disconnect.

**END**