Corporate Participants

Petros Pappas
Star Bulk Carriers - Chief Executive Officer

Hamish Norton
Star Bulk Carriers – President

Simos Spyrou
Star Bulk Carriers – co- Chief Financial Officer

Christos Begleris
Star Bulk Carriers - co-Chief Financial Officers

Presentation

Operator:
Thank you for standing by, ladies and gentlemen, and welcome to the Star Bulk Carriers Conference Call First Quarter 2018 Financial Results.

We have with us today Mr. Petros Pappas, Chief Executive Officer; Mr. Hamish Norton, President; 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 question and answer session, at which time if you wish to ask a question, please press star 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 will now pass the floor to one of your speakers today, Mr. Pappas. Thank you, and 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 first quarter of 2018.

Before we begin, I kindly ask you to take a moment to read the safe harbor statement on slide number two of our presentation. Let us now turn to slide number three of the presentation for a summary of our first quarter 2018 financial highlights.

In the three months ending March 31, 2018, TCE revenues amounting -- amounted to $81.6 million, 66.5 percent higher than the $49 million for the same period in 2017. Adjusted EBITDA for the first quarter 2018 was $46.4 million versus $18.1 million in the first quarter 2017.

Adjusted net income for the first quarter amounted to $11.9 million or $0.18 gain per share versus $12.9 million adjusted net loss or $0.21 loss per share in Q1 2017. Our Time Charter Equivalent Rate during this quarter was $12,586 per day compared to $8,156 per day in the same quarter last year. Our average daily operating expenses were $3,991 per vessel per day.

We're working towards closing the recently announced vessel acquisitions during early Q3, having recently achieved an important milestone with the Songa shareholders voting in favor of the relevant transaction. Finally, on the financing side, we have obtained commitments of $561 million from 10 banks, refinancing almost all of our debt maturities in 2018 and 2019.

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 4 summarizes the cash movement during the first quarter of 2018. The improving dry bulk market enabled us to generate strong free cash flow of $27.7 million from our vessels on the water during the quarter. After including debt proceeds, CapEx payments and cash repayments, we arrive at a cash balance of $264.3 million at the end of the first quarter.

Slide number five highlights Star Bulk's strong liquidity position. We are focused on maintaining competitive cash breakeven levels. Our lean cost structure enables us to deleverage our balance sheet and create value for our shareholders. On the right-hand side, we provide a breakdown of the pro forma net debt position of Star Bulk, which will be approximately $1.38 billion after the completion of the 34-vessel acquisition.

Star Bulk has taken delivery of all its newbuilding vessels and will have zero equity CapEx for the three Newcastlemax vessels that it acquired from Oceanbulk Container Carriers as there is committed financing in place for the remaining CapEx payment for these three vessels. We expect to take delivery of these three new Newcastlemaxes during the first half of 2019.

Please turn now to slide number six where we summarize our operational performance for the first quarter 2018. The combination of our in-house management and the scale of the group provide us significant cost and quality benefits.

Operating expenses were $3,991 per day per vessel for the quarter, in line with our performance over the previous quarters. Net cash G&A expenses were $1,101 per day per vessel for the quarter.

Our low cost structure is complemented by excellent ship management capabilities as Star Bulk is ranked in the top five among managers evaluated by Rightship. We are very focused on having the highest standards of vessel safety and maintenance to meet the requirements of our strictest and most demanding clients.

Slide 7 shows that Star Bulk is one of the lowest cost operators among U.S. leased dry bulk peers based on latest publicly available information. Star Bulk is one of the leaders in cost efficiencies among the industry, with operating expenses approximately 17 percent below the industry average. Notwithstanding the above, we always continue paying a lot of attention on the condition of our vessels in order to remain at the top of the list of our commercial partners.

In slide number eight we are providing an update on our fleet employment, with 35 vessels in the medium to long-term (charters) of up to 12 months. In terms of visibility for the next quarter, we have covered 88 percent of our available days at average rates of over approximately $12,758 per day, which is above our long-term breakeven levels, including debt service.

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 9 for a brief update of supply.

During the first five months of 2018, a total of 13.1 million deadweight has been delivered and 2.1 million deadweight was sent to demolition for an 11 million deadweight net inflow. During the same period, a total of 10.5 million deadweight has been reported by Clarksons as firm orders and up to an additional 6.5 million deadweight have been identified as LOIs or options.

The total dry bulk order book currently stands between 10 percent and 12 percent of the fleet, depending on the percentage of LOIs and options that will ultimately materialize.

Three consecutive years of low contracting will lead to net flow growth during 2018-'19 of between two percent and three percent per annum, depending on the rate of demolition. It is also worth noting that (inaudible) cost have increased 50 percent over last year to approximately $450 per ton, encouraging slow speeds and providing support to a higher freight environment.

Let's now turn to Slide 10 for a brief update of demand. During the first quarter of 2018, dry bulk trade activity experienced a slowdown due to seasonality and a series of disruptions that affected major exporters. Poor weather conditions, mining accidents and strikes took place in Brazil, Canada, Guinea and South Africa during a short period of time.

Brazil iron ore exports decreased by 7.5 percent during the first quarter despite the new Vale SD11 mine and despite healthy demand for high-quality ore. Strong steel prices and profit margins have supported the 4.2 percent increase in global steel production and a 5.3 percent increase in crude steel output by China. On this note, China's winter environmental restrictions have also led to a 25 percent decline in domestic iron ore production, which is supporting higher imports.

China current crude steel consumption is estimated to have increased by eight percent during the first four months of the year, while steel inventories have experienced a fast decline over the past two months. At the same time, international steel prices have received strong upward pressures over the last year due to significantly lower exports of Chinese steel and the U.S. imposition of steel tariffs.

China coal imports increased 9.2 percent on the back of 7.6 percent thermal electricity growth for hydropower generation and flat domestic production of coal. We find encouraging for near-term prospects that both China and India coal stocks remain at relatively lower levels, especially in view of above-average hot weather conditions.

As per Clarksons latest reports, during full-year 2018, total dry bulk tons are projected to grow by approximately 2.5 percent. The second half though is expected to grow at a faster pace than the first, with strong export growth of Brazil iron ore, U.S. coal, U.S. soybeans and Guinea bauxite.

We expect demand growth to outpace fleet growth during full 2018 and 2019 on the back of healthy ton-miles. There is, however, a fragile balance which may tilt against us if shipowners embark in massive newbuilding ordering over the next year.

We, therefore, highlight once again that the most important factor for market balance is owners ordering discipline. This will lay the foundation for a sustainable recovery until environmental regulations gradually come into force. These environmental regulations will thereafter not only contribute towards a cleaner environment, but they may also assist shipping in reducing vessel supply and lead us to potentially even better market as of 2020 onwards.

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, sir. Ladies and gentlemen, again if you do wish to ask a question, please press star then one on your telephone keypad and wait for your name to be announced. If you wish to cancel that request, please press the hash key.

Your first question, sir, comes from the line of Ben Nolan of Stifel.

Ben Nolan:
Great, thank you. And a good morning, or afternoon. I have a handful, starting with the logistics business that you guys initiated in the fourth quarter of last year. It looks like you really ramped up activity. Certainly, a lot more charter hire cost and revenue associated with it.

I'm curious first of all, maybe if you can just frame that. And I mean, are you focusing on any particular asset type or commodity type or geographic region? And associated with that, how much do you think that the activity level in the first quarter is indicative of how you would expect that to grow going forward?

Petros Pappas:
We're focusing -- hi, Ben. We're focusing basically on grain trades. And we are focusing in the Atlantic and on smaller types of vessels, like Ultras, Supras and Panamax, Kamsarmax. What was the second part of your question?

Ben Nolan:
Obviously, there was a lot of days in the quarter. Just curious if that is still part of the ramp-up process? Or whether or not it was just kind of you are sort of where you would expect it to be?

Hamish Norton:
I think it's part of the ramp-up process. In other words, that is, it's not going down from here.

Ben Nolan:
Sure. But is it going up a lot, I guess, is my question.

Hamish Norton:
Well, it's -- Simos, I think it's probably going up from what we reported a little bit.

Simos Spyrou:
A little bit. Not significantly from what we reported for first quarter.

Hamish Norton:
Yes. I mean, you know this is part of our effort to make sure that Star is able to voyage charter any one of the vessels it owns whenever if voyage charter is more attractive than a time charter.

Ben Nolan:
OK. No, that's helpful. And to that end and when thinking through sort of the vessels that you're chartering and from the third-party owners and/or alternatively FFAs, is the idea ultimately to be sort of net neutral on that, call it, trading book or logistics book? In other words, you're not playing that either long or short?

Petros Pappas:
Well, we're mostly net neutral, but when you take vessels in, you have optionality periods. And in that period, you will leave open because that's where your profit lies.

Ben Nolan:
OK, I got you. So -- and then lastly, associated with that, when you are chartering in vessels, do they typically -- are they typically spot voyages or short-term time charters? There's nothing longer duration on that side of it. Is that fair?

Petros Pappas:
We did a few period vessels like five or six of them. But most of them are spot fixtures.

Hamish Norton:
And periods.

Petros Pappas:
And periods are less than a year.

Ben Nolan:
OK. No, that's helpful. It's just that there was obviously a big change in the income statement. I'm trying to get my head around it. So that's helpful in understanding sort of where you think of that.

And then secondly and I'll turn it over, as it relates to transactions, obviously, this is an extremely busy quarter. And most of the situations that involved -- or I guess all of the situations that involved acquiring fleets or ships and assets, you guys were able to use your shares as a currency to fund the equity component of those transactions, which is good to see from my view.

I'm curious, is there, A, are there more transactions of that type out there? And then secondly, how easy is it -- or have you found it to be -- in order to be able to use your shares in that way and be able to consolidate and take advantage of the liquidity that your public listing provides?

Hamish Norton:
So Ben, nothing like this is ever easy. But -- and there may be other transactions out there and there may not be. We hope there may be. And if we see other situations that are as attractive as the Augustea transaction and the Songa transaction, we'd love to do them. We can't promise that there will be, but we're always looking for attractive transactions.

Ben Nolan:
OK. And in general, is it a preference when possible to use shares first for the equity component?

Hamish Norton:
Yes. I mean, the intention in both transactions was not to materially change our leverage up or down and not to materially change our operating risk, but to grow our market cap, to grow our liquidity. And on the margin, we were able to reduce our average fleet age. And on the margin, to a small extent, I think we increased our average ship size, but did it in essentially a leverage-neutral way.

Ben Nolan:
OK, perfect. And lastly, quickly, you said both transactions were set to close in the third quarter and then maybe splitting hairs, but just for modeling purposes, do you think that is July or September?

Christos Begleris:
It basically should be by the end of July, Ben.

Ben Nolan:
OK, perfect. All right, very helpful. I appreciate it, you guys.

Operator:

Thank you. And your next question comes from the line of Randy Giveans of Jefferies.

Randy Giveans:

Thank you, Operator, and good day, gentlemen. A few quick questions there following up on the recent acquisitions. Kind of can you give the updated share count post all acquisitions is around (92 million), is that what we should be modeling?

Petros Pappas:

Correct.

Randy Giveans:

Excellent. And then with those acquisitions and obviously the recently announced refinancing, the cash sweep mechanism, what are your expected kind of debt repayment amounts the rest of this year and 2019 more so?

Simos Spyrou:

It should be around $30 million per quarter after we take delivery of essentially all the vessels from the transactions that we have announced.

Randy Giveans:

Got it, OK. So use that run rate back half of the year and going forward, OK. And then post acquisitions, you will have about 108 vessels. Is there kind of a scale size that you're wanting to get to, growing larger, growing smaller? Basically what level do you want your fleet to be at in the coming quarters? Is 108 big enough? Are you still looking for more?

Hamish Norton:

Randy, we kind of aspire someday to be a mid-cap company. So what do you think a mid-cap company is worth?

Randy Giveans:

In shipping? $600 million.

Hamish Norton:

Just generally.

Randy Giveans:
OK. $3 billion.

Hamish Norton:
Well, there you go.

Randy Giveans:
Well, the stock price and the share counts should both increase then.

Hamish Norton:
Well, we would aspire someday to be a mid-cap company throughout the business cycle, someday.

Randy Giveans:
That's there. All right. Well, one more question. So looking at those 35 vessels on the short-term charters, basically upon the expiration you have maybe half of them in the coming three or six months. Is this strategy to continue to have 1/3 or so of your vessels on short-term charters? Or you go let this roll off into spot? Do you have a strategy for those? Or is it pretty much all opportunistic?

Petros Pappas:
Randy, our strategy will remain the same as in the previous years. We like to fix during Q3 or perhaps very beginning Q4 a percentage of our fleet and get through Q1 and part of Q2, because usually the first half of the year is slower than the second part. And as the second part is usually stronger, then you have better chances of fixing a better rate through Q1, Q2. So I don't think we're going to change. That strategy has proven to be working relatively well.

Randy Giveans:
Excellent. One more quick question just to clarify. So growing the fleet, getting to a mid-cap, are newbuildings on the table? Or is this all through kind of second-hand acquisitions?

Hamish Norton:
We have no present intention to order any newbuildings. And...

Randy Giveans:
Just wanted to get that quote on the tape? OK.

Hamish Norton:
Yes.

Petros Pappas:
Thanks, Randy.

Randy Giveans:
Awesome, you all have a good day.

Petros Pappas:
You, too.

Operator:
Thank you.
And your next question comes from the line of Fotis Giannakoulis of Morgan Stanley. Please ask your question.

Fotis Giannakoulis:
Yes. Hi, (gentlemen), thank you. I want also to follow-up on the latest acquisitions and try to understand the rationale, not from your side, which is obvious, but from the side of the seller. What were the arguments that you used and what made the seller willing to dispose the fleets and the companies to you in exchange for shares, instead of -- particularly for Songa remaining an independent public company?

Hamish Norton:
Well, Fotis, I think we are able to bring obviously the very efficient technical and commercial management you heard about to -- for the benefit of the shareholders of Augustea and Songa. And we were excited to offer Raffaele Zagari, I hope I pronounced his name almost right, a seat on the board and to offer Arne Blystad a seat on the board.

And -- so they are not really giving up all influence on their companies. Just to the contrary, we welcome their insight and experience and judgment. And Herman Billung of Songa is joining us as a member of the management team. So it's not so much an acquisition of the fleets as a merger of companies.

And you know that's pretty unusual in the shipping industry, and I think the culture of Star Bulk is able to accommodate that sort of merger in a way that the culture of some other shipping companies might have difficulty.

Fotis Giannakoulis:
Thank you, Hamish. Would you be able to elaborate a little bit on the technical and commercial management of such a large fleet? You manage right now 108 vessels. This is on the high side or even of the more established and older shipping companies. How -- are there any challenges in managing so many ships? How are you organized in order to achieve these efficiencies? Is everything done from (Athens)? If you can give us a little bit more color, and up to what level of vessels you can reach?

Petros Pappas:
Fotis, this is Petros. Well, first of all, having a big number of vessels offers obvious economies of scale. Now whether those economies of scale kind of subside, whether that's at 100 or 200, perhaps 300 vessels, I can't tell you yet.
On the other hand, of course, it is a stress factor on the officers of the company. And therefore, it is the opportunity to always source good people. And an advantage of public companies and bigger companies is that they can afford to take in good people. And the human element is the most important factor in a company.

Now the way we do it is, we have our main office in Greece. But we also have an office in Cyprus which manages a number of the vessels. And some of the vessels will be -- the vessels of Augustea will be retained on management by them. But we will be doing the purchasing exactly because of those economies of scale that I just mentioned. And we will be doing the chartering. Kind of size is also important for chartering.

I do not believe that there is a problem in expanding the Company. We'll, at some point, have to just take in some more people. And we are -- we think we are a very organized company that can follow up our vessels very well. Our incomes are good. Our OpEx are among the top. Our Rightship position is at the top. So I think that all these factors point to the fact that we can still manage a large number of vessels.

Hamish Norton:
And if you compare the vessels we have under management to the number of vessels that, for example, V.Ships has under management, we've got a long way to go.

Petros Pappas:
Right, right.

Fotis Giannakoulis:
There is a great ambition here. I want to jump to the favorite topic of 2018, and I'm talking about the IMO 2020. How would you view the -- your response to the new regulation? If something has changed from since the previous call, if you are planning to install scrubbers in a larger number of vessels than you previously had commented?

And if the scrubber situation is something more focused on Newcastlemax or even Valemax if Vale decides to move to this solution, then how do you view the compliance of the new regulation or the potential of extension of the deadline of 1st of January of 2020?

Petros Pappas:
OK. So basically what we've done, we are proud to say that we've installed one scrubber already. And then we are installing our second scrubber, as we speak. We have also ordered 22 scrubbers for -- mainly destined for our bigger vessels, and we will see what we'll do thereafter. I mean, we'll have to see how they work, how the market moves. We'll see how it goes after that.

Now regarding the environmental regulations, we are in favor of them. First of all, because of the environment; second, because it makes our life more difficult. And the more difficult our life is, the more barrier to entry to any newcomer in the business. We're fine with who we have as competition as we stand -- as we are.

Then we think that these environmental regulations are going to be good for our business. They will -- expensive fuel oil, for example, expensive distillates will slow down the speed of vessels, therefore, the supply, this stuff we all know.

There may be even some scrapping because of ballast water treatment plants and drydocks coming at the same time in the next couple of years. So all these things are good for shipowners. And as we know that we always tend to over order, this will prove to be a mitigating factor in the supply-demand equation.

Now we do not believe the dates are going to be moved. We think that they will stay where they are. I mean there's repeated statements of that sort from IMO officials. And despite the efforts of some fellow shipowners that I think I believe they are fighting, trying to fight the system, but instead, in my view, they should try to find ways to adapt to the system, whether it is scrubbers or whether it is distillates or LNG or whatever it decides to do. And you had one more question?

Christos Begleris:
Compliance.

Petros Pappas:
Compliance? I don't worry at all about compliance because basically if they -- if carrying heavy fuel oil onboard of vessels that do not have scrubbers is banned, then it's going to be very easy for the authorities to check that -- to check it. And I'm pretty sure there's going to be very heavy penalties if anybody digresses.

Now whether some people in obscure places will continue to use fuel oil, maybe so. But this is going to be a very low percentage of the whole fleet in my view.

Fotis Giannakoulis:
And Petros, can you clarify this benefit that you have from scrubbers on the larger Capesize or Newcastlemax vessels? Are you able to take advantage all of it? Or you have to share it with your charterer? How does the sharing work here?

Hamish Norton:
Yes. I mean, Fotis, there's basically no benefit financially whatsoever at this point. In principle, we can benefit from burning heavy fuel oil in emission control areas, but that's it. And the truth is the ships that we're putting scrubbers on the first two trade in emissions control areas very rarely. So it's really just the technical exercise, it's not a financial exercise.

Fotis Giannakoulis:
OK. What about (the issues)? I'm trying to understand are you going to be chartering these vessels for under short-term time charters? Or you will be chartering on a dollars-per-ton basis, so you can (keep) this fuel...?

Petros Pappas:
I think we'll go for dollars per ton, Fotis.

Fotis Giannakoulis:
So all your -- all the benefit of -- for the fuel will go to you, if I understand well?

Petros Pappas:
Hopefully. It depends because we may have to compete with other operators that have vessels with scrubbers, and they may be trying to undercut the dollars per ton, but yes. Otherwise, whatever freight we will agree upon, the benefit, the total benefit should be ours as long as this is a voyage charter.

Fotis Giannakoulis:
Thank you very much, gentlemen.

Petros Pappas:
Thank you.

Operator:
Thank you.
Once again, ladies and gentlemen, if you do wish to ask a question, please press star and one on your telephone keypad, and wait for your name to be announced.

Your next question comes from the line of Magnus Fyhr of Seaport Global Securities. Please ask your question.

Magnus Fyhr:
Yes, good afternoon. Just two questions. First one, just a follow-up on your CapEx for the scrubbers. Do you have a dollar figure for those 20 -- I guess, 25 scrubbers that you are going to install on your vessels?

Petros Pappas:
Well, they are secrets of the trade, Magnus.

Magnus Fyhr:
(You could be) sharing them with me. Can you elaborate on what you see the cost for different sizes of vessels, maybe, ballpark figures?

Petros Pappas:
What I can tell you about the scrubbers is that we have secured financing for them. So you should not worry very much about the capital outflow.

Magnus Fyhr:
OK. And I guess, with other regulations coming up, I mean, the water ballast treatment system, do you have -- I couldn't see any guidance on the CapEx just for drydocking over the next 2018 and 2019. Do have some numbers that you could share with us?

Petros Pappas:
We do not have. Actually, for 2018, we have very few drydocks, if any. I think we have two for 2018 and less than 10 for 2019. So if you calculate, like depending on the type of vessel around $700,000 - $800,000 per drydock, then you can do the multiplications.

Magnus Fyhr:
And that -- those vessels going into drydock, I guess, will they also need water ballast treatment systems installed?

Petros Pappas:
Most of our vessels, I would say, the majority -- the great majority of our vessels are installing their scrubbers in their '20s -- sorry, their ballast water treatment plants in their '20s, in 2020 to 2021.

Magnus Fyhr:
All right. So doing the math, it's not much of CapEx for both 2018 and 2019.

Christos Begleris:
Magnus, this is Christos. To your previous question, the total basically drydock CapEx for 2019 is $6.7 million projected. And total for '20s, a bit below $15 million.

Magnus Fyhr:
OK, all right, fair enough. One last question on the -- just on the market. The -- you got a few Capesize vessels in your fleet. And looking at (Vales) guidance for the second half of the year, it looks like they need to ramp up production significantly. Have you seen any activities of them in the market? Or when do you expect them to come to market to secure vessels for increasing production?

Petros Pappas:
I think they increased their shipments last month pretty substantially. But the fact that they did not export that much in the initial four months, we think these are going to be pushed for the second half. We are extremely positive for the second half as far as Brazil exports are concerned. And due to the ton-mile effect, we think that Capesize vessels are in for decent times.

Magnus Fyhr:
All right. Thank you, that’s it for me.

Petros Pappas:
Thank you.

Operator:
Thank you. And your next question comes from the line of Herman Hildan of Clarksons.

Herman Hildan:
Yes, (inaudible). I guess you just answered my first question, which is you're extremely bullish about the second half of the year. Then on to my current (favorite theme) in the shipping space, the IMO regulations. And I'm just kind of curious on the one vessel you have the scrubber installed already, is there an experience you've made from that? Could you kind of give some color on how that has been basically?

Petros Pappas:
We installed it a couple of months ago, and we've been operating it continuously and under as harsh conditions as we can, because we want to test the various -- the potential problems that it might offer. And up to now we -- it has operated very smoothly, and we're very happy with it. So that's the experience for now. I mean, we don't see any problems up to this point in a couple of months’ sailing.

Herman Hildan:
Yes, have you noticed any material difference in, call it, the consumption per day to drive the scrubber or any -- any color on that?

Petros Pappas:
Any what?

Herman Hildan:
Like any material increase in fuel consumption or OpEx or anything like that? Or it is basically no difference?

Petros Pappas:
It's very, very little, almost insignificant.

Herman Hildan:
OK, very good. And then on the more, call it, very different note, there's been some talk lately about the Chinese potentially restricting trucking in China. And obviously, I guess, there's most -- in many cases the large distance between the mines and the consuming region.

I'm just curious if you have kind of noticed that and if you have any thoughts around that? Because it could possibly be a good thing for the shipping markets, if they put limitations on trucking?

Petros Pappas:
Restricting the trucking?

Herman Hildan:
Yes.

Petros Pappas:
Well, OK, it depends where this trucking goes, because if it's from the inland China, there's not much you can do about that. But of course, if we're talking about from cities that are near the water, definitely that will increase the coastal trade of China.

And if coastal trade increases, then the Chinese buy more vessels, they devote into that trade, and they get them out of the international market. So that could only be a positive. And definitely, it's going to be positive as far as emissions are concerned, because we all know that per-ton shipping is the least polluting means of transportation.

Herman Hildan:
Sure. And, I guess just to try to understand your very bullish view of the second half of the year. I mean, obviously, we have seen in the first half of the year rates being the highest in five years multiple times in multiple asset classes.

And as you mentioned, this is now the effect from, call it, iron ore exports out of Brazil. Is that kind of the reason why you're bullish? Or do you see other factors that kind of give you confidence obviously outside of the low (inaudible) growth?

Petros Pappas:
I didn't get the first part of your question.

Hamish Norton:
Bullish about (inaudible) do you see objective -- what are the objective facts that are driving that judgment?

Petros Pappas:
OK. Well, first of all, there is more trade in the second half of every year. And statistically, we've seen that it's about 54 percent, 46 percent . 54 percent for the second part of the year. This is due to the fact that the weather is better in the second half. There's less holidays. So there's always more trade.

Then we believe a lot in ton-miles. Besides tons, ton-miles are more important. We believe, as we discussed previously, that Brazil will export more iron ore, especially because China is trying to improve the quality of the air they breathe, and therefore, they want high-quality iron ore so that you can use less coal in the mix. So that actually triples ton-miles into a very positive thing.

Then going for cleaner coal would mean, which is also one other issue, would mean that at some point, they will have to lower the imports from Indonesia and import from South Africa or Australia. We are seeing more coal exported to China from the U.S. We're seeing much more bauxite coming in from West Africa.

It's not that much a ton issue, but it's more of a ton-mile issue in our view. There's going to be great trade, this second part of the year. So I mean, everything is conspiring to a better market right now, at least for the next six months.

Herman Hildan:
Yes. That’s my (inaudible). I look forward to it. Thank you very much.
Petros Pappas: Yes, same here. Thank you.

Operator:
Thank you. And your final question comes from the line of Randy Giveans of Jefferies. Please ask your question.

Randy Giveans:
Thanks, Operator, back for one quick one. So for those 22 scrubbers on order, I know you don't want to give Magnus the cost specifically. But is it above or below $3 million, just as a ballpark?

Petros Pappas:
OK. It's below.

Randy Giveans:
OK. That's all I need, thank you. And then what percent of financing -- you said you have financing, not to worry about it. Is that 50 percent, 80 percent, 100 percent?

Petros Pappas:
I would say around 70 percent.

Randy Giveans:
OK, that's fair. And then supplier of these?

Petros Pappas:
Well, that's marketing tools so. They're European -- they're European. We're going for the highest-quality European suppliers.

Randy Giveans:
So more than one supplier on the 22 ordered?

Petros Pappas:
Well, yes. Yes.

Randy Giveans:
OK. Excellent.

Petros Pappas:
Yes, (twenty). Yes.

Randy Giveans:
Well, that’s it for me, I won’t (pop) on for any more questions. Thank you.

Petros Pappas:
Thank you.

Operator:
Thank you. There are no further questions, gentlemen. Please continue.

Petros Pappas:
That was it, Operator. Thank you very much.

Operator:
Thank you, ladies and gentlemen. That does conclude our conference for today. Thank you all for participating, you may now disconnect.

END