KNOT Offshore Partners

Third Quarter 2016 Earnings Conference Call

November 2, 2016 at 12:00 p.m. Eastern

CORPORATE PARTICIPANTS

John Costain – *Chief Executive Officer*

PRESENTATION

Operator
Good afternoon, and welcome to the KNOT Offshore Partners Third Quarter 2016 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation there will be an opportunity to ask questions. To ask a question, you may press star (*), then one (1) on your telephone keypad. To withdraw your question, please press star (*), then two (2). Please note, this event is being recorded.

I would now like to turn the conference over to John Costain, CEO. Please go ahead.

John Costain
Thank you. If any of you have not seen the earnings release or slide presentation, they are both available on the Investor section of the website. On today's call, our review will include non-U.S. GAAP measures, such as distributable cash flow, DCF, and adjusted EBITDA. The earnings release includes a reconciliation of these non-US GAAP measures to the most directly comparable GAAP financial measures.

A quick reminder that any forward-looking statements made during today's call are subject to risks and uncertainties and these are discussed at length in our annual and quarterly SEC filings. As you know, actual events and results can differ materially from those forward-looking statements. The partnership does not undertake a duty to update any forward-looking statements.

And now onto the presentation. KNOT Offshore Partners KNOP's focus is on the Shuttle Tanker segment. This asset is field-specific and an integral part of the logistic supply chain that provides a vital service transporting oil from the offshore oil production unit to shore side. In effect, a midstream mobile pipeline business with fully contracted, stable non-volume based revenue streams. KNOP trades at a significant yield premium to the Alerian Index, which represents around 75% of MLPs by market cap. Unlike most of these MLPs, however, we are operating in a space which is seeing substantial oil production growth and consequently, the supply of shuttle tankers is tightening as demand grows. We have a young fleet, and after a record-breaking set of results in the previous quarter, here today we report our latest best-ever financial results for the third quarter of 2016. These are our highest ever revenues and operating income, together with our highest ever adjusted EBITDA and distributable cash flow, a very solid financial situation.

We are also pleased to announce the latest addition to the MLP fleet, the Raquel Knutsen for an acquisition price of $116.5 million effective from the 1st of December 2016. The vessel was delivered in March 2015 with a ten-year firm charter to Repsol. As well as being an accretive acquisition, the vessel has a time charter duration of over 8.25 years plus 5 further years of options, significantly increasing our MLP charter backlog. It also reduces the average age of the fleet.

Our sector is unique amongst marine MLPs in that there has been no speculative ordering of shuttle tankers, so the partnership should yield both stable and sustainable revenues. Before ordering a new vessel, our sponsor, Knutsen NYK, will always agree to long-term employment contract with the charterer. Our sponsor, Knutsen NYK, is according to Clarkson Platou research, part of the largest shipping group in the world and NYK is a major company in the Mitsubishi family.

Now turning to the presentation. Slide 3, Q3 2016 financial highlights and recent events. For the third quarter of 2016, the partnership generated record revenues and operating income of $43.6 million and $21.2 million respectively, also our highest-ever adjusted EBITDA and distributable cash flow of $35.1 million and $20.3 million. We declared a stable distribution of $0.52 this quarter with a coverage ratio of 1.35. We had an excellent operational performance of 100% utilization this quarter.

We are pleased to announce that on 13th of September of 2016, Statoil exercised its options to extend the time charter of the vessel Bodil Knutsen for two additional years in accordance with the existing time charter. We have also granted a series of one-year extension options, five years in total at the end of the third period. In addition, we are announcing the latest addition to the MLP fleet, the Raquel Knutsen for an acquisition price of $116.5 million effective from the 1st of December 2016. The vessel was delivered in March of 2015 with a ten-year firm charter to Repsol. With this acquisition, which demonstrates out sponsor's strong support of and commitment to the MLP, our fleet will have grown 275% since the IPO in April of 2013.

Slide 4, income statements. Total revenues were $43.6 million for the three months ended 30th of September 2016, Q3, compared to $43.1 million for the three months ended 30th of June 2016, Q2, an increase of $500,000. Operating expenses for Q3 were $22.4 million compared to $22.8 million in Q2. Operating income for Q3 was, therefore, $21.2 million compared to $20.2 million for Q2. Net income is significantly impacted by the recognition of realized losses and unrealized gains and losses on derivative instruments, a net gain of $3.6 million in Q3 and a loss of $3.2 million in Q2 due to changes in long-term U.S. interest rate outlook.

Net income for Q3 was $19.4 million compared to $11.6 million in Q2. This equates to an earnings per unit of $0.70. If we adjust the unrealized noncash elements and derivatives, a $4.4 million gain, earnings per unit became $0.52.

Slide 5, adjusted EBITDA. In Q3, the partnership generated our best ever adjusted EBITDA of $35.1 million. It compares to $34.1 million in Q2. Adjusted EBITDA refers to earnings before interest, taxation, depreciation, and amortization. It provides a proxy for cash flow. Adjusted EBITDA is a non-U.S. GAAP measure and used by our investors to measure financial performance. With a wasting asset like a vessel, younger fleets, in theory, should produce lower EBITDAs for every dollar invested. The annuity effect reduces value loss in the earlier years, which is factored into replacement Capex calculations for distributable cash flow. KNOP's fleet has an average age 4.9 years, and this compares to the rest of the industry average for shuttle tankers, excluding KNOPs, of 11.5 years.

Slide 6, distributable cash flow. Another non-U.S. GAAP measure used to estimate the distribution sustainability. Today, we report our highest ever quarter distributable cash flow of $20.3 million in Q3 compared to $18.5 million in Q2. We maintain our highest distribution level for Q3 of $0.52 per unit, equivalent to an annual distribution of $2.08. This distribution coverage ratio for the quarter was a very comfortable 1.35.

Slide 7, balance sheet. At the end of September, we had our best available liquidity position to date with cash and cash equivalents of $27.4 million and an ongoing undrawn credit facility of $35 million. The credit facility is available until June 2019. We have a predictable cash flow, and we do not have any loan maturities before the second half of 2018. The total interest-bearing debt outstanding was $635 million, and annually we currently have scheduled repayments of $48.9 million. This compares to replacement Capex charge of $28 million when

computing distributable cash flow. We believe this treasury position is very comfortable and with our sponsor's support, we have been able to utilize some of this available liquidity to further grow the MLP.

Slide 8, stable operational performance results in stable financial performance. Since the formation of KNOP, we have had very strong levels of vessel utilization, which means continually high and increasing predictable revenue, adjusted EBITDA, and discounts in cash flow as more vessels are added to the fleet. In Q3, we had a record distributable cash flow of $20.3 million, and we'll make a $15 million distribution. Since our initial public offering over three years ago, we have declared distributions of $6.66, so our initial investors have received a total return of nearly 32%. Our current yield is around 11%.

Slide 9, Raquel Knutsen dropdown. Built by Cosco in China and delivered on the 27th of March 2015, the Raquel Knutsen is a Suezmax class shuttle tanker operating under a time charter that expires in the first quarter of 2025 with Repsol Sinopec in Brazil. There are options to extend until 2030. We have agreed with our sponsor, Knudsen NYK, to acquire the vessel for the MLP for $116.5 million with delivery effective from the 1st of December 2016. It will be part financed by commercial debt of around $75 million and also through a combination of non-amortizing seller credits of $25 million and also cash, which we have available. The corporate credit line will remain undrawn at this point. The senior loan has a margin of 200 basis points with an annual repayment of $4.3 million. Since our last drop on the 15th of October 2015, the Ingrid Knutsen, until acquiring the Raquel Knutsen on the 1st of December 2016, the MLP will have repaid $59.2 million of the secured interest-bearing debt outstanding. The charter will yield around $6 million of net income and approximately $13 million of EBITDA for the year ended the 31st of December 2017.

Slide 10, long-term contracts backed by leading energy companies. The Windsor Knutsen has a two-year contract from the 13th of October 2015 with Brazil Shipping, as a subsidiary of Royal Dutch Shell with options to extend a further 6 years.

Hilda Knutsen and sister ship, Torill Knutsen, are employed on the Goliat field. Of the original five-year contracts on the two vessels, an average of 2 years of the firm charter period remains. Given the specialized nature of this contract, we would expect the vessels to operate on this field throughout its life.

The Bodil Knutsen, the largest shuttle tanker operating in the North Sea is ice-class, and on charter to Statoil until May 2019. There are five further options to extend. Statoil has recently been given permission to proceed with the development of the Johan Castberg field in the Barents Sea, 250 km north of Hammerfest, and this should provide medium-term employment and security for the Bodil.

Four of our vessels are on long-term bareboat charter to 2023 with Petrobras Transporte. These vessels are among the youngest in the Petrobras fleet, being delivered between 2011 and 2012, and are heavily utilized. Dan Sabia and Dan Cisne are of unique size and the Fortaleza Knutsen and Recife Knutsen have shallow drafts with lots of thruster capacity. Three of these vessels have undertaken their first five-year special survey in 2016 at the charterer's expense.

Delivered in 2013, the Carmen Knutsen is on charter direct to Repsol Sinopec until 2023.

The Ingrid Knutsen was delivered in December 2013 and is operating in the North Sea on a

time charter to Standard Marine Tonsberg, a Norwegian subsidiary of Exxon Mobil. This will expire in the first quarter of 2024. The charterer has options to extend the charter to five one-year periods.

Slide 11, tenders have returned. At the time of the IPO, our fleet of four vessels had average age of about three years. Now over three years later, we have a fleet of 10 vessels, which have an average age of 4.75 years. The Raquel Knutsen will reduce the average fleet age by 3 months on entering the MLP. With strong sponsor support and despite recent market volatility, we continue to grow. The market for new buildings has returned, and we have had several tentative inquiries and an invitation to tender for two new-build Suezmax shuttle tankers.

Slide 12, the dropdown inventory, four potential acquisitions. Today, we have potential dropdown inventory of four vessels, having added seven vessels to the fleet. The fixed contract periods for the dropdown fleet is a minimum of five years on average. It could be longer, depending on which series of options the charterer elects to take on delivery.

Slide 13, committed to safety. In the 12 months at the end of October 2016, both Knutsen NYK, which manages the shuttle tanker fleet of KNOP; and Knutsen OAS Shipping, which manages Knutsen Groups LNGs and product tankers, have not registered any LTIs, lost time injuries, and during that period, more than 7 million hours has been worked all over the world.

Slide 14, save the date. On the 15th of February 2017, the partnership will hold an Investor Day where the interim results of the quarter end 31st December will be presented in addition to an Investor Day. It will be in a similar format to last year's event.

In summary, we have a solid and highly profitable contract base with a revenue backlog of $727 million and a further $153 million with the Raquel Knutsen dropdown. An average contract duration as of the 30th of September was 4.9 years. We have a modern shuttle tanker fleet with an average age of 4.8 years and this compares to the rest of the industry average of 11.5 years.

The partnership is well placed and highly focused on expanding in the medium term as both the MLP and the oil markets recover. No one has more expertise and experience in operating the sophisticated shuttle tanker than Knutsen Offshore, and we operate these vessels with real expertise. We've had minimal off-hire, with 100% utilization in the last quarter and 99.7% since the IPO excluding scheduled dry dockings. We have a supportive sponsor who has a large asset base, which will grow the MLP by capturing a good proportion of the expanding markets.

Thank you, and I'd like to turn it over now to anybody who's got any questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star (*), then one (1) on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*), then two (2). At this time, we will pause momentarily to assemble our roster.

Our first question comes from Michael Webber with Wells Fargo. Please go ahead.

Michael Webber
Hi, good morning guys. How are you?

John Costain
Hi Michael. How are you?

Michael Webber
Hi, good. Um, just to quickly touch base on the drop and any sort of corresponding distribution increase. I could have missed it in the prepared remarks, and I didn't see it in the release, but what's the thought process around eventually bumping the distribution following the dropdown and/or any timing around that decision?

John Costain
Well, we haven't, we've decided at this present moment in time we will initially use the additional funds from the Raquel to further strengthen the balance sheet and improve our cover ratios because in the medium term, obviously, we're taking more leverage with this drop, and with the cover that we have today we can, you know, repay the debt quite substantially. I mean, at the moment the 1.35 coverage being used over time to reduce the leverage of MLP in the last, since we did the last drop of the Ingrid, we have repaid, when we receive the vessel we will have repaid around $60 million U.S. and by the end of 2017, we will have paid a similar amount, so we see that we need to keep the coverage.

We're not raising new equity or doing something else, so that's really the thinking behind it today.

Michael Webber
Right, and that makes sense. I mean, when you look at the, I guess the amort and the balloon schedule for the next couple years, I believe you've got $155 million in a balloon payment coming in 2018 along with kind of a $50 million amort schedule in '17 and something similar in '18. So it's pretty lumpy in '18 and in '19.

John Costain
Yes.

Michael Webber
Which the, yes.

John Costain
The '18's really related to the Hilda and Torill. I mean, obviously, we'll wait to see how the charters, what structure the new charters have and what we can raise against the vessels. Obviously, if the charterer wants them long term, then it makes it easy to actually increase the leverage on the ships. If he wants optionality, he'll probably just renew at the current level, you know, so…

Michael Webber
Right

John Costain
So it's really, we don't know what the outcome is for these things until it actually happens and therefore it's quite good to stay flexible really, and not push it all out to distributions.

Michael Webber
Right. So maybe if I back away from that for a second and kind of, the question on the dividend

was within the context of your equity currency, kind of looking at that amort schedule. So maybe just big picture, when you see that 2018 and 2019 schedule coming up, you've got good contract cover, you've got the possibility of raising the distribution here, but you want to build some cover. You know, how do you, when can you realistically address the '18 and '19 balloon payments to actually refi those, and then how do you prioritize your, kind of your tool kit, in terms of your levers that you can use, including new equity, organic actually to try to handle that?

John Costain
We'd like to have a little bit of flexibility, because obviously we don't want to press, we don't like to press the charterer on the rates. It's more he should come to us and decide what he wants to do. It's just an easier negotiation, it gives it more flexibility, and you know, at some point, they will, they will come to us and ask about the renewal on the ships. I would expect, because the ships, the two, the Hilda and the Torill are very specialized. And then, I think in '19, start looking at the Petrobras ships that are starting to come up, and there's quite a lot of refinancing at that point. But the contracts still have a lot of cover on them, so, you know, we see, we're quite relaxed about this area. But it's something we have got a lot of visibility on in terms of how much you can actually, until you can actually finalize a negotiation and talk to the banks, we haven't got a lot of visibility on exactly how much cash flow we will have from that. So it's better to wait and see, really, and this is why, one of the reasons why, if we're not going to market getting equity, we're better off just dropping the ship in and leaving the distribution increase in the entity.

Michael Webber
Okay. That makes sense. Just, within that context and looking at the option period associated with a number of these vessels, what's the window prior to that option kicking in where they actually need to notify you whether or not they're going to be keeping the vessel? Can you get some visibility into that, kind of six to nine months?

John Costain
Yes,

Michael Webber
Or a tighter window, or…

John Costain
It's usually six months, normally with an option to exercise, yes.

Michael Webber
Okay.

John Costain
The way the shuttle tanker market is today, it's pretty tight. I mean, where we've actually time chartered ships out to one of our competitors and there isn't a lot of tonnage around, so were not over worried about this. We think that the market will stay reasonably tight now, and you know, as I alluded to in the call last time, We are seeing inquiries about new ships again, so the market's starting to open up a bit, but it's early days yet. It's been very quiet the last year, but I think it's a function of the way the capital markets have been generally, and the shipbuilding market as well. But it's bound to change because of the need for ships.

Michael Webber

That makes sense. Just one more for me and I'll turn it over. I believe you mentioned earlier, or somewhere earlier that active tender for two shuttles in the market right now and I think there's another one coming down the pipe that we read about. The, just given the state from a financial standpoint of some of your competitors, some of your larger competitors, where they're still kind of digging out from some balance-sheet issues. How competitive are those dynamics, and is it materially different today than say it was two-to-three years ago in terms of who you're seeing, kind of, at the table with you kind of vying for this business?

John Costain
I don't, no, I mean, I don't think it helps. It's not very easy to comment on your competitors, but we, obviously from our perspective we're happy that we're in a good position to contract, and I can't really comment on other MLPs or other businesses.

Michael Webber
Have they been any more or less competitive in terms of that tendering process?

John Costain
I would say that we can be pretty competitive, because we can finance pretty well, the ships.

We have a very good reputation and therefore, leverage is easy, you know, for the financing. So, you know, but I don't, it's difficult for me to comment on how businesses are doing the contracting. We each just have our own business model and that's that, you know?

Michael Webber
Right, but, don't you think you're seeing fewer players are going to bump, you know, vying for the same, because they're busier, right, that's kind of all I'm getting at.

John Costain
Well, I would just sort of expect that the usual suspects will be invited, Michael, and um, yes.

Michael Webber
That's helpful. All right, well I will turn it over, but thank you for the time, guys.

Operator
The next question comes from Spiro Dounis with UBS Securities. Please go ahead.

Spiro Dounis
Hey, good afternoon John. How are you?

John Costain
I'm good Spiro, and how are you?

Spiro Dounis
Good, good. Not too bad. I think you're the only green stock on my screen today, so congrats on that.

Just wanted to pick up on some where Mike left off, just around maybe equitizing this drop at a later date, and I don't want to put words in your mouth, but it sounds like you know maybe you're still not thrilled with where the units are trading. So you know, to the extent the yield compresses, things get better, unit price goes up, just maybe some thoughts around doing issuance later, repaying some of these seller's loan earlier than expected, and then raising the

distribution on the back of that. Is that a path you could take, or a possibility?

John Costain
Yes. In order to further strengthen the balance sheets and increase our financial flexibility, we would definitely make opportunistic issuances of equity, given the right pricing level.

It's not our major focus, because obviously, we have to acquire ships over time, because every year the MLP is significantly deleveraging, and we'd like to keep a reasonably decent level of leverage and grow the MLP. So you know, since the Ingrid dropped, and say to the end of '17, we have basically have repaid nearly $120 million in debt. And therefore, we like to keep a bit, it's good to keep a bit of leverage because today it's quite a nice way of building the distribution.

But yes, we definitely see opportunities to expand the business. We definitely would like to take more equity. I think the main points about the drop that happened to date, is it shows the sponsors majorly, they are keen on keeping MLP as a viable business and pushing it forward. I think it's really a positive development, because obviously we've had a very difficult time in the last 12 months, like lots of MLPs, and, this just shows major commitments, and that's good.

Spiro Dounis
Yes, and that actually kind of segues into my next question, which was around the sponsor's appetite to grow. And once again, you mentioned those tenders. Just curious, are there any cash needs at the sponsor level that would maybe precipitate either another dropdown or an equity raise to help fund maybe, you know, these new two shuttle tankers that you potentially could win? Just trying to, you know, get a sense of if you win those, what does that mean right here and now for the MLP?

John Costain
I think at the moment it doesn't mean a lot because the deposits are not very large on these contracts these days. I think it's about 15%, I would say, and that's not something we'd worry about. I think they're not that short of cash that they would make a strategic decision in a few weeks over winning a contract like that. I mean, you know, we happen to do have some reserves, quite considerable; so, I don't think it will make much difference, to be honest.

Spiro Dounis
Gotcha. And I'm sorry if I missed it, was there any sort of timing around when we might hear about these tenders? Is it a next six months deal, or even closer than that?

John Costain
I don't actually know, but I would expect it would be six months or something like that. I would expect, whether we win or not. The good thing is the market is opening up again and people are starting to make inquiry. I mean, were not going to win all the contracts, and our competitors are not going to have all the contracts, but there are contracts out there and there's an appetite to buy again, and that's positive.

Spiro Dounis
Always a good sign. All right. That's it for me. Thanks, John.

John Costain
Thanks.

Operator
The next question comes from Nick Raza with Citi. Please go ahead.

Nick Raza
Ah, thank you. Just a couple of quick follow-up questions. Is there a, John, is there a level of leverage that you can point us towards in terms of where you think the partnership should be, where you'd be ideal? Just so we can sort of measure where, at which point in time you'll sort of initiate dropdowns or do a distribution increase?

John Costain
That's a good question, Nick. It obviously depends a little bit on the retail banking market as well, but we like to target about 5, the ratio of the EBITDA over interest. And we find at the moment, it's the easiest way, the easiest way to be releveraged, the MLP, is to drop a new ship and highly leverage until, or more leverage than the average, because obviously you'd have to refinance the existing fleet then, so it makes sense to keep the leverage going that way.

I mean, with a young fleet like this we are deleveraging on a straight line basis, but with the write-down the ship is more of an annuity so you do get a gap and basically that's the cover on our distribution, because we've gone with a fairly neutral cash flow. And so we, we'd always try and keep, every drop we'd do we'd always try and push the leverage on the drop. And then, I mean, I think today it's probably fine. I mean, by the end of '17 we'll be back to a probably more normalized leverage, I guess.

Nick Raza
So around that 5x if you sort of foresee, as you may net of balloon payments and you know, any other conditions that you may have

John Costain
Yes, the balloons…

Nick Raza
Go ahead.

John Costain
The balloons we just expect to refinance. I mean, generally you can assume that, because the ships are relatively young, the market's a very stable market. You would expect to have no problems refinancing the balloon. If we can't, at least increase the leverage, before the balloon and refinance this. It's a function of the market being a bit tight financially, but generally we would look to increase the level of debt when we refinance what's under the balloon.

Nick Raza
Fair enough.

John Costain
So we don't consider it a normal repayment.

Nick Raza
Fair enough. And then, just sort of an offbeat question. I mean, some of your competitors, or one of your competitors is arguably in sort of financial duress. Is there a thought to sort of buying other folks' shuttle tanker operations outright?

John Costain
Well, I mean, we've always looked at that. We've bought the Lauritzen fleet a few years ago. It's not something we, the price has to be right, to be honest with you, and the contracts have to be good. We, yes, we're always interested, but today that's not on the agenda.

Nick Raza
Fair enough. That's all I had guys. Thank you so much.

Operator
The next question comes from Ben Brownlow with Raymond James. Please go ahead.

Ben Brownlow
Hi John. Congratulations on the quarter and the dropdown.

John Costain
Thanks, Ben.

Ben Brownlow
On the pace of growth with the remaining four dropdown vessels, can you just comment about how you're thinking about that? Is that largely dependent on the capital markets?

John Costain
Yes, I think so. I mean, I think the sponsor is pretty strong and can keep the yield strip outside of the MLP if he wants to. He saw an opportunity because we have quite a lot of cash on the balance sheets and we have deleveraged a fair bit to drop a ship in. I think we, if we don't look for sources of capital, then I think it's likely that we will wait a little bit to continue to grow. It just depends on how the market reacts to our units over time.

And then if we get the opportunity, we might go into the market and raise equity to do a bond issue, I don't really know. We have to think about it really. But today, we're just happy that we got a ship in, it's probably, it's pushed the MLP as far as it can be pushed, let's be honest, it's stretched a little bit, because we have taken the seller credits. But commercial debt's fine. The debt position is pretty safe. I think the whole thing is pretty good. The cover is very good, and we'll see if next year, all things being equal, you'll see an even higher level of cover on the fleet, which is good.

Ben Brownlow
Good. And on the valuation approach, would you look at the Raquel kind of on a similar valuation versus the other four drops?

John Costain
Don't know on that. That's stuff to be decided by the conflicts committee and the fairness opinion we get as to what level is correct or appropriate. I mean, ultimately with the MLP, because of the way the marine space is, you have a young fleet and it's quite highly leveraged and deleverages quite quickly. You have to drop in assets accretively, obviously, but you have to keep dropping assets in to get the full value of the MLP, keep the leverage there. Because, you know, the contracts that we have, either with our oil majors or with national oil companies, generally they're very, very strong contracts, and they do yield, we do yield stable revenues. So to get the maximum benefit out of that, you have to keep acquiring assets and dropping them in so that they're, otherwise you just end up deleveraging MLP all the time. And it's not, at this

level of yield it doesn't really work, you know. We can today, with 10 ships we can drop another ship every two years and improve the outlook. Of course that depends on what people's view of the market is and what the banking sector's view of shipping is, but all things being equal that will be the case. So we have to keep growing, really, I mean…

Multiple voices.

Ben Brownlow
And then just switching over just a quick one or two quick more. On the Windsor, any discussions there on the extension, and can you just remind us kind of what the rate was on that?

John Costain
What we had on that, yes, we had about 6% or 7% reduction in the rate and the, that's the structure of the contract now, it's going to one option, one option. Why would they renegotiate that, because ultimately, they wanted the flexibility? That was part of the deal to get the three BG ships that we had at the time, now they're Shell ships. And that we agreed to give them a bit of flexibility by giving the Windsor on those, short contracts option periods. And also, that's really how it is; it's not going to change. And similarly the Bodil, that's what we've agreed to, that's what we will stick to, and I wouldn't expect any problem with that. It will get exercised. It's not quite flexible, because going forward the market is getting tighter as well.

Ben Brownlow
Okay. And the Bodil, that was at the very similar rate to the prior contractor, right?

John Costain
Similar to that. Yes.

Ben Brownlow
Thank you.

Operator
Again, if you have a question, please press star (*), then one (1). The next question comes from Lin Shen with HITE Asset Management. Please go ahead.

Lin Shen
Hi, good afternoon. Thanks for taking my question. When I see the slide on page 11, you have a chart, which is back to February 26, early this year's supply/demand forecast. So, can you talk about what are you seeing now or your current forecast for the next year? Do you see the gap of demand supply should be very positive for your business?

John Costain
Yes, it's, I actually like the fact the market has taken, quite time. It's developing reasonably, at a nice pace. I think the graphs that were previously quite, they have actually reduced the demand/supply difference in the balance. Well, I'm happy with this because it means that orders are done in a gradual and nice way. If you had a massive surplus or shortage of ships within the space of a year or two, you might end up with a frenzy of orders, and it's not always necessarily the most disciplined way to run a business.

So, I think that we can see, empirical evidence tells us, because the sponsor hasn't really, spare capacity in their fleet they're fully utilized, and also our competitors are having the same

problems, when compared to us. One of competitors have come to us and actually time chartered a ship out for several years, so they just can't get the tonnage. So, there is definitely a shortage here.

How this market pans out depends on how quickly the fields are opened up and how good the oil flows are from these fields. I mean, certainly, if you believe the press releases of some of the oil majors and national oil companies, you'll see that the outlook is very positive. So while optimistic, I can't say that the figures will develop as firm as projected, but I think the outlook is very, very positive for the shuttle tanker. And as of today, we can see that there is really a lot more interest and in the market is starting to be better movement, and we are seeing orders, which is quite a positive thing.

Lin Shen
Thank you very much.

CONCLUSION

Operator
This concludes our question-and-answer session and the conference is also now concluded. Thank you for attending today's presentation. You may now disconnect.