KNOT Offshore Partners LP

First Quarter 2017 Earnings Results

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CORPORATE PARTICIPANTS

John Costain – *Chief Executive Officer*

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PRESENTATION

Operator
Good day everyone. And welcome to the KNOT Offshore Partners LP First Quarter Conference Call. All participants will be in a 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. Please also note today's event is being recorded.

At this time, I'd like to turn the conference call over to Mr. John Costain. Sir, please go ahead.

John Costain
Thank you. If any of you have not seen the earnings release or the slide presentation, they're both available on the Investors section of our website.

On today's call, our review will include non-U.S. GAAP measures such as discounted cash flow, DCF, and adjusted EBITDA. The earnings release includes a reconciliation of these non-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, these assets provide a vital service, transporting oil from the offshore oil production unit to shore side in essence a midstream mobile pipeline Business.

The vessels are an integral part of the logistic supply chain, operating in a space which will see substantial oil production growth in the coming years. Shuttle Tankers are built to the charterers requirements and used on specific oil fields they attract contracts which give long term none volume based revenue streams.
Whilst the MLP has a young fleet our Sponsor has been involved in design and construction of these type of vessels for over 30 years building up the fleet organically during this period and today the Knutsen Group has more than 30 of these high specification tankers.

In our niche sector there has been no speculative ordering, so the partnership should yield both stable and sustainable revenues longer term. Before ordering a new vessel, our sponsor, Knutsen NYK, has always agreed a long-term employment contract with the Charterer.

Following on from recent acquisitions of Raquel in Q4 2016 and Tordis in Q1 2017 we are pleased to announce another addition to the MLP fleet the Vigdis Knutsen, for an acquisition price of M$147 this will occur in June 2017. The vessel was delivered in February 2017 and commenced a 5 year charter to Royal Dutch Shell in April 2017.

As well as being an accretive acquisition, the vessel has a time charter duration of 5 years plus 10 further years of options increasing our MLP charter backlog and reducing the average age of the fleet.

KNOP trades at a significant yield premium to the Alerian Index today our distribution is 9.2% compared to the Alerian Index of around 7% the Index represents around 85% of all MLP's by market cap.

Our Sponsor Knutsen NYK is according to Clarkson Plateau research part of the largest shipping group in the world, and NYK is a major company in the Mitsubishi family.

At the end of the 2nd quarter 2013 just after the IPO we had a fleet of 4 vessels with an average age of about 3 ¼ years.

In the space of four short years, the fleet will have grown 225% to 13 vessels with an average age of about four and a quarter years at the end of June. Despite disruption in the capital markets, we continue to grow at a rate significantly in excess of most MLPs.

Now turning to the presentation.

Slide three; highlights of an eventful first quarter. The Partnership generated total revenues of $45 million, operating income of $17.5 million, and net income of $11.4 million; generated adjusted EBITDA of $33.2 million and distributable cash flow of $15.6 million.

The fleet operated with 98.6% utilization for scheduled operations, including insurance receipts, which accounts for 2.5%, and 93.2% utilization taking into account offhire, including the planned drydock of the Windsor Knutsen, which was completed in 54.1 days.

On the 10th of January 2017, the Partnership sold 2.5 million common units in the public offering, raising a total net proceeds of $54.9 million.

On the 2nd of February 2017, the Partnership issued and sold at private placement convertible preferred units for $50 million U.S.

On the 1st of March 2017, the Partnership completed the acquisition of the entity that owns the Tordis Knutsen.

On March 30, 2017, the Partnership entered into a loan agreement for a refinancing of the credit facilities secured by the Hilda Knutsen.

May 15, 2017, the Partnership paid a cash distribution of $0.52 per common unit with respect to Q1. With a distributable cash flow of $16.6 million, we made a record $17 million distribution payment with the recently issued common and preference units included.

Since our initial IPO over four years ago, we have now declared and paid common unit distributions of $7.70, so our initial investors have received a total return of 37%. Our current yield is a stable distribution of over 9%.

On May 16, 2017, the Partnership entered into a share purchase agreement to the company that owns the shuttle tanker Vigdis Knutsen from Knutsen NYK Offshore Tankers, Knutsen NYK.

Slide 4, raising additional $40 million of preferred equity to fund further growth in the Partnership. As we said previously, on February 2, 2017, the Partnership issued and sold a

private placement of 2.08 million Series A convertible preferred units, Series A preferred units, at a unit price of $24 per unit; a private placement of $50 million, the net proceeds from the sale after expenses was about $48.6 million.

On May 16th, we reached an agreement for a further private placement to sell an additional 1.667 million Series A units. This is expected to close by the 30th of June 2017 with net sale proceeds of around $38.8 million.

Subscribers of the instruments are large international funds located in three different continents.

The $40 million allows the Partnership to consider an additional dropdown in the second half of 2017 on top of the two dropdowns which have already been announced.

This is one additional vessel compared to our financial guidance at Investor Day, and although it makes our balance sheet a bit more complex, the preference issue enables us to raise equity at a running cost of 8% so allowing KNOP to continue to grow through accretive acquisitions.

There are no preemptive rights which are quite common in such agreements to the detriment of the issuer. The issue is evidence that KNOP is proactive in finding other sources of capital accretive terms when constrained by the equity markets.

The private preferred perpetual convertible equity instrument, as I said previously, carries a fixed coupon of 8%, which is not subject to adjustments and it is convertible into common equity after two years at an adjustable strike price the adjustment being dependent upon the developments of the book value of the Partnership. The original strike price is at a level of $24.

Slide five, the income statement. Total revenues were $45 million for the three months ended March 31, 2017 Q1 compared to $45 million for the three months ended December 31st Q4.

Q1 revenues were positively affected by the time charter earnings of Raquel Knutsen and Tordis Knutsen being included within the results of operations from the 1st of December of 2016 and the 1st of March 2017 respectively. The increase was offset by reduced revenues from Windsor Knutsen as a result of its scheduled drydocking during the third quarter. This was completed in 54 days.

In addition, due to a technical fault with its controllable pitch propeller, the Raquel Knutsen went offhire during the first quarter, which resulted in a loss-of-hire insurance claim. The 14-day deductible for offhire under the related insurance policy also adversely affected revenues during the first quarter. We insure all our fleet for loss of hire. This helps maintain the stability and predictability of our MLP earnings.

When an event occurred which causes offhire such as with the Raquel Knutsen, revenue lost through scheduled offhire is minimized. In four years of operation, this is the first loss-of-hire claim we have made.

Vessel operating expenses for the first quarter of 2017 were $10.3 million, an increase of $2.6 million from the fourth quarter of 2016. The increase was mainly due to Raquel Knutsen and Tordis Knutsen being included in the fleet commencing 1st December and 1st of March, respectively. In the vessel operating expenses for the first quarter, $0.6 million related to bunkers consumption in connection with the drydocking of Windsor Knutsen, and $0.6 million is related to the repair of Raquel Knutsen, which is expected to be recovered by the insurance less

a deductible of $150,000.

General and administrative expenses increased $0.3 million from the fourth quarter of 2016 to $1.5 million. The increase primarily reflects the effects of additional activity in connection with the year-end accounts.

As a result, operating into the first quarter 2017 was $17.5 million compared to $20.6 million in the fourth quarter of 2016. Interest expense for Q1 was $6.2 million compared to $5.7 million for Q4.

The increase was mainly due to the additional debt incurred with the acquisition of both Windsor, sorry, the Raquel and Tordis Knutsen.

Realized and unrealized gain on derivative instruments was $0.5 million in Q1 compared to $4 million in Q4. The unrealized non-cash element of the mark-to-market gain was $1.3 million compared to $4.5 million in Q4. Of the unrealized gain in Q1, there was $1.1 million related to market, mark-to-market gains on the interest rates swaps due to an increase in the interest rate swap rate during the quarter, and an unrealized gain of $0.2 million related to foreign currency contracts due to a slightly stronger U.S. dollar against Norwegian krone.

As a result, net income for Q1 was $11.4 million compared to $19.5 million for Q4.

Slide Six, adjusted EBITDA. Adjusted EBITDA reflects the earnings before interest, taxation, depreciation, and amortization. It provides a proxy for cash flow. Adjusted EBITDA of course is a non-U.S. GAAP measure used by our investors to measure the Partnership performance.

In general, since the formation of KNOP, we had very high levels of vessel utilization, on average around 99.5% for scheduled operations. Financially, this translates into continually high and increasing predictable revenue and adjusted EBITDA as more vessels are added to the fleet. This will continue and be more pronounced from Q2 when Windsor, Raquel, and Tordis all should trade for full quarter and the Vigdis will be added to the fleet.

In Q1, the Partnership generated adjusted EBITDA of $33.2 million compared to $36.1 million in Q4. The EBITDA fell by $2.9 million compared to Q4. This was impacted by:

G&A and Opex were more expensive by $450,000 we also had an increase in Opex mostly due to Windsor bunkers consumed ballasting to drydock of $600,000. There were two less days in Q1, so all Q1 figures generally are poorer than the rest of the year. This affects the Partnership by $800,000.

The Windsor dry-docking accounts for 51 days of off hire, that's $3.1 million The Raquel, 14 days loss-of-hire access was $700,000; Raquel hull and machinery deductible of a further $150,000 and the timing differences on the Raquel outstanding hull and machinery payments of further $500,000; this had a negative impact of $6.3 million on the EBITDA.

Counteracting this was the Raquel full-quarter income compared to one quarter in Q4, sorry, one month in Q4. This had an impact positive of $2 million, and the Tordis for March added $1.4 million to EBITDA; so overall, $6.3 million minus $3.4 million gives you $2.9 million movement.

At the end of Q1, the KNOP fleet of 12 vessels has an average age of 4.6 years compared to

the rest of the industry average for shuttle tankers, excluding KNOP, of around 12 years. With a wasting asset like a vessel, the younger fleets in theory should produce lower EBITDAs to every dollar invested. The annuity effect reduces the value loss in the earlier years, which is factored into the replacement Capex calculation for the distributable cash flow.

Slide seven, touches on the Windsor Knutsen special survey, which went according to plan. The Windsor went through its special second survey, which is the 10 year one in drydock at the Brest yard in France. Capex and Opex were in line with budget and the docking was completed on schedule. Offhire in relation to this special survey was completed in 54.1 days, because the vessel undertook lengthy ballast legs from Brazil to France and back. The vessel was back on-hire under a Shell time charter from the 4th of April.

Slide eight, we have a comprehensive insurance package for all our vessels. In the first quarter, our fleet operated with 96% utilization for scheduled operations. Of the 4% on scheduled offhire, 3.9% related to the Windsor, sorry, the Raquel Knutsen technical fault.

We insure our fleet for loss-of-hire to minimize the impact on MLP earnings when an event occurs which causes offhire, consequently 2.5% of this time, 4% loss is recoverable under our insurance policies. In four years of operation, this was the first loss-of-hire claim we had made.

The insurances help smooth and stabilize our fleet's earnings. In order to mitigate the economic costs of any incident, which can result in damage and/or loss of hire, the Partnership has put in place a comprehensive insurance package with a diverse group of investment-grade insurance companies, the large majority of which are rated A or better by S&P and A.M. Best Company.

The failure of the controllable pitch propeller, CPP, of the Raquel Knutsen with resulting offhire in relation to repair and ballast is therefore expected to result in an economic loss in total of $0.85 million for the Partnership, $0.7 million in loss of hire, and $0.15 million in hull and machinery excess.

Insurance recoveries are accounted for when they are probable of receipt. In our case, a confirmation of payment from the insurer has been used. We are still incurring costs and building the claim, so inevitably there are timing differences and at this stage, the insurance company cannot confirm they will recover all losses less the deductible of $150,000 These timing differences adversely affect the first quarter results by a further $570,000. The sponsor and by extension the Partnership has good experience and a history that indicates the insurance company will pay the amounts close to the total cost.

Bareboat charterers undertake to fully insure the vessel they leased from us at their own costs in order to protect those from any economic loss.

Our time charter vessels generally have the following policies: Hull and machinery covers a loss of or damage to the vessel due to marine perils such as collisions, grounding, and the weather; protection and indemnity indemnifies against liabilities incurred while the vessel, including injuries to crew and third parties, cargo loss, property damage and pollution; war risk covers loss of damage to the vessel due to war perils, including total loss and damage collision liability and hull interest and freight interest; loss-of-hire in excess of 14 days and up to 180 days per incident.

Slide nine, distributable cash flow, another non-U.S. GAAP measure to estimate distribution sustainability. Today, we report the quarterly distributable cash flow of $15.6 million in Q1. This

compares to our highest ever $20.8 in Q4.

We maintain our distribution level for Q1 of $0.52 per unit equivalent to an annual distribution of $2.08. The distribution coverage ratio for this quarter is 0.95. The coverage ratio has reduced primarily due to the equity being raised before assets are dropped into the MLP, effectively what we call an equity overhang.

The common unit, we raised $54.9 million in January and the preference unit, $48.6 million in February issues were made in the first quarter. The preference unit of $38.8 million will be in the second quarter and used to finance, help to finance the Tordis on the 1st of February and Vigdis in early June. The outlook for the second quarter is considerably better. There are no offhires, and should be no offhires in any of the vessels in this quarter.

The Raquel, the Windsor, the Tordis will all be on hire for the full quarter. And the Vigdis Knutsen will enter the fleet towards the end of the quarter.

The MLP has an elevated yield compared to most MLPs. And therefore, we have rather focused on firstly building coverage and then deleveraging rather than increasing dividend as there is little benefit to the MLP in the short term paying a yield of much over 9%.

We have raised funds of between $21 and $29 per unit, and many of our common unit holders have remained loyal so we would not want to dilute them. We see double-digit distributions as a signal our investors would rather prefer increased coverage through investments and secondly deleveraging rather than increasing dividends. That said, we had a coverage ratio of 0.95 in Q1, even with both the equity overhang and vessel offhires, and potentially there is room for increase in the distribution, but this is something the Board of Directors have to consider.

Next slide 10, the balance sheet. At the end of Q1, we had solid liquidity position with cash and cash equivalents of $34.9 million and an ongoing undrawn credit facility of around $30 million; the credit facility is available until June '19.

Following on from both preference and common issuance as we acquired the Tordis Knutsen and repaid the seller credit, most the revolving credit facility has been fully repaid. Our treasury position is therefore very comfortable, and with additional preference issue $40 million, the Hilda refinancing proceeds around $24 million, the potential use of the revolver facility $30 million, and a seller credit of $25 million, these hopefully can be utilized to acquire further vessel in addition to Vigdis before the end of 2017 to further grow the MLP.

We have a predictable cash flow and we do not have any loan maturities before the second half of 2018. This will soon be materially improved with the refinancing of Hilda, our first balloon and repayment due.

The total interest-bearing debt outstanding was $781 million. This has increased due to the acquisition of Raquel Knutsen. Annually, we currently have scheduled repayments of $58.9 million. This compares to replacement and maintenance Capex charge of around $32 million. And when computing distributable cash flow, this accounts for the current cover generated.

Slide 11, pending the Vigdis dropdown. We announced the latest addition to MLP fleet, the Vigdis Knutsen, for an acquisition price of $147 million, effective from June 2017. Built by Hyundai Heavy Industries in Korea and delivered in February of 2017, the Vigdis is sister to the Tordis Knutsen. It is a Suezmax class enhanced DP2 shuttle tanker operating under a time

charter that expires in the second quarter of 2022 with Royal Dutch Shell in Brazil. There are options to extend until 2032.

We have agreed with our sponsor, Knutsen NYK, to acquire the vessel for the MLP for $147 million with delivery effective from June 2017. It will be part financed by commercial debt of around $95 million and also cash from the new equity. The senior loan has a margin of 190 basis points with annual repayments of under $5.1 million. The net charter rate will yield around $7.7 million and net income with approximately $16.2 million of EBITDA for the first year from 2017 June.

The charter has an escalator of around $600 per day applicable annually, that's $0.2 million on the EBITDA. With this acquisition, it again demonstrates our sponsor's strong support of and commitment to the MLP. Our fleet will have grown 225% since the IPO in April of 2013.

Next slide 12, our contracts are fixed price, not fixed for the price of oil. The extreme movements of the Alerian Index and to a larger extent, the KNOP unit price due to market volatility, which we saw in 2015 and 2016, have receded. And with them, the oil price correlation to our unit price that had occurred has also become less pronounced.

Throughout this period, the volatility in the unit price in no way reflected or affected the underlying performance of the MLP. All our contracts are long-term non-volume-based with a fixed price; therefore, our vessels all achieve a fixed income per day. These contracts are all with the end user of the assets, which is an integral part of the logistics supply chain and without these assets, the oil will not flow.

Next slide 13, stable and long-term sustainable distribution policy. Since our initial IPO offering four years ago, the KNOP unit yield has remained elevated with Alerian for most of that period. The unit price has outperformed the Alerian and with the higher yield this has produced a stable investment with a significant ownership premium.

During this period, our investment distribution has increased by 49%. Our average distribution coverage ratio has been around 1.18 times. And through releveraging we have been able to plow much of this back into the MLP to enhance fleet growth.

Q1 was primarily affected by equity overhang as there was a delay in investing proceeds from equity offerings. Commercially, we have also have been affected by the scheduled drydocking at Windsor and Raquel offhire. The impact of the Raquel offhire we expect to reduce as the full claim is negotiated.

In calculating the DCF in Q1 2017, the coupon on the preferred equity has been deducted before the available DCF is computed as it is purely a common unit distribution sustainability measure.

14 The Hilda refinancing marks the start of refinancing activity. On the 30th of March 2017, the Partnership completed the refinancing of the Hilda Knutsen. The new senior secured credit facility consists of $100 million term loan with Mitsubishi, and this has a fixed tenure of seven years. Closing the facility is anticipated towards the end of May 2017.

The Hilda refinancing will remove the next balloon repayment due and this was in August 2018. At the same time, it will raise an additional $24 million and reduce the loan margin by 30 basis points. The cost of the facility is 1%. The facility is repayable in 28 consecutive quarterly

installments with a balloon payment of $58.5 million at maturity. The facility will bear interest rate per annum equal to LIBOR plus a margin of 2.2%. The next balloon payment is the sister ship Torill in October 2018. As we roll through these refinancing's, we should be able to use the additional funding raised to further grow the investment base.

15 Long-term contracts backed by leading energy companies, our fleet has an average remaining contract duration of 4.8 years with an additional 3.6 years coverage on average in charterer's option.

The Windsor Knutsen has been on a two-year contract from October 2015 with Brazil Shipping, a subsidiary of Royal Dutch Shell. There are a further six years of extension options. It has just gone back onhire following its drydocking in Brest.

The Bodil Knutsen, which is our largest shuttle tanker operated in the North Sea, is ice class and on charter to Statoil ASA until May 2019. There are five further years of extension and options. Statoil has recently been given permission to proceed with the development of Johan Castberg in the Barents Sea, and this should provide medium-term employment and security for Bodil.

Four of our vessels are on long-term bareboat charter to Petrobras Transporte. These vessels are amongst 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 Fortaleza and Recife have shallow drafts with lots of thruster capacity.

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

The Ingrid Knutsen was delivered in December 2013 and is operating in the North Sea on time charters for Standard Marine Tonsberg, a Norwegian subsidiary of Exxon Mobil. This will expire in the first quarter of 2024 with charterer's options to extend up to five year.

The Raquel Knutsen was delivered in March 2015, and is operating on a time charter, which expires in 2025 with Repsol Sinopec in Brazil, there are again options to extend to 2030.

Tordis is on a five year time charter to Brazil Shipping, a subsidiary of Shell. This will expire in the first quarter of 2022 with the charterer's options to extend up to maximum of 10 further years. Sister ship of Tordis, the Vigdis Knutsen, is on similar terms to Shell with expiring charter in the second quarter of 2022.

Slide 16, significant growth since the IPO with the latest addition which again demonstrates our sponsor's strong support of and commitment to the MLP we have already added eight soon to be nine vessels to the fleet, a 225% increase in four years.

17 Our dropdown inventory today includes two further potential acquisitions. There are currently two more shuttle tankers and we can acquire them from our sponsor, Knutsen NYK. One sister vessel to Tordis and Vigdis, Lena Knutsen, which is launched, which is on the water now and will be chartered to Shell, and one Suezmax class DP2 shuttle tanker from Cosco Zhoushan to be chartered to Petrogal.

Both currently have five-year contracts attached and an average of eight years of options. Our recent acquisitions of Raquel, Tordis and Vigdis, and all our dropdown inventory will operate in the pre-salt oilfields in Brazil.

Slide 18, in summary then, KNOT Offshore Partners is in essence a midstream mobile pipeline business for the contracted revenue streams.

Since being awarded its first two contracts in 1984, Knutsen has grown organically for over 30 years, as the business has been built into a sizeable fleet of these tankers, currently 31 units, including orders.

We have a solid and highly profitable contract base generated by our modern fleet, which by the end of June will have an average age of around 4.25 years.

The fleet has delivered another steady quarter taking into account the scheduled drydocking of Windsor and the offhire related to Raquel Knutsen.

We have completed the acquisition of Tordis and Vigdis and, sorry, completed acquisition of Tordis and went into a share purchase agreement for the acquisition of Vigdis Knutsen.

We have raised $145 million of new equity in addition to $100 million worth of long-term debt in the quarter, which is being utilized for growth acquisitions. And no one has more experience in operating a sophisticated shuttle tanker than Knutsen Offshore, and we operate these assets with real expertise.

Today supply is tightening and the market is expanding and with tenders back, the sponsor expects to build a further dropdown inventory. We have a supportive sponsor who has a large asset base with which to grow the MLP, and we'll capture a good proportion we believe of the expanding market.

Coupled with this, we remain an attractive value proposition with a quarterly distribution of $0.52 per unit, around 9.2% yield.

Thank you. And I'll turn it over for Q&A now.

QUESTIONS AND ANSWERS

Operator
Ladies and gentlemen, at this time, we'll begin the question-and-answer session. If you would like to ask a question please press star (*) and then one (1). If you are using a speakerphone, we do ask that you please pick up your handset before pressing the numbers to ensure the best sound quality. To withdraw your question you may press star (*) and two (2). Once again, that is star (*) and then one (1) to ask a question. We will pause momentarily to assemble the roster. Our first question today comes from Spiro Dounis from UBS Securities. Please go ahead with your question.

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

John Costain
I'm good thanks, Spiro. And you?

Spiro Dounis
Good, good. Not too bad. I just wanted to ask first about the refinancing activity, looks like a

pretty big cash positive event on the Hilda Knutsen, I think $24 million is what you mentioned. And then it looks like you've got another two more in the hopper there, between Torill and Ingrid. As we think about how much cash you could extract out of those refinancings, can you give us a sense of where that is and then what you'd plan to do with that cash flow, whether it's later this year or in '18?

John Costain
Well, obviously, we're very happy with the Hilda refinancing, and we're looking to raise, to do something similar on the Torill. But obviously we haven't, this is the biggest bilateral deal that Mitsubishi have done in shipping, so we're very pleased with the refinancing. There aren't, I don't know if there's banks out there that would do something quite as big as that bilaterally. So obviously, doing the next deal will get more complicated. We'll have to put together a syndicate of some sort. But obviously the sponsor is looking at raising more capital on the Torill.

And the idea would be to use that to acquire another vessel, if we can raise further financing on that. We might, we can certainly drop a third vessel and the way things are looking now and we'd probably look to leverage up and basically grow the cover, you know, so, in the MLP through leverage. But at this stage, it's the early stages of talking to people. We've got, you know, it's two or three months down the line from the Hilda and we've still got a good 15 months before we have to start worrying about it. And we're not under any pressure now because of the amount of capital we've raised recently.

Spiro Dounis
Yeah, and so you mentioned potentially linking up refinancing and any cash inflows with doing that third drop. I guess I got the sense before that you sort of listed all your sources of liquidity. Should we assume that if you do that third drop this year, it's not really contingent upon much in the way of raising additional capital? It sounds like you've already got it. Or should we connect these refinancings with doing a third drop?

John Costain
Well, you know we…

Oystein Kalleklev
It's Oystein Kalleklev. It's also just worth mentioning on the refinancing, so of course the Hilda and Torill they were financed by a syndicate of banks and now we're taking out one of the vessel and just financed it bilaterally with Mitsubishi. So we are thinking of doing something very similar for Torill. But, you know, we have to take thes stepwise. When it comes to the Ingrid loan, it's actually a fairly small portion of the loan which is maturing at end of 2018. The Ingrid loan is actually what you would call ECA loan, so the Norwegian government is lending us a big portion of that loan, and we have some commercial banks have a loan attached to that.

So the ECA facility doesn't mature before 2025 actually for Ingrid, but only the commercial tranche. And so that should be no problem refinancing. But there is no really rush to do it since the vessel is on charter to 2025. So I think we are very confident about putting in place similar refinancing as Hilda, and of course we are in the market talking to banks, we have very good access to debt finance. And this kind of the liquidity cushion we have now means that we, when we are saying that we have balance sheet capacity to add another vessel in third quarter, it means that we have that secure today, the ability to do that was done through this preferred equity issuance, which will take place on 30th of June.

Spiro Dounis

Okay. And that answers to my question, that's kind of what I was getting at from the balance sheet capacity standpoint. Just second question here, I just, along the dropdown inventory, you've got two left; one, sounds like maybe could happen this year, which leaves one more for '18. Can you give us a sense for how quickly the sponsor can replenish the dropdown fleet? And at what point do you go after the market and make third-party acquisitions? Is that still years away in your view?

John Costain
No, not necessarily. They are obviously from placing an order, by winning a tender to construction completion is about two years. So we may make a third-party acquisition, you know, or we might just wait a year or two. We certainly are quite relaxed now. We've got this growth out the way, and we feel there is plenty of interest out there in new tankers.

I think it's starting to show, but we haven't had, it and haven't translated into any tenders yet. We're still, the Statoil tender, contracts haven't been awarded yet. We're still involved with that. Obviously, we're not the only participant involved with it, so we can't say whether we'll see that or not. And going forward, I think we're starting to see quite a few majors asking about shuttle tankers, so we're relatively relaxed about it. Obviously, we can't grow in a very stable steady way because it depends on what contracts we win. But we think we're extremely well placed to win quite a lot of these tenders that are going to come out.

Spiro Dounis
Got it. Appreciate the color. Thanks everyone.

Operator
Our next question comes from Hillary Cacanando from Wells Fargo. Please go ahead with your question.

Hillary Cacanando
Hi. Thanks for taking my question. I just had a question about the Windsor Knutsen charter. I know that's expiring in October this year. Just wanted to find out if you've been in discussions with Shell for an extension or with any other charterers for employment?

John Costain
We haven't. They have a six-month declaration window, so, is it six or three, Oystein, actually…

Oystein Kalleklev
It's three months, so they will declare in July whether they want to continue with this. Of course, the income of this vessel is guaranteed by the sponsor until April 2018. But we are in talks with Shell. So they will inform us in July whether they will use that first option to extend their charter.

Hillary Cacanando
I see. So until July, you're not allowed to talk any other charterers?

Oystein Kalleklev
No. They have off course theright to exercise the option, but the market for shuttle tankers are very tight these days, so we are not losing sleep about it.

Hillary Cacanando
Okay. And then just on Hilda Knutsen and Torill Knutsen expiring in 2018, I know it's kind of early. Are you in discussions at all or is it still too early?

John Costain
Again, they're just following the agreements. We've left, we can refinance the ship, so we're not under any pressure to push them to exercise a renewal. The good thing about those two ships is they're really specialized, I mean you just can't replace them without, you have to construct new vessels and that's going to take 2-1/2 to 3 years. So, I mean, we aren't thinking along those line anyways. We have a good relationship with them and we're pretty confident that we'll just roll into the new agreement.

Hillary Cacanando
Who owns the third? I think last time you had mentioned that there is the Hilda Knutsen, Torill, and then there's another shuttle tanker serving the Goliat field. Who is the third one?

Multiple Speakers – American Eagle Tankers

Hillary Cacanando
Okay, got it.

Oystein Kalleklev
It's the vesselEagle Barents. There are three vessels in the world which can load oil on this particular FPSO and these are Hilda, Torill, and Eagle Barents, so substitution risk is zero.

Hillary Cacanando
Okay. And then you mentioned different tenders during the call, and I think the last, either last call or the call before, you said there were tenders for more than 40 vessels up to 2020. I was just wondering if that has changed at all, has that gone up or down? Is it still 40 vessels?

John Costain
Well, that's Fearnleys projection. We've never said that. But we do think it's a pretty good step. I mean, what I would say is that when you see the way the vessels trade in the pre-salt, the Petrobras voyages are pretty straight in and out of Brazil, but the international oil companies tend to do longer voyages. And one of the aspects on Investment Day we saw that for the likes of Shell and Petrogal all their ships were doing between eight and ten voyages a year, and Petrobras was doing around 28 to 30 voyages a year, or so, really there were, there's more destination flexibility with the international companies.

And what we've seen recently is Exxon basically starting to talk to Petrobras now about licensing part of the pre-salt, which is all very positive, and that's the last major, oil major hasn't been in zone, actually taking, looking to take a slice of the pre-salt. And if happens then I think you will see an increase in demand for shuttles.

The good thing about having a lot of the oil majors involved is that they all tend to like to use their own ships, and they also tend to like to have destination flexibility on the discharge, which tends to increase demand for shuttles. So though we see at the moment, we've not seen translated yet into firm orders. The markets have been quite volatile in the shipping space and the offshore has been a bit subdued. So we've not translated yet into firm orders, but we see that interest is definitely there. And we do think that we we'll, you'll see some activity fairly soon.

Hillary Cacanando
Okay. I just have a one quick follow-up question. Those three shuttle tankers that are serving

the Goliat, that has the capacity to serve the Goliat field? Do you know if there are any other, like a newbuild, that are under construction that would have this capacity or no? Like a special...

Oystein Kalleklev
There are four newbuildings, the four vessels on order; three of them are from Teekay; they will go to Canada. They cannot load on Goliat. And the fourth one is Lena Knutsen, which will go on charter to Shell, so all these vessels are tied up for long-term charters.

Hillary Cacanando
Okay, okay. Gotcha. That's helpful. Thank you very much for taking my call.

Operator
Once again if you would like to ask a question, please press star (*) and then one (1). To withdraw your question you may press star (*) and two (2). Our next question comes from Ben Brownlow from Raymond James. Please go ahead with your question.

Ben Brownlow
Hey, John. Thanks for taking the questions. Just two quick ones. Near term kind of thinking around second quarter, the Windsor, the incremental bunker costs that you had around $600,000 in the first quarter, is there any incremental bunker costs related to that drydocking that will fall into the second quarter?

John Costain
No, it's pretty clean in the second quarter. It's back on hire on the 4th of April. So the costs been captured in the first quarter.

Ben Brownlow
Great. And just one more from me, the Raquel repair costs, that $600,000. I guess roughly $400,000 is going to be reimbursed by insurance. Any idea on the timing of that?

John Costain
Hopefully the second quarter, it will come out in the second quarter but it depends how quickly they build the file, you know. I think it will be, certainly be before the end of the year. It should be the second quarter, really.

Ben Brownlow
Okay. Great. Thanks. That's all I had.

Operator
And once again if you would like to ask a question please press star (*) and one (1). Our next question comes from Nick Raza from Citi. Please go ahead with your question.

Nick Raza
Hi, thank you folks. Just a couple of quick follow-on questions about the bunker fields. There's an IMO mandate that states that a lot of the marine vessels are supposed to reduce sulfur emissions very drastically by 2020. Could you just talk about what the impact of that is on your fleet?

John Costain
Well we tend to, we can burn low-sulfur fuel oil, or marine diesel oil, I guess. We're not in U.S.

loading areas, really, so it doesn't really affect us too much.

Oystein Kalleklev
And it's also, I just also have to highlight the fact that when you have a vessel on time charter the cost of bunkers is for the charterer's account so we don't pay the bunkers cost. So the charterer is obligated to find those and pay for the bunkers, so it's not kind of a cost for us. And usually we burn marine gas oil. So this is more an issue for what I would call commodity shipping like conventional tankers or cruise operators, so, or container vessels, so.

Nick Raza
Okay. So not much of an impact. Then I guess the other sort of question that I have was, during the Analyst Day you guys did a great job of presenting some of your parent's assets and your parent has a fairly large portfolio of LNG vessels. Is the thought for the MLP to continue to be pure play oil, or is at some point in time, do you expect that you can actually dropdown some of the LNG vessels or your backlog could increase in corporate LNG vessels as well?

Multiple Speakers

Oystein Kalleklev
Maybe I could comment from the Sponsor side. As long as there are a lot of shuttle tankers around we don't have reason for kind of mixing it up. But we don't even, we don't want it to be a non-growth MLP. But the thing is we see a lot of tender activity this year, so we do expect that we will add to the dropdown inventory during the year.

Nick Raza
Okay.

Oystein Kalleklev
If there is, if we kind of dropdown assets very quickly, of course the LNG could be a potential asset class since the charterers are the same. Shell is the biggest charterer on the LNG as well. And basically LNG is a floating pipeline similar to the shuttle tankers. But so far we have not contemplated doing it.

Nick Raza
Okay. And then, and I guess just turning to the finances a little bit more. You mentioned that you would not increase the distribution right now because there's sort of an equity overhang and you'd rather pay down debt. But at what point do you think or at what level do you think that might change, and understanding that the market still may not give you credit, but any thoughts on that?

John Costain
At Investor Day, we guided that we might raise it by $0.01 at the end of the year, but we're not, I mean it's not our decision, to be honest with you, neither Oystein's or mine. But we will look at, so it's depending on where the unit price goes to as well, but ultimately we would like to if the unit price goes up significantly, we'd like to defend it. But, you know, when you're up in the 9.25% yield you sort of think well, I mean, for all these investments to make, we just sort of think well let's build a cover because now it doesn't makes sense.

I think a normalized MLP should have a distribution increase of 2% to 4% a year in a normal environment, and that's what we'd probably try and aim for. But today we're a bit more relaxed about it because we think we offer very good value and we have a very good growth story and

we have a good yield. So we're quite relaxed about distribution increases.

Multiple Speakers

Nick Raza
Okay. That's all I had, guys. Thank you so much.

Operator
And at this time, I'm showing no additional questions. I'd like to turn the conference call back over to Management for any closing remarks.

CONCLUSION

John Costain
I'd just like to thank everyone who attended for attending, and I hope you found the information we disclosed valuable. If you want any more information, please feel free to email me or Oystein. My contact details are on the website. And thank you for attending.

Operator
Ladies and gentlemen, that does conclude today's conference call. We do thank you for attending. You may now disconnect your lines.
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