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KNOP - Q4 2017 Knot Offshore Partners LP Earnings Call

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CORPORATE PARTICIPANTS

John Costain *KNOT Offshore Partners LP - CEO and CFO*

CONFERENCE CALL PARTICIPANTS

Benjamin Preston Brownlow *Raymond James & Associates, Inc., Research Division - Research Analyst*

Michael Webber *Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Analyst*

Naqi Syed Raza *Citigroup Inc, Research Division - Senior Associate of Oil and Gas*

PRESENTATION

Operator

Good day, and welcome to the KNOT Offshore Partners fourth quarter conference call. (Operator Instructions) Please note, this event is being recorded.

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

John Costain *- KNOT Offshore Partners LP - CEO and CFO*

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

On today's call, our review will include non-U. S. GAAP measures such as distributable cash flow and adjusted earnings before interest, taxation, depreciation, and amortization -- the 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 duty to update any forward-looking statements.

And now on to the presentation.

KNOT Offshore Partners, KNOP, focuses on the shuttle tanker segment. The vessel is field-specific and an integral part of logistics supply chain. On the non-volume-based contracts, we transport oil from the offshore oil production unit to shoreside, in essence, the midstream mobile pipeline business. Shuttle tankers operate in a niche space and being built to the charter's requirements, they are generally used on specific oil fields.

In our sector, there has been no speculative ordering. So the partnership should yield both stable and sustainable revenues longer term.

As oil production moves further offshore, these tankers operate in a space which will see substantial growth in the coming years. Some of the largest discovered oil reserves in southern hemisphere are in the pre-salt layer, 130 kilometers off the coast of Brazil. The average annual production operated in the pre-salt layer, which includes portions of Petrobras and its partners in 2017 was the largest in the company's history, reaching a mark of 1.29 million barrels per day. This volume exceeded the 2016 production by 26%. In addition, Petrobras and its partners have achieved monthly records in the month of December of 1.36 million barrels per day with -- in December, the highest daily output ever reported of 1.84 million barrels per day. With the phasing out of some of the less technically advanced fleet, the DP1 tankers, occurring in 2017, we now see further inquiry. Petrobras Transpetro are in the market for new vessels. Although our MLP fleet is young, our sponsor is a very experienced operator, having been involved in design, construction of these type of vessels for over 30 years. Today, the Knutsen Group has more than 30 of these ships, high-specification tankers, building the fleet organically during this period.

In the last 15 months, the MLP has acquired Raquel Knutsen in Q4 2016, Tordis in Q1, Vigdis in Q2, Lena Knutsen in Q3, Brasil Knutsen in Q4. And now in Q1, we announced the acquisition of Anna Knutsen. We have achieved these acquisitions through a combination of common and preference unit issues together with refinancings and revolving credit facilities. This has enabled us to grow our distributable cash flow cover to the current level and improve the long-term outlook for the MLP.

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. In a space of under 5 years, the fleet has grown 300% to 16 vessels with an average age of 4.75 years.

Now turning to the presentation. Slide 3, financial highlights. The partnership generated its highest quarterly revenues of $61.6 million, and operating income of $25 million and net income of $18.6 million, generating its highest adjusted EBITDA of $45.1 million with a distributable cash flow of $21.5 million and a coverage ratio of 1.19x. We declared and paid a cash distribution of $0.52 per unit in Q4 2017 on 15th of February 2018. Since our initial public offering in April 2013, we declared and paid common unit distributions of $9.26. So our initial investments have received a total return of 44%. Our current yield is a stable distribution of 9.8%.

The fleets operate with 98.5% utilization for scheduled operations and 95.5% utilization considering the scheduled drydocking and repair of Carmen Knutsen, which was offhire for the entire quarter.

On November 9, 2017, the partnership sold 3 million common units in a public offering. At that time, the partnership's general partner contributed a total of $1.2 million in order to maintain its 1.85% share in the general partner.

The total proceeds from the offering and its related general partner contribution was $66 million. On 15th of December, the partnership completed the acquisition of Brasil Knutsen, which was on charter to Galp Sinopec. On the 30th of June 2018, the partnership completed a $100 million refinancing of the credit facility for (inaudible) Torill Knutsen. On February 20, 2018, the partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, entered into a purchase agreement with Knutsen NYK to acquire KNOT Shuttle Tankers 30, the company that owns the shuttle tanker, Anna Knutsen, from Knutsen NYK. The partnership expects the Anna Knutsen acquisition to close by March 1, 2018, subject to customary conditions.

Slide 4. The income statement. Total revenues were $61.6 million for the 3 months ended December 31, compared to $58.2 million for the 3 months ended September 30 Q3. Q4 revenues were positively impacted by increases in time charter earnings due to fourth quarter earnings on Lena Knutsen and she was included in the results of operations from 29th of December 2017. The increase is partly offset by the reduced revenues on Carmen Knutsen due to a scheduled drydocking and subsequent propeller repairs. The partnership has filed an insurance claim for the offhire caused by the repairs of $1.8 million.

Vessel operating expenses for the fourth quarter 2017 were $15.2 million, an increase of $3.3 million from $11.8 million in Q3 2017. This was mainly due to Lena Knutsen and Brasil Knutsen being included in results of operations from 29th September and 15th December, respectively.

And $0.6 million in bunkers consumption in connection with the drydocking of the Carmen Knutsen. The partnership also expensed $2.3 million in repair costs for the Carmen Knutsen, which is expected to be covered by insurance less the deductible.

General and administrative expenses were $1.3 million in Q4, unchanged from Q3. Depreciation was $20.1 million for Q4, an increase of $1.7 million, again, mainly due to the Lena and Brasil Knutsen acquisitions.

Other results. Operating income in Q4 was $25 million compared to $26.7 million in Q3. Interest expense in Q4 was $9.2 million compared to $8 million in Q3. The increase was mainly due to the additional debt incurred in connection with the acquisitions. The gain on derivative instruments was $3 million in the fourth quarter compared to the gain of $2.8 million in the third quarter. The unrealized mark-to-market gain was $3.8 million for Q4 compared to mark-to-market gain of $2.9 million for Q3. Most of the gains were from interest rate swaps. As a result, net income for Q4 was $18.6 million compared to $21.1 million for Q3.

Slide 5, adjusted EBITDA.

In Q4, the partnership generated adjusted EBITDA of $45.1 million. It compares to $45.1 million for Q3. Adjusted EBITDA refers to earnings before interest, taxation, depreciation and amortization. And it provides a proxy for cash flow. Adjusted EBITDA, of course, is a non-U. S. GAAP measure used by our investors to measure partnership performance. With [a wasting] asset like our vessel, the younger fleets tend to produce lower EBITDAs for every dollar invested. The annuity effect reduces the annual loss in the early years, which is factored into the replacement CapEx calculation for the distributable cash flow.

At the end of Q4, the KNOP fleet had 15 vessels with an average age of 4.7 years compared to the rest of the industry average for shuttle tankers, excluding KNOP, of around 12 years. Since the formation of KNOP, we have had very high levels of vessel utilization, on average, about 99.6% of scheduled operations.

Financially, this translates into a continually high and increasing predictable revenue, adjusted EBITDA and discounted cash flow, as more vessels are added to the fleet.

Slide 6, distributable cash flow. Another non-U. S. GAAP measure to estimate distribution sustainability. Quarterly distributable cash flow was $21.5 million in Q4. This compares to $24 million in Q3. We maintain our distribution levels in Q4 at $0.52 per unit, equivalent to an annual distribution of $2.08. The distribution coverage ratio for the quarter was 1.19. It is affected by the issues of the common units in Q4. It should improve significantly in the coming quarters with the acquisitions of Brasil and Anna Knutsen.

A coverage ratio of 1.26 for the full year in 2017 is lower than our Investor Day guidance of between 1.30 and 1.32, which is included on a 6K filing made at that time. The reduction is primarily due to the equity overhang occurring in Q4 results, with the Q4 propeller repairs on the Carmen. We've added further vessels, rather more than we expected at the time of Investor Day. We won't be guiding financial results for 2018. However, please note the following which will impact the calculation for 2018. There are four first special survey drydockings in 2018, 1/3 of the time charter fleet. Three of these vessels operate in the North Sea, Hilda, Torill and Ingrid. And one Brasil Knutsen, all will dry dock in Europe. The vessels will go offhire and the position bunker costs are expensed. We also see rising interest rates in the U.S. in 2018 and 2019, together with the increasing replacement CapEx provisions charge on our vessel, as they get older. However, our coverage should be significantly better this year and in 2019. KNOT has a significantly elevated yield compared to most MLPs. And we continue to remain focused on firstly, building coverage and then deleveraging, and not making increased investments. Given the quality and market position of the sponsor together with the shuttle tanker outlook, the yield is elevating. There is therefore little benefit to the MLP in short term increase in the distribution [on the end of this is] close to 10%. We continue to see double-digit distributions as a signal that investors would prefer increased coverage through investments and secondly deleveraging, rather than increasing dividends. The growing coverage ratio in the coming quarter will give the partnership more flexibility regarding both our capital base and distributions.

Slide 7, the balance sheet. At the end of Q4, we had a very solid liquidity position, with cash and cash equivalents of $46.1 million, and an ongoing undrawn credit facility of $35 million and credit facilities available until mid-2019. And given the increasing fleet size, we would hope to extend these facilities. We have a predictable cash flow, a healthy liquidity position and with the Torill refinancing in early 2018, no significant delivery payments until 2019.

Slide 8. EBITDA growth from Brasil Knutsen and Anna Knutsen acquisitions. The Raquel Knutsen was added to the fleet in Q4 2016, 4 vessels were added to the fleet during 2017, Tordis on the 1st of March, Vigdis on the 1st of June, Lena on the 30th September and Brasil on the 15th December. A fifth vessel, Anna, will shortly be added 1st of March 2018. To finance all these acquisitions as well as new ones, we've raised about $121 million net from sale of 5.56 million common units. We also raised $87.4 million from the sale of $90 million worth of preferred shares with an 8% coupon and adjustable conversion price around $24. In addition, on January 30, 2018, the partnership has closed $100 million senior secured term loan facility with the consortium of banks, in which the Bank of Tokyo-Mitsubishi UFJ acted as agent. The new $100 million secured facility is secured on the Torill Knutsen. Because the partnership has taken a higher structural leverage on recent long-term financings, undertaking a couple of preference issues, which are more accretive, and added to the fleet, whilst the existing fleet deleverages, the MLP has a very solid outlook.

Slide 9, long-term contracts by leading energy companies. The Windsor Knutsen has been on charter since October 2015 for an initial 3-year period, which will end in October 2018 to the subsidiary of Royal Dutch Shell. It has 5 years of extension options. Shell, we believe, are looking to expand their shuttle tanker fleet in Brazil, and this vessel has a relatively low charter rate.

The Bodil Knutsen, the largest shuttle tanker operating in the North Sea, is ice class and on chart to Statoil until May 2019. There are 5 further years of options to extend. Four of our vessels are on long-term bareboat charter to 2023 with Petrobras Transporte. These vessels are amongst the youngest in the Petrobras fleet, delivered between 2011 and '12 and are heavily utilized.

Dan Sabia and Dan Cisne are of unique size, and Fortaleza and Recife Knutsen have shallow drafts with lots of [thruster] capacity. Delivered in 2013, the Carmen Knutsen is on charter direct for Repsol Sinopec until 2023. The vessel went offhire on 22nd September 2017 and commenced its voyage to Navantia's shipyard in Cadiz, Spain for her scheduled dry -- special survey drydocking, Entering the dry dock on 13th October, all work in dock proceeded as planned until reassembling and controllable pitch propeller system, CPP. Whilst the condition of the CPP was found to be good, the shaft burnout mentioned were found not to be in line with manufacturer's tolerances after the coupling was installed and the shaft connected. During the 5 years of operation in Brazilian waters, no operational problems with the CPP have been reported and no clear evidence has emerged that damage to the shaft was observed or reported during fabrication or installation at the newbuild stage. It is, therefore, very hard to conclude the cause of the defect to propeller shaft. However, the fault could not be quickly resolved and so the vessel transferred to Damen Shiprepair Brest, France, to carry out a complete tail shaft withdrawal. The propeller shaft was transported to MarineShaft in Denmark, a company specializing in straightening shafts, [with the new] fabrication being estimated at 7 months. Straightening of the shaft went well. Some machining of the coupling and connecting shaft as well as a new sleeve was required. All were installed on board and (inaudible). The vessel departed from Damen Shiprepair Brest on the 15th of December, recommencing charter in Brazil on the 1st of January 2018. The Ingrid was delivered in December 2013 and is operating in the North Sea on a time charter for Standard Marine Tonsberg, a Norwegian subsidiary of ExxonMobil. This will expire in the first quarter of 2024. The charterer has options to extend the charter to 5 1-year periods. The Raquel Knutsen was delivered in March 2015 and it operates under a charter that expires in the first quarter of 2025 with Repsol Sinopec in Brazil. There are options to extend it to 2030.

The Tordis, Vigdis and Lena Knutsen are on 5-year time charters to Brazil Shipping I, a subsidiary of Shell. These will all expire during 2022, and the charter has options to extend 2 additional 5-year options, totaling 15 years. The Brasil and Anna Knutsen are on charter to Galp Energia until 2022 with options to extend until 2028. The KNOT fleet has average remaining fixed contract durations of 4.2 years with an additional 4.7 years on average in charterers option. Whilst we currently have no further dropdown candidates, which means no near-term equity requirement, given the market outlook, we would expect to be in a position to grow in the coming years. The following 2 slides have been provided by Fearnleys (inaudible).

Slide 10. Oil production from shuttle tanker operated fields. In the North Sea graphic, the estimated 9% depletion rate as applied to existing fields is very conservative -- is very generous. The average depletion rate could justifiably be closer to 2000 to 2014 long-term average of 6% per annum. Originally planned as a fixed platform, fixed pipeline solution, Johan Castberg field in the Barents Sea will be developed using a float and shuttle tankers. The Barents Sea will become the new -- shuttle tanker frontier in 2020, as oil companies remain optimistic and continue explorative drilling in the area.

In Brazil, Fearnleys graphic again uses a 9% depletion rate for existing fields. This is the official Petrobras figure. New production has been greatly impacted by the corruption scandals. However, sanctioned projects seem to be moving forward. The post 2020 Libra development, 12 to 16 shuttle tankers, is moving forward according to plan, limited impact by the corruption scandals.

Slide 11. Attractive long-term outlook for shuttle tanker business. As of today, the shuttle tanker market is extremely tight and there have been no speculative newbuilding orders. There is an active tender for long-term contracts for Petrobras shuttle tankers in the market, expected to close in the first half of 2018. Fearnleys sees a significant demand for new shuttle tankers going forward with expected tenders in excess of 40 vessels, including replacement tonnage delivering by 2022. Higher steel prices, more ordering and recent U.S. dollar weakness has dampened the fall in newbuilding prices. This should provide a platform for orders as charters tend to delay their tender until this point.

In summary, Slide 12. KNOT's Offshore Partners is, in essence, a midstream mobile pipeline business with fully contracted revenue streams. Since being awarded its first 2 contracts in 1984, Knutsen has grown organically for over 30 years as the business has been built into a sizable fleet of these tankers. Currently 31 units, including orders.

We've had another quarter with strong financial performance and a substantial increase in all financial measures throughout the year, not surprising when set against the acquisition program. One vessel, Raquel, was added to the fleet in Q4 2016. Four vessels were added to the fleet during 2017:

Tordis, 1st of March; Vigdis, 1st of June; Lena, 30th September; and Brasil, 15th of December. A fifth vessel, Anna, will shortly be added on the 1st of March 2018.

KNOT has very good access to financing. In the last year, the finance -- to finance the growth acquisitions, we have raised both $211 million of new equity -- $200 million -- $200 million of long-term debt with $25 million of credit facilities, all on attractive terms. Whilst analysts may bemoan the current lack of a drop-down inventory, many of our regular investors will be relieved to take a short breather.

KNOT is well placed to compete in future tenders. We have a solid and profitable contract base, generated by our modern fleet, which, by the end of December, had an average age of around 4.75 years. Since the formation of KNOT, we have had very high levels of vessel utilization, on average, around 99.6%. Financially, this translates into high and increasing predictable revenue, adjusted EBITDA and discounted cash flow, as more vessels are added to the fleet. No one has more expertise in operating a sophisticated shuttle tanker than KNOT Offshore Partners. And we can operate these vessels with real expertise. Today, supply is tightening and the market is expanding. On the tenders' back, the sponsor expects to build a further dropdown inventory. We have a supportive sponsor, and we remain an attractive value proposition with a quarterly distribution of $0.52, around 10% distribution.

Thank you, and that concludes the narrative for the slides. Anybody has any questions, I'll be happy to take them.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question today comes from Michael Weber with Wells Fargo.

Michael Webber - *Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Analyst*

John, I wanted to touch first on the charter portfolio. You kind of went through a lot of the recent drops. But looking at the firm periods that are starting to roll in '18, I know you extended the option period already for, I believe, it was the Bodil, but the Windsor, the Hilda, the Torill, all have option period -- firm periods that are ending in 2018. So I guess, one, if you can refresh us on when your charterers actually need to let you know about whether they'd be picking up those options or anything? And then -- I'm sorry. Go ahead. Sorry. Go ahead with that one and I'll continue.

John Costain - *KNOT Offshore Partners LP - CEO and CFO*

Yes, okay. I was just going to say, normally the Torill, Hilda and the Windsor, they are all 3 months, sometimes it's 6 months. But for those 3, it's usually 3 months. Given the fact we've refinanced the Hilda and Torill, there is no real pressure on us to fix any long-term periods with them. They're all fairly well financed. So we're quite relaxed. And it was about 2.5 probably to build the Hilda and Torill again. All vessels of a similar nature would be about 2.5 to 3 years, because they require specialists. There are 4 ships more or less that can do that contract. And I mentioned that the contract hasn't gone very well for Eni. I mean, they don't close (inaudible). Over time, those vessels are all moving on that contract. And we don't foresee a problem there. And on that basis, we've been able to refinance the ships quite comfortably. Charterers seem to like -- to have short periods. Obviously, Shell have got 8 shuttles today. We understand from talking to them, they are in the market or going to be in the market soon looking for another tanker. But that's unofficial, so I can't say for sure. It's not on [the tender] out there. But they are looking [to] deliver ships. They are expanding quite rapidly in Brazil and they need more tankers, not less. The Windsor is an older ship admittedly, but it's also a pretty well spec'd and well liked. And the charter rate is at the lower end of the range for those ships. So it's actually relatively cheap compared to what a new ship would be. So you can never say never was an option, but to me it looks quite decent and the outlook for the market is pretty good. There's a lot of ships coming out 20 years, so we're quite relaxed about them all. I mean, I think the way accounting standards have gone, realistically, the days of real long deals, 10-year deals, is getting more and more difficult because of the base accounting. And I think people generally like shorter deals. It's less -- it's more off balance sheet. But, I mean, that's my speculation and (inaudible)

Michael Webber - *Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Analyst*

Those strings are all 1 plus 1 plus 1, right? That is, they are annualized.

John Costain - *KNOT Offshore Partners LP - CEO and CFO*

That's right.

Michael Webber - *Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Analyst*

Now with the deal, I think, they extended -- you've been extending it for a couple of years and then there was a new 5-year string put on the end of that.

John Costain - *KNOT Offshore Partners LP - CEO and CFO*

That's right.

Michael Webber - *Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Analyst*

We do expect a similar structure, like, in terms of that contract tenor kind of coming down. You think, if they were to look at those options, and I guess, the first question would be, are they -- you think -- are they getting closer to being incrementally in the money they held in the Torill?

John Costain - *KNOT Offshore Partners LP - CEO and CFO*

I mean, if you look at the general tanker market today, well I think it's conventional, because the newbuild process have -- they're probably bottoming out again. This is when you start to see orders going and people -- charterers aren't daft. I mean, they see -- they do follow the general tanker market. The newbuild costs a bit. Obviously, the shuttle tankers are a different beast. But it does run off by a little bit. And they tend to go in with their charters or contracts or tenders, when they see that there's a spike-up in newbuild prices because they don't -- they want to get the low point. Because, obviously, when we're tendering as well, owners as well, they quite align with the bottom of the market as well, because the IRRs will come down as well as the base price being low, the IRRs are quite low, because the tail risk is removed on the contract, if your asset price is going up. So that tends to be a bit of a game that charterers play. So I can't -- I would never want to say this market is similar to the tanker market. It's very different, but that there are certain things in there that are impacted by the general shipping market, and that's one of them. So I mean, I'm quite relaxed about -- I mean, we could potentially see the partnerships really delivering. But the way they both -- all these charterers need ships, I think it's highly unlikely. We have the crew, we have the technical expertise. And I think it'd be better for them to go out and get another tanker. But it's not impossible, and you have to respect the market. You can't just say -- I wouldn't like to say that the rates -- the time charts rates are at the bottom, because when the new tendering come out, it could be a bit lower than last month because basically, the rate -- the newbuild contract prices have gone down a bit. But the interest rates are going up, so that's the counterpoint. And the OpEx certainly started to go up as well, so [that could impact shipping times].

Michael Webber - *Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Analyst*

Right. So I guess, if it's unclear how close to the money those options are and this seems like they are -- kind of done on a case-by-case basis. But when you look at cash-on-cash returns for a newbuild, if you're going to kind of participate in one of these tenders, where are cash-on-cash returns right now relative -- on an absolute basis then where are they relative to where they were a year ago?

John Costain - *KNOT Offshore Partners LP - CEO and CFO*

Well, the bottom of the market a year ago, Michael. I think -- they tend -- the market tends to come in waves. I mean, the last time the market was probably about 2014 and '15, 52 around, will be down to about 49 now, I think that's a sort of -- we're not looking at massive reductions. We're looking at -- because the ships cost about $14,000, $15,000 a day OpEx, and then the newbuild prices are probably about [95] as opposed to [105, 110] for Chinese-built ship, before -- the contract price. So I would have said, looking at -- on the CapEx, it's probably about 10% reduction. It's difficult to say. That's probably about -- you're looking at maybe slightly less than that. It's very unique though and correlated to the whole cost for a newbuild shuttle tanker, I guess, and that's probably about, compared to 3 or 4 years, it's about 5% to 10% [down]. I think with interest rates going up, it would be interesting, because obviously, IRRs need to go and it's good for an older tanker actually, differential interest rates, because on an older vessel you do get a bit of an interest saving, because there's less capital wrapped in there. And so older ships, again, become a little bit more competitive with higher interest rates. So ironically, an older portfolio looks better, a bit better than it did with a lower interest rate. [This is all news.] But what I'm trying to say, really, is this is what we've built the (inaudible) one of the reasons because, obviously, we're going to actually slide down with shocks, I guess, and it's better to have a [140 cover].

Michael Webber - *Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Analyst*

If anything, it seems like -- if I kind of look at Slide 11, if anything, I guess, it seems that while there might not be a ton of data points, in some liquidity end markets, it seems like the next -- the second derivative change on a cash-on-cash returns might actually be positive. So, and I guess, maybe just before I turn it over, like along those lines, as I look at Slide 11 and I look kind of -- when we look at the fact that, especially given relatively firmer demand environment than most are expecting, that we're starting to see a pretty noticeable gap, or an implication that utilization rates should be moving higher. When do you think we'll actually start to see that materializing?

John Costain - *KNOT Offshore Partners LP - CEO and CFO*

(inaudible) have seen this graph for a few years now. But you don't want to start it. (inaudible) ordering by now. Some of us are a bit skeptical about it. I mean, we don't know -- I genuinely think it will happen fairly soon in the next 6 months, because unless we start to see -- people will hang on. I think charterers will hang on. They will monitor the newbuild market a bit and they tend to do that. I mean, last time we got the orders in 2014, '15, when we got on the BG ships, and (inaudible) [5] ships. And it was an inflection point. And then suddenly, the offshore market collapsed about a few months afterwards. So the newbuild prices on contracts on all ships went down because, obviously, everyone was competing for tonnage rather than -- because, obviously, we were wrapped up in offshore projects. Certainly, they're competing with ships and rather than you see in a tanker general bulk shipping recovery, I just start to see at the beginning of 2014. It shot down again and the market went quiet, I'm sure. So I think it's a bit -- I mean, obviously, I think the market is very, very tight. I mean, Teekay were ordering speculatively and you see -- I shouldn't mention Teekay, but you just see -- look at their CoA portfolio. They say it's really good if you look at their earnings call. So I believe them. So I think, that's all I can say. That's just circumstantial. I know our own CoA fleet is very limited, so we're not that exposed to it. We've had no problems lately. I mean, in the past, sometimes when the market is weak, you have waiting and difficulty fixing vessels, but the actual [period] business is (inaudible) and CoA fleet. In terms of Knutsen, we have smaller product tankers [owning] the vessels. So it's actually quite decent in the market.

John Costain - *KNOT Offshore Partners LP - CEO and CFO*

The next question comes from Nick Raza with Citi.

Naqi Syed Raza - *Citigroup Inc, Research Division - Senior Associate of Oil and Gas*

But just thinking about the last question. In terms of pricing competitiveness and softer pricing, perhaps as a result of newbuild costs coming off, do you expect regional differences, like maybe in Brazil versus the North Sea versus in East Canada. Can you just comment on that?

John Costain - *KNOT Offshore Partners LP - CEO and CFO*

Yes. Obviously, the main differences, there are several reasons. Obviously, spec can be -- spec varies (inaudible) shuttle tankers. But I would suspect Petrobras to be more compatible with Chinese-built ships than, say, Statoil. So it depends on the charterer. I mean, a lot of the rest (inaudible), some of them are comfortable with Chinese-built vessels. I don't -- there's nothing wrong with them at all. But some charterers like, they do spec where the yard is for the vessel. So that tends to have an impact on cost because, obviously, the Chinese ships is probably about $10 million cheaper than the Korean vessels, which are probably, I don't want to say, better quality, but they tend to be preferred. And I know, it's obviously got a dual fuel. I know Teekay bought dual fuel ships, and they are significantly more expensive. I think when you got weathering on the ships, like in the Barents Sea with the 4 Eni ship -- the Eni and the AET tankers and Statoil on the Goliat field, they are definitely more expensive as well. So these ships are -- the specs tend to dictate a little bit. So if you take the basic ship and (inaudible) Suezmax, [you quote now] [50,000] a day now, maybe a bit less. I wouldn't like to say, the tendering could be quite aggressive. So it's difficult. You get an idea when you see when it happens. But I mean, that's the sort of number you're normally looking around, I would think. And then it goes on from there [to the Suezmax size].

Naqi Syed Raza - *Citigroup Inc, Research Division - Senior Associate of Oil and Gas*

Right, right. I mean, just to clarify then. If you do see some of the vessel contracts come off, do you expect any movement, say from the North Sea to Brazil? Or do you expect your fleet to essentially stay in place?

John Costain - *KNOT Offshore Partners LP - CEO and CFO*

No, I would expect the fleet to stay in place. So obviously, the Windsor has moved to Brazil. That was because we had better (inaudible). But generally, it's because the Windsor is ice class. So it's a bit unusual to have an ice class tanker in Brazil. Generally no, not in the need of the bunkers, [but] markets are pretty tight. So you wouldn't ballast the ship. We could take one from Brazil because, obviously, it's going to drydock in Europe. But the Brazil -- it's all fairly tight. So it's not -- certainly, from the North Sea to Brazil is a problem in actually drydocking ships first. I think you wouldn't move ships around. But, obviously, the ships from Brazil at the moment, they still drydock in Europe. There's no -- there's not available facilities in Brazil to drydock the ship, which is quite -- I can't see that lasting forever. But today, all our drydocks are done in Europe, in France or Spain or Portugal, which is pretty stupid, right, commercially, but that's how it is. But, I mean, you are going to have 50 [or so] tankers down there potentially. You can't be keeping drydocking in Europe. It's not sensible. It's like 40, 50 days ballast.

Operator

(Operator Instructions) Next question comes from Ben Brownlow with Raymond James.

Benjamin Preston Brownlow - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Just a follow-up on the scheduled o1ffhire for -- in the second quarter for the Brazil Knutsen. That 50, 55-day range. Does insurance cover the offhire past, say, that 14 day deductible?

John Costain - *KNOT Offshore Partners LP - CEO and CFO*

No, that's not. That's the scheduled offhire. There's nothing wrong with that. We would maybe get a cargo [for a lookie]. But really, the vessel has to go to Europe. As they say, the vessel has to go to Europe to dry dock, and that's just to schedule an offhire. You have to accept that in the earnings of the ship. I mean, that was taken into account when we acquired the vessel. So it's just -- that's the part of the trading pattern on the vessel. We hope in the long run to make a bit of a saving there. Hopefully in the next 5 years, there will be a facility in Brazil or close -- much closer to Brazil where we can drydock the ship, because, obviously, that amount of offhire is quite a killer really. It's a lot of revenue.

Benjamin Preston Brownlow - *Raymond James & Associates, Inc., Research Division - Research Analyst*

That's what I thought. I just wanted to make sure. And then just from an accounting perspective -- most of my other questions were answered. But on the insurance recovery, that $1.8 million in the fourth quarter, was that only reflective of the lost charter days? Or is that filing partially to recover some of the repair cost that was expensed during the quarter?

John Costain - *KNOT Offshore Partners LP - CEO and CFO*

No, just the loss of hire days, the repair cost on the vessel, they have to be submitted to the insurer and they are only accounted once we get confirmation that they have accepted the costs. There is an estimate of around $2.3 million for the repair cost, $150,000 deductible, but that's not confirmed. And obviously, we can't account for something that hasn't been agreed with an insurer, so it's left outside. So hopefully, if say they [have left] in the first quarter or second quarter, once that's been agreed, if it has been agreed. But today, we have to account purely for the loss of hire because I couldn't have known about and be able to accept that as a legitimate receipt.

Operator

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