





KNOT
Offshore Partners LP

Third Quarter 2016 Results

November 2, 2016





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Q3 2016 Financial Highlights & recent events

- Highest quarterly revenues of $43.6 million.
- Highest quarterly operating income of $21.2 million and net income of $19.4 million.
- Highest quarterly Adjusted EBITDA(1) of $35.1 million.
- Highest quarterly distributable cash flow(1) of $20.3 million, with a coverage ratio(2) of 1.35.
- Excellent operational performance with 100% utilization
- Declared cash distribution of $0.52 per unit for Q3 2016
- On September 13, 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
- The Partnership entered into a share purchase agreement with Knutsen NYK to acquire the company that owns the *Raquel Knutsen*

(1) Adjusted EBITDA and distributable cash flow are non-GAAP financial measures used by management and external users of our financial statements. Please see Appendix A for definitions of Adjusted EBITDA and distributable cash flow and a reference to reconciliation to net income, the most directly comparable GAAP financial measure.
(2) Distribution coverage ratio is equal to distributable cash flow divided by distributions declared for the period presented.

Income Statement

Unaudited, USD in thousands	3Q 2016	2Q 2016	3Q 2015	FY 2015
Time charter and bareboat revenues	43,390	42,864	39,281	154,750
Other income	197	199	3	274
Total revenues	**43,587**	**43,063**	**39,284**	**155,024**
Vessel operating expenses	7,588	7,975	5,936	27,543
Depreciation	13,920	13,913	12,420	48,844
General and administrative expenses	908	948	1,180	4,290
Goodwill impairment charge	—	—	—	6,217
Total operating expenses	**22,416**	**22,836**	**19,536**	**86,894**
Operating income	**21,171**	**20,227**	**19,748**	**68,130**
Interest income	6	0	0	8
Interest expense	(5,129)	(5,055)	(4,322)	(17,451)
Realized and unrealized gain (loss) on derivative instruments	3,613	(3,176)	(6,470)	(9,695)
Other financial items[1]	(328)	(416)	(154)	(609)
Income before income taxes	**19,360**	**11,581**	**8,802**	**40,383**
Income tax benefit (expense)	(3)	(3)	0	59
Net income	**19,357**	**11,578**	**8,802**	**40,442**

100% utilization in Q3 and positive gain on market-to-market valuation of derivatives

(1) Other financial items consist of other finance expenses and net gain (loss) on foreign currency transactions

Adjusted EBITDA

Unaudited, USD in thousands	3Q 2016	2Q 2016	3Q 2015	FY2015
Net income	**19,357**	**11,578**	**8,802**	**40,443**
Interest income	(6)	0	0	(8)
Interest expense	5,129	5,055	4,322	17,451
Depreciation	13,920	13,913	12,420	48,844
Goodwill impairment charge	—	—	—	6,217
Income tax (benefits) expense	3	3	—	(59)
EBITDA[1]	38,403	30,549	25,543	112,888
Other financial items[2]	(3,311)	3,592	6,624	10,304
Adjusted EBITDA[1]	**35,092**	**34,141**	**32,167**	**123,192**

Highest ever quarterly Adjusted EBITDA

(1) EBITDA, Adjusted EBITDA and distributable cash flow are non-GAAP financial measures used by management and external users of ur financial statements. Please see Appendix A for definitions of EBITDA, Adjusted EBITDA and distributable cash flow and a reference to reconciliation to net income, the most directly comparable GAAP financial measure.
(2) Other financial items consist of other finance expense, realized and unrealized gain (loss) on derivative instruments and net gain (loss) on foreign currency transactions.

Distributable cash flow

Unaudited, USD in thousands	3Q 2016	2Q 2016	3Q 2015	FY2015
Net income	**19,357**	**11,578**	**8,802**	**40,442**
Add:				
Depreciation	13,920	13,913	12,420	48,844
Goodwill impairment charge	—	—	—	6,217
Other non-cash items; deferred costs amortization debt	310	287	289	1,149
Unrealized losses from interest rate derivatives and forward exchange currency contracts	—	1,608	4,032	8,629
Less:				
Estimated maintenance and replacement capital expenditures (including drydocking reserve)	(7,894)	(7,894)	(6,749)	(26,704)
Other non-cash items; deferred revenue and accrued income	(967)	(1,032)	(858)	(3,432)
Unrealized gains from interest rate derivatives and forward exchange currency contracts	(4,438)	—	(1,789)	(8,239)
Distributable cash flow(1)	**20,288**	**18,460**	**16,147**	**66,907**
Total distributions	**15,027**	**15,027**	**15,110**	**56,922**
Distribution coverage ratio(2)	**1.35X**	**1.23X**	**1.07X**	**1,18X**

Highest ever quarterly distributable cash flow

(1) Distributable cash flow is a non-GAAP financial measure used by management and external users of our financial statements. Please see Appendix A for a definition of distributable cash flow and a reference to reconciliation to net income, the most directly comparable GAAP financial measure.

(2) Distribution coverage ratio is equal to distributable cash flow divided by distributions declared for the period presented.

Balance sheet

Unaudited, USD in thousands	At September 30, 2016	At December 31, 2015
Current assets:		
Cash and cash equivalents	27,382	23,573
Derivative assets	1,645	—
Other current assets	2,282	2,707
Total current assets	**31,309**	**26,280**
Long-term assets:		
Net vessels and equipment	1,154,647	1,192,927
Derivative assets	—	695
Accrued income	921	—
Total long-term assets	**1,186,877**	**1,193,622**
Total assets	**1,186,877**	**1,219,902**

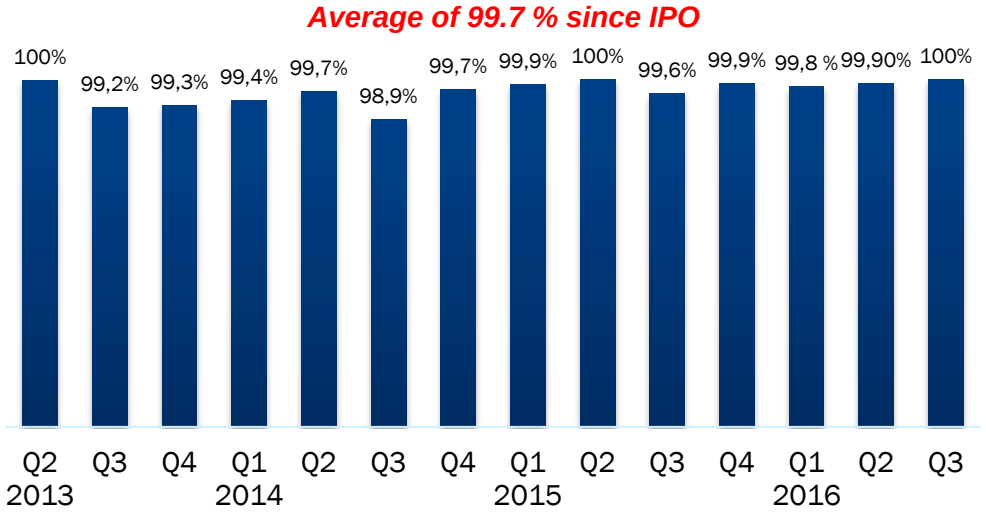
	At September 30, 2016	At December 31, 2015
Current liabilities		
Current portion of long-term debt	48,877	48,535
Derivative liabilities	2,621	5,138
Contract liabilities	1,518	15,18
Other current liabilities	15,160	10,345
Total current liabilities	**68,176**	**65,536**
Long-term liabilities:		
Long-term debt	586,332	619,187
Derivative liabilities	4,132	1,232
Contract liabilities	8,619	9,757
Deferred tax liabilities	957	877
Other long-term liabilities	1,427	2,543
Total liabilities	**669,643**	**699,132**
Total partners' equity	**517,234**	**520,770**
Total equity and liabilities	**1,186,877**	**1,219,902**

Available liquidity of USD 62.4m(1) vs. requirement of USD 18.5m

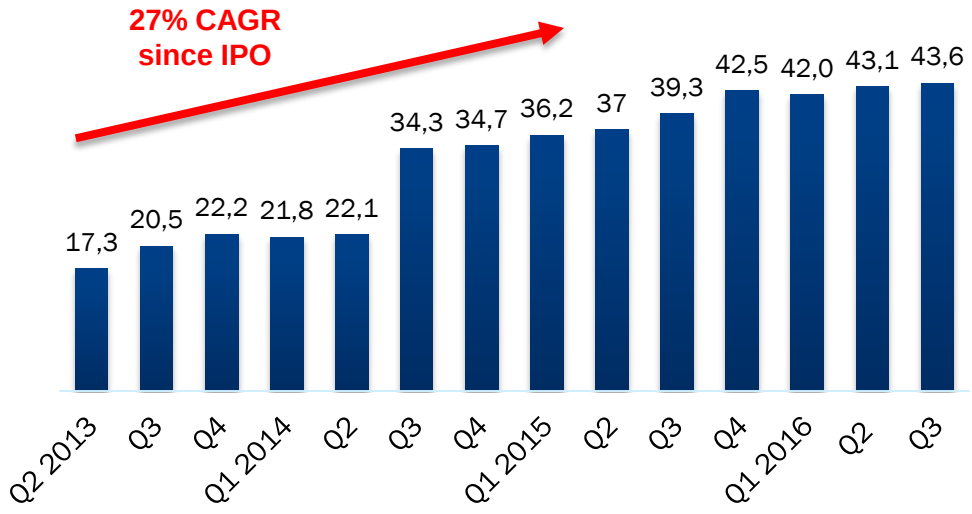
(1) Consist of cash and cash equivalents of $27.4 million and an undrawn revolving credit facility of $35 million as of September 30, 2016

Stable operational performance results in stable financial performane

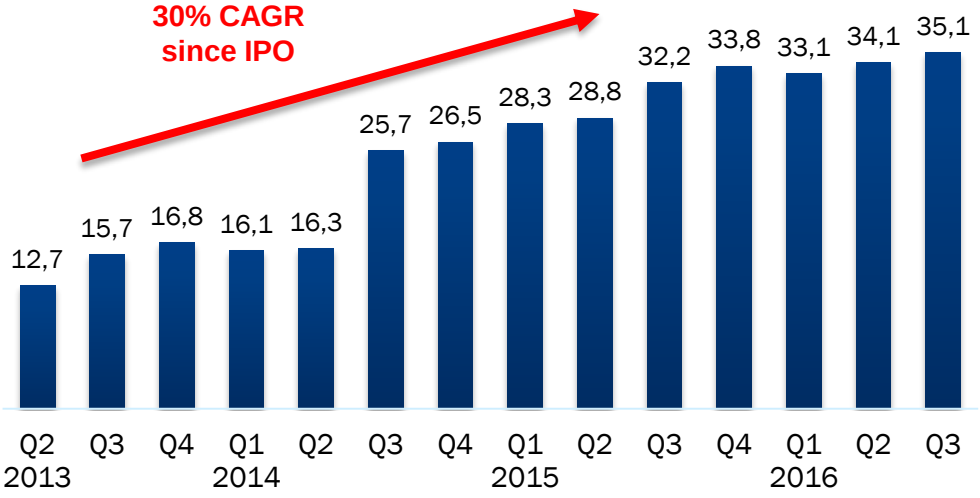
UTILIZATION (%)



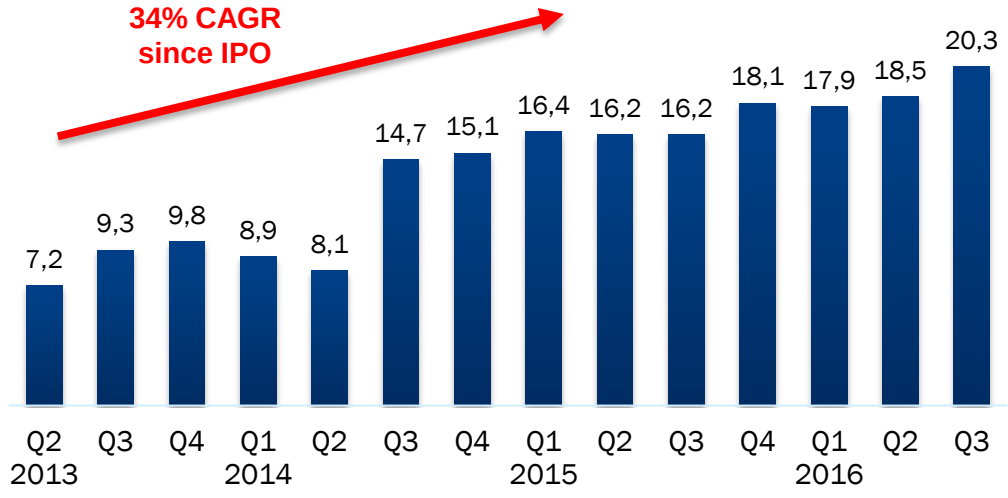
REVENUE (USD million)



ADJUSTED EBITDA(1) (USD million)



DCF(1) (USD million)



(1) Adjusted EBITDA and distributable cash flow are non-GAAP financial measures used by management and external users of our financial statements. Please see Appendix A for definitions of Adjusted EBITDA and distributable cash flow and a reference to reconciliation to net income, the most directly comparable GAAP financial measure.

Pending - Raquel Knutsen drop-down

Raquel Knutsen



Purchase price[2]	USD 116.5 million
Less debt	USD 103.5 million
	USD 13.0 million[2]

Contract detail

- Charterer: Repsol Sinopec Brasil B.V
- Contract type: TimeCharter
- Contract end date: June 2025
- Option period: total 5 years (3+2 year)
- Trading area: Brazil
- Estimated EBITDA for 2017[1]: 13.0 million
- Estimated net incme for 2017)[1]: $6.0

Raquel Knutsen

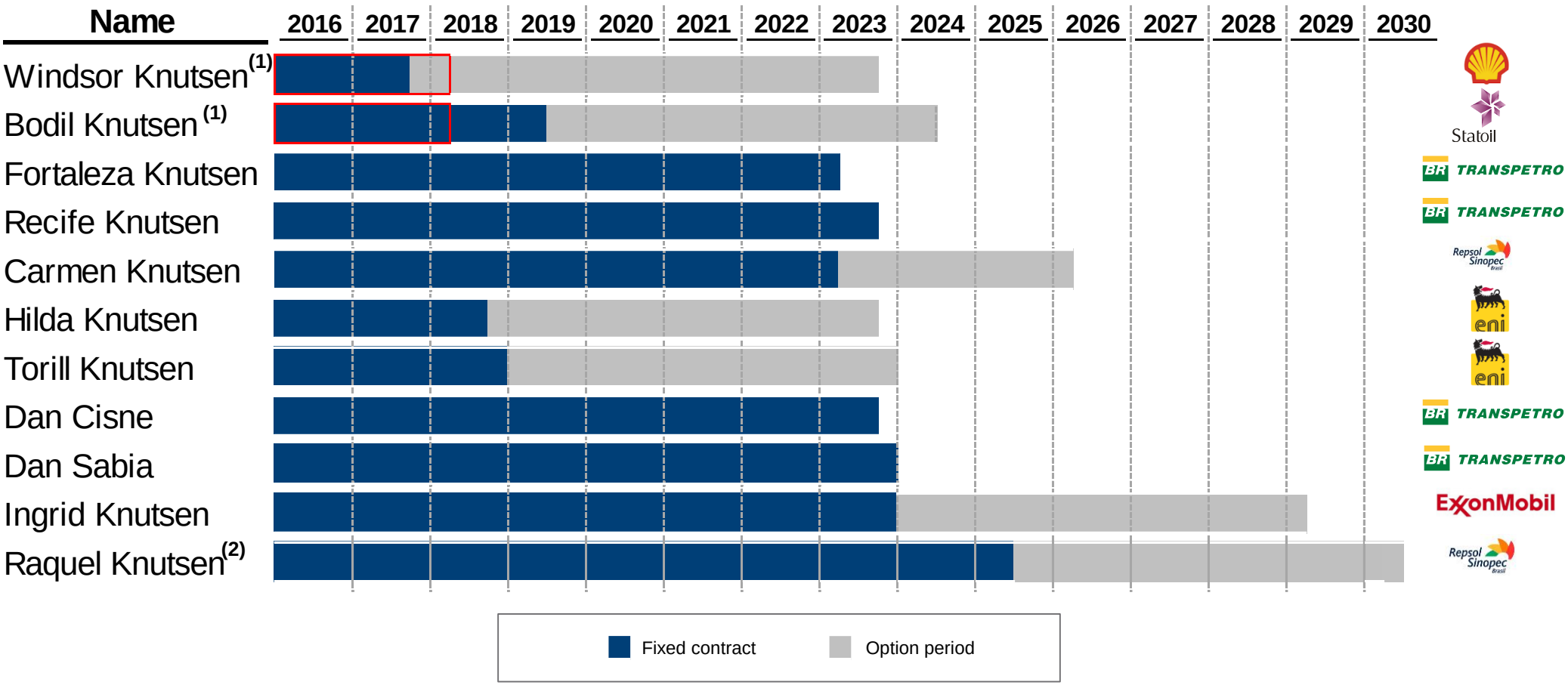
- Built: 2015
- Advanced DP 2 Suezmax
- Bwt: 150 000
- Builder: Cosco

Attractive financing:

- Senior Loan margin of 200bps which is due in second quarter 2025 with a balloon payment of $ 30.5 million
- A five year non-amortising seller credit/loan of $ 25 million from the Sponsor with a margin of 450bps

(1) EBITDA, which represents earnings before interest, taxes and depreciation, is a non-GAAP financial measure used by management and external users of our financial statments. Please see Appendix A for guidance on the underlying assumptions used to derive estimated EBITDA and estimated net income, and a reconciliation of estimated EBITDA to estimated net income the most directly comparable GAAP financial measure. .
(2) Subject to post-closing adjustments for working capital, interest rate swaps, certain intercompany balances and $1.1 million of capitalized fees related to financing of the Vessel.

Long-term Contracts Backed by Leading Energy Companies



KNOP fleet has average remaining fixed contract duration of 5.3(3) years

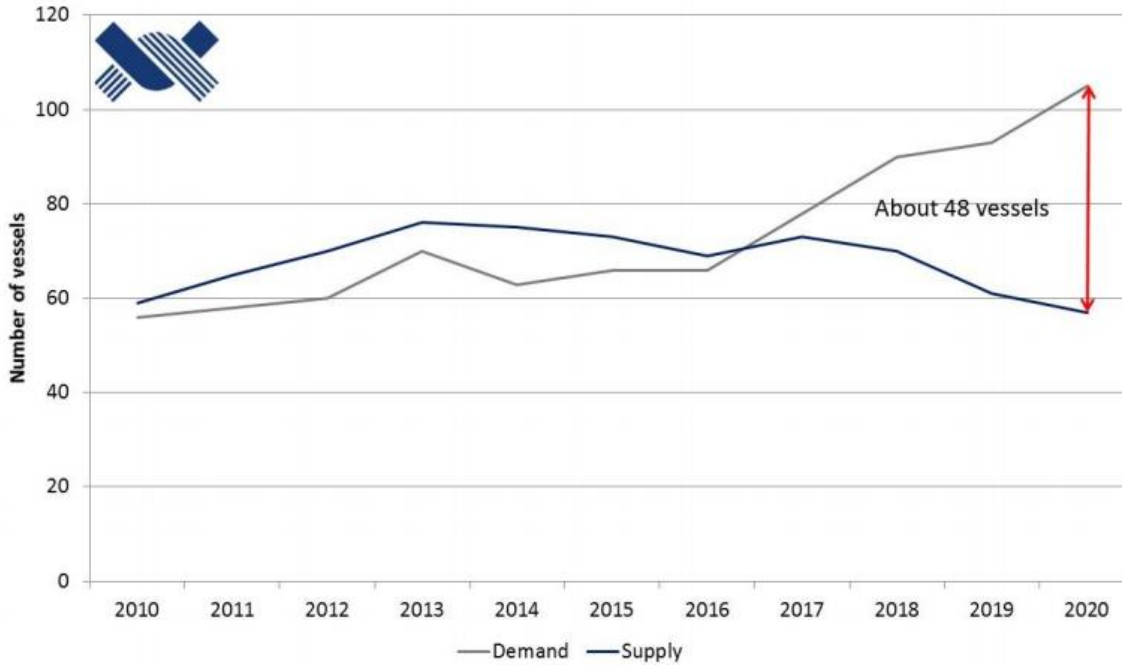
Additional 3.0 years on average in Charterers option

(1) KNOT has guaranteed the hire rate to April 2018 (five years from IPO date)
(2) Purchase Agreement executed; closing anticipated with approximately 30 days after the execution of the Purchase agreement
(3) Remaining contract life is calculated as of 30/09/2016, including the acquisition of Raquel Knutsen

Tenders have returned

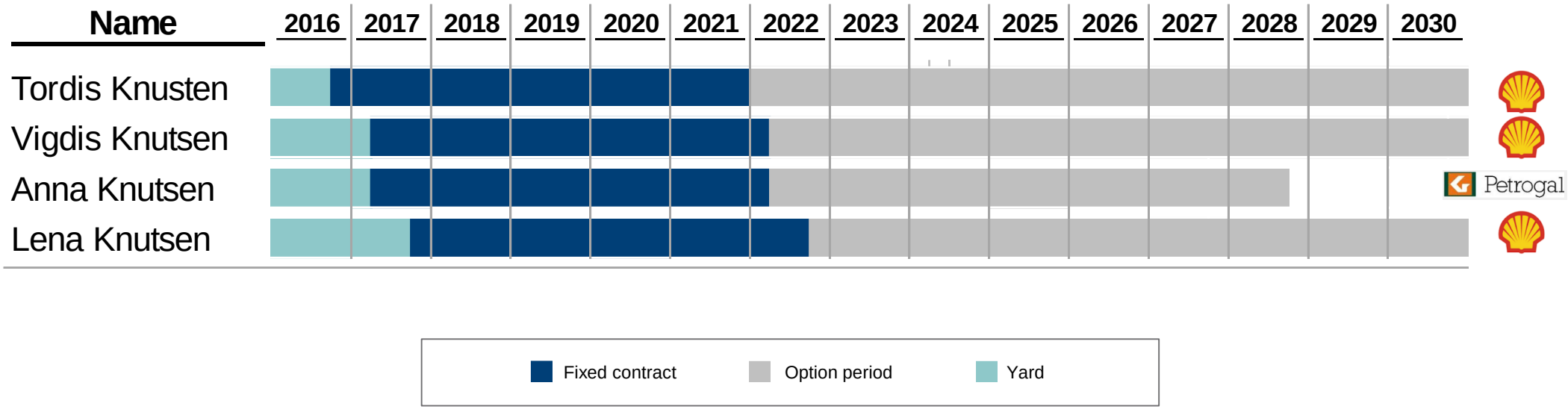
- As of today shuttle tanker market extremely tight, without any free capacity
  - No speculative newbuildings orders
- An active tender for long term contract for two shuttle tanker in the market and the sponsor has been invited
- Fearnleys sees a significant demand for new shuttle tankers going forward
  - Expects tenders for in excess of 40 vessels up to 2020
  - Including attrition demand which represent more than half of the demand

Projected Shuttle Tanker Tonnage Balance towards 2020 (All Areas)



Sources: Fearnleys Consultants February 2016.

Dropdown inventory: Four potential acquisitions[1]



Fixed contract periods for the dropdown fleet are 5.0[2] years on average

Charterers also have the option to extend these charters by 12.8 years on average

(1) The acquisition by KNOP of any dropdown vessels in the future is subject to the approval of the board of directors of each of KNOP and our sponsor. There can be no assurance that any potential dropdowns will occur.

(2) Remaining contract life is calculated as of 30/09/2016.

Committed to safety

- In October, 2016 both Knutsen NYK (which manage the shuttle tankers fleet of KNOP) and Knutsen OAS Shipping (which manage Knutsen Group's LNGs and product tankers) have not registered any LTI (Loss time Injury's) the last 12 months while they have worked more than 7 million hours all over the world.

- This has been achieved with minimal sick leave. Sick leave for Knutsen NYK and Knutsen OAS Shipping is 0.94% and 0.63%, respectively, this year

- Safety is a critical success factor for reducing off-hire and utilisation of KNOP fleet YTD is 100% and 99.8%(1) since IPO







Summary

1. Another quarter of strong operational and financial performance – 99.7% average utilization since IPO[(1)]
2. Solid contract base – Revenue backlog of $ 727 million[(2)] and additional increase of $ 153 million after purchase of Raquel
3. Modern shuttle tanker fleet, average age 4.8 years vs. industry average of 11.5 years excluding KNOP fleet[(3)]
4. Supportive sponsor – provide substantial dropdown growth potential

(1) Of the fleet for scheduled operation, adjusted for planned off hire the average utilization rate is 99.5%
(2) As of September 30, 2016; Revenue backlog is calculated as the full monthly hire rate multiplied by the number of months remaining on the firm period of the time charter contract, assuming full utilization.
(3) As of September 30, 2016, not including Raquel Knutsen

Save the Date: 15 February 2017

- On 15 February 2017 the Partnership will hold a Investor Day where Interim Results for the Quarter ending 31 December will be presented in addition to an Investor Day
- The Investor day will include in-depth presentations about our markets, the financial and operational performance as well as an Management vs. Analyst panel debate where guest are free to ask questions
- Venue is same as in February 2016, Vanderbilt suites in the Met-Life building in New York City
- Registration and lunch will start at 11:00 EST and Q4 Earnings presentation and Investor Day will commence at 12:00 EST
- More information about the program will come shortly





Thank you, any questions?



APPENDIX

Non-GAAP Financial Measures

EBITDA and Adjusted EBITDA

EBITDA is defined as earnings before interest, depreciation and taxes. Adjusted EBITDA refers to earnings before interest, depreciation, taxes, goodwill impairment charges and other financial items (including other finance expenses, realized and unrealized gain (loss) on derivative instruments and net gain (loss) on foreign currency transactions). EBITDA is used as a supplemental financial measure by management and external users of financial statements, such as our lenders, to assess KNOP's financial and operating performance and our compliance with the financial covenants and restrictions contained in KNOP's financing agreements.

Adjusted EBITDA is used as a supplemental financial measure by management and external users of financial statements, such as investors, to assess the KNOP's financial and operating performance. The Partnership believes that Adjusted EBITDA assists its management and investors by increasing the comparability of its performance from period to period and against the performance of other companies in its industry that provide Adjusted EBITDA information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest, other financial items, taxes, goodwill impairment charges and depreciation, which items are affected by various and possibly changing financing methods, capital structure and historical cost basis and which items may significantly affect net income between periods. The Partnership believes that including Adjusted EBITDA as a financial measure benefits investors in (a) selecting between investing in the Partnership and other investment alternatives and (b) monitoring the Partnership's ongoing financial and operational strength in assessing whether to continue to hold common units. EBITDA and Adjusted EBITDA are non-GAAP financial measures and should not be considered an alternatives to net income or any other indicator of Partnership performance calculated in accordance with GAAP. The reconciliation of EBITDA and Adjusted EBITDA please see KNOPs filings, which are available on SEC's website at www.sec.com and on KNOP's website at www.knotoffshorepartners.com

Distributable Cash Flow

Distributable cash flow represents net income adjusted for depreciation, unrealized gains and losses from derivatives, unrealized foreign exchange gains and losses, goodwill impairment charges, other non-cash items and estimated maintenance and replacement capital expenditures. Estimated maintenance and replacement capital expenditures, including estimated expenditures for drydocking, represent capital expenditures required to maintain over the long-term the operating capacity of, or the revenue generated by KNOP's capital assets. The Partnership believes distributable cash flow is an important measure of operating performance used by management and investors in publicly-traded partnerships to compare the cash generating performance of KNOP from period to period and to compare the cash generating performance for specific periods to the cash distributions (if any) that are expected to be paid to KNOP's unitholders. Distributable cash flow is a non-GAAP financial measure and should not be considered as an alternative to net income or any other indicator of KNOT Offshore Partners' performance calculated in accordance with GAAP. The reconciliation of Distributable Cash flow please see KNOPs filings, which are available on SEC's website at www.sec.com and on KNOP's website at www.knotoffshorepartners.com

Reconciliation of estimated net income and estimated EBITDA for KNOT 19

For KNOT 19, the entity that the Partnership intends to pending purchase in the acquisition, estimated net income and estimated EBITDA for the year ending December 31, 2017 are based on the following assumptions:

- closing of the Acquisition and timely receipt of charter hire specified in the time charter contract;
- utilization of the Raquel Knutsen of 363 days per year and no drydocking of the vessel;
- no realized or unrealized gains or losses on derivative instruments related to KNOT 19's financing arrangements;
- vessel operating costs per current internal estimates; and
- general and administrative expenses based on management's current internal estimates.

We consider the above assumptions to be reasonable as of the date hereof, but if these assumptions prove to be incorrect, actual net income and EBITDA for KNOT 19 could differ materially from our estimates. Neither our independent auditors nor any other independent accountants have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability and assume no responsibility for, and disclaim any association with, such prospective financial information.

The table below reconciles estimated EBITDA to estimated net income, the most directly comparable GAAP measure, in connection with the intended acquisition of KNOT 19.

Unaudited, USD in thousands	Year Ending December 31, 2017 (unaudited)
Net income	**6,041**
Interest expense	(2,353)
Depreciation	(4,614)
Income tax expense	—
EBITDA	**13,008**