





KNOT
Offshore Partners LP

Second Quarter 2017 Results

August 10, 2017





Notice to Recipients

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All forward-looking statements included in this presentation are made only as of the date of this presentation. New factors emerge from time to time, and it is not possible for KNOP to predict all of these factors. Further, KNOP cannot assess the impact of each such factor on its business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward-looking statement. KNOP does not intend to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in KNOP's expectations with respect thereto or any change in events, conditions or circumstances on which any such statement is based.

Financial Highlights

- Highest quarterly revenues of $54.4 million and net income of $16.9 million
- Highest quarterly Adjusted EBITDA(1) of $43.5 million
- Highest quarterly distributable cash flow[1]of $23.4 million with highest distribution coverage ratio of 1.43
- Declared cash distribution of $0.52 per unit for Q2 2017, annualized $2.08
- Achieved strong performance with 100% utilization(2)

(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 reconciliation to net income, the most directly comparable GAAP financial measure.

(2) Reflects 45 days of offhire for the *Rauel Knutsen* in the three months ended June, 30, 2017 which was reimbursed by KNOP's loss of hire insurance.

Other events

- The Partnership entered into a share purchase agreement with Knutsen NYK to acquire the company that owns the *Lena Knutsen*
- Completed the acquisition of the *Vigdis Knutsen* which is on a 5 year charter with Shell
- Completed successfully refinancing of the *Hilda Knutsen*
- Entered into an agreement for a new $25 million unsecured revolving credit facility in order to further strengthen the balance sheet and increase financial flexibility.
- Successfully completed a private placement 1,666,667 additional Series A Preferred Units at a price of $24.00 per unit
- The sponsor acquired 2013-build *Brazil Voyager* DP2 Suezmax class shuttle tanker – seeking to secure a long-term time charter

Income Statement

Unaudited, USD in thousands	2Q 2017	1Q 2017	2Q 2016	FY 2016
Time charter and bareboat revenues	51,537	43,747	**42,864**	172,878
Loss of hire insurance recoveries	2,276	1,150	—	—
Other income	593	95	199	793
Total revenues	**54,406**	**44,992**	**43,063**	**173,671**
Vessel operating expenses	9,427	10,282	7,975	30,903
Depreciation	17,372	15,753	13,913	56,230
General and administrative expenses	1,493	1,469	948	4,371
Total operating expenses	**28,292**	**27,504**	22,836	**91,504**
Operating income	**26,114**	**17,488**	**20,227**	**82,167**
Interest income	44	36	—	24
Interest expense	(7,252)	(6,215)	(5,055)	(20,867)
Realized and unrealized gain (loss) on derivative instruments	(1,536)	519	(3,176)	1,213
Other financial items[1]	(452)	(396)	(416)	(1,450)
Income before income taxes	**16,918**	**11,432**	**11,581**	**61,087**
Income tax benefit (expense)	(3)	(3)	(3)	15
Net income	**16,915**	**11,429**	**11,578**	**61,102**

(1) Other financial items consist of other finance expenses and net gain (loss) on derivative instruments

Adjusted EBITDA

Unaudited, USD in thousands	2Q 2017	1Q 2017	2Q 2016	FY 2016
Net income	**16,915**	**11,429**	**11,578**	**61,102**
Interest income	(44)	(36)	0	(24)
Interest expense	7,252	6,215	5,055	20,867
Depreciation	17,372	15,753	13,913	56,230
Income tax (benefits) expense	3	3	3	(15)
EBITDA[(1)]	41,498	33,364	30,549	138,160
Other financial items[(2)]	1,988	(123)	3,592	237
Adjusted EBITDA[(1)]	**43,486**	**33,241**	**34,141**	**138,397**

(1) EBITDA and Adjusted EBITDA are non-GAAP financial measures used by management and external users of our financial statements. Please see Appendix A for definitions of EBITDA and Adjusted EBITDA.
(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	2Q 2017	1Q 2017	2Q 2016	FY 2016
Net income	**16,915**	**11,429**	11,578	**61,102**
Add:				
Depreciation	17,372	15,753	13,913	56,230
Other non-cash items; deferred costs amortization debt	407	348	287	1,198
Unrealized losses from interest rate derivatives and foreign exchange currency contracts	1,334	—	1,608	8,867
Less:				
Estimated maintenance and replacement capital expenditures (including drydocking reserve)	(9,990)	(9,120)	(7,894)	(31,786)
Distribution to Convertible Preferred Units	(1,009)	(645)	—	—
Other non-cash items; deferred revenue and accrued income	(801)	(875)	(1,032)	(4,300)
Unrealized gains from interest rate derivatives and foreign exchange currency contracts	(833)	(1,258)	—	(13,900)
Distributable cash flow(1)	**23,395**	**15,632**	18,460	**77,412**
Total distributions	**16,379**	**16,379**	15,027	**61,528**
Distribution coverage ratio(2)	**1.43X**	**0.95X**	1.23X	**1.26X**

(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.

(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 June 30, 2017	At December 31, 2016		At June 30, 2017	At December 31, 2016
Current assets:			**Current liabilities**		
Cash and cash equivalents	64,501	27,664	Current portion of long-term debt	65,018	58,984
Inventories	1,712	1,176	Derivative liabilities	2,045	3,304
Derivative assets	262	—	Contract liabilities	1,518	1,518
Other current assets	6,248	2,239	Other current liabilities	23,017	13,831
Total current assets	**72,723**	**31,079**	**Total current liabilities**	**91,598**	**77,637**
			Long-term liabilities:		
			Long-term debt	840,882	657,662
			Long-term debt related parties	—	25,000
			Derivative liabilities	793	285
Long-term assets:			Contract liabilities	7,480	8,239
Net vessels and equipment	1,519,270	1,256,889	Deferred tax liabilities	707	685
Intangible assets, net	2,800	—	Other long-term liabilities	313	1,051
Derivative assets	4,500	3,154	**Total liabilities**	**850,175**	**770,565**
Accrued income	1,453	1,153	**Convertible Preferred Units**	**88,451**	
Total long-term assets	**1,528,023**	**1,261,196**	**Total partners' equity**	**570,522**	**521,710**
Total assets	**1,600,746**	**1,292,275**	**Total equity and liabilities**	**1,600,746**	**1,292,275**

Pending - Lena Knutsen drop-down

Lena Knutsen



Purchase price[2]	USD 142.0 million
Less debt	USD 91.9 million
Equity	USD 50.1 million[2]

Contract detail

- Charterer: Royal Dutch Shell [1]
- Contract type: Time Charter
- Contract end date: Q3 2022
- Option period: two consecutive 5 years extension options
- Trading area: Brazil
- Estimated NTM EBITDA[2]: $15.8 million
- Estimated NTM net income[3]: $7.0 million

Lena Knutsen

- Delivered: June 2017
- Enhanced DP 2 Suezmax
- DWT: 156 559
- Builder: Hyundai Heavy Industries

Attractive long-term financing:

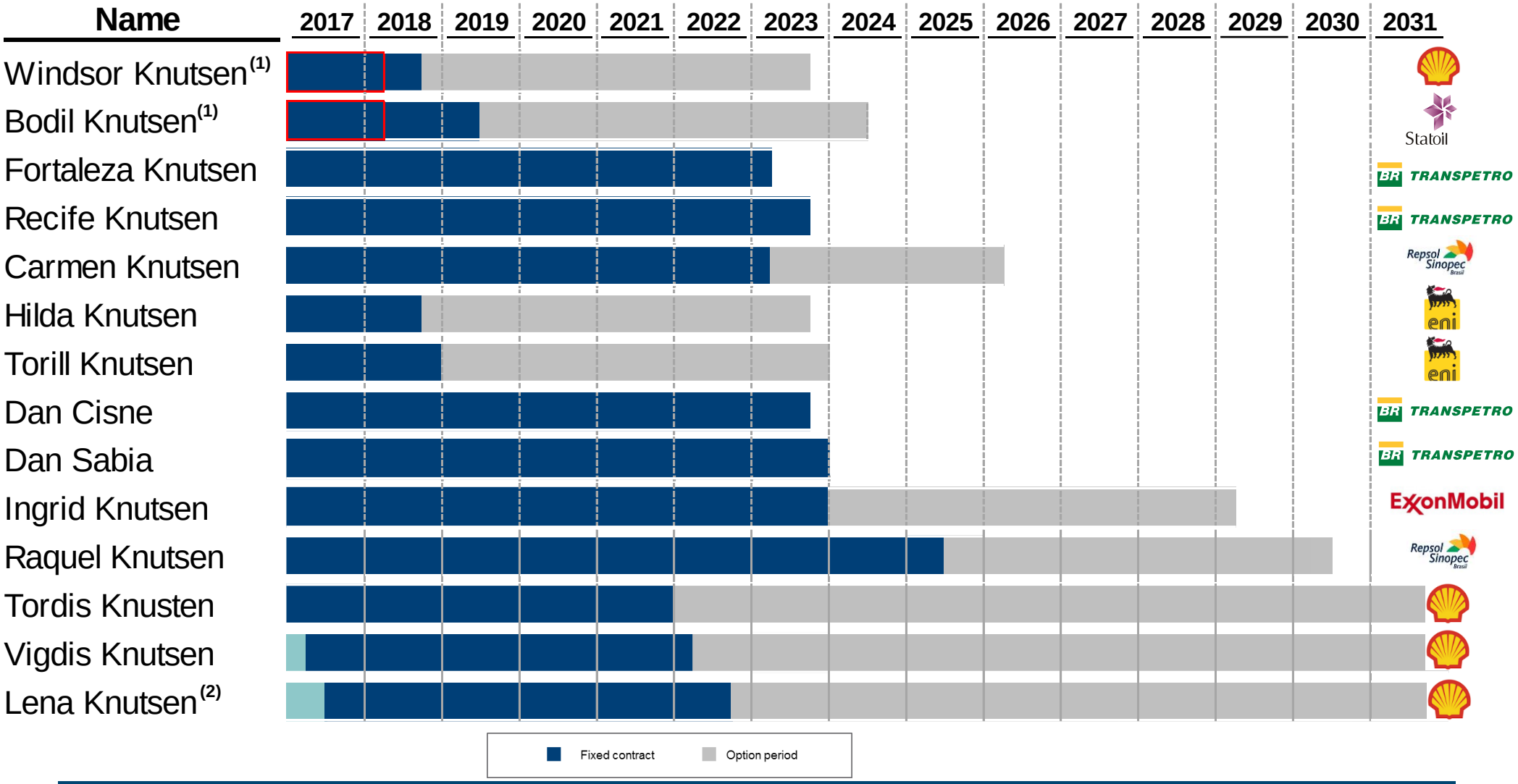
- Term Loan Facility due second quarter 2022 with 19 years repayment profile and balloon payment of $ 69.8 million
- Margin of 190bps

(1) Brazil Shipping I Ltd, a subsidiary of Royal Dutch Shell

(2) For the first 12 months after the closing. EBITDA, which represents earnings before interest, taxes and depreciation, is a non-GAAP financial measure used by management and external users of our financial statements. 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.

(3) Subject to post-closing adjustments for working capital, interest rate swaps, certain intercompany balances and $1.0 million of capitalized fees related to financing of the Vessel.

Long-term Contracts Backed by Leading Energy Companies

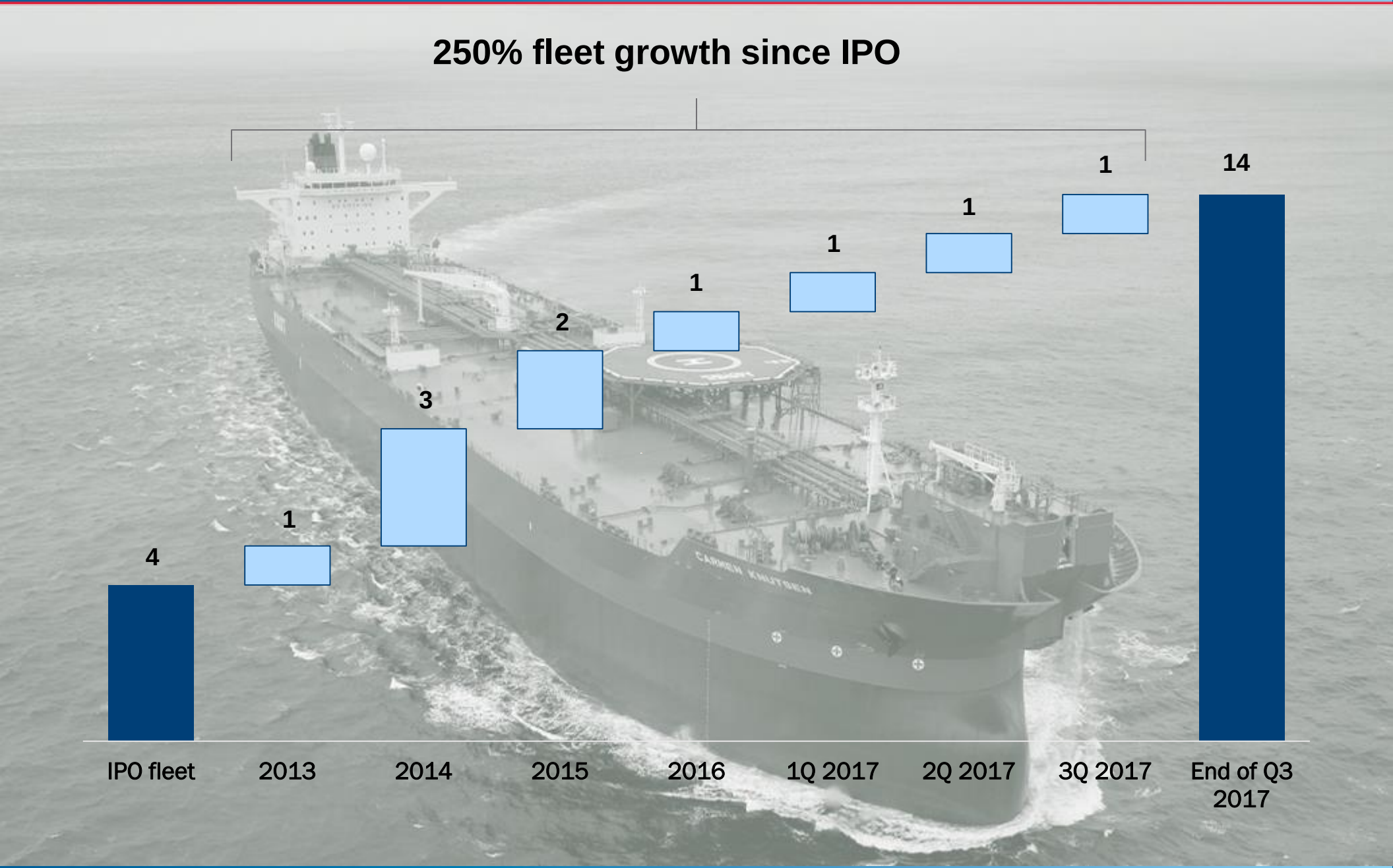


KNOP fleet has average remaining fixed contract duration of 4.6(3) years

Additional 4.5(3) 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 for Lena Knutsen; closing anticipated by September 30, 2017
(3) Remaining contract life is calculated as of June 30, 2017, including the acquisition of Lena Knutsen

Significant growth fleet since IPO[1]



(1) Assumes closing of the *Lena Knutsen* acquisition

Summary



- Highest ever quarterly performance for Revenue and Adjusted EBITDA(1)
- Another strong operational result – 100% utilization of the fleet in 2Q(2) – 99.7% since IPO
- Acquisition of *Vigdis Knutsen* and agreement to acquire *Lena Knutsen*
- Good access to attractive bank financing
- Attractive value proposition with quarterly distribution of $0.52 per unit
  - 9.2% yield(3)

(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) Reflects 45 days of offhire for the Rauel Knutsen in the three months ended June, 30, 2017 which was reimbursed by KNOP's loss of hire insurance
(3) Quarterly distribution annualized / unit price $22.65 per 4 August, 2017



Thank you, any questions?



APPENDIX

Non-GAAP Financial Measures

Adjusted EBITDA

Adjusted EBITDA refers to earnings before interest, other financial items, taxes, non-controlling interest, depreciation and amortization. Adjusted EBITDA is a non-GAAP financial measure used by investors to measure our 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 and depreciation and amortization, 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. Adjusted EBITDA is a non-GAAP financial measure and should not be considered as an alternative to net income or any other indicator of Partnership performance calculated in accordance with GAAP. The reconciliation of Adjusted EBITDA is set forth in the tables below:

	For the Quarter Ended								
(USD in thousands)	**16 April-13 to 30 June-13**	**30-Sep-13**	**31-Dec-13**	**31-Mar-14**	**30-Jun-14**	**30-Sep-14**	**31-Dec-14**	**31-Mar-15**	**30-Jun-15**
Net income	3,971	6,357	7,902	6,424	2,497	12,563	5,908	7,186	6,887
Interest income	(3)	(16)	(5)	(1)	(3)	0	(9)	(1)	(2)
Interest expense	2,529	2,653	2,832	2,713	3,856	4,014	4,688	4,186	4,212
Depreciation	5,340	6,304	6,785	6,780	6,782	10,201	10,559	11,400	11,560
Goodwill impairment charge	-	-	-	-	-	-	-	-	6,217
Income tax (benefit) expense	-	(5)	(111)	19	(18)	(1)	15	3	3
EBITDA	11,837	15,293	17,403	15,935	13,114	26,777	21,161	22,774	28,877
Other financial items	911	371	(615)	199	3,220	(1,100)	5,333	5,571	(42)
Adjusted EBITDA	12,748	15,664	16,788	16,134	16,334	25,677	26,494	28,345	28,835

	For the Quarter Ended							
(USD in thousands)	**30-Sep-15**	**31-Dec-15**	**31-Mar-16**	**30-Jun-16**	**30-Sep-16**	**31-Dec-16**	**31-Mar 17**	**30-Jun 17**
Net income	8,802	17,567	10,663	11,578	19,357	19,505	11,429	16,915
Interest income	-	(5)	(2)	-	(6)	(15)	(36)	(44)
Interest expense	4,322	4,731	5,029	5,055	5,129	5,654	6,215	7,252
Depreciation	12,420	13,464	13,892	13,913	13,920	14,505	15,753	17,372
Goodwill impairment charge	-	-	-	-	-	-	-	-
Income tax (benefit) expense	-	(65)	3	3	3	(24)	3	3
EBITDA	25,543	35,692	29,585	30,549	38,402	39,625	33,364	41,498
Other financial items	6,624	(1,849)	3,486	3,592	(3,311)	(3,530)	(123)	1,988
Adjusted EBITDA	32,167	33,843	33,071	34,141	35,092	36,095	33,241	43,486

Non-GAAP Financial Measures

Distributable Cash Flow

Distributable cash flow represents net income adjusted for depreciation and amortization, unrealized gains and losses from derivatives, unrealized foreign exchange gains and losses, distributions on the Series A Preferred Units, goodwill impairment charge 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 our capital assets. Distributable cash flow is a quantitative standard used by investors in publicly-traded partnerships to assist in evaluating a partnership's ability to make quarterly cash distributions. 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 is set forth in the tables below:

	For the Quarter Ended								
(USD in thousands)	**16 April-13 to 30 June-13**	**30-Sep-13**	**31-Dec-13**	**31-Mar-14**	**30-Jun-14**	**30-Sep-14**	**31-Dec-14**	**31-Mar-15**	**30-Jun-15**
Net income	3,971	6,357	7,902	6,424	2,497	12,563	5,908	7,186	6,887
Add:									
Depreciation	5,340	6,304	6,785	6,780	6,782	10,201	10,559	11,400	11,560
Goodwill impairment charge	-	-	-	-	-	-	-	-	6,217
Other non cash items; deferred cost amortization debt	870	338	287	279	1,416	308	1,018	284	287
Unrealized loss from interest rate derivatives and forward exchange currency contracts	434	252		-	1,642	-	4,213	4,597	-
IPO expenses covered by Predecessor	60	-	-	-	-	-	-	-	-
Less:									
Estimated maintenance and replacement capital expenditures(including drydocking reserve)	(2,980)	(3,477)	(3,738)	(3,738)	(3,738)	(5,659)	(5,747)	(6,175)	(6,264)
Distribution to Convertible Preferred Units	-	-	-	-	-	-	-	-	-
Other non cash items; Accrued income	-	-	-	-	-	-	-	-	-
Other non cash items; Deferred revenue	(477)	(486)	(486)	(486)	(486)	(858)	(858)	(858)	(858)
Unrealized gain from interest rate derivatives and forward exchange currency contracts	-	-	(994)	(99)	-	(1,846)	-	(6,175)	(6,264)
Distributable cash flow	**7,218**	**9,288**	**9,756**	**9,160**	**8,113**	**14,709**	**15,093**	**16,434**	**16,243**

Non-GAAP Financial Measures

. The reconciliation of Distributable Cash flow is set forth in the table below:

	For the Quarter Ended							
(USD in thousands)	**30-Sep-15**	**31-Dec-15**	**31-Mar-16**	**30-Jun-16**	**30-Sep-16**	**31-Dec-16**	**31-Mar-17**	**30-Jun 17**
Net income	8,802	17,567	10,663	11,578	19,357	19,505	11,429	16,915
Add:								
Depreciation	12,420	13,464	13,892	13,913	13,920	14,505	15,753	17,372
Goodwill impairment charge	-	-	-	-	-	-	-	-
Other non cash items; deferred cost amortization debt	289	289	287	287	310	315	348	407
Unrealized loss from interest rate derivatives and forward exchange currency contracts	4,032	-	4,348	1,608	-	2,911	-	1,334
IPO expenses covered by Predecessor	-	-	-	-	-	-	-	-
Less:								
Estimated maintenance and replacement capital expenditures(including drydocking reserve)	(6,749)	(7,516)	(7,895)	(7,894)	(7,894)	(8,100)	(9,120)	(9,990)
Distribution to Convertible Preferred Units	-	-	-	-	-	-	(645)	(1,009)
Other non cash items; Accrued income	-	-	(461)	(245)	(216)	(232)	(149)	(151)
Other non cash items; Deferred revenue	(858)	(858)	(858)	(787)	(751)	(751)	(726)	(650)
Unrealized gain from interest rate derivatives and forward exchange currency contracts	(1,789)	(4,864)	(2,089)	-	(4,438)	(7,375)	(1,258)	(833)
Distributable cash flow	**16,147**	**18,082**	**17,888**	**18,460**	**20,288**	**20,778**	**15,632**	**23,395**

Reconciliation of estimated net income and estimated EBITDA for KNOT 26

For KNOT 26, the entity that the Partnership intends to purchase in the pending acquisition, estimated net income and estimated EBITDA for the twelve months following the closing of the acquisition are based on the following assumptions:

- timely receipt of charter hire specified in the time charter contract;
- utilization of the *Lena Knutsen* of 363 days during such 12-months period and no drydocking of the vessel;
- no realized or unrealized gains or losses on derivative instruments related to KNOT 26'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 26 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 for the twelve months following the closing of the acquisition, estimated EBITDA to estimated net income, the most directly comparable GAAP measure:

Unaudited, USD in thousands	KNOT 26
Net income	**7,000**
Interest expense	3,000
Depreciation	5,800
Income tax expense	—
EBITDA	**15,800**