KNOT
Offshore Partners LP

First Quarter 2014 Results

May 14, 2014

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Highligts & Recent Events

- For the first quarter of 2014, KNOT Offshore Partners L.P. (the "Partnership"):
  - Generated net income of $6.4 million and operating income of $9.4 million
  - Generated Adjusted EBITDA[1] of $16.1 million and
  - Generated distributable cash flow[2] of $8.9 million
- On May 15, 2014, the Partnership expects to pay a quarterly distribution of $0.435 per unit with respect to the period ended March 31, 2013. This corresponds to a distribution of $1.74 per unit on an annual basis.
- BG Group will not exercise its option to extend the Windsor timecharter. The process of reemploying the vessel is ongoing and if reemployment is made at a lower rate than the BG time charter, Knutsen NYK Offshore Tankers AS («KNOT») will pay the difference to the Partnership.
- The Partnership has a significant potential for future growth; initially from the four defined dropdown vessels. KNOT has also advised that they intend to offer two of the medium size shuttle tankers that they are in the process of acquiring from Lauritzen to the Partnership.

(1) Adjusted EBITDA is a non-GAAP financial measure used by investors to measure the performance of master limited partnerships. Please see Page 7 for a reconciliation to the most directly comparable GAAP financial measure.

(2) Distributable cash flow is a non-GAAP financial measure used by investors to measure the performance of master limited partnerships. Please see Page 6 for a reconciliation to the most directly comparable GAAP financial measure.

Summary unaudited condensed consolidated and combined carve-out statement of operations

- Vessel operation in line with forecast
  - 99.0% uptime (2.7 days offhire)

(USD in thousands)	Three months Ended March 31, 2014 (unaudited)	Three months Ended March 31, 2013 (unaudited)	Three months Ended December 31, 2013 (unaudited)	Year Ended December 31, 2013 (Audited)
Time charter and bareboat revenues 1)	21,766	13,212	22,216	73,151
Loss of hire insurance recoveries	-	250	-	250
Other income	8	-		
Total revenues	**21,774**	**13,462**	**22,216**	**73,401**
Vessel operating expenses	4,597	2,780	4,427	14,288
Depreciation and amortization	6,780	5,340	6,785	23,768
General and administrative expenses	1,043	2,130	1,001	5,361
Total operating expenses	**12,420**	**10,250**	**12,213**	**43,417**
Operating income	**9,354**	**3,212**	**10,003**	**29,984**
Finance income (expense):				
Interest income	1	6	5	30
Interest expense	(2,713)	(2,760)	(2,832)	(10,773)
Other finance expense	(221)	(1,156)	(250)	(2,048)
Realized and unrealized gain on derivative instruments	46	347	845	505
Net gain (loss) on foreign currency transactions	(24)	127	20	193
Total finance expense	**(2,911)**	**(3,436)**	**(2,212)**	**(12,093)**
Income (loss) before income taxes	**6,443**	**(224)**	**7,791**	**17,891**
Income tax benefit (expense)	(19)	(2,942)	111	(2,827)
Net income (loss) attributable to KNOT Offshore Partners LP Owners	**6,424**	**(3,166)**	**7,902**	**15,064**
Weighted average units outstanding (in thousands):				
Common units	8,567,500	-	8,567,500	
Subordinated units	8,567,500	-	8,567,500	
General Partner units	349,694	-	349,694	

1) Time charter revenue for the first quarter of 2014 and for the fourth quarter of 2013 includes a non-cash item of approximately $0.5 million in reversal of contract liability provision

Summary Unaudited Condensed Consolidated and combined carve-out Balance sheet

- Total unrestricted cash of $25.3 million
- Interest bearing debt at $342.8 million
- Average credit margin on the interest bearing debt in the first quarter was 2.7%
- As of March 31st, $250 million of the Libor interest rate risk is secured through interest swaps
  - Average term is 4.1 years to May 2018 at an average rate of 1.36%
- In compliance with all debt covenants

(USD in thousands)	At March 31, 2014 (unaudited)	At December 31, 2013 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	25,338	28,836
Restricted cash	1,456	458
Derivative assets	-	248
Other current assets	3,012	2,469
Long-term assets:		
Vessels and equipment	610,926	617,785
Goodwill	5,750	5,750
Deferred debt issuance cost	1,731	2,010
Derivative assets	3,641	2,617
Total assets	**651,854**	**660,173**
LIABILITIES AND PARTNERS' EQUITY/OWNER'S CAPITAL		
Current liabilities:		
Current installments of long-term debt	29,494	29,269
Derivative liabilities	2,800	2,124
Contract liabilities	1,518	1,518
Income taxes payable	771	743
Amount due to related parties	93	163
Other current liabilities	8,054	8,220
Long-term liabilities:		
Long-term debt, excluding current installments	302,737	310,359
Long-term debt from related parties	10,612	10,349
Derivative liabilities	-	-
Contract liabilities	12,414	12,793
Deferred tax liabilities	2,166	2,141
Other long-term liabilities	460	567
Total liabilities	**371,119**	**378,246**
Owner's equity	-	-
Partner's capital Common unitholders	168,189	168,773
Subordinated unitholder	107,273	107,857
General Partner interest	5,273	5,297
Total Partner's capital	**280,735**	**281,927**
Total liabilities and equity	**651,854**	**660,173**

Distributable cashflow

(USD in thousands)	Three months Ended March 31, 2014 (unaudited)
Net income	**6,424**
Add:	
Depreciation and amortization	6,780
Other non-cash items; deferred costs amortization debt	279
Less:	
Estimated maintenance and replacement capital expenditures (including drydocking reserve)	(3,738)
Deferred revenue	(486)
Unrealized gain from interest rate derivatives and forward exchange currency contracts	(99)
Distributable cash flow	**9,160**

Distributable Cash Flow ("DCF")

Distributable cash flow represents net income adjusted for depreciation and amortization, unrealized gains and losses from derivatives, unrealized foreign exchange gains and losses, 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 table below reconciles distributable cash flow to net income, the most directly comparable GAAP measure.

Adjusted EBITDA

(USD in thousands)	Three months Ended March 31, 2014 (unaudited)
Net income	**6,424**
Interest income	(1)
Interest expenses	2,713
Depreciation and amortization	6,780
Income tax (benefits) expense	19
EBITDA	**15,935**
Other financial items [1]	199
Adjusted EBITDA	**16,134**

[1] Other financial items consist of other finance expense, realized and unrealized loss on derivative instruments and net loss on foreign currency transactions

- 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 table below reconciles Adjusted EBITDA to net income, the most directly comparable GAAP measure.

Knutsen NYK Offshore Tankers acquiring the Lauritzen shuttle tankers

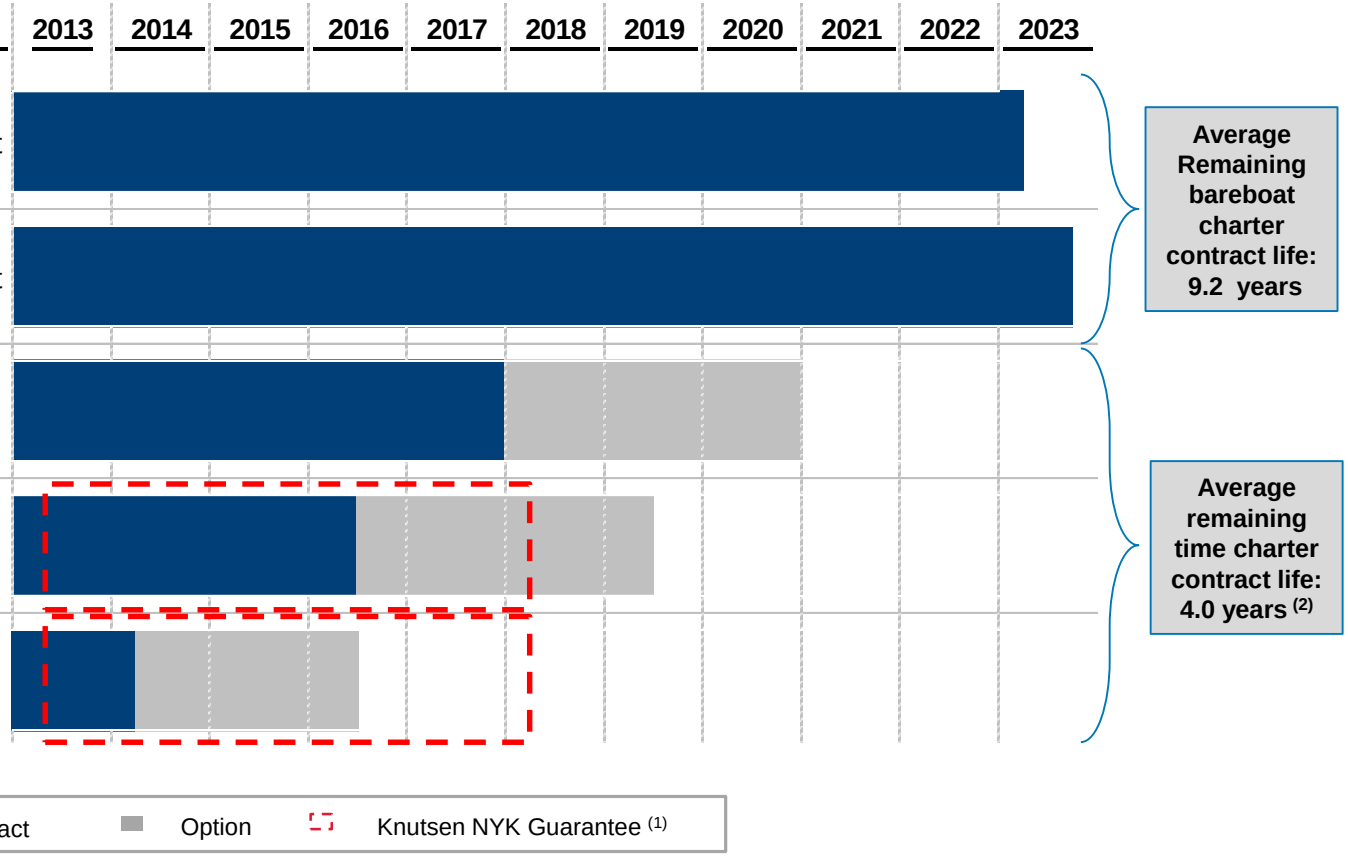
J. Lauritzen shuttle tankers

Vessel	Size (dwt)	Built	Employment
Dan Cisne	59 335 dwt	Cosco, China Sept. 2011	Bareboat Transpetro Q3 2023
Dan Sabia	59 317 dwt	Cosco, China Jan. 2012	Bareboat Transpetro Q1. 2024
Dan Eagle	45 000 dwt	Hyundai 1999, Remontova 2008	Timecharter Transpetro Q3. 2014.

- All the vessels are currently trading in Brazil
- The Knutsen NYK Offshore Tankers purchase is dependent on charterers approval
- Upon consummation of the acquisition we assume that Dan Cisne and Dan Sabia will be offered to the Partnership under the terms of the Omnibus agreement.
- There can be no assurance that KNOT's acquisition of these vessels will be consummated or that the Partnership will acquire such vessels from KNOT

Long-term Contracts Backed by Leading Energy Companies

Name	Capacity (DWT)	Charterer	Type
Fortaleza Knutsen	106 316	TRANSPETRO	Bareboat
Recife Knutsen	105 928	TRANSPETRO	Bareboat
Carmen Knutsen	157 000	REPSOL	Time Charter
Bodil Knutsen	157 644	Statoil	Time Charter
Windsor Knutsen	162 362	BG GROUP	Time Charter

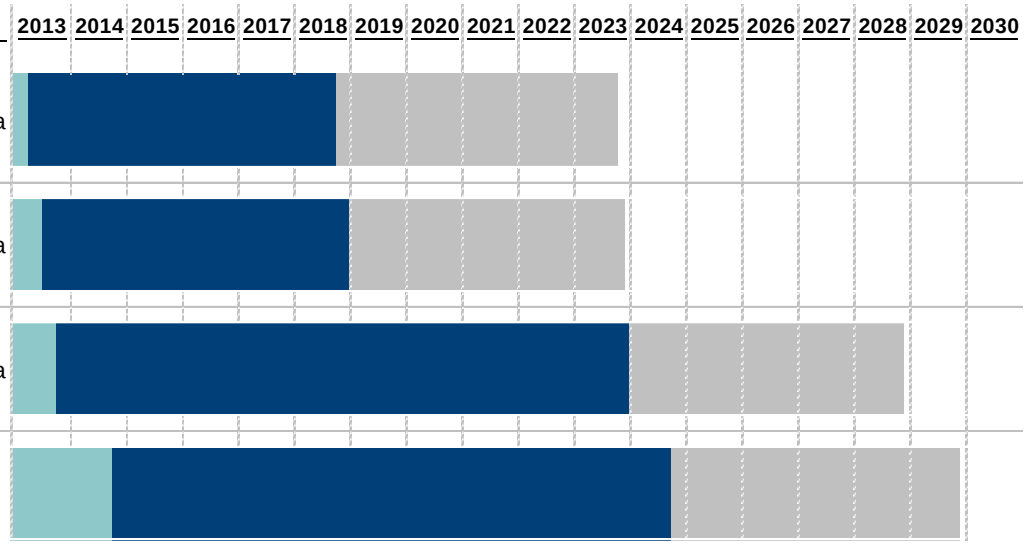


KNOP fleet has average remaining contract duration of 6.1 years (2)

Note: Remaining contract life is calculated as of 03/31/2014.
(1) Guarantee duration of five years from IPO date.
(2) Including Knutsen NYK Guarantee and excluding the option periods.

Dropdown Fleet Overview

Name	Capacity (DWT)	Charterer	Delivery	Type	Charter Expiration	Area[1]
Hull 2531	123 000	eni	Q3 2013	Time Charter	aug.18	North Sea
Hull 2532	123 000	eni	Q3 2013	Time Charter	okt.18	North Sea
Hull 2575	112 000	ExxonMobil	Q4 2013	Time Charter	nov.23	North Sea
Hull 574	152 000	REPSOL	2014	Time Charter	sep.24	Brazil



Contract periods for Dropdown fleet:
- 7.2 years excluding options
- 12.2 years including options

Fixed Contract | Option | **Yard**

All newbuilds obligated to be offered to KNOT Partners within 24 months of delivery

(1) Expected area of operation.

Summary

- Q1 operation as forecasted
- Solid contract base
  - Fixed revenue backlog average 6.1 years
- Partially secured interest rate risk on the floating debt by swapping USD 250m on average 4.1 years at 1.36%.
- Knutsen NYK Offshore Tankers has entered into a contract to purchase three shuttle tankers from J. Lauritzen whereof two will be offered to the Partnership
- BG Group did not exercise option to extend the timecharter on Windsor Knutsen. The process of reemploying the vessel is ongoing and if reemployment is made at a lower rate than the BG time charter, KNOT will pay the difference to the Partnership.
- Industry dynamics create significant growth opportunities for the coming years. We expect tenders for new shuttle tankers being concluded in the near future.

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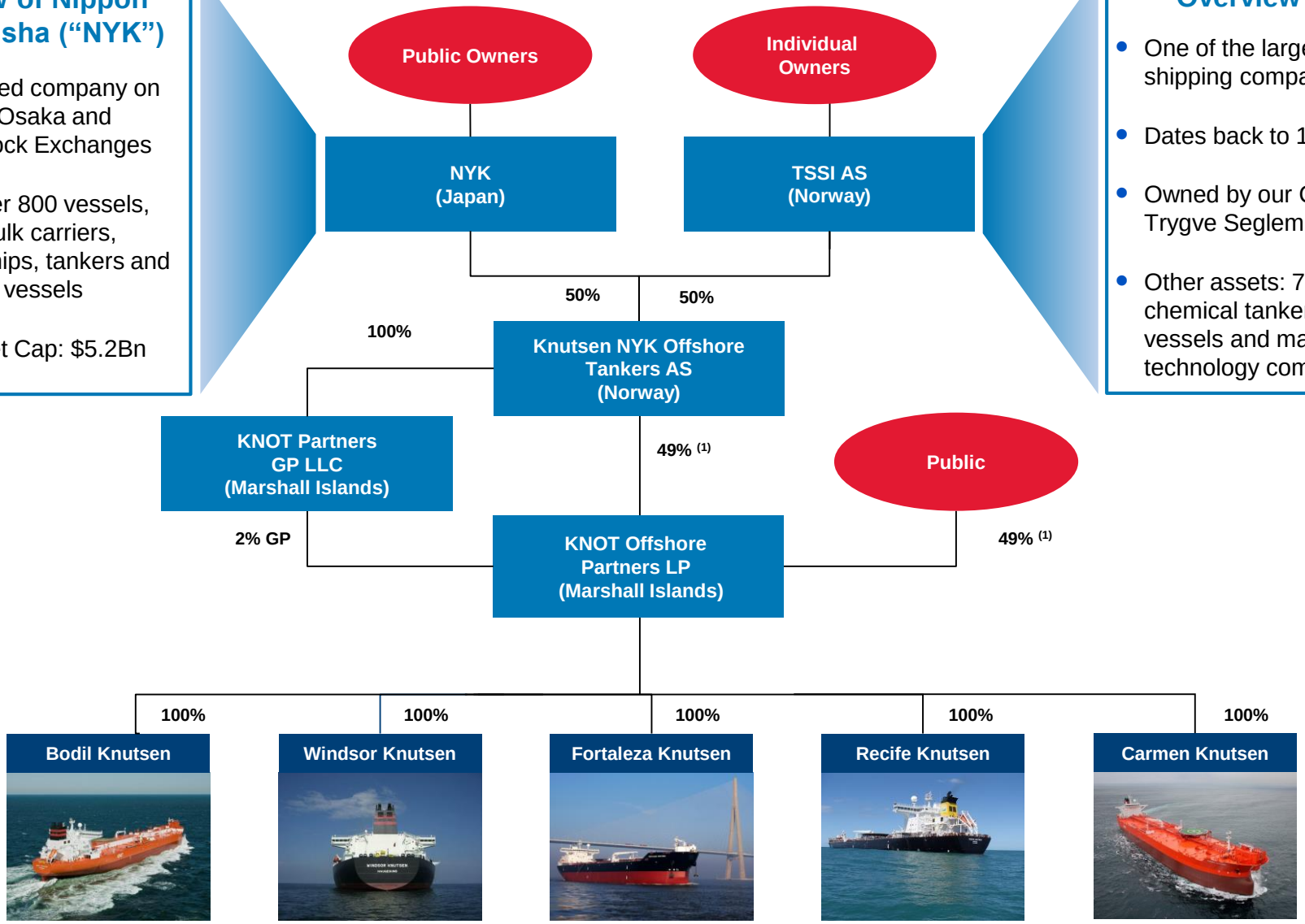
Thank you, any questions ?

Appendix 1:
Overview of Sponsors and Partnership Structure

Overview of Nippon Yusen Kaisha ("NYK")

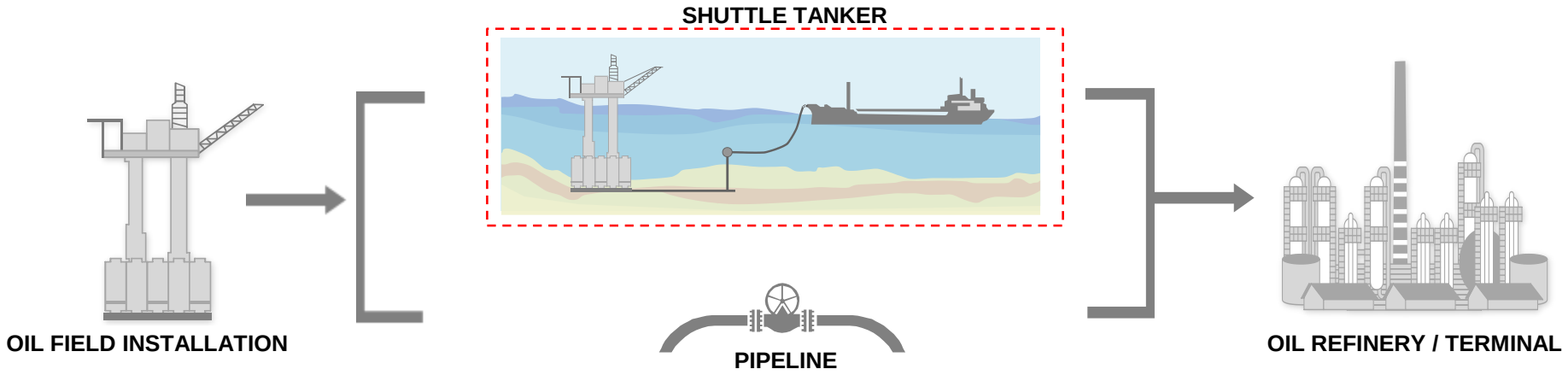
- Publicly listed company on the Tokyo, Osaka and Nagoya Stock Exchanges
- Fleet of over 800 vessels, including bulk carriers, containerships, tankers and specialized vessels
- NYK Market Cap: $5.2Bn



Overview of TSSI

- One of the largest private shipping companies in Norway
- Dates back to 1984
- Owned by our Chairman, Trygve Seglem, and his family
- Other assets: 7 product / chemical tankers, 9 LNG vessels and maritime technology companies

Appendix 2:
Shuttle Tankers: A Critical Component of Offshore Oil Infrastructure



Advantages vs. Pipelines

- Superior, more economical alternative with lower initial investment in certain fields based on:
  - Water depth
  - Distance from infrastructure
  - Field size
  - Field life
- Destination flexibility

Key Differences vs. Conventional Tankers

- Specially designed tankers with sophisticated bow loading and submerged turret loading equipment
  - Dynamic Positioning (DP) systems allow the vessel to stay on location in high seas and in harsh environments
  - 50% higher investment cost than conventional tankers
- Tender-based business drives newbuilds (versus speculative ordering)
- Longer-term contracts
- Stricter standards and specialized crewing