





KNOT
Offshore Partners LP

Fourth Quarter 2016 Results

New York City, February 15, 2017





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Nevertheless, 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 expressly disclaims any intention or obligation to revise or publicly update any forward-looking statements whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this cautionary notice to recipients.

Q4 2016 Financial Highlights & recent events

- Highest quarterly revenues, EBITDA(1), net income, and distributable cash flow(1)
- Distribution coverage ratio(2) of 1.27x, or 1.38x prior to post-quarter end equity offering
- Declared cash distribution of $0.52 per unit for Q4 2016
- Strong operational performance with 99.8% utilization
- Completed the acquisition of Raquel Knutsen which is on 10 years charter to Repsol
- On January 10, 2017, the Partnership successfully completed an equity offering, raising total net proceeds of $54.9 million
- On February 2, 2017, the Partnership issued and sold in a private placement $50 million of Series A Convertible Preferred Units at a price of $24.00 per unit.
- The Partnership entered into a share purchase agreement with Knutsen NYK to acquire the company that owns the *Tordis 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	4Q 2016	3Q 2016	4Q 2015	FY 2016	FY 2015
Time charter and bareboat revenues	44,798	43,390	42,417	172,878	154,750
Other income	197	197	120	793	274
Total revenues	**44,995**	**43,587**	**42,537**	**173,671**	**155,024**
Vessel operating expenses	7,693	7,588	7,636	30,903	27,543
Depreciation	14,505	13,920	13,464	56,230	48,844
General and administrative expenses	1,207	908	1,058	4,371	4,290
Goodwill impairment charge	—	—	—	—	6,217
Total operating expenses	**23,405**	**22,416**	**22,158**	**91,504**	**86,894**
Operating income	**21,590**	**21,171**	**20,379**	**82,167**	**68,130**
Interest income	15	6	5	24	8
Interest expense	(5,654)	(5,129)	(4,731)	(20,867)	(17,451)
Realized and unrealized gain (loss) on derivative instruments	3,960	3,613	2,145	1,213	(9,695)
Other financial items[1]	(430)	(328)	(296)	(1,450)	(609)
Income before income taxes	**19,481**	**19,360**	**17,502**	**61,087**	**40,383**
Income tax benefit (expense)	24	(3)	65	15	59
Net income	**19,505**	**19,357**	**17,567**	**61,102**	**40,442**

Net income 2016 increased by 51% compare to last year

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

Adjusted EBITDA

Unaudited, USD in thousands	4Q 2016	3Q 2016	4Q 2015	FY 2016	FY 2015
Net income	**19,505**	**19,357**	**17,567**	**61,102**	**40,443**
Interest income	(15)	(6)	(5)	(24)	(8)
Interest expense	5,654	5,129	4,731	20,864	17,451
Depreciation	14,505	13,920	13,464	56,230	48,844
Goodwill impairment charge	—	—	—	—	6,217
Income tax (benefits) expense	(24)	3	(65)	(15)	(59)
EBITDA[1]	39,625	38,403	35,692	138,157	112,888
Other financial items[2]	(3,530)	(3,311)	(1,849)	237	10,304
Adjusted EBITDA[1]	**36,095**	**35,092**	**33,843**	**138,394**	**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	4Q 2016	3Q 2016	4Q 2015	FY 2016	FY 2015
Net income	**19,505**	**19,357**	**17,567**	**61,102**	**40,442**
Add:					
Depreciation	14,505	13,920	13,464	56,230	48,844
Goodwill impairment charge	—	—	—	—	6,217
Other non-cash items; deferred costs amortization debt	315	310	289	1,198	1,149
Unrealized losses from interest rate derivatives and forward exchange currency contracts	2,911	—	—	8,867	8,629
Less:					
Estimated maintenance and replacement capital expenditures (including drydocking reserve)	(8,100)	(7,894)	(7,516)	(31,786)	(26,704)
Other non-cash items; deferred revenue and accrued income	(983)	(967)	(858)	(4,300)	(3,432)
Unrealized gains from interest rate derivatives and forward exchange currency contracts	(7,375)	(4,438)	(4,864)	(13,900)	(8,239)
Distributable cash flow(1)	**20,778**	**20,288**	**18,082**	**77,412**	**66,907**
Total distributions	**16,379**	**15,027**	**15,012**	**61,528**	**56,922**
Distribution coverage ratio(2)	**1.27X**	**1.35X**	**1.20X**	**1.26X**	**1.18X**

(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.

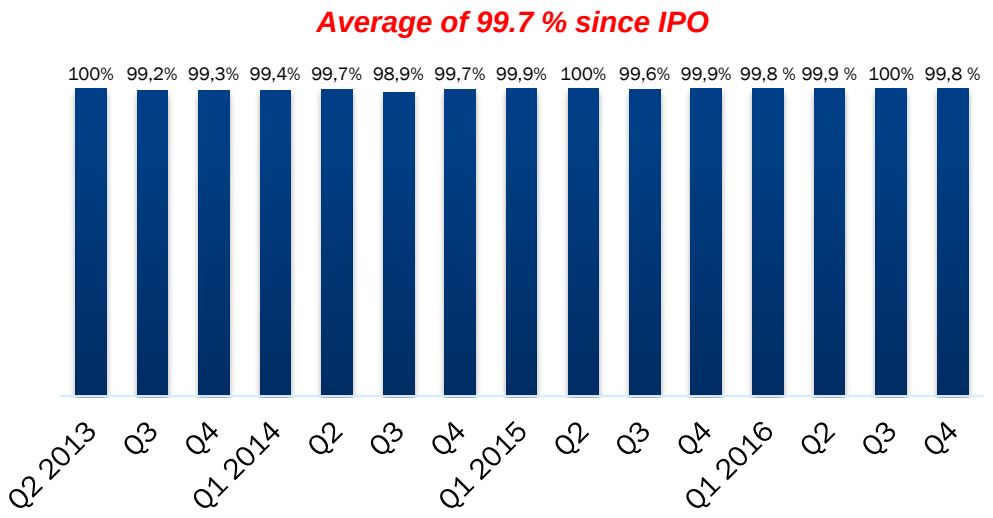
(2) Distribution coverage ratio is equal to distributable cash flow divided by distributions declared for the period presented.

Balance sheet

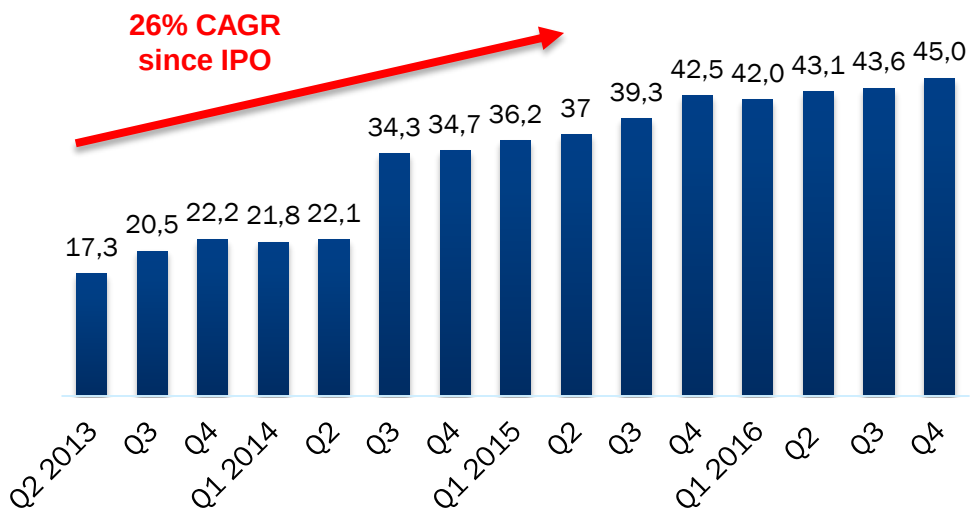
Unaudited, USD in thousands	At December 31, 2016	At December 31, 2015		At December 31, 2016	At December 31, 2015
Current assets:			**Current liabilities**		
Cash and cash equivalents	27,664	23,573	Current portion of long-term debt	58,984	48,535
Inventories	1,176	849	Derivative liabilities	3,304	5,138
Other current assets	2,239	1,858	Contract liabilities	1,518	15,18
			Other current liabilities	13,561	10,345
Total current assets	**31,079**	**26,280**	**Total current liabilities**	**77,637**	**65,536**
			Long-term liabilities:		
			Long-term debt	657,662	619,187
			Long-term debt related parties	25,000	—
			Derivative liabilities	285	1,232
			Contract liabilities	8,239	9,757
Long-term assets:			Deferred tax liabilities	685	877
Net vessels and equipment	1,256,889	1,192,927	Other long-term liabilities	1,056	2,543
Derivative assets	3,154	695	**Total liabilities**	**770,564**	**699,132**
Accrued income	1,153	—			
Total long-term assets	**1,261,196**	**1,193,622**	**Total partners' equity**	**521,712**	**520,770**
Total assets	**1,292,275**	**1,219,902**	**Total equity and liabilities**	**1,292,275**	**1,219,902**

Stable operational performance results in stable financial performane

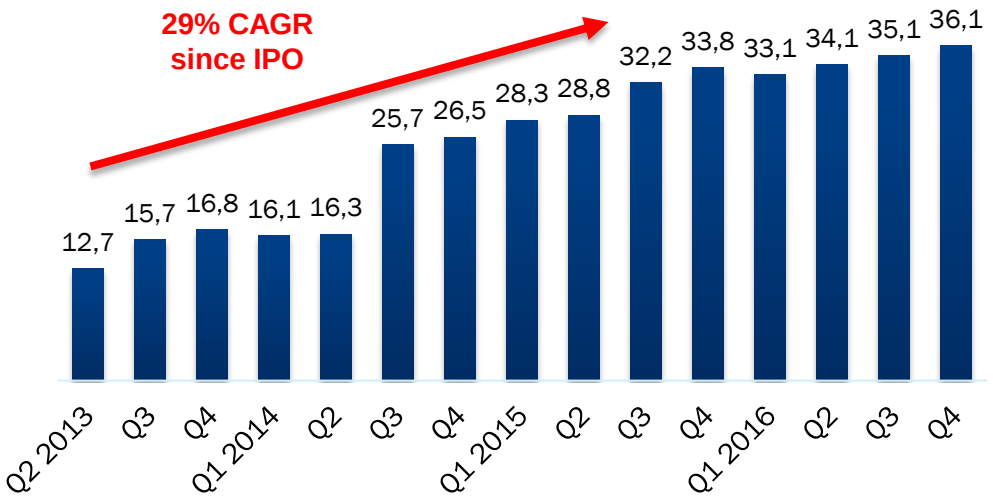
FLEET UTILIZATION (%)



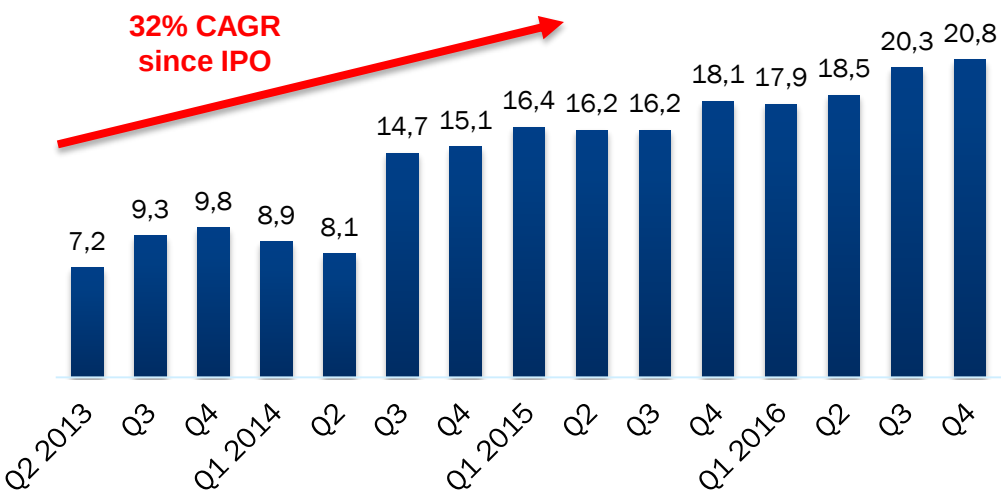
REVENUE (USD million)



ADJUSTED EBITDA(1) (USD million)

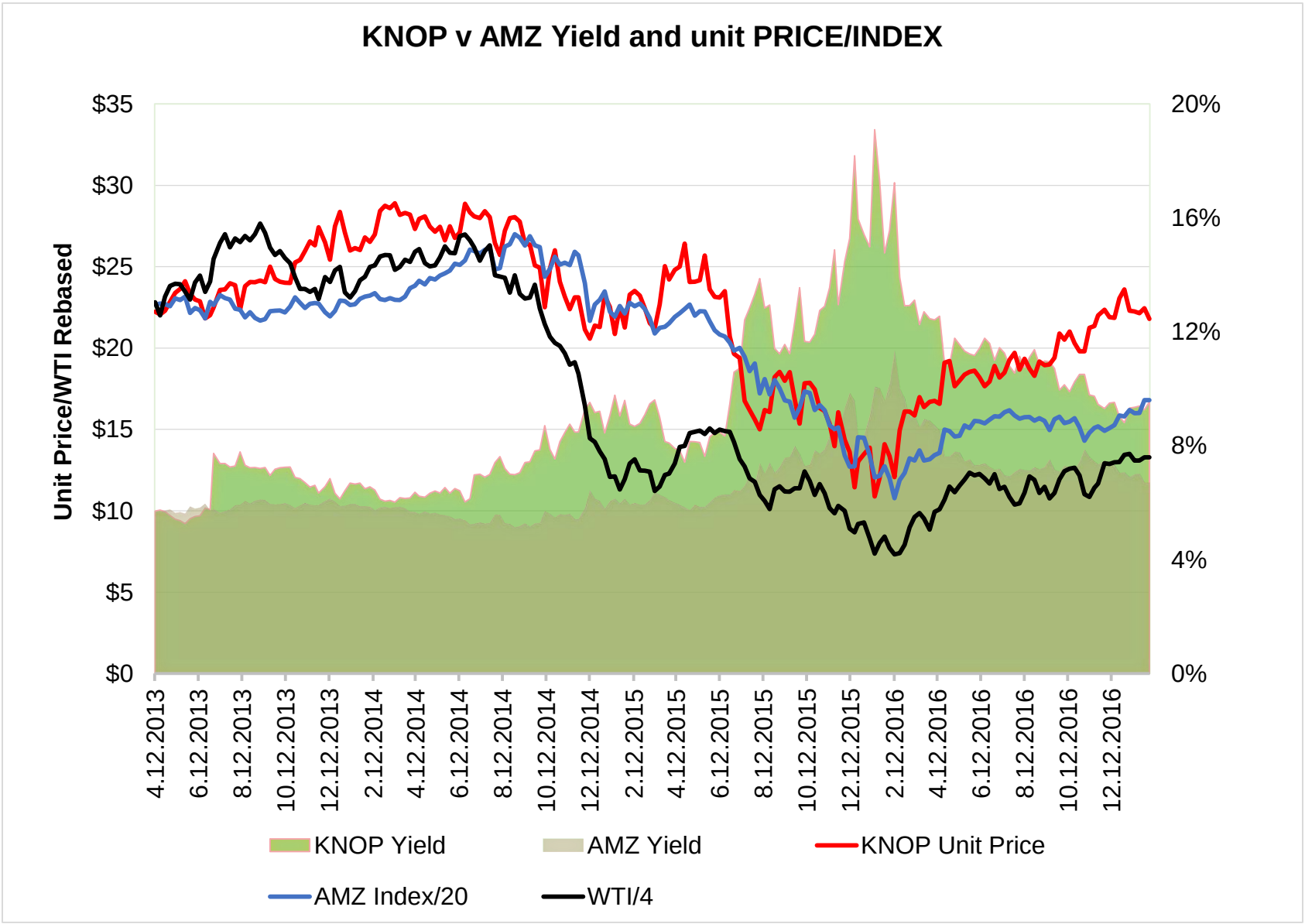


DCF(1) (USD million)

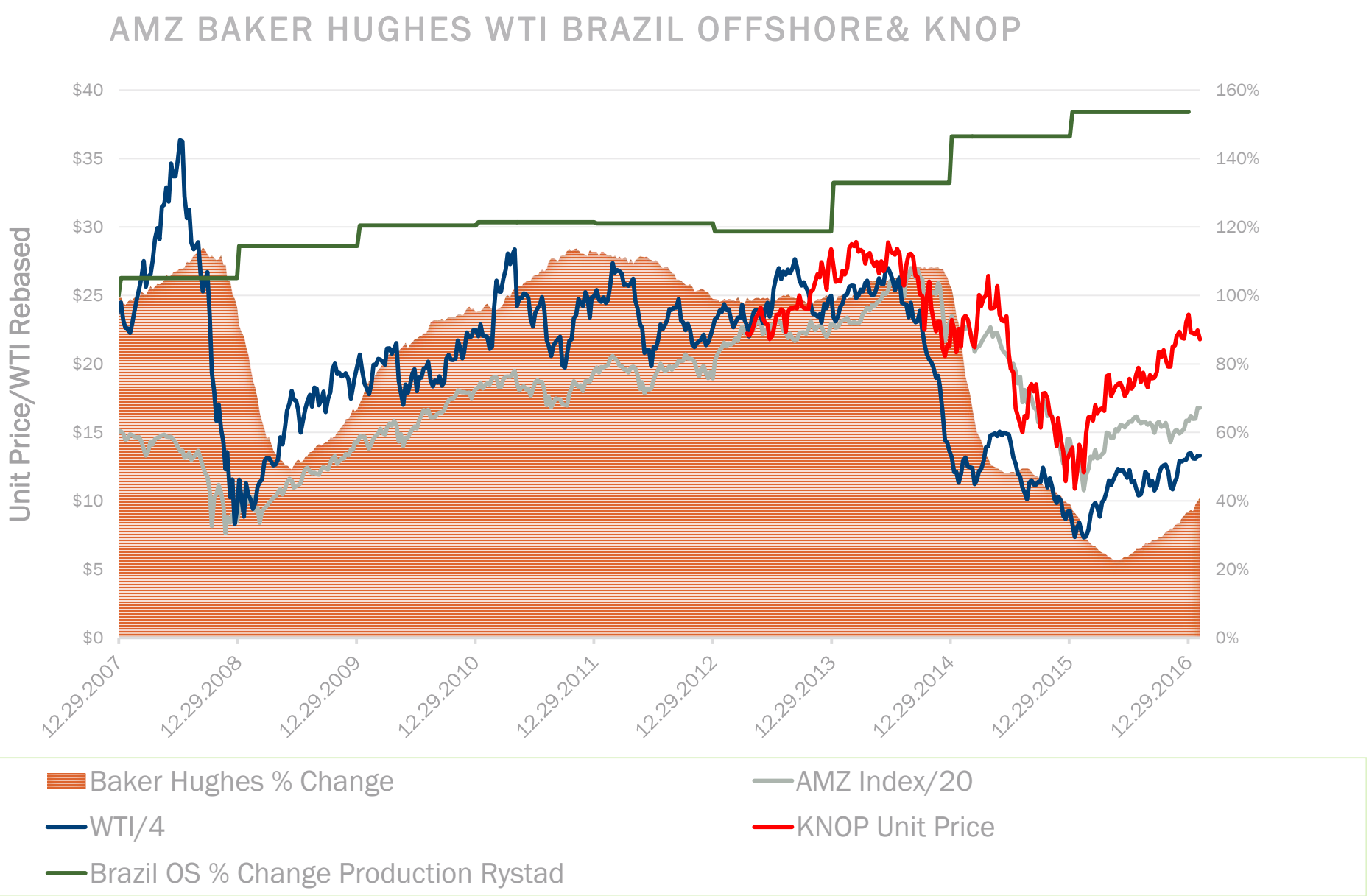


(1) Adjusted EBITDA and distributable cash flow are non-GAAP financial measures used by management and external users of our financial statements. Please see Appendix A for definitions of Adjusted EBITDA and distributable cash flow and a reference to reconciliation to net income, the most directly comparable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

Unit price and yield performance in MLP space



KNOP Growth Correlated to Brazilian Pre-salt Priced Off AMZ Index



Pending - Tordi Knutsen drop-down

Tordis Knutsen



Purchase price[2]	USD 147.0 million
Less debt	USD 94.9 million
Equity	USD 52.1 million[2]

Contract detail

- Charterer: Royal Dutch Shell [1]
- Contract type: TimeCharter
- Contract end date: January 2022
- Option period: two consecutive 5 years extention options
- Trading area: Brazil
- Estimated NTM EBITDA[1]: 16.2 million
- Estimated NTM net income[1]: $7.9

Tordis Knutsen

- Delivered: November 2016
- Enhanced DP 2 Suezmax
- DWT: 158 000
- Builder: Hyundai Heavy Industries

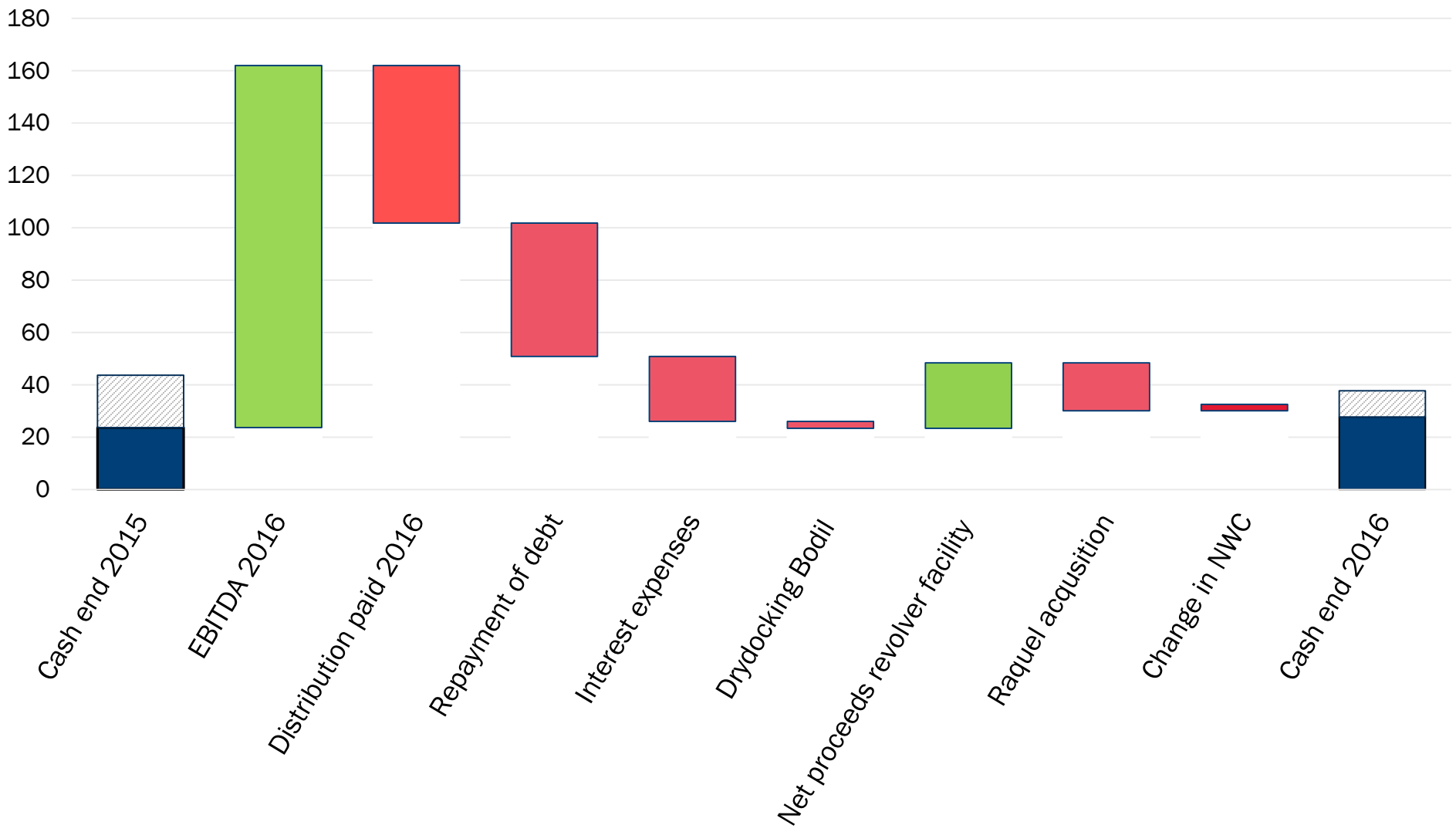
Attractive long-term financing:

- Term Loan Facility due fourth quarter 2021 with 19 years repayment profile and balloon payment of $ 70.5 million
- Margin of 190bps

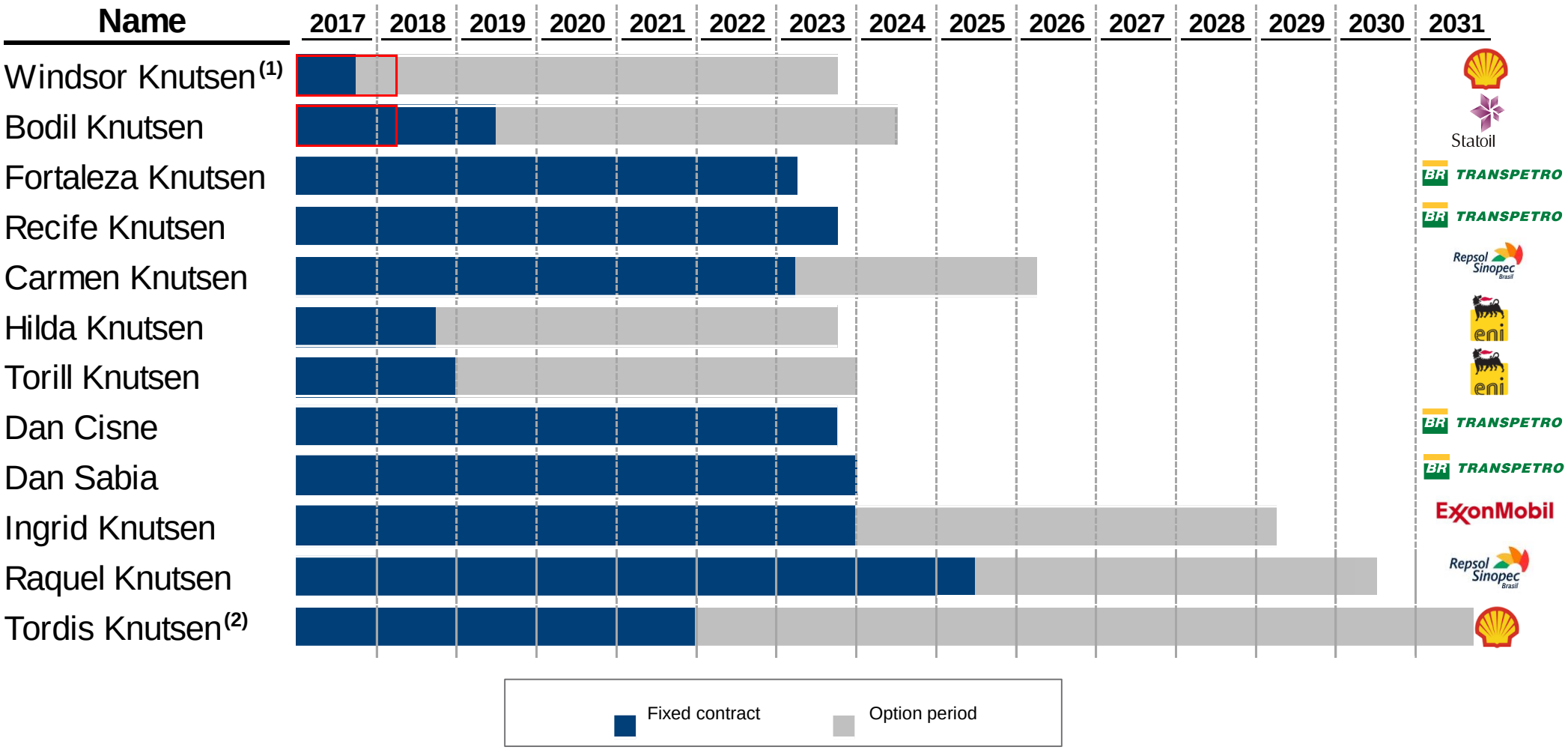
(1) Brazil Shipping I Ltd, a subsidiary of Royal Dutch Shell

(1) 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. .
(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.

Stable and predictable cash development



Long-term Contracts Backed by Leading Energy Companies



KNOP fleet has average remaining fixed contract duration of 5.0(2) years

Additional 3.6 years on average in Charterers option

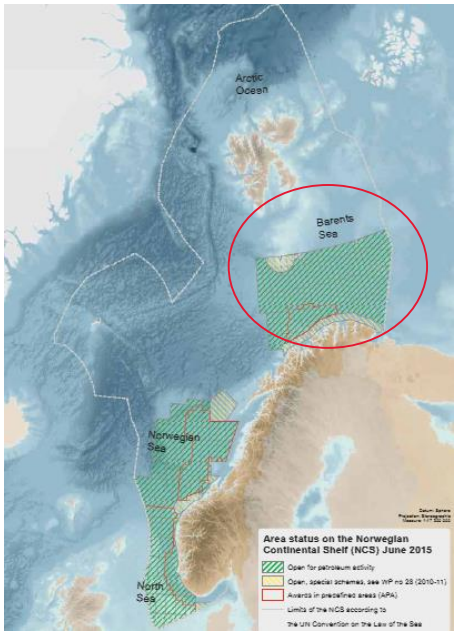
(1) KNOT has guaranteed the hire rate to April 2018 (five years from IPO date)
(2) Purchase Agreement executed; closing anticipated with approximately 30 days after the execution of the Purchase agreement
(3) Remaining contract life is calculated as of 31/12/2016, including the acquisition of Tordis Knutsen

Goliat field – Barents sea

- Goliat started production on March 2016
  - Estimated 178 million recoverable boe
  - Estimated lifetime of the field is 15 years
  - The field will produce 100,000 barrels of oil per day - max storing capacity 1million barrels - one vessel every week

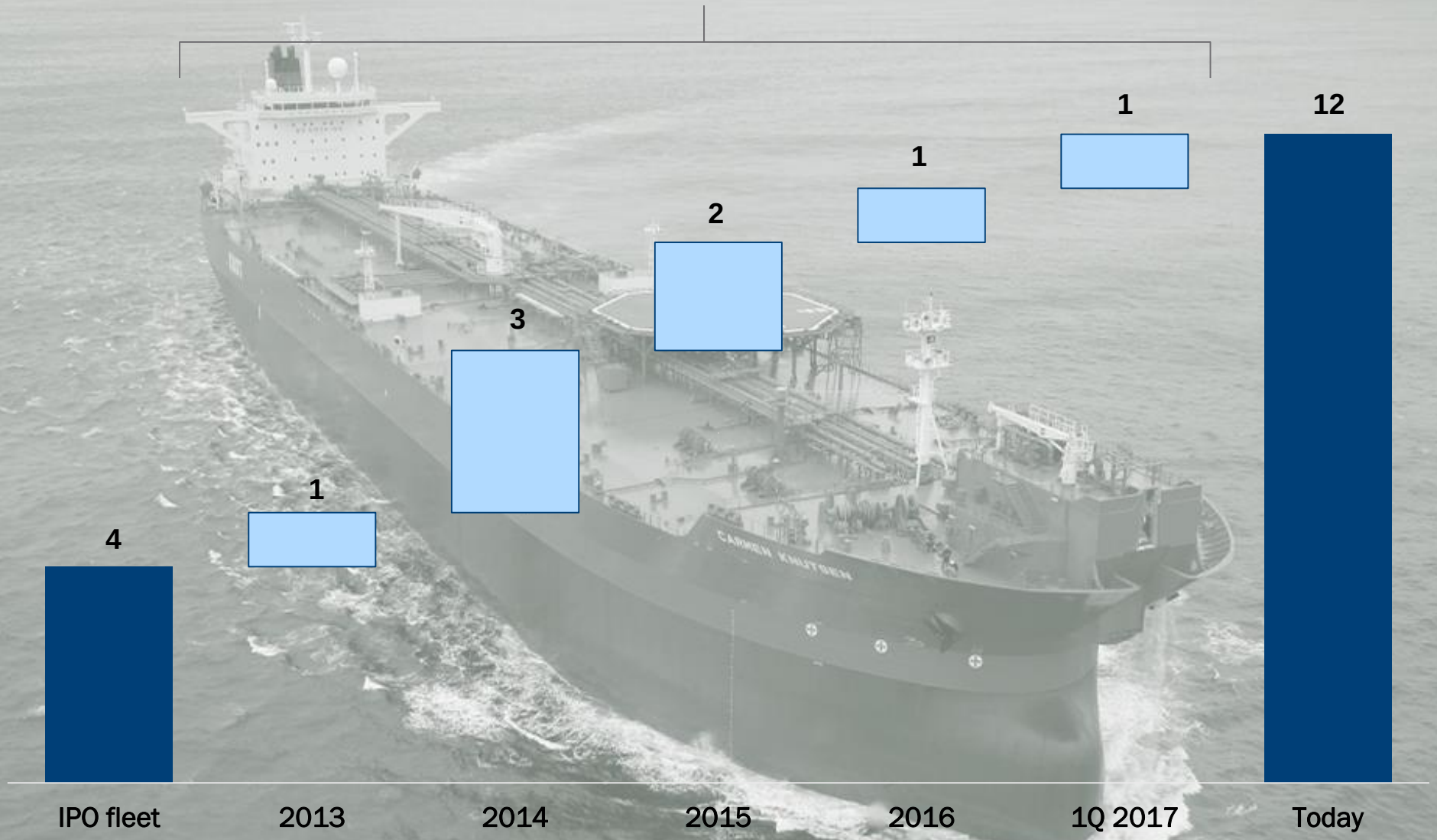


- Hilda Knutsen and Torill Knutsen;
  - are two of three arctic shuttle tankers specially built to operate Goliat field, designed to comply with the stringent operating requirements for the field.
  - Remaining fixed contracts for the sister vessels are 1.6 years and 1.8 years respectively, but the charter has the option to extend contract tenors to 2023

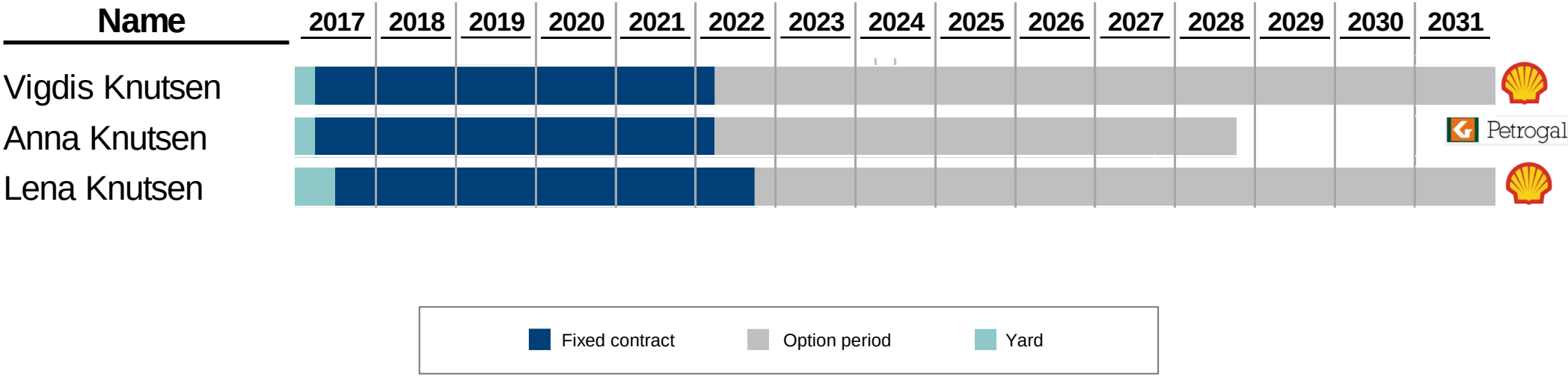


Significant growth fleet since IPO

200% fleet growth since IPO



Dropdown inventory: Three 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 12.0 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 31/12/2016.

Summary



- Another quarter of strong operational and financial performance
  - $45.0 million revenue, 99,8% utilization
  - $36.1 million adjusted EBITDA(1)
  - $19.5 million net income
  - $20.8 million distributed cash flow(1)
- Quarterly distribution of $0.52 per unit
  - 9.7% yield(2)
- Completed acquisition of *Raquel Knutsen*
- Entered into share purchase agreement to acquire *Tordis Knutsen*
- Successful equity offering and private placement of Series A Convertible Preferred units

(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) Quarterly distribution annualized / unit price $21.40 per 13 February, 2017



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.

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.

Reconciliation of estimated net income and estimated EBITDA for KNOT 24

For KNOT 24, the entity that the Partnership intends to pending purchase in the acquisition, estimated net income and estimated EBITDA for the twelve months following the closing of the acquisition 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 Tordis 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 24'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 24 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 24
Net income	**7,848**
Interest expense	2,717
Depreciation	5,600
Income tax expense	—
EBITDA	**16,165**