



KNOT
Offshore Partners LP

Third Quarter 2018 Results

November 27, 2018



Notice to Recipients

This presentation is not a prospectus and is not an offer to sell, nor a solicitation of an offer to buy, securities. This presentation contains certain forward-looking statements concerning future events and KNOP Offshore Partners LP's ("KNOP") operations, performance and financial condition. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words "believe," "anticipate," "expect," "estimate," "project," "will be," "will continue," "will likely result," "plan," "intend" or words or phrases of similar meanings. These statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond KNOP's control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements include statements with respect to, among other things: market trends in the shuttle tanker or general tanker industries, including hire rates, factors affecting supply and demand, and opportunities for the profitable operations of shuttle tankers; the ability of Knutsen NYK Offshore Tankers AS ("Knutsen NYK") and KNOP to build shuttle tankers and the timing of the delivery and acceptance of any such vessels by their respective charterers; forecasts of KNOP ability to make or increase distributions on its common units and to make distributions on its Series A Preferred Units and the amount of any such distributions; KNOP's anticipated growth strategies; the effects of a worldwide or regional economic slowdown; turmoil in the global financial markets; fluctuations in currencies and interest rates; fluctuations in the price of oil; general market conditions, including fluctuations in hire rates and vessel values; changes in KNOP's operating expenses, including drydocking and insurance costs and bunker prices; KNOP's future financial condition or results of operations and future revenues and expenses; the repayment of debt and settling of any interest rate swaps; KNOP's ability to make additional borrowings and to access debt and equity markets; planned capital expenditures and availability of capital resources to fund capital expenditures; KNOP's ability to maintain long-term relationships with major users of shuttle tonnage; KNOP's ability to leverage Knutsen NYK's relationships and reputation in the shipping industry; KNOP's ability to purchase vessels from Knutsen NYK in the future; KNOP's continued ability to enter into long-term charters, which KNOP defines as charters of five years or more; KNOP's ability to maximize the use of its vessels, including the re-deployment or disposition of vessels no longer under long-term charter; the financial condition of KNOP's existing or future customers and their ability to fulfill their charter obligations; timely purchases and deliveries of newbuilds; future purchase prices of newbuilds and secondhand vessels; any impairment of the value of KNOP's vessels; KNOP's ability to compete successfully for future chartering and newbuild opportunities; acceptance of a vessel by its charterer; termination dates and extensions of charters; the expected cost of, and KNOP's ability to, comply with governmental regulations, maritime self-regulatory organization standards, as well as standard regulations imposed by its charterers applicable to KNOP's business; availability of skilled labor, vessel crews and management; KNOP's general and administrative expenses and its fees and expenses payable under the technical management agreements, the management and administration agreements and the administrative services agreement; modifications to the Norwegian Tonnage Tax regime; the anticipated taxation of KNOP and distributions to KNOP's unitholders; estimated future maintenance and replacement capital expenditures; KNOP's ability to retain key employees; customers' increasing emphasis on environmental and safety concerns; potential liability from any pending or future litigation; potential disruption of shipping routes due to accidents, political events, piracy or acts by terrorists; future sales of KNOP's securities in the public market; KNOP's business strategy and other plans and objectives for future operations; and other factors listed from time to time in the reports and other documents that KNOP files with the U.S. Securities and Exchange Commission ("SEC"), including its Annual Report on Form 20-F for the year ended December 31, 2017 and reports on Form 6K.

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.

Q3 2018 Financial Highlights

- Generated total revenue of \$70.7 million, operating income of \$31.7 million and net income of 20.9 million.
- Generated quarterly Adjusted EBITDA⁽¹⁾ of \$54.1 million.
- Generated distribution cash flow⁽¹⁾ of \$26.3 million, with a coverage ratio⁽²⁾ of 1.46x.
- Declared cash distribution of \$0.52 per unit for Q3 2018.
- Fleet operated with 99.9% utilization for scheduled operations and 97.4% utilization taking into account the scheduled drydocking of the *Hilda Knutsen* and *Torill Knutsen* in Q3.
- Closed the \$375 million loan agreement, refinancing of the *Windsor Knutsen*, the *Bodil Knutsen*, the *Fortaleza Knutsen*, the *Recife Knutsen*, the *Carmen Knutsen* and the *Ingrid 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.

Recent events

- Extended the time charter of the *Windsor Knutsen* by one additional year until October 2019.
- Extended the duration of the *Hilda Knutsen* time charter for four years and three one-year options.
- Extended the time charter of the *Torill Knutsen* by one additional year until November 2019.
- Extended the time charter of the *Bodil Knutsen* by one additional year until May 2020.
- Knutsen NYK, the Sponsor was awarded new long term charters with Equinor (formerly named Statoil) for two Suezmax DP2 shuttle tanker newbuildings.

Income Statement

<i>Unaudited, USD in thousands</i>	3Q 2018	2Q 2018	3Q 2017	FY 2017
Time charter and bareboat revenues	70,706	69,221	57,970	212,501
Loss of hire insurance recoveries	—	450	—	5,176
Other income	12	94	247	1,526
Total revenues	70,718	69,765	58,217	219,203
Vessel operating expenses	15,289	13,974	11,828	46,709
Depreciation	22,400	22,332	18,379	71,583
General and administrative expenses	1,307	1,350	1,285	5,555
Total operating expenses	38,996	37,656	31,492	123,847
Operating income	31,722	32,109	26,725	95,356
Interest income	196	161	68	248
Interest expense	(13,472)	(12,526)	(8,040)	(30,714)
Realized and unrealized gain (loss) on derivative instruments	3,000	1,968	2,832	4,831
Other financial items ⁽¹⁾	(506)	(28)	(503)	(1,673)
Income before income taxes	20,940	21,684	21,082	68,048
Income tax benefit (expense)	(9)	(3)	(3)	16
Net income	20,931	21,681	21,079	68,064

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

Adjusted EBITDA

<i>Unaudited, USD in thousands</i>	3Q 2018	2Q 2018	3Q 2017	FY 2017
Net income	20,931	21,681	21,079	68,064
Interest income	(196)	(161)	(68)	(248)
Interest expense	13,472	12,526	8,040	30,714
Depreciation	22,400	22,332	18,379	71,583
Income tax (benefits) expense	9	3	3	(16)
EBITDA ⁽¹⁾	56,616	56,381	47,433	170,097
Other financial items ⁽²⁾	(2,494)	(1,940)	(2,329)	(3,158)
Adjusted EBITDA⁽¹⁾	54,122	54,441	45,104	166,939

(1) EBITDA, 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 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

<i>Unaudited, USD in thousands</i>	3Q 2018	2Q 2018	3Q 2017	FY 2017
Net income	20,931	21,681	21,079	68,064
Add:				
Depreciation	22,400	22,332	18,379	71,583
Other non-cash items; deferred costs amortization debt	1,234	697	469	1,736
Unrealized losses from interest rate derivatives and forward exchange currency contracts	—	—	—	1,334
Less:				
Estimated maintenance and replacement capital expenditures (including drydocking reserve)	(13,250)	(13,250)	(10,560)	(41,120)
Distributions to Serie A Convertible Preferred Units	(1,800)	(1,800)	(1,800)	(5,253)
Other non-cash items; deferred revenue and accrued income	(1,094)	(894)	(746)	(3,116)
Unrealized gains from interest rate derivatives and forward exchange currency contracts	(2,080)	(1,777)	(2,855)	(8,726)
Distributable cash flow⁽¹⁾	26,342	26,989	23,966	84,502
Total distributions	18,034	18,034	16,379	67,171
Distribution coverage ratio⁽²⁾	1.46X	1.50X	1.46X	1.26X

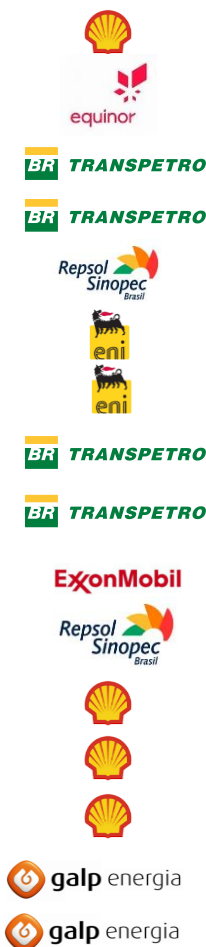
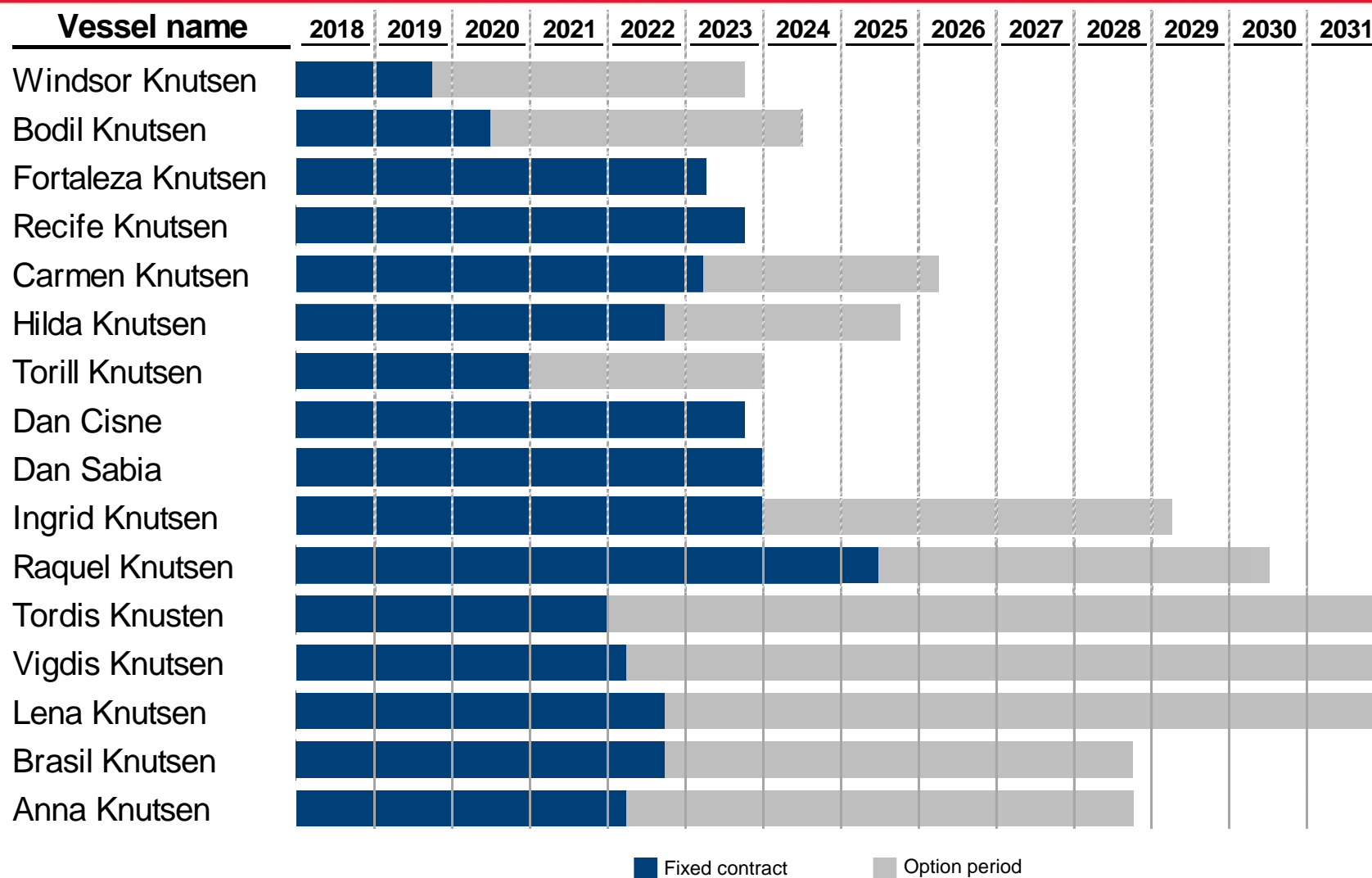
(1) Distributable cash flow is a non-GAAP financial measure used by management and external users of our financial statements. Please see Appendix A for a definition of distributable cash flow and a reference to reconciliation to net income, the most directly comparable GAAP financial measure.

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

Balance sheet

<i>Unaudited, USD in thousands</i>	At September 30, 2018	At December 31, 2017		At September 30, 2018	At December 31, 2017
Current assets:			Current liabilities		
Cash and cash equivalents	56,021	46,104	Current portion of long-term debt	105,679	92,985
Inventories	2,508	2,241	Derivative liabilities	506	978
Derivative assets	4,451	1,579	Contract liabilities	1,518	1,518
Other current assets	4,599	6,181	Other current liabilities	23,724	27,333
Total current assets	67,579	56,105	Total current liabilities	131,427	122,814
Long-term assets:			Long-term liabilities:		
Net vessels and equipment	1,786,506	1,723,023	Long-term debt	1,000,152	933,630
Intangible assets, net	2,043	2,497	Derivative liabilities	—	164
Derivative assets	21,515	9,850	Contract liabilities	5,583	6,722
Accrued income	3,192	1,693	Deferred tax liabilities	631	624
Total long-term assets	1,813,256	1,737,063	Total long-term liabilities	1,006,366	941,140
			Convertible Preferred Units	89,264	89,264
			Total partners' equity	653,778	639,950
Total assets	1,880,835	1,793,168	Total equity and liabilities	1,880,835	1,793,168

Long-term Contracts Backed by Leading Energy Companies



KNOP fleet has average remaining fixed contract duration of 3.9⁽¹⁾ years

Additional 4.4 years on average in Charterers option

(1) Remaining contract life is calculated as of 30/09/2018

Summary



- Another quarter of strong operational and financial performance.
- Closed the \$375 million multi-vessels refinancing.
- Extend contracts on four vessels.
- The sponsor rebuilding the dropdown inventory.
- Future strong outlook for the shuttle tanker business.
- Attractive value proposition with quarterly distribution of \$0.52 per unit currently a 10.4% yield.



Thank you, any questions?

APPENDIX



Non-GAAP Financial Measures

Adjusted EBITDA

Adjusted EBITDA refers to earnings before interest, depreciation, taxes, goodwill impairment charge and other financial items. Adjusted EBITDA is a non-GAAP financial measure used by investors to measure our performance. Adjusted EBITDA is used as a supplemental financial measure by management and external users of financial statements, such as investors, to assess our 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 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 to net income, the most directly comparable GAAP measure, set forth in the tables below:

For the Quarter Ended

(USD in thousands)

	30-Sept-18	30-Jun-18	30-Sept-17	FY2017
Net income	20,931	21,681	21,079	68,063
Interest income	(196)	(161)	(68)	(248)
Interest expense	13,472	12,526	8,040	30,714
Depreciation	22,400	22,332	18,379	71,583
Income tax (benefit) expense	9	3	3	(16)
EBITDA	56,616	56,381	47,433	170,097
Other financial items	(2,494)	(1,940)	(2,329)	(3,158)
Adjusted EBITDA	54,122	54,441	45,104	166,939

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 to net income, the most directly comparable cash measure, set forth in the tables below:

For the Quarter Ended

(USD in thousands)

	30-Sept-18	30-Jun-18	30-Sept-17	FY2017
Net income	20,931	21,681	21,079	68,063
<i>Add:</i>				
Depreciation	22,400	22,332	18,379	71,583
Goodwill impairment charge	-	-	-	-
Other non cash items; deferred cost amortization debt	1,234	697	469	1,736
Unrealized loss from interest rate derivatives and forward exchange currency contracts	-	-	-	1,334
<i>Less:</i>				
Estimated maintenance and replacement capital expenditures(including drydocking reserve)	(13,250)	(13,250)	(10,560)	(41,120)
Distribution to Convertible Preferred Units	(1,800)	(1,800)	(1,800)	(5,253)
Other non cash items; Accrued income	(615)	(295)	(146)	(540)
Other non cash items; Deferred revenue	(478)	(599)	(600)	(2,575)
Unrealized gain from interest rate derivatives and forward exchange currency contracts	(2,080)	(1,777)	(2,855)	(8,726)
Distributable cash flow	26,342	26,989	23,966	84,502