



## Fourth Quarter 2018 Results

March 14, 2019



# 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.

## Q4 2018 Financial Highlights & recent events

- Generated total revenues of \$70.9 million, operating income of \$33.0 million and net income of \$8.8 million.
- Generated quarterly Adjusted EBITDA<sup>(1)</sup> of \$55.4 million.
- Generated distribution cash flow<sup>(1)</sup> of \$27.3 million, with a coverage ratio<sup>(2)</sup> of 1.51x.
- Declared cash distribution of \$0.52 per unit for Q4 2018.
- Fleet operated with 99.7% utilization for scheduled operations and 98.3% utilization taking into account the scheduled drydocking of the *Ingrid Knutsen* in.
- Extended the fixed period for the *Windsor Knutsen* for a minimum of 10 months to maximum of 12 months.
- A New CEO has been appointed, Gary Chapman has many years of experience in shipping. He will bring a fresh new perspective for the Partnership and further strengthen ties with NYK having worked for them for many years in various senior roles.

(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

<i>Unaudited, USD in thousands</i>	<b>4Q 2018</b>	<b>3Q 2018</b>	<b>4Q 2017</b>	<b>FY 2018</b>	<b>FY 2017</b>
Time charter and bareboat revenues	70,878	70,706	59,247	278,191	212,501
Loss of hire insurance recoveries	—	—	1,750	450	5,176
Other income	53	12	592	815	1,526
<b>Total revenues</b>	<b>70,931</b>	<b>70,718</b>	<b>61,589</b>	<b>279,456</b>	<b>219,203</b>
Vessel operating expenses	14,221	15,289	15,172	56,730	46,709
Depreciation	22,450	22,400	20,079	88,756	71,583
General and administrative expenses	1,289	1,307	1,308	5,290	5,555
<b>Total operating expenses</b>	<b>37,960</b>	<b>38,996</b>	<b>36,559</b>	<b>150,776</b>	<b>123,847</b>
<b>Operating income</b>	<b>32,971</b>	<b>31,722</b>	<b>25,030</b>	<b>128,680</b>	<b>95,356</b>
Interest income	247	196	101	739	248
Interest expense	(13,364)	(13,472)	(9,208)	(49,956)	(30,714)
Realized and unrealized gain (loss) on derivative instruments	(10,905)	3,000	3,015	4,039	4,831
Other financial items <sup>(1)</sup>	(137)	(506)	(322)	(1,339)	(1,672)
<b>Income before income taxes</b>	<b>8,812</b>	<b>20,940</b>	<b>18,616</b>	<b>82,163</b>	<b>68,049</b>
Income tax benefit (expense)	18	(9)	24	2	16
<b>Net income</b>	<b>8,830</b>	<b>20,931</b>	<b>18,640</b>	<b>82,165</b>	<b>68,065</b>

Net income 2018 increased by 21% compared to last year

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

# Adjusted EBITDA

<i>Unaudited, USD in thousands</i>	<b>4Q 2018</b>	<b>3Q 2018</b>	<b>4Q 2017</b>	<b>FY 2018</b>	<b>FY 2017</b>
<b>Net income</b>	<b>8,830</b>	<b>20,931</b>	<b>18,640</b>	<b>82,165</b>	<b>68,065</b>
Interest income	(247)	(196)	(101)	(739)	(248)
Interest expense	13,364	13,472	9,208	49,956	30,714
Depreciation	22,450	22,400	20,079	88,756	71,583
Income tax (benefits) expense	(18)	9	(24)	(2)	(16)
EBITDA <sup>(1)</sup>	44,379	56,616	47,802	220,136	170,098
Other financial items <sup>(2)</sup>	11,042	(2,494)	(2,693)	(2,700)	(3,159)
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>55,421</b>	<b>54,122</b>	<b>45,109</b>	<b>217,436</b>	<b>166,939</b>

Highest ever quarterly Adjusted EBITDA and an increase of 30% compare to last year 2017

(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>	<b>4Q 2018</b>	<b>3Q 2018</b>	<b>4Q 2017</b>	<b>FY 2018</b>	<b>FY 2017</b>
<b>Net income</b>	<b>8,830</b>	<b>20,931</b>	<b>18,640</b>	<b>82,165</b>	<b>68,065</b>
Add:					
Depreciation	22,450	22,400	20,079	88,756	71,583
Other non-cash items; deferred costs amortization debt	683	1,234	513	3,188	1,736
Unrealized losses from interest rate derivatives and forward exchange currency contracts	11,257	—	—	—	1,334
Less:					
Estimated maintenance and replacement capital expenditures (including drydocking reserve)	(13,250)	(13,250)	(11,450)	(52,526)	(41,120)
Distributions to Serie A Convertible Preferred Units	(1,800)	(1,800)	(1,800)	(7,200)	(5,253)
Other non-cash items; deferred revenue and accrued income	(907)	(1,093)	(693)	(4,082)	(3,116)
Unrealized gains from interest rate derivatives and forward exchange currency contracts	—	(2,080)	(3,779)	(1,775)	(8,726)
<b>Distributable cash flow<sup>(1)</sup></b>	<b>27,264</b>	<b>26,342</b>	<b>21,510</b>	<b>108,526</b>	<b>84,502</b>
<b>Total distributions</b>	<b>18,034</b>	<b>18,034</b>	<b>18,034</b>	<b>72,136</b>	<b>67,171</b>
<b>Distribution coverage ratio<sup>(2)</sup></b>	<b>1.51X</b>	<b>1.46X</b>	<b>1.19X</b>	<b>1.50X</b>	<b>1.26X</b>

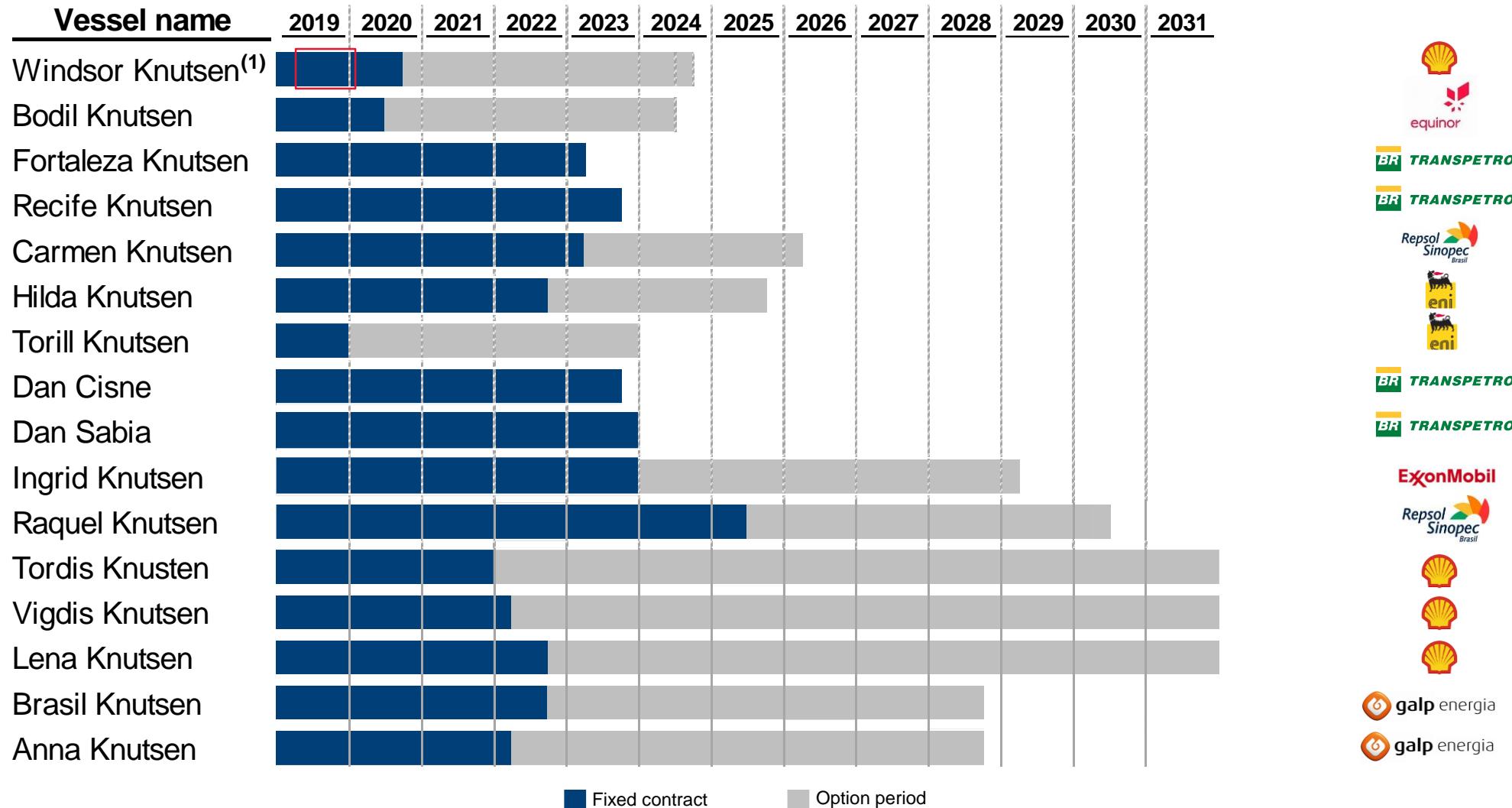
(1) Distributable cash flow is a non-GAAP financial measure used by management and external users of our financial statements. Please see Appendix A for a definition of distributable cash flow and a reference to reconciliation to net income, the most directly comparable GAAP financial measure.

(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>	<b>At December 31, 2018</b>	<b>At December 31, 2017</b>		<b>At December 31, 2018</b>	<b>At December 31, 2017</b>
<b>Current assets:</b>			<b>Current liabilities</b>		
Cash and cash equivalents	41,712	46,104	Current portion of long-term debt	106,926	92,985
Inventories	2,443	2,241	Derivative liabilities	1,740	978
Derivative assets	4,621	1,579	Contract liabilities	1,518	1,518
Other current assets	3,603	6,181	Other current liabilities	18,235	27,333
<b>Total current assets</b>	<b>52,379</b>	<b>56,105</b>	<b>Total current liabilities</b>	<b>128,419</b>	<b>122,814</b>
<b>Long-term assets:</b>			<b>Long-term liabilities:</b>		
Net vessels and equipment	1,767,080	1,723,023	Long-term debt	970,365	933,630
Intangible assets, net	1,891	2,497	Derivative liabilities	345	164
Derivative assets	11,667	9,850	Contract liabilities	5,203	6,722
Accrued income	3,807	1,693	Deferred tax liabilities	453	624
<b>Total long-term assets</b>	<b>1,784,445</b>	<b>1,737,063</b>	<b>Total long-term liabilities</b>	<b>976,366</b>	<b>941,140</b>
<b>Total assets</b>	<b>1,836,824</b>	<b>1,793,168</b>	<b>Convertible Preferred Units</b>	<b>89,264</b>	<b>89,264</b>
			<b>Total partners' equity</b>	<b>642,775</b>	<b>639,950</b>
			<b>Total equity and liabilities</b>	<b>1,836,824</b>	<b>1,793,168</b>

# Long-term Contracts Backed by Leading Energy Companies



**KNOP fleet has average remaining fixed contract duration of 3.7<sup>(2)</sup> years**

**Additional 4.4 years on average in Charterers option**

(1) Time charter with Shell is suspended for 10-12 months, in the suspension period the vessel is charted out to the KNOT for same commercial condition as existing time charter with Shell

(2) Remaining contract life is calculated as of 31/12/2018

# Summary



- Another quarter of strong operational and financial performance.
- We report our highest ever adjusted EBITDA of \$55.4m.
- Highest ever distributable cashflow of \$27.3m, with coverage of 1.51x.
- Future strong outlook for the shuttle tanker business.
- Attractive value proposition with quarterly distribution of \$0.52 per unit annualized at 11.6% with a unit price of \$18.

(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.



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)	31-Dec-18	30-Sept-18	31-Dec-17	FY2018	FY2017
<b>Net income</b>	<b>8,830</b>	<b>20,931</b>	<b>18,640</b>	<b>82,165</b>	<b>68,065</b>
Interest income	(247)	(196)	(101)	(739)	(248)
Interest expense	13,364	13,472	9,208	49,956	30,714
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<b>EBITDA</b>	<b>44,379</b>	<b>56,616</b>	<b>47,802</b>	<b>220,136</b>	<b>170,098</b>
Other financial items	11,042	(2,494)	(2,693)	(2,700)	(3,159)
<b>Adjusted EBITDA</b>	<b>55,421</b>	<b>54,122</b>	<b>45,109</b>	<b>217,436</b>	<b>166,939</b>

# 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:

(USD in thousands)	For the Quarter Ended				
	31-Dec-18	30-Sept-18	31-Dec-17	FY2018	FY2017
<b>Net income</b>	<b>8,830</b>	<b>20,931</b>	<b>18,640</b>	<b>82,165</b>	<b>68,065</b>
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Other non cash items; Deferred revenue and accrued income	(907)	(1,093)	(693)	(4,082)	(3,116)
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