KNOT Offshore Partners LP

# Third Quarter 2021 Results

November 18, 2021

**(NYSE:KNOP)**

# Forward Looking Statements

This presentation contains certain forward-looking statements (as defined in Section 21E of the Securities Exchange Act of 1934, as amended) that reflect management's current view and involve known and unknown risks and are based upon 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.

All forward-looking statements included in this presentation are made only as of the date of this presentation. KNOP disclaims any obligation and does not intend to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in KNOP's views and expectations with respect thereto or any change in events, conditions or circumstances on which any such statement is based.

There are many factors that may cause actual results to differ from those expressed or implied by these forward-looking statements such as, but not limited to, the following:

- changes in shipping or broader market trends
- the supply and demand of and for shuttle tankers
- Knutsen NYK Offshore Tankers AS's ("KNOT") ability to win new business and deliver vessels under long-term charters and the price of those future (newbuild or secondhand) vessels
- the effects of a worldwide or regional economic slowdown or turmoil in global financial markets or fluctuations in currencies, interest rates or the price of oil or raw materials
- the length and severity of the outbreak of COVID-19, including its impact on business, cash flows and operations as well as the business and operations of its customers, suppliers and lenders
- changes in accounting, law or other regulatory obligations which are or become relevant to KNOP's business
- potential disruption to shipping routes due to matters such as accidents, political events, piracy or acts by terrorists
- modifications that may be made to the Norwegian Tonnage Tax regime and the anticipated taxation of KNOP, its subsidiaries and its distributions to KNOP's unitholders
- KNOT Offshore Partners LP's ("KNOP"):
  - charters and ongoing cash generation from employment of its vessels
  - operations and operating costs
  - vessels values, dry dock costs, bunker costs or impairment of the value of KNOP's vessels
  - access to and cost of debt and equity and the settling of any interest rate swaps, including future sales of KNOP's securities in the public market
  - overall performance and the maintenance of long-term relationships with major users of shuttle tonnage
  - overall financial condition and anticipated growth strategies
  - ability to purchase vessels from KNOT in the future
  - ability to maximize the use of and value from its vessels including the re-deployment or disposition of vessels no longer under long-term charter and termination dates and extensions of charters
  - existing or future customers financial condition and their ability to fulfill their charter obligations
  - ability to make timely purchases and deliveries of newbuilds including the acceptance of a vessel by its charterer
  - ability to compete successfully for future chartering and newbuild opportunities
  - expected cost of, and KNOP's ability to, comply with governmental regulations, maritime self-regulatory standards and standard and regulations imposed by its charterers
  - ability to access and the availability and cost of skilled labor (for both onshore and onboard) and KNOP's ability to manage and retain key employees
  - general and administrative expenses including fees and expenses payable under the technical management agreements, management and administration agreements and administrative services agreements
  - estimated costs of maintenance and replacement capital expenditures
  - customers' and other stakeholders' increasing emphasis on environmental, societal, safety and governance concerns
  - potential liability from any pending or future litigation
  - business strategy and other plans and objectives for future operations, including changes in any such future events and circumstances that may affect these plans or objectives
- 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, 2020 and reports on Form 6K.

# Third Quarter 2021 and Subsequent Highlights - 1

- Generated total revenues of $66.6 million, operating income of $21.1 million and net income of $13.5 million.
- Generated Adjusted EBITDA of $47.2 million.
- Operated with 91.9% scheduled fleet utilization, driven by several vessels experiencing temporary technical issues or transitioning between charters.
- Generated distributable cash flow of $18.6 million, with a distribution coverage ratio of 1.03.
- $592 million of remaining contracted forward revenue, excluding options, at September 30, 2021.
- $121.6 million in available liquidity at September 30, 2021, which included cash and cash equivalents of $66.6 million.
- The average margin paid on the Partnership's outstanding debt during the quarter was approximately 2.06% over LIBOR.
- Announced cash distribution of $0.52 per common unit for the 25th successive quarter under 1099 structure.

***Financing update***

- The Partnership closed the previously announced new $345 million senior secured credit facility in order to refinance the existing term loans related to the *Tordis Knutsen*, the *Vigdis Knutsen*, the *Lena Knutsen*, the *Anna Knutsen* and the *Brasil Knutsen*.
- No further significant refinancing now due until 3Q 2023.
- The Partnership entered into a sales agreement with B. Riley Securities, Inc. for an 'at the market' equity program (the "ATM program") whereby the Partnership may offer and sell up to $100 million of common units, from time to time. This gives the Partnership flexibility and another option under which we may raise growth capital for an accretive acquisition. From its commencement to date, the Partnership has sold 41,940 units under the program, raising $0.8 million.

***Incentive Distribution Rights***

- On September 7, 2021, the Partnership entered into an exchange agreement with its sponsor, Knutsen NYK and its general partner whereby Knutsen NYK contributed to the Partnership all of Knutsen NYK's incentive distribution rights ("IDRs"), in exchange for the issuance by the Partnership to Knutsen NYK of 673,080 common units and 673,080 Class B Units, whereupon the IDRs were cancelled in a cashflow-neutral transaction (the "IDR Exchange").

# Third Quarter 2021 and Subsequent Highlights - 2

***Windsor Knutsen***

- The Partnership signed the previously agreed one-year fixed time charter contract with PetroChina for the *Windsor Knutsen* (with owner's option to substitute and with charterer's options to extend the charter by one one-year period and then one six-month period) which commenced September 15, 2021.

***Bodil Knutsen***

- In November 2021, the *Bodil Knutsen* completed the installation of the majority of the volatile organic compound emissions ("VOC") recovery plant onboard the vessel and the vessel went back onhire on November 8, 2021. Further testing and setup work is expected to be completed by the end of December 2021. The plant will significantly improve the operational attractiveness of the vessel in the North Sea and Norwegian sectors going forward as well as virtually eliminate the non-methane VOC released into the atmosphere arising from the vessel's cargo.
- Although the Partnership is initially funding the installation, loss of hire (at a reduced rate) during the installation and costs related to the installation of the VOC recovery plant on the *Bodil Knutsen*, are recoverable by the Partnership up to an agreed budget, with interest, from the VOC Industry Co-operation Norwegian Sector ("VOCIC") over a seven-year period. Costs in excess of the agreed budget will be shared on a fifty/fifty basis. A separate agreement also exists that allows the Partnership to recover costs from VOCIC related to the ongoing operation of the VOC plant onboard the vessel.
- The *Bodil Knutsen* is currently operating under a rolling charter contract with the sponsor, Knutsen NYK, which currently expires in December 2021. An extension has been agreed for a further three months on the same commercial terms, with three further one-month extensions at the charterer's option, potentially taking the vessel's fixed employment to June 2022.
- The Partnership is still seeking long-term employment for the vessel and the time charter with Knutsen NYK can be terminated early should such a long-term employment opportunity arise.

***Tordis Knutsen***

- The *Tordis Knutsen* is due for her first planned 5-year special survey drydocking and is expected to be off-hire from mid-December 2021 for the start of its trip to Europe where the work will be carried out. The work is expected to take approximately 60 days to complete, including mobilization time to and from Brazil.

# Income Statement

| *Unaudited, USD thousands* | 3Q 2021 | 2Q 2021 | 1Q 2021 | 4Q 2020 | 3Q 2020 | FY 2020 |
|---|---|---|---|---|---|---|
| Time charter and bareboat revenues | 66,559 | 66,513 | 65,598 | 69,864 | 71,241 | 278,581 |
| Loss of hire insurance recoveries | 17 | 4,397 | 5,882 | — | — | — |
| Other income | 3 | 27 | 1 | (5) | 39 | 641 |
| **Total revenues** | **66,579** | **70,937** | **71,481** | **69,859** | **71,280** | **279,222** |
| Vessel operating expenses | (17,659) | (17,394) | (18,560) | (15,565) | (16,694) | (61,005) |
| Depreciation | (26,070) | (23,831) | (23,684) | (22,466) | (22,45) | (89,743) |
| Write-down [(1)] | — | (29,421) | — | — | — | — |
| General and administrative expenses | (1,716) | (1,492) | (1,621) | (1,410) | (1,258) | (5,392) |
| **Total operating expenses** | **(45,445)** | **(72,138)** | **(43,865)** | **(39,441)** | **(40,405)** | **(156,140)** |
| **Operating income (loss)** | **21,134** | **(1,201)** | **27,616** | **30,418** | **30,875** | **123,082** |
| Interest income | 2 | — | — | 4 | — | 125 |
| Interest expense | (7,243) | (6,804) | (7,372) | (6,113) | (6,558) | (31,645) |
| Realized and unrealized gain / (loss) on derivative instruments | 69 | (2,265) | 8,011 | 245 | (195) | (25,679) |
| Other financial items | (326) | (394) | (111) | 54 | 955 | (648) |
| **Income (loss) before income taxes** | **13,636** | **(10,664)** | **28,144** | **24,608** | **25,077** | **58,966** |
| Income tax benefit / (expense) | (109) | (261) | (3) | (3) | (1) | (9) |
| **Net income (loss)** | **13,527** | **(10,925)** | **28,141** | **24,605** | **25,076** | **58,957** |

(1) The carrying value of the *Windsor Knutsen* was written down to its estimated fair value as of June 30, 2021, principally as the carrying value of the vessel in the Partnership's accounts included both the cost of the vessel and the cost of conversion of the vessel to a shuttle tanker from a conventional tanker. There are no other similar converted vessels in the Partnership's fleet.

# Adjusted EBITDA

| *Unaudited, USD thousands* | 3Q 2021 | 2Q 2021 | 1Q 2021 | 4Q 2020 | 3Q 2020 | FY 2020 |
|---|---|---|---|---|---|---|
| **Net income (loss)** | **13,527** | **(10,925)** | **28,141** | **24,605** | **25,076** | **65,225** |
| Interest income | (2) | — | — | (4) | — | (125) |
| Interest expense | 7,243 | 6,804 | 7,372 | 6,113 | 6,558 | 31,645 |
| Depreciation | 26,070 | 23,831 | 23,684 | 22,466 | 22,453 | 89,743 |
| Write-down [1] | — | 29,421 | — | — | — | — |
| Income tax (benefits) expense | 109 | 261 | 3 | 3 | 1 | 10 |
| EBITDA | 46,947 | 49,392 | 59,200 | 53,183 | 54,088 | 186,498 |
| Other financial items [2] | 257 | 2,659 | (7,900) | (299) | (760) | 26,327 |
| **Adjusted EBITDA [3]** | **47,204** | **52,051** | **51,300** | **52,884** | **53,328** | **212,825** |

1. The carrying value of the *Windsor Knutsen* was written down to its estimated fair value as of June 30, 2021, principally as the carrying value of the vessel in the Partnership's accounts included both the cost of the vessel and the cost of conversion of the vessel to a shuttle tanker from a conventional tanker. There are no other similar converted vessels in the Partnership's fleet.
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.
3. Adjusted EBITDA is a non-GAAP financial measure used by management and external users of our financial statements. Please see the Appendix for a definition of Adjusted EBITDA.

# Distributable Cash Flow

| *Unaudited, USD thousands* | 3Q 2021 | 2Q 2021 | 1Q 2021 | 4Q 2020 | 3Q 2020 | FY 2020 |
|---|---|---|---|---|---|---|
| **Net income (loss)** | **13,527** | **(10,925)** | **28,141** | **24,605** | **25,076** | **65,225** |
| *Add:* | | | | | | |
| Depreciation | 26,070 | 23,831 | 23,684 | 22,466 | 22,453 | 89,743 |
| Write-down | — | 29,421 | — | — | — | — |
| Other non-cash items; amortization of deferred debt issuance cost | 1,137 | 656 | 1,102 | 617 | 624 | 2,503 |
| Other non-cash items; accrued revenue | 357 | 353 | 350 | 279 | 278 | 1,108 |
| Unrealized losses from interest rate derivatives and forward exchange currency contracts | — | 179 | — | — | — | 22,042 |
| *Less:* | | | | | | |
| Estimated maintenance and replacement capital expenditures (including drydocking reserve) | (18,559) | (17,622) | (17,622) | (15,102) | (15,102) | (60,408) |
| Distributions: Series A Convertible Preferred Units | (1,700) | (1,700) | (1,800) | (1,800) | (1,800) | (7,200) |
| Other non-cash items; deferred revenue and accrued income | (228) | (228) | (228) | (228) | (228) | (912) |
| Unrealized gains from interest rate derivatives and forward exchange currency contracts | (1,966) | — | (11,921) | (2,264) | (2,379) | — |
| **Distributable Cash Flow** (1) | **18,638** | **23,965** | **21,706** | **28,573** | **28,922** | **112,101** |
| **Total distributions** | **18,168** | **18,150** | **18,034** | **18,034** | **18,034** | **72,136** |
| **Distribution Coverage Ratio** (2) | **1.03** | **1.32** | **1.20** | **1.58** | **1.60** | **1.55** |

1. Distributable cash flow is a non-GAAP financial measure. Please see the Appendix 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 thousands* | At Sept 30, 2021 | At Dec 31, 2020 | | At Sept 30, 2021 | At Dec 31, 2020 |
|---|---|---|---|---|---|
| **Current assets:** | | | **Current liabilities:** | | |
| Cash and cash equivalents | 66,605 | 52,583 | Current portion of long-term debt | 88,491 | 184,188 |
| Inventories | 2,112 | 2,652 | Derivative liabilities | 9,718 | 10,695 |
| Amounts due from related parties | 2,358 | 5,726 | Contract liabilities | 1,518 | 1,518 |
| Other current assets | 11,682 | 11,237 | Current lease liabilities | 645 | 652 |
| | | | Other current liabilities | 20,058 | 16,878 |
| **Total current assets** | **82,757** | **66,472** | **Total current liabilities** | **120,430** | **213,931** |
| **Long-term assets:** | | | **Long-term liabilities:** | | |
| Net vessels and equipment | 1,161,323 | 1,708,786 | Long-term debt | 904,158 | 846,157 |
| Right-of-use assets | 2,902 | 1,490 | Lease liabilities | 2,257 | 838 |
| Intangible assets, net | 227 | 681 | Derivative liabilities | 6,879 | 19,358 |
| Derivative assets | 251 | — | Contract liabilities | 1,030 | 2,168 |
| Accrued income | 1,806 | 2,867 | Deferred tax liabilities | 287 | 295 |
| **Total long-term assets** | **1,621,509** | **1,713,824** | **Total long-term liabilities** | **914,611** | **868,816** |
| | | | Convertible Preferred Units | 84,308 | 89,264 |
| | | | **Total partners' equity** | **584,917** | **608,285** |
| **Total assets** | **1,704,266** | **1,780,296** | **Total equity and liabilities** | **1,704,266** | **1,780,296** |

# Forward Contracted Revenue Backed by Leading Energy Companies

**At 30 September 2021**

- Remaining forward contracted revenue of $592 million (exc. options) and average remaining charter of 2.1 years
- Charterers also have the option to extend these charters by a further 2.7 years on average

| Vessel | Age (years) | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | Contract type | Current charterer | Charterer's extension options (up to) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Windsor Knutsen | 14 | | | | | | | | Time charter | PetroChina | 1.5 years |
| Bodil Knutsen | 11 | | | | | | | | Time charter | KNOT | - |
| Fortaleza Knutsen | 11 | | | | | | | | Bareboat charter | Transpetro | - |
| Recife Knutsen | 10 | | | | | | | | Bareboat charter | Transpetro | - |
| Carmen Knutsen | 9 | | | | | | | | Time charter | Repsol | 3 years |
| Hilda Knutsen | 8 | | | | | | | | Time charter | Eni | 3 years |
| Torill Knutsen | 8 | | | | | | | | Time charter | Eni | 2 years |
| Dan Cisne | 10 | | | | | | | | Bareboat charter | Transpetro | - |
| Dan Sabia | 10 | | | | | | | | Bareboat charter | Transpetro | - |
| Ingrid Knutsen | 8 | | | | | | | | Time charter | Vår Energi | 5 years |
| Raquel Knutsen | 7 | | | | | | | | Time charter | Repsol | 5 years |
| Tordis Knutsen | 5 | | | | | | | | Time charter | Shell | - |
| Vigdis Knutsen | 5 | | | | | | | | Time charter | Shell | - |
| Lena Knutsen | 4 | | | | | | | | Time charter | Shell | - |
| Brasil Knutsen | 8 | | | | | | | | Time charter | Galp | 6 years |
| Anna Knutsen | 5 | | | | | | | | Time charter | Galp | 6 years |
| Tove Knutsen | 1 | | | | | | | | Time charter | Equinor | 13 years |
| Average vessel age | 7.8 | | | | | | | | | | |

Firm charter period | Charterer's option periods | Loss of hire insurance coverage

# Dropdown Inventory at Sponsor – 6 Potential Acquisitions[1]

**At 30 September 2021**

Average contracted charter length of 5.3 years (from charter commencement)

Charterers also have the option to extend these charters by a further 7.3 years on average

| Vessel | Expected delivery | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | Charterer | Fixed contract period (years) |
|---|---|---|---|---|---|---|---|---|---|
| Synnøve Knutsen | | | | | | | | Equinor | 5 |
| Tuva Knutsen | | | | | | | | Total | 5 |
| Live Knutsen | 2021 | | | | | | | Galp | 5 |
| Hull 5482 | 2022 | | | | | | | ENI | 7 |
| Hull 5483 | 2022 | | | | | | | ENI | 5 |
| Hull 786 | 2022 | | | | | | | PetroChina | 5 |

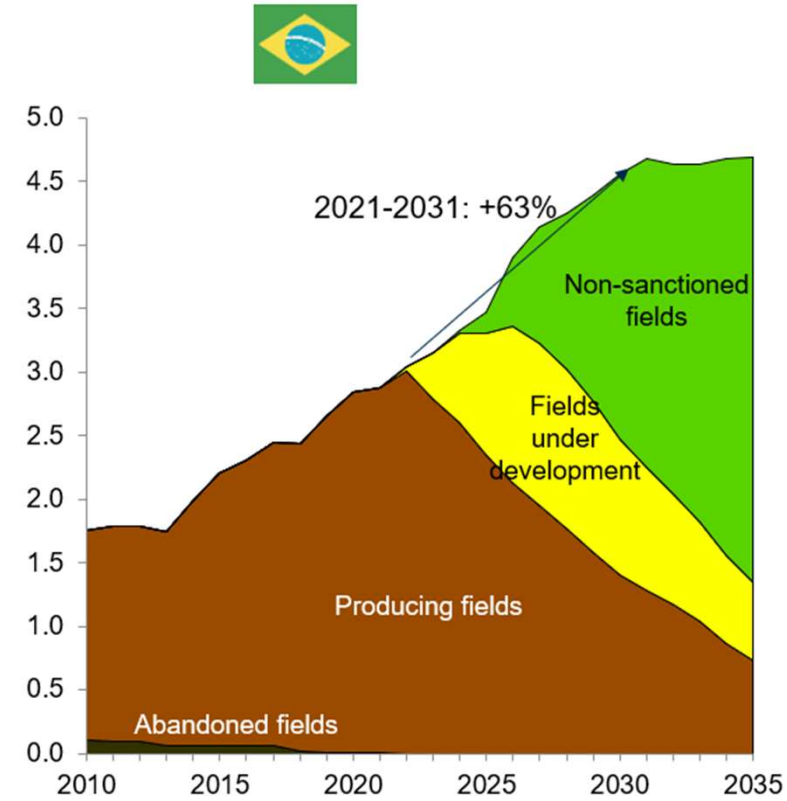
Under construction | Time charter | Vessel utilised by Sponsor before Equinor charter

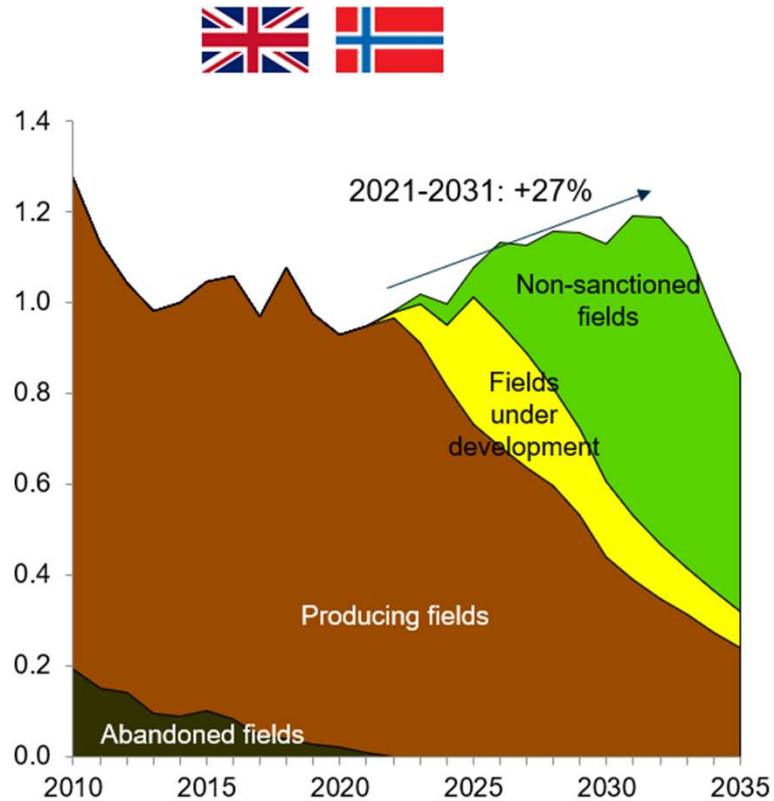
(1) The acquisition by KNOP of any dropdown vessels in the future is subject to approval of the independent Conflicts Committee as well as the board of directors of each of KNOP and Knutsen NYK. There can be no assurance that any potential dropdowns will occur.

# Shuttle Tanker Volumes Projected to Increase

Shuttle tanker volumes could increase 63% in Brazil and 27% in the North Sea to 2031

**Oil production shuttle tanker volumes split by lifecycle**
Million barrel per day



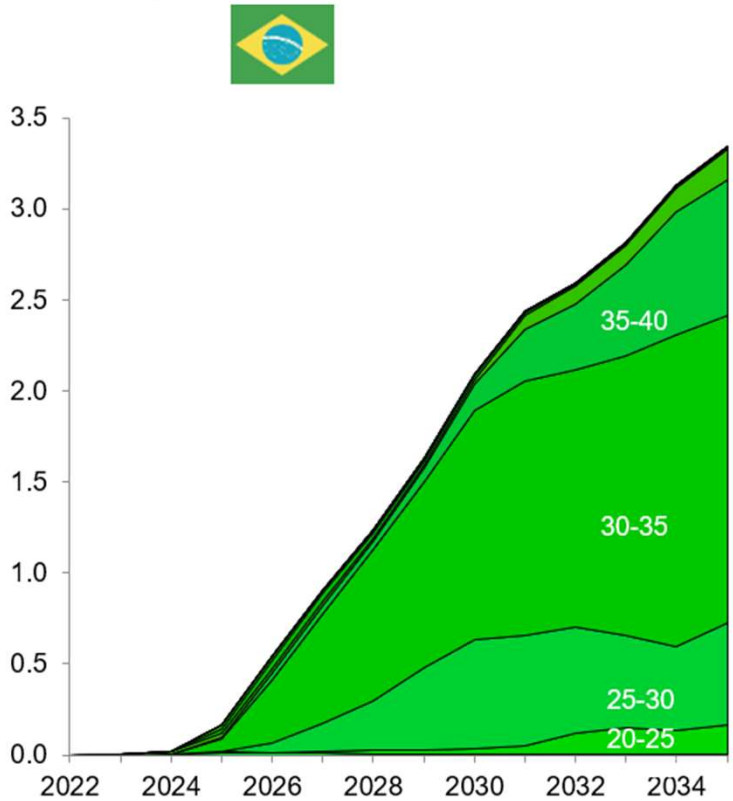



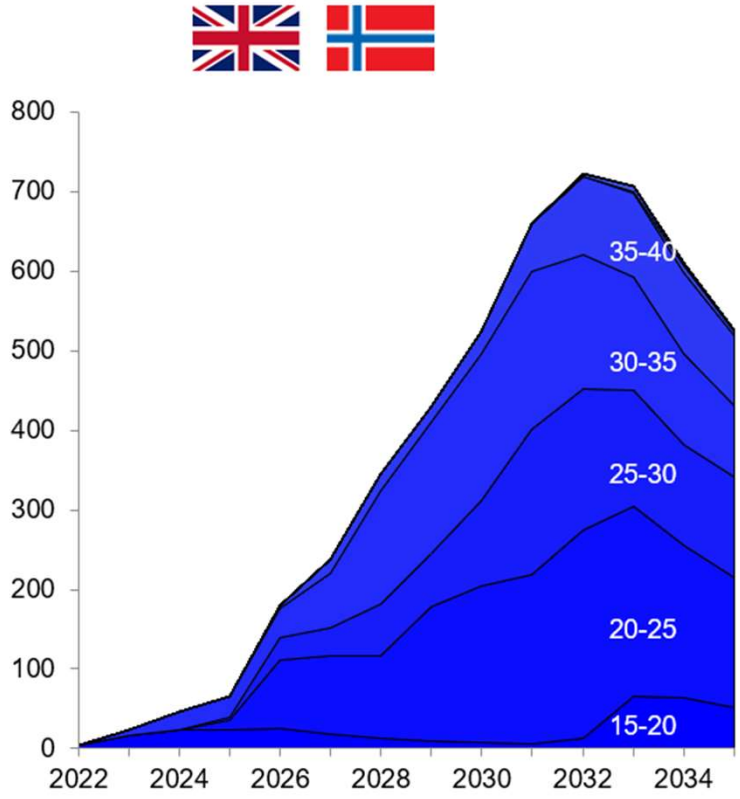

Source: Rystad Energy research and analysis, UCube September 2021. *Crude and condensate.

# Significant Offshore Growth Potential From Low Break Even Projects

Largest part of non sanctioned fields with Break Even Oil Price* below USD 40/bbl

**Oil production shuttle tanker volumes non-sanctioned fields by break even oil price**
Million barrel per day



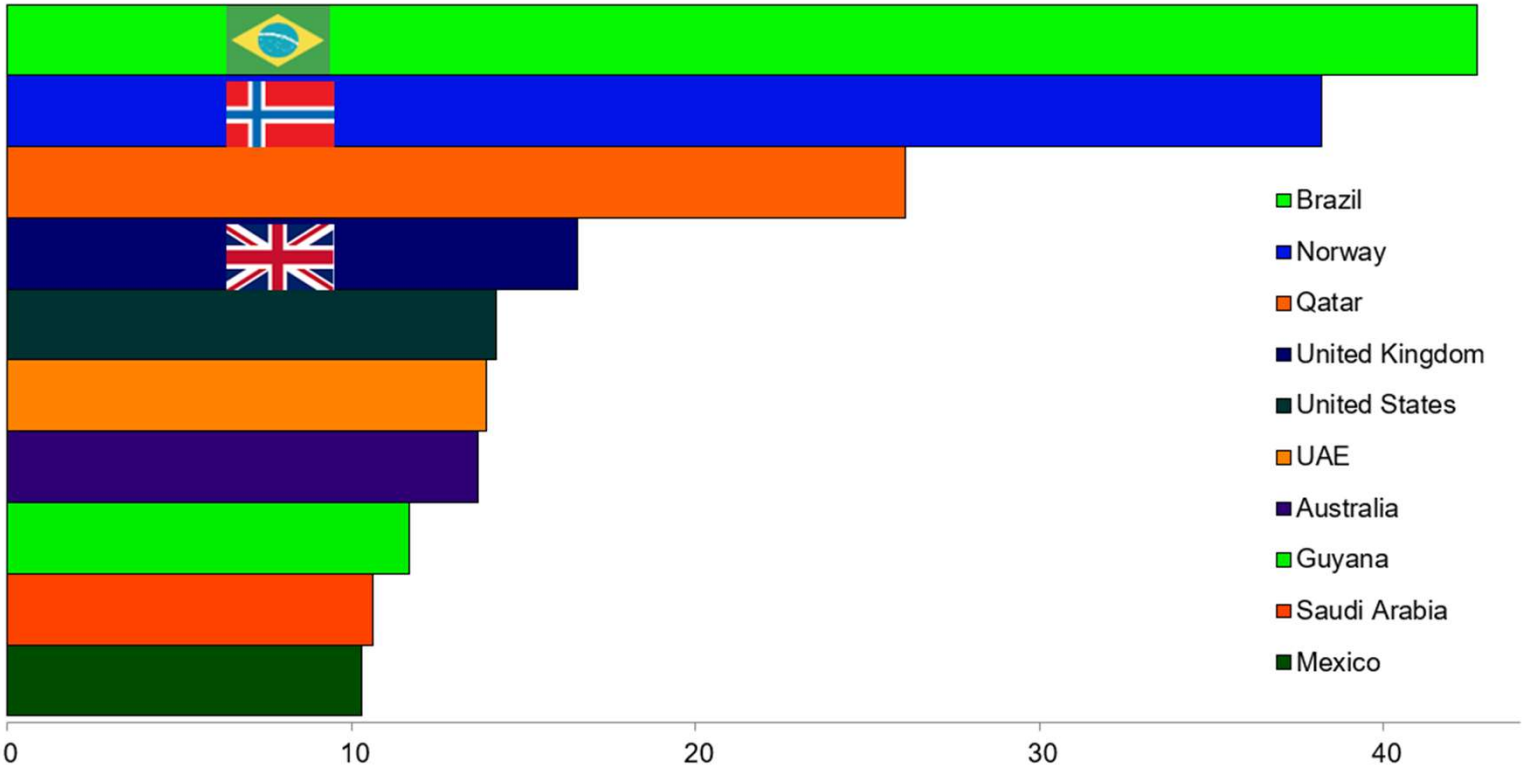




Source: Rystad Energy research and analysis. UCube September 2021. *Crude and condensate. **Break Even oil price includes all income and capex and opex cashflows.

# Growth In Offshore Developments Focused in Core Shuttle Tanker Hubs

Brazil and Norway leading the offshore recovery

**Greenfield Capex new field developments with expected sanction 2021-2023/2024**
Billion USD




Source: Rystad Energy research and analysis. UCube September 2021

# ESG Transparency, Reducing Emissions, and Driving Standards

- Second annual ESG report published in line with industry best practices and utilizing NSA Guidelines and the framework of the Poseidon Principles.[1]
- Installation of Ballast Water Treatment system and VOC recovery plant on *Bodil Knutsen* which will virtually eliminate the release of non-methane VOC from oil cargos into atmosphere.
- Sponsor has ordered two next-generation LNG-fueled shuttle tankers, establishing further pathway to continuing improvements in emissions performance.
- Throughout 2021 fleet experienced no serious incidents or casualties and has suffered no serious financial downside from COVID-related issues.
- Robust anti-corruption practices and policies and Supplier Code of Conduct in place.
- New and forthcoming regulations will more harshly stratify the entire global maritime fleet by imposing rising costs on less compliant, higher-emitting vessels. With a relatively young and technologically advanced fleet, KNOP is well placed on the basis of efficiency and emissions; by closely managing operating speed, optimizing fuel consumption, studiously maintaining our fleet, and opportunistically installing market-tested solutions, we strive for continuous improvement.

POSEIDON PRINCIPLES

GRI

SUSTAINABLE DEVELOPMENT GOALS

SASB

incentra

MACN Maritime Anti-Corruption Network

Norwegian Centres of Expertise NCE Maritime CleanTech

INTERTANKO

(1) Widely adopted by operating companies and financial institutions across maritime industries, the Poseidon Principles communicate relevant information to lenders, lessors, and financial guarantors, allowing them to assess and disclose climate-related metrics of their portfolios alongside traditional financial metrics by providing: (1) Measurement of carbon intensity and an assessment of company climate alignment; and (2) accountable data using IMO standards for collecting data on fuel consumption from ships. In this way the Poseidon Principles provide a framework for integrating climate considerations into lending decisions to promote international shipping's decarbonization.

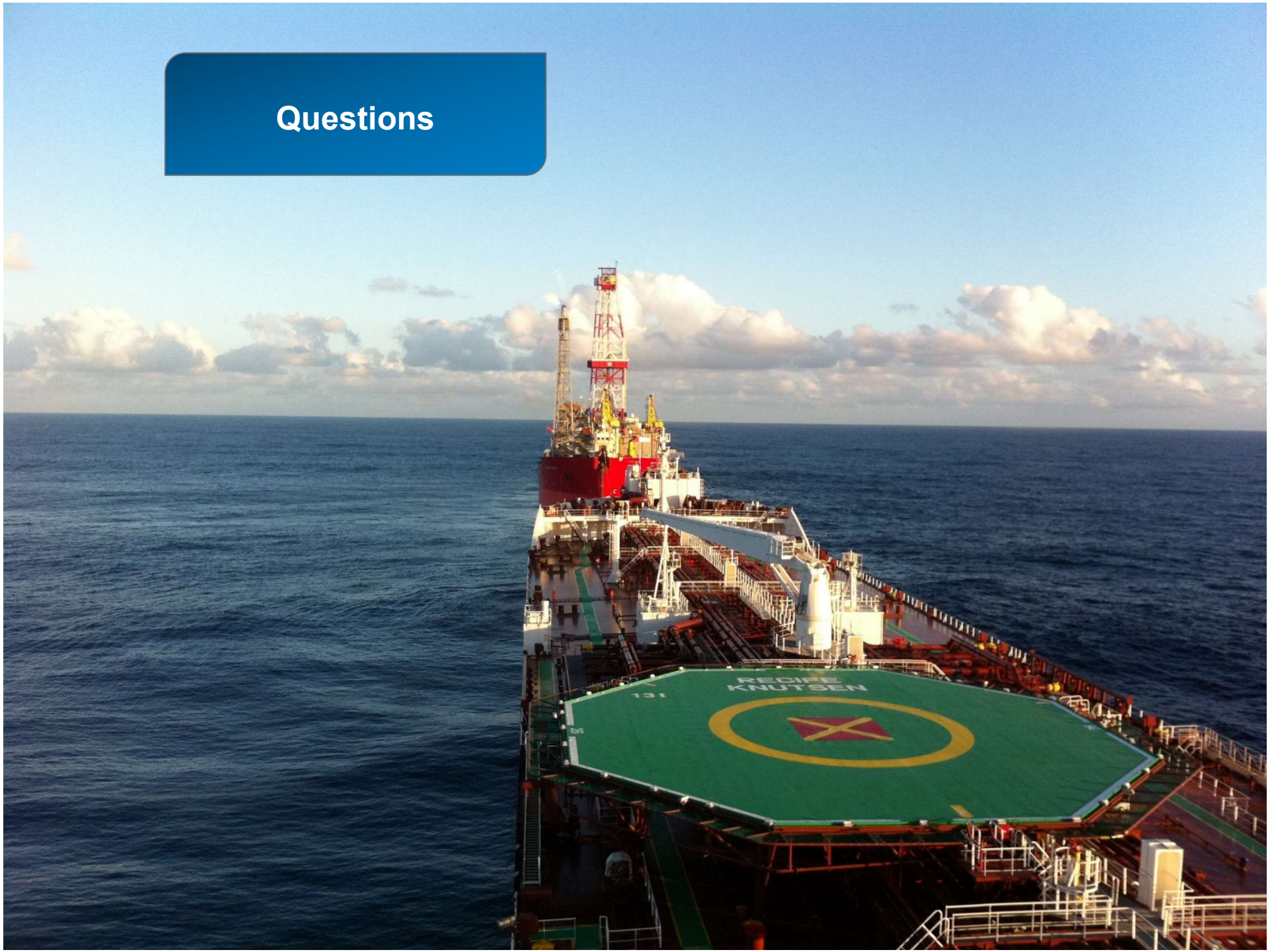
# Near-term Priorities

- After safety, our number one priority is the maintenance of our distribution and to do this we are targeting stable cashflows and looking to maximize fleet utilization.
- We intend to apply the same principles that have served KNOP and our unitholders well for many years.
- We do not expect to acquire a new vessel in 2021.
- As we move into 2022 and beyond, the key determinants of our success are clear:
  - Secure employment for our vessels that are currently open in 2022 and 2023;
  - Maintain high operational utilization in line with our historical track record;
  - Plan, prepare and execute the drydocking of *Tordis Knutsen*;
  - Assess attractive growth capital options for future accretive acquisitions;
  - Be ready for the expected growth in shuttle tanker demand in Brazil;
  - Continue ongoing close dialogue with our customers concerning operations, and chartering and re-chartering to ensure we can respond flexibly to demand opportunities as they arise.


# Summary

- Utilization of 91.9% for scheduled operations.
- Distributable cashflow of $18.6m, with coverage of 1.03.
- Paid quarterly distribution of $0.52 for 25th consecutive quarter.
- $592m of remaining contracted forward revenue, excluding options, at the end of the quarter.
- No refinance due until 3Q 2023.
- The Partnership's operations are not exposed to short-term fluctuations in oil prices, volume of oil transported or global oil storage capacity.
- Shuttle tanker demand continues to be affected by a lag resulting from delays to offshore project development timelines following capex reductions instituted by offshore oil producers during the early days of the COVID-19 pandemic, though capex spending is now beginning to recover.
- Other than *Tordis Knutsen* (planned drydock to commence in 4Q 2021), our fleet remains fully contracted for remainder of 2021.
- In the mid to long-term, oil production in Brazil and North Sea from shuttle tanker serviced fields is expected to grow significantly and though we expect to continue to face demand softness in 2022, the shuttle tanker market's fundamentals and our market position means we remain optimistic for the future.

# Questions



# Appendices

# KNOP Attributes – Our Investment Case

- KNOP is **classified as a corporation** for U.S. federal income tax purposes. A U.S. holder of KNOP common units will receive a **Form 1099** to report distributions received (not a Form K-1).
- We are a **market leader** in the operation of shuttle tankers and our Sponsor has more than **30 years experience** and investment in this business.
- Specialist vessels are **critical infrastructure with limited replacement risk** required to deliver oil production from projects with significant upfront investments, long lifespans and often low marginal production costs.
- Vessels have **operational flexibility** as they typically are capable of servicing many different fields.
- Due to the specialist nature of the assets, capital cost and need for an operating track record there are **high barriers to entry**.
- Multiple financially **strong contractual counterparties**.
- Target **fixed rate contracts** that are typically 1 to 7 years and that do not depend on short-term oil prices, where the customer bears vessel utilisation risk and all operational costs including fuel.
- Management strategy remains to operate the business on a prudent basis and **focus on long-term stability** as far as possible, to provide an attractive distribution and strong balance sheet.
- A **diversified revenue stream** where no individual vessel accounts (or is currently expected to account) for more than 10% of EBITDA.
- Debt paydown of c. $90m p.a., an extensive banking portfolio with **access to attractive bank finance** and several key lender relationships.

# 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.

## 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.