KNOT Offshore Partners

Investor Day

February 18, 2016

John Costain – CEO/CFO KNOT Offshore Partners
Øystein Kalleklev – CFO Knutsen NYK Offshore Tankers and Chairman General Partner

<< Øystein Kalleklev CFO Knutsen NYK Offshore Tankers and Chairman of General Partner>>

Today's discussion and the presentation materials include non-GAAP measures, such as DCF and Adjusted EBITDA. The presentation materials include reconciliations of these non-GAAP measures to their most directly comparable GAAP financial measures. Any forward-looking statements made in the presentation materials and during today's discussion are subject to risks and uncertainties and these are discussed at length in our annual and quarterly SEC filings. As you know, actual events and results can differ materially from these forward-looking statements. The partnership does not undertake a duty to update any forward-looking statements.

Knutsen Group - Slide 4:

First I would like to give you some background on the Knutsen Group.

Right now, KNOT Offshore Partners is a fairly small partnership with ten shuttle tankers, all on long-term contracts, averaging about five and a half years plus two and a half years of extension options.

KNOP, as we call it, has an Enterprise Value of about USD 1bn where the Market Cap is about USD 350m given the rather low Price/Book ratio of about 0.65.

KNOP is a spin-off from Knutsen NYK Offshore Tankers or KNOT as we simply call it.

KNOT is part of the Knutsen Group and the Knutsen Group is a rather large shipping company with a lot of history.

The insurance value of the fleet presented here exceeds USD 5bn. The insured value of KNOP is in line with book values as it should be i.e. about USD 1.3bn while KNOT and LNG has insurance value of about USD 2bn each.

The Knutsen Group has a long history which dates back to 1896 when Knut Knutsen ordered his first vessel. When Knut Knutsen died in 1946, he had built one of the largest shipping companies in Norway and he was considered one of the wealthiest men in the country.

The Knutsen family sold their stake in the early eighties, and the new management including Trygve Seglem eventually became the new shareholders of Knutsen.

Trygve is the CEO and 50 per cent owner of KNOT as well as the Chairman of KNOP. He is a trained naval architect who joined Knutsen in 1983. Before joining Knutsen he had been working on shuttle tanker development in Statoil since the late 1970s. With Trygve' s in-depth knowledge about shuttle tankers, his persistence and the support of banks, Knutsen won a contract for two shuttle tankers with Statoil in 1984 and this was the start of the new Knutsen as we know it today.

Trygve Seglem took over as CEO already in 1986 at the age of 35 and has now been CEO and owner of Knutsen for 30 years. Since the new owners including Trygve had limited financial resources available in the 1980s, the only way to raise money was to secure long term contracts for our shuttle tankers with a first class charter like Statoil.

This has been our strategy ever since and it has been both successful and resilient to economic downturns as we have been able to grow our fleet steadily according to increased demand from our customers and this we have done for more than 30 years.

So let me tell you how we are organised. The Knutsen Group today consists of KNOT which is the Sponsor and General Partner of KNOP. KNOT owns today approx. one third of KNOP.

KNOT is the main vehicle for investments in shuttle tankers and right now the fleet consists of 16 shuttle tankers and four newbuildings. KNOT also operates two pools for its older shuttle tankers which serves volume contracts, or Contract of Affreightment contracts instead of Time Charters. The pools give KNOT flexibility in the employment of its vessels and KNOT is the only shuttle tanker operator with both an Afra/Suezmax pool and a handysize shuttle tanker pool. The handysize pool is serving smaller oil fields in the North Sea with less cargo demand.

The pools also enables KNOT to pursue conversion projects due to the fact that COA contracts tend to have shorter tenors thereby giving us some contract flexibility.

In addition to shuttle tankers, KNOT has one Floating, Storage and Offloading Vessel (FSO) which has been in continuously operation for Statoil since 2000. In addition we have one shuttle tanker which is currently under conversion to FSO in Gdansk, Poland. This FSO under conversion will go on an eight year fixed contract with Total at the end of 2016 with four optional years. This means the FSO will operate for Total at least until she is 24 years, but possibly until she is 28 years old.

KNOT has a separate management company with the original name of KNOT Management. This management company is also responsible for the operation, technical and commercial management of the ten shuttle tankers owned by KNOP.

Hence, KNOT manages 26 shuttle tankers, one FSO and the building supervision and project management of four shuttle tanker newbuildings and one FSO conversion.

KNOT is a joint venture with the Japanese shipping conglomerate NYK which joined as shareholder in 2010. NYK is a very large shipping company and depending on which statistics you believe in, they are the largest, second largest or third largest shipping company in the world with revenues of more than USD 20bn. NYK is part of the Mitsubishi keiretsu and traces its roots back to 1885.

In addition to the shuttle tankers, the Knutsen fleet also consist of nine LNGs on the water plus two LNG newbuildings as well as five product and chemical tankers.

Knutsen Group is what we call a fully integrated shipping company.

In addition to the management company in KNOT, Knutsen Group also includes the ship management company Knutsen OAS Shipping which is responsible for the operation of the LNGs and the product/chemical tankers as well as crewing and business support services for the whole Group.

Hence, we control the full value chain and the linkages between them. In our view this gives us better control and a better understanding of our business.

This has also led to technology development in the Group and we have developed several proprietary technologies.

Our advanced ballast water treatment system has been installed on several of our vessels both shuttle tankers and LNGs and this system is known as KBAL.

We have a proprietary system for gas under pressure or pressurised natural gas (PNG) as we call it which we believe can be a good alternative to LNG for short haul transportation and/or stranded gas.

Furthermore, we have system for minimising emissions of volatile organic compounds (VOC) in connection with loading operations, this system we call KVOC and this system has now been installed on about 50 vessels.

Globe – Slide 5:

Knutsen has a worldwide presence which we think is only natural for a company operating in the most global of all businesses, namely shipping.

We are headquartered in Haugesund, on the west coast of Norway. For shuttle tanker operation, we have offices in Aberdeen, Copenhagen, St. Johns and Rio. In addition, John is located in London and we have a presence here in New York at the exchange.

For crewing in the Knutsen Group, we have offices in Manila and Riga in addition to Haugesund. Given the fact that we have a lot of Spanish customers, we also have an office in Madrid and actually most of our officers on the LNGs are Spanish.

As I mentioned previously, we control the full value chain and it is not because nobody has told us about outsourcing, it is because we believe being fully integrated is a competitive advantage in our industry.

Strategy – Slide 6:

In terms of strategy it is pretty dull.

As I mentioned earlier, we have stuck to our strategy for more than 30 years and it has worked well in both good and bad days. It has been stress tested.

Our strategy consists of four pillars;

- advanced vessels,
- long-term contracts,
- first class charterers, and last but not least
- safety commitment.

These pillars are important in everything we do, so I will spend some time elaborate on each of these pillars.

Modern vessel – Slide 7:

The first pillar is modern advanced vessels. As I mentioned initially, our CEO is a naval architect and our management is packed with engineers and people with experience operating our vessels as officers.

I honestly think you will find very few shipping CEOs these days that approves the general arrangement of each and every newbuilding, but Trygve insist on this.

Some might say that CEOs should delegate such trifling matters to underlings and rather spend time with analysts, investors and media.

We reject this notion.

It is like saying that Steve Jobs should have spent less time developing ipods, iphones and ipads.

We do not build advanced vessels and lead the technological development just because a bunch of engineers and officers loves new gadgets. We do these things because it is good economics.

We know that our vessels will be operating for a long time and we therefore want to minimise total cost of ownership.

Furthermore, we might add technical features that is maybe not strictly required by the charter, but which can be valuable when the vessel goes of charter and we are again in a situation where we have marketing the vessel. This could be new shuttle tanker contracts or FSO/FPSO contracts.

Our shuttle tanker being converted to FSO right now is a testimony to this strategy. So are the four vessels which we have previously sold at a hefty profit for FPSO projects.

Long-Term Charterers - Slide 8:

The next pillar in our strategy is long-term contracts.

The shuttle tanker market is a small market, a niche market.

We and others generally do not order vessels on speculation which is why this market has not been destroyed by financiers and brokers.

So why do not people order on speculation?

Have the speculators missed a golden opportunity?

My answer is no.

Why is that?

It is because the shuttle tanker market is driven by real physical transportation need by the oil companies producing crude oil at offshore oil fields.

This offshore oil production is fairly constant and predictable.

If you order a shuttle tanker on speculation and you don’t get a contract, you will basically be stuck with a very expensive tanker, costing almost twice the price of a conventional tanker and with higher fuel consumption due to the thrusters.

Furthermore, shuttle tankers are not homogenous assets. Different fields in different regions might have quite different requirements for the vessels and not only due to different requirements in terms of batches i.e. 450k, 850k or 1m barrels batches.

Hilda and Torill Knutsen which will be operating in the Barents Sea are winterised and can operate in minus 30 degrees centigrade. The North Sea is a harsh environment and therefore put strict requirements on the performance of the vessel.

We have been operating in this environment for 30 years and we have learned quite a lot.

The same is true for the Santos basin in Brazil which has a very strong current and this means the vessels need a lot of thruster capacity in order to be able to keep position while loading.

In my personal view it’s not smart to order shuttle tankers on speculation so rather order some KNOP units from your broker if you want exposure.

The focus on long-term fixed price contracts is the reason why KNOPs backlog is five and a half years plus two and a half years of extension options on average.

But we also walk the talk in the rest of the Knutsen Group.

The average remaining backlog of KNOT is about USD 1.8bn or about 8 years of 2015 operating income. There is also substantial optional backlog.

Our LNGs has about USD 4.4bn in remaining fixed backlog and another USD 2.5bn in optional backlog as our contracts are fixed for 20 to 25 years.

First Class Charterers - Slide 9:

The third pillar has for some shipowners and financers not been as evident as maybe the first two pillars of our strategy.

It is the requirement that our charterers are first class.

Normally, our charterers are the oil majors so credit rating tends to be very high.

But we don't blindly look at credit ratings.

I think everyone who has read or seen the Big Short now agrees that other parameters should also be taken into account.

The key parameter for us is whether the charter actually has a real physical need for the vessel. Shuttle tanker is a key and integral part of the value chain of any oil company producing offshore oil.

The oil has no value at the field, it only has a value if it transported to shore for refining into petroleum products.

We deliver this service and the cost of transporting the oil to shore is a fraction of the cargo value even in this low oil price environment.

So if the oil company wants cashflow, they have to honour the contracts with us. And this they do.

During our 30 years in the shuttle tanker market since it started, our contracts have always been honoured and we have always been paid.

Even the very few contracts we have entered into with less financially sound oil companies have also performed.

Why? It is because our customers have an incentive to honour the contracts with us since the alternative is not being able to monetise their oil which is their whole business model.

Safety - Slide 10

The fourth pillar in our strategy relates to safety and quality. Most people with an average level of intelligence can easily grasp what we are doing.

Our strategy is even by some considered to be a bit boring.

However, don’t for a second think that this also means that what we are doing is simple and easy.

It is not.

It is far from easy.

We are operating vessels in very harsh environment.

Our operations are complex in every aspect.

The performance requirements in relation to operation and safety are staggering.

Our customers are very demanding and their tolerance for errors is zero.

Still, the KNOP fleet has an utilisation since IPO of 99.6 per cent.

Our safety and quality KPIs are world class.

In order to be in this business, you have to deliver first class service every single day.

If you don’t, you will shortly find yourself out of business.

This is also why the shuttle tanker market is not a playing ground for financial speculators aiming to flip their assets.

Banks – Slide 11:

What we are doing is very capital intensive.

Hence, we need a lot of capital.

Some capital we have raised through the MLP market, but the vast majority of our capital is raised through bank financing.

Luckily we have a very bankable strategy.

It is more or less tailor made for banks as they also cherish modern advanced vessels on long term contracts with first class charterers.

Furthermore, we also have a good reputation and this reputation we have earned the hard way by raising early, working hard and transporting oil safely.

By performing consistently well for a long-time we have also always honoured our commitments to our banks. We are no phoenix from the Chapter 11 ashes company.

KNOP today has nine active banks, but there is in total 28 active banks in the Knutsen Sphere and more banks are eager to get in.

The support of our banking group enables us to raise competitive finance in relation to leverage, terms, pricing and flexibility.

When we order a new vessel in KNOT, the loan includes provisions for changing the ownership to KNOP in order to ensure smooth transition of control.

We also believe based on discussion with banks that there is room for some added leverage in KNOP, but we will not do so unless the capital can be employed at an attractive rate for the partners of KNOP.

Economist – Slide 12:

We have been in this industry since its birth. Today a lot of investors and bankers are worried about the oil price and what it means for us.

We also think the current oil price is low, but we have been through this several times before.

If you look at a chart of the KNOP unit price and compare it to a chart of the oil price you don’t need an advanced degree in mathematics to see that correlation is evident and strong, almost perfect.

The oil price correlation with AMZ is now about 0.5.

I know we have said this before, but I think we have to repeat ourselves: Our advanced shuttle tankers are on long-term fixed price charters to first class charters.

When we say fixed, they are not fixed to the price of oil.

It means we receive a fixed monthly charter rate in USD usually with some escalation clauses to cover cost inflation.

And this charter payment we receive in advanced, limiting our working capital needs.

Furthermore, if the oil companies want to monetise the oil - they need our services to transport the oil to shore. The alternative to shuttle tankers is building a fixed pipeline, but this is often not economically and/or technically feasible and oil companies generally want to avoid increasing their capex budget these days.

Doom and Boom has been predicted for the oil market ever since we started, as evident from these covers of the Economist presented here.

Now in 2016, Economist is again writing that we are drowning in oil as they also said in 1999. We are back to the future.

In 2001, oil price took off and Economist then ran a cover with the title "Addicted to Oil". This was five years before George W. Bush used the same phrase in his state of the union in 2006.

Economist also pointed out this fact in 2005, calling America and China the "Oiloholics".

In 2008, Economist reported oil hitting its all-time high of $ 147 and in 2011 Economist reported the sharp price increase in connection with the Arab spring and the general improved macroeconomic environment following the financial crisis.

In 2013, Economist actually correctly predicted the slump in oil prices.

But they were right for the wrong reasons as they predicted oil price would falter due to less demand for oil.

This is not true, demand is higher than ever, but so is supply due to the shale boom in the US and the fight for market share by OPEC.

What will happen next?

Let's be honest: we don't know.

What we do know, and it is not an unknown known, is that oil is cheap and thus in high demand.

We therefore also think there will be demand for transportation of oil.

And shuttle tankers will be part of the transportation value chain.

Management – Slide 13:

Most of the investors here has only met John before and maybe our Chairman Trygve. But John is not alone.

The vessels in KNOP is being managed by the Sponsor and the Sponsor has a really experienced top management team with more than 210 years of relevant shipping and energy experience where the average experience is more than 26 years.

I have mentioned Trygve's experience initially, but we have a lot of other very qualified people.

Our chartering and commercial director actually joined as far back as in 1978.

He then joined as a boy and worked his way up to becoming the captain of some of our first shuttle tankers when he was only 28 years. Except for a sixth year stint in Statoil as chartering director, he has been with us since the beginning.

This is also true for our newbuilding director who joined Knutsen 31 years ago.

As you will see, experience is true for all members of our team.

If it hadn't been for me with my minuscule 11 years of experience, average experience of top management team would be 30 years.

Also keep in mind that John is a very experience guy with 30 years of experience from the shipping industry.

So with that I think it is a good time to give the word to John.

Thank you for your attention.

<< John Costain CEO/CFO, KNOT Offshore Partners LP>>

Slide 15: Reiterate - Highlights & Recent Events

For the fourth quarter of 2015, the partnership generated its highest ever revenues of $42.4 million.

Highest ever quarterly adjusted EBITDA of $33.8 million

Highest quarterly ever net income of $17.6 million,

Highest quarterly ever earnings per unit of $0.62

Price/Earnings ratios (P/E) A P/E of 5.5x based on annualized Q4 earnings at $14 per unit.

The Price-to-Earnings Ratio or P/E ratio is a ratio for valuing the MLP that measures its current unit price relative to its per-unit earnings.

*For example, suppose that the MLP is currently trading at **$14 a unit,** its earnings over the last quarter (Q4 Net Income) M$17.6, the Units issued are 27.75M quarter earnings $0.63 unit. Based on **$14 a unit** an annualized P/E of 5.5x ($20 P/E is 7.9x).*

*Full year M$40.4 earnings Wt. Av Units 25.79M annual earnings $1.57 unit. Based on **$14 a unit** Annual P/E is 8.9x ($20 P/E is 12.7x).*

The accounting measures include unrealized losses on interest rate swaps (2015 year end balance M$6.37) and realized losses on currency swaps (2015 cost M$4.4) both of which are not reflecting the underlying performance of the MLP, and have adversely affected our MLP's earnings in 2015.

Highest quarterly ever distributable cash flow of $18.1 million.

We declared a distribution of $0.52 per unit for this fourth quarter 2015, as guided in our press release of December 21, 2015.

Distribution/Unit Price – A Running Yield of 15% at $14 per unit.

The Yield term is used in different situations to mean different things. It can be calculated as a ratio or as an internal rate of return (IRR). It may be used to state the owner's total return, or just a portion of income.

In its simplest form the MLP's current yield is the distributions paid per common unit by the MLP divided by the MLP spot market unit price.

*The current yield is $2.08 per year assuming **$14 a unit** the current yield would be 14.9%.*

The internal rate of return for new investments (drop downs into the MLP) needs to be significantly higher to match the current cover on this yield, and thus make the new investment accretive.

With a wasting asset like a vessel, older fleets, in theory, can produce higher yields for every dollar invested, as there can be an increasing capital element as the assets ages, although in a normal trading environment over time this should be reinvested (replacement capex is provisioned when calculating the cover).

KNOP's fleet has an average age slightly over 4 years compared to the industry average of slightly over 10 years.

The coverage ratio on our highest ever distribution improved to 1.2 as we guided in our Q3 Earnings Release call.

Book equity of $521 Price-to-Book Ratio (P/B Ratio) of 0.75 at $14

***Price to book** ratio (P/B Ratio) is a ratio used to compare the MLP's market value to its **book** value. It is calculated by dividing the current closing **price** of the stock by the latest quarter's **book** value per unit.*

At $14 the P/B Ratio is 0.75, with Partners Equity of M$521 at the end of 2015 equating to a Unit Book Value of $18.78.

In the accounts vessels have been written down on a straight line basis, however the annuity affect reduces the value loss in the early years, this partly explains the higher vessel NAV valuation (see later). Younger fleets or assets also have longer to enjoy any MLP correction, which may come about in the near to medium term, ignoring drop downs which anyway are not occurring to any great degree in the current markets.

We had an excellent operational performance of 99.9% utilization (2015 full year 99.8%).

Charters extended in 2015 on 3 of the 5 time chartered vessels, *Carmen Knutsen (5 years additional years until 2023), Bodil Knutsen (1 year) and a new charter on Windsor Knutsen (2 years). All vessels chartered until 2018.*

Slide 16: Have we delivered on expectations?

Fleet growth

The Fleet has grown 150% since IPO. The Drop-down dowry remains at five vessels a growth potential of 275% since the IPO.

Chartering

In addition to securing charters for six new drop-down vessels since IPO, we have also entered into new contract for Windsor and extended both the Bodil and Carmen Knutsen, all vessels are chartered covered or revenues guaranteed until at the earliest April 2018.

Distribution

At the time of the IPO we had a aim to have a 10-15 per cent increase in distribution in the first three years

Our 11^{th} distribution is 39% higher than the 1^{st} on a full quarter adjusted basis, and we have instigated a unit buyback program as it remains a very accretive use of cash for the MLP increasing the distribution cover for the remaining units.

The coverage on our highest ever distribution remains at 1.2x in line with the weighted average since the IPO 1.2x

US investors and analysts expect an MLP to maintain a Distribution Coverage Ratio of approximately 110 to 120%, however given current market uncertainties we choose to stay conservative with our distributions.

Slide 17: Relative Evaluation

Net Interest Bearing Debt/EBITDA

Younger fleets (or longer life assets) can sustain higher ratios if employment secure.

Given a relatively young fleet and long contracts KNOP's leverage is easily manageable.

Lower ratios are potentially financially more stable, but with the elevated yields currently required and relatively stable counterparties inevitably gearing may climb near term, especially if unit prices recover enough to allow drop downs to restart.

Interest Coverage Ratio (EBITDA/interest expense or EBIT/interest expense)

A debt ratio and profitability ratio used to determine how easily our MLP (KNOP) can pay interest on outstanding debt.

Essentially, the interest coverage ratio measures how many times over an entity could pay its current interest payment with its available earnings. In other words, it measures the margin of safety an entity has for paying interest during a given period.

For the graphical comparison to some of the other marine MLPs interest coverage ratio has been calculated by dividing each marine MLPs during a given period by the amount the MLP must pay in interest on its debts during the same period.

KNOP's ratio on the basis of the last quarter (33,843/4,731) is 7.2x (we do not have expensive interest rate swaps) vs requirement by banks of 2.5!

Adding in depreciation (effectively allows for debt payback as well as interest) KNOP's) is a measure of KNOP's operating profit.

The ratio on the basis of the last quarter (22,158/4,731) is 4.7x – again very comfortable.

Distribution Coverage Ratio

We have an easily sustainable distribution with an average distribution coverage ratio for 2015 similar to many other marine MLP's currently around 120%.

Average contract duration & Average fleet

Our business model is based on properly pricing long-term contracts; knowledge gained through many years of practical experience. Our average contract duration at end December was approximately 5.6 years. The contracts have stable and logical long-term price structures; and therefore, we expect minimal downside risk at renewal. On average we have given our charterers 2.5 years of options at the end of each fixed period.

When we did the initial public offering (IPO) our fleet of four vessels had an average age of 3 years, now nearly three years later we have a fleet of ten vessels, which have an average age of about 4 years. Over time the fleet will age and in the long term we expect given our size for the KNOP fleets average age to achieve the rest of the industry average of 10 years, dropdowns permitting.

Slide 18: Steady Financial Performance

Our financial performance is steady we have seen 146% revenue growth and 166% per cent growth in adjusted EBITDA a slight Margin expansion (operating cost savings and proportionally reduced G&A).

39 per cent growth in distribution verses the minimum quarterly distribution (MQD) a stable and sound cover ratio which has never been below one in any quarter. Lower coverage levels were due to timing differences between initially raising equity and then acquiring assets. This drives a sustainable pay-out policy.

Slide 19: Current Contracts overall very profitable: Significant surplus generated over current enterprise value and WACC

Charter Free Valuation

The Dollar has strengthened against JPY, KRW and CNY by around 20% in the last 2 years and steel prices have dropped in 2015 by 30%. Despite this the 3 largest Korean Shipyards contract at levels that generate substantial losses (estimated at B$7 in 2015).

Greeks are still the top owners and buyers, but they have recently been less active, so prices and values remain depressed and new build activity is very low.

Despite this the Charter free market value of our fleet remains at around $16 per unit.

We show for the current fleet of 10 vessels their lifetime value to the MLP, this is shown as a graph.

The graph compares the finance lease cost of the vessels (from the Market Value) to the EBITDA's generated from our charter portfolio we see the charters are at a significant premium over current market prices.

Slide 20: Charter Free Valuation + Predicted Earnings basis current EBITDA for NAV and Unit Valuation

What is NAV? (*Net asset value)*

Net asset value (NAV) is the value of an entity's assets minus the value of its liabilities. Net asset value may represent the value of the total equity, or it may be divided by the number of units outstanding held by investors, thereby representing the net asset value per unit.

The following notes refer to the lower Illustration/tabulation

The Valuation is shown in three parts:

1) Charter Free - the Broker Valuation without any time charter cover. This was around $15.90 at the year end.

(2 +3) Charter Adjustments

To calculate we take our best estimate of each vessels 2016 earnings before interest taxation, depreciation and amortization, (2016 vessel EBITDA) this provides a very good proxy for operational cash flow in shipping as there is less noise than with the earnings figure in the accounts.

To keep the calculations simple (and because of significant discounting) we assume these 2016 vessel EBITDA's apply to the future years also. This is a very good although slightly simplifying approximation. Many of the time-charters have escalators, which any way compensate for small increases in operating costs going forward.

One vessel Bodil Knutsen will be dry docked in 2016 (out of the six on time charter) this is also a good average.

From the 2016 vessel EBITDA we subtract the 2016 estimated group overhead (G&A) apportioned by vessel and divide by 366 to derive a daily revenue per vessel after operating costs and overheads.

The vessel bareboat cost is calculated with reference to the current market value of each vessel and our cost of capital. The vessel bareboat cost is effectively the lifetime financial cost of the vessel split out on a daily basis.

We subtract vessel bareboat cost from Vessel EBITDA to get a daily charter premium figure. This daily charter premium is discounted over various periods to give, the charter adjustment values, the option adjustment values, and the remaining life adjustment values.

2) **NAV Fixed Charter** – Charter Adjustment time charter cover. This is for the firm charter cover period, and is the difference between the financial cost (as represented by the graph on the previous slide) and the actual estimate EBITDA earnings. (See second last column in the table "NAV Fixed Assessed"). As the weighted average cost of capital reduces as the unit price increases the investment value picks up significantly – These assets have long lives and stable income structures!

3) **NAV Full Period Assessed** (See last column in the table "Full Period Assessed") - this is for the remaining life as a Shuttle Tanker, we assume that the vessel achieves the same EBITDA return over all its remaining operational life; it is the difference between the financial cost and the full 20 year life actual estimate EBITDA earnings.

   This is a traditional MLP valuation basis and most suitable for late cycle stable investments like shuttle tankers assets which traditionally have none cyclical earnings.

We show the NAV per unit using different unit prices and hence different weighted average cost of capital. Of course either the number of unit issued will decrease over time or further investments will be added to maintain these returns on an ageing fleet,

On this basis the NAV based unit valuation varies between $21 (at 8.74% WACC - $10 unit) and $31 (at 5.72% WACC - $28 unit). These values cover KNOP's full trading range.

The $28 valuation arose when the MLP was seen as high growth and high growth was seen as desirable.

Slide 21: How is the MLP Performing?

Net aggregate proceeds from our unit sales have averaged $21.89 net of commissions. Distributions have increased by 39% over the minimum quarterly distribution in the 10 distributions since the IPO. Based on the current enterprise value calculated from the annuitized drop down values we estimate a unit value of around $22 to $23 at 31st December 2015.

Today (4th quarter 2015) and also projected in 2016 our investment cover is around 120%.

We project a current enterprise/ EBITDA valuation of around 10x in line with previous periods with an elevated distribution.

Slide 22: Economies of Scale: We are thrifty and lean

We currently have stable G&A expenses even though the fleet has expanded significantly. New transactions have delivered elevated costs in 2013 and 2014 in the quarters they have occurred.

Slide 23: Financial Guidance

Revenues of ≈ $167-170m

EBITDA of ≈ $128 - 132m

KNOP Q4 EBITDA is M$33.5 which annualized is M$133.2. The Bodil Knutsen has a scheduled off-hire in 1st quarter in connection with its 5 year special survey. This reduces this EBITDA by M$4.4 a combination of the full cost of the off-hire and the full cost of the Dry-docking.

We have locked in our NOK exposure for the next 3 years approximately to underpin our reduced short term operating costs.

Distributable cash flow of ≈ $75-79m

Distribution at $ 2.08 p.a. gives total distribution of ≈ $60m

We estimate that the result will give a coverage ratio in excess of 1.2 on average for 2016 (though not Q1).

Our four Bareboat Charter Vessels (finance type leases), and the loss of hire insurance on our other 6 time charter vessels have given us a high level of visibility on these earnings.

Slide 24: What to do next

If we see no improvement in the MLP market in the coming 12 months then pricing for the next scheduled drop down will not work and investment will be choked.

Run our business like we always have done. Our contracts are highly profitable and very stable, dealing directly with the shipper of a very valuable cargo, we see little financial risk in performance, or commercial pricing risk during or at renewal of the contract.

Repurchasing of units, continue and maybe expand the program. Over time as our existing fleet ages the capital base required will contract and with no price improvement it is highly likely in the medium term we will repurchase and cancel more units.

Drop-down if accretive **–** We will look to restart the drop down program with accretive drops at $20+ unit price. (Is an 11% sustainable yield an unrealistic target with the risk we field)?

Balance sheet optimisation (Managing debt/cash/repurchase/issue of units)

In the medium term if drops are not occurring we will achieve stable distributions while managing debt repayment and unit repurchases.

It will be a similar process if drops are occurring, in this case the higher the unit price the more accretive the drops the lower the leverage and the more stable the business.