



KNOT
Offshore Partners LP

Second Quarter Results 2013

August 27, 2013



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Highlights & Recent Events

- KNOT Offshore Partners L.P. reports results for the second quarter 2013 following its successful initial public offering completed in April 2013
- For the second quarter 2013, KNOT Offshore Partners LP:
 - Generated net income of \$4.0 million and operating income of \$7.4 million
 - Generated Adjusted EBITDA of \$12.7 million⁽¹⁾
 - Generated distributable cash flow of \$7.2 million⁽²⁾
- Declared distribution of \$0.3173 per unit with respect to the period ended June 30, 2013. This represented a prorated distribution for the period from closing date of the IPO on April 15 through June 30, 2013. This corresponds to a quarterly distribution of \$ 0.375 per unit
- Acquired the company owning Carmen Knutsen in August 2013 for a consideration corresponding for a purchase price of \$ 145 million less \$89 million of existing bank debt

(1) Adjusted EBITDA is a non-GAAP financial measure used by investors to measure the performance of master limited partnerships. Please see page 8 for a reconciliation to the most directly comparable GAAP financial measure.

(2) Distributable cash flow is a non-GAAP financial measure used by investors to measure the performance of master limited partnerships. Please see page 7 for a reconciliation to the most directly comparable GAAP financial measure.

Highlights & Recent Events

- Management recommends the board to increase distributions by 6 cent per quarter from third quarter 2013, representing an increase in distributions of 16%
- Significant potential for further growth; initially from the four defined dropdown candidates

Summary unaudited condensed consolidated and combined carve-out statement of operations

- Vessel operation in line with forecast
 - 99.9% uptime
 - Operating expenses positively affected by weaker NOK (representing above 50% of Opex)
- Financial statements of Partnership as separate legal entity started as of April 16, 2013.
 - Financial figures from April 1 to April 15, 2013 are based on a carve out of Knutsen NYK Offshore Tankers AS
- G&A affected by IPO related costs
- Interest expenses affected by the higher debt before the IPO \$120m deleverage
- Other financial expenses and derivative costs reflect IPO related deleverage

(USD in thousands)

| | | |
|---------------------------------------------------------------------------|----------------|----------------|
| Time charter and bareboat revenues (1) | 17,268 | 12,000 |
| Loss of hire insurance recoveries | - | 2,217 |
| Total revenues | 17,268 | 14,217 |
| Vessel operating expenses | 3,251 | 4,853 |
| Depreciation and amortization | 5,340 | 5,311 |
| General and administrative expenses (2) | 1,269 | 275 |
| Total operating expenses | 9,860 | 10,439 |
| Operating income | 7,408 | 3,778 |
| Finance income (expense): | | |
| Interest income | 3 | 13 |
| Interest expense (3) | (2,529) | (3,395) |
| Other finance expense (4) | (492) | (873) |
| Realized and unrealized loss on derivative instruments (5) | (434) | (4,507) |
| Net gain (loss) on foreign currency transactions | 15 | 1,606 |
| Total finance expense | (3,437) | (7,156) |
| Income (loss) before income taxes | 3,971 | (3,378) |
| Income tax benefit | - | 842 |
| Net income (loss) attributable to KNOT Offshore Partners LP Owners | 3,971 | (2,536) |

| | Three months Ended June 30, 2013 (unaudited) | Three months Ended June 30, 2012 (unaudited) |
|---------------------------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------|
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- 1) Time charter revenue for the second quarter of 2013 include, non-cash item of approximately \$0.5 million in reversal of contract liability provision.
- 2) General and administrative expenses for second quarter of 2013 includes \$0.5 million in costs related to the IPO.
- 3) Interest expense for the second quarter of 2013 includes non-cash item of approximately \$0.6 million in amortization of previously capitalized loan cost related to debt repaid at IPO.
- 4) Other finance expense for the second quarter of 2013 includes legal costs of approximately \$0.4 million relating to loans with an average remaining term of 3.4 years.
- 5) Realized and unrealized loss on derivative instruments is related to interest rate swaps not transferred to the Partnership by Knutsen NYK Offshore Tankers AS at the date of the IPO.

Summary Unaudited Condensed Consolidated and combined carve-out Balance sheet

- Total cash of \$27.1 million, In addition an undrawn revolving credit facility of \$20 million
- Interest bearing debt at \$ 217.4 million
- Average margin on the debt was 2.7% in addition to the Libor
- Contract liabilities of \$15.7million is a provision and will gradually be added to revenues over contract life
- Entrance Tonnage Tax of \$3 million
- In compliance with all financial covenants
 - EBITDA/ Interest cost
 - Equity / Total assets
 - Market value of vessels
 - Liquid funds

(USD in thousands)

ASSETS

Current assets:

| | |
|---------------------------|--------|
| Cash and cash equivalents | 25,218 |
| Restricted cash | 1,910 |
| Other current assets | 2,917 |

Long-term assets:

| | |
|-----------------------------|---------|
| Vessels and equipment | 486,088 |
| Goodwill | 5,750 |
| Deferred debt issuance cost | 2,336 |

Total assets

524,219

LIABILITIES AND PARTNERS' EQUITY/OWNER'S CAPITAL

Current liabilities:

| | |
|----------------------------------------|--------|
| Current installments of long-term debt | 17,402 |
| Contract liabilities | 1,518 |
| Income taxes liabilities | 600 |
| Amount due to related parties | 2,655 |
| Other current liabilities | 4,429 |

Long-term liabilities:

| | |
|------------------------------------------------|---------|
| Long-term debt, excluding current installments | 200,051 |
| Contract liabilities | 13,552 |
| Deferred tax liabilities | 2,400 |
| Other long-term liabilities | 781 |

Total Partner's capital

280,831

Total liabilities and equity

524,219

**At June 30,
2013
(unaudited)**

Distributable cashflow

(USD in thousands)

Net income

Add:

Depreciation and amortization

Unrealized loss from interest rate derivatives

IPO expenses covered by Knutsen NYK Offshore Tankers AS

Other non-cash items; deferred costs amortization debt

Less:

Estimated maintenance and replacement capital expenditures (including drydocking reserve)

Other non-cash items; reversal of negative contract provision

Distributable cash flow

| Three months Ended June 30, 2013 (unaudited) |
|-----------------------------------------------------------------|
| 3,971 |
| 5,340 |
| 434 |
| 60 |
| 870 |
| (2,980) |
| (477) |
| 7,218 |

Distributable cash flow represents net income adjusted for depreciation and amortization, unrealized gains and losses from derivatives, unrealized foreign exchange gains and losses, other non-cash items, 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 Partner's performance calculated in accordance with GAAP. The table below reconciles distributable cash flow to net income, the most directly comparable GAAP measure.

Adjusted EBITDA

(USD in thousands)

| | Three months Ended June 30, 2013 (unaudited) |
|-------------------------------|-----------------------------------------------------------------|
| Net income | 3,971 |
| Interest income | (3) |
| Interest expense | 2,529 |
| Depreciation and amortization | 5,340 |
| Income tax (benefit) expense | - |
| EBITDA | 11,837 |
| Other financial items (a) | 911 |
| Adjusted EBITDA | 12,748 |

(a) Other financial items consist of other finance expense, realized and unrealized loss on derivative instruments and net loss on foreign currency transactions.

Adjusted EBITDA refers to earnings before interest, other financial items, taxes, non-controlling interest, depreciation and amortization. Adjusted EBITDA is a non-GAAP financial measure used by investors to measure our 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 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 table below reconciles Adjusted EBITDA to net income, the most directly comparable GAAP measure.

Expected Restatement of 2012 Results

- Following discussion with the Partnership's auditors, the board has determined to restate the the combined carve-out financial statements for the Predecessor for 2012
- Purpose is to correct certain errors in IPO costs that has been deferred and capitalized on the balance sheet, but will be booked as costs in 2012 P&L
- The adjustment is expected to increase the G&A costs by approximately \$3.4 million, resulting in a reduction of net income from \$4.1 million previously reported to \$0.7 million
- Expenses associated with the IPO was \$1.5 million in Q1 2013 and \$0.4 million in Q2 2013.
- These expenses were funded from IPO proceeds and the restatement will have no impact on the cash available for distribution to unitholders

Carmen Knutsen acquired 01 August 2013



Carmen Knutsen is a 157 000 dwt shuttle tanker, built by Hyundai Heavy Industries and delivered to Knutsen NYK Offshore Tankers in January 2013.

The vessel is currently trading in Brazil under a fixed time-charter contract with Repsol Sinopec until February 2018 and with three 1 year options thereafter.

| | |
|-----------------------------------------------------------------------------------|-------------------------|
| Purchase price | USD 145.0 million |
| Financing: | |
| Existing bank debt | USD 89.1 million |
| Seller Credit | USD 10.5 million |
| Increased loan facility secured by <i>Fortaleza Knutsen and Recife Knutsen</i> | USD 25.4 million |
| Revolver secured by <i>Bodil Knutsen</i> | <u>USD 20.0 million</u> |
| | USD 145.0 million |

The seller credit has a margin of 4.5%, and average financing margin is 2.8%

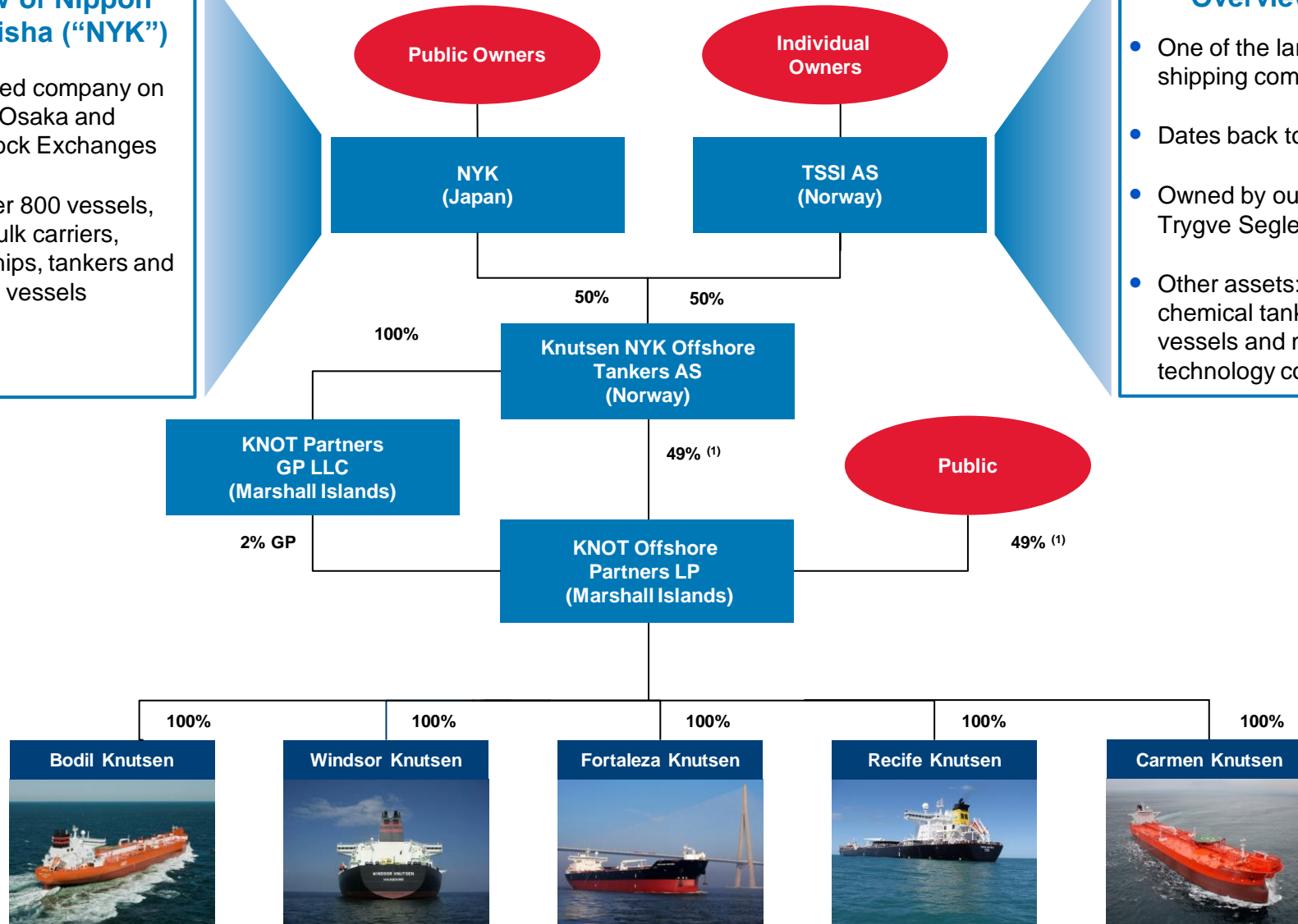
Overview of Sponsors and Partnership Structure

Overview of Nippon Yusen Kaisha (“NYK”)

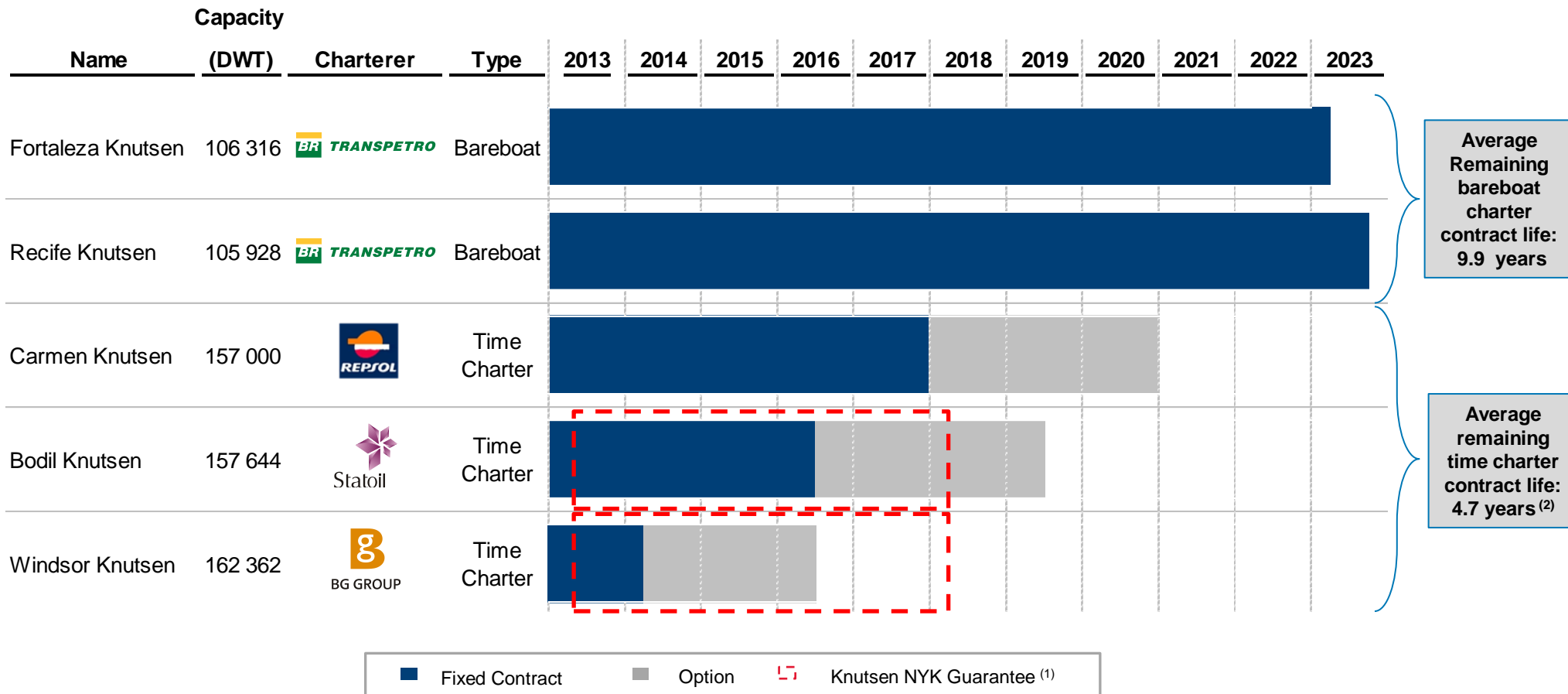
- Publicly listed company on the Tokyo, Osaka and Nagoya Stock Exchanges
- Fleet of over 800 vessels, including bulk carriers, containerships, tankers and specialized vessels

Overview of TSSI

- One of the largest private shipping companies in Norway
- Dates back to 1984
- Owned by our Chairman, Trygve Seglem, and his family
- Other assets: 7 product / chemical tankers, 9 LNG vessels and maritime technology companies



Long-term Contracts Backed by Leading Energy Companies



KNOP fleet has average remaining contract duration of 7.2 years ⁽²⁾

Note: Remaining contract life is calculated as of 8/23/2013.

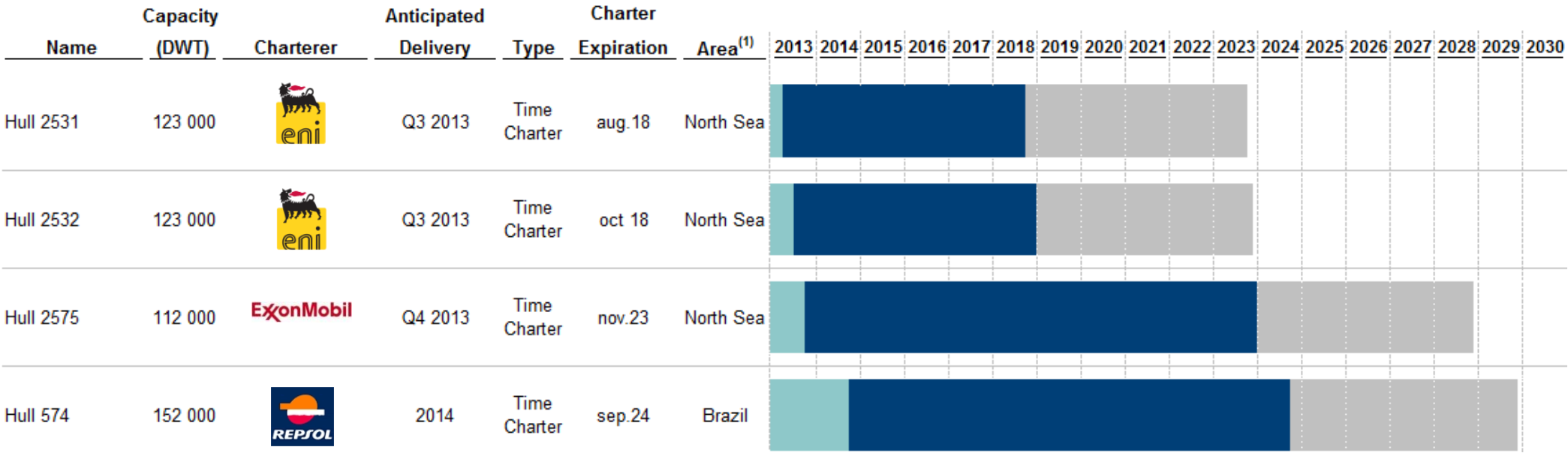
(1) Guarantee duration of five years from IPO date.

(2) Including Knutsen NYK Guarantee and excluding the option periods.

Dropdown Fleet Overview

Contract life for Dropdown fleet:

- 7.0 years excluding options
- 11.6 years including options



All newbuilds obligated to be offered to KNOT Partners within 24 months of delivery

(1) Expected area of operation.

Summary

- Q2 operation as forecasted
- Following the first dropdown acquisition in August, management has recommended to the Board to increase distribution by 16% from Q3
- Solid contract base
- Short term production delays in both Brazil and North Sea does not change demand picture for offshore shuttle tankers medium and longer term
- Industry dynamics create significant growth opportunities the next years

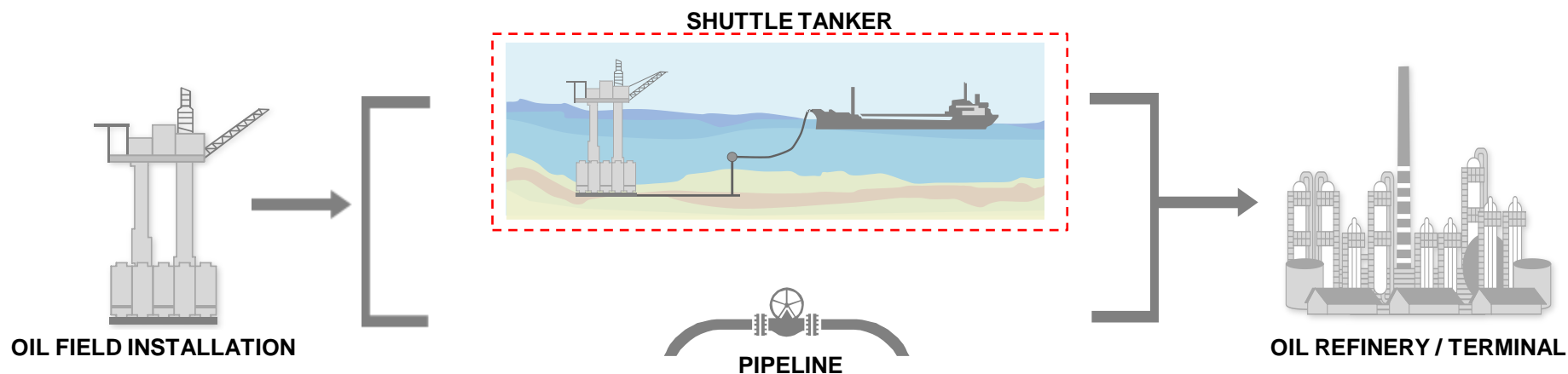


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Thank you, any questions ?



Appendix 1: Shuttle Tankers: A Critical Component of Offshore Oil Infrastructure



Advantages vs. Pipelines

- Superior, more economical alternative with lower initial investment in certain fields based on:
 - Water depth
 - Distance from infrastructure
 - Field size
 - Field life
- Destination flexibility

Key Differences vs. Conventional Tankers

- Specially designed tankers with sophisticated bow loading and submerged turret loading equipment
 - Dynamic Positioning (DP) systems allow the vessel to stay on location in high seas and in harsh environments
 - 50% higher investment cost than conventional tankers
- Tender-based business drives newbuilds (versus speculative ordering)
- Longer-term contracts
- Stricter standards and specialized crewing

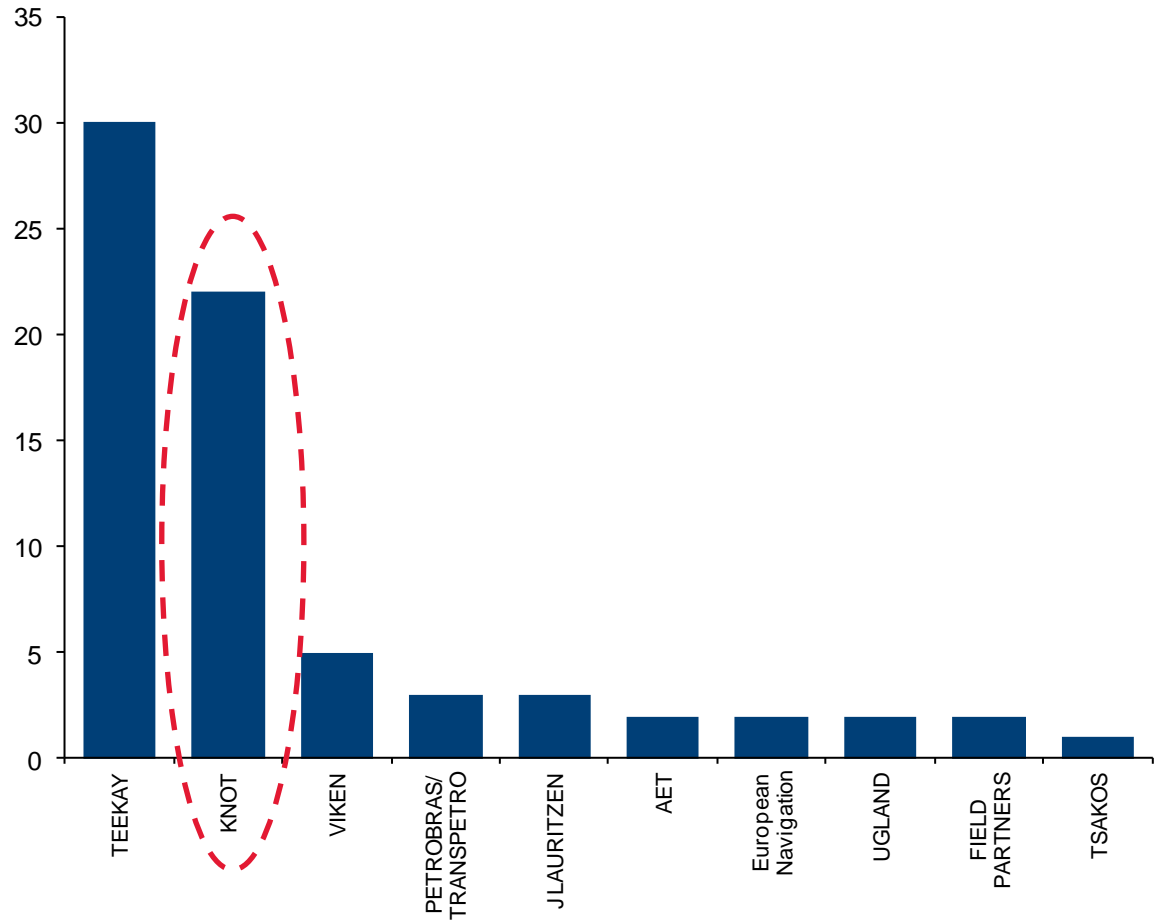
Appendix 2: Knutsen NYK: Industry Leader with 2nd Largest Fleet

A Highly Experienced Operator

- Market leading shuttle tanker operator with extensive experience
 - 26 years of experience in offshore buoy loading and DP operations
- Backed by two leading sponsors in the industry: TSSI and NYK
- Fleet expansion based entirely on organic growth

Knutsen NYK is One of the Largest Operators in the Shuttle Tanker Sector ⁽¹⁾⁽²⁾

Vessels



Knutsen NYK is the exclusive vehicle for investment in shuttle tankers by its Sponsors

(1) Sources: Fearnley research, March 2013.

(2) Indicates owned vessels only.