KNOT Offshore Partners LP
Form 20-F
April 10, 2019

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INDEX TO FINANCIAL STATEMENTS OF KNOT OFFSHORE PARTNERS LP

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2018

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

OR

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

Commission file number 001-35866

KNOT OFFSHORE PARTNERS LP

(Exact Name of Registrant as Specified in its Charter)

Republic of the Marshall Islands

(Jurisdiction of Incorporation or Organization)

2 Queens Cross
Aberdeen, Aberdeenshire
AB15 4YB, United Kingdom

(Address of Principal Executive Offices)

John Costain
2 Queens Cross
Aberdeen, Aberdeenshire
AB15 4YB, United Kingdom
E-mail: jco@knotoffshorepartners.com
Telephone: 44 (0) 1224 618420
Facsimile: 44 (0) 1224 624891

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common units representing limited partner interests	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

32,694,094 common units representing limited partner interests

3,750,000 Series A Convertible Preferred Units

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

o Yes ý No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

o Yes ý No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

ý Yes o No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

ý Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of "large accelerated filer", "accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o   Accelerated filer ý   Non-accelerated filer o   Emerging growth company o

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards* provided pursuant to Section 13(a) of the Exchange Act. o

*The term "new or revised financial accounting standards" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ý   International Financial Reporting Standards as issued by the International Accounting Standards Board o   Other o

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

o Item 17   o Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes   ý No

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KNOT Offshore Partners LP

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 20-F for the year ended December 31, 2018 (this "Annual Report") contains certain forward-looking statements concerning plans and objectives of management for future operations or economic performance, or assumptions related thereto, including our financial forecast. In addition, we and our representatives may from time to time make other oral or written statements that are also forward-looking statements. Such statements include, in particular, statements about our plans, strategies, business prospects, changes and trends in our business, and the markets in which we operate as described in this Annual Report. In some cases, you can identify the forward-looking statements by the use of words such as "may," "could," "should," "would," "expect," "plan," "anticipate," "intend," "forecast," "believe," "estimate," "predict," "propose," "potential," "continue" or the negative of these terms or other comparable terminology. These forward-looking statements reflect management's current views only as of the date of this Annual Report and are not intended to give any assurance as to future results. As a result, unitholders are cautioned not to rely on any forward-looking statements.

Forward-looking statements appear in a number of places in this Annual Report and include statements with respect to, among other things:

- market trends in the shuttle tanker or general tanker industries, including hire rates, factors affecting supply and demand, and opportunities for the profitable operations of shuttle tankers;
- the ability of Knutsen NYK Offshore Tankers AS ("KNOT") and KNOT Offshore Partners LP ("KNOT Offshore Partners") to build shuttle tankers and the timing of the delivery and acceptance of any such vessels by their respective charterers;
- forecasts of KNOT Offshore Partners' ability to make or increase distributions on its common units and make distributions on its Series A Convertible Preferred Units (the "Series A Preferred Units") and the amount of any such distributions;
- KNOT Offshore Partners' ability to integrate and realize the expected benefits from acquisitions;
- KNOT Offshore Partners' anticipated growth strategies;
- the effects of a worldwide or regional economic slowdown;
- turmoil in the global financial markets;
- fluctuations in currencies and interest rates;
- fluctuations in the price of oil;
- general market conditions, including fluctuations in hire rates and vessel values;
- changes in KNOT Offshore Partners' operating expenses, including drydocking and insurance costs and bunker prices;
- KNOT Offshore Partners' future financial condition or results of operations and future revenues and expenses;

the repayment of debt and settling of any interest rate swaps;

KNOT Offshore Partners' ability to make additional borrowings and to access debt and equity markets;

planned capital expenditures and availability of capital resources to fund capital expenditures;

KNOT Offshore Partners' ability to maintain long-term relationships with major users of shuttle tonnage;

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KNOT Offshore Partners' ability to leverage KNOT's relationships and reputation in the shipping industry;

KNOT Offshore Partners' ability to purchase vessels from KNOT in the future;

KNOT Offshore Partners' continued ability to enter into long-term charters, which KNOT Offshore Partners defines as charters of five years or more;

KNOT Offshore Partners' ability to maximize the use of its vessels, including the re-deployment or disposition of vessels no longer under long-term charter;

the financial condition of KNOT Offshore Partners' existing or future customers and their ability to fulfill their charter obligations;

timely purchases and deliveries of newbuilds;

future purchase prices of newbuilds and secondhand vessels;

any impairment of the value of KNOT Offshore Partners' vessels;

KNOT Offshore Partners' ability to compete successfully for future chartering and newbuild opportunities;

acceptance of a vessel by its charterer;

termination dates and extensions of charters;

the expected cost of, and KNOT Offshore Partners' ability to, comply with governmental regulations, maritime self-regulatory organization standards, as well as standard regulations imposed by its charterers applicable to KNOT Offshore Partners' business;

availability of skilled labor, vessel crews and management;

KNOT Offshore Partners' general and administrative expenses and its fees and expenses payable under the technical management agreements, the management and administration agreements and the administrative services agreement;

the anticipated taxation of KNOT Offshore Partners and distributions to KNOT Offshore Partners' unitholders;

estimated future maintenance and replacement capital expenditures;

- Marshall Islands economic substance requirements;
- KNOT Offshore Partners' ability to retain key employees;
- customers' increasing emphasis on environmental and safety concerns;
- potential liability from any pending or future litigation;
- potential disruption of shipping routes due to accidents, political events, piracy or acts by terrorists;
- future sales of KNOT Offshore Partners' securities in the public market; and
- KNOT Offshore Partners' business strategy and other plans and objectives for future operations.

Forward-looking statements in this Annual Report are made based upon management's current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and therefore involve a number of risks and uncertainties, including those risks discussed in "Item 3. Key Information Risk Factors." The risks, uncertainties and assumptions involve known and unknown risks and are inherently subject to significant uncertainties and contingencies, many of which are beyond

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KNOT Offshore Partners' control. KNOT Offshore Partners cautions that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

KNOT Offshore Partners undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible to predict all of these factors. Further, KNOT Offshore Partners 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. KNOT Offshore Partners makes no prediction or statement about the performance of its common units. The various disclosures included in this Annual Report and in KNOT Offshore Partners' other filings made with the Securities and Exchange Commission (the "SEC") that attempt to advise interested parties of the risks and factors that may affect KNOT Offshore Partners' business, prospects and results of operations should be carefully reviewed and considered.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following selected financial data should be read in conjunction with "Item 5. Operating and Financial Review and Prospects" and the consolidated financial statements and accompanying notes included in this Annual Report. Unless the context otherwise requires, references herein to "KNOT Offshore Partners," "we," "our," "us" and "the Partnership" or similar terms refer to KNOT Offshore Partners LP, a Marshall Islands limited partnership, or any one or more of its subsidiaries, or to all such entities. References to "KNOT" refer, depending on the context, to Knutsen NYK Offshore Tankers AS and to any one or more of its direct and indirect subsidiaries. References to "KNOT Management" refer to KNOT Management AS, the entity that provides us with crew, technical and commercial management services. References to "KNOT Management Denmark" refer to KNOT Management Denmark AS, a 100% owned subsidiary of KNOT which also provides us with management services. References to "our general partner" refer to KNOT Offshore Partners GP LLC, the general partner of the Partnership. References to "KNOT UK" refer to KNOT Offshore Partners UK LLC, a wholly owned subsidiary of the Partnership. References to "TSSI" refer to TS Shipping Invest AS, and references to "NYK Europe" refer to NYK Logistics Holding (Europe) B.V, each of which holds a 50% interest in KNOT. References to NYK are to Nippon Yusen Kabushiki Kaisha. References to "KOAS UK" refer to Knutsen OAS (UK) Ltd., a wholly owned subsidiary of TSSI. References to "KOAS" refer to Knutsen OAS Shipping AS, a wholly owned subsidiary of TSSI.

The following table presents, in each case for the periods and as of the dates indicated, our selected consolidated financial and operating data.

In August 2013, June 2014, December 2014, June 2015, October 2015, December 2016, March 2017, June, 2017, September 2017, December 2017 and March 2018 we acquired KNOT's 100% interest in the companies that own and operate the shuttle tankers, the *Carmen Knutsen*, the *Hilda Knutsen* and *Torill Knutsen,* the *Dan Cisne*, the *Dan Sabia,* the *Ingrid Knutsen,* the *Raquel Knutsen*, the *Tordis Knutsen*, the *Vigdis Knutsen*, the *Lena Knutsen,* the *Brasil Knutsen* and the *Anna Knutsen* respectively, each of which we accounted for as an acquisition of a business, other than the *Anna Knutsen*, which was accounted for as an asset. The results of these acquisitions are included in our results from the dates of their respective acquisition. There has been no retroactive restatement of our financial statements to reflect the historical results of the *Carmen Knutsen*, the *Hilda Knutsen,* the *Torill Knutsen,* the *Dan Cisne,* the *Dan Sabia*, the *Ingrid Knutsen*, the *Raquel Knutsen*, the *Tordis Knutsen*, the *Vigdis Knutsen*, the *Lena Knutsen,* the *Brasil Knutsen* or the *Anna Knutsen* prior to their respective acquisition.

The following financial data should be read in conjunction with "Item 5. Operating and Financial Review and Prospects" and the consolidated financial statements and accompanying notes included in this Annual Report.

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Our financial position, results of operations and cash flows presented below may not be indicative of our future operating results or financial performance.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(U.S. Dollars in thousands, except per unit amounts and fleet data)				
Statement of Operations Data:					
Total revenues	$ 279,456	$ 219,203	$ 173,671	$ 155,024	$ 112,841
Vessel operating expenses(1)	56,730	46,709	30,903	27,543	23,879
Depreciation	88,756	71,583	56,230	48,844	34,322
General and administrative expenses	5,290	5,555	4,371	4,290	4,323
Goodwill impairment charge				6,217	
Operating income	128,680	95,356	82,167	68,130	50,317
Interest income	739	248	24	8	13
Interest expense	(49,956)	(30,714)	(20,867)	(17,451)	(15,271)
Other finance expense	(1,260)	(1,406)	(1,311)	(504)	(1,271)
Realized and unrealized gain (loss) on derivative instruments	4,039	4,831	1,213	(9,695)	(6,407
Net gain (loss) on foreign currency transactions	(79)	(267)	(139)	(105)	26
Income (loss) before income taxes	82,163	68,048	61,087	40,383	27,407
Income tax benefit (expense)	2	16	15	59	(15)
Net income (loss)	$ 82,165	$ 68,064	$ 61,102	$ 40,442	$ 27,392
Earnings Per Unit (Basic and Diluted):					
Common units (Basic)	$ 2.251	$ 2.050	$ 2.291	$ 1.499	$ 1.369
Common units (Diluted)	2.217	2.037	2.291	1.499	1.369
Subordinated units(2)			1.542	1.708	1.343
General partner units	2.251	2.046	2.248	1.487	1.329
Cash distributions declared and paid per unit	2.080	2.080	2.080	2.030	1.795
Balance Sheet Data (at end of period):					
Cash and cash equivalents	$ 41,712	$ 46,104	$ 27,664	$ 23,573	$ 30,746
Vessels and equipment, net	1,767,080	1,723,023	1,256,889	1,192,927	1,021,857
Total assets	1,836,824	1,793,168	1,292,275	1,223,870	1,070,748
Long-term debt (including current portion and seller's credits)	1,077,291	1,026,615	741,646	667,722	613,221
Series A Convertible Preferred Units	89,264	89,264			
Partners' capital	642,775	639,950	521,712	520,770	419,365
Cash Flows Data:					
Net cash provided by operating activities	$ 148,646	$ 154,585	$ 108,445	$ 89,160	$ 59,339
Net cash used in investing activities	(15,493)	(94,857)	(13,952)	(46,488)	(121,946)
Net cash provided by (used in) financing activities	(137,376)	(41,378)	(90,345)	(49,575)	64,768
Fleet Data:					
Number of shuttle tankers in operation at end of period	16	15	11	10	8
Average age of shuttle tankers in operation at end of period (years)	5.5	4.7	4.7	4.1	3.3
Total calendar days for fleet	5,781	4,643	3,691	3,197	2,209
Total operating days for fleet(3)	5,657	4,400	3,668	3,193	2,196
Other Financial Data:					
EBITDA(4)	$ 220,136	$ 170,097	$ 138,160	$ 106,670	$ 76,987
Adjusted EBITDA(4)	217,436	166,939	138,397	123,191	84,639

(1) Vessel operating expenses include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses.

(2) On May 18, 2016 all of the subordinated units converted into common units on a one-for-one basis.

(3)

The operating days for our fleet is the total number of days in a given period that the vessels were in our possession less the total number of days off-hire. We define days off-hire as days lost to, among other things, operational deficiencies, drydocking for repairs, maintenance or inspection, equipment breakdowns, special surveys and vessel upgrades, delays due to accidents, crewing strikes, certain vessel detentions or similar

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problems, our failure to maintain the vessel in compliance with its specifications and contractual standards or to provide the required crew, or periods of commercial waiting time during which we do not earn hire rates.

(4) Please read " Non-U.S. GAAP Financial Measures" below.

Non-U.S. GAAP Financial Measures

EBITDA and Adjusted EBITDA. EBITDA is defined as earnings before interest, depreciation and taxes. Adjusted EBITDA is defined as earnings before interest, depreciation, taxes, goodwill impairment charges and other financial items (including other finance expense, realized and unrealized gain (loss) on derivative instruments and net gain (loss) on foreign currency transactions). EBITDA is used as a supplemental financial measure by management and external users of financial statements, such as our lenders, to assess our financial and operating performance and our compliance with the financial covenants and restrictions contained in our financing agreements. 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. We believe that EBITDA and Adjusted EBITDA assist our management and investors by increasing the comparability of our performance from period to period and against the performance of other companies in our industry that provide EBITDA and 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, as applicable, 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. We believe that including EBITDA and Adjusted EBITDA as financial measures benefits investors in (1) selecting between investing in us and other investment alternatives and (2) monitoring our ongoing financial and operational strength in assessing whether to continue to hold common units.

EBITDA and Adjusted EBITDA should not be considered alternatives to net income or any other indicator of our performance calculated in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net income, and these measures may vary among other companies. Therefore, EBITDA and Adjusted EBITDA as presented below may not be comparable to similarly titled measures of other companies. The following table reconciles EBITDA and Adjusted EBITDA to net income, the most directly comparable U.S. GAAP measure, for the periods presented.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(dollars in thousands)				
Net income	$ 82,165	$ 68,064	$ 61,102	$ 40,442	$ 27,392
Interest income	(739)	(248)	(24)	(8)	(13)
Interest expense	49,956	30,714	20,867	17,451	15,271
Depreciation	88,756	71,583	56,230	48,844	34,322
Income tax (benefit) expense	(2)	(16)	(15)	(59)	15
EBITDA	$ 220,136	$ 170,097	$ 138,160	$ 106,670	$ 76,987
Goodwill impairment charge				6,217	
Other financial items(a)	(2,700)	(3,158)	237	10,304	7,652
Adjusted EBITDA	$ 217,436	$ 166,939	$ 138,397	$ 123,191	$ 84,639

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

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B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Some of the following risks relate principally to the industry in which we operate and to our business in general. Other risks relate principally to the securities market and to ownership of our common units. The occurrence of any of the events described in this section could significantly and negatively affect our business, financial condition, operating results or cash available for distributions or the trading price of our common units.

Risks Inherent in Our Business

We may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses to enable us to pay the minimum quarterly distribution on our common units.

We may not have sufficient cash from operations to pay the minimum quarterly distribution on our common units. Furthermore, distributions to the holders of our common units are subject to the prior distribution rights of any holders of our preferred units outstanding. As of April 10, 2019, there were 3,750,000 Series A Preferred Units issued and outstanding. Under the terms of our partnership agreement, we are prohibited from declaring and paying distributions on our common units until we declare and pay (or set aside for payment) full distributions on the Series A Preferred Units. The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from our operations, which may fluctuate from quarter to quarter based on the risks described in this section, including, among other things:

- the charter rates we obtain from our customers;
- the number of off-hire days for our fleet and the timing of, and number of days required for, drydocking of vessels;
- the level of our operating costs, such as the cost of crews and insurance;
- currency exchange rate fluctuations;
- the supply of shuttle tankers;
- the demand for shuttle tankers;
- the price and level of production of, and demand for, crude oil;
- prevailing global and regional economic and political conditions;

- changes in local income tax rates; and
- the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of our business.

In addition, the actual amount of cash we have available for distribution depends on other factors, including:

- the level of capital expenditures we make, including for maintaining or replacing vessels, building new vessels, acquiring existing vessels and complying with regulations;
- the level of debt we will incur to fund future acquisitions;

- fluctuations in our working capital needs;
- our ability to make, and the level of, working capital borrowings; and
- the amount of any cash reserves, including reserves for future maintenance and replacement capital expenditures, working capital and other matters, established by our board of directors.

The amount of cash we generate from our operations may differ materially from our profit or loss for the period, which is affected by non-cash items. As a result of this and the other factors mentioned above, we may make cash distributions during periods when we record losses and may not make cash distributions during periods when we record net income.

Our ability to grow and to meet our financial needs may be adversely affected by our cash distribution policy.

Our cash distribution policy, which is consistent with our partnership agreement, requires us to distribute all of our available cash (as defined in our partnership agreement) each quarter. Accordingly, our growth may not be as fast as businesses that reinvest their available cash to expand ongoing operations.

In determining the amount of cash available for distribution, our board of directors approves the amount of cash reserves to set aside, including reserves for future maintenance and replacement capital expenditures, working capital and other matters. We also rely upon external financing sources, including commercial borrowings, to fund our capital expenditures. Accordingly, to the extent we do not have sufficient cash reserves or are unable to obtain financing, our cash distribution policy may significantly impair our ability to meet our financial needs or to grow.

We must make substantial capital expenditures to maintain the operating capacity of our fleet, which reduces cash available for distribution. In addition, each quarter we are required to deduct estimated maintenance and replacement capital expenditures from operating surplus, which may result in less cash available to unitholders than if actual maintenance and replacement capital expenditures were deducted.

We must make substantial capital expenditures to maintain and replace, over the long-term, the operating capacity of our fleet. Maintenance and replacement capital expenditures include capital expenditures associated with the removal of a vessel from the water for inspection, maintenance and/or repair of submerged parts (or drydocking) and modifying an existing vessel or acquiring a new vessel to the extent these expenditures are incurred to maintain or replace the operating capacity of our fleet. These expenditures could vary significantly from quarter to quarter and could increase as a result of changes in:

- the cost of labor and materials;
- customer requirements;
- the size of our fleet;
- the cost of replacement vessels;
- length of charters;
- governmental regulations and maritime self-regulatory organization standards relating to safety, security or the environment; and
- competitive standards.

Our partnership agreement requires our board of directors to deduct estimated, rather than actual, maintenance and replacement capital expenditures from operating surplus each quarter in an effort to reduce fluctuations in operating surplus (as defined in our partnership agreement). The amount of estimated maintenance and replacement capital expenditures deducted from operating surplus is subject

to review and change by our board of directors and our conflicts committee at least once a year. In years when estimated maintenance and replacement capital expenditures are higher than actual maintenance and replacement capital expenditures, the amount of cash available for distribution to unitholders may be lower than if actual maintenance and replacement capital expenditures were deducted from operating surplus. If our board of directors underestimates the appropriate level of estimated maintenance and replacement capital expenditures, we may have less cash available for distribution in future periods when actual capital expenditures exceed our previous estimates.

If capital expenditures are financed through cash from operations or by issuing debt or equity securities, our ability to make cash distributions may be diminished, our financial leverage could increase, or our unitholders may be diluted.

Use of cash from operations to expand or maintain our fleet reduces cash available for distribution to unitholders. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds for future capital expenditures could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders. Even if we are successful in obtaining necessary funds, the terms of such financings could limit our ability to pay cash distributions to unitholders. In addition, incurring additional debt may significantly increase our interest expense and financial leverage, and issuing additional equity securities may result in significant unitholder dilution and would increase the aggregate amount of cash required to maintain our current level of quarterly distributions to unitholders, both of which could have a material adverse effect on our ability to make cash distributions.

Our debt levels may limit our flexibility in obtaining additional financing, pursuing other business opportunities and paying distributions to our unitholders.

As of December 31, 2018, we had consolidated debt of approximately $1,077.3 million. We have the ability to incur additional debt. Please read "Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources." Our level of debt could have important consequences to us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired, or such financing may not be available on favorable terms;

- we will need a substantial portion of our cash flows to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and distributions to unitholders;

- our debt level may make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our industry or the economy generally;

- our debt level may limit our flexibility in responding to changing business and economic conditions; and

- if we are unable to satisfy the restrictions included in any of our financing agreements or are otherwise in default under any of those agreements, as a result of our debt levels or otherwise, we will not be able to make cash distributions to our unitholders, notwithstanding our stated cash distribution policy.

Our ability to service our debt depends upon, among other things, our future financial and operating performance, which is affected by prevailing economic conditions and financial, business,

regulatory and other factors, some of which are beyond our control. If our operating results are not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing distributions, reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt, or seeking additional equity capital or bankruptcy protection. We may not be able to effect any of these remedies on satisfactory terms, or at all.

Financing agreements containing operating and financial restrictions may restrict our business and financing activities.

The operating and financial restrictions and covenants in our financing agreements and any future financing agreements could adversely affect our ability to finance future operations or capital needs or to engage, expand or pursue our business activities. For example, the financing agreements may restrict the ability of us and our subsidiaries to:

- incur or guarantee indebtedness;
- change ownership or structure, including mergers, consolidations, liquidations and dissolutions;
- make dividends or distributions;
- make certain negative pledges and grant certain liens;
- sell, transfer, assign or convey assets;
- make certain investments; and
- enter into a new line of business.

In addition, our financing agreements require us to comply with certain financial ratios and tests, including, among others, maintaining a minimum liquidity, maintaining positive working capital, ensuring that EBITDA exceeds interest payable, maintaining a minimum collateral value, and maintaining a minimum book equity ratio. Our ability to comply with the restrictions and covenants, including financial ratios and tests, contained in our financing agreements is dependent on future performance and may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, our ability to comply with these covenants may be impaired.

If we are unable to comply with the restrictions and covenants in the agreements governing our indebtedness or in current or future debt financing agreements, there could be a default under the terms of those agreements. If a default occurs under these agreements, lenders could terminate their commitments to lend and/or accelerate the outstanding loans and declare all amounts borrowed due and payable. This could lead to cross-defaults under other financing agreements and result in obligations becoming due and commitments being terminated under such agreements. We have pledged our vessels as security for our outstanding indebtedness. If our lenders were to foreclose on our vessels in the event of a default, this may adversely affect our ability to finance future operations or capital needs or to engage in, expand or pursue our business activities. If any of these events occur, we cannot guarantee that our assets will be sufficient to repay in full all of our outstanding indebtedness, and we may be unable to find alternative financing. Even if we could obtain alternative financing, that financing might not be on terms that are favorable or acceptable. Any of these events would adversely affect our ability to make cash distributions to our unitholders and cause a decline in the market price of our common units. Please read "Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources."

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Restrictions in our debt agreements may prevent us or our subsidiaries from paying distributions.

The payment of principal and interest on our debt reduces cash available for distribution to us and on our units. In addition, our and our subsidiaries' financing agreements prohibit the payment of distributions upon the occurrence of the following events, among others:

- failure to pay any principal, interest, fees, expenses or other amounts when due;
- failure to notify the lenders of any material oil spill or discharge of hazardous material, or of any action or claim related thereto;
- breach or lapse of any insurance with respect to vessels securing the facilities;
- breach of certain financial covenants;
- failure to observe any other agreement, security instrument, obligation or covenant beyond specified cure periods in certain cases;
- default under other indebtedness;
- bankruptcy or insolvency events;
- failure of any representation or warranty to be correct;
- a change of ownership, as defined in the applicable agreement; and
- a material adverse change, as defined in the applicable agreement.

For more information regarding our financing agreements, please read "Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources."

The failure to consummate or integrate acquisitions in a timely and cost-effective manner could have an adverse effect on our financial condition and results of operations.

Acquisitions that expand our fleet are an important component of our strategy. We believe that acquisition opportunities may arise from time to time, and any such acquisition could be significant. Any acquisition of a vessel or business may not be profitable after the time of acquisition and may not generate cash flows sufficient to justify the investment. In addition, our acquisition growth strategy exposes us to risks that may harm our business, financial condition, results of operations and ability to make cash distributions to our unitholders, including risks that we may:

- fail to realize anticipated benefits, such as new customer relationships, cost-savings or cash flow enhancements;
- be unable to attract, hire, train or retain qualified shore and seafaring personnel to manage and operate our growing business and fleet;

- decrease our liquidity by using a significant portion of available cash or borrowing capacity to finance acquisitions;
- significantly increase our interest expense or financial leverage if we incur additional debt to finance acquisitions;
- incur or assume unanticipated liabilities, losses or costs associated with the business or vessels acquired; or
- incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges.

In addition, unlike newbuilds, existing vessels typically do not carry warranties as to their condition. While we generally inspect existing vessels prior to purchase, such an inspection would normally not

provide us with as much knowledge of a vessel's condition as we would possess if it had been built for us and operated by us during its life. Repairs and maintenance costs for existing vessels are difficult to predict and may be substantially higher than for vessels we have operated since they were built. These costs could decrease our cash flows and reduce our liquidity.

Certain acquisition and investment opportunities may not result in the consummation of a transaction. In addition, we may not be able to obtain acceptable terms for the required financing for any such acquisition or investment that arises. We cannot predict the effect, if any, that any announcement or consummation of an acquisition would have on the trading price of our common units. Our future acquisitions could present a number of risks, including the risk of incorrect assumptions regarding the future results of acquired vessels or businesses or expected cost reductions or other synergies expected to be realized as a result of acquiring vessels or businesses, the risk of failing to successfully and timely integrate the operations or management of any acquired vessels or businesses and the risk of diverting management's attention from existing operations or other priorities. We may also be subject to additional costs related to compliance with various international laws in connection with such acquisition. If we fail to consummate and integrate our acquisitions in a timely and cost-effective manner, our business, financial condition, results of operations and cash available for distribution could be adversely affected.

Our charters are subject to early termination under certain circumstances and any such termination could have a material adverse effect on our results of operations and cash available for distribution to unitholders.

As of April 10, 2019, our fleet consists of sixteen shuttle tankers. If any of our vessels are unable to generate revenues as a result of the expiration or termination of its charter or sustained periods of off-hire time, our results of operations and financial condition could be materially adversely affected. Each of our charters terminates automatically if the applicable vessel is lost or missing or damage to the vessel results in a constructive total loss. The customer, under certain circumstances, may also have an option to terminate a time charter if the vessel is requisitioned by any government for a period of time in excess of the time period specified in the time charter or if at any time we are in default under the time charter. In addition, either party may usually terminate a charter in the event of the outbreak of war between specified countries. Under our bareboat charters, the charter is deemed terminated as of the date of any compulsory acquisition of the vessel or requisition for title by any governmental or other competent authority. For more information regarding the termination of our charters, please read "Item 4. Information on the Partnership Business Overview Charters Termination."

We may experience operational problems with vessels that reduce revenue and increase costs.

Shuttle tankers are complex and their operation is technically challenging. Marine transportation operations are subject to mechanical risks and problems. Operational problems may lead to loss of revenue or higher than anticipated operating expenses or require additional capital expenditures. Any of these results could harm our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

We currently derive all of our time charter and bareboat revenues from seven customers, and the loss of any such customers could result in a significant loss of revenues and cash flow.

We currently derive all of our time charter and bareboat revenues from seven customers. For the year ended December 31, 2018, Eni Trading and Shipping S.p.A. ("ENI"), Fronape International Company, a subsidiary of Petrobras Transporte S.A. ("Transpetro"), Equinor ASA ("Equinor"), Repsol Sinopec Brasil, S.A. ("Repsol"), Brazil Shipping I Limited, a subsidiary of Royal Dutch Shell, formerly BG Group ("Shell"), Standard Marine Tønsberg AS a Norwegian subsidiary of ExxonMobil ("ExxonMobil") and Galp Sinopec Brazil Services B.V ("Galp") accounted for approximately 16%, 17%, 8%, 13%, 29%, 6% and 11%, respectively, of our revenues.

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If we lose a key customer, we may be unable to obtain replacement long-term charters and may become subject to the volatile spot market, which is highly competitive and subject to significant price fluctuations. In addition, if a customer exercises its right to terminate a charter, we may be unable to re-charter such vessel on terms as favorable to us as those of the terminated charter. The loss of any of our key customers could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholder

Oil prices can be volatile, and this could affect the equity value of many of our customers. The combination of a reduction of cash flow resulting from lower prices, a reduction in borrowing under related credit facilities and the limited or lack of availability of debt or equity financing could potentially reduce the ability of our customers to make charter payments, which in turn could harm our business, results of operations and financial condition.

We depend on subsidiaries of KNOT to assist us in operating our businesses and competing in our markets.

We and our operating subsidiaries have entered into various services agreements with certain subsidiaries of KNOT, including KNOT Management. Under these agreements the subsidiaries provide us with certain administrative, financial and other services. Our operating subsidiaries are provided with substantially all of their crew, technical and commercial management services (including vessel maintenance, periodic drydocking, cleaning and painting, performing work required by regulations and human resources and financial services) and other advisory and technical services, including the sourcing of new contracts and renewals of existing contracts. Our operational success and ability to execute our growth strategy depends significantly upon the satisfactory performance of these services by the KNOT subsidiaries. Our business will be harmed if such subsidiaries fail to perform these services satisfactorily or if they stop providing these services to us or our operating subsidiaries.

Our ability to compete to enter into new charters and expand our customer relationships depends largely on our ability to leverage our relationship with KNOT and its reputation and relationships in the shipping industry. If KNOT suffers material damage to its reputation or relationships, it may harm the ability of us or our subsidiaries to:

- renew existing charters upon their expiration;
- obtain new charters;
- successfully contract with shipyards;
- obtain financing on commercially acceptable terms; or
- maintain satisfactory relationships with suppliers and other third parties.

If our ability to do any of the things described above is impaired, it could have a materially adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Our growth depends on continued growth in demand for shuttle tanker transportation services.

Our growth strategy focuses on expansion in the shuttle tanker sector. Accordingly, our growth depends on continued growth in the demand for offshore oil transportation services. Factors beyond our control that affect the offshore oil transportation industry may have a significant impact on our business, financial condition, results of operations and ability to make cash distributions to our unitholders. Fluctuations in the hire rate we can charge our customers result from changes in the supply of carrying capacity and demand for the crude oil carried. If a sustained period of reduced demand for crude oil and offshore oil transportation services were to occur it would have a material adverse effect on our future growth and could harm our business, results of operations and financial condition. The factors affecting supply and demand for shuttle tankers and supply and demand for

crude oil transported by shuttle tankers are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable.

The factors that influence the demand for shuttle tanker capacity include:

- changes in the actual or projected price of oil, which could impact the exploration for or development of new offshore oil fields or the production of oil at certain fields we service;
- delayed production start on offshore fields under development;
- levels of demand for and production of oil, which, among other things, is affected by competition from alternative sources of energy, other factors making consumption of oil more or less attractive or energy conservation measures;
- changes in the production of oil in areas linked by pipelines to consuming areas, the extension of existing, or the development of new, pipeline systems in markets we may serve, or the conversion of existing non-oil pipelines to oil pipelines in those markets;
- changes in laws and regulations affecting the shuttle tanker industry;
- global and regional economic and political conditions, particularly in oil-consuming regions, as well as environmental concerns and regulations, which could impact the supply of oil and gas as well as the demand for various types of vessels; and
- changes in trading patterns, including changes in the distances that cargoes are transported.

The factors that influence the supply of shuttle tanker capacity include:

- the number of deliveries of new vessels under construction or on order;
- the scrapping rate of older vessels;
- oil and gas company policy with respect to technical vessel requirements; and
- the number of vessels that are off-hire.

Declines in oil prices may adversely affect our growth prospects and results of operations.

Any significant decline in oil prices may adversely affect our business, results of operations and financial condition and our ability to make cash distributions, as a result of, among other things:

- a reduction in exploration for or development of new offshore oil fields, or the delay or cancelation of existing offshore projects as energy companies lower their capital expenditures budgets, which may reduce our growth opportunities;

lower demand for shuttle tankers, which may reduce available charter rates and revenue to us upon redeployment of our vessels following expiration or termination of existing contracts or upon the initial chartering of vessels;

customers potentially seeking to renegotiate or terminate existing vessel contracts, or failing to extend or renew contracts upon expiration;

the inability or refusal of customers to make charter payments to us due to financial constraints or otherwise; or

declines in vessel values, which may result in losses to us upon vessel sales or impairment charges against our earnings.

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The current state of the global financial markets and current economic conditions may impair our customers' and suppliers' ability to pay for our services and could have a material adverse effect on our revenue, profitability and financial position.

We depend on our customers' willingness and ability to fund operating and capital expenditures to provide crude oil shuttle tankers for new or expanding offshore projects. Existing and future adverse economic conditions, including low oil prices, may lead to a decline in our customers' operations or ability to pay for our services, which could result in decreased demand for our vessels. There has historically been a strong link between the development of the world economy and demand for energy, including oil and natural gas.

Global financial markets and economic conditions have been severely disrupted and volatile in recent years and remain subject to significant vulnerabilities, such as the deterioration of fiscal balances and the rapid accumulation of public debt, continued deleveraging in the banking sector and a limited supply of credit. Credit markets as well as the equity and debt capital markets were exceedingly distressed during 2008 and 2009 and while these markets have subsequently recovered, periods of volatility have subsequently occurred. Uncertainty surrounding the continuing sovereign debt crisis in Greece and other European Union member countries, turmoil and unrest in the Middle East, Africa, Korea, the Ukraine and elsewhere and the socioeconomic and political crisis in Venezuela have led to increased volatility in global credit and equity markets. An extended period of adverse development in the outlook for European countries or Brazil could reduce the overall demand for oil and have a negative impact on our customers. Potential developments, or market perceptions concerning these and related issues, could affect our business, financial position, results of operations and ability to make cash distributions to our unitholders.

Any global financial or credit crisis or disruption may further reduce the availability of liquidity and credit to fund the continuation and expansion of industrial business operations worldwide. Shortage of liquidity and credit combined with uncertainty in worldwide equity markets could lead to an extended worldwide economic recession. Such deterioration of the worldwide economy could result in reduced demand for oil and natural gas, exploration and production activity and transportation of oil and natural gas that could lead to a decrease in the hire rate earned by our vessels and a decrease in new charter activity. In addition, any adverse development in the global financial markets or deterioration in economic conditions might adversely impact our ability to issue additional equity at prices that will not be dilutive to our existing unitholders or preclude us from issuing equity at all.

We also cannot be certain that additional financing will be available if needed and to the extent required, on acceptable terms or at all. As a result of the disruptions in the credit markets and higher capital requirements, many lenders have increased margins on lending rates, enacted tighter lending standards, required more restrictive terms (including higher collateral ratios for advances, shorter maturities and smaller loan amounts), or have refused to refinance existing debt at all. Furthermore, certain banks that have historically been significant lenders to the shipping industry have reduced or ceased lending activities in the shipping industry. If additional financing is not available when needed, or is available only on unfavorable terms, we may be unable to meet our obligations as they come due or we may be unable to expand our existing business, complete shuttle tanker acquisitions or otherwise take advantage of business opportunities as they arise.

Furthermore, any uncertainty in the financial markets could have an impact on our customers and/or suppliers including, among other things, causing them to fail to meet their obligations to us. Similarly, any shortage of credit could affect lenders participating in our financing agreements, making them unable to fulfill their commitments and obligations to us. Any reductions in activity owing to such conditions or failure by our customers, suppliers or lenders to meet their contractual obligations to us could adversely affect our business, financial position, results of operation and ability to make cash distributions to our unitholders.

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The results of the United Kingdom's ("U.K.'s") referendum on withdrawal from the European Union ("EU") may have a negative effect on global economic conditions, financial markets and our business.

In June 2016, a majority of voters in the U.K. elected to withdraw from the EU in a national referendum, and in March 2017, the government of the U.K. formally initiated the process. The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last at least two years after the March 2017 initiation. There is currently no agreement in place regarding the withdrawal, creating significant uncertainty about the future relationship between the U.K. and the EU, including with respect to the laws and regulations that will apply as the U.K. determines which EU derived laws to replace or replicate in the event of a withdrawal. Additionally, it remains possible that the U.K.'s membership in the EU ends without any agreement between the U.K. and the EU on the terms of their relationship going forward. The referendum has also given rise to calls for the governments of other EU member states to consider withdrawal. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Any of these factors could depress economic activity and restrict our access to capital, which could have a material adverse effect on our business, financial condition and operating results.

Our growth depends on our ability to expand relationships with existing customers and obtain new customers, for which we face substantial competition.

One of our principal objectives is to enter into additional long-term, fixed-rate charters. The process of obtaining new long-term charters is highly competitive, usually involving an intensive screening process and competitive bids and extending for several months. Shuttle tanker charters are awarded based upon a variety of factors relating to the vessel operator, including:

- industry relationships and reputation for customer service and safety;
- experience and quality of ship operations;
- quality, experience and technical capability of the crew;
- relationships with shipyards and the ability to get suitable berths;
- construction management experience, including the ability to obtain on-time delivery of new vessels according to customer specifications;
- willingness to accept operational risks pursuant to the charter, among other things such as allowing termination of the charter for force majeure events; and
- competitiveness of the bid in terms of overall price.

Our ability to win new charters depends upon a number of factors, including our ability to:

- leverage our relationship with KNOT and its reputation and relationships in the shipping industry;
- successfully manage our liquidity and obtain the necessary financing to fund our growth;
- attract, hire, train and retain qualified personnel and ship management companies to manage and operate our fleet;

identify and consummate desirable acquisitions, joint ventures or strategic alliances; and

identify and capitalize on opportunities in new markets.

We expect substantial competition for providing services for potential shuttle tanker projects from a number of experienced companies. This increased competition may cause greater price competition for charters. As a result of these factors, we may be unable to expand our relationships with existing customers or to obtain new customers on a profitable basis, if at all, which would have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

An increase in the global supply of shuttle tanker capacity without a commensurate increase in demand may have an adverse effect on hire rates and the values of our vessels, which could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

The supply of shuttle tankers in the industry is affected by, among other things, assessments of the demand for these vessels by oil companies. Any over-estimation of demand for vessels may result in an excess supply of new shuttle tankers. This may, in the long term when existing contracts expire, result in lower hire rates and depress the values of our vessels. In such an event, our business, financial condition, results of operations and ability to make cash distributions to our unitholders may be adversely affected.

During periods of high utilization and high hire rates, industry participants may increase the supply of shuttle tankers by ordering the construction of new vessels. This may result in an over-supply of shuttle tankers and may cause a subsequent decline in utilization and hire rates when the vessels enter the market. Lower utilization and hire rates could adversely affect revenues and profitability. Prolonged periods of low utilization and hire rate could also result in the recognition of impairment charges on shuttle tankers if future cash flow estimates, based upon information available at the time, indicate that the carrying value of these shuttle tankers may not be recoverable. Such impairment charge may cause lenders to accelerate loan payments under our financing agreements, which could adversely affect our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

The required drydocking of our vessels could be more expensive and time consuming than we anticipate, which could adversely affect our cash available for distribution to unitholders.

We must periodically drydock each of our vessels for inspection, repairs and maintenance and any modifications required to comply with industry certification or governmental requirements. Generally, we drydock each vessel every 60 months until the vessel is 15 years old and every 30 months thereafter. The required drydocking of our vessels could be more expensive and time consuming than we anticipate, which could adversely affect our cash available for distribution. The drydocking of our vessels requires significant capital expenditures and results in loss of revenue while our vessels are off-hire. Any significant increase in the number of days of off-hire due to such drydocking or in the costs of any repairs could have a material adverse effect on our ability to pay distributions to our unitholders. Although we do not anticipate that more than one of the vessels in our current fleet will be out of service at any given time, we may underestimate the time required to drydock any of our vessels or unanticipated problems may arise. If more than one of our vessels is required to be out of service at the same time, if a vessel is drydocked longer than expected or if the cost of repairs during drydocking is greater than budgeted, our cash available for distribution to unitholders could be adversely affected.

We may be unable to re-charter our vessels upon termination or expiration of their existing charters.

We are dependent upon charters for our vessels to generate revenues and we may be adversely affected if we fail to renew or are unsuccessful in winning new charters, or if our existing charters are terminated. Our ability to re-charter our shuttle tankers following expiration of existing charters and

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the rates payable upon any renewal or replacement charters depends upon, among other things, the state of the shuttle tanker market. For example, an oversupply of shuttle tankers can significantly reduce their charter rates. A termination or renegotiation of our existing charters or a failure to secure new employment at the expiration of our current charters may have a negative effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Compliance with safety and other vessel requirements imposed by classification societies may be very costly and may adversely affect our business.

The hull and machinery of every large, oceangoing commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the International Convention for Safety of Life at Sea ("SOLAS"). All our vessels are certified either by DNV GL Group AS ("DNV GL") or by the American Bureau of Shipping ("ABS").

As part of the certification process, a vessel must undergo annual surveys, intermediate surveys and special surveys. In lieu of a special survey, a vessel's machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Each of the vessels in our existing fleet is on a planned maintenance system approval, and as such the classification society attends onboard once every year to verify that the maintenance of the equipment onboard is done correctly. Each of the vessels in our existing fleet is required to be qualified within its respective classification society for drydocking once every five years subject to an intermediate underwater survey done using an approved diving company in the presence of a surveyor from the classification society.

If any vessel does not maintain its class or fails any annual survey, intermediate survey or special survey, the vessel will be unable to trade between certain ports and will be unemployable. We would lose revenue while the vessel was off-hire and incur costs of compliance. This would negatively impact our revenues and reduce our cash available for distribution to unitholders.

The value of our vessels may decline, which could adversely affect our operating results.

Vessel values for shuttle tankers can fluctuate substantially over time due to a number of different factors, including:

- the cost of newbuildings;
- prevailing economic conditions in oil and energy markets;
- a substantial or extended decline in demand for oil;
- increases in the supply of vessel capacity;
- the cost of retrofitting or modifying existing vessels, as a result of technological advances in vessel design or equipment, changes in applicable environmental or other regulations or standards, or otherwise; and
- a decrease in oil reserves in the fields and other fields in which our shuttle tankers might otherwise be deployed.

If operation of a vessel is not profitable, or if we cannot redeploy a vessel at attractive rates upon termination of its charter, rather than continue to incur costs to maintain and finance the vessel, we may seek to dispose of it. Our inability to dispose of the vessel at a reasonable value could result in a loss on its sale and adversely affect our business, financial condition, results of operations and ability to make cash distributions to our unitholders. Additionally, lenders may accelerate loan repayments should there be a loss in the market value of our vessels. Such repayment could adversely affect our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

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Further, if we determine at any time that a vessel's future useful life and earnings require us to impair its value on our financial statements, we may need to recognize a significant charge against our earnings. We review vessels and equipment for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable, which occurs when the asset's carrying value is greater than the future undiscounted cash flows the asset is expected to generate over its remaining useful life.

Climate change and greenhouse gas restrictions may adversely impact our operations and markets.

Due to concern over the risk of climate change, a number of countries and the International Maritime Organization (the "IMO"), the United Nations agency that regulates international shipping, have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions from vessels. These regulatory measures include, among others, adoption of cap and trade regimes, carbon taxes, increased efficiency standards and incentives or mandates for renewable energy. The Paris Agreement, which was announced by the Parties to the United Nations Framework Convention on Climate Change in December 2015, does not cover international shipping. However, in 2016, the IMO reaffirmed its strong commitment to continue to work to address greenhouse gas emissions from ships engaged in international trade and in 2018 adopted an initial strategy designed to reduce the emission of greenhouse gases from vessels, including short-term, mid-term and long-term candidate measures with a vision of reducing and phasing out greenhouse gas emissions from vessels as soon as possible in the 21st Century. Compliance with changes in laws, regulations and obligations relating to climate change could increase our costs related to operating and maintaining our vessels and require us to install new emission controls, acquire allowances or pay taxes related to our greenhouse gas emissions or administer and manage a greenhouse gas emissions program. Revenue generation and strategic growth opportunities may also be adversely affected.

Adverse effects upon the oil industry relating to climate change, including growing public concern about the environmental and other impacts of climate change, may also adversely affect demand for our shuttle tanker services. Although we do not expect that demand for oil will lessen dramatically over the short term, in the long term climate change may reduce the demand for oil or increased regulation of greenhouse gases may create greater incentives for use of alternative energy sources. Any long-term material adverse effect on the oil industry could have a significant financial and operational adverse impact on our business that we cannot predict with certainty at this time.

Our international operations expose us to political, governmental and economic instability, which could harm our operations.

Our operations are conducted in various countries, and they may be affected by economic, political and governmental conditions in the countries where we engage in business or where our vessels are registered. Any disruption caused by these factors could harm our business, including by reducing the levels of oil exploration, development and production activities in these areas. We may derive some of our revenues from shipping oil from politically unstable regions. Conflicts in these regions have included attacks on ships and other efforts to disrupt shipping. Hostilities or other political instability in regions where we operate or where we may operate could have a material adverse effect on the growth of our business, financial condition, results of operations and ability to make cash distributions to our unitholders. In addition, tariffs, trade embargoes and other economic sanctions by the United States or other countries as a result of terrorist attacks, hostilities or otherwise may limit trading activities with those countries, which could also harm our business, financial condition, results of operations and ability to make cash distributions to our unitholders. Finally, a government could requisition one or more of our vessels, which is most likely during war or national emergency. Any such requisition would cause a loss of the vessel and/or a termination of the charter and could harm our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

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Marine transportation is inherently risky, particularly in the extreme conditions in which our vessels operate. An incident involving significant loss of product or environmental contamination by any of our vessels could harm our reputation and business.

Vessels and their cargoes and the oil production facilities we service are at risk of being damaged or lost because of events such as:

- marine disasters;
- bad weather;
- mechanical failures;
- grounding, capsizing, fire, explosions and collisions;
- piracy;
- human error; and
- war and terrorism.

The *Bodil Knutsen,* the *Hilda Knutsen*, the *Torill Knutsen* and the *Ingrid Knutsen* currently operate in the North Sea. Harsh weather conditions in this region and other regions in which our vessels operate may increase the risk of collisions, oil spills or mechanical failures.

An accident involving any of our vessels could result in any of the following:

- death or injury to persons, loss of property or damage to the environment and natural resources;
- delays in the delivery of cargo;
- loss of revenues from charters;
- liabilities or costs to recover any spilled oil or other petroleum products and to restore the ecosystem affected by the spill;
- governmental fines, penalties or restrictions on conducting business;
- higher insurance rates; and
- damage to our reputation and customer relationships generally.

Any of these results could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders. In addition, any damage to, or environmental contamination involving, oil production facilities serviced could suspend that service and result in loss of revenues.

Our insurance may not be sufficient to cover losses that may occur to our property or as a result of our operations.

The operation of shuttle tankers is inherently risky. All risks may not be adequately insured against, and any particular claim may not be paid by insurance. Any claims relating to our operations covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. Certain insurance is maintained through mutual protection and indemnity associations ("P&I clubs"), and as a member of such associations we may be required to make additional payments over and above budgeted premiums if member claims exceed association reserves

We may be unable to procure adequate insurance at commercially reasonable rates in the future. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in the lack of availability of, insurance against risks of environmental damage

or pollution. A catastrophic oil spill or marine disaster could exceed the insurance, and any uninsured or underinsured loss could harm our business, financial condition, results of operations and ability to make cash distributions to our unitholders. In addition, the insurance may be voidable by the insurers as a result of certain actions, such as vessels failing to maintain certification with applicable maritime self-regulatory organizations.

Changes in the insurance markets attributable to terrorist attacks may also make certain types of insurance more difficult to obtain. In addition, the insurance that may be available may be significantly more expensive than existing coverage.

Terrorist attacks, piracy, increased hostilities or war could lead to further economic instability, increased costs and disruption of business.

Terrorist attacks, piracy and the current conflicts in the Middle East, and other current and future conflicts, may adversely affect our business, financial condition, results of operations and ability to raise capital and future growth. Continuing hostilities in the Middle East may lead to additional armed conflicts or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may contribute further to economic instability and disruption of oil production and distribution, which could result in reduced demand for our services.

In addition, oil production facilities, shipyards, vessels, pipelines, oil fields or other infrastructure could be targets of future terrorist attacks and our vessels could be targets of pirates or hijackers. Any such attacks could lead to, among other things, bodily injury or loss of life, vessel or other property damage, increased vessel operational costs, including insurance costs, and the inability to transport oil to or from certain locations. Terrorist attacks, war, piracy, hijacking or other events beyond our control that adversely affect the distribution, production or transportation of oil to be shipped by us could entitle customers to terminate their charters, which would harm our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Acts of piracy on ocean-going vessels have recently increased in frequency, which could adversely affect our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea and the Gulf of Aden off the coast of Somalia. If such piracy attacks result in regions in which our vessels are deployed being named on the Joint War Committee Listed Areas, war-risk insurance premiums payable for such coverage could increase significantly and such insurance coverage might become more difficult to obtain. In addition, crew costs, including costs that may be incurred to the extent we employ onboard security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, hijacking as a result of an act of piracy against our vessels, or an increase in cost or unavailability of insurance for our vessels, could have a material adverse impact on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Vessels transporting oil are subject to substantial environmental and other regulations, which may significantly limit operations or increase expenses.

Our operations are affected by extensive and changing international, national and local environmental protection laws, regulations, treaties and conventions in force in international waters and the jurisdictional waters of the countries in which our vessels operate, as well as the countries of our vessels' registration, including those governing oil spills, air emissions, discharges to water and the handling and disposal of hazardous substances and wastes. Many of these requirements are designed to reduce the risk of oil spills and other pollution.

In addition, we believe that the heightened environmental, safety and security concerns of insurance underwriters, regulators and charterers will generally lead to additional regulatory requirements, including enhanced risk assessment and security requirements and greater inspection and safety requirements on vessels. These requirements are likely to add incremental costs to our operations and the failure to comply with these requirements may affect the ability of our vessels to obtain the required certificates for entry into the different ports where we operate and could also impact our ability to obtain insurance. We expect to incur substantial expenses in complying with these laws and regulations, including expenses for vessel modifications and changes in operating procedures.

These requirements can affect the resale value or useful lives of our vessels, require a reduction in cargo capacity, ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in the denial of access to certain jurisdictional waters or ports or detention in certain ports.

Under local, national and foreign laws, as well as international treaties and conventions, we could incur material liabilities, including cleanup obligations, natural resource damage claims and fines and penalties in the event that there is a release of petroleum or hazardous substances from our vessels or otherwise in connection with our operations. We could also become subject to personal injury or property damage claims relating to the release of petroleum or hazardous substances associated with our operations. In addition, oil spills and failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations, including, in certain instances, seizure or detention of our vessels. Please read "Item 4. Information on the Partnership Business Overview Environmental and Other Regulation."

Exposure to currency exchange rate fluctuations results in fluctuations in cash flows and operating results.

Our reporting currency and the functional currency of our operating subsidiaries is the U.S. Dollar. Certain of our operating subsidiaries are party to technical management agreements with KNOT Management, which govern the crew, technical and commercial management of the vessels in our fleet. Under the technical management agreements, KNOT Management is paid for reasonable direct and indirect expenses incurred in providing the services, including operating expenses relating to our fleet. A majority of the operating expenses are in currencies other than the U.S. Dollar. Fluctuating exchange rates may result in increased payments by us under the services agreements if the strength of the U.S. Dollar declines relative to such other currencies.

Many seafaring employees are covered by collective bargaining agreements and the failure to renew those agreements or any future labor agreements may disrupt operations and adversely affect our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

A significant portion of seafarers that crew certain of our vessels are employed under collective bargaining agreements. We and our operating subsidiaries may become subject to additional labor agreements in the future. We and our operating subsidiaries may suffer labor disruptions if relationships deteriorate with the seafarers or the unions that represent them. The collective bargaining agreements may not prevent labor disruptions, particularly when the agreements are being renegotiated. Salaries for seafarers are typically renegotiated annually or bi-annually, and higher compensation levels will increase our costs of operations. Although these negotiations have not caused labor disruptions in the past, any future labor disruptions could harm our operations and could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

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KNOT may on our behalf be unable to attract and retain qualified, skilled employees or crew necessary to operate our business or may have to pay substantially increased costs for its employees and crew.

Our success depends in large part on KNOT's ability to attract, hire, train and retain highly skilled and qualified personnel. In crewing our vessels, we require technically skilled employees with specialized training who can perform physically demanding work. Competition to attract, hire, train and retain qualified crew members is intense, and crew manning costs continue to increase. If we are not able to increase our hire rates to compensate for any crew cost increases, our business, financial condition, results of operations and ability to make cash distributions to our unitholders may be adversely affected. Any inability we experience in the future to attract, hire, train and retain a sufficient number of qualified employees could impair our ability to manage, maintain and grow our business.

Our current and incoming Chief Executive Officer and Chief Financial Officer face conflicts in the allocation of their time to our business.

John Costain, our Chief Executive Officer and Chief Financial Officer, also serves as the Finance Director for Tankers (UK) Agencies Ltd. Gary Chapman, who will become our Chief Executive Officer and Chief Financial Officer on June 1, 2019, will also serve as as the Chief Financial Officer of Biggin Hill Airport Ltd. Each of these companies conducts substantial businesses and activities of its own in which the Partnership has no economic interest. As a result, there is competition for the time and effort of Mr. Costain and Mr. Chapman.

Maritime claimants could arrest our vessels, which could interrupt our cash flow.

If we are in default on some kinds of obligations, such as those to our lenders, crew members, suppliers of goods and services to our vessels or shippers of cargo, these parties may be entitled to a maritime lien against one or more of our vessels. In many jurisdictions, a maritime lien holder may enforce its lien by arresting a vessel through foreclosure proceedings. In a few jurisdictions, claimants could try to assert "sister ship" liability against one vessel in our fleet for claims relating to another of our vessels. The arrest or attachment of one or more of our vessels could interrupt our cash flows and require us to pay to have the arrest lifted. Under some of our present charters, if the vessel is arrested or detained as a result of a claim against us, we may be in default of our charter and the charterer may terminate the charter. This would negatively impact our revenues and reduce our cash available for distribution to unitholders.

Lack of diversification and adverse developments in the shuttle tanker market or the conventional oil tanker market would negatively impact our results.

Although our vessels also are able to operate as conventional oil tankers, we are focused on dynamic positioning shuttle tankers. Due to our lack of diversification, any adverse development in the shuttle tanker market and/or the conventional oil tanker market could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

If in the future our business activities involve countries, entities and individuals that are subject to restrictions imposed by the U.S. or other governments, we could be subject to enforcement action and our reputation and the market for our common units could be adversely affected.

The tightening of U.S. sanctions in recent years has affected non-U.S. companies. In particular, sanctions against Iran have been significantly expanded. In 2012, for example, the U.S. signed into law the Iran Threat Reduction and Syria Human Rights Act of 2012 ("TRA"), which placed further restrictions on the ability of non-U.S. companies to do business or trade with Iran and Syria. A major provision in the TRA is that issuers of securities must disclose to the SEC in their annual and quarterly

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reports filed after February 6, 2013 if the issuer or "any affiliate" has "knowingly" engaged in certain activities involving Iran during the timeframe covered by the report. This disclosure obligation is broad in scope in that it requires the reporting of activity that would not be considered a violation of U.S. sanctions as well as violative conduct and is not subject to a materiality threshold. The SEC publishes these disclosures on its website and the President of the United States must initiate an investigation in response to all disclosures.

In addition to the sanctions against Iran, the U.S. also has sanctions that target other countries, entities and individuals. These sanctions have certain extraterritorial effects that need to be considered by non-U.S. companies. It should also be noted that other governments have implemented versions of U.S. sanctions. We believe that we are in compliance with all applicable sanctions and embargo laws and regulations imposed by the U.S., the United Nations or European Union countries and intend to maintain such compliance. However, there can be no assurance that we will be in compliance in the future, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Any such violation could result in fines or other penalties and could result in some investors deciding, or being required, to divest their interest, or not to invest, in our common units. Additionally, some investors may decide to divest their interest, or not to invest, in our common units simply because we may do business with companies that do business in sanctioned countries. Investor perception of the value of our common units may also be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

Failure to comply with the U.S. Foreign Corrupt Practices Act, the UK Bribery Act, the anti-corruption provisions in the Norwegian Criminal Code and other anti-bribery legislation in other jurisdictions could result in fines, criminal penalties, contract termination and an adverse effect on our business.

We may operate in a number of countries throughout the world, including countries known to have a reputation for corruption. We are committed to doing business in accordance with applicable anti-corruption laws and have adopted a code of business conduct and ethics. We are subject, however, to the risk that we, our affiliated entities or our or their respective officers, directors, employees and agents may take actions determined to be in violation of anti-corruption laws, including the U.S. Foreign Corrupt Practices Act of 1977, the Bribery Act 2010 of the Parliament of the United Kingdom and the anti-corruption provisions of the Norwegian Criminal Code of 1902. Any such violation could result in substantial fines, sanctions, civil and/or criminal penalties, curtailment of operations in certain jurisdictions, and might adversely affect our business, results of operations or financial condition. In addition, actual or alleged violations could damage our reputation and ability to do business. Furthermore, detecting, investigating, and resolving actual or alleged violations is expensive and could consume significant time and attention of our senior management.

A cyber-attack could materially disrupt our business

We rely on information technology systems and networks, the majority of which are provided by KNOT Management, in our operations and the administration of our business. Our operations could be targeted by individuals or groups seeking to sabotage or disrupt our information technology systems and networks, or to steal data. A successful cyber-attack could materially disrupt our operations, including the safety of our operations, or lead to unauthorized release of information or alteration of information on our systems. Any such attack or other breach of our information technology systems could have a material adverse effect on our business, results of operations, financial condition, our reputation, or cash flows. We may be required to incur additional costs to modify or enhance our information technology systems or to prevent or remediate any such attacks.

Our business is subject to complex and evolving laws, directives and regulations regarding privacy and data protection.

We are subject to laws, directives, and regulations relating to the collection, use, retention, disclosure, security and transfer of personal data ("data protection laws"). These data protection laws, and their interpretation and enforcement, continue to evolve and may be inconsistent from jurisdiction to jurisdiction. For example, the General Data Protection Regulation ("GDPR"), which regulates the use of personally identifiable information, went into effect in the European Union ("EU") on May 25, 2018, applies globally to all of our activities conducted from an establishment in the EU, to related products and services that we offer to EU customers and to non-EU customers which offer services in the EU. Complying with the GDPR and similar emerging and changing data protection laws may cause us to incur substantial costs or require us to change our business practices. Noncompliance, or perceived noncompliance, with our legal obligations relating to data protection laws could result in penalties, fines, legal proceedings by governmental entities or others, loss of reputation, legal claims by individuals and customers and significant legal and financial exposure and could affect our ability to retain and attract customers. As noted above, we are also subject to the possibility of cyber attacks, which themselves may result in a violation of these laws.

Risks Inherent in an Investment in Us

KNOT and its affiliates may compete with us.

Pursuant to the omnibus agreement, we entered into with KNOT at the time of our IPO (the "Omnibus Agreement"), KNOT and its controlled affiliates (other than us, our general partner and our subsidiaries) generally have agreed not to acquire, own, operate or charter certain shuttle tankers operating under charters of five years or more. The Omnibus Agreement, however, contains significant exceptions that may allow KNOT or any of its controlled affiliates to compete with us, which could harm our business. Please read "Item 7. Major Unitholders and Related Party Transactions Related Party Transactions Omnibus Agreement Noncompetition."

Unitholders have limited voting rights, and our partnership agreement restricts the voting rights of Norwegian Resident Holders and unitholders owning more than 4.9% of our common units.

Unlike the holders of common stock in a corporation, holders of common units have only limited voting rights on matters affecting our business. We hold a meeting of the limited partners every year to elect one or more members of our board of directors and to vote on any other matters that are properly brought before the meeting. Common unitholders are entitled to elect only four of the seven members of our board of directors. The elected directors are elected on a staggered basis and generally serve for four-year terms. Our general partner in its sole discretion appoints the remaining three directors and sets the terms for which those directors serve. Our partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting our unitholders' ability to influence the manner or direction of management. Unitholders have no right to elect our general partner, and our general partner may not be removed except by a vote of the holders of at least $66^2/_3$% of the outstanding common units, including any units owned by our general partner and its affiliates, voting together as a single class.

Our partnership agreement further restricts unitholders' voting rights by providing that Norwegian Resident Holders are not eligible to vote in the election of elected directors. Further, if any person or group owns beneficially more than 4.9% of any class of units then outstanding, any such units owned by that person or group in excess of 4.9% may not be voted on any matter and are not considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes (except for purposes of nominating a person for election to our board of directors), determining the presence of a

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quorum or for other similar purposes, unless required by law. The voting rights of any unitholders not entitled to vote on a specific matter are effectively redistributed pro rata among the other common unitholders. Our general partner, its affiliates and persons who acquire common units with the prior approval of our board of directors are not subject to the 4.9% limitation except with respect to voting their common units in the election of the elected directors.

KNOT and its affiliates own a substantial interest in us and have conflicts of interest and limited fiduciary and contractual duties to us and our common unitholders, which may permit them to favor their own interests to the detriment of our unitholders.

As of April 10, 2019, KNOT owned 26.2% of our common units and owned and controlled our general partner, which owns a 1.85% general partner interest in us and 0.3% of our common units. Certain of our directors are directors of KNOT or its affiliates, and, as such, they have fiduciary duties to KNOT or its affiliates that may cause them to pursue business strategies that disproportionately benefit KNOT or its affiliates or which otherwise are not in the best interests of us or our unitholders. Conflicts of interest may arise between KNOT and its affiliates (including our general partner), on the one hand, and us and our unitholders, on the other hand. As a result of these conflicts, our general partner and its affiliates may favor their own interests over the interests of our unitholders. Please read " Our partnership agreement limits our general partner's and our directors' fiduciary duties to our unitholders and restricts the remedies available to unitholders for actions taken by our general partner or our directors." These conflicts include, among others, the following situations:

- neither our partnership agreement nor any other agreement requires our general partner or KNOT or its affiliates to pursue a business strategy that favors us or utilizes our assets, and KNOT's officers and directors have a fiduciary duty to make decisions in the best interests of the shareholders of KNOT, which may be contrary to our interests;

- our partnership agreement permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. Specifically, our general partner is considered to be acting in its individual capacity if it exercises its call right, pre-emptive rights or registration rights, consents or withholds consent to any merger or consolidation of the Partnership, appoints any directors or votes for the election of any director, votes or refrains from voting on amendments to our partnership agreement that require a vote of the outstanding units, voluntarily withdraws from the Partnership, transfers (to the extent permitted under our partnership agreement) or refrains from transferring its units or general partner interest or votes upon the dissolution of the Partnership;

- our general partner and our directors have limited their liabilities and reduced their fiduciary duties under the laws of the Marshall Islands, while also restricting the remedies available to our unitholders, and, as a result of purchasing common units, unitholders are treated as having agreed to the modified standard of fiduciary duties and to certain actions that may be taken by our general partner and our directors, all as set forth in our partnership agreement;

- our general partner is entitled to reimbursement of all reasonable costs incurred by it and its affiliates for our benefit;

- our partnership agreement does not restrict us from paying our general partner or its affiliates for any services rendered to us on terms that are fair and reasonable or entering into additional contractual arrangements with any of these entities on our behalf;

- our general partner may exercise its right to call and purchase our common units if it and its affiliates own more than 80.0% of our common units; and

- our general partner is not obligated to obtain a fairness opinion regarding the value of the common units to be repurchased by it upon the exercise of its limited call right.

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Although a majority of our directors have been elected by common unitholders, our general partner has substantial influence on decisions made by our board of directors. Please read "Item 7. Major Unitholders and Related Party Transactions."

Our partnership agreement limits our general partner's and our directors' fiduciary duties to our unitholders and restricts the remedies available to unitholders for actions taken by our general partner or our directors.

Our partnership agreement provides that our general partner irrevocably delegates to our board of directors the authority to oversee and direct our operations, management and policies on an exclusive basis, and such delegation is binding on any successor general partner of the Partnership. Our partnership agreement also contains provisions that reduce the standards to which our general partner and directors would otherwise be held by Marshall Islands law. For example, our partnership agreement:

- permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. Where our partnership agreement permits, our general partner may consider only the interests and factors that it desires, and in such cases it has no fiduciary duty or obligation to give any consideration to any interest of, or factors affecting us, our affiliates or our unitholders. Decisions made by our general partner in its individual capacity are made by its board of directors, which is appointed by KNOT. Specifically, pursuant to our partnership agreement, our general partner is considered to be acting in its individual capacity if it exercises its call right, pre-emptive rights or registration rights, consents or withholds consent to any merger or consolidation of the Partnership, appoints any directors or votes for the election of any director, votes or refrains from voting on amendments to our partnership agreement that require a vote of the outstanding units, voluntarily withdraws from the Partnership, transfers (to the extent permitted under our partnership agreement) or refrains from transferring its units or general partner interest or votes upon the dissolution of the Partnership;

- provides that our general partner and our directors are entitled to make other decisions in "good faith" if they reasonably believe that the decision is in our best interests;

- generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the conflicts committee of our board of directors and not involving a vote of unitholders must be on terms no less favorable to us than those generally being provided to or available from unrelated third parties or be "fair and reasonable" to us and that, in determining whether a transaction or resolution is "fair and reasonable," our board of directors may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us; and

- provides that neither our general partner nor our officers or our directors is liable for monetary damages to us, our limited partners or assignees for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that our general partner or our officers or directors or those other persons engaged in actual fraud or willful misconduct.

In order to become a limited partner of our partnership, a common unitholder is required to agree to be bound by the provisions in our partnership agreement, including the provisions discussed above.

Our partnership agreement provides that our general partner delegates all its management activities in relation to us to our board of directors, and arrangements are in place such that any activities that would otherwise constitute regulated activities under the Financial Services and Markets Act 2000 (Regulated Activities Order) 2001 were they to be performed in the United Kingdom (and that would not fall within a suitable exemption) are performed outside of the United Kingdom.

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However, there can be no assurance that this will not change (deliberately or otherwise) over time, and there is no current intention for our general partner, us or any of our subsidiaries to seek authorization from the Financial Conduct Authority in the United Kingdom, which would be required for any person to lawfully carry out such regulated activities in the United Kingdom.

Fees and cost reimbursements, which affiliates of KNOT determine for services provided to us and our subsidiaries, are substantial, payable regardless of our profitability and reduce our cash available for distribution to our unitholders.

Pursuant to technical management agreements, our subsidiaries that own vessels operating under time charters pay fees for services provided to them by KNOT Management and reimburse KNOT Management for all expenses incurred on their behalf. These fees and expenses include all costs and expenses incurred in providing the crew, technical and commercial management of the vessels in our fleet to our subsidiaries. Additionally our subsidiaries that own vessels operating under bareboat charters have entered into management and administration agreements with either KNOT Management or KNOT Management Denmark pursuant to which these companies provide general monitoring services for the vessels in exchange for an annual fee.

In addition, pursuant to an administrative services agreement, KNOT UK provides us with certain administrative services. KNOT UK is permitted to subcontract certain of the administrative services provided to us under this agreement to KOAS UK, KOAS and KNOT Management. We reimburse KNOT UK, and KNOT UK reimburses KOAS UK, KOAS and KNOT Management, as applicable, for their reasonable costs and expenses incurred in connection with the provision of the services subcontracted to KOAS UK, KOAS and KNOT Management under the administrative services agreement. In addition, KNOT UK pays to KOAS UK, KOAS and KNOT Management, as applicable, a service fee in U.S. Dollars equal to 5% of the costs and expenses incurred in connection with providing services.

For a description of the technical management agreements, management and administration agreements and the administrative services agreement, please read "Item 7. Major Unitholders and Related Party Transactions." The fees and expenses payable pursuant to the technical management agreements, management and administration agreements and the administrative services agreement are payable without regard to our business, results of operation and financial condition. The payment of fees to and the reimbursement of expenses of affiliates of KNOT could adversely affect our ability to pay cash distributions to our unitholders.

Our partnership agreement contains provisions that may have the effect of discouraging a person or group from attempting to remove our current management or our general partner, and even if public unitholders are dissatisfied, they are unable to remove our general partner without KNOT's consent, unless KNOT's ownership interest in us is decreased, all of which could diminish the trading price of our common units.

Our partnership agreement contains provisions that may have the effect of discouraging a person or group from attempting to remove our current management or our general partner.

- If our general partner is removed without "cause" and units held by our general partner and KNOT are not voted in favor of that removal, our general partner has the right to convert its general partner interest, and the holders of the incentive distribution rights have the right to convert such incentive distribution rights, into common units or to receive cash in exchange for those interests based on the fair market value of those interests at the time. Any conversion of the general partner interest or incentive distribution rights would be dilutive to existing unitholders. Furthermore, any cash payment in lieu of such conversion could be prohibitively expensive. "Cause" is narrowly defined to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding our general partner liable for actual fraud or

willful or wanton misconduct in its capacity as our general partner. Cause does not include most cases of charges of poor business decisions, such as charges of poor management of our business by the directors appointed by our general partner.

Common unitholders are entitled to elect only four of the seven members of our board of directors. Our general partner in its sole discretion appoints the remaining three directors.

Election of the four directors elected by common unitholders is staggered, meaning that the members of only one of four classes of our elected directors are selected each year. In addition, the directors appointed by our general partner serve for terms determined by our general partner.

Our partnership agreement contains provisions limiting the ability of unitholders to call meetings of unitholders, to nominate directors and to acquire information about our operations as well as other provisions limiting our unitholders' ability to influence the manner or direction of management.

Unitholders' voting rights are further restricted by our partnership agreement provision providing that if any person or group owns beneficially more than 4.9% of any class of units then outstanding, any such units owned by that person or group in excess of 4.9% may not be voted on any matter and are not considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes (except for purposes of nominating a person for election to our board of directors), determining the presence of a quorum or for other similar purposes, unless required by law. The voting rights of any such unitholders in excess of 4.9% effectively are redistributed pro rata among the other common unitholders holding less than 4.9% of the voting power of all classes of units entitled to vote. Our general partner, its affiliates and persons who acquire common units with the prior approval of our board of directors are not subject to this 4.9% limitation except with respect to voting their common units in the election of the elected directors.

There are no restrictions in our partnership agreement on our ability to issue equity securities.

The effect of these provisions may be to diminish the price at which the common units trade.

The control of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of our unitholders. In addition, our partnership agreement does not restrict the ability of the members of our general partner from transferring their respective membership interests in our general partner to a third party.

Substantial future sales of our common units or the issuance of additional preferred units in the public market could cause the price of our common units to fall.

The market price of our common units could decline due to sales of a large number of units, or the issuance of debt securities or warrants, in the market, or the perception that these sales could occur. These sales could also make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate to raise funds through future offerings of common units.

We have granted registration rights to KNOT and certain of its affiliates. These unitholders have the right, subject to some conditions, to require us to file registration statements covering any of our common or other equity securities owned by them or to include those securities in registration statements that we may file for ourselves or other unitholders. As of April 10, 2019, KNOT and our general partner owned 26.5% of the common units and all of the incentive distribution rights. We have also entered into a registration rights agreement with the holders of the Series A Preferred Units,

pursuant to which we filed a registration statement to register resales of the common units underlying the Series A Preferred Units. Following their registration and sale, these securities will become freely tradable. By exercising their registration rights and selling a large number of common units or other securities, our securityholders with registration rights could cause the price of our common units to decline.

Our common units are subordinated to our existing and future indebtedness and our Series A Preferred Units.

Our common units are equity interests in us and do not constitute indebtedness. The common units rank junior to all indebtedness and other non-equity claims on us with respect to the assets available to satisfy claims, including a liquidation of the Partnership. Additionally, holders of the common units are subject to the prior distribution and liquidation rights of the holders of the Series A Preferred Units and any other preferred units we may issue in the future.

As long as our outstanding Series A Preferred Units remain outstanding, distribution payments relating to our common units are prohibited under our partnership agreement until all accrued and unpaid distributions are paid on the Series A Preferred Units.

KNOT, as the holder of all of the incentive distribution rights, may elect to cause us to issue additional common units to it in connection with a resetting of the target distribution levels related to its incentive distribution rights without the approval of the conflicts committee of our board of directors or holders of our common units. This may result in lower distributions to holders of our common units in certain situations.

KNOT, as the holder of all of the incentive distribution rights, has the right, at a time when it has received incentive distributions at the highest level to which it is entitled (48.0%) for each of the prior four consecutive fiscal quarters, to reset the initial cash target distribution levels at higher levels based on the distribution at the time of the exercise of the reset election. Following a reset election by KNOT, the minimum quarterly distribution will be reset to an amount equal to the average cash distribution per common unit for the two fiscal quarters immediately preceding the reset election (such amount is referred to as the "reset minimum quarterly distribution"), and the target distribution levels will be reset to correspondingly higher levels based on the same percentage increases above the reset minimum quarterly distribution.

In connection with resetting these target distribution levels, KNOT will be entitled to receive a number of common units equal to that number of common units whose aggregate quarterly cash distributions equaled the average of the distributions to it on the incentive distribution rights in the prior two quarters. We anticipate that KNOT would exercise this reset right in order to facilitate acquisitions or internal growth projects that would not be sufficiently accretive to cash distributions per common unit without such conversion; however, it is possible that KNOT could exercise this reset election at a time when it is experiencing, or may be expected to experience, declines in the cash distributions it receives related to its incentive distribution rights and may therefore desire to be issued our common units, rather than retain the right to receive incentive distributions based on the initial target distribution levels. As a result, a reset election may cause our common unitholders to experience dilution in the amount of cash distributions that they would have otherwise received had we not issued additional common units to KNOT in connection with resetting the target distribution levels related to KNOT's incentive distribution rights. Please read "Item 8. Financial Information Consolidated Statements and Other Financial Information Our Cash Distribution Policy Incentive Distribution Rights."

We may issue additional equity securities, including a limited amount of securities senior to the common units, without the approval of our unitholders, which would dilute their ownership interests.

We may, without the approval of our unitholders, issue an unlimited number of additional common units. In addition, we may issue units that are senior to the common units in right of distribution, liquidation and voting, provided that the aggregate amount of our Series A Preferred Units and any other securities on parity with the Series A Preferred Units, pro forma for such issuance, does not exceed 33.33% of the book value of the sum of our then outstanding aggregate amount of parity securities and junior securities (including the common units). The consent of the holders of the Series A Preferred Units will be necessary for us to issue any parity securities (or securities senior to our Series A Preferred Units) in excess of such pro forma book value.

The issuance by us of additional common units or other equity securities of equal or senior rank will have the following effects:

- our unitholders' proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each unit may decrease;
- the relative voting strength of each previously outstanding unit may be diminished; and
- the market price of the common units may decline.

A substantial number of our common units may be issued upon conversion of our Series A Preferred Units or as redemption payments in respect of our Series A Preferred Units, which issuances could reduce the value of our common units.

Our Series A Preferred Units will be convertible, under certain circumstances, at the then applicable conversion rate, which will be subject to adjustment under certain circumstances. The conversion rate will be redetermined on a quarterly basis, such that the conversion rate will be equal to $24.00 (the "Issue Price") divided by the product of (x) the book value per common unit at the end of the immediately preceding quarter (pro-forma for per unit cash distributions payable with respect to such quarter) multiplied by (y) the quotient of (i) the Issue Price divided by (ii) the book value per common unit on the initial issuance date of the Series A Preferred Units.

The Series A Preferred Units are generally convertible, at the option of the holders of the Series A Preferred Units, into common units at the then applicable conversion rate. In addition, we may redeem the Series A Preferred Units at any time before February 2, 2027 at the redemption price applicable on any such redemption date, provided, however, that upon notice from us to the holders of Series A Preferred Units or our intention to redeem, such holders may elect, instead, to convert their Series A Preferred Units into common units at the then applicable conversion rate. In addition, subject to certain conditions, we may convert the Series A Preferred Units into common units at the then applicable conversion rate. Upon a change of control of the Partnership, the holders of Series A Preferred Units may require us to redeem the Series A Preferred Units, in cash, at 100% of the Issue Price. Further, the holders of Series A Preferred Units may cause us to redeem the Series A Preferred Units on February 2, 2027 in, at our option, (i) cash at a price equal to 70% of the Issue Price or (ii) common units such that each Series A Preferred Unit receives common units worth 80% of the Issue Price. The value (and, therefore, the number) of the common units to be delivered pursuant thereto will be determined based on the volume-weighted average trading price, as adjusted for splits, combinations and other similar transactions, of our common units as reported on the NYSE for the 30-trading day period ending on the fifth trading day immediately prior to the redemption date.

If a substantial portion of the Series A Preferred Units are converted into common units or redeemed under certain circumstances, common unitholders could experience significant dilution. Furthermore, if holders of such Series A Preferred Units were to dispose of a substantial portion of

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these common units in the public market following such a conversion, whether in a single transaction or series of transactions, it could adversely affect the market price for our common units. These sales, or the possibility that these sales may occur, could make it more difficult for us to sell our common units in the future.

The number of our common units issuable upon conversion or redemption under certain circumstances of the Series A Preferred Units will be impacted by, among other things, the level of our quarterly cash distributions, as the conversion rate is redetermined each quarter, based on the pro forma per unit cash distributions we make on our common units (as described above) and the market price of our common units. Accordingly, the number of common units issuable upon conversion or redemption under certain circumstances could be substantial, especially during periods of significant declines in market prices of our common units or if we experience certain events, such as, among other things, a decline in the value of our vessels that results in an impairment or write-down of the value of our vessels or a write-off of any goodwill, decline in the fair value of our derivative instruments, change in accounting principle that results in a decline in our book value, or other event that results in a decline in our book value.

The issuance of common units upon conversion or redemption under certain circumstances of our Series A Preferred Units may have the following effects:

- an existing unitholder's proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each common unit may decrease;
- the relative voting strength of each previously outstanding common unit may be diminished; and
- the market price of our common units may decline.

The market price of our common units is likely to be influenced by the Series A Preferred Units. For example, the market price of our common units could become more volatile and could be depressed by:

- investors' anticipation of the potential resale in the market of a substantial number of additional common units received upon conversion of the Series A Preferred Units;
- possible sales of our common units by investors who view the Series A Preferred Units as a more attractive means of equity participation in us than owning our common units; and
- hedging or arbitrage trading activity that may develop involving the Series A Preferred Units and our common units.

Our Series A Preferred Units have rights, preferences and privileges that are not held by, and are preferential to the rights of, holders of our common units.

Our Series A Preferred Units rank senior to all our common units with respect to distribution rights and liquidation preference. These preferences could adversely affect the market price for our common units or could make it more difficult for us to sell our common units in the future.

In addition, distributions on the Series A Preferred Units accrue and are cumulative. Our obligation to pay distributions on our Series A Preferred Units, or on the common units issued following conversion of such Series A Preferred Units, could impact our liquidity and reduce the amount of cash flow available for working capital, capital expenditures, growth opportunities, acquisitions, and other general partnership purposes. Our obligations to the holders of Series A Preferred Units could also limit our ability to obtain additional financing or increase our borrowing costs, which could have an adverse effect on our financial condition.

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In establishing cash reserves, our board of directors may reduce the amount of cash available for distribution to our unitholders.

Our partnership agreement requires our board of directors to deduct from operating surplus cash reserves that it determines are necessary to fund our future operating expenditures. These reserves also affect the amount of cash available for distribution to our unitholders. As described above in " Risks Inherent in Our Business We must make substantial capital expenditures to maintain the operating capacity of our fleet, which reduces cash available for distribution. In addition, each quarter we are required to deduct estimated maintenance and replacement capital expenditures from operating surplus, which may result in less cash available to unitholders than if actual maintenance and replacement capital expenditures were deducted," our partnership agreement requires our board of directors each quarter to deduct from operating surplus estimated maintenance and replacement capital expenditures, as opposed to actual maintenance and replacement capital expenditures, which could reduce the amount of available cash for distribution. The amount of estimated maintenance and replacement capital expenditures deducted from operating surplus is subject to review and change by our board of directors at least once a year, provided that any change must be approved by the conflicts committee of our board of directors.

Our general partner has a limited call right that may require our unitholders to sell their common units at an undesirable time or price.

If at any time our general partner and its affiliates own more than 80.0% of the common units, our general partner has the right, which it may assign to any of its affiliates or to us, but not the obligation, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than the then-current market price of our common units. Our general partner is not obligated to obtain a fairness opinion regarding the value of the common units to be repurchased by it upon the exercise of this limited call right. As a result, our unitholders may be required to sell their common units at an undesirable time or price and may not receive any return on their investment. Our unitholders may also incur a tax liability upon a sale of their units.

As of April 10, 2019, KNOT and our general partner owned 26.5% of our common units.

Our unitholders may not have limited liability if a court finds that unitholder action constitutes control of our business.

As a limited partner in a partnership organized under the laws of the Marshall Islands, our unitholders could be held liable for our obligations to the same extent as a general partner if our unitholders participate in the "control" of our business. Our general partner generally has unlimited liability for the obligations of the Partnership, such as its debts and environmental liabilities, except for those contractual obligations of the Partnership that are expressly made without recourse to our general partner. In addition, the limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some jurisdictions in which we do business.

We can borrow money to pay distributions, which would reduce the amount of credit available to operate our business.

Our partnership agreement allows us to make working capital borrowings to pay distributions. Accordingly, if we have available borrowing capacity, we can make distributions on all our units even though cash generated by our operations may not be sufficient to pay such distributions. Any working capital borrowings by us to make distributions reduces the amount of working capital borrowings we can make for operating our business. For more information, please read "Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources."

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Increases in interest rates may cause the market price of our common units to decline.

An increase in interest rates may cause a corresponding decline in demand for equity investments in general, and in particular for yield-based equity investments such as our common units. Any such increase in interest rates or reduction in demand for our common units resulting from other relatively more attractive investment opportunities may cause the trading price of our common units to decline.

We are exposed to market risks relating to the announced phase-out of the London Interbank Offered Rate ("LIBOR")

We are exposed to a market risk relating to increases in interest rates because the amounts borrowed under our existing loan and credit facilities bear interest at rates based on LIBOR. On July 27, 2017, the United Kingdom Financial Conduct Authority ("FCA"), which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021 ("FCA Announcement"). The FCA Announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. Significant increases in LIBOR or uncertainty surrounding its phase out after 2021 could adversely affect our business, financial condition, operating results and cash flows. We use interest rate swaps to reduce our exposure to interest rate risk and hedge a portion of our outstanding indebtedness. There is no assurance that our derivative contracts will provide adequate protection against adverse changes in interest rates or that our bank counterparties will be able to perform their obligations.

Unitholders may have liability to repay distributions.

Under some circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under the Marshall Islands Limited Partnership Act (the "Marshall Islands Act"), we may not make a distribution to our unitholders if the distribution would cause our liabilities, other than liabilities to partners on account of their partnership interest and liabilities for which the recourse of creditors is limited to specified property of ours, to exceed the fair value of our assets, except that the fair value of property that is subject to a liability for which the recourse of creditors is limited will be included in our assets only to the extent that the fair value of that property exceeds that liability. Marshall Islands law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Marshall Islands law will be liable to the limited partnership for the distribution amount. Assignees who become substituted limited partners are liable for the obligations of the assignor to make contributions to the limited partnership that are known to the assignee at the time it became a limited partner and for unknown obligations if the liabilities could be determined from our partnership agreement.

We have been organized as a limited partnership under the laws of the Marshall Islands, which does not have a well-developed body of partnership law.

Our partnership affairs are governed by our partnership agreement and by the Marshall Islands Act. The provisions of the Marshall Islands Act resemble provisions of the limited partnership laws of a number of states in the United States, most notably Delaware. The Marshall Islands Act also provides that it is to be applied and construed to make it, with respect to the subject matter thereof, uniform with the laws of the State of Delaware and, for non-resident limited partnerships such as ours, so long as it does not conflict with the Marshall Islands Act or decisions of the High and Supreme Courts of the Marshall Islands, the non-statutory law (or case law) of the State of Delaware is adopted as the law of the Marshall Islands. There have been, however, few, if any, court cases in the Marshall Islands interpreting the Marshall Islands Act, in contrast to Delaware, which has a fairly well-developed body of case law interpreting its limited partnership statute. Accordingly, we cannot predict whether Marshall Islands courts would reach the same conclusions as the courts in Delaware. For example, the rights of

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our unitholders and the fiduciary responsibilities of our general partner under Marshall Islands law are not as clearly established as under judicial precedent in existence in Delaware. As a result, unitholders may have more difficulty in protecting their interests in the face of actions by our general partner and its officers and directors than would unitholders of a similarly organized limited partnership in the United States.

Because we and KNOT UK are Marshall Islands entities, our operations may be subject to economic substance requirements of the European Union, which could harm our business.

On December 5, 2017, following an assessment of the tax policies of various countries by the Code of Conduct Group for Business Taxation of the European Union (the "COCG"), the Council of the European Union (the "Council") approved and published Council conclusions containing a list of "non-cooperative jurisdictions" for tax purposes (the "2017 Conclusions"). On March 12, 2019, the Council adopted a revised list of non-cooperative jurisdictions (the "2019 Conclusions"). In the 2019 Conclusions, the Republic of the Marshall Islands, among others, was placed by the E.U. on its list of non-cooperative jurisdictions for tax purposes for failing to implement certain commitments previously made to the E.U. by the agreed deadline. E.U. member states have agreed upon a set of measures, which they can choose to apply against the listed countries, including increased monitoring and audits, withholding taxes, special documentation requirements and anti-abuse provisions. The European Commission has stated it will continue to support member states' efforts to develop a more coordinated approach to sanctions for the listed countries in 2019. E.U. legislation prohibits E.U. funds from being channeled or transited through entities in non-cooperative jurisdictions.

We are a Marshall Islands partnership and KNOT UK is a Marshall Islands limited liability company. At present, the impact of being included on the list of non-cooperative jurisdictions for tax purposes is unclear. Certain jurisdictions have enacted or may enact economic substance laws and regulations in response to the listing and the Marshall Islands may enact similar laws and regulations with which we may be obligated to comply. If we fail to comply with our obligations under any such laws and regulations, we could be subject to financial penalties and spontaneous disclosure of information to foreign tax officials, or could be struck from the register of companies.

We do not know: if the E.U. will remove the Marshall Islands from the list of non-cooperative jurisdictions; what actions the Marshall Islands may take, if any, to remove itself from the list; how quickly the E.U. would react to any changes in legislation of the Marshall Islands; or how E.U. banks or other counterparties will react while we or KNOT UK remain as entities organized and existing under the laws of the Marshall Islands. The effect of the E.U. list of non-cooperative jurisdictions, and any noncompliance by us with any legislation adopted by the Marshall Islands to achieve removal from the list, could have a material adverse effect on our business, financial conditions and operating results.

Because we are organized under the laws of the Marshall Islands, it may be difficult to serve us with legal process or enforce judgments against us, our directors or our management.

We are organized under the laws of the Marshall Islands, and substantially all of our assets are located outside of the United States. In addition, our general partner is a Marshall Islands limited liability company, and our directors and officers generally are or will be non-residents of the United States, and all or a substantial portion of the assets of these non-residents are located outside the United States. As a result, it may be difficult or impossible for our unitholders to bring an action against us or against these individuals in the United States if our unitholders believe that their rights have been infringed under securities laws or otherwise. Even if our unitholders are successful in bringing an action of this kind, the laws of the Marshall Islands and of other jurisdictions may prevent or restrict our unitholders from enforcing a judgment against our assets or the assets of our general partner or our directors or officers.

Tax Risks

In addition to the following risk factors, you should read "Item 4. Information on the Partnership Business Overview Taxation of the Partnership" and "Item 10. Additional Information Taxation" for a more complete discussion of the expected material U.S. federal and non-U.S. income tax considerations relating to us and the ownership and disposition of our common units.

We are subject to taxes, which reduces our cash available for distribution to our unitholders.

We and our subsidiaries may be subject to tax in the jurisdictions in which we are organized or operate, reducing the amount of cash available for distribution. In computing our tax obligations in these jurisdictions, we are required to take various tax accounting and reporting positions on matters that are not entirely free from doubt and for which we have not received rulings from the governing authorities. We cannot assure you that, upon review of these positions, the applicable authorities will agree with our positions. A successful challenge by a tax authority could result in additional tax imposed on us or our subsidiaries, further reducing the cash available for distribution. In addition, changes in our operations or ownership could result in additional tax being imposed on us or our subsidiaries in jurisdictions in which operations are conducted.

A change in tax laws in any country in which we operate could adversely affect us.

Tax laws and regulations are highly complex and subject to interpretation. Consequently, we and our subsidiaries are subject to changing tax laws, treaties and regulations in and between countries in which we operate. Our income tax expense is based on our interpretation of the tax laws in effect at the time the expense was incurred. A change in tax laws, treaties or regulations, or in the interpretation thereof, could result in a materially higher tax expense or a higher effective tax rate on our earnings. Such changes may include measures enacted in response to the ongoing initiatives in relation to fiscal legislation at an international level, such as the Action Plan on Base Erosion and Profit Shifting of the Organization for Economic Co-operation and Development.

U.S. tax authorities could treat us as a "passive foreign investment company," which would have adverse U.S. federal income tax consequences to U.S. unitholders.

A non-U.S. entity treated as a corporation for U.S. federal income tax purposes will be treated as a "passive foreign investment company" (a "PFIC") for U.S. federal income tax purposes if at least 75% of its gross income for any taxable year consists of "passive income" or at least 50% of the average value of its assets produce, or are held for the production of, "passive income." For purposes of these tests, "passive income" includes dividends, interest, gains from the sale or exchange of investment property, and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute "passive income." U.S. unitholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC, and the gain, if any, they derive from the sale or other disposition of their interests in the PFIC.

Based on our current and projected method of operation, we believe that we were not a PFIC for any prior taxable year, and we expect that we will not be treated as a PFIC for the current or any future taxable year. We believe that more than 25% of our gross income for each taxable year was or will be non-passive income, and more than 50% of the average value of our assets for each such year was or will be held for the production of non-passive income. This belief is based on certain valuations and projections regarding our income and assets, and its validity is based on the accuracy of such valuations and projections. While we believe these valuations and projections to be accurate, the

shipping market is volatile, and no assurance can be given that they will continue to be accurate at any time in the future.

Moreover, there are legal uncertainties involved in determining whether the income derived from time-chartering activities constitutes rental income or income derived from the performance of services. In *Tidewater Inc. v. United States*, 565 F.3d 299 (5th Cir. 2009), the United States Court of Appeals for the Fifth Circuit (the "Fifth Circuit") held that income derived from certain time-chartering activities should be treated as rental income rather than services income for purposes of a provision of the Internal Revenue Code of 1986, as amended (the "Code"), relating to foreign sales corporations. In that case, the Fifth Circuit did not address the definition of passive income or the PFIC rules; however, the reasoning of the case could have implications as to how the income from a time charter would be classified under such rules. If the reasoning of this case were extended to the PFIC context, the gross income we derive or are deemed to derive from our time-chartering activities may be treated as rental income, and we would likely be treated as a PFIC. In published guidance, the Internal Revenue Service (the "IRS") stated that it disagreed with the holding in *Tidewater* and specified that time charters similar to those at issue in the case should be treated as service contracts. We have not sought, and we do not expect to seek, an IRS ruling on the treatment of income generated from our time-chartering activities. As a result, the IRS or a court could disagree with our position. No assurance can be given that this result will not occur. In addition, although we intend to conduct our affairs in a manner to avoid, to the extent possible, being classified as a PFIC with respect to any taxable year, we cannot assure you that the nature of our operations will not change in the future, or that we will not be a PFIC in the future. If the IRS were to find that we are or have been a PFIC for any taxable year (and regardless of whether we remain a PFIC for any subsequent taxable year), our U.S. unitholders would face adverse U.S. federal income tax consequences. Please read "Item 10. Additional Information Taxation U.S. Federal Income Taxation of U.S. Holders PFIC Status and Significant Tax Consequences" for a more detailed discussion of the U.S. federal income tax consequences to U.S. unitholders if we are treated as a PFIC.

We may have to pay tax on U.S. source income, which would reduce our cash flow.

Under the Code, U.S. source gross transportation income generally is subject to a 4% U.S. federal income tax without allowance for deduction of expenses, unless an exemption from tax applies under a tax treaty or Section 883 of the Code and the Treasury Regulations promulgated thereunder. U.S. source gross transportation income consists of 50% of the gross shipping income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States.

We expect that our vessel-owning subsidiaries will qualify for an exemption from U.S. tax on any U.S. source gross transportation income under the Convention Between the United States of America and the Kingdom of Norway with Respect to Taxes on Income and Property (the "U.S.-Norway Tax Treaty"), and we intend to take this position for U.S. federal income tax purposes. However, if we acquire interests in vessel-owning subsidiaries in the future that are not Norwegian residents for purposes of the U.S.-Norway Tax Treaty, U.S. source gross transportation income earned by those subsidiaries would generally be subject to a 4% U.S. federal income tax unless the exemption under Section 883 of the Code applied. In general, the Section 883 exemption provides that if a non-U.S. corporation satisfies the requirements of Section 883 of the Code and the Treasury Regulations thereunder, it will not be subject to the 4% U.S. federal income tax referenced above on its U.S. source gross transportation income. The Section 883 exemption does not apply to income attributable to transportation that begins and ends in the United States.

The vessels in our fleet do not currently engage in transportation that begins and ends in the United States, and we do not expect that our subsidiaries will in the future earn income from such transportation. If, notwithstanding this expectation, our subsidiaries earn income in the future from transportation that begins and ends in the United States, that income would not be exempt from U.S.

federal income tax under Section 883 of the Code and may not be exempt from U.S. federal income tax under the U.S.-Norway Tax Treaty and therefore may be subject to net income tax in the United States (currently at a 21% rate).

The imposition of U.S. federal income tax on our income could have a negative effect on our business and would result in decreased earnings available for distribution to our unitholders.

Our unitholders may be subject to income tax in one or more non-U.S. jurisdictions as a result of owning our common units if, under the laws of any such jurisdiction, we are considered to be carrying on business there. Such laws may require our unitholders to file a tax return with, and pay taxes to, those jurisdictions.

We conduct our affairs and cause each of our subsidiaries to operate its business in a manner that minimizes income taxes imposed upon us and our subsidiaries. Furthermore, we conduct our affairs and cause each of our subsidiaries to operate its business in a manner that minimizes the risk that unitholders may be treated as having a permanent establishment or taxable presence in a jurisdiction where we or our subsidiaries conduct activities simply by virtue of their ownership of our common units. However, because we are organized as a partnership, there is a risk in some jurisdictions, including Norway, that our activities or the activities of our subsidiaries may rise to the level of a taxable presence that is attributed to our unitholders for tax purposes. We have obtained confirmation from the United Kingdom HM Revenue & Customs that unitholders should not be treated as trading in the United Kingdom merely by virtue of their ownership of our common units. If our unitholders are attributed such a taxable presence in a jurisdiction, our unitholders may be required to file a tax return with, and to pay tax in, that jurisdiction based on our unitholders' allocable share of our income. In addition, we may be required to obtain information from our unitholders in the event a tax authority (including in the United Kingdom) requires such information to submit a tax return. We may be required to reduce distributions to our unitholders on account of any tax withholding obligations imposed upon us by that jurisdiction in respect of such allocation to our unitholders. The United States may not allow a tax credit for any foreign income taxes that our unitholders directly or indirectly incur by virtue of an investment in us.

Item 4. Information on the Partnership

A. History and Development of the Partnership

General

KNOT Offshore Partners LP is a publicly traded limited partnership formed on February 21, 2013 to own, operate and acquire shuttle tankers under long-term charters, which we define as charters of five years or more. On April 18, 2013, we completed our initial public offering ("IPO") of 8,567,500 common units. In connection with our IPO, through KNOT UK, a 100% owned limited liability company formed under the laws of the Marshall Islands, the Partnership acquired a 100% ownership interest in KNOT Shuttle Tankers AS, which as of February 27, 2013 directly or indirectly owned (1) 100% of Knutsen Shuttle Tankers XII KS, the owner of the *Recife Knutsen* and the *Fortaleza Knutsen*, (2) 100% of Knutsen Shuttle Tankers XII AS, the general partner of Knutsen Shuttle Tankers XII KS, and (3) the *Windsor Knutsen* and the *Bodil Knutsen* and all of their related charters, inventory and long-term debt. In establishing the new KNOT Shuttle Tankers AS structure, KNOT formed three new Norwegian subsidiaries, which acquired 90% of Knutsen Shuttle Tankers XII KS, 100% of the *Windsor Knutsen* and 100% of the *Bodil Knutsen*, respectively.

On August 1, 2013, we acquired Knutsen Shuttle Tankers 13 AS, the company that owns and operates the shuttle tanker, the *Carmen Knutsen*, from KNOT.

In June and July 2014, we sold an aggregate of 5,240,000 common units in an underwritten public offering and used a portion of the proceeds to fund the acquisition from KNOT of Knutsen Shuttle

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Tankers 14 AS and Knutsen Shuttle Tankers 15 AS, the companies that own the *Hilda Knutsen* and the *Torill Knutsen*, respectively, which closed on June 30, 2014.

On December 15, 2014, we acquired KNOT Shuttle Tankers 20 AS, the company that owns the shuttle tanker, the *Dan Cisne*, from KNOT.

On June 2, 2015, we sold 5,000,000 common units in an underwritten public offering and used a portion of the net proceeds to fund the acquisition from KNOT of KNOT Shuttle Tankers 21 AS, the company that owns the shuttle tanker, the *Dan Sabia*, which closed on June 15, 2015.

On October 15, 2015, we acquired Knutsen NYK Shuttle Tankers 16 AS, the company that owns the shuttle tanker, the *Ingrid Knutsen*, from KNOT.

On December 1, 2016, we acquired Knutsen Shuttle Tankers 19 AS, the company that owns the shuttle tanker, the *Raquel Knutsen*, from KNOT.

On January 10, 2017, we sold 2,500,000 common units in an underwritten public offering, raising approximately $54.9 million in net proceeds.

On February 2, 2017, we issued and sold in a private placement 2,083,333 Series A Preferred Units at a price of $24.00 per unit, raising approximately $48.6 million in net proceeds.

On March 1, 2017, we acquired KNOT Shuttle Tankers 24 AS, the company that owns the shuttle tanker, the *Tordis Knutsen*, from KNOT.

On June 1, 2017, we acquired KNOT Shuttle Tankers 25 AS, the company that owns the shuttle tanker, the *Vigdis Knutsen*, from KNOT.

On June 30, 2017, we issued and sold in a second private placement 1,666,667 additional Series A Preferred Units at a price of $24.00 per unit, raising approximately $38.9 million in net proceeds.

On September 30, 2017, we acquired KNOT Shuttle Tankers 26 AS, the company that owns the shuttle tanker, the *Lena Knutsen*, from KNOT.

On November 9, 2017, we sold 3,000,000 common units in an underwritten public offering. In connection with the offering, our general partner contributed $1.2 million to us to maintain its 1.85% general partner interest. The total net proceeds from the offering and the general partner contribution were $66.0 million.

On December 15, 2017, we acquired KNOT Shuttle Tankers 32 AS, the company that owns the shuttle tanker, the *Brasil Knutsen*, from KNOT.

On March 1, 2018, we acquired KNOT Shuttle Tankers 30 AS, the company that owns the shuttle tanker, the *Anna Knutsen*, from KNOT.

For more information regarding recent acquisitions and other developments, please see "Item 5. Operating and Financial Review and Prospects Significant Developments in 2018"

As of April 10, 2019, we had a fleet of sixteen shuttle tankers.

We were formed under the law of the Marshall Islands and maintain our principal place of business at 2 Queen's Cross, Aberdeen, Aberdeenshire, AB15 4YB, United Kingdom. Our telephone number at that address is +44 (0) 1224 618420. Our agent for service of process in the United States is Watson Farley & Williams LLP, and its address is 250 West 55th Street, New York, New York 10019.

Capital Expenditures

We reserve cash from operations for future maintenance capital expenditures, working capital and other matters. Because of the substantial capital expenditures, we are required to make to maintain our

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fleet, our annual estimated maintenance and replacement capital expenditures are currently $55.5 million per year, which is comprised of $47.0 million for replacing our current vessels at the end of their useful lives and $8.5 million for drydocking maintenance and classification surveys.

Access to Information

The SEC maintains a website on the Internet that contains reports, proxy, information statements and other information electronically filed via the SEC's Electronic Data Gathering, Analysis, and Retrieval system, which may be accessed at the SEC's website at www.sec.gov.

We maintain a website at www.knotoffshorepartners.com. The information on our website is not part of this Annual Report.

B. Business Overview

General

We were formed to own and operate shuttle tankers under long-term charters. Our primary business objective is to increase quarterly distributions per unit over time by growing our business through accretive acquisitions of shuttle tankers and by chartering our vessels pursuant to long-term charters with high quality customers that generate long-term stable cash flows. All of the vessels in our current fleet are chartered to Equinor, Transpetro, Repsol, Shell, ExxonMobil, Galp and ENI under long-term charters. Our charters have an average remaining term of 3.4 years as of March 31, 2019 (including guaranteed option periods).

Since our IPO, we have increased our quarterly distribution from $0.375 per unit to $0.52 per unit for the quarter ended December 31, 2018.

We intend to leverage the relationships, expertise and reputation of KNOT, a leading independent owner and operator of shuttle tankers, to pursue potential growth opportunities and to attract and retain high-quality, creditworthy customers. As of April 10, 2018, KNOT and our general partner owned our general partner interest, all of our incentive distribution rights and 26.5% of our common units. KNOT intends to utilize us as its primary growth vehicle to pursue the acquisition of long-term, stable cash-flow-generating shuttle tankers.

Business Strategies

Our primary business objective is to increase quarterly distributions per unit over time by executing the following strategies:

- ***Pursue strategic and accretive acquisitions of shuttle tankers on long-term, fixed-rate charters.*** We seek to leverage our relationship with KNOT to make strategic and accretive acquisitions. During the term of the Omnibus Agreement, we have the opportunity to purchase from KNOT any newbuild under a long-term charter or existing shuttle tanker in the KNOT fleet that enters into a long-term charter.

- ***Expand global operations in high-growth regions.*** We seek to expand in proven areas of offshore production, such as the North Sea and Brazil, and in new production areas as they are developed. We believe that KNOT's leading market position, operational expertise and strong customer relationships will enable us to have early access to new production projects worldwide.

- ***Manage our fleet and deepen our customer relationships to continue to provide a stable base of cash flows.*** We intend to maintain and grow our cash flows by focusing on strong customer relationships and actively seeking the extension and renewal of existing charters in addition to new opportunities to serve our customers. KNOT charters its current fleet to a number of the world's leading energy companies. We believe the close relationships that KNOT has with these

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companies will provide attractive opportunities for us. We continue to incorporate safety, health, security and environmental stewardship into all aspects of vessel design and operation in order to satisfy our customers and comply with national and international rules and regulations.

We can provide no assurance, however, that we will be able to implement our business strategies described above. For further discussion of the risks that we face, please read "Item 3. Key Information Risk Factors."

Shuttle Tanker Market

A shuttle tanker is a specialized vessel designed to transport crude oil and condensates from offshore oil field installations to onshore terminals and refineries. Shuttle tankers are equipped with sophisticated loading systems and dynamic positioning systems that allow the vessels to load cargo safely and reliably from oil field installations, even in harsh weather conditions.

Shuttle tankers are often described as "floating pipelines," because these vessels typically shuttle oil from offshore installations to onshore facilities in much the same way a pipeline would transport oil along the ocean floor. Shuttle tankers can be either purpose-built or converted from existing conventional oil tankers.

The advantages of shuttle tankers as compared to pipelines include:

- the use of shuttle tankers is a more flexible option than pipelines for the transportation of oil from the oil field to onshore terminals and provides destination flexibility for the customers;

- shuttle tankers provide a more flexible solution to declining production profiles and abandonment as a pipeline has a fixed capacity, whereas shuttle tanker capacity may be adjusted through reduced frequency of calls or reduced number of vessels serving a field;

- shuttle tanker operators may provide back-up capacity during times when existing transportation infrastructure is closed for maintenance or otherwise unavailable, which would enable uninterrupted production;

- shuttle tankers require less significant up-front investment than pipelines; and

- shuttle tankers provide customers the benefit of purchasing unblended crude qualities, whereas pipelines usually provide a blend of different crude qualities as several oilfields may be connected to the same pipeline. A shuttle tanker may load at several fields during one single voyage, but oil from different fields may be kept separated in different compartments onboard.

Shuttle tankers primarily differ from conventional oil tankers based on two significant features. First, shuttle tankers are fitted with position-keeping equipment enabling them to remain in a position without the assistance of tugs or mooring to installations. Second, shuttle tankers are equipped with bow-loading equipment and, in some cases, also fitted with equipment for submerged turret loading. Conventional oil tankers load from an offshore field installation usually through a taut hawser (mooring line onboard the discharging unit) operation and/or with tug assistance. In certain cases, dedicated shuttle tanker newbuilds are required to service the specific requirements of oil fields and installations. At times, conventional oil tankers can be converted to shuttle tankers after a substantial upgrade and investment in equipment.

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Our Fleet

The following table provides information about the sixteen shuttle tankers in our fleet as of April 10, 2019:

Shuttle Tanker	Capacity (dwt)	Built	Current Operating Region	Charter Type	Charterer	Term
Fortaleza Knutsen	106,316	2011	Brazil	Bareboat charter	Transpetro	2023
Recife Knutsen	105,928	2011	Brazil	Bareboat charter	Transpetro	2023
Bodil Knutsen	157,644	2011	North Sea	Time Charter	Equinor	2020(1)
Windsor Knutsen	162,362	2007	Brazil	Time Charter	Shell	2019(1)(2)
Carmen Knutsen	157,000	2013	Brazil	Time Charter	Repsol	2023(3)
Hilda Knutsen	123,000	2013	North Sea	Time Charter	ENI	2022(3)
Torill Knutsen	123,000	2013	North Sea	Time Charter	ENI	2019(1)
Dan Cisne	59,000	2011	Brazil	Bareboat charter	Transpetro	2023
Dan Sabia	59,000	2012	Brazil	Bareboat charter	Transpetro	2024
Ingrid Knutsen	112,000	2013	North Sea	Time Charter	ExxonMobil	2024(1)
Raquel Knutsen	152,000	2015	Brazil	Time Charter	Repsol	2025(4)
Tordis Knutsen	156,000	2016	Brazil	Time Charter	Shell	2022(5)
Vigdis Knutsen	156,000	2017	Brazil	Time Charter	Shell	2022(5)
Lena Knutsen	156,000	2017	Brazil	Time Charter	Shell	2022(5)
Brasil Knutsen	154,000	2013	Brazil	Time Charter	Galp	2022(6)
Anna Knutsen	152,000	2017	Brazil	Time Charter	Galp	2022(6)

(1) Customer has the option to extend the charter for up to four one-year periods.

(2) On December 17, 2018, the Partnership's subsidiary that owns the *Windsor Knutsen* and Shell agreed to suspend the vessel's time charter contract for a minimum of 10 months and a maximum of 12 months. The suspension period commenced March 4, 2019. During the suspension period, the *Windsor Knutsen* will operate under a time charter contract with Knutsen Shuttle Tankers Pool AS, on the same terms as the existing time charter contract with Shell.

(3) Customer has the option to extend the charter for up to three one-year periods.

(4) Customer has the option to extend the charter for up to one three-year period and one two-year period.

(5) Customer has the option to extend the charter for up to two five-year periods.

(6) Customer has the option to extend the charter for up to two three-year periods.

Customers

For the year ended December 31, 2018, Shell, ENI, Transpetro, Repsol, Equinor, ExxonMobil and Galp accounted for approximately 29%, 16%, 17, %, 13%, 8%, 6% and 11%, respectively, of our revenues.

Charters

We generate revenues by charging customers for the loading, transportation and storage of their crude oil using the vessels in our fleet. We provide all of these services under time charters and bareboat charters.

As of April 10, 2019, twelve of our shuttle tankers are chartered under time charters and four of our shuttle tankers are chartered under bareboat charters.

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A time charter is a contract for the use of a specified vessel for a fixed period of time at a specified daily rate. Under time charters, the shipowner is responsible for providing crewing and other vessel operating services, the cost of which is included in the daily rate, while the customer is responsible for substantially all of the voyage expenses. A bareboat charter is a contract for the use of a specified vessel for a fixed period of time at a specified daily or annual rate. Under bareboat charters, the shipowner is not responsible for providing crewing or other operational services, while the customer is responsible for all vessel operating expenses and voyage expenses. In addition, bareboat charters also provide that the shipowner is responsible for repairs or renewals occasioned by latent defects in the vessel existing at the time of delivery, provided such defects have manifested themselves within 18 months after delivery. However, under bareboat charters, the customer is responsible for ordinary repair and maintenance, including drydocking.

Initial Term; Extensions

The initial term for a time charter or bareboat charter commences upon the vessel's delivery to the customer. Our time charters include options, exercisable by the customer, to extend the charter's initial term. Under the time charters, the customer may also extend the term for periods in which the vessel is off-hire, as described below. Customers under each of our time charters and bareboat charters have rights to terminate the charter prior to expiration of the original or any extended term in specified circumstances.

Hire Rate

Hire rate refers to the basic payment from the customer for the use of the vessel. Under our time charters, the majority of hire rate is payable monthly in advance, in U.S. Dollars. The hire rate payable under our time charters is either a fixed amount for the firm period of the time charter with escalations to be made in case of option periods or increases annually based on a fixed percentage increase or fixed schedule, in order to enable us to offset expected increases in operating costs. Under our time charters, hire rate payments may be reduced if the vessel does not perform to certain of its specifications, such as if the average vessel speed falls below a guaranteed speed or the amount of fuel consumed to power the vessel under normal circumstances exceeds a guaranteed amount.

The hire rate payable under our bareboat charters is fixed and payable monthly in advance, in U.S. Dollars. The customer is also required to maintain minimum levels of insurance to protect the interests of the customer, the shipowner and mortgagees, if any.

Off-hire

Under our time charters, when the vessel is off-hire, or not available for service, the customer generally is not required to pay the hire rate, and the shipowner is responsible for all costs. Prolonged off-hire may lead to a termination of the time charter. A vessel generally will be deemed off-hire if there is a loss of time due to, among other things:

- operational deficiencies; drydocking for repairs, maintenance or inspection; equipment breakdowns; or delays due to accidents, crewing strikes, certain vessel detentions or similar problems; or

- the shipowner's failure to maintain the vessel in compliance with its specifications and contractual standards or to provide the required crew.

Our bareboat charters do not contain provisions for off-hire.

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Ship Management and Maintenance

Under our time charters, the shipowner is responsible for the technical management of the vessel and for maintaining the vessel, periodic drydocking, cleaning and painting and performing work required by regulations. KNOT Management and KNOT Management Denmark provide these services to our subsidiaries for all our vessels under time charters. Please read "Item 7. Major Unitholders and Related Party Transactions Related Party Transactions." Under our bareboat charters, the shipowner is not responsible for providing crewing or other operational services and the customer is responsible for all vessel operating expenses and voyage expenses. However, Transpetro has elected to subcontract the technical operation and management of the *Fortaleza Knutsen,* the *Recife Knutsen,* the *Dan Cisne* and the *Dan Sabia* to an affiliate of KNOT.

Termination

Each of our time charters and bareboat charters terminates automatically if the applicable vessel is lost or missing. In addition, under certain circumstances, the customer may have an option to terminate the time charter if the vessel is requisitioned by any government for a period of time in excess of the time period specified in the time charter or if at any time the shipowner is in default under the time charter. Under the bareboat charters, the charter is deemed terminated as of the date of any compulsory acquisition of the vessel or requisition for title by any governmental or other competent authority. In addition, the shipowner is generally entitled to suspend performance (but with the continuing accrual to its benefit of hire rate payments and default interest) and terminate the charter if the customer defaults in its payment obligations. Under the time charters and bareboat charters, either party may also terminate the charter in the event of war in specified countries.

However, under the bareboat charters, in the event of war, hire shall continue to be paid in accordance with the charter until redelivery. In addition, under the bareboat charters, the shipowner has the right to terminate the charter if the customer (1) does not take immediate steps to have the necessary repairs done within a reasonable time or (2) does not arrange and keep certain insurance.

Competition

The shuttle tanker industry is capital intensive and operational expertise is critical, which create high barriers to entry. The shuttle tanker industry is viewed as an integral part of offshore oil production creating a market with few alternative suppliers and therefore a low risk of substitution. A company with a solid track record, knowledge of the market and an experienced, well-trained crew is preferred to a new entrant since the cost and impact of vessel downtime is significant for the customer. Furthermore, the systems in place for operational procedures, such as offshore loading and vetting, have significant value when negotiating contracts with new and existing customers.

According to Fearnresearch, as of April 1, 2019, there were approximately 88 vessels in the world shuttle tanker fleet (including 15 newbuilds on order). Teekay Offshore Partners L.P. is the largest owner in the shuttle tanker market with approximately 32 shuttle tankers (including 6 newbuilds on order). KNOT is the second largest owner of shuttle tankers with 32 shuttle tankers (including our vessels and 3 newbuilds on order). American Eagle Tankers (AET) is the third largest owner of shuttle tankers with 11 vessels (including 7 newbuilds on order). Petrobras, which owns two vessels, employs a total of 24 shuttle tankers (including 3 newbuilds on order) through long-term bareboat and time charters. There are other shuttle tanker owners in the industry, but most of such owners have a limited fleet size and have chartered vessels out for the long term.

Classification, Inspection and Maintenance

Every large, commercial seagoing vessel must be "classed" by a classification society. The classification society certifies that the vessel is "in class," signifying that the vessel has been built and

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maintained in accordance with the rules of the classification society. In most cases, the classification society is authorized by the flag state to certify that the vessels also comply with applicable rules and regulations of the vessel's country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society may undertake them on application or by official order, acting on behalf of the authorities concerned. The classification society also undertakes on request other surveys and checks that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case and/or to the regulations of the country concerned. For maintenance of the class, regular and extraordinary surveys of hull, machinery, including the electrical plant, and any special equipment classed are required to be performed by the classification society as follows:

Annual Surveys. For seagoing vessels, annual surveys are conducted for the hull and the machinery, including the electrical plant and where applicable for special equipment classed, at intervals of 12 months from the date of commencement of the class period indicated in the certificate.

Intermediate Surveys. Extended annual surveys are referred to as intermediate surveys and typically are conducted two and one-half years after commissioning and each class renewal. Intermediate surveys may be carried out on the occasion of the second or third annual survey.

Class Renewal Surveys. Class renewal surveys, also known as special surveys, are carried out for the ship's hull, machinery, including the electrical plant and for any special equipment classed, at the intervals indicated by the character of classification for the hull. At the special survey, the vessel is thoroughly examined, including ultrasonic gauging, in order to determine the thickness of the steel structures. Should the thickness be found to be less than class requirements, the classification society would require steel renewals. Substantial amounts of money may have to be spent for steel renewals to pass a special survey if the vessel experiences excessive wear and tear. In lieu of the special survey every five years, a shipowner has the option of arranging with the classification society for the vessel's hull or machinery to be on a continuous survey cycle, in which every part of the vessel would be surveyed within a five-year cycle. At an owner's application, the surveys required for class renewal may be split according to an agreed schedule to extend over the entire period of class. This process is referred to as continuous class renewal and though we have not exercised this option for our existing vessels, we may do so in the future.

All of the vessel's areas subject to survey as defined by the classification society are required to be surveyed at least once per class period, unless shorter intervals between surveys are prescribed elsewhere. The period between two subsequent surveys of each area must not exceed five years.

A vessel's underwater parts are required to be inspected every 24 to 36 months by the classification society. Drydocking of vessels is done, at the minimum, every 60 months until the vessel is 15 years old and every 30 months thereafter. If any defects are found, the classification surveyor will issue a condition of class that must be rectified by the shipowner.

Most insurance underwriters make it a condition for insurance coverage that a vessel be certified as "in class" by a classification society that is a member of the International Association of Classification Societies. All of our vessels have been awarded International Safety Management certification and are certified as being "in class" by DNV GL or ABS, the Norwegian and American classification societies, respectively. All new and secondhand vessels that we purchase must be certified prior to their delivery under the standard purchase contracts and memoranda of agreement. If the vessel is not certified on the date of closing, we will have no obligation to take delivery of the vessel.

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KNOT, through certain of its subsidiaries, operates as our ship manager, and carries out inspections of the ships on a regular basis, both at sea and while the vessels are in port, as well as carrying out inspections and ship audits to verify conformity with managers' reports. The results of these inspections result in a report containing recommendations for improvements to the overall condition of the vessel, maintenance, safety and crew welfare. Based in part on these evaluations, we create and implement a program of continual maintenance and improvement for our vessels and their systems.

Safety, Management of Ship Operations and Administration

Safety and environmental compliance is our top operational priority. Our vessels are operated in a manner intended to protect the safety and health of our employees, the general public and the environment. We actively manage the risks inherent in our business and are committed to eliminating incidents that threaten the safety and integrity of our vessels, such as groundings, fires, collisions and petroleum spills. We are also committed to reducing emissions and waste generation. We have established key performance indicators to facilitate regular monitoring of our operational performance. We set targets on an annual basis to drive continuous improvement, and we review performance indicators monthly to determine if remedial action is necessary to reach our targets. KNOT's shore staff performs a full range of technical, commercial and business development services for us. This staff also provides administrative support to our operations in finance, accounting and human resources.

KNOT, through certain of its subsidiaries, assists us and our operating subsidiaries in managing our ship operations. DNV GL, a Norwegian classification society, has approved KNOT's safety management system, which has been implemented on all our ships, as complying with the IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention (the "ISM Code"), International Standards Organization ("ISO") 9001 for Quality Assurance, ISO 14001 for Environment Management Systems and OHSAS 18001, for Occupational Health and Safety Management System. As part of KNOT's ISM Code compliance, all the vessels' safety management certificates are being maintained through ongoing internal audits performed by KNOT's certified internal auditors and external audits performed by DNV GL or the respective flag state. Subject to satisfactory completion of these internal and external audits, certification is valid for five years.

KNOT provides, through certain of its subsidiaries, expertise in various functions critical to the operations of our operating subsidiaries. We believe this arrangement affords a safe, efficient and cost-effective operation. KNOT's subsidiaries also provide to us access to human resources, financial and other administrative functions pursuant to technical management agreements. Please read "Item 7. Major Unitholders and Related Party Transactions Related Party Transactions Technical Management Agreements."

Critical ship management functions that are provided by KNOT or its subsidiaries through various of its offices around the world include:

- technical management, maintenance and dockings;
- crew management;
- procurement, purchasing and forwarding logistics;
- marine operations;
- vetting, oil major and terminal approvals;
- shipyard supervision;
- insurance; and
- financial services.

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These functions are supported by onboard and onshore systems for maintenance, inventory, purchasing and budget management. In addition, KNOT's day-to-day focus on cost control will be applied to our operations. We believe that the adoption of common standards should also result in operational efficiencies, including with respect to crew training and vessel management, equipment operation and repair, and spare parts ordering.

Risk of Loss, Insurance and Risk Management

The operation of any vessel, including shuttle tankers, has inherent risks. These risks include mechanical failure, personal injury, collision, property loss, vessel or cargo loss or damage and business interruption due to political circumstances in foreign countries or hostilities. In addition, there is always an inherent possibility of marine disaster, including explosion, spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. We believe that our present insurance coverage is adequate to protect us against the accident-related risks involved in the conduct of our business and that we maintain appropriate levels of environmental damage and pollution insurance coverage consistent with standard industry practice. However, not all risks can be insured, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates.

We have obtained hull and machinery insurance on all our vessels to insure against marine and war risks, which include the risks of damage to our vessels, salvage or towing costs, and also insure against actual or constructive total loss of any of our vessels. However, our insurance policies contain deductible amounts for which we are responsible. We have also arranged additional total loss coverage for each vessel. This coverage, which is called hull interest and freight interest coverage, provides us additional coverage in the event of the total loss or the constructive total loss of a vessel.

We have also obtained loss of hire insurance to protect us against loss of income in the event one of our vessels cannot be employed due to damage that is covered under the terms of our hull and machinery insurance. Under our loss of hire policies, our insurer will pay us the hire rate agreed in respect of each vessel for each day, in excess of a certain number of deductible days, for the time that the vessel is out of service as a result of damage, for a maximum of 180 days. The number of deductible days for the vessels in our fleet is 14 days per vessel.

All of our hull and machinery, hull interest and freight interest and loss of hire insurance policies are written on the Norwegian Marine Insurance Plan ("NMIP"), which through the hull and maintenance coverage also offers comprehensive collision liability coverage of up to the insured hull and maintenance value of the vessel. NMIP is based on an "all risk principle" and offers what is considered to be the most comprehensive insurance obtainable in any of the world's marine markets today. The agreed deductible on each vessel averages $150,000 for the shuttle tankers in our fleet.

Protection and indemnity insurance, which covers our third-party legal liabilities in connection with our shipping activities, is provided by a P&I club. This includes third-party liability and other expenses related to the injury or death of crew members, passengers and other third-party persons, loss or damage to cargo, claims arising from collisions with other vessels or from contact with jetties or wharves and other damage to other third-party property, including pollution arising from oil or other substances, and other related costs, including wreck removal. Subject to the capping discussed below, our coverage, except for pollution, is unlimited.

Our current protection and indemnity insurance coverage for pollution is $1 billion per vessel per incident. The 13 P&I clubs that comprise the International Group of Protection and Indemnity Clubs insure approximately 90% of the world's commercial tonnage and have entered into a pooling agreement to reinsure each association's liabilities. Each P&I club has capped its exposure in this pooling agreement so that the maximum claim covered by the pool and its reinsurance would be approximately $1 billion per accident or occurrence. We are a member of Norwegian P&I Club Skuld.

As a member of these P&I clubs, we are subject to a call for additional premiums based on the clubs' claims record, as well as the claims record of all other members of the P&I clubs comprising the International Group. However, our P&I clubs have reinsured the risk of additional premium calls to limit our additional exposure. This reinsurance is subject to a cap, and there is the risk that the full amount of the additional call would not be covered by this reinsurance.

The insurers providing the covers for hull and machinery, hull interest and freight interest, protection and indemnity and loss of hire insurances have confirmed that they will consider the shuttle tankers as vessels for the purpose of providing insurance.

We use in our operations KNOT's risk management program that includes, among other things, risk analysis tools, maintenance and assessment programs, a seafarers competence training program, seafarers workshops and membership in emergency response organizations. We benefit from KNOT's commitment to safety and environmental protection as certain of its subsidiaries assist us in managing our vessel operations.

KNOT has achieved certification under the standards reflected in ISO 9001 for quality assurance, ISO 14001 for environment management systems and the ISM Code on a fully integrated basis.

Environmental and Other Regulation

General

Our business and the operation of our vessels are significantly affected by international conventions and national, state and local laws and regulations in the jurisdictions in which our vessels operate, as well as in the country or countries of their registration. Because these conventions, laws and regulations change frequently, we cannot predict the ultimate cost of compliance or their impact on the resale price or useful life of our vessels. While we believe that we are in substantial compliance with the current environmental laws and regulations that apply to our operations, there is no assurance that such compliance or compliance with amended or newly adopted laws and regulations can be maintained in the future. Additional conventions, laws, and regulations may be adopted that could limit our ability to do business or increase the cost of our doing business and that may materially adversely affect our operations. We are required by various governmental and quasi-governmental agencies to obtain permits, licenses and certificates with respect to our operations. Subject to the discussion below and to the fact that the kinds of permits, licenses and certificates required for the operations of the vessels we own depend on a number of factors, we believe that we will be able to continue to obtain all permits, licenses and certificates material to the conduct of our operations.

International Maritime Organization

The IMO is the United Nations' agency responsible for developing measures to improve the safety and security of international shipping and to prevent marine pollution from ships. IMO regulations relating to pollution prevention for oil tankers have been adopted by many of the jurisdictions in which our tanker fleet operates. Under IMO regulations and subject to limited exceptions, a tanker must be of double-hull construction, a mid-deck design with double-side construction or another approved design ensuring the same level of protection against oil pollution. All of our tankers are double-hulled.

Many countries, but not the United States, have ratified and follow the liability regime adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage, 1969, as updated by the 1992 Protocol (the "CLC"). Under this convention, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil (e.g. crude oil, fuel oil, heavy diesel oil or lubricating oil), subject to certain defenses. The right to limit liability to specified amounts that are periodically revised is forfeited under the CLC when the spill is caused by the owner's actual fault or when the spill is caused by the owner's intentional or

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reckless conduct. Vessels trading to contracting states must provide evidence of insurance covering the limited liability of the owner. In jurisdictions where the CLC has not been adopted, various legislative regimes or common law governs, and liability is imposed either on the basis of fault or in a manner similar to the CLC. IMO regulations also include SOLAS, including amendments to SOLAS implementing the International Security Code for Ports and Ships (the "ISPS"), the ISM Code and the International Convention on Load Lines of 1966. The IMO Marine Safety Committee has also published guidelines for vessels with dynamic positioning systems, which would apply to shuttle tankers. SOLAS provides rules for the construction of and equipment required for commercial vessels and includes regulations for safe operation. Flag states that have ratified the CLC generally utilize the classification societies, which have incorporated SOLAS requirements into their class rules, to undertake surveys to confirm compliance.

SOLAS and other IMO regulations concerning safety, including those relating to treaties on training of shipboard personnel, lifesaving appliances, radio equipment and the global maritime distress and safety system, are applicable to our operations. Non-compliance with IMO regulations, including SOLAS, the ISM Code, and the ISPS, or the requirements for shuttle tankers under their flag regulations, may subject us to increased liability or penalties, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to or detention in some ports. For example, the U.S. Coast Guard and European Union (the "EU") authorities have indicated that vessels not in compliance with the ISM Code will be prohibited from trading in U.S. and EU ports.

The requirements contained in the ISM Code govern our operations. Among other requirements, the ISM Code requires vessel operators to obtain a safety management certification for each vessel they manage, evidencing the shipowner's development and maintenance of an extensive safety management system. Each of the existing vessels in our fleet is currently ISM Code-certified, and we expect to obtain safety management certificates for each newbuild upon delivery.

The International Labour Organization (the "ILO") is a specialized agency of the United Nations with headquarters in Geneva, Switzerland. The ILO has adopted the Maritime Labor Convention 2006 (the "MLC 2006") to improve safety onboard merchant vessels. A Maritime Labor Certificate and a Declaration of Maritime Labor Compliance is required to ensure compliance with the MLC 2006 for all ships above 500 gross tons in international trade. On August 20, 2012, the required number of countries ratified the MCL 2006 and it came into force on August 20, 2013. The MLC 2006 requires us to develop new procedures to ensure full compliance with its requirements. Each of the existing vessels in our fleet is currently MLC 2006-certified, and we expect to obtain MLC 2006 certificates for each newbuild upon delivery.

The IMO has adopted the International Convention for the Prevention of Pollution from Ships ("MARPOL"), including Annex VI to MARPOL that sets limits on sulfur dioxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances. Annex VI applies to all ships and, among other things, imposes a global cap on the sulfur content of fuel oil and allows for specialized areas to be established internationally with even more stringent controls on sulfur emissions. For vessels 400 gross tons and greater, platforms and drilling rigs, Annex VI imposes various survey and air pollution prevention certification requirements. Moreover, Annex VI regulations impose progressively stricter limitations on sulfur emissions from ships. As of January 2, 2015, these limitations require that fuels of vessels in covered Emission Control Areas ("ECAs") contain no more than 0.1% sulfur. For non-ECA areas, the capped sulfur limitations decrease progressively until they reach the global limit of 0.5% that applies on and after January 1, 2020. MARPOL Annex VI also establishes new tiers of stringent nitrogen oxide emissions standards for new marine engines, depending on their date of installation. All of our vessels are in compliance with these requirements.

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In addition, there are several other regulatory requirements to use low sulfur fuel or restrict or regulate emissions from vessels that are either already in force or are upcoming. The EU Directive 33/2005 requiring the use of low sulfur fuel came into force on January 1, 2010. Under this legislation, vessels are required to burn fuel with sulfur content below 0.1% while berthed or anchored in an EU port. The California Air Resources Board requires vessels to burn fuel with 0.1% sulfur content or less within 24 nautical miles of California as of January 1, 2014. Currently, the only grade of fuel meeting 0.1% sulfur content requirement is low sulfur marine gas oil. All of our vessels are able to comply with applicable low sulfur fuel requirements.

The IMO has negotiated international conventions that impose liability for oil pollution and other environmental harms in international waters and the territorial waters of the signatory to such conventions such as the International Convention for the Control and Management of Ships' Ballast Water and Sediments (the "BWM Convention"). The BWM Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements (which began in 2009), to be replaced in time with a requirement for mandatory ballast water treatment. The BWM Convention entered into force on September 8, 2017. As referenced below, the U.S. Coast Guard issued new ballast water management rules on March 23, 2012. Under the requirements of the BWM Convention for units with ballast water capacity more than 5,000 cubic meters that were constructed in 2011 or before, ballast water management exchange or treatment were accepted until 2016. From 2016 (or not later than the first intermediate or renewal survey after 2016), only ballast water treatment will be accepted by the BWM Convention. Installation of ballast water treatment systems will be needed on our vessels. Although the cost to comply with IMO ballast water treatment regulations for our vessels is difficult to estimate, it is anticipated to be approximately $1.5-$2.0 million per vessel for the *Fortaleza Knutsen*, *Recife Knutsen*, *Bodil Knutsen*, *Windsor Knutsen*, *Carmen Knutsen, Dan Cisne* and *Dan Sabia*. The *Anna Knutsen,* the *Brasil Knutsen*, the *Lena Knutsen,* the *Torill Knutsen*, the *Hilda Knutsen*, the *Ingrid Knutsen*, the *Raquel Knutsen* the *Vigdis Knutsen* and the *Tordis Knutsen* have all installed IMO approved ballast water treatment system.

The International Convention on Civil Liability for Bunker Oil Pollution 2001 (the "Bunker Convention") provides a liability, compensation and compulsory insurance system to protect and reimburse the victims of oil pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker fuel. The Bunker Convention became effective in 2008 and imposes strict liability on shipowners for certain pollution damage. Registered owners of any seagoing vessel and seaborne craft over 1,000 gross tonnage, of any type whatsoever, and registered in a signatory state (a "State Party"), or entering or leaving a port in the territory of a State Party, will be required to maintain insurance that meets the requirements of the Bunker Convention and to obtain a certificate issued by a State Party attesting that such insurance is in force. The state-issued certificate must be carried onboard at all times. P&I clubs in the International Group issue the required Bunkers Convention "Blue Cards" to enable signatory states to issue certificates. All of our vessels have received "Blue Cards" from their P&I club and are in possession of a CLC State-issued certificate attesting that the required insurance coverage is in force.

The IMO continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulation may have on our operations.

European Union Environmental Regulation of Vessels

In waters of the EU, our vessels are subject to regulation EU-level directives implemented by the various nations through laws and regulations adopting these requirements. These laws and regulations prescribe measures to prevent pollution, protect the environment, support maritime safety and set out civil and criminal penalties that are being progressively incorporated into domestic legislation. For instance, the EU has adopted legislation (EU Directive 2009/16/EC) that: bans from EU waters

manifestly sub-standard vessels (defined as vessels that have been detained twice by EU port authorities, in the preceding two years, after July 2003); creates obligations on the part of EU member port states to inspect at least 24% of vessels using these ports annually; provides for increased surveillance of vessels posing a high risk to maritime safety or the marine environment; and provides the EU with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies. If deficiencies are found that are clearly hazardous to safety, health or the environment, the state is required to detain the vessel until the deficiencies are addressed. Member states are also required to implement a system of penalties for breaches of these standards. EU Directive 2009/16/EC introduced a harmonized and coordinated regime for port state control inspections and from January 1, 2011 an on-line register to make public both the poorly performing shipping companies (who will attract more intensive and coordinated inspections) and those with good records. Like the IMO, the EU has adopted regulations phasing out single-hull tankers. All of our tankers are double-hulled.

Several regulatory requirements to use low sulfur fuel are in force or upcoming. See discussion of "low sulfur fuel" regulations above.

The EU is currently considering other proposals to further regulate vessel operations. We cannot predict what additional legislation or regulations, if any, may be promulgated by the EU or any other country or authority. The trend, however, is towards increasing regulation and our expectation is that requirements will become more extensive and more stringent over time. If more stringent requirements are put in effect in the future, they may require, individually or in the aggregate, significant expenditures and could increase our operating costs, potentially affecting financial performance.

North Sea Environmental Regulation of Vessels

Our shuttle tankers currently operate in the North Sea and Brazil.

In addition to the regulations imposed by the IMO and the EU, countries having jurisdiction over North Sea areas impose further regulatory requirements on operations in those areas, including Maritime and Coastguard Agency regulations in the United Kingdom and Norwegian Maritime Directorate regulations in Norway. These regulatory requirements, together with additional requirements imposed by operators in North Sea oil fields, require that we make further expenditures for sophisticated equipment, reporting and redundancy systems on the shuttle tankers and for the training of seagoing staff. Additional regulations and requirements may be adopted or imposed that could limit our ability to do business or further increase the cost of doing business in the North Sea.

In Norway, the Norwegian Pollution Control Authority requires the installation of volatile organic compound emissions ("VOC") control equipment, on most shuttle tankers serving the Norwegian continental shelf. The license holders of the oil field are responsible for the costs to ensure that shuttle tankers operating in the field are using appropriate VOC control equipment. In recent contracts, the charterers have requested owners to install such equipment against an increase in the hire rate. We have installed the VOC control equipment required to operate on the Norwegian continental shelf in each of the *Fortaleza Knutsen*, the *Recife Knutsen*, the *Bodil Knutsen*, the *Windsor Knutsen,* the *Hilda Knutsen,* the *Torill Knutsen* and the *Ingrid Knutsen*.

Brazilian Environmental Regulation of Vessels

In Brazil, the field operator and in most cases Petrobras where it is involved are required to establish internal procedures to manage pollution risks, which must be approved by the competent environmental authority. Brazilian environmental law includes international treaties and conventions to which Brazil is a party, as well as federal, state and local laws, regulations and permit requirements related to the protection of health and the environment. The petroleum industry in Brazil is subject to extensive regulations by several governmental agencies, including the National Agency of Petroleum,

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the Brazilian Navy and the Brazilian Institute of the Environment and Renewable Natural Resources. Failure to comply may subject us to administrative, criminal and civil liability, with strict liability in administrative and civil cases.

United States Environmental Regulation of Vessels

In the United States, federal and state laws and regulations that require vessel owners and operators to obtain and maintain specified permits or governmental approvals; control the discharge of materials into the environment; remove and cleanup materials that may harm the environment; and otherwise comply with regulations intended to protect the environment. Vessel operations are subject to the jurisdiction of the U.S. Coast Guard, the National Transportation Safety Board, the U.S. Customs and Border Protection, the Department of Interior, the Bureau of Ocean Energy Management, and the Bureau of Safety and Environmental Enforcement, as well as classification societies such as the American Bureau of Shipping. The United States has enacted an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills, including discharges of oil cargoes, bunker fuels or lubricants, primarily through the Oil Pollution Act of 1990 ("OPA 90") and the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA").

Oil Pollution Act and CERCLA. CERCLA applies to the discharge of "hazardous substances" rather than "oil" and imposes strict joint and several liability upon the owners, operators or bareboat charterers of vessels for cleanup costs and damages arising from discharges of hazardous substances. We believe that petroleum products should not be considered hazardous substances under CERCLA, but additives to oil or lubricants used on vessels might fall within its scope.

OPA 90 affects all owners, bareboat charterers and operators whose vessels trade to the United States or its territories or possessions or whose vessels operate in U.S. waters, which include the U.S. territorial sea and 200-mile exclusive economic zone around the United States.

Under OPA 90, vessel owners, operators and bareboat charterers are "responsible parties" and are jointly, severally and strictly liable (unless the oil spill results solely from the act or omission of a third party, an act of God or an act of war and the responsible party reports the incident and reasonably cooperates with the appropriate authorities) for all containment and cleanup costs and other damages arising from discharges or threatened discharges of oil from their vessels. These other damages are defined broadly to include:

- natural resources damages and the related assessment costs;
- real and personal property damages;
- net loss of taxes, royalties, rents, fees and other lost revenues;
- lost profits or impairment of earning capacity due to property or natural resources damage;
- net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and
- loss of subsistence use of natural resources.

OPA 90 limits the liability of responsible parties in an amount it periodically updates. The liability limits do not apply if the incident was proximately caused by violation of applicable U.S. federal safety, construction or operating regulations, including IMO conventions to which the United States is a signatory, or by the responsible party's gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the oil removal activities. Liability under CERCLA is also subject to limits unless the incident is caused by gross negligence, willful misconduct or a violation of certain regulations. We currently maintain for each of our vessel's pollution liability coverage in the maximum coverage amount of $1 billion per

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incident. A catastrophic spill could exceed the coverage available, which could harm our business, financial condition and results of operations.

Under OPA 90, with limited exceptions, all newly built or converted tankers delivered after January 1, 1994 and operating in U.S. waters must be double-hulled. All of our tankers are double-hulled. OPA 90 also requires owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility in an amount at least equal to the relevant limitation amount for such vessels under the statute. The U.S. Coast Guard has implemented regulations requiring that an owner or operator of a fleet of vessels must demonstrate evidence of financial responsibility in an amount sufficient to cover the vessel in the fleet having the greatest maximum limited liability under OPA 90 and CERCLA. Evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance, guaranty or an alternate method subject to approval by the U.S. Coast Guard. Under the self-insurance provisions, the shipowner or operator must have a net worth and working capital, measured in assets located in the United States against liabilities located anywhere in the world, that exceeds the applicable amount of financial responsibility. We have complied with the U.S. Coast Guard regulations by using self-insurance for certain vessels and obtaining financial guaranties from a third party for the remaining vessels. If vessels in our fleet trade to the United States in the future, we expect to provide guaranties through self-insurance or obtain guaranties from third-party insurers.

OPA 90 and CERCLA permit individual U.S. states to impose their own liability regimes with regard to oil or hazardous substance pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited strict liability for spills. Several coastal states, such as California, Washington and Alaska require state-specific evidence of financial responsibility and vessel response plans. We intend to comply with all applicable regulations in the ports where our vessels call.

Owners or operators of vessels, including tankers operating in U.S. waters are required to file vessel response plans with the U.S. Coast Guard, and their tankers are required to operate in compliance with their U.S. Coast Guard approved plans. Such response plans must, among other things:

- address a "worst case" scenario and identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a "worst case discharge;"

- describe crew training and drills; and

- identify a qualified individual with full authority to implement removal actions.

In addition, we conduct regular oil spill response drills in accordance with the guidelines set out in OPA 90. The U.S. Coast Guard has announced it intends to propose similar regulations requiring certain vessels to prepare response plans for the release of hazardous substances. OPA 90 and CERCLA do not preclude claimants from seeking damages resulting from the discharge of oil and hazardous substances under other applicable law, including maritime tort law. The application of this doctrine varies by jurisdiction.

Clean Water Act. The United States Clean Water Act ("CWA") prohibits the discharge of oil or hazardous substances in United States navigable waters unless authorized by a permit or exemption, and imposes strict liability in the form of penalties for unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA 90 and CERCLA. The U.S. Environmental Protection Agency (the "EPA") has enacted rules governing the regulation of ballast water discharges and other discharges incidental to the normal operation of vessels within U.S. waters. The EPA authorized these incidental discharges pursuant to a permit the EPA designated as the Vessel General Permit for Discharges Incidental to the

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Normal Operation of Vessels (the "VGP"), which incorporated the current U.S. Coast Guard requirements for ballast water management as well as supplemental ballast water requirements, and includes limits applicable to 26 specific discharge streams, such as deck runoff, bilge water and gray water.

The EPA updated the VGP in 2013 to incorporate numeric effluent limits for ballast water expressed as the maximum concentration of living organisms in ballast water, as opposed to the prior non-numeric requirements. These requirements correspond with the IMO's requirements under the BWM Convention, as discussed above. The permit also contains maximum discharge limitations for biocides and residuals. The numeric effluent limits in the new VGP will not apply to all vessels. Those that will be required to comply with the numeric limits will do so under a staggered implementation schedule. Certain existing vessels must achieve the numeric effluent limits for ballast water by the first drydocking after January 1, 2014 or January 1, 2016, depending on the vessel size. Newbuilds are subject to the numeric limits upon the effective date of the new permit. Vessels that have deferred deadlines for meeting the numeric standards must meet Best Management Practices, which are substantially similar to the requirements under the previous VGP.

The VGP includes a tiered requirement for obtaining coverage based on the size of the vessel and the amount of ballast water carried. Vessels that are 300 gross tons or larger and have the capacity to carry more than eight cubic meters of ballast water must submit notices of intent ("NOIs") to receive permit coverage between six and nine months after the permit's issuance date. Vessels that do not need to submit NOIs are automatically authorized under the permit. In December 2018, the Vessel Incidental Discharge Act ("VIDA") was signed into law and restructured the EPA and the U.S. Coast Guard programs for regulating incidental discharges from vessels. Rather than requiring CWA permits, the discharges will be regulated under a new CWA Section 312(p) establishing Uniform National Standards for Discharges Incidental to Normal Operation of Vessels. Under VIDA, VGP provisions and existing U.S. Coast Guard regulations will be phased out over a period of approximately four years and replaced with National Standards of Performance ("NSPs") to be developed by EPA and implemented and enforced by the U.S. Coast Guard. The scheduled expiration date of the 2013 VGP was December 18, 2018, but under VIDA the provisions of the VGP will remain in place until the new regulations are in place.

In addition to the requirements in the VGP (to be replaced by the NSPs established under VIDA), vessel owners and operators must meet 25 sets of state-specific requirements under the CWA's § 401 certification process. Because the CWA § 401 process allows tribes and states to impose their own requirements for vessels operating within their waters, vessels operating in multiple jurisdictions could face potentially conflicting conditions specific to each jurisdiction that they travel through.

While we do not believe that the costs associated with complying with the existing VGP permits and the NSPs that will be promulgated, including meeting related treatment requirements, will be material, it is difficult to predict the overall impact of CWA requirements on our business at this stage. In addition, state-specific requirements under the CWA's § 401 and any similar restrictions enacted in the future could increase our costs of operating in the relevant waters.

National Invasive Species Act ("NISA"). In March 2012, the U.S. Coast Guard issued a final rule establishing standards for the allowable concentration of living organisms in ballast water discharged in U.S. waters and requiring the phase-in of U.S. Coast Guard approved ballast water management systems. The rule went into effect in June 2012 and set ballast water discharge standards for vessels calling on U.S. ports and intending to discharge ballast water equivalent to those set in IMO's BWM Convention. The final rule requires that ballast water discharge have no more than ten living organisms per milliliter for organisms between ten and 50 micrometers in size. For organisms larger than 50 micrometers, the discharge can have no more than ten living organisms per cubic meter of

discharge. New ships constructed on or after December 1, 2013 must comply with these ballast water treatment standards and some existing ships must comply by their first drydock after January 1, 2014.

Clean Air Act. The United States Clean Air Act requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. Our vessels are subject to vapor control and recovery requirements for certain cargoes in regulated port areas and emission standards for so-called "Category 3" marine diesel engines operating in U.S. waters. The marine diesel engine emission standards are equivalent to those adopted set forth in Annex VI to MARPOL. Compliance with these standards may cause us to incur costs to install control equipment on our vessels in the future.

Trends in Environmental Regulation in the United States. Numerous governmental agencies issue regulations to implement and enforce the laws of the applicable jurisdiction, which often involve lengthy permitting procedures, impose difficult and costly compliance measures, particularly in ecologically sensitive areas, and subject operators to substantial administrative, civil and criminal penalties or may result in injunctive relief for failure to comply. Some of these laws contain criminal sanctions in addition to civil penalties. Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly compliance or limit contract drilling opportunities, including changes in response to a serious marine incident that results in significant oil pollution or otherwise causes significant adverse environmental impact, such as the April 2010 Macondo well blowout incident, could adversely affect our financial results. Although significant capital expenditures may be required to comply with these governmental laws and regulations, such compliance has not materially adversely affected our earnings or competitive position. We believe that we are currently in compliance in all material respects with the environmental regulations to which we are subject.

We may also be affected by or subject to permitting and other requirements under a variety of other environmental laws not discussed above, such as the Endangered Species Act, Marine Mammal Protection Act and National Environmental Policy Act.

Greenhouse Gas Regulation

In February 2005, the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the "Kyoto Protocol") entered into force. Pursuant to the Kyoto Protocol, adopting countries are required to implement national programs to reduce emissions of greenhouse gases ("GHGs"). Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol or to the more recently announced Paris Agreement.

On July 15, 2011, the IMO approved mandatory measures to reduce emissions of greenhouse gases from international shipping. The amendments to Annex VI to MARPOL for the prevention of air pollution from ships add a new Chapter 4 to Annex VI on energy efficiency requiring the Energy Efficiency Design Index ("EEDI") for new ships, and the Ship Energy Efficiency Management Plan ("SEEMP") for all ships. The regulations apply to all ships of 400 gross tonnage and above and are entered into force on January 1, 2013. These rules will likely affect the operations of vessels that are registered in countries that are signatories to Annex VI to MARPOL or vessels that call upon ports located within such countries. The IMO also adopted a mandatory data collection system requirement in October 2016 ("IMO DCS") that requires ships of 5000 gross tonnage and above to record and report their fuel oil consumption, indirectly addressing carbon dioxide emissions data. The requirement was entered into force on March 1, 2018. These requirements could cause us to incur additional compliance costs.

The IMO is also considering the development of a market-based mechanism for greenhouse gas emissions from ships. At the October 2016 Marine Environmental Protection Committee ("MEPC") session, the IMO adopted a roadmap for developing a comprehensive IMO strategy on reduction of

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GHG emissions. In April 2018, the MEPC adopted an initial strategy designed to reduce the emission of greenhouse gases from vessels, including short-term, mid-term and long-term candidate measures with a vision of reducing and phasing out greenhouse gas emissions from vessels as soon as possible in the 21st Century. The EU has indicated that it intends to implement regulation in an effort to limit emissions of greenhouse gases from vessels if such emissions are not regulated through the IMO.

In the United States, the EPA issued an "endangerment finding" regarding greenhouse gases under the Clean Air Act. While this finding in itself does not impose any requirements on our industry, it authorizes the EPA to regulate directly greenhouse gas emissions through a rule-making process. The EPA has already been petitioned by the California Attorney General to regulate greenhouse gas emissions from oceangoing vessels. In addition, climate change initiatives have been or are being considered in the United States Congress and by individual states. In June 2013, the European Commission developed a strategy to integrate maritime emissions into the overall European Union strategy to reduce greenhouse gas emissions. In accordance with this strategy, in April 2015 the European Parliament and Council adopted regulations (EU Directive 2015/757 or EU MRV Regulation) requiring vessels exceeding 5,000 gross tons using European Union ports to monitor, report and verify their carbon dioxide emissions beginning in January 2018, with the first reports due in 2019. In February 2019, the European Commission adopted a proposal to amend the EU MRV Regulation to harmonize the requirements of the EU MRV Regulation and the IMO DCS. Although, at present, the EU MRV Regulation is for monitoring, reporting and verification only, but it is anticipated that in the future the EU may move from requiring reporting of emissions to regulations aimed at reducing them.

Any passage of climate control legislation or other regulatory initiatives by the IMO, the United States, the EU, Norway, Brazil or other countries where we operate, that restrict emissions of greenhouse gases could have a significant financial and operational impact on our business, including requiring us to make significant financial expenditures that we cannot predict with certainty at this time. For example, the Paris Agreement could lead to increased regulation of greenhouse gases or other concerns relating to climate change. In addition, even without such regulation, our business may be indirectly affected to the extent that climate change results in sea level changes or more intense weather events.

Vessel Security Regulation

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the Maritime Transportation Security Act of 2002 (the "MTSA"), came into effect in the United States. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new chapter came into effect in July 2004 and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the ISPS. The ISPS is designed to protect ports and international shipping against terrorism. After July 1, 2004, to trade internationally, a vessel must maintain an International Ship Security Certificate ("ISSC") from a recognized security organization approved by the vessel's flag state.

Among the various requirements are:

- onboard installation of automatic identification systems to provide a means for the automatic transmission of safety-related information from among similarly equipped ships and shore stations, including information on a ship's identity, position, course, speed and navigational status;

- onboard installation of ship security alert systems, which do not sound on the vessel but only alert the authorities on shore;

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- the development of vessel security plans;
- a ship identification number to be permanently marked on a vessel's hull;
- a continuous synopsis record kept onboard showing a vessel's history, including the name of the ship and of the state whose flag the ship is entitled to fly, the date on which the ship was registered with that state, the ship's identification number, the port at which the ship is registered and the name of the registered owner(s) and their registered address; and
- compliance with flag state security certification requirements.

The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt non-U.S. vessels from the MTSA vessel security measures provided such vessels have onboard a valid ISSC that attests to the vessel's compliance with SOLAS security requirements and the ISPS. KNOT has implemented the various security measures addressed by the MTSA, SOLAS and the ISPS.

Legal Proceedings

From time to time we have been, and expect to continue to be, subject to legal proceedings and claims in the ordinary course of our business, principally personal injury and property casualty claims. These claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on us.

Taxation of the Partnership

Certain of our subsidiaries are subject to taxation in the jurisdictions in which they are organized, conduct business or own assets. We intend that our business and the business of our subsidiaries will be conducted and operated in a manner designed to minimize the tax imposed on us and our subsidiaries. However, we cannot assure this result as tax laws in these or other jurisdictions may change or we may enter into new business transactions relating to such jurisdictions, which could affect our tax liability.

Marshall Islands

Because we and our subsidiaries do not conduct business or operations in the Republic of the Marshall Islands, neither we nor our subsidiaries are subject to income, capital gains, profits or other taxation under current Marshall Islands law, other than taxes, fines or fees due to (i) the incorporation, dissolution, continued existence, merger, domestication (or similar concepts) of legal entities registered in the Republic of the Marshall Islands, (ii) filing certificates (such as certificates of incumbency, merger, or redomiciliation) with the Marshall Islands registrar, (iii) obtaining certificates of good standing from, or certified copies of documents filed with, the Marshall Islands registrar, (iv) compliance with Marshall Islands law concerning vessel ownership, such as tonnage tax, or (v) non-compliance with requests made by the Marshall Islands Registrar of Corporations relating to our books and records and the books and records of our subsidiaries. As a result, distributions KNOT UK receives from its subsidiary, distributions that such subsidiary receives from the operating subsidiaries, and distributions we receive from KNOT UK, are not expected to be subject to Marshall Islands taxation.

United States

We have elected to be treated as a corporation for U.S. federal income tax purposes. As a result, we are subject to U.S. federal income tax to the extent we earn income from U.S. sources or income that is treated as effectively connected with the conduct of a trade or business in the United States unless such income is exempt from tax under an applicable treaty or Section 883 of the Code. Because

our fleet is owned by subsidiaries resident in Norway, we expect that we qualify for an exemption from U.S. federal income tax on any U.S. source gross transportation income we earn by virtue of the application of the U.S.-Norway Tax Treaty, and we intend to take this position for U.S. federal income tax purposes.

Norway

We are treated as fiscally transparent for Norwegian tax purposes and expect to organize our affairs and conduct our business in a manner such that we, and our remaining subsidiaries that are not organized under the laws of the Kingdom of Norway, are not subject to a material amount of Norwegian taxes.

Our vessel-owning subsidiaries have been organized under the laws of the Kingdom of Norway, and we have elected to be subject to the tonnage tax regime in Norway. Pursuant to this regime, our vessel-owning subsidiaries will be subject to Norwegian tax based upon the net tonnage of their available cargo space rather than income generated from operating the vessels (i.e., operating income), which is tax free. Based upon the cargo space of our current vessels and the applicable rate of taxation, we expect our Norwegian subsidiaries to be liable for approximately $250,000 of Norwegian tonnage tax for the year ended December 31, 2018. In addition, under the tonnage tax regime, other income such as net financial income and expense (i.e. income not generated from operating the vessels) is subject to the regular corporate income tax rate.

On December 14, 2017, the Norwegian government concluded negotiations with the EFTA Surveillance Authority regarding the Norwegian tonnage tax regime, which has been approved for another ten years until 2027. Pursuant to the approval, Norway has introduced restrictions that eliminate the ability of companies that own vessels under certain bareboat charters to qualify for the Norwegian tonnage tax regime. Companies that no longer qualify for the Norwegian tonnage tax regime will instead be subject to Norwegian corporate income tax. However, there are no limitations on intra-group bareboat chartering, as well as bareboat charters where crewing services are carried out by a related party. In order to constitute a related party, a minimum of 25% ownership/control is required according to the Norwegian General Taxation Act Section 8-13, paragraph 6. Due to the fact that KNOT owns more than 25% of our partnership interests and owns 100% of KNOT Management and KNOT Management Denmark (which provide these crewing services to us), our bareboat charters are effectively seen as time charter services to the customer. If this related party situation is ended, other alternatives and possibly mitigating measures would need to be evaluated by the Partnership. If there is a Brexit some of the existing UK flagged vessels will be reflagged to EU/EEA flag in order to meet any future national flag requirements.

In case of a UK Brexit, dividend payments from KNOT Shuttle Tankers AS to KNOT UK will not be subject to withholding tax in Norway since KNOT UK owns more than 10% of the capital in KNOT Shuttle Tankers AS, c.f. the double tax treaty between Norway and the UK, article 10, paragraph 2.

United Kingdom

Although we are managed and controlled in the United Kingdom, we have obtained confirmation from HM Revenue & Customs that we are treated as a transparent partnership for United Kingdom tax purposes. Accordingly, we are not subject to UK tax in our own name, but rather any partners subject to UK tax will be taxed on their share of our profits.

Our general partner and KNOT UK expect to be a resident of the United Kingdom for taxation purposes subject to tax on ordinary income. Nonetheless, these companies are primarily expected to earn dividend income from our controlled affiliates, which should generally be exempt from United Kingdom taxation under applicable exemptions for distributions from subsidiaries.

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Employees

We directly employ one onshore employee and no seagoing employees. As of December 31, 2018, KNOT employed (directly and through ship managers) approximately 502 seagoing staff to serve on our vessels. KNOT and its affiliates may employ additional seagoing staff to assist us as we grow. KNOT, through certain of its subsidiaries, provides onshore advisory, commercial, technical and operational support to our operating subsidiaries pursuant to the technical management agreements and management and administration agreements. Please read "Item 7. Major Unitholders and Related Party Transactions Related Party Transactions."

We and KNOT regard attracting and retaining motivated seagoing personnel as a top priority. KNOT offers seafarers competitive employment packages and opportunities for personal and career development, which relates to a philosophy of promoting internally. The officers operating our vessels are engaged on individual employment contracts, and we have entered into collective bargaining agreements that cover substantially all of the sailing personnel that operate the vessels in our current fleet, which are flagged in Norway, the Isle of Man, Malta, Denmark, United Kingdom or the Bahamas. We believe our relationships with these labor unions are good. Our commitment to training is fundamental to the development of the highest caliber of seafarers for our marine operations. KNOT's cadet training approach is designed to balance academic learning with hands-on training at sea. KNOT trains personnel mainly in Norway and the Philippines and at institutions that utilize ship handling, dynamic positioning and cargo handling simulators. After receiving formal instruction at one of these institutions, our seafarers' training continues onboard one of KNOT's vessels. Additional vessel and equipment training and courses are arranged in accordance with our training policies and the training requirements of our charterers. We believe that high-quality crewing and training policies will play an increasingly important role in distinguishing the larger, independent shipping companies with shuttle tanker experience from those that are newcomers and lack experienced, in-house staff and established expertise on which to base their customer service and safety operations.

C. Organizational Structure

We are a publicly traded limited partnership formed on February 21, 2013.

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The diagram below depicts our simplified organizational and ownership structure as of April 10, 2019.

(1) Each of our vessels are owned by certain vessel-owning subsidiaries.

We listed our common units on the New York Stock Exchange ("NYSE") in April 2013 under the ticker symbol "KNOP."

We were formed under the law of the Marshall Islands and maintain our principal executive headquarters at 2 Queen's Cross, Aberdeen, Aberdeenshire, AB15 4YB, United Kingdom. Our telephone number at that address is +44 (0) 1224 618420. Our principal administrative offices are located at 2 Queen's Cross, Aberdeen, Aberdeenshire, AB15 4YB, United Kingdom.

A full list of our significant operating and vessel-owning subsidiaries is included in Exhibit 8.1.

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D. Property, Plants and Equipment

Other than the vessels in our current fleet, we do not have any material property.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

The following should be read in conjunction with "Item 3. Key Information Selected Financial Data," "Item 4. Information on the Partnership," "Forward-Looking Statements" and the consolidated financial statements and accompanying notes included in this Annual Report. Among other things, those financial statements include more detailed information regarding the basis of presentation for the following information. Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and are presented in U.S. Dollars.

References in this Annual Report to our "initial fleet" refer to the *Fortaleza Knutsen*, the *Recife Knutsen*, the *Windsor Knutsen* and the *Bodil Knutsen*, all of which were contributed to us at or prior to our IPO on April 15, 2013

In August 2013, we acquired KNOT's 100% interest in the company that owns and operates the shuttle tanker, the *Carmen Knutsen*.

In June 2014, we acquired KNOT's 100% interest in the companies that own and operate the shuttle tankers, the *Hilda Knutsen* and the *Torill Knutsen*.

In December 2014, we acquired KNOT's 100% interest in the company that owns and operates the shuttle tanker, the *Dan Cisne*.

In June 2015, we acquired KNOT's 100% interest in the company that owns and operates the shuttle tanker, the *Dan Sabia*.

In October 2015, we acquired KNOT's 100% interest in the company that owns and operates the shuttle tanker, the *Ingrid Knutsen*.

In December 2016, we acquired KNOT's 100% interest in the company that owns and operates the shuttle tanker, the *Raquel Knutsen*.

In March 2017, we acquired KNOT's 100% interest in the company that owns and operates the shuttle tanker, the *Tordis Knutsen.*

In June 2017, we acquired KNOT's 100% interest in the company that owns and operates the shuttle tanker, the *Vigdis Knutsen.*

In September 2017, we acquired KNOT's 100% interest in the company that owns and operates the shuttle tanker, the *Lena Knutsen*.

In December 2017, we acquired KNOT's 100% interest in the company that owns and operates the shuttle tanker, the *Brasil Knutsen*.

In March 2018, we acquired KNOT's 100% interest in the company that owns and operates the shuttle tanker, the *Anna Knutsen*.

Overview

We were formed in February 2013 as a limited partnership under the laws of the Republic of the Marshall Islands to own and operate shuttle tankers under long-term charters. Our initial fleet of shuttle tankers was contributed to us by KNOT, a leading independent owner and operator of shuttle

tankers. Our current fleet consists of sixteen shuttle tankers. Under the Omnibus Agreement, we have the right to purchase from KNOT any shuttle tankers operating under charters of five or more years.

On April 18, 2013, we completed our IPO. In connection with our IPO, we sold 8,567,500 common units to the public, through the underwriters, at a price of $21.00 per unit, and issued to KNOT 8,567,500 subordinated units and all of our incentive distribution rights. On May 18, 2016, all of the subordinated units converted into common units on a one for one basis. As of April 10, 2019, KNOT owned 26.2% of our common units, our general partner and our incentive distribution rights and our general partner owned a 1.85% general partner interest in us and 0.3% of our common units.

Significant Developments in 2018

Torill Facility

On January 30, 2018, the Partnership's subsidiary, Knutsen Shuttle Tankers 15 AS, which owns the vessel *Torill Knutsen*, closed a new $100 million senior secured term loan facility with a consortium of banks, in which The Bank of Tokyo-Mitsubishi UFJ acted as agent (the "Torill Facility"). The Torill Facility refinanced a $117 million loan facility associated with the *Torill Knutsen* that bore interest at a rate of LIBOR plus a margin of 2.5% and was due to be paid in full in November 2018. The Torill Facility is repayable in twenty-four (24) consecutive quarterly installments with a balloon payment of $60.0 million due at maturity. The Torill Facility bears interest at a rate per annum equal to LIBOR plus a margin of 2.1%. The facility matures in January 2024.

Anna Knutsen Acquisition

On March 1, 2018, KNOT Shuttle Tankers AS acquired KNOT Shuttle Tankers 30 AS ("KNOT 30"), the company that owns the shuttle tanker *Anna Knutsen* from KNOT, for a purchase price of $120.0 million, less approximately $106.8 million of outstanding indebtedness related to the *Anna Knutsen* plus approximately $1.4 million for certain capitalized fees related to the financing of the *Anna Knutsen* and plus other purchase price adjustments of $5.3 million. On the closing of the acquisition, KNOT 30 repaid approximately $32.3 million of the indebtedness, leaving an aggregate of approximately $74.4 million of debt outstanding under the secured credit facility related to the vessel. The purchase price was settled in cash.

Extension and Suspension of Windsor Knutsen Charter

On July 13, 2018, Shell exercised its option to extend the time charter of the *Windsor Knutsen* by one additional year until October 2019. Following the exercise of the option, Shell has four one-year options to extend the time charter.

On December 17, 2018, the Partnership's subsidiary that owns the *Windsor Knutsen* and Shell agreed to suspend the vessel's time charter contract for a minimum of 10 months and a maximum of 12 months. The suspension period commenced March 4, 2019. During the suspension period, the *Windsor Knutsen* will operate under a time charter contract with Knutsen Shuttle Tankers Pool AS, a wholly owned subsidiary of KNOT, on the same terms as the existing time charter contract with Shell. The Partnership agreed to the suspension of the contract with Shell and the substitute time charter in order to accommodate the mutual needs of Shell and Knutsen Shuttle Tankers Pool AS.

Extension of Hilda Knutsen Charter

On August 3, 2018, the Partnership entered into an amended time charter with Eni, extending the duration of the *Hilda Knutsen* time charter for four years until August 2022, with options to extend until 2025.

Extension of Torill Knutsen Charter

On September 5, 2018, Eni, exercised its option to extend the time charter of the *Torill Knutsen* by one additional year until November 2019. Following the exercise of the option, Eni has four one-year options to extend the time charter.

Multi-vessels Refinancing

On September 20, 2018 the Partnership's subsidiaries which own the *Windsor Knutsen*, the *Bodil Knutsen*, the *Fortaleza Knutsen*, the *Recife Knutsen*, the *Carmen Knutsen* and the *Ingrid Knutsen* (the "Vessels"), refinanced their existing bank debt, entering new long-term senior secured credit facilities (the "Multi-vessels Facility"). The new senior secured credit facilities consist of a term loan of $320 million and a $55 million revolving credit facility.

The term loan is repayable in 20 consecutive quarterly installments, with a balloon payment of $177 million due at maturity in September 2023. The term loan bears interest at a rate per annum equal to LIBOR plus a margin of 2.125%. The revolving credit facility will mature in September 2023, and bears interest at LIBOR plus a margin of 2.125%. There is a commitment fee of 0.85% payable on the undrawn portion of the revolving credit facility. The loans are guaranteed by the Partnership and secured by mortgages on the Vessels. The Multi-vessels Facility refinanced previously existing term loans and a revolving credit facility previously secured by the Vessels.

Extension of Bodil Knutsen Charter

On November 9, 2018, Equinor ASA exercised its option to extend the time charter of the *Bodil Knutsen* by one additional year until May 2020. Following the exercise of the option, Equinor has four one-year options to extend the time charter.

Our Charters

We generate revenues by charging customers for the transportation of their crude oil using our vessels. These services are provided under the following basic types of contractual relationships:

- *Time charters*, whereby the vessels that we operate and are responsible for the crewing of are chartered to customers for a fixed period of time at hire rates that are either fixed for the firm period of the time charter with escalations to be made in case of option periods or that increase annually based on a fixed percentage increase or fixed schedule in order to enable us to offset expected increases in operating costs. Under our time charters, hire rate payments may be reduced if the vessel does not perform to certain of its specifications, such as if the average vessel speed falls below a guaranteed speed or the amount of fuel consumed to power the vessel under normal circumstances exceeds a guaranteed amount, and the customer is generally responsible for any voyage expenses incurred; and

- *Bareboat charters*, whereby customers charter our vessels for a fixed period of time at hire rates that are generally fixed, but the customers are responsible for the vessel operation and bear the operating and voyage expenses, including crewing and other operational services.

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The table below compares the primary features of a time charter and a bareboat charter:

	Time Charter	Bareboat Charter
Typical charter length	One year or more	One year or more
Hire rate basis(1)	Daily	Daily
Voyage expenses(2)	Customer pays	Customer pays
Vessel operating expenses(2)	Owner pays	Customer pays
Off-hire(3)	Varies	Customer typically pays

(1) "Hire rate" refers to the basic payment from the charterer for the use of the vessel.

(2) Defined below under " Important Financial and Operational Terms and Concepts."

(3) "Off-hire" refers to the time a vessel is not available for service. Our time charters contain provisions whereby the customer is generally not required to pay the hire rate during off-hire. Our bareboat charters do not contain such provisions.

Employment of Our Fleet

The following table describes the operations of the vessels in our fleet.

Vessel	Description of Historical Operations
Fortaleza Knutsen	Delivered in March 2011. Has operated under a long-term bareboat charter with a subsidiary of Transpetro since delivery. Included in the Partnership's initial fleet.
Recife Knutsen	Delivered in August 2011. Has operated under a long-term bareboat charter with a subsidiary of Transpetro since delivery. Included in the Partnership's initial fleet.
Bodil Knutsen	Delivered in February 2011. Completed an interim spot voyage and testing prior to commencing operations under a long-term time charter with Statoil (now Equinor) in May 2011. Included in the Partnership's initial fleet.
Windsor Knutsen	Delivered in May 2007. Following completion of its retrofitting as a shuttle tanker, operated under a long-term time charter with a subsidiary of Shell from April 2011 until July 2014. From July 2014 operated under a charter with KNOT until the vessel commenced on a long term time charter with a subsidiary of Shell in October 2015. In March 2019, began operating under a charter with Knutsen Shuttle Tankers Pool AS.
Carmen Knutsen	Delivered in January 2013. Has operated under a long-term time charter with a subsidiary of Repsol since delivery. Acquired by the Partnership in August 2013.
Hilda Knutsen	Delivered in August 2013. Has operated under a long-term time charter with ENI, which commenced on delivery. Acquired by the Partnership in June 2014.
Torill Knutsen	Delivered in November 2013. Has operated under a long-term time charter with ENI, which commenced on delivery. Acquired by the Partnership in June 2014.
Dan Cisne	Delivered in September 2011. Has operated under a long-term bareboat charter with a subsidiary of Transpetro, which commenced on delivery. Acquired by the Partnership in December 2014.

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Vessel	Description of Historical Operations
Dan Sabia	Delivered in January 2012. Has operated under a long-term bareboat charter with a subsidiary of Transpetro, which commenced on delivery. Acquired by the Partnership in June 2015.
Ingrid Knutsen	Delivered in December 2013 and commenced on long-term time charter with Standard Marine Tonsberg, a subsidiary of ExxonMobil in February 2014. Acquired by the Partnership in October 2015.
Raquel Knutsen	Delivered in March 2015 and commenced on long-term time charter with Repsol in June 2015. Acquired by the Partnership in December 2016.
Tordis Knutsen	Delivered in November 2016 and commenced on long term time charter with a subsidiary of Shell in January 2017. Acquired by the Partnership in March 2017.
Vigdis Knutsen	Delivered in February 2017 and commenced on long-term time charter with a subsidiary of Shell in April 2017. Acquired by the Partnership in June 2017.
Lena Knutsen	Delivered in June 2017 and commenced on long term time charter with a subsidiary of Shell in September 2017. Acquired by the Partnership in September 2017.
Brasil Knutsen	Delivered in May 2013 and commenced on long-term time charter with Galp in June 2015. Acquired by the Partnership in December 2017.
Anna Knutsen	Delivered in March 2017 and commenced on long term time charter with Galp in May 2017. Acquired by the Partnership in March 2018.

Market Overview and Trends

As of April 2019, the shuttle tanker market consisted of approximately 88 vessels (including 15 newbuilds on order) characterized by long-term charters with offshore oil producers. Most shuttle tankers operate in the North Sea or offshore Brazil. Demand for shuttle tankers is based on offshore oilfield development and prior to mid-2014, higher oil prices and a positive long-term offshore oil outlook led to increased activity. In the past four years, oil companies delayed oil production start-ups in both the North Sea and Brazil. Project startups are increasing, and the existing fleet is aging. Due to the age structure of the fleet and the relatively high number of projects under development, we believe the medium to long-term outlook continues to be positive and tendering activity for new projects is expected in 2019. For 2018, two new shuttle tankers were ordered to operate in the North Sea. In addition, there were 7 new shuttle tanker contracts awarded for Brazilian operations during 2018

Oil prices declined significantly in the latter part of 2014 and in 2015 due to an increase in US shale oil production, coupled with increased production from certain OPEC states. Oil prices recovered to a certain degree in 2016 and this continued throughout 2017 and 2018. Existing offshore oil production projects under development where shuttle tankers are required, are unaffected by the volatility in oil prices. Longer term reductions in oil prices could impact the rate of growth of offshore oil production activity when existing projects and projects under development are completed.

Items You Should Consider When Evaluating Our Historical Financial Performance and Assessing Our Future Prospects

You should consider the following facts when evaluating our historical results of operations and assessing our future prospects:

The size of our fleet continues to change. Our historical results of operations reflect changes in the size and composition of our fleet due to our acquisitions of the *Carmen Knutsen,* the *Hilda Knutsen,* the *Torill Knutsen*, the *Dan Cisne*, the *Dan Sabia,* the *Ingrid Knutsen,* the *Raquel Knutsen,* the *Tordis Knutsen,* the *Vigdis Knutsen,* the *Lena Knutsen,* the *Brasil Knutsen* and the *Anna Knutsen*.

We may enter into different financing agreements. Our financing agreements currently in place may not be representative of the agreements we will enter into in the future. For example, we may amend our existing credit facilities or enter into new financing agreements. For descriptions of our current financing agreements, please read "Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Borrowing Activities."

Our results are affected by fluctuations in the fair value of our derivative instruments. The change in fair value of our derivative instruments is included in our net income as our derivative instruments are not designated as hedges for accounting purposes. These changes may fluctuate significantly as interest rates fluctuate. Please read Note 10 Derivative Instruments in the consolidated financial statements included in this Annual Report. The unrealized gain or losses related to the change in fair value of our derivatives do not impact our cash flows.

Our historical results of operations are affected by fluctuations in currency exchange rates. All of the vessels in our fleet are on time charters and bareboat charters with hire rates payable in U.S. Dollars. Approximately 51%, 42% and 47% of the vessel operating expenses related to our vessels operating under time charters are denominated in U.S. Dollars and approximately 27%, 30% and 42% of such vessel operating expenses are denominated in Norwegian Kroner ("NOK"), for the years ended December 31, 2018, 2017 and 2016, respectively. The composition of our vessel operating expenses may vary over time depending upon the location of future charters and/or the composition of our crews. All of our financing and interest expenses are also denominated in U.S. Dollars. We anticipate that all of our future financing agreements will also be denominated in U.S. Dollars.

We are subject to a one-time entrance tax into the Norwegian tonnage tax regime. Our Norwegian subsidiaries are subject to a one-time entrance tax into the tonnage tax regime due to our acquisition in 2013 of the shares in the subsidiary that owns the *Fortaleza Knutsen* and the *Recife Knutsen*. The entrance tax arises when the related party seller is taxed under the ordinary tax regime, and the buyer is taxed under the tonnage tax regime. The tax is based on the difference between the market value of the shares and the seller's tax value of the shares as of the date of contribution. The entrance tax on this gain is payable over several years and is calculated by multiplying the Norwegian tax rate by the declining balance of the gain, which will decline by 20% each year. The Norwegian corporate tax rate has been reduced from 25% in 2016 to 24% in 2017 and 23% in 2018.

Our historical results of operations reflect income taxes for part of the activities under the ordinary tax regime in Norway. Our Norwegian subsidiaries are subject only to Norwegian tonnage tax rather than a combination of ordinary taxation and tonnage taxation as reflected in the consolidated financial statements and accompanying notes included in this Annual Report. Under the tonnage tax regime, the tonnage tax is based on the tonnage of the vessel, and operating income is tax free. Tonnage tax is calculated based on the vessel's net tonnage (in thousands), according to its certificate, multiplied by the days in operation and the applicable dayrate. The net financial

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income and expense remains taxable as ordinary income tax at the regular corporate income tax rate of 23% for Norwegian subsidiaries subject to the tonnage tax regime.

Factors Affecting Our Results of Operations

We believe the principal factors that will affect our future results of operations include:

- our ability to successfully employ our vessels at economically attractive hire rates as long-term charters expire or are otherwise terminated;
- our ability to maintain good relationships with our existing customers and to increase the number of customer relationships;
- whether our customers, exercise their options to extend their time charters;
- the number and availability of our vessels;
- the level of demand for shuttle tanker services;
- the hire rate earned by our vessels, unscheduled off-hire days and the level of our vessel operating expenses;
- the effective and efficient technical management of our vessels;
- our ability to obtain and maintain major oil and gas company approvals and to satisfy their technical, health, safety and compliance standards;
- economic, regulatory, political and governmental conditions that affect the offshore marine transportation industry;
- interest rate changes;
- mark-to-market changes in interest rate swap contracts and foreign currency derivatives, if any;
- foreign currency exchange gains and losses;
- our access to capital required to acquire additional vessels and/or to implement our business strategy;
- increases in crewing and insurance costs;
- the level of debt and the related interest expense; and
- the level of any distribution on our common units.

Please read "Item 3. Key Information Risk Factors" for a discussion of certain risks inherent in our business.

Important Financial and Operational Terms and Concepts

We use a variety of financial and operational terms and concepts when analyzing our performance. These include the following:

Time Charter and Bareboat Revenues. Revenues from time charters and bareboat charters are recognized as operating leases on a straight-line basis over the term of the charter, net of any commissions. Under time charters, revenue is not recognized during days a vessel is off-hire. Revenue is recognized from delivery of the vessel to the charterer until the end of the lease term. Under time charters, we are responsible for providing the crewing and other services related to the vessel's operation, the cost of which is included in the daily hire rate, except when off-hire. Under bareboat charters, we provide a specified vessel for a fixed period of time at a specified hire rate. Revenues are

affected by hire rates and the number of days a vessel operates as well as the mix of business between time charters and bareboat charters.

Voyage Expenses. Voyage expenses are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls and agency fees. Voyage expenses are typically paid by the customer under time charters and bareboat charters. Voyage expenses are paid by the shipowner during spot contracts and periods of off-hire and are recognized when incurred.

Vessel Operating Expenses. Vessel operating expenses include crewing, repairs and maintenance, insurance, stores, lube oil and communication expenses. Vessel operating expenses are generally paid by the shipowner under time charters and spot contracts and are recognized when incurred. Vessel operating expenses are paid by the customer under bareboat charters.

Off-hire. Under our time charters, when the vessel is off-hire, or not available for service, the customer generally is not required to pay the hire rate, and the shipowner is responsible for all costs. Prolonged off-hire may lead to a termination of the time charter. A vessel generally will be deemed off-hire if there is a loss of time due to, among other things, operational deficiencies, drydocking for repairs, maintenance or inspection, equipment breakdowns, delays due to accidents, crewing strikes, certain vessel detentions or similar problems or the shipowner's failure to maintain the vessel in compliance with its specifications and contractual standards or to provide the required crew. Our bareboat charters do not contain provisions for off-hire. We have obtained loss of hire insurance to protect us against loss of income in the event one of our vessels cannot be employed due to damage that is covered under the terms of our hull and machinery insurance. Under our loss of hire policies, our insurer generally will pay us the hire rate agreed in respect of each vessel for each day in excess of 14 days and with a maximum period of 180 days.

Drydocking. We must periodically drydock each of our vessels for inspection, repairs and maintenance and any modifications required to comply with industry certification or governmental requirements. In accordance with industry certification requirements, we drydock our vessels at least every 60 months until the vessel is 15 years old, after which drydocking takes place at least every 30 months thereafter as required for the renewal of certifications required by classification societies. For vessels operating on time charters, we capitalize the costs directly associated with the classification and regulatory requirements for inspection of the vessels and improvements incurred during drydocking that increase the earnings capacity or improve the efficiency or safety of the vessels. We expense costs related to routine repairs and maintenance performed during drydocking or as otherwise incurred. For vessels operating on bareboat charters, the customer bears the cost of any drydocking. The number of drydockings undertaken in a given period and the nature of the work performed determine the level of drydocking expenditures.

Depreciation. Depreciation on vessels and equipment is calculated on a straight-line basis over the asset's estimated useful life of 25 years for the hull and equipment, less an estimated residual value. Drydocking cost is depreciated on a straight-line basis over the period until the next planned drydocking takes place. For vessels that are newly built or acquired, an element of the cost of the vessel is allocated initially to a drydock component and depreciated on a straight-line basis over the period until the next planned drydocking. When significant drydocking expenditures occur prior to the expiration of this period, we expense the remaining balance of the original drydocking cost in the month of the subsequent drydocking.

Impairment of Long-Lived Assets. Vessels and equipment, vessels under construction and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group to be tested for possible impairment, we first compare the

undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

Other Finance Expense. Other finance expense includes external bank fees, financing service fees paid to related parties and guarantee commissions paid to external and related parties in connection with our debt and other bank services.

Revenue Days. Revenue days are the total number of calendar days our vessels were in our possession during a period, less the total number of off-hire days during the period associated with major repairs, or drydockings. Consequently, revenue days represent the total number of days available for the vessel to earn revenue. Idle days, which are days when the vessel is available to earn revenue, yet is not employed, are included in revenue days. We use revenue days to highlight changes in net voyage revenues between periods.

Average Number of Vessels. The historical average number of vessels consists of the average number of owned vessels that are in our possession during the periods presented. We use average number of vessels primarily to highlight changes in vessel operating expenses, hire rate expense and depreciation and amortization.

Insurance

Hull and Machinery Insurance. We have obtained hull and machinery insurance on all our vessels to insure against marine and war risks, which include the risks of damage to our vessels, salvage and towing costs, and also insures against actual or constructive total loss of any of our vessels. However, our insurance policies contain deductible amounts for which we are responsible. We have also arranged additional total loss coverage for each vessel. This coverage, which is called hull interest and freight interest coverage, provides us additional coverage in the event of the total loss or the constructive total loss of a vessel.

Loss of Hire Insurance. We have obtained loss of hire insurance to protect us against loss of income in the event one of our vessels cannot be employed due to damage that is covered under the terms of our hull and machinery insurance. Under our loss of hire policies, our insurer will pay us the hire rate agreed in respect of each vessel for each day, in excess of a certain number of deductible days, for the time that the vessel is out of service as a result of damage, for a maximum of 180 days. The number of deductible days for the vessels in our fleet is 14 days per vessel.

All of our hull and machinery, hull interest and freight interest and loss of hire insurance policies are written on the NMIP, which through the hull and maintenance coverage also offers comprehensive collision liability coverage of up to the insured hull and maintenance value of the vessel. NMIP is based on an "all risk principle" and offers what is considered to be the most comprehensive insurance obtainable in any of the world's marine markets today. The agreed deductible on each vessel averages $150,000.

Protection and Indemnity Insurance. Protection and indemnity insurance, which covers our third-party legal liabilities in connection with our shipping activities, is provided by a P&I club. This includes third-party liability and other expenses related to the injury or death of crew members, passengers and other third-party persons, loss or damage to cargo, claims arising from collisions with other vessels or from contact with jetties or wharves and other damage to other third-party property, including pollution arising from oil or other substances, and other related costs, including wreck removal. Our current protection and indemnity insurance coverage is unlimited, except for pollution, which is limited to $1 billion per vessel per incident.

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Customers

In the years ended December 31, 2018, 2017 and 2016, revenues from the following customers accounted for over 10% of our revenues:

	Year Ended December 31,						
(U.S. Dollars in thousands)		**2018**		**2017**		**2016**	
Eni Trading and Shipping S.p.A.	$	43,955	16% $	46,441	22% $	47,001	27%
Fronape International Company, a subsidiary of Petrobras Transporte S.A.		45,115	17%	45,115	21%	45,236	26%
Equinor ASA		23,426	8%	23,189	11%	21,760	13%
Repsol Sinopec Brasil, B.V., a subsidiary of Repsol Sinopec Brasil, S.A.		36,978	13%	28,129	13%	20,904	12%
Brazil Shipping I Limited, a subsidiary of Royal Dutch Shell		81,816	29%	51,259	24%	20,496	12%
Standard Marine Tønsberg AS, a subsidiary of ExxonMobil		16,872	6%	17,634	8%	17,482	10%
Galp Sinopec Brasil Services BV		30,029	11%	734	1%		0%

A. Operating Results

Year Ended December 31, 2018 Compared with the Year Ended December 31, 2017

	Year Ended December 31,			
(U.S. Dollars in thousands)	**2018**	**2017**	**Change**	**% Change**
Time charter and bareboat revenues	$ 278,191	$ 212,501	$ 65,690	31%
Loss of hire insurance recoveries	450	5,176	(4,726)	91%
Other income	815	1,526	(711)	47%
Vessel operating expenses	(56,730)	(46,709)	(10,021)	21%
Depreciation	(88,756)	(71,583)	17,173	24%
General and administrative expenses	(5,290)	(5,555)	(265)	5%
Interest income	739	248	491	198%
Interest expense	(49,956)	(30,714)	(19,242)	63%
Other finance expense	(1,260)	(1,406)	146	10%
Realized and unrealized gain (loss) on derivative instruments	4,039	4,831	(792)	16%
Net gain (loss) on foreign currency transactions	(79)	(267)	188	70%
Income tax benefit (expense)	2	16	(14)	88%
Net income	82,165	68,064	14,101	21%

Time Charter and Bareboat Revenues. Time charter and bareboat revenues for the year ended December 31, 2018 were $278.2 million, an increase of $65.7 million compared to $212.5 million for the year ended December 31, 2017. This increase was mainly due to increased revenues of $57.9 million resulting from the *Anna Knutsen,* the *Brasil Knutsen,* the *Lena Knutsen,* the *Vigdis Knutsen* and the *Tordis Knutsen* being included in our results of operations from March 1, 2018, December 15, 2017, September 30, 2017, June 1, 2017 and March 1, 2017, respectively, and full earnings from the *Windsor Knutsen* and the *Carmen Knutsen* due to planned drydocking in 2017. The increase was partially offset by a $2.8 million decrease in time charter revenues due to drydocking of the *Hilda Knutsen,* the *Torill Knutsen* and the *Ingrid Knutsen* in 2018 and by a $0.4 million decrease due to an accrual for estimated underperformance of the *Hilda Knutsen* and the *Torill Knutsen* in 2017.

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Loss of hire insurance recoveries. Loss of hire insurance recoveries for the year ended December 31,2018 were $0.5 million compared to $5.2 million for the year ended December 31,2017. The loss of hire insurance recoveries were related to a technical default with the *Raquel Knutsen's* controllable pitch propeller and a default with the *Carmen Knutsen's* propeller shaft.

Other Income. Other income for the year ended December 31, 2018 was $0.8 million, a decrease of $0.7 million compared to $1.5 million for the year ended December 31, 2017. In October 2015, the *Windsor Knutsen* commenced operating under a new time charter. The hire rate for the new charter is below the initial charter hire rate and the difference between the new hire rate and the initial rate was paid by KNOT until April 2018. During the year ended December 31, 2018, $0.8 million was recognized as other income pursuant to this guarantee for the *Windsor Knutsen* compared with $1.2 million in 2017. In addition, $0.3 million was recognized as other income in 2017 connected to the reimbursement for repairs and lost hire from KNOT for the *Vigdis Knutsen* due to a hull damage incident in June 2017.

Vessel Operating Expenses. Vessel operating expenses for the year ended December 31, 2018 were $56.7 million, an increase of $10.0 million from $46.7 million in the year ended December 31, 2017. The increase was primarily due to (i) an increase of $15.0 million from the *Anna Knutsen,* the *Brasil Knutsen,* the *Lena Knutsen,* the *Vigdis Knutsen* and the *Tordis Knutsen* being included in the results of operations from March 1, 2018, December 15, 2017, September 30, 2017, June 1, 2017 and March 1, 2017, respectively and (ii) an increase of $0.8 million related to bunkers consumption in connection with the drydocking of the *Brasil Knutsen* in the end of the first quarter of 2018. The increase was partially offset by $0.6 million related to bunkers consumption in connection with the drydocking of the *Windsor Knutsen* in 2017 and by $5.2 million related to the insurance claim and drydocking of the *Carmen Knutsen*.

Depreciation. Depreciation for the year ended December 31, 2018 was $88.8 million, an increase of $17.2 million from $71.6 million in the year ended December 31, 2017. This increase was mainly due to the *Anna Knutsen,* the *Brasil Knutsen*, the *Lena Knutsen*, the *Vigdis Knutsen* and the *Tordis Knutsen* being included in results of operations from March 1, 2018, December 15, 2017, September 30, 2017, June 1, 2017 and March 1, 2017, respectively.

General and Administrative Expenses. General and administrative expenses for the year ended December 31, 2018 were $5.3 million, compared to $5.6 million for 2017. The decrease is mainly due to lower activity due to incremental expenses incurred in connection with the common and preferred unit offerings in 2017. The decrease was partly offset by increased costs due to the acquisitions of the *Anna Knutsen,* the *Brasil Knutsen,* the *Lena Knutsen,* the *Vigdis Knutsen* and the *Tordis Knutsen*.

Interest Income. Interest income for the year ended December 31, 2018 was $739,000 compared to $248,000 for 2017.

Interest Expense. Interest expense for the year ended December 31, 2018 was $50.0 million, an increase of $19.2 million from $30.7 million for the year ended December 31, 2017. The increase was mainly due to additional debt incurred in connection with the acquisitions of the *Anna Knutsen,* the *Brasil Knutsen,* the *Lena Knutsen,* the *Vigdis Knutsen* and the *Tordis Knutsen*, the refinancing of the *Hilda Knutsen* and the *Torill Knutsen* and higher LIBOR during the year ended December 31, 2018 compared to the year ended December 31, 2017.

Other Finance Expense. Other finance expense for the year ended December 31, 2018 was $1.3 million, a decrease of $0.1 million from $1.4 million for the year ended December 31, 2017. Other finance expenses are primarily related to bank fees and guarantee commissions.

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Realized and Unrealized Gain (Loss) on Derivative Instruments. Realized and unrealized gain on derivative instruments for the year ended December 31, 2018 was $4.0 million, compared to $4.8 million for the year ended December 31, 2017, as set forth in the table below:

	Year Ended December 31,		
(U.S. Dollars in thousands)	2018	2017	$ Change
Realized gain (loss):			
Interest rate swap contracts	$ 1,180	$ (2,840)	$ 4,020
Foreign exchange forward contracts	1,084	280	804
Total realized gain (loss):	2,264	(2,560)	4,824
Unrealized gain (loss):			
Interest rate swap contracts	4,429	5,514	(1,085)
Foreign exchange forward contracts	(2,654)	1,877	(4,531)
Total unrealized gain (loss):	1,775	7,391	(5,616)
Total realized and unrealized gain (loss) on derivative instruments:	$ 4,039	$ 4,831	$ (792)

The unrealized non-cash element of the mark-to-market gain was $1.8 million for the year ended December 31, 2018 compared to the unrealized non-cash element of the mark-to-market gain of $7.4 million for the year ended December 31, 2017. Of the unrealized gain for the year ended December 31, 2018, $4.4 million related to mark-to-market gains on interest rate swaps due to an increase in swap rates during the year, and an unrealized loss of $2.7 million related to foreign exchange contracts due to strength of the U.S Dollar against the Norwegian Kroner (NOK).

Net Gain (Loss) on Foreign Currency Transactions. Net loss on foreign currency transactions for the year ended December 31, 2018 was $0.1 million, compared to $0.3 million for the year ended December 31, 2017.

Income Tax Benefit. Income tax benefit for the year ended December 31, 2018 was $2,000 compared to $16,000 for the year ended December 31, 2017.

Net Income. As a result of the foregoing, we earned net income of $82.2 million for the year ended December 31, 2018 compared to net income of $68.1 million for the year ended December 31, 2017.

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Year Ended December 31, 2017 Compared with the Year Ended December 31, 2016

(U.S. Dollars in thousands)	Year Ended December 31, 2017	2016	Change	% Change
Time charter and bareboat revenues	$ 212,501	$ 172,878	$ 39,623	23%
Loss of hire insurance recoveries	5,176		5,176	N/A
Other income	1,526	793	733	92%
Vessel operating expenses	(46,709)	(30,903)	(15,806)	51%
Depreciation	(71,583)	(56,230)	(15,353)	27%
General and administrative expenses	(5,555)	(4,371)	(1,184)	27%
Interest income	248	24	224	933%
Interest expense	(30,714)	(20,867)	(9,847)	47%
Other finance expense	(1,406)	(1,311)	(95)	7%
Realized and unrealized gain on derivative instruments	4,831	1,213	3,618	298%
Net gain (loss) on foreign currency transactions	(267)	(139)	(128)	92%
Income tax benefit	16	15	1	7%
Net income	68,064	61,102	6,962	11%

Time Charter and Bareboat Revenues. Time charter and bareboat revenues for the year ended December 31, 2017 were $212.5 million, an increase of $39.6 million compared to $172.9 million for the year ended December 31, 2016. This increase was mainly due to increased revenues of $48.9 million resulting from the *Brasil Knutsen,* the *Lena Knutsen,* the *Vigdis Knutsen,* the *Tordis Knutsen* and the *Raquel Knutsen* being included in our results of operations from December 15, 2017, September 30, 2017, June 1, 2017, March 1, 2017 and December 1, 2016, respectively, and full earnings from the *Bodil Knutsen* due to planned drydocking in 2016. The increase was partially offset by a $8.7 million decrease in time charter revenues due to drydocking and repairs of the *Carmen Knutsen* and drydocking of the *Windsor Knutsen* in 2017 and by a $0.4 million decrease due to an accrual for estimated underperformance of the *Hilda Knutsen* and the *Torill Knutsen* in 2017.

Loss of hire insurance recoveries. Loss of hire insurance recoveries for the year ended December 31,2017 were $5.2 million compared to $nil million for the year ended December 31,2016. The loss of hire insurance recoveries were related to a technical default with the *Raquel Knutsen's* controllable pitch propeller and a default with the *Carmen Knutsen's* propeller shaft.

Other Income. Other income for the year ended December 31, 2017 was $1.5 million, an increase of $0.7 million compared to $0.8 million for the year ended December 31, 2016. Pursuant to the Omnibus Agreement, KNOT agreed to guarantee the payment of the hire rate that is equal to or greater than the hire rate payable under the initial charters of the *Bodil Knutsen* and *Windsor Knutsen* for a period of five years from the closing date of the IPO. In October 2015, the *Windsor Knutsen* commenced operating under a new time charter. The hire rate for the new charter is below the initial charter hire rate and the difference between the new hire rate and the initial rate was paid by KNOT. During the year ended December 31, 2017, $1.2 million was recognized as other income pursuant to this guarantee for the *Windsor Knutsen* compared with $0.8 million in 2016. In addition, $0.3 million connected to the reimbursement for repairs and lost hire from KNOT for the *Vigdis Knutsen* due to a hull damage incident in June 2017 was recognized as other income.

Vessel Operating Expenses. Vessel operating expenses for the year ended December 31, 2017 were $46.7 million, an increase of $15.8 million from $30.9 million in the year ended December 31, 2016. The increase was primarily due to an increase of $11.5 million due to the *Brasil Knutsen,* the *Lena Knutsen,* the *Vigdis Knutsen,* the *Tordis Knutsen* and the *Raquel Knutsen* being included in the results of operations from December 15, 2017, September 30, 2017, June 1, 2017, March 1, 2017 and

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December 1, 2016, respectively. $2.9 million of the increase is due to incidents and insurance claims relating to the *Raquel Knutsen,* the *Tordis Knutsen,* the *Vigdis Knutsen* and the *Carmen Knutsen* and $1.4 million of the increase is due to bunkers consumption in connection with the drydocking of the *Carmen Knutsen* and the *Windsor Knutsen*.

Depreciation. Depreciation for the year ended December 31, 2017 was $71.6 million, an increase of $15.4 million from $56.2 million in the year ended December 31, 2016. This increase was mainly due to the *Brasil Knutsen*, the *Lena Knutsen*, the *Vigdis Knutsen*, the *Tordis Knutsen* and the *Raquel Knutsen* being included in results of operations from December 15, 2017, September 30, 2017, June 1, 2017, March 1, 2017 and December 1, 2016, respectively.

General and Administrative Expenses. General and administrative expenses for the year ended December 31, 2017 were $5.6 million, compared to $4.4 million for 2016. The increase is mainly due to incremental expenses incurred in connection with the common unit offerings, private placements of Series A Preferred Units and the acquisitions of the *Brasil Knutsen,* the *Lena Knutsen,* the *Vigdis Knutsen,* the *Tordis Knutsen* and the *Raquel Knutsen*.

Interest Income. Interest income for the year ended December 31, 2017 was $248,000 compared to $24,000 for 2016.

Interest Expense. Interest expense for the year ended December 31, 2017 was $30.7 million, an increase of $9.8 million from $20.9 million for the year ended December 31, 2016. The increase was mainly due to additional debt incurred in connection with the acquisitions of the *Brasil Knutsen,* the *Lena Knutsen,* the *Vigdis Knutsen,* the *Tordis Knutsen* and the *Raquel Knutsen,* the refinancing of the *Hilda Knutsen* and the drawdowns of the revolving credit facilities and higher LIBOR during the year ended December 31, 2017 compared to the year ended December 31, 2016.

Other Finance Expense. Other finance expense for the year ended December 31, 2017 was $1.4 million, an increase of $0.1 million from $1.3 million for the year ended December 31, 2016. Other finance expenses are primarily related to bank fees and guarantee commissions.

Realized and Unrealized Gain (Loss) on Derivative Instruments. Realized and unrealized gain on derivative instruments for the year ended December 31, 2017 was $4.8 million, compared to $1.2 million for the year ended December 31, 2016, as set forth in the table below:

	Year Ended December 31,		
(U.S. Dollars in thousands)	**2017**	**2016**	**$ Change**
Realized gain (loss):			
Interest rate swap contracts	$ (2,840)	$ (3,886)	$ 1,046
Foreign exchange forward contracts	280	66	214
Total realized gain (loss):	(2,560)	(3,820)	1,260
Unrealized gain:			
Interest rate swap contracts	5,514	4,254	1,260
Foreign exchange forward contracts	1,877	779	1,098
Total unrealized gain:	7,391	5,033	2,358
Total realized and unrealized gain on derivative instruments:	$ 4,831	$ 1,213	$ 3,618

The unrealized non-cash element of the mark-to-market gain was $7.4 million for the year ended December 31, 2017 compared to the unrealized non-cash element of the mark-to-market gain of $5.0 million for the year ended December 31, 2016. Of the unrealized gain for the year ended

December 31, 2017, $5.5 million related to mark-to-market gains on interest rate swaps due to an increase in swap rates during the year, and an unrealized gain of $1.9 million related to foreign exchange contracts due to the weakness of the U.S Dollar against the Norwegian Kroner (NOK).

Net Gain (Loss) on Foreign Currency Transactions. Net loss on foreign currency transactions for the year ended December 31, 2017 was $0.3 million, compared to $0.1 million for the year ended December 31, 2016.

Income Tax Benefit. Income tax benefit for the year ended December 31, 2017 was $16,000 compared to $15,000 for the year ended December 31, 2016.

Net Income. As a result of the foregoing, we earned net income of $68.1 million for the year ended December 31, 2017 compared to net income of $61.1 million for the year ended December 31, 2016.

B. Liquidity and Capital Resources

Liquidity and Cash Needs

We operate in a capital-intensive industry, and we expect to finance the purchase of additional vessels and other capital expenditures through a combination of borrowings from commercial banks, cash generated from operations and debt and equity financings. In addition to paying distributions, our other liquidity requirements relate to servicing our debt, funding investments (including the equity portion of investments in vessels), funding working capital and maintaining cash reserves against fluctuations in operating cash flows. We believe our current resources are sufficient to meet our working capital requirements for our current business. Generally, our long-term sources of funds are cash from operations, long-term bank borrowings and other debt and equity financings. Because we distribute our available cash, we expect to rely upon external financing sources, including bank borrowings and the issuance of debt and equity securities, to fund acquisitions and other expansion capital expenditures.

Our funding and treasury activities are intended to maximize investment returns while maintaining appropriate liquidity. Cash and cash equivalents are held primarily in U.S. Dollars with some balances held in NOK, British Pounds and Euros. We have not made use of derivative instruments other than for interest rate and currency risk management purposes, and we expect to continue to economically hedge our exposure to interest rate fluctuations in the future by entering into new interest rate swap contracts.

We estimate that we will spend in total approximately $42.6 million for drydocking and classification surveys for the twelve vessels under time charters in our fleet as of March 31, 2019 between 2019 and 2023. As our fleet matures and expands, our drydocking expenses will likely increase. Ongoing costs for compliance with environmental regulations are primarily included as part of our drydocking and society classification survey costs or are a component of our vessel operating expenses. We are not aware of any regulatory changes or environmental liabilities that we anticipate will have a material impact on our current or future operations. There will be further costs related to voyages to and from the drydocking yard that will depend on the distance from the vessel's ordinary trading area to the drydocking yard.

On January 30, 2018, the Partnership's subsidiary, Knutsen Shuttle Tankers 15 AS, which owns the vessel *Torill Knutsen*, closed a new $100 million senior secured term loan facility with a consortium of banks, in which The Bank of Tokyo-Mitsubishi UFJ acted as agent. The Torill Facility refinanced a $117 million loan facility associated with the *Torill Knutsen* that bore interest at a rate of LIBOR plus a margin of 2.5% and was due to be paid in full in November 2018.

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On March 1, 2018, KNOT Shuttle Tankers AS acquired KNOT 30, the company that owns the shuttle tanker *Anna Knutsen* from KNOT, for a purchase price of $120.0 million, less approximately $106.8 million of outstanding indebtedness related to the *Anna Knutsen* plus approximately $1.4 million for certain capitalized fees related to the financing of the *Anna Knutsen* and plus other purchase price adjustments of $5.3 million. On the closing of the acquisition, KNOT 30 repaid approximately $32.3 million of the indebtedness, leaving an aggregate of approximately $74.4 million of debt outstanding under the secured credit facility related to the vessel. The purchase price was settled in cash.

On September 20, 2018, the Partnership's subsidiaries which own the *Windsor Knutsen*, the *Bodil Knutsen*, the *Fortaleza Knutsen*, the *Recife Knutsen*, the *Carmen Knutsen* and the *Ingrid Knutsen* refinanced their existing bank debt, entering new long-term senior secured credit facilities, the Multi-vessels Facility. The Multi-vessels Facility consists of a term loan of $320 million and a $55 million revolving credit facility.

As of December 31, 2018, the Partnership had available liquidity of $70.4 million, which consisted of cash and cash equivalents of $41.7 million and availability under the revolving credit facilities of $28.7 million. As of April 10, 2019, the revolving credit facilities had an aggregate undrawn capacity of $28.7 million.

The consolidated financial statements have been prepared assuming that the Partnership will continue as a going concern. As of December 31, 2018, the Partnership's net current liabilities were $76.0 million. Included in current liabilities are short term loan obligations that mature before December 31, 2019 and are therefore, presented as current debt.

The Partnership expects that its primary future sources of funds will be available cash, cash from operations, borrowings under any new loan agreements and the proceeds of any equity financings. The Partnership believes that these sources of funds (assuming the current rates earned from existing charters) will be sufficient to cover operational cash outflows and ongoing obligations under the Partnership's financing commitments to pay loan interest and make scheduled loan repayments and to make distributions on its outstanding units. Accordingly, the Partnership believes that its current resources, including amounts available to be drawn under the revolving credit facilities of $28.7 million, are sufficient to meet working capital requirements for its current business for at least the next twelve months.

Capital Expenditures

We reserve cash from operations for future maintenance capital expenditures, working capital and other matters. Because of the substantial capital expenditures we are required to make to maintain our fleet, our annual estimated maintenance and replacement capital expenditures are $55.5 million, which is comprised of $47.0 million for replacing our current vessels at the end of their useful lives and $8.5 million for drydocking maintenance and classification surveys.

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Cash Flows

The following table summarizes our net cash flows from operating, investing and financing activities and our cash and cash equivalents for the periods presented:

	Year Ended December 31,		
(U.S. Dollars in thousands)	**2018**	**2017**	**2016**
Net cash provided by (used in) operating activities	$ 148,646	$ 154,585	$ 108,445
Net cash provided by (used in) investing activities	(15,493)	(94,857)	(13,952)
Net cash provided by (used in) financing activities	(137,376)	(41,378)	(90,345)
Effect of exchange rate changes on cash	(169)	90	(57)
Net increase (decrease) in cash and cash equivalents	(4,392)	18,440	4,091
Cash and cash equivalents at the beginning of the period	46,104	27,664	23,573
Cash and cash equivalents at the end of the period	41,712	46,104	27,664

Net Cash Provided by Operating Activities

Net cash provided by operating activities decreased by $5.9 million to $148.6 million for the year ended December 31, 2018 compared to $154.6 million for 2017. The decrease was mainly due to changes in working capital elements, especially in amounts due to and from related parties, and increase drydocking expenditures of $12.4 million for the scheduled drydocking of the *Brasil Knutsen,* the *Hilda Knutsen,* the *Torill Knutsen* and the *Ingrid Knutsen* in 2018 compared to drydocking expenditures of $6.9 million for the scheduled drydocking of the *Windsor Knutsen* and *Carmen Knutsen* in 2017. The decrease was partially offset by higher earnings from the *Anna Knutsen,* the *Brasil Knutsen*, the *Lena Knutsen*, the *Vigdis Knutsen* and the *Tordis Knutsen* being included in our results of operations as of March 1, 2018, December 15, 2017, September 30, 2017, June 1, 2017 and March 1, 2017, respectively.

Net cash provided by operating activities increased by $46.1 million to $154.6 million for the year ended December 31, 2017 compared to $108.5 million for 2016. The increase was mainly due to higher earnings through the contributions from the *Brasil Knutsen*, the *Lena Knutsen*, the *Vigdis Knutsen*, the *Tordis Knutsen* and the *Raquel Knutsen* being included in our results of operations as of December 15, 2017, September 30, 2017, June 1, 2017, March 1, 2017 and December 1, 2016, respectively. The increase was partially offset by increased drydocking expenditures of $6.9 million for the scheduled drydocking of the *Windsor Knutsen* and *Carmen Knutsen* in 2017 compared to drydocking expenditures of $2.5 million for the scheduled drydocking of the *Bodil Knutsen* in 2016.

Net Cash Used in Investing Activities

Net cash used in investing activities was $15.5 million for the year ended December 31, 2018 compared to $94.9 million for the year ended December 31, 2017. Net cash used in investing activities in 2018 of $15.5 million was mainly due to the acquisition of the *Anna Knutsen* for which we paid a net cash amount to cover the difference between the purchase consideration of $120.0 million less $106.8 million of outstanding indebtedness plus approximately $1.4 million for certain capitalized fees related to the financing of the vessel and plus other purchase price adjustments of $5.3 million. Net cash used in investing activities is net of cash acquired from the acquisition of the *Anna Knutsen* of $4.5 million.

Net cash used in investing activities was $94.9 million for the year ended December 31, 2017 compared to $14.0 million for the year ended December 31, 2016. Net cash used in investing activities in 2017 of $94.4 million related to the following acquisitions:

(i)

The acquisition of the *Tordis Knutsen* on March 1, 2017, for which we paid a net cash amount to cover the difference between the purchase consideration of $147.0 million, less

approximately $137.7 million of outstanding indebtedness, plus approximately $21.1 million for a receivable, plus approximately $0.8 million for certain capitalized fees related to the financing of the *Tordis Knutsen* and plus $1.7 million of other purchase price adjustments. Net cash used in investing activities is net of cash acquired from the acquisition of the *Tordis Knutsen* of $0.6 million.

(ii) The acquisition of the *Vigdis Knutsen* on June 1, 2017, which we paid a net cash amount to cover the difference between the purchase consideration of $147.0 million, less approximately $137.7 million of outstanding indebtedness, plus approximately $17.9 million for a receivable, plus approximately $0.9 million for certain capitalized fees related to the financing of the *Vigdis Knutsen* and plus $3.7 million of other purchase price adjustments. Net cash used in investing activities is net of cash acquired from the acquisition of the *Vigdis Knutsen* of $3.4 million.

(iii) The acquisition of the *Lena Knutsen* on September 30, 2017, which we paid a net cash amount to cover the difference between the purchase consideration of $142.0 million, less approximately $133.8 million of outstanding indebtedness, plus approximately $24.1 million for a receivable, plus approximately $1.0 million for certain capitalized fees related to the financing of the *Lena Knutsen* adjusted by $0.1 million of other purchase price adjustments. Net cash used in investing activities is net of cash acquired from the acquisition of the *Lena Knutsen* of $0.5 million.

(iv) The acquisition of the *Brasil Knutsen* on December 15, 2017, for which we paid a net cash amount to cover the difference between the purchase consideration of $96.0 million, less $59.0 million of outstanding indebtedness, less approximately $35.2 million for a loan (the "Company Liquidity Loan"), plus approximately $0.6 million for certain capitalized fees related to the financing of the *Brasil Knutsen* and plus $3.4 million of other purchase price adjustments. Net cash used in investing activities is net of cash acquired from the acquisition of the *Brasil Knutsen* of $5.2 million.

Net Cash Used in Financing Activities

Net cash used in financing activities during the year ended December 31, 2018 was $137.4 million and mainly related to the following:

- Proceeds of $100 million from the refinancing of the *Torill Knutsen*;

- Proceeds of $320 million from the multi-vessel refinancing of the *Fortaleza Knutsen,* the *Recife Knutsen,* the *Bodil Knutsen,* the *Carmen Knutsen,* the *Windsor Knutsen* and the *Ingrid Knutsen;* and

- Proceeds from drawdowns under the two revolving credit facilities of $77.8 million, of which $22 million was repaid during 2018. The total limit of $80 million on the two credit facilities was drawn down and repaid several times during 2018.

This was offset by the following:

- Repayment of long-term debt of $528.0 million, of which $73.2 million was repaid in connection with refinancing of the *Torill Knutsen* and $341.9 was repaid in connection with the multi-vessel refinancing of the *Fortaleza Knutsen,* the *Recife Knutsen,* the *Bodil Knutsen,* the *Carmen Knutsen,* the *Windsor Knutsen* and the *Ingrid Knutsen;*

- Payments of $5.3 million in debt issuance costs in relation to the refinancing of the *Torill Knutsen* and the multi-vessel refinancing of the *Fortaleza Knutsen,* the *Recife Knutsen,* the *Bodil Knutsen,* the *Carmen Knutsen,* the *Windsor Knutsen* and the *Ingrid Knutsen*;

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- Repayments of long-term debt from related parties of $22.5 million; and
- Payment of cash distributions to unitholders of $79.3 million, of which $7.2 million was distributions to Series A Preferred Units.

Net cash used in financing activities during the year ended December 31, 2017 was $41.4 million and mainly related to the following:

- Net proceeds from issuance of common units in public offerings in January 2017 and in November 2017 of $120.9 million, of which $1.2 million was contributed from the General Partner in order to maintain the 1.85% general partner interest in the Partnership;
- Net proceeds from issuance of Series A Preferred Units in February 2017 and in June 2017 of $87.5 million;
- Proceeds of $100 million from the refinancing of the *Hilda Knutsen*;
- Proceeds of $10 million from drawdown on the Brasil Facility (as defined below); and
- Proceeds from drawdowns under the two revolving credit facilities of $101.5 million, of which $101.5 million was repaid during 2017. The total limit of $60 million on the two credit facilities was drawn down and repaid several times during 2017.

This was offset by the following:

- Repayment of long-term debt of $297.7 million, of which $76.9 million was repaid in connection with refinancing of the *Hilda Knutsen*;
- Payments of $1.2 million in debt issuance costs in relation to the refinancing of the *Hilda Knutsen*;
- Repayments of long-term debt from related parties of $93.4 million; and
- Payment of cash distributions to unitholders of $69.0 million, of which $3.5 million was distributions to Series A Preferred Units.

Net cash used in financing activities during the year ended December 31, 2016 was $90.3 million and mainly related to the following:

- Proceeds from the utilization of our revolving credit facility of $30.0 million, of which $5.0 million was repaid in July 2016 and $25.0 million was repaid in January 2017; and
- Proceeds from the Seller's Credit and Seller's Loan of total $25.0 million, provided by KNOT for the acquisition of the *Raquel Knutsen.*

This was offset by the following:

Repayment of long-term debt of $61.0 million;

Repayment of long-term debt from related parties of $24.0 million;

Payment of cash distributions to unitholders during 2016 of $60.2 million.

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Borrowing Activities

Long-Term Debt. As of December 31, 2018 and 2017, our long-term debt consisted of the following:

(U.S. Dollars in thousands)	Vessel	December 31, 2018	December 31, 2017
$320 million loan facility	*Windsor Knutsen, Bodil Knutsen, Carmen Knutsen, Fortaleza Knutse, Recife Knutsen, Ingrid Knutsen*	312,472	
$55 million revolving credit facility		26,279	
$220 million loan facility	*Windsor Knutsen, Bodil Knutsen, Carmen Knutsen*	$	$ 165,000
Fortaleza and Recife loan facility	*Fortaleza Knutsen, Recife Knutsen*		109,375
Ingrid loan facility	*Ingrid Knutsen*		61,085
Hilda loan facility	*Hilda Knutsen*	90,769	96,923
$117 million loan facility	*Torill Knutsen*		73,177
Torill loan facility	*Torill Knutsen*	95,000	
$172.5 million loan facility	*Dan Cisne, Dan Sabia*	81,839	91,339
Raquel loan facility	*Raquel Knutsen*	63,184	68,414
Tordis loan facility	*Tordis Knutsen*	85,991	91,051
Vigdis loan facility	*Vigdis Knutsen*	87,256	92,316
Lena loan facility	*Lena Knutsen*	85,750	90,650
Brasil loan facility	*Brasil Knutsen*	63,454	69,000
Anna loan facility	*Anna Knutsen*	70,353	
$25 million revolving credit facility		25,000	25,000
Total long-term debt		**1,087,347**	**1,033,330**
Less: current installments		109,534	95,176
Less: unamortized deferred loan issuance costs		2,608	2,191
Current portion of long-term debt		**106,926**	**92,985**
Amounts due after one year		977,813	938,154
Less: unamortized deferred loan issuance costs		7,448	4,524
Long-term debt, less current installments and unamortized deferred loan issuance costs		**$ 970,365**	**$ 933,630**

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The Partnership's outstanding debt of $1,087.3 million as of December 31, 2018 is repayable as follows :

(U.S. Dollars in thousands)	Period repayment	Balloon repayment
2019	84,534	25,000
2020	85,945	
2021	86,545	70,811
2022	71,210	236,509
2023	55,535	202,185
2024 and thereafter	15,180	153,893
Total	$ 398,949	$ 688,398

As of December 31, 2018, the interest rates on the Partnership's loan agreements were LIBOR plus a fixed margin ranging from 1.8% to 2.4%. See Note 2(f) Financial Income (Expense) in the consolidated financial statements included in this Annual Report.

$320 Million Term Loan Facility and $55 Million Revolving Credit Facility

In September 2018, the Partnership's subsidiaries which own the *Windsor Knutsen*, the *Bodil Knutsen*, the *Fortaleza Knutsen*, the *Recife Knutsen*, the *Carmen Knutsen* and the *Ingrid Knutsen* ("the Vessels"), entered into new senior secured credit facilities (the "Multi-vessels Facility") in order to refinance their existing long term bank debt. The Multi-vessels Facility consists of a term loan of $320 million and a $55 million revolving credit facility. The term loan is repayable in 20 consecutive quarterly installments, with a final payment at maturity in September 2023 of $177 million, which includes the balloon payment and last quarterly installment. The term loan bears interest at a rate per annum equal to LIBOR plus a margin of 2.125%. The revolving credit facility will mature in September 2023, and bears interest at LIBOR plus a margin of 2.125%. There is a commitment fee of 0.85% payable on the undrawn portion of the revolving credit facility. The loans are guaranteed by the Partnership and secured by mortgages on the Vessels. The Multi-vessels Facility refinanced the $220 million facility, the $35 million revolving credit facility, the Fortaleza and Recife loan facility and the Ingrid loan facility.

The Vessels, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Multi-vessel facility. The Partnership and the borrowers (except for the Partnership subsidiary that owns the *Recife Knutsen* and the *Fortaleza Knutsen*) are guarantors, and the Multi-vessels Facility is secured by vessel mortgages on the *Windsor Knutsen*, the *Bodil Knutsen*, the *Fortaleza Knutsen*, the *Recife Knutsen*, the *Carmen Knutsen* and the *Ingrid Knutsen.*

The Multi-vessels Facility contains the following financial covenants:

- The aggregate market value of the Vessels shall not be less than 125% of the outstanding balance under the Multi-vessels Facility;
- Positive working capital of the borrowers and the Partnership;
- Minimum liquidity of the Partnership of $15 million plus increments of $1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and $1 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 12 additional vessels in excess of 8 vessels;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

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The Multi-vessels Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2018, the borrowers and the guarantors were in compliance with all covenants under this facility.

$220 Million Term Loan Facility and $35 Million Revolving Credit Facility

The $220 million Term Loan Facility and the $35 million Revolving Credit Facility were repaid in full in September 2018 with the proceeds from the Multi-vessels Facility.

In June 2014, the Partnership's subsidiaries KNOT Shuttle Tankers 18 AS, KNOT Shuttle Tankers 17 AS and Knutsen Shuttle Tankers 13 AS entered into a senior syndicate secured loan facility in an aggregate amount of $240 million (the "Senior Secured Loan Facility") to repay existing debt under previous credit facilities and a $10.5 million seller's credit from KNOT. The Senior Secured Loan Facility consisted of (i) a $220 million term loan (the "Term Loan Facility") and (ii) a $20 million revolving credit facility (the "Revolving Credit Facility").

The Term Loan Facility was repayable in quarterly installments over five years with a final balloon payment due at maturity at June 2019. The Term Loan Facility bore interest at LIBOR plus a margin of 2.125%.

On June 30, 2016, the Partnership's subsidiaries KNOT Shuttle Tankers 18 AS, KNOT Shuttle Tankers 17 AS and Knutsen Shuttle Tankers 13 AS, as borrowers, entered into an amended and restated senior secured credit facility (the "Amended Senior Secured Loan Facility"), which amended the Senior Secured Loan Facility. The Amended Senior Secured Loan Facility included a new revolving credit facility tranche of $15 million, bringing the total revolving credit commitments under the facility to $35 million. The new revolving credit facility was due to mature in June 2019, bore interest at LIBOR plus a fixed margin of 2.5% and had a commitment fee equal to 40% of the margin of the revolving facility tranche calculated on the daily undrawn portion of such tranche.

The *Windsor Knutsen,* the *Bodil Knutsen* and the *Carmen Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds were pledged as collateral for the Amended Senior Secured Loan Facility. The Amended Senior Secured Loan Facility was guaranteed by the Partnership and KNOT Shuttle Tankers AS, and secured by vessel mortgages on the *Windsor Knutsen,* the *Bodil Knutsen* and the *Carmen Knutsen*.

Fortaleza and Recife Loan Facility

The Fortaleza and Recife Loan Facility was repaid in full in September 2018 with the proceeds from the Multi-vessels Facility.

In June 2014, the Partnership's subsidiary Knutsen Shuttle Tankers XII KS, as the borrower, entered into a senior syndicate secured loan facility in the amount of $140 million (the "Fortaleza and Recife Facility"). The Fortaleza and Recife Facility was drawn in November 2014 and replaced a $160 million loan facility previously secured by the *Fortaleza Knutsen* and the *Recife Knutsen*. The Fortaleza and Recife Facility was repayable in quarterly installments over five years with a final balloon payment due at maturity in June 2019. The facility bore interest at LIBOR plus a margin of 2.125%. The *Fortaleza Knutsen* and the *Recife Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds were pledged as collateral for the New Fortaleza and Recife Facility. The facility was guaranteed by the Partnership and KNOT Shuttle Tankers AS and was secured by vessel mortgages on the *Fortaleza Knutsen* and the *Recife Knutsen*.

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Hilda Loan Facility

In May 2017, the Partnership's subsidiary, Knutsen Shuttle Tankers 14 AS, which owns the vessel *Hilda Knutsen*, entered into a new $100 million senior secured term loan facility with Mitsubishi UFJ Lease & Finance (Hong Kong) Limited (the "New Hilda Facility"). The New Hilda Facility replaced the $117 million loan facility, which was due to be paid in full in August 2018. The New Hilda Facility is repayable in 28 consecutive quarterly installments with a final payment at maturity of $58.5 million, which includes the balloon payment and last quarterly installment. The New Hilda Facility bears interest at a rate per annum equal to LIBOR plus a margin of 2.2%. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors. The facility matures in May 2024.

The Hilda Facility contains the following primary financial covenants:

- Market value of the *Hilda Knutsen* shall not be less than 110% of the outstanding balance under the Hilda Facility for the first two years, 120% for the third and fourth year, and 125% thereafter;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of $15 million plus increments of $1 million for each additional vessel acquired by the Partnership in excess of eight vessels and $1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Hilda Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2018, the borrower and the guarantors were in compliance with all covenants under this facility.

Torill Loan Facility

In January 2018, the Partnership's subsidiary, Knutsen Shuttle Tankers 15 AS, which owns the vessel *Torill Knutsen*, entered into a new $100 million senior secured term loan facility (the "Torill Facility") with a consortium of banks, in which The Bank of Tokyo-Mitsubishi UFJ acted as agent. The Torill Facility replaced a $117 million secured loan facility, which was due to be paid in full in October 2018. The Torill Facility is repayable in 24 consecutive quarterly installments with a balloon payment of $60.0 million due at maturity. The Torill Facility bears interest at a rate per annum equal to LIBOR plus a margin of 2.1%. The facility will mature in January 2024 and is guaranteed by the Partnership. The Torill Facility contains the following primary financial covenants:

- Market value of the *Torill Knutsen* shall not be less than 110% of the outstanding balance under the Torill Facility for the first two years, 120% for the third and fourth years, and 125% thereafter;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of $15 million plus increments of $1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and $1 million for each owned vessel with less than 12 months remaining tenor on its employment contract in excess of 8 vessels;

Minimum book equity ratio for the Partnership of 30%; and

Minimum EBITDA to interest ratio for the Partnership of 2.50.

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The Torill Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2018, the borrower and the guarantor were in compliance with all covenants under this facility.

$172.5 Million Secured Loan Facility

In April 2014, KNOT Shuttle Tankers 20 AS and KNOT Shuttle Tankers 21 AS, the subsidiaries owning the *Dan Cisne* and *Dan Sabia*, as the borrowers, entered into a $172.5 million senior secured loan facility. In connection with the Partnership's acquisition of the *Dan Cisne*, in December 2014, the $172.5 million senior secured loan facility was split into a tranche related to the *Dan Cisne* (the "Dan Cisne Facility") and a tranche related to *Dan Sabia* (the "Dan Sabia Facility").

The Dan Cisne Facility and the Dan Sabia Facility are guaranteed by the Partnership and secured by a vessel mortgage on the *Dan Cisne* and *Dan Sabia*. The Dan Cisne Facility and the Dan Sabia Facility bear interest at LIBOR plus a margin of 2.4% and are repayable in semiannual installments with a final balloon payment due at maturity in September 2023 and January 2024, respectively.

The Dan Cisne Facility and Dan Sabia Facility contain the following financial covenants:

- Market value of each of the *Dan Cisne* and *Dan Sabia* shall not be less than 100% of the outstanding balance under the Dan Cisne Facility and Dan Sabia Facility, respectively, for the first three years, and 125% thereafter;

- Minimum liquidity of the Partnership of $15 million plus increments of $1 million for each additional vessel acquired by the Partnership in excess of eight vessels and $1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract; and

- Minimum book equity ratio for the Partnership of 30%.

The facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2018, the borrowers and the guarantor were in compliance with all covenants under this facility.

Ingrid Loan Facility

The Ingrid Facility was repaid in full in September 2018 with the proceeds from the Multi-vessels Facility.

In June 2012, Knutsen NYK Shuttle Tankers 16 AS, the subsidiary owning the *Ingrid Knutsen*, as the borrower, entered into a secured loan facility in an aggregate amount of $90.0 million (the "Ingrid Facility"). The Ingrid Facility included two tranches. Tranche one was a commercial bank loan of $19.1 million, repayable in semi-annual installments with a final balloon payment due at maturity in December 2018. Tranche one bore interest at LIBOR, plus a margin of 2.25%.

Tranche two was an export credit loan of $42.0 million, repayable in semi-annual installments and which was due to mature in November 2025. Tranche two bore interest at an annual fixed rate of 3.85%, composed of a 2.5% bank facility rate plus a commission of 1.35% to the export credit guarantor. The facility was secured by a vessel mortgage on the *Ingrid Knutsen*. The *Ingrid Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds were pledged as collateral for the Ingrid Facility. The Partnership and KNOT Shuttle Tankers AS were the sole guarantors.

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Raquel Loan Facility

In December 2014, Knutsen Shuttle Tankers 19 AS, the subsidiary owning the *Raquel Knutsen*, as the borrower, entered into a secured loan facility in an aggregate amount of $90.0 million (the "Raquel Facility"). The Raquel Facility is repayable in quarterly installments with a final balloon payment of $30.5 million due at maturity in March 2025. The Raquel Facility bears interest at an annual rate equal to LIBOR plus a margin of 2.0%. The facility is secured by a vessel mortgage on the *Raquel Knutsen*. The *Raquel Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Raquel Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Raquel Facility contains the following financial covenants:

- Market value of the *Raquel Knutsen* shall not be less than 100% of the of the outstanding balance under the Raquel Facility for the first three years, and 125% thereafter;

- Minimum liquidity of the Partnership of $15 million plus increments of $1 million for each additional vessel acquired by the Partnership in excess of eight vessels and $1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract; and

- Minimum book equity ratio for the Partnership of 30%.

The Raquel Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2018, the borrower and the guarantors were in compliance with all covenants under this facility.

Tordis Loan Facility

In April 2015, KNOT Shuttle Tankers 24 AS, the subsidiary owning the *Tordis Knutsen*, as the borrower, entered into a secured loan facility (the "Tordis Facility"). As of the time of the acquisition of the *Tordis Knutsen* on March 1, 2017, the aggregate amount outstanding under the facility was $114.4 million. The Tordis Facility is repayable in quarterly installments with a final balloon payment of $70.8 million due at maturity in November 2021. The Tordis Facility bears interest at an annual rate equal to LIBOR plus a margin of 1.9%. The facility is secured by a vessel mortgage on the *Tordis Knutsen*. The *Tordis Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Tordis Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Tordis Facility contains the following financial covenants:

- Aggregate market value of the *Tordis Knutsen,* the *Vigdis Knutsen* and the *Lena Knutsen* shall not be less than 130% of the aggregate outstanding balance under the Tordis Facility, the Vigdis Facility and the Lena Facility at any time;

- Positive working capital of the borrower and the Partnership;

- Minimum liquidity of the Partnership of $15 million plus increments of $1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and $1 million for each owned vessel with less than 12 months remaining tenor on its employment contract in excess of 8 vessels;

- Minimum book equity ratio for the Partnership of 30%; and

- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Tordis Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default.

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As of December 31, 2018, the borrower and the guarantors were in compliance with all covenants under this facility.

Vigdis Loan Facility

In April 2015, KNOT Shuttle Tankers 25 AS, the subsidiary owning the *Vigdis Knutsen,* as the borrower, entered into a secured loan facility (the "Vigdis Facility"). The Vigdis Facility is repayable in quarterly installments with a final balloon payment of $70.8 million due at maturity in February 2022. The Vigdis Facility bears interest at an annual rate equal to LIBOR plus a margin of 1.9%. The facility is secured by a vessel mortgage on the *Vigdis Knutsen*. The *Vigdis Knutsen,* assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Vigdis Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Vigdis Facility contains the following financial covenants:

- Aggregate market value of the *Tordis Knutsen,* the *Vigdis Knutsen* and the *Lena Knutsen* shall not be less than 130% of the aggregate outstanding balance under the Tordis Facility, the Vigdis Facility and the Lena Facility at any time;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of $15 million plus increments of $1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and $1 million for each owned vessel with less than 12 months remaining tenor on its employment contract in excess of 8 vessels;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Vigdis Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2018, the borrower and the guarantors were in compliance with all covenants under this facility.

Lena Loan Facility

In April 2015, KNOT Shuttle Tankers 26 AS, the subsidiary owning the *Lena Knutsen*, as the borrower, entered into a secured loan facility (the "Lena Facility"). The Lena Facility is repayable in quarterly installments with a final balloon payment of $68.6 million due at maturity in June 2022. The Lena Facility bears interest at an annual rate equal to LIBOR plus a margin of 1.9%. The facility is secured by a vessel mortgage on the *Lena Knutsen*. The *Lena Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Lena Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Lena Facility contains the following financial covenants:

- Aggregate market value of the *Tordis Knutsen,* the *Vigdis Knutsen* and the *Lena Knutsen* shall not be less than 130% of the aggregate outstanding balance under the Tordis Facility, the Vigdis Facility and the Lena Facility at any time;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of $15 million plus increments of $1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and $1 million for each owned vessel with less than 12 months remaining tenor on its employment contract in excess of 8 vessels;

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Minimum book equity ratio for the Partnership of 30%; and

Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Lena Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2018, the borrower and the guarantors were in compliance with all covenants under this facility.

Brasil Loan Facility

In June 2017, KNOT Shuttle Tankers 32 AS, the subsidiary owning the *Brasil Knutsen*, as the borrower, entered into a secured loan facility (the "Brasil Facility"). The Brasil Facility is repayable in quarterly installments with a final balloon payment of $40.0 million due at maturity in July 2022. The Brasil Facility bears interest at an annual rate equal to LIBOR plus a margin of 2.3%. The facility is secured by a vessel mortgage on the *Brasil Knutsen*. The *Brasil Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Brasil Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Brasil Facility contains the following financial covenants:

Market value of the *Brasil Knutsen* shall not be less than 125% of the of the outstanding balance under the Brasil Facility for the first four years, and 135% thereafter;

Positive working capital of the borrower and the Partnership;

Minimum liquidity of the Partnership of $15 million plus increments of $1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to a total of eight (8) vessels and $1 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to a total of twelve (12) vessels;

Minimum book equity ratio for the Partnership of 30%; and

Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Brasil Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2018, the borrower and the guarantors were in compliance with all covenants under this facility.

Anna Loan Facility

In September 2016, KNOT Shuttle Tankers 30 AS, the subsidiary owning the *Anna Knutsen*, as the borrower, entered into a secured loan facility (the "Anna Facility"). The Anna Facility is repayable in quarterly installments with a final balloon payment of $57.1 million due at maturity in March 2022. The Anna Facility bears interest at an annual rate equal to LIBOR plus a margin of 2.0%. The facility is secured by a vessel mortgage on the *Anna Knutsen*. The *Anna Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Anna Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Anna Facility contains the following financial covenants:

Market value of the *Anna Knutsen* shall not be less than 130% of the aggregate outstanding balance under the Anna Facility at any time;

Positive working capital of the borrower and the Partnership;

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- Minimum liquidity of the Partnership of $15 million plus increments of $1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and $1 million for each owned vessel with less than 12 months remaining tenor on its employment contract in excess of 8 vessels;

- Minimum book equity ratio for the Partnership of 30%; and

- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Anna Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2018, the borrower and the guarantors were in compliance with all covenants under this facility.

$25 Million Revolving Credit Facility

In August 2017, KNOT Shuttle Tankers AS entered into an unsecured revolving credit facility of $25 million with NTT Finance Corporation. The facility will mature in August 2019, bears interest at LIBOR plus a margin of 1.8% and has a commitment fee of 0.5% on the undrawn portion of the facility.

Derivative Instruments and Hedging Activities

We use derivative instruments to reduce the risks associated with fluctuations in interest rates. We have a portfolio of interest rate swap contracts that exchange or swap floating rate interest to fixed rates, which, from a financial perspective, hedges our obligations to make payments based on floating interest rates. As of December 31, 2018, the Partnership's net exposure to floating interest rate fluctuations on its outstanding debt was approximately $490.1 million based on total interest-bearing debt outstanding of $1,087.3 million, less interest rate swaps of $555.5 million, less cash and cash equivalents of $41.7 million. Our interest rate swap contracts mature between July 2020 and August 2027. Under the terms of the interest rate swap agreements, we will receive from the counterparty interest on the notional amount based on three-month and six-month LIBOR and will pay to the counterparty a fixed rate. For the interest rate swap agreements above, we will pay to the counterparty a weighted average interest rate of 1.86%.

We enter into foreign exchange forward contracts in order to manage our exposure to the risk of movements in foreign currency exchange rate fluctuations. As of December 31, 2018, the total contract amount in foreign currency of our outstanding foreign exchange forward contracts that were entered into to economically hedge our outstanding future payments in currencies other than the U.S. Dollar was NOK 244.2 million. We do not apply hedge accounting for derivative instruments.

Critical Accounting Estimates

The preparation of the Partnership's consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures about contingent assets and liabilities. We base these estimates and assumptions on historical experience and on various other information and assumptions that we believe to be reasonable. Our critical accounting estimates are important to the portrayal of both our financial condition and results of operations and require us to make subjective or complex assumptions or estimates about matters that are uncertain. Significant accounting policies are discussed in Note 2 Summary of Significant Accounting Policies in the consolidated financial statements included in this Annual Report. We believe that the following are the critical accounting estimates used in the preparation of our Partnership's consolidated financial statements. In addition, there are other items within the Partnership's consolidated financial statements that require estimation.

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Vessel Lives and Impairment

Description. The carrying value of vessels and equipment represent its historical acquisition or construction cost, including capitalized interest, supervision and technical and delivery cost, net of accumulated depreciation and impairment loss, if any. Expenditures for subsequent conversions and major improvements are capitalized, provided that such costs increase the earnings capacity or improve the efficiency or safety of the vessels. We depreciate the original cost, less an estimated residual value, of our vessels on a straight-line basis over each vessel's estimated useful life. Depreciation on our shuttle tankers is calculated using an estimated useful life of 25 years, commencing at the date the vessel was originally delivered from the shipyard. However, the actual life of a vessel may be different than the estimated useful life, with a shorter actual useful life resulting in an increase in the depreciation and potentially resulting in an impairment loss. The estimated useful life of our vessels takes into account design life, commercial considerations and regulatory restrictions. The carrying value of our vessels may not represent their market value at any point in time, because the market prices of second-hand vessels tend to fluctuate with changes in hire rates and the cost of newbuilds.

We review vessels and equipment for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable, which occurs when the asset's carrying value is greater than the future undiscounted cash flows the asset is expected to generate over its remaining useful life. For a vessel under charter, the discounted cash flows from that vessel may exceed its market value, as market values may assume the vessel is not employed on an existing charter. If the estimated future undiscounted cash flows of an asset exceed the asset's carrying value, no impairment is recognized even though the fair value of the asset may be lower than its carrying value. If the estimated future undiscounted cash flows of an asset are less than the asset's carrying value and the fair value of the asset is less than its carrying value, the asset is written down to its fair value. Fair value may be determined through various valuation techniques but is generally calculated as the net present value of estimated future cash flows.

Our business model is to employ our vessels on fixed-rate charters with major energy companies. These charters typically have original terms between five to ten years in length. Consequently, while the market value of a vessel may decline below its carrying value, the carrying value of a vessel may still be recoverable based on the future undiscounted cash flows the vessel is expected to obtain from servicing its existing and future charters.

Judgments and Uncertainties. Our estimates of future cash flows involve assumptions about future hire rates, vessel utilization, operating expenses, drydocking expenditures, vessel residual values and the remaining estimated life of our vessels. Our estimated hire rates are based on rates under existing vessel charters and market rates at which we expect we can re-charter our vessels. Our estimates of vessel utilization, including estimated off-hire time and the estimated amount of time our shuttle tankers may spend operating in the spot market when not being used in their capacity as shuttle tankers, are based on historical experience of KNOT and our projections of future shuttle tanker voyages. Our estimates of operating expenses and drydocking expenditures are based on historical operating and drydocking costs of KNOT and our expectations of future cost and operating requirements. Vessel residual values are a product of a vessel's lightweight tonnage and an estimated scrap rate. The remaining estimated lives of our vessels used in our estimates of future cash flows are consistent with those used in the calculation of depreciation. Certain assumptions relating to our estimates of future cash flows are more predictable by their nature in our experience, including estimated revenue under existing charter terms, ongoing operating costs and remaining vessel lives. Certain assumptions relating to our estimates of future cash flows require more discretion and are inherently less predictable, such as future hire rates beyond the firm period of existing charters and vessel residual values, due to factors such as the volatility in hire rates and vessel residual values. We believe that the assumptions used to estimate future cash flows of our vessels are reasonable at the

time they are made. We can make no assurances, however, as to whether our estimates of future cash flows, particularly future hire rates or vessel residual values, will be accurate.

Effect If Actual Results Differ from Assumptions. If we conclude that a vessel or equipment is impaired, we recognize a loss in an amount equal to the excess of the carrying value of the asset over its fair value at the date of impairment. The fair value at the date of the impairment becomes the new cost basis and will result in a lower depreciation expense than for periods before the vessel or equipment impairment.

Vessel Market Values

In " Vessel Lives and Impairment" above, we discuss our policy for assessing impairment of the carrying value of our vessels. During the past few years, the market values of certain vessels in the worldwide fleet have experienced particular volatility, with substantial declines in many vessel classes. There is a future risk that the sale value of certain of our vessels could decline below those vessels' carrying value, even though we would not impair those vessels' carrying value under our accounting impairment policy, due to our belief that future undiscounted cash flows expected to be earned by such vessels over their operating lives would exceed such vessels' carrying value.

In connection with monitoring compliance with our credit facilities and as a general business matter, we periodically monitor the market value of our vessels, including obtaining various broker valuations as of specific dates. We generally do not include the impact of market fluctuations in vessel prices in our financial statements. We do, however, monitor our business and assets on a regular basis for potential asset impairment as described above. The total carrying value of our vessels was $1,767 million as of December 31, 2018. With respect to the vessels, based on broker valuations as of December 31, 2018 on a charter free basis, we believe the aggregate market value of these vessels was less than their aggregate carrying value as of that date. We believe the aggregate amount of this deficit as of December 31, 2018 for the vessels was approximately $144 million. These vessels do, however, have fixed rates charters contracts. We did not identify any impairment indicators for our vessels as of December 31, 2018, and accordingly, we have not performed an undiscounted cash flow test or recorded impairment charges.

Drydocking

Description. We drydock each of our vessels periodically for inspection, repairs and maintenance and for any modifications to comply with industry certification or governmental requirements. For vessels operating on time charters, we capitalize the costs directly associated with the classification and regulatory requirements for inspection of the vessels, major repairs and improvements incurred during drydocking that increase the earnings capacity or improve the efficiency or safety of the vessels. Drydocking cost is amortized on a straight-line basis over the period until the next planned drydocking. We expense costs related to routine repairs and maintenance performed during drydocking or as otherwise incurred. For vessels that are newly built or acquired, an element of the cost of the vessel is allocated initially to a drydock component and amortized on a straight-line basis over the period until the next planned drydocking. When significant drydocking expenditures occur prior to the expiration of this period, we expense the remaining unamortized balance of the original drydocking cost in the month of the subsequent drydocking. For vessels operating on bareboat charters, the charterer bears the cost of any drydocking.

Judgments and Uncertainties. Amortization of capitalized drydock expenditures requires us to estimate the period of the next drydocking or estimated useful life of drydock expenditures. While we typically drydock our vessels every 60 months until the vessel is 15 years old and every 30 months thereafter, we may drydock the vessels at an earlier date.

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Effect if Actual Results Differ from Assumptions. A change in our estimate of the useful life of a drydock will have a direct effect on our amortization of drydocking expenditures.

Purchase Price Allocation, Including Goodwill and Intangible Assets

Description. We allocate the cost of acquired companies to the identifiable tangible and intangible assets and liabilities acquired, with the remaining amount being classified as goodwill. Certain intangible assets, such as above-market contracts, are being amortized over time. Our future operating performance will be affected by the amortization of intangible assets and potential impairment charges related to goodwill or intangible assets. Accordingly, the allocation of purchase price to intangible assets and goodwill may significantly affect our future operating results. Goodwill is not amortized, but reviewed for impairment annually, or more frequently if impairment indicators arise. The process of evaluating the potential impairment of goodwill is highly subjective and requires significant judgment at many points during the analysis. No goodwill or intangible assets arose as a result of acquisitions carried out for the years ended December 31, 2018, 2017 and 2016.

Judgments and Uncertainties. The allocation of the purchase price of acquired companies requires management to make significant estimates and assumptions, including estimates of future cash flows expected to be generated by the acquired assets and the appropriate discount rate to value these cash flows. In addition, the process of evaluating the potential impairment of goodwill and intangible assets is highly subjective and requires significant judgment at many points during the analysis. We test goodwill for impairment using a two-step analysis, with the option of performing a qualitative assessment before performing the first step of the two-step analysis, whereby the carrying value of the reporting unit is compared to its fair value in the first step. If the carrying value of the reporting unit is greater than its fair value, the second step is performed, where the implied fair value of goodwill is compared to its carrying value. An impairment charge is recognized for the amount by which the carrying amount of goodwill exceeds its fair value. The fair value is estimated using the net present value of discounted cash flows of the reporting unit. The estimates and assumptions regarding expected future cash flows and appropriate discount rates are in part based upon existing contracts, future shuttle tanker rates, historical experience, financial forecasts and industry trends and conditions.

Taxes

Description. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized.

Judgments and Uncertainties. We record a valuation allowance for deferred tax assets when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. The future realization of deferred tax assets depends on the existence of sufficient taxable income of the appropriate character in the carry forward period. This analysis requires, among other things, the use of estimates and projections in determining future reversals of temporary differences and forecasts of future profitability and evaluating potential tax-planning strategies. The valuation allowances as of December 31, 2018 were related to the financial loss carry forwards and other net deferred tax assets for Norwegian tonnage tax. In assessing the realizability of deferred tax assets, we considered all the positive and negative evidence available. Given our cumulative loss position for tonnage tax, we determined it was more likely than not that some of the benefit from the deferred tax assets would not be realized based on the weight of available evidence. As of December 31, 2018, we determined that the deferred tax assets are likely to not be realized, and the booked value was, therefore, zero.

Effect If Actual Results Differ from Assumptions. If we determined that we were able to realize a net deferred tax asset in the future, in excess of the net recorded amount, an adjustment to decrease the valuation allowance related to the deferred tax assets would typically increase our net income (or

decrease our loss) in the period such determination was made. As of December 31, 2018 and 2017, we had a valuation allowance for deferred tax assets of $17.0 million and $15.7 million, respectively.

Recently Adopted Accounting Standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (ASC 606)*, as subsequently updated by the FASB, which provides new authoritative guidance on the methods of revenue recognition and related disclosure requirements. This new standard supersedes existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. This update creates a five-step model and requires a company to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligation in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue as each performance obligation is satisfied. Under the new standard, additional qualitative and quantitative disclosures are required. Effective January 1, 2018, the Partnership adopted the requirements of *ASC 606* to new and existing contracts not yet completed as of January 1, 2018, using the modified retrospective approach where the cumulative effect of initially applying the standard is recorded as an adjustment to the opening balance of equity. The Partnership made an assessment on the various implementation aspects of ASU 2014-09 and its amendments, and since there are no changes to the timing or amount of revenue recognized, the Partnership has concluded that the effect of the implementation of this new standard will cause no material cumulative effect to the Partnership's historical or future financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations: Clarifying the Definition of a Business* with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Partnership adopted this ASU prospectively from January 1, 2018. As a result, this increases the likelihood that future dropdowns of Vessels may be considered the acquisition of an asset rather than a business combination.

On March 1, 2018, the partnership's wholly owned subsidiary, KNOT Shuttle tankers AS, acquired KNOT's 100% interest in KNOT Shuttle Tankers 30 AS ("KNOT 30"), the company that owns and operates the Anna Knutsen. Following the adoption of ASU 2017-01, *Business Combinations: Clarifying the Definition of a Business,* the Partnership accounted for this acquisition as an acquisition of an asset. The cost of the group of assets acquired in the asset acquisition has been allocated to the individual assets acquired or liabilities assumed based on their relative fair values. See the Note 21 Acquisitions.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments.* The new guidance clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The Partnership adopted this ASU on January 1, 2018. The Partnership's adoption of this standard did not have a material impact on the Partnership's consolidated statement of cash flows or related disclosures.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash,* which requires that restricted cash be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts presented on the statement of cash flows. The standard eliminates the presentation of transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. Additional disclosures are required for the nature of the restricted cash and restricted cash equivalents. The Partnership adopted this ASU on January 1, 2018 under a retrospective approach. The Partnership's adoption of this standard did not have a material impact on the Partnership's consolidated statement of cash flows or related disclosures.

There are no other recent accounting pronouncements, whose adoption had a material impact on the consolidated financial statements in the current year.

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New Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (ASC 842)*. The objective is to establish the principles that lessors and lessees shall apply to report useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease. The Partnership is the lessor for its Vessels that operate on time charters and bareboat charters. Accounting by a lessor is largely unchanged from the previous standard. The Partnership does not have any material leased assets. A lessee will be required to recognize in its balance sheet a lease liability to make lease payments and a right-of-use asset. The standard requires a modified retrospective transition method for all entities and the standard provides for optional practical expedients in implementing the standard under the modified retrospective approach.

In July 2018, the FASB issued targeted improvements to the leasing guidance allowing for an additional optional transition method that allow entities to initially apply the new lease standard and its disclosures at the transition date and recognize a cumulative-effect adjustment to the opening balance of retained earnings. The Partnership has elected to use this optional transition approach. The standard is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods. The Partnership will adopt ASC 842 and implement the revised guidance as of January 1, 2019. The Partnership will apply the package of practical expedients, but not the hindsight practical expedients since the use of hindsight practical expedient only impacts lease classification if the package of practical expedients is not elected. The Partnership will not reassess whether any expired or existing contracts are, or contain leases, will not reassess lease classification, and will not reassess initial direct costs for any existing leases. Additionally, the practical expedient of disregarding short-term leases for agreements with lease terms of 12 months or less as a lessee and the expedient of not separating lease components from non-lease components will be used for all classes of underlying assets in the Partnership. Based upon assessments performed to date, the Partnership does not expect material effects on the accounting for existing leases applied in the consolidated financial statements where the Partnership is the lessor. Under ASU 2016-02, the Partnership will recognize a right-of-use asset and a lease liability on the balance sheet for certain leases where the Partnership is the lessee based on the present value of future minimum lease payments, whereas currently no right-of-use asset or lease liability is recognized. Based on the analysis performed by the Partnership to date, the right of use asset and lease liability to be recognized on January 1, 2019 is expected not to be material.

C. Research and Development, Patents and Licenses, Etc.

Not applicable.

D. Trend Information

Please read "Item 5. Operating and Financial Review and Prospects Market Overview and Trends."

E. Off-Balance Sheet Arrangements

At December 31, 2018, we did not have any off-balance sheet arrangements.

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F. Tabular Disclosure of Contractual Obligations

The following table summarizes our long-term contractual obligations as of December 31, 2018:

	Payments Due by Period				
(U.S. Dollars in thousands)	**Total**	**Less than 1 Year**	**1 - 3 Years**	**4 - 5 Years**	**More than 5 Years**
Long-term debt	$ 1,087,347	$ 109,534	$ 243,302	$ 565,439	$ 169,072
Interest commitments on long-term debt(1)	194,992	51,884	91,481	47,089	4,538
Interest rate swaps(2)	(14,054)	(2,706)	(2,381)	(4,741)	(4,226)
Total	$ 1,268,285	$ 158,712	$ 332,402	$ 607,787	$ 169,384

(1) The interest commitments on long-term debt have been calculated assuming interest rates based on the 6-month LIBOR as of December 31, 2018, plus the applicable margin for all periods presented.

(2) We have entered into interest rate swap contracts and under the terms of the interest rate swap contracts, we receive LIBOR-based variable interest and payments and make fixed interest rate payments. The interest commitments on interest rate swaps have been calculated assuming interest rates based on the 6-month LIBOR as of December 31, 2018.

G. Safe Harbor

Please read "Forward-Looking Statements."

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

The following table provides information about our directors and executive officer. The business address for each of our directors and executive officer is 2 Queen's Cross, Aberdeen, Aberdeenshire AB15 4YB, United Kingdom.

Name	Age	Position
Trygve Seglem	68	Chairman of the Board of Directors
John Costain	55	Chief Executive Officer and Chief Financial Officer
Hans Petter Aas	73	Director, Chairman of the Audit Committee and Member of the Conflicts Committee
Edward A. Waryas, Jr.	71	Director and Chairman of the Conflicts Committee and Member of the Audit Committee
Andrew Beveridge	71	Director and Member of the Audit Committee
Richard Beyer	50	Director
Takuji Banno	52	Director
Simon Bird	59	Director

Trygve Seglem has served as Chairman of our board of directors since 2013. Mr. Seglem is the owner of TSSI, which is a 50% owner of KNOT. In addition, Mr. Seglem serves as a member of the board of directors of Koralfisk AS and a member of the board of directors of Assuranceforeningen SKULD (Gjensidig). Mr. Seglem began his career at Statoil at its inception and has been involved in the development of offshore loading tankers since 1975. In 1984, Mr. Seglem became the project director and a part owner, through TSSI, of the Knutsen Group. In September 2008, Mr. Seglem became the sole owner of the shuttle tanker operations of the Knutsen Companies. Mr. Seglem has a degree from Newcastle University.

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Hans Petter Aas has served on our board of directors since 2013. Mr. Aas has had a long career as a banker in the international shipping and offshore markets and retired from his position as Global Head of the Shipping, Offshore and Logistics Division of DnB NOR Bank ASA in August 2008. Mr. Aas joined DnB NOR Bank ASA (then Bergen Bank) in 1989 and has previously worked for the Petroleum Division of the Norwegian Ministry of Industry and the Ministry of Energy, as well as for Vesta Insurance and Nevi Finance. Mr. Aas was the Chairman of the board of directors of Ship Finance International Limited and a director of Seadrill Limited, Golden Ocean Group Limited, Deep Sea Supply Plc, and Solvang ASA. Mr. Aas is currently a member of the board of directors of Gearbulk Holding Ltd. Mr. Aas has a degree from the Norwegian School of Economics and Business Administration.

Edward A. Waryas, Jr. has served on our board of directors since 2013. He was Vice President-Marine Business Development for Lloyd's Register North America, Inc. where he was responsible for marine business development, account management, marketing and product development in North America. Prior to joining Lloyd's Register North America, Inc. in 2000, Mr. Waryas was President of the marine division of Clay Marketing & Public Relations, Inc., as well as President of Windward Maritime, LLC, a maritime consultancy company. In the 1990s, Mr. Waryas was Director, Business Development for Newport News Shipbuilding and Vice President of the Tenneco Foreign Sales Corporation. Prior to these positions, Mr. Waryas was a U.S. Coast Guard licensed engineer for Mobil Shipping & Transportation Company. While at Mobil Shipping & Transportation Company, Mr. Waryas served as chairman of the bow-loading coordination committee that developed the offshore loading system for the Statfjord Field off the coast of Norway. Mr. Waryas is a member of the North American panel for Intertanko and a former member of American Petroleum Institute's Marine Committee. Mr. Waryas has a Bachelor of Science, Marine Engineering, from the United States Merchant Marine Academy and a Master of Science, Transportation Management, from the State University of New York.

Andrew Beveridge has served on our board of directors since 2013. Mr. Beveridge also serves as a director of KNOT UK, a position he has held since 2013. He is an entrepreneur with a track record of running capital-intensive businesses in the offshore service and shipping industries. From 2006 to 2008, Mr. Beveridge was the Deputy Managing Director and Business Development Manager of Fugro Rovtech Ltd, a shipping and remotely operated vehicle ("ROV") company. From 1996 to 2006, Mr. Beveridge was the Managing Director of Rovtech Ltd., a company that specializes in the operation of underwater ROVs and the ships they deploy in the oil service and underwater cable-burial industries. Prior to 1996, Mr. Beveridge held various positions as the Managing Director, commercial director or manager of Slinsgby Engineering Ltd, HMB Subwork Ltd, Star Offshore Services Ltd, Cunard Steamship Co Ltd and Offshore Marine Ltd. Mr. Beveridge has an engineering degree from Trinity College, Cambridge.

Richard Beyer has served on our board of directors since April 2017 when he was appointed by our general partner to replace Mr. Hiroaki Nishiyama as an appointed director. Mr. Beyer has been a member of the board of directors of the Partnership's general partner and KNOT UK since 2013 and is a director of NYK Group Europe Limited and NYK Energy Transport (Atlantic) Limited. Before joining NYK Group in 2007, Mr. Beyer was a Senior Legal Adviser to BP Shipping Limited. Mr. Beyer was admitted as an English solicitor in 1995.

Takuji Banno has served on our board of directors since April 2016. Mr. Banno has served as the Senior General Manager, Offshore Business Group, Energy Division of NYK since April 2012. From April 2011 to April 2012, he served as Director of Yusen Logistics (Singapore) Pte. Ltd. From October 2006 to April 2011, he was Director of NYK Logistics (Asia) Pte. Ltd. From June 2002 to October 2006, he was Manager of NYK's LNG Group. Mr. Banno joined NYK in April 1990 and has a master's degree in Business Administration from the University of Wisconsin-Madison.

Simon Bird has served on our board of directors since May 2015. Mr. Bird is currently Director Humber for Associated Ports, a board role, having taken up this position in September 2015. Mr. Bird previously served as the Chief Executive of Bristol Port Company from 2000 until August 2015. From 1997 to 1999, Mr. Bird served as Commercial Director at Mersey Docks & Harbour Company plc. From 1995 to 1997 he was Joint Managing Director and Executive Director at International Water Ltd. Prior to 1995, Mr. Bird held various positions at British Aerospace plc, Thorn EMI plc, Philips, the Royal Navy and Her Majesty's Diplomatic Service. Mr. Bird is also a director of Bristol Bulk Company, the chairman of UK Major Parts Group, a vice chairman of Maritime UK and a member of the Strategic Advisory Group of the Royal Navy.

John Costain has served as our Chief Executive Officer and Chief Financial Officer since June 2015. From February 2013 until May 2015, Mr. Costain served as a member our board of directors. Since 2004, Mr. Costain has also been employed by Tankers (UK) Agencies Ltd, which acts as agent to Tankers International Ltd. serving as Finance Director since 2005. At Tankers (UK) Agencies Ltd, Mr. Costain is responsible for group reporting results under U.S. GAAP. Mr. Costain also serves on the board of directors of Tankers International Ltd. From 1991 to 2004, Mr. Costain held various positions at Euronav (UK) Agencies Ltd., including Finance Director and Managing Director of the offshore holding shipping company, as well as other positions in finance. Mr. Costain is a Chartered Accountant with a degree in Civil Engineering from Manchester University.

On November 29, 2018, the Partnership announced that John Costain has decided to resign as Chief Executive Officer and Chief Financial Officer of the Partnership as of May 31, 2019 in order to pursue other interests. The Partnership's Board has approved the appointment of Gary Chapman as the new Chief Executive Officer and Chief Financial Officer of the Partnership commencing June 1, 2019. Mr. Chapman is a fellow of the Institute of Chartered Accountants in England and Wales and currently serves as the Chief Financial Officer of Biggin Hill Airport Ltd., a private company which owns a business aviation airport in London. From 2008 to July 2017, Mr. Chapman served as the finance director of NYK Energy Transport (Atlantic) Limited and from 2003 to 2008 as the European head of tax for the NYK Group Europe. Prior to 2003, Mr. Chapman served in various roles for KPMG. Mr. Chapman will continue to serve as the Chief Financial Officer of Biggin Hill Airport Ltd. concurrently with his role as Chief Executive Officer and Chief Financial Officer of the Partnership until December 1, 2019.

B. Compensation

Reimbursement of Expenses of Our General Partner

Our general partner does not receive compensation from us for any services it provides on our behalf, although it is entitled to reimbursement for expenses incurred on our behalf. In addition, we pay certain fees to KNOT Management and KNOT Management Denmark pursuant to technical management agreements and management and administration agreements with our operating subsidiaries, and we reimburse KOAS UK, KOAS and KNOT Management for their reasonable costs and expenses (plus a 5% service fee) incurred in connection with provision of services pursuant to an administrative services agreement. Please read "Item 7. Major Unitholders and Related Party Transactions Related Party Transactions."

Executive Compensation

Pursuant to the administrative services agreement, John Costain, as an officer of KNOT UK, provides executive officer functions for our benefit. Mr. Costain is responsible for our day-to-day management subject to the direction of our board of directors. Under the administrative services agreement, we reimburse KNOT UK for its reasonable costs and expenses in connection with the provision of an executive officer and other administrative services to us. In addition, we pay KNOT UK

a management fee equal to 5% of its costs and expenses incurred on our behalf. For the year ended December 31, 2018, we incurred total costs, expenses and fees under this agreement of approximately $1.4 million (which includes $0.9 million that was paid to KOAS, KOAS UK and KNOT Management for services they provided for us as subcontractors under the administrative services agreement). Our officers and employees and officers and employees of our subsidiaries and affiliates of KNOT and our general partner may participate in employee benefit plans and arrangements sponsored by KNOT, our general partner or their affiliates, including plans that may be established in the future.

Mr. Costain entered into an employment agreement with KNOT UK effective June 1, 2015. Pursuant to the employment agreement, Mr. Costain serves as KNOT UK's Chief Executive Officer and Chief Financial Officer and is based in London. His annualized base salary is 213,000 British Pounds. In addition, the employment agreement also provides for a discretionary annual bonus (as determined by the board of directors of KNOT UK), 30 working days of paid vacation per year (plus public holidays) and up to 13 weeks of paid sick leave per year. Mr. Costain's employment may be terminated on 6 months' prior written notice by either Mr. Costain or KNOT UK. In addition, Mr. Costain's employment agreement provides KNOT UK with the option to make a payment in lieu of notice or to place Mr. Costain on garden leave during his notice period. KNOT UK may also terminate the employment agreement with immediate effect upon certain specified "cause" events. The employment agreement includes post-termination restrictive covenants prohibiting Mr. Costain from competing or soliciting customers or employees for a period of 12 months after the termination of his employment. For the year ended December 31, 2018, Mr. Costain received $286,225 in total compensation.

In addition, an accrual of $Nil for 2018 was made to cover insurance and pension expenses for Mr. Costain.

Mr. Chapman entered into an employment agreement with KNOT UK effective June 1, 2019. Pursuant to the employment agreement, Mr. Chapman will serve as KNOT UK's Chief Executive Officer and Chief Financial Officer and will be based in London. His annualized base salary will be 240,000 British Pounds. In addition, the employment agreement also provides for a discretionary annual bonus (as determined by the board of directors of KNOT UK), 30 working days of paid vacation per year (plus public holidays) and up to 13 weeks of paid sick leave per year. Mr. Chapman's employment may be terminated on 6 months' prior written notice by either Mr. Chapman or KNOT UK. In addition, Mr. Chapman's employment agreement provides KNOT UK with the option to make a payment in lieu of notice or to place Mr. Chapman on garden leave during his notice period. KNOT UK may also terminate the employment agreement with immediate effect upon certain specified "cause" events. The employment agreement includes post-termination restrictive covenants prohibiting Mr. Chapman from competing or soliciting customers or employees for a period of 12 months after the termination of his employment. The employment agreement also provides for a transition period, whereby Mr. Chapman shall split his work time between the Partnership and Biggin Hill Airport Ltd. until November 30, 2019 and receive a pro rata reduced salary during that period.

Compensation of Directors

Each director receives compensation for attending meetings of our board of directors, as well as committee meetings. During the year ended December 31, 2018 each of our directors and our Chairman received aggregate compensation of $50,000. Members of the audit and conflicts committees each received a committee fee of $12,000 and the Chairman of each such committee received a fee of $15,000 per year. In addition, each director is reimbursed for out-of-pocket expenses in connection with attending meetings of our board of directors or committees. Each director is fully indemnified by us for actions associated with being a director to the extent permitted under Marshall Islands law.

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C. Board Practices

General

Our partnership agreement provides that our general partner irrevocably delegates to our board of directors the authority to oversee and direct our operations, management and policies on an exclusive basis, and such delegation is binding on any successor general partner of the Partnership. Our general partner, KNOT Offshore Partners GP LLC, is wholly owned by KNOT. Our officers manage our day-to-day activities consistent with the policies and procedures adopted by our board of directors.

Our current board of directors consists of seven members, Trygve Seglem, Richard Beyer, Takuji Banno, Hans Petter Aas, Edward A. Waryas, Jr., Andrew Beveridge and Simon Bird. Mr. Seglem, Mr. Beyer and Mr. Bannno and have been appointed by our general partner. Mr. Aas, Mr. Waryas, Mr. Beveridge and Mr. Bird were elected by our common unitholders. Directors appointed by our general partner serve as directors for terms determined by our general partner. Directors elected by our common unitholders are divided into four classes serving staggered four-year terms. Mr. Beveridge is designated as the Class II elected director and will serve until our annual meeting of unitholders in 2019, Mr. Bird is designated as our Class III elected director and will serve until our annual meeting of unitholders in 2020, Mr. Aas is designated as our Class IV elected director and will serve until our annual meeting of unitholders in 2021. Mr. Waryas is designated as the Class I elected director and will serve until our annual meeting of unitholders in 2022. At each annual meeting of unitholders, directors will be elected to succeed the class of director whose term has expired by a plurality of the votes of the common unitholders. Directors elected by our common unitholders will be nominated by our board of directors or by any limited partner or group of limited partners that holds at least 10% of the outstanding common units.

Each outstanding common unit is entitled to one vote on matters subject to a vote of common unitholders. However, if at any time, any person or group owns beneficially more than 4.9% or more of any class of units then outstanding (excluding units held by Norwegian Resident Holders in the election of the elected directors as discussed below), any such units owned by that person or group in excess of 4.9% may not be voted (except for purposes of nominating a person for election to our board of directors). The voting rights of any such unitholders in excess of 4.9% will effectively be redistributed pro rata among the other common unitholders holding less than 4.9% of the voting power of such class of units. Our general partner, its affiliates and persons who acquire common units with the prior approval of our board of directors are not subject to this 4.9% limitation except with respect to voting their common units in the election of the elected directors.

In addition, common unitholders that are Norwegian Resident Holders will not be eligible to vote in the election of the elected directors. The voting rights of any Norwegian Resident Holders will effectively be redistributed pro rata among the remaining common unitholders (subject to the limitation described above for 4.9% common unitholders) in these elections.

The Series A Preferred Units do not have any right to nominate, appoint or elect any member of our board of directors unless distributions payable on the Series A Preferred Units have not been declared and paid for four consecutive quarters (a "Trigger Event"). Upon a Trigger Event, holders of Series A Preferred Units together with the holders of any other series of preferred units upon which like rights have been conferred and are exercisable, will have the right to replace one of the board members appointed by our general partner with a person nominated by such holders, such nominee to serve until all accrued and unpaid distributions on the preferred units have been paid.

Committees

We have an audit committee that, among other things, reviews our external financial reporting, engages our external auditors and oversees our internal audit activities and procedures and the

adequacy of our internal accounting controls. Our audit committee is comprised of Hans Petter Aas, Andrew Beveridge and Edward A. Waryas, Jr. Our board of directors has determined that each of Mr. Aas, Mr. Beveridge and Mr. Waryas satisfies the independence standards established by the NYSE. Mr. Aas qualifies as an "audit committee financial expert" for purposes of SEC rules and regulations.

We also have a conflicts committee comprised of Mr. Waryas and Mr. Aas. The conflicts committee is available at our board of directors' discretion to review specific matters that our board of directors believes may involve conflicts of interest. The conflicts committee may determine if the resolution of the conflict of interest is fair and reasonable to us. The members of the conflicts committee may not be officers or employees of us or directors, officers or employees of our general partner or its affiliates and must meet the independence standards established by the NYSE to serve on an audit committee of a board of directors and certain other requirements. Any matters approved by the conflicts committee will be conclusively deemed to be fair and reasonable to us, approved by all of our partners and not a breach by our directors, our general partner or its affiliates of any duties any of them may owe us or our unitholders.

Exemptions from NYSE Corporate Governance Rules

Because we qualify as a foreign private issuer under SEC rules, we are permitted to follow the corporate governance practices of the Marshall Islands (the jurisdiction in which we are organized) in lieu of certain of the NYSE corporate governance requirements that would otherwise be applicable to us. The NYSE rules do not require a listed company that is a foreign private issuer to have a board of directors that is comprised of a majority of independent directors. Under Marshall Islands law, we are not required to have a board of directors comprised of a majority of directors meeting the independence standards described in the NYSE rules. In addition, the NYSE rules do not require limited partnerships like us to have boards of directors comprised of a majority of independent directors. The NYSE rules do not require foreign private issuers or limited partnerships like us to establish a compensation committee or a nominating/corporate governance committee.

Similarly, under Marshall Islands law, we are not required to have a compensation committee or a nominating/corporate governance committee. Accordingly, we do not have a compensation committee or a nominating/corporate governance committee. For a listing and further discussion of how our corporate governance practices differ from those required of U.S. companies listed on the NYSE, please read "Item 16G. Corporate Governance."

D. Employees

Employees of affiliates of KNOT provide services to our subsidiaries pursuant to the technical management agreements, the management and administration agreements and the administrative services agreement. As of December 31, 2018, we directly employed one onshore employee and no seagoing employees. As of December 31, 2018, KNOT, through subsidiaries and affiliated companies, employed approximately 502 seagoing staff to serve on our vessels. Certain affiliates of KNOT, including KNOT Management, provide commercial and technical management services, including all necessary crew-related services, to our subsidiaries pursuant to the technical management agreements and the management and administration agreements. Please read "Item 7. Major Unitholders and Related Party Transactions Related Party Transactions" and "Item 4. Information on the Partnership Business Overview Employees."

E. Unit Ownership

Other than those common units in which Trygve Seglem may be deemed to share beneficial ownership, as of April 10, 2019, there were no common units beneficially owned by our current

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directors or executive officer. Please read "Item 7. Major Unitholders and Related Party Transactions Major Unitholders."

Item 7. Major Unitholders and Related Party Transactions

A. Major Unitholders

The following table sets forth the beneficial ownership of our common units as of April 10, 2019 by each person that we know to beneficially own more than 5.0% of our common units. The number of units beneficially owned by each person is determined under SEC rules and the information is not necessarily indicative of beneficial ownership for any other purpose:

Name of Beneficial Owner	Common Units Beneficially Owned Number	Percent
KNOT(1)	8,657,868	26.5%
Kayne Anderson Capital Advisors, L.P. and Richard A. Kayne(2)	1,828,663	5.6%
Oppenheimer Funds Inc.(3)	1,813,987	5.5%
Advisory Research Inc.(4)	1,664,975	5.1%

(1) KNOT is a joint venture between TSSI and NYK Europe, each of which owns a 50% interest in KNOT. Excludes the general partner interest held by our general partner, a wholly owned subsidiary of KNOT. Includes common units held by our general partner. NYK Europe is a wholly owned subsidiary of NYK, a broadly owned Japanese public company. TSSI is a wholly owned subsidiary of Seglem Holding AS ("Seglem Holding"), of which 70% is owned by Trygve Seglem with the remainder owned by members of his immediate family. Accordingly, each of NYK Europe, NYK, TSSI, Seglem Holding and Trygve Seglem may be deemed to share beneficial ownership of the 8,657,868 common units held by KNOT and our general partner.

(2) Kayne Anderson Capital Advisors, L.P. and Richard A. Kayne have shared voting power as to 1,602,011 units and shared dispositive power as to 1,828,663 units. This information is based on the Schedule 13G/A filed by Kayne Anderson Capital Advisors, L.P. and Richard A. Kayne on February 1, 2019.

(3) Oppenheimer Funds Inc. has shared voting power and dispositive power, as to 1,813,987 common units. This information is based on the Schedule 13G/A filed by Oppenheimer Funds Inc. on January 24, 2019.

(4) Advisory Research Inc. has shared voting power and dispositive power as to 1,664,975 common units. This information is based on the Schedule 13G/A filed by Advisory Research Inc. on February 13, 2019.

Each outstanding common unit is entitled to one vote on matters subject to a vote of common unitholders. However, if at any time, any person or group owns beneficially more than 4.9% or more of any class of units then outstanding (excluding units held by Norwegian Resident Holders in the election of the elected directors as discussed below), any such units owned by that person or group in excess of 4.9% may not be voted (except for purposes of nominating a person for election to our board of directors). The voting rights of any such unitholders in excess of 4.9% will effectively be redistributed pro rata among the other common unitholders holding less than 4.9% of the voting power of such class of units. Our general partner, its affiliates and persons who acquire common units with the prior approval of our board of directors are not subject to this 4.9% limitation except with respect to voting their common units in the election of the elected directors.

In addition, common unitholders that are Norwegian Resident Holders will not be eligible to vote in the election of the elected directors. The voting rights of any Norwegian Resident Holders will

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effectively be redistributed pro rata among the remaining common unitholders (subject to the limitation described above for 4.9% common unitholders) in these elections.

As of April 10, 2019, we had 3,750,000 Series A Preferred Units issued and outstanding, of which 2,083,333 units, 1,250,000 units and 416,677 units are held by OMP AY Preferred Limited, Pierfront Capital Mezzanine Fund Pte. Ltd. and Tortoise Direct Opportunities Fund, LP., respectively.

The Series A Preferred Units have voting rights that are identical to the voting rights of our common units, except they do not have any right to nominate, appoint or elect any member of our board of directors, except upon a Trigger Event. Upon a Trigger Event, holders of Series A Preferred Units together with the holders of any other series of preferred units upon which like rights have been conferred and are exercisable, will have the right to replace one of the board members appointed by our general partner with a person nominated by such holders, such nominee to serve until all accrued and unpaid distributions on the preferred units have been paid. The Series A Preferred Units are entitled to vote with our common units as a single class, so that the Series A Preferred Units are entitled to one vote for each common unit into which the Series A Preferred Units are convertible at the time of voting. The 4.9% limitation described above applies to the holders of the Series A Preferred Units with respect to the voting of the Series A Preferred Units on an as-converted basis with the common units.

KNOT exercises influence over the Partnership through our general partner, a wholly owned subsidiary of KNOT, which in its sole discretion appoints three directors to our board of directors. Please read "Item 6. Directors, Senior Management and Employees Board Practices." KNOT also exercises influence over the Partnership through its ownership of 26.5% of our common units as of April 10, 2019.

B. Related Party Transactions

From time to time we have entered into agreements and have consummated transactions with certain related parties. We may enter into related party transactions from time to time in the future. In connection with our IPO, we established a conflicts committee, comprised entirely of independent directors, which must approve all proposed material related party transactions. The related party transactions that we have entered into or were party to since January 1, 2016 are discussed below.

Omnibus Agreement

Upon the closing of our IPO, we entered into an Omnibus Agreement with KNOT, our general partner and certain of our other subsidiaries. The following discussion describes certain provisions of the Omnibus Agreement.

Noncompetition

Pursuant to the Omnibus Agreement, KNOT agreed, and caused its controlled affiliates (other than us, our general partner and our subsidiaries) to agree, not to acquire, own, operate or charter any shuttle tanker operating under a charter for five or more years. For purposes of this section, we refer to these vessels, together with any related charters, as "Five-Year Vessels" and to all other shuttle tankers, together with any related charters, as "Non-Five-Year Vessels." The restrictions in this paragraph do not prevent KNOT or any of its controlled affiliates (other than us and our subsidiaries) from:

(1) acquiring, owning, operating or chartering Non-Five-Year Vessels;

(2) acquiring one or more Five-Year Vessels if KNOT promptly offers to sell the vessel to us for the acquisition price plus any administrative costs (including re-flagging and reasonable legal costs) associated with the transfer to us at the time of the acquisition;

(3) putting a Non-Five-Year Vessel under charter for five or more years if KNOT offers to sell the vessel to us for fair market value (x) promptly after the time it becomes a Five-Year Vessel and (y) at each renewal or extension of that charter for five or more years;

(4) acquiring one or more Five-Year Vessels as part of the acquisition of a controlling interest in a business or package of assets and owning, operating or chartering those vessels; provided, however, that:

(a) if less than a majority of the value of the business or assets acquired is attributable to Five-Year Vessels, as determined in good faith by KNOT's board of directors, KNOT must offer to sell such vessels to us for their fair market value plus any additional tax or other similar costs that KNOT incurs in connection with the acquisition and the transfer of such vessels to us separate from the acquired business; and

(b) if a majority or more of the value of the business or assets acquired is attributable to Five-Year Vessels, as determined in good faith by KNOT's board of directors, KNOT must notify us of the proposed acquisition in advance. Not later than 30 days following receipt of such notice, we will notify KNOT if we wish to acquire such vessels in cooperation and simultaneously with KNOT acquiring the Non-Five-Year Vessels. If we do not notify KNOT of our intent to pursue the acquisition within 30 days, KNOT may proceed with the acquisition and then offer to sell such vessels to us as provided in paragraph (1)(a) above;

(5) acquiring up to a 9.9% equity ownership, voting or profit participation interest in any company, business or pool of assets;

(6) acquiring, owning, operating or chartering any Five-Year Vessel if we do not fulfill our obligation to purchase such vessel in accordance with the terms of any existing or future agreement;

(7) acquiring, owning, operating or chartering a Five-Year Vessel subject to the offers to us described in paragraphs (2), (3) and (4) above pending our determination whether to accept such offers and pending the closing of any offers we accept;

(8) providing ship management services relating to any vessel;

(9) owning or operating any Five-Year Vessel that KNOT owned as of April 15, 2013 and that was not part of our initial fleet as of such date; or

(10) acquiring, owning, operating or chartering a Five-Year Vessel if we have previously advised KNOT that we consent to such acquisition, ownership, operation or charter.

If KNOT or any of its controlled affiliates (other than us or our subsidiaries) acquires, owns, operates or charters Five-Year Vessels pursuant to any of the exceptions described above, it may not subsequently expand that portion of its business other than pursuant to those exceptions. However, such Five-Year Vessels could eventually compete with our vessels upon their re-chartering.

In addition, pursuant to the Omnibus Agreement, we agree, and cause our subsidiaries to agree, to acquire, own, operate or charter Five-Year Vessels only. The restrictions in this paragraph do not:

(1) prevent us from owning, operating or chartering any Non-Five-Year Vessel that was previously a Five-Year Vessel while owned by us;

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(2) prevent us or any of our subsidiaries from acquiring Non-Five-Year Vessels as part of the acquisition of a controlling interest in a business or package of assets and owning, operating or chartering those vessels; provided, however, that:

(a) if less than a majority of the value of the business or assets acquired is attributable to Non-Five-Year Vessels, as determined in good faith by us, we must offer to sell such vessels to KNOT for their fair market value plus any additional tax or other similar costs that we incur in connection with the acquisition and the transfer of such vessels to KNOT separate from the acquired business; and

(b) if a majority or more of the value of the business or assets acquired is attributable to Non-Five-Year Vessels, as determined in good faith by us, we must notify KNOT of the proposed acquisition in advance. Not later than 30 days following receipt of such notice, KNOT must notify us if it wishes to acquire the Non-Five-Year Vessels in cooperation and simultaneously with us acquiring the Five-Year Vessels. If KNOT does not notify us of its intent to pursue the acquisition within 30 days, we may proceed with the acquisition and then offer to sell such vessels to KNOT as provided in paragraph (2)(a) above;

(3) prevent us or any of our subsidiaries from acquiring, owning, operating or chartering any Non-Five-Year Vessels subject to the offer to KNOT described in paragraph (2) above, pending its determination whether to accept such offer and pending the closing of any offer it accepts; or

(4) prevent us or any of our subsidiaries from acquiring, owning, operating or chartering Non-Five-Year Vessels if KNOT has previously advised us that it consents to such acquisition, ownership, operation or charter.

If we or any of our subsidiaries acquires, owns, operates or charters Non-Five-Year Vessels pursuant to any of the exceptions described above, neither we nor such subsidiary may subsequently expand that portion of our business other than pursuant to those exceptions.

Upon a change of control of us or our general partner, the noncompetition provisions of the Omnibus Agreement terminate immediately. Upon a change of control of KNOT, the noncompetition provisions of the Omnibus Agreement applicable to KNOT terminate at the time of the change of control. On the date on which a majority of our directors ceases to consist of directors that were (1) appointed by our general partner prior to our first annual meeting of unitholders and (2) recommended for election by a majority of our appointed directors, the noncompetition provisions applicable to KNOT terminate immediately.

Rights of First Offer on Shuttle Tankers

Pursuant to the Omnibus Agreement, we and our subsidiaries granted to KNOT a right of first offer on any proposed sale, transfer or other disposition of any Five-Year Vessels or Non-Five-Year Vessels owned by us. Pursuant to the Omnibus Agreement, KNOT agreed, and caused its subsidiaries to agree, to grant a similar right of first offer to us for any Five-Year Vessels they might own. These rights of first offer do not apply to a (1) sale, transfer or other disposition of vessels between any affiliated subsidiaries or pursuant to the terms of any current or future charter or other agreement with a charterparty or (2) merger with or into, or sale of substantially all of the assets to, an unaffiliated third party.

Prior to engaging in any negotiation regarding any vessel disposition with respect to a Five-Year Vessel with an unaffiliated third party or any Non-Five-Year Vessel, we or KNOT, as the case may be, will deliver a written notice to the other relevant party setting forth the material terms and conditions of the proposed transaction. During the 30-day period after the delivery of such notice, we and KNOT, as the case may be, will negotiate in good faith to reach an agreement on the transaction. If we do not

reach an agreement within such 30-day period, we or KNOT, as the case may be, will be able within the next 180 calendar days to sell, transfer, dispose or re-charter the vessel to a third party (or to agree in writing to undertake such transaction with a third party) on terms generally no less favorable to us or KNOT, as the case may be, than those offered pursuant to the written notice.

Upon a change of control of us or our general partner, the right-of-first-offer provisions of the Omnibus Agreement terminate immediately. Upon a change of control of KNOT, the right-of-first-offer provisions applicable to KNOT pursuant to the Omnibus Agreement terminate at the time of the change of control. On the date on which a majority of our directors ceases to consist of directors that were (1) appointed by our general partner prior to our first annual meeting of unitholders and (2) recommended for election by a majority of our appointed directors, the provisions related to the rights of first offer granted to us by KNOT terminate immediately.

Indemnification

Pursuant to the Omnibus Agreement, KNOT indemnified us until April 15, 2018 (and KNOT indemnifies us for a period of at least three years after our purchase of the *Hilda Knutsen*, the *Torill Knutsen*, the *Ingrid Knutsen* and the *Raquel Knutsen*, as applicable) against certain environmental and toxic tort liabilities with respect to the assets contributed or sold to us to the extent arising prior to the time they were contributed or sold to us. Liabilities resulting from a change in law after the closing of our IPO are excluded from the environmental indemnity. There is an aggregate cap of $5 million on the amount of indemnity coverage provided by KNOT for environmental and toxic tort liabilities. No claim may be made unless the aggregate U.S. Dollar amount of all claims exceeds $500,000, in which case KNOT is liable for claims only to the extent such aggregate amount exceeds $500,000.

KNOT also indemnifies us for liabilities related to:

- certain defects in title to the assets contributed or sold to us and any failure to obtain, prior to the time they were contributed to us, certain consents and permits necessary to conduct our business, which liabilities arose before April 15, 2018 (or, in the case of the *Hilda Knutsen*, the *Torill Knutsen*, the *Ingrid Knutsen* and the *Raquel Knutsen*, within three years after our purchase of the *Hilda Knutsen*, the *Torill Knutsen*, the *Ingrid Knutsen* and the *Raquel Knutsen*, as applicable); and

- certain tax liabilities attributable to the operation of the assets contributed or sold to us prior to the time they were contributed or sold.

Amendments

The Omnibus Agreement may not be amended without the prior approval of the conflicts committee of our board of directors if the proposed amendment will, in the reasonable discretion of our board of directors, adversely affect holders of our common units.

Guarantees Relating to the Bodil Knutsen and the Windsor Knutsen

If at any time until April 15, 2018, the *Bodil Knutsen* was not receiving from any charterer a hire rate equal to or greater than the hire rate payable under the initial *Bodil Knutsen* charter, then KNOT was required to pay us such hire rate that would have been in effect and payable under the initial *Bodil Knutsen* charter; provided, however, that in the event that, if at any time until April 15, 2018, the *Bodil Knutsen* was chartered under a charter other than the initial *Bodil Knutsen* charter and the hire rate being paid under such charter was lower than the hire rate that would have been in effect and payable under the initial *Bodil Knutsen* charter during any such period, then KNOT was required to pay us the difference between the hire rate that would have been in effect and payable under the initial *Bodil*

Knutsen charter during such period and the hire rate then in effect and payable under such other charter.

If at any time until April 15, 2018, the *Windsor Knutsen* was not receiving from any charterer a hire rate that is equal to or greater than the hire rate payable under the initial *Windsor Knutsen* charter, then KNOT was required to pay us such hire rate that would have been in effect and payable under the initial *Windsor Knutsen* charter; provided, however, that in the event that, if at any time until April 15, 2018, the *Windsor Knutsen* was chartered under a charter other than the initial *Windsor Knutsen* charter and the hire rate being paid under such charter was lower than the hire rate that would have been in effect and payable under the initial *Windsor Knutsen* charter during any such period, then KNOT was required to pay us the difference between the hire rate that would have been in effect and payable under the initial *Windsor Knutsen* charter during such period and the hire rate then in effect and payable under such other charter; provided, further, that the hire rate that would have been in effect and payable under the initial *Windsor Knutsen* charter during the period between the final termination date of the initial *Windsor Knutsen* charter (assuming that all extension options thereunder would have been exercised) and the last day of the five-year period following the closing date of our IPO was be deemed to have been the hire rate that would have been in effect and payable during the last option extension period under the initial *Windsor Knutsen* charter (assuming that all extension options thereunder would have been exercised).

Windsor Knutsen Charter with Knutsen Shuttle Tankers Pool AS

On December 17, 2018, our subsidiary that owns the *Windsor Knutsen*, KNOT Shuttle Tankers 18 AS, entered into a time charter contract with Knutsen Shuttle Tankers Pool AS, a wholly owned subsidiary of KNOT. Under the time charter contract with Knutsen Shuttle Tankers Pool AS, the *Windsor Knutsen* will operate on the same terms as its existing time charter contract with Shell during the 10 to 12 month period that the time charter contract with Shell is suspended. The suspension period under the time charter contract with Shell commenced March 4, 2019.

Administrative Services Agreement

Effective as of February 26, 2013, in connection with our IPO, we entered into an administrative services agreement with KNOT UK, pursuant to which KNOT UK provides certain management and administrative services to us. The agreement had an initial term of five years. The services provided under the administrative services agreement are provided in a diligent manner, as we may reasonably direct. KNOT UK is permitted to subcontract certain of the administrative services provided under this agreement to KOAS UK and KOAS, each of which is a wholly owned subsidiary of TSSI and KNOT Management. On May 7, 2015, we entered into an amendment to the administrative services agreement, which allows KNOT UK to also subcontract administrative services to KNOT Management. Effective as of February 26, 2018, we entered into a second amendment to the administrative services agreement extending the term of the agreement indefinitely.

The administrative services agreement may be terminated by any party upon 90 days' notice for any reason. Under the administrative services agreement, John Costain, as an officer of KNOT UK, provides executive officer functions for our benefit. Mr. Costain is responsible for our day-to-day management subject to the direction of our board of directors. Our board of directors has the ability to terminate the arrangement with KNOT UK regarding the provision of executive officer services to us with respect to Mr. Costain at any time in its sole discretion. Beginning on June 1, 2019, Gary Chapman will provide executive officer services for our benefit as an officer of KNOT UK under the administrative services agreement. Mr. Chapman will be responsible for our day-to-day management subject to the direction of our board of directors. Our board of directors will have the ability to terminate the agreement with KNOT UK regarding the provision of executive officer services to us with respect to Mr. Chapman at any time in its sole discretion.

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The administrative services provided by KNOT UK include:

- *commercial management services:* assistance with our commercial management and the execution of our business strategies, although KNOT UK does not make any strategic decisions;

- *bookkeeping, audit and accounting services:* assistance with the maintenance of our corporate books and records, assistance with the preparation of our tax returns and arranging for the provision of audit and accounting services;

- *legal and insurance services:* arranging for the provision of legal, insurance and other professional services and maintaining our existence and good standing in necessary jurisdictions;

- *administrative and clerical services:* assistance with office space, arranging meetings for our common unitholders pursuant to our partnership agreement, arranging the provision of IT services, providing all administrative services required for subsequent debt and equity financings and attending to all other administrative matters necessary to ensure the professional management of our business;

- *banking and financial services:* providing cash management including assistance with preparation of budgets, overseeing banking services and bank accounts, arranging for the deposit of funds and monitoring and maintaining compliance therewith;

- *advisory services:* assistance in complying with United States and other relevant securities laws;

- *client and investor relations:* arranging for the provision of, advisory, clerical and investor relations services to assist and support us in our communications with our common unitholders; and

- assistance with the integration of any acquired businesses.

Each month, we reimburse KNOT UK, and KNOT UK reimburses KOAS UK, KOAS and KNOT Management, as applicable, for their reasonable costs and expenses incurred in connection with the provision of the services under the administrative services agreement. In addition, KNOT UK, KOAS UK, KOAS and KNOT Management, as applicable, receives a service fee in U.S. Dollars equal to 5% of the costs and expenses incurred by them in connection with providing services. Amounts payable by us under the administrative services agreement must be paid on a monthly basis within 30 days after receipt of an invoice for such costs and expenses, together with any supporting detail that may be reasonably required.

Under the administrative services agreement, we indemnify KNOT UK's subcontractors against all actions which may be brought against them as a result of their performance of the administrative services including, without limitation, all actions brought under the environmental laws of any jurisdiction, and against and in respect of all costs and expenses they may suffer or incur due to defending or settling such actions; provided, however, that such indemnity excludes any or all losses to the extent that they are caused by or due to the fraud, gross negligence or willful misconduct of the subcontractor or its officers, employees and agents.

Technical Management Agreements

Each of the *Bodil Knutsen*, the *Windsor Knutsen,* the *Carmen Knutsen,* the *Hilda Knutsen*, the *Torill Knutsen,* the *Ingrid Knutsen*, the *Raquel Knutsen*, the *Tordis Knutsen*, the *Vigdis Knutsen*, the *Lena Knutsen*, the *Brasil Knutsen* and the *Anna Knutsen*, which operate under time charters, is subject to technical management agreements pursuant to which certain crew, technical and commercial management services are provided by KNOT Management. Under these technical management agreements, our operating subsidiaries pay fees to and reimburse the costs and expenses of the managers as described below. The *Recife Knutsen,* the *Fortaleza Knutsen,* the *Dan Sabia* and the *Dan*

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Cisne operate under bareboat charters and, as a result, the customer is responsible with providing for the crew, technical and commercial management of the vessel. However, each of these vessels are subject to management and administration agreements with either KNOT Management or KNOT Management Denmark pursuant to which these companies provide general monitoring services for the vessels in exchange for an annual fee. Please read " Management and Administration Agreements".

Management services. Each of the technical management agreements requires that KNOT Management and its subcontractors use their best endeavors to perform the following management services:

- the provision of suitably qualified crew in accordance with International Convention on Standards of Training, Certification and Watchkeeping for Seafarers, 1978, as amended, and the attendance to all matters pertaining to discipline, labor relations, welfare and amenities of the crew;
- the provision of technical management, including arranging and supervising drydockings, maintenance and repairs of the vessel, arranging for the supply of stores, spares and lubricating oil, appointing surveyors and technical consultants and developing, implementing and maintaining a Safety Management System in accordance with the ISM Code;
- the provision of applicable documentation and compliance with applicable regulations;
- the establishment of an accounting system that meets the requirements of the owner, provides regular accounting services and supplies reports and records and the maintenance of records of costs and expenditures incurred, as well as data necessary for the settlement of accounts between the parties;
- the arrangement for the supply of provisions and necessary stores;
- the handling and settlement of claims arising out of the management services;
- the arrangement for the provision of bunker;
- the arrangement of the loading and discharging and all related matters, subject to the provisions of the time charters;
- the arrangement of all insurances;
- the giving of instructions to the master and officers, subject to the provisions of the time charters; and
- the arrangement of the lay-up of each vessel.

With respect to the technical management agreements, KNOT Management and its subcontractors use their best endeavors to also provide the commercial operations, including arranging payment to the owner's account of all hire and/or freight revenues, calculating hire, freight and other money due from or to the charterer, issuing voyage instructions, appointing agents and stevedores and arranging surveys associated with the commercial operations.

Annual management fee. Pursuant to each of the technical management agreements, each of KNOT Shuttle Tankers 17 AS, KNOT Shuttle Tankers 18 AS, Knutsen Shuttle Tankers 13 AS, Knutsen Shuttle Tankers 14 AS, Knutsen Shuttle Tankers 15 AS, Knutsen NYK Shuttle Tankers 16 AS, Knutsen Shuttle Tankers 19 AS, KNOT Shuttle Tankers 24 AS, KNOT Shuttle Tankers 25 AS and KNOT Shuttle Tankers 26 AS, KNOT Shuttle Tankers 32 AS and KNOT Shuttle Tankers 30 AS as owners, paid a fee of $0.55 million per year for 2018 to KNOT Management, as manager, payable in equal monthly installments. This annual rate is subject to an adjustment on January 1 of each year pursuant

to a procedure set forth in the agreements. The annual management fee for 2019 has been set at

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$0.58 million per vessel. Any dispute relating to the annual rate adjustment would be settled by dispute resolution provisions set forth in the applicable technical management agreement.

Term. Each of the technical management agreements for the *Windsor Knutsen* and the *Bodil Knutsen* continues indefinitely until terminated by either party after giving three months' written notice. Each of the technical management agreements for the *Carmen Knutsen*, the *Hilda Knutsen*, the *Torill Knutsen,* the *Ingrid Knutsen,* the *Raquel Knutsen,* the *Tordis Knutsen,* the *Vigdis Knutsen,* the *Lena Knutsen*, the *Brasil Knutsen* and the *Anna Knutsen* continues indefinitely until terminated by either party after giving six months' notice.

Automatic termination and termination by either party . Each technical management agreement terminates or is deemed to be terminated if:

- the vessel is sold, requisitioned, declared a constructive, compromised or arranged total loss or becomes a total loss; or
- an order is made or a resolution is passed for the winding up, dissolution, liquidation or bankruptcy of either party (otherwise than for the purpose of reconstruction or amalgamation), a receiver is appointed or either party suspends payment, ceases to carry on business or makes any special arrangement or composition with its creditors.

Termination by the manager. Under each technical management agreement, the manager may terminate the agreement with immediate effect by written notice if:

- any money payable to the manager pursuant to the agreement has not been paid within a specified period of days after demand by the manager for payment or the vessel is repossessed by the mortgagees; or
- the owner proceeds with the employment of or continues to employ the vessel (1) in the carriage of contraband, blockade running or an unlawful trade or (2) on a voyage that in the reasonable opinion of the applicable manager is unduly hazardous or improper. The manager may only terminate if the owner is given notice of such default and fails to cure within a reasonable time to the satisfaction of the manager.

KNOT Management also may terminate each technical management agreement if the applicable owner elects to provide officers and, for any reason within its control, fails to (1) procure that all officers and ratings supplied by it or on its behalf comply with the requirements of the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers, as amended in 1995, or (2) instruct such officers and ratings to obey all reasonable orders of KNOT Management in connection with the operation of KNOT Management's safety management system. The manager may only terminate if the owner is given notice of such default and fails to cure within a reasonable time to the satisfaction of the manager.

Termination by the owner. Under each technical management agreement, the owner may terminate the applicable agreement with immediate effect by written notice to the manager if the manager, for any reason, is in default and fails to cure within a reasonable time.

Additional fees and provisions. In addition to the fees payable under each technical management agreement, the agreement also provides that the owner must make available to the manager each month within 60 days of a demand by the manager for payment an amount equal to the working capital required to run the vessel for the ensuing quarter. Further, under each technical management agreement, the manager and its employees, agents and subcontractors are indemnified by the owner against all actions that may be brought against them or incurred or suffered by them arising out of or in connection with their performance under such agreement in an amount not to exceed ten times the annual management fee payable under such agreement; provided, however, that such indemnity

excludes any or all losses that may be caused by or due to the fraud, gross negligence or willful misconduct of the manager or its employees, agents and subcontractors.

Management and Administration Agreements

The *Recife Knutsen,* the *Fortaleza Knutsen,* the *Dan Sabia* and the *Dan Cisne* operate under bareboat charters and, as a result, the customer is responsible with providing for the crew, technical and commercial management of the vessel. However, each of these vessels are subject to management and administration agreements pursuant to which the subsidiaries that own and operate these vessels paid a fee of $0.05 million per year for the *Recife Knutsen* and the *Fortaleza Knutsen* and a fee of $0.02 million per year for the *Dan Sabia* and the *Dan Cisne* to either KNOT Management or KNOT Management Denmark, as manager, in exchange for general monitoring services. This annual fee is subject to an adjustment on January 1 of each year pursuant to a procedure set forth in the agreements. The annual fee for 2019 has been set at $0.06 million for the *Recife Knutsen* and the *Fortaleza Knutsen* and $0.02 million for the *Dan Sabia* and the *Dan Cisne.* Any dispute relating to the annual fee adjustment would be settled by dispute resolution provisions set forth in the agreements. The management and administration agreements continue indefinitely until terminated by either party after giving two months' written notice, in the case of the *Dan Sabia* and *Dan Cisne* agreements or three months' written notice, in the case of the *Recife Knutsen* and *Fortaleza Knutsen* agreements. The management and administration agreements also may be terminated by the owner or manager on terms similar to the technical management agreements.

Acquisition of the *Vigdis Knutsen*

In May 2017, we entered into a share purchase agreement pursuant to which we acquired KNOT's 100% interest in KNOT 25, the company that owns and operates the shuttle tanker the *Vigdis Knutsen* for consideration of $147.0 million, less approximately $137.7 million of outstanding indebtedness related to the vessel, plus approximately $17.9 million for a receivable owed by KNOT to KNOT 25, plus approximately $0.9 million for certain capitalized fees related to the financing of the *Vigdis Knutsen* and plus other purchase price adjustments of $.3.7 million for working capital and interest rate swaps. On the closing of the acquisition on March 1, 2017, KNOT 25 repaid approximately $42.9 million of the indebtedness and KNOT repaid the receivable. The purchase price was settled by way of a cash payment financed by cash on hand. The Conflicts Committee approved the acquisition of the *Vigdis Knutsen*.

Acquisition of the *Lena Knutsen*

In August 2017, we entered into a share purchase agreement pursuant to which we acquired KNOT's 100% interest in KNOT 26, the company that owns and operates the shuttle tanker the *Lena Knutsen* for consideration of $142.0 million, less approximately $133.8 million of outstanding indebtedness related to the vessel, plus approximately $24.1 million for a receivable owed by KNOT to KNOT 26, plus approximately $1.0 million for certain capitalized fees related to the financing of the *Lena Knutsen* and less other purchase price adjustments of $0.1 million. On the closing of the acquisition on September 30, 2017, KNOT 26 repaid approximately $41.9 million of the indebtedness and KNOT repaid the receivable. The purchase price was settled by way of a cash payment financed by cash on hand. The Conflicts Committee approved the acquisition of the *Lena Knutsen*.

Acquisition of the *Brasil Knutsen*

In December 2017, we entered into a share purchase agreement pursuant to which we acquired KNOT's 100% interest in KNOT 32, the company that owns and operates the shuttle tanker the *Brasil Knutsen* for consideration of $96.0 million, less $59.0 million of outstanding indebtedness related to the vessel, less approximately $35.2 million for a loan owed by KNOT 32 to KNOT (the "Company

Liquidity Loan"), plus approximately $0.6 million for certain capitalized fees related to the financing of the *Brasil Knutsen* and other purchase price adjustments of $3.4 million. On the closing of the acquisition on December 15, 2017, KNOT 32 paid the Company Liquidity Loan in full. The cash portion of the purchase price was financed with the proceeds from our public offering of 3,000,000 common units which closed on November 9, 2017. See Note 22 Equity Offerings and Sale of Series Preferred Units Equity Offerings in the consolidated financial statements included in this Annual Report. The Conflicts Committee approved the acquisition. The Conflicts Committee approved the acquisition of the *Brasil Knutsen* .

Acquisition of the *Anna Knutsen*

In February 2018, we entered into a share purchase agreement pursuant to which we acquired KNOT's 100% interest in KNOT 30, the company that owns the shuttle tanker, *Anna Knutsen*, for a purchase price of $120.0 million, less approximately $106.8 million of outstanding indebtedness related to the *Anna Knutsen,* plus approximately $1.4 million for certain capitalized fees related to the financing of the *Anna Knutsen* and other purchase price adjustments of $5.3 million. On the closing of the acquisition on March 1, 2018, KNOT 30 repaid approximately $32.3 million of the indebtedness, leaving an aggregate of approximately $74.4 million of debt outstanding under the secured credit facility related to the vessel. The purchase price was settled by way of a cash payment financed by cash on hand. The Conflicts Committee approved the acquisition of the *Anna Knutsen*.

Please read Note 21 Acquisitions in the consolidated financial statements included in this Annual Report.

Other Related Party Transactions

The following table summarizes related party expenses charged or allocated to us for the year ended December 31, 2018 and included in the consolidated financial statements. Please read Note 18 Related Party Transactions in the consolidated financial statements included in this Annual Report.

	Year Ended December 31, 2018 (U.S. Dollars in thousands)
Statement of Operations Data:	
Time charter and bareboat revenues	$
Other income	749
Operating expenses	(6,491)
General and administrative expenses	(2,300)
Finance income (expense)	
Total income (expense)	$ (8,043)

Payables to KNOT and KOAS were $0.4 million and $0.6 million, respectively, for the year ended December 31, 2018. In addition, included in trade accounts payable, trading balances due to KOAS were $0.4 million and trading balances due to KNOT were $0.5 million for the year ended December 31, 2018. Outstanding balances are settled on a monthly basis.

As a result of our relationships with KNOT and its affiliates, we, our general partner and our subsidiaries have entered into various agreements that were not the result of arm's length negotiations. We generally refer to these agreements and the transactions that they provide for as "affiliated transactions" or "related party transactions."

Our partnership agreement sets forth procedures by which future related party transactions may be approved or resolved by our board of directors. Pursuant to our partnership agreement, our board of

directors may, but is not required to, seek the approval of a related party transaction from the conflicts committee of our board of directors or from the common unitholders. Affiliated transactions that are not approved by the conflicts committee of our board of directors and that do not involve a vote of unitholders must be on terms no less favorable to us than those generally provided to or available from unrelated third parties or be "fair and reasonable" to us. In determining whether a transaction or resolution is "fair and reasonable," our board of directors may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us. If the above procedures are followed, it will be presumed that, in making its decision, our board of directors acted in good faith, and in any proceeding brought by or on behalf of any limited partner or the Partnership, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption. When our partnership agreement requires someone to act in good faith, it requires that person to reasonably believe that he is acting in the best interests of the Partnership, unless the context otherwise requires.

Our conflicts committee is comprised of at least two members of our board of directors. The conflicts committee is available at our board of directors' discretion to review specific matters that our board of directors believes may involve conflicts of interest. The conflicts committee may determine if the resolution of the conflict of interest is fair and reasonable to us. The members of the conflicts committee may not be officers or employees of us or directors, officers or employees of our general partner or its affiliates, and must meet the independence standards established by the NYSE to serve on an audit committee of a board of directors and certain other requirements.

Distributions to KNOT

We have declared and paid quarterly distributions totaling $22.1 million and $21.8 million to KNOT for each of the years ended December 31, 2018 and 2017, respectively.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

Please read "Item 18. Financial Statements" for additional information required to be disclosed under this item.

Legal Proceedings

From time to time we have been, and expect to continue to be, subject to legal proceedings and claims in the ordinary course of our business, principally personal injury and property casualty claims. These claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on us.

Our Cash Distribution Policy

Rationale for Our Cash Distribution Policy

Our cash distribution policy reflects a judgment that our unitholders will be better served by our distributing our available cash (after deducting expenses, including estimated maintenance and replacement capital expenditures and reserves) rather than retaining it. Because we believe we will generally finance any expansion capital expenditures from external financing sources, we believe that our investors are best served by our distributing all of our available cash. Our cash distribution policy is

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consistent with the terms of our partnership agreement, which requires that we distribute all of our available cash quarterly (after deducting expenses, including estimated maintenance and replacement capital expenditures and reserves).

Limitations on Cash Distributions and Our Ability to Change Our Cash Distribution Policy

There is no guarantee that unitholders will receive quarterly distributions from us. Our distribution policy is subject to certain restrictions and may be changed at any time, including:

Our unitholders have no contractual or other legal right to receive distributions other than the obligation under our partnership agreement to distribute available cash on a quarterly basis, which is subject to the broad discretion of our board of directors to establish reserves and other limitations.

We are subject to restrictions on distributions under our financing agreements. Our financing agreements contain material financial tests and covenants that must be satisfied in order to pay distributions. If we are unable to satisfy the restrictions included in any of our financing agreements or are otherwise in default under any of those agreements, as a result of our debt levels or otherwise, we will not be able to make cash distributions to our unitholders, notwithstanding our stated cash distribution policy. These financial tests and covenants are described in this Annual Report in "Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources."

We are required to make substantial capital expenditures to maintain and replace our fleet. These expenditures may fluctuate significantly over time, particularly as our vessels near the end of their useful lives. In order to minimize these fluctuations, our partnership agreement requires us to deduct estimated, as opposed to actual, maintenance and replacement capital expenditures from the amount of cash that we would otherwise have available for distribution to our unitholders. In years when estimated maintenance and replacement capital expenditures are higher than actual maintenance and replacement capital expenditures, the amount of cash available for distribution to unitholders will be lower than if actual maintenance and replacement capital expenditures were deducted.

Although our partnership agreement requires us to distribute all of our available cash, our partnership agreement, including provisions contained therein requiring us to make cash distributions, may be amended with the approval of a majority of the outstanding common units.

Even if our cash distribution policy is not modified or revoked, the amount of distributions we pay under our cash distribution policy and the decision to make any distribution is determined by our board of directors, taking into consideration the terms of our partnership agreement.

Under Section 51 of the Marshall Islands Act, we may not make a distribution to our unitholders if the distribution would cause our liabilities, other than liabilities to partners on account of their partnership interest and liabilities for which the recourse of creditors is limited to specified property of ours, to exceed the fair value of our assets, except that the fair value of property that is subject to a liability for which the recourse of creditors is limited shall be included in our assets only to the extent that the fair value of that property exceeds that liability.

Our common units are subject to the prior distribution rights of any holders of preferred units then outstanding. As of April 10, 2019, there were 3,750,000 Series A Preferred Units issued and outstanding. Under the terms of our partnership agreement, we are prohibited from declaring and paying distributions on our common units until we declare and pay (or set aside for payment) full distributions on the Series A Preferred Units.

We may lack sufficient cash to pay distributions to our unitholders due to decreases in total operating revenues, decreases in hire rates, the loss of a vessel, increases in operating or general and administrative expenses, principal and interest payments on outstanding debt, taxes, working capital requirements, maintenance and replacement capital expenditures or anticipated cash needs. Please read "Item 3. Key Information Risk Factors" for a discussion of these factors.

Our ability to make cash distributions to our unitholders depends on the performance of our subsidiaries and their ability to distribute cash to us. The ability of our subsidiaries to make distributions to us may be restricted by, among other things, the provisions of existing and future indebtedness, applicable limited partnership and limited liability company laws in the Marshall Islands and Norway and other laws and regulations.

Series A Convertible Preferred Units

The Series A Preferred Units rank senior to the common units as to the payment of distributions and amounts payable upon liquidation, dissolution or winding up. The Series A Preferred Units have a liquidation preference of $24.00 per unit, plus any unpaid Series A cash distributions, plus all accrued but unpaid distributions on such Series A Preferred Unit with respect to the quarter in which the liquidation occurs to the date fixed for the payment of any amount upon liquidation. The Series A Preferred Units are entitled to cumulative distributions from their initial issuance date, with distributions being calculated at an annual rate of 8.0% on the stated liquidation preference and payable quarterly in arrears within 45 days after the end of each quarter, when, as and if declared by the board of directors of the Partnership.

During the year ended December 31, 2018, the aggregate amount of cash distributions paid to the holders of the Series A Preferred Units was $7.2 million.

Minimum Quarterly Distribution

Common unitholders are entitled under our partnership agreement to receive a minimum quarterly distribution of $0.375 per unit to the extent we have sufficient cash on hand to pay the distribution, after establishment of cash reserves, distribution payments on the Series A Preferred Units and payment of fees and expenses. There is no guarantee that we will pay the minimum quarterly distribution on the common units in any quarter. Even if our cash distribution policy is not modified or revoked, the amount of distributions paid under our policy and the decision to make any distribution is determined by our board of directors, taking into consideration the terms of our partnership agreement. We are prohibited from making any distributions to unitholders if it would cause an event of default, or an event of default is then existing, under our financing agreements. Please read "Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources" for a discussion of the restrictions contained in our credit facilities and lease arrangements that may restrict our ability to make cash distributions to our unitholders.

During the year ended December 31, 2018, the aggregate amount of cash distributions paid to common unitholders was $70.8 million.

Incentive Distribution Rights

Incentive distribution rights represent the right to receive an increasing percentage of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution and the target distribution levels have been achieved. KNOT currently holds the incentive distribution rights. The incentive distribution rights may be transferred separately from any other interest, subject to restrictions in our partnership agreement. Any transfer by KNOT of the incentive distribution rights would not change the percentage allocations of quarterly distributions with respect to such rights.

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The following table illustrates the percentage allocations of the additional available cash from operating surplus among our unitholders, our general partner and the holders of the incentive distribution rights up to the various target distribution levels. The amounts set forth under "Marginal Percentage Interest in Distributions" are the percentage interests of our unitholders, our general partner and the holders of the incentive distribution rights in any available cash from operating surplus we distribute up to and including the corresponding amount in the column "Total Quarterly Distribution Target," until available cash from operating surplus we distribute reaches the next target distribution level, if any. The percentage interests shown for our unitholders, our general partner and the holders of the incentive distribution rights for the minimum quarterly distribution are also applicable to quarterly distributions that are less than the minimum quarterly distribution. The percentage interests set forth in the table below assume that our general partner owns a 1.85% general partner interest and that we do not issue additional classes of equity securities.

		Marginal Percentage Interest in Distributions		
	Total Quarterly Distribution Target	**Unitholders**	**General Partner**	**Holders of Incentive Distribution Rights**
Minimum Quarterly Distribution	$0.375	98.15%	1.85%	0%
First Target Distribution	up to $0.43125	98.15%	1.85%	0%
Second Target Distribution	above $0.43125 up to $0.46875	85.15%	1.85%	13.0%
Third Target Distribution	above $0.46875 up to $0.5625	75.15%	1.85%	23.0%
Thereafter	above $0.5625	50.15%	1.85%	48.0%

B. Significant Changes

Please read Note 24 Subsequent Events in the consolidated financial statements included in this Annual Report.

Item 9. The Offer and Listing

A. Offer and Listing Details

Our common units are traded on the NYSE under the symbol "KNOP".