

28.04.2017.

**Supervisory board's report on the conducted supervision of
company's operations in business year 2016
Tankerska Next Generation d.d.**




Established A. D. 2014

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SUPERVISORY BOARD'S REPORT
ON THE CONDUCTED SUPERVISION OF COMPANY'S OPERATIONS
IN THE BUSINESS YEAR 2016

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Pursuant to Article 263, Paragraph 3, Article 280, paragraph 3 and Article 300 c and d. of the Companies Act ("Official Gazette" No. 152/11 - consolidated text, 111/12 and 68/13), the Supervisory Board of TANKERSKA NEXT GENERATION D.D. at its 12th meeting held on 28 April 2017 adopted the

SUPERVISORY BOARD'S REPORT ON THE CONDUCTED SUPERVISION OF COMPANY'S OPERATIONS IN THE BUSINESS YEAR 2016

Tankerska Next Generation d.d. founded in Zadar in August 2014 is an owner of a medium range product tanker fleet which provides maritime transportation of petroleum products, chemicals and oil worldwide to large oil companies, national oil companies and crude oil, chemicals and oil traders. The main markets in which the Company operates is the international maritime transport of oil products and edible oils. Therefore, TNG provides transport services to oil majors, national oil companies, oil and chemical traders and various other entities that depend on sea transport worldwide.


TNG was incorporated in August 2014, followed by Tankerska Plovidba contributing its 2 existing conventional MR product tankers, cash and one fully funded eco-design newbuild with expected delivery in Q4 2015– m/t Dalmacija. In February 2015 other investors had the opportunity to partake in the IPO of TNG. Through IPO, TNG gained strong partners in institutional and private investors as HRK 208 million (USD 31million) was raised in the process (HRK 65 per share).

The funds raised through the IPO, together with bank debt, were utilized to acquire two newbuilding contracts for MR vessels. First of two – m/t Vukovar was delivered in April, and the second – m/t Zoilo in July 2015, both vessels are fully operational from the day of delivery. However, capital raising continued in Q2 2015. The management saw a good opportunity for the acquisition of another newbuilding vessel; the major shareholders contributed another HRK 104 million (USD 16million) in June 2015. TNG has utilized raised funds in July and acquired the contract for a newbuilding vessel – m/t Pag which was delivered in December 2015.

The Group currently holds a fleet of 6 MR tankers; two modern MR2 Ice class tankers, m/t Velebit and Vinjerac, and four modern eco designed MR2 tankers: m/t Zoilo, Vukovar, Dalmacija and Pag.

TNG currently holds three medium term time charter contracts, which were signed in accordance with usual market conditions and are based on industry standard terms for such agreements. During 2016 the time charter contracts for m/t Vinjerac, Velebit and Pag expired. The new employment for all three vessels was secured on the spot market and adjusted to the current market terms and expected hire rates. The vessels were transferred to spot market with the goal to achieve the beneficial effect to the operational efficiency and optimal geographical positioning of m/t Velebit and Vinjerac before the expected 5-year drydock, which resulted in lower expenses of the drydocks itself. Na ovaj način TNG d.d. koristi prednosti ugovaranja jednokratnih putovanja do oporavka uvjeta na tržištu ugovora na vrijeme.

Year 2016 was the first fully operational year for Tankerska Next Generation Inc. after the implementation of all the vessels into the fleet. Tankerska Next Generation Inc. ended the year 2016 with operating revenues of HRK 272 million which went up in comparison to 2015 thanks to the stable high employment rate of the fleet, and a significant increase in revenue days with more vessels employed on the spot market. The positive effects of the fully integrated fleet resulted in strengthening of the financial stability of TNG with the increase

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in net profit which reached HRK 40.6 million. The main driver of the increase in revenue and profitability are the four fully employed newbuild vessels, which continuously recorded high employment rates while stabilizing the midterm revenue potential of TNG through multi-year time charters.

Commercial efforts of the management with a goal to implement the strategy of ensuring stable cash flows enabled TNG to register strong average daily revenues per vessel of USD 17,031 in the fourth quarter. Following the market conditions and taking into account the present market volatilities m/t Vinjerac, Velebit and Pag whose time charters expired at different times during the year have been transferred to the spot market with a goal to achieve the beneficial effect for the operational efficiency and optimal geographical positioning for Vinjerac and Velebit before their 5-year drydock. This model of employment at the current market conditions offers management enough flexibility to timely react to the positive changes in hire rates, while it simultaneously requires higher liquidity requirements due to the fact that the ship owner covers the voyage related expenses.


In the segment of product tankers during 2016 the market showed a certain level of volatility which is a result of the increase in fleet capacity in the segment of product tankers, increased levels of oil derivatives supply due to the mild winter and increased refining activities because of the lower price of crude oil. After a strong start of 2016, the trend of unstable market rates continued through the second and third quarter, while a certain growth in hire rates was recorded toward the end of the year as a result of typical winter market activity which indicates a close balance of supply and demand. Meanwhile, MR product tanker supply is decelerating as the pace of deliveries is slowing and scrapping continues at constant rate of 20-25 vessels per year. During 2016 a total of 95 new units were delivered in the product tanker segment which shows an increase of 5,4%1 in global product tanker fleet compared to 2015, while a significant drop in deliveries of new vessels is expected in 2017 when the total number of new vessels should be no more than 722 units. This kind of slowing down in vessel supply alongside with the positive trends on the oil derivatives market, plus the expected drop in oil supply should result in a positive trend in 2017.

The Supervisory Board report is composed for 2016 and covers the operating period from 1 January 2016 to 31 December 2016.

The Company's Supervisory Board (Supervisory Board), has according to its authorities as set under the provisions of the Companies Act and the Company's Articles of Association, continuously monitored the management of the Company during 2015, reaching decisions and conclusions eight (8) meetings held during 2016.

From the beginning of the year till 29th February 2016 the Supervisory Board was comprised by the members which were appointed by the founder of the Company: Ivica Pijaca – (president), Andrej Koštomaj, deputy president, Nikola Koščica, member; Joško Miliša, member; Mario Pavić, member. Mr Andrej Koštomaj resigned from the position of the deputy chairman and member of the TNG Supervisory Board effective from 29 February 2016. Pursuant to the Companies Act, a new member of the Supervisory Board, Mr. Nikola Mišetić, was elected by a decision adopted in the TNG General Meeting of Shareholders of 10 June 2016.

While monitoring the Company's operations during 2016, the Supervisory Board discussed key issues related to the operations of the Company and its subsidiaries and was regularly kept informed by the Management

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Board. The Supervisory Board was informed by the Management Board on all important business events, the course of business, income and expenses, as well as the general status of the business. Management regularly submitted to the Supervisory Board quarterly, semi-annual and annual written reports on business.

During 2015, the ordinary shares of the Company were listed on the regulated capital market and the Company began to apply the Code of Corporate Governance of the Zagreb Stock Exchange and HANFA. The Supervisory Board established the Audit Committee. Committee for remuneration and nomination was not established in the financial year 2016 taking into account the operations and characteristics of the Company, it will be established as an "ad hoc" body of the Supervisory Board according to the needs and activities of the relevant scope.

After examining the Company's operations management, the Supervisory Board has concluded that in 2016, Company operated in accordance with the laws, Articles of Association and decisions of the General Assembly.

The Supervisory Board has within the statutory period pursuant to Article 300 c of the Companies Act, examined the annual financial statements of the Company and its subsidiaries for the year ending 31 December 2015 together with independent auditors report Deloitte d.o.o. Zagreb, Zagrebtower, Radnička 80, (Auditor), submitted by the Management Board.

The Supervisory Board received a report from the Management Board on related party transactions in accordance with Article 497 of the Companies Act.


The Supervisory Board established that the Annual financial statements of the Company (non- consolidated) for the year ending 31 December 2016 are prepared in accordance with the accounting records of the Company and indicate the correct asset and business status of the Company and its subsidiaries.

The Company operates in a specific business environment where business processes and arranging reports is specifically regulated with the Maritime Code, which prescribes the manner of keeping the books, reporting and other regulatory obligations required by government.

In accordance with such findings, Supervisory Board agrees with the annual financial statements for 2016 and the Auditor's opinion, which are the basis of article 300 of the Companies Act, by which the Management Board and the Supervisory Board determined the annual financial statements of the Company.

Integral parts of the financial report of Company and its subsidiaries for the year ended 31 December 2016 are:

1. Statement of profit and loss and other comprehensive income,
2. Statement of financial position;
3. Statement of Cash Flows;
4. Statement of changes in equity;
5. Notes to the Financial Statements;
6. Annual Report on the Company and its subsidiaries and
7. Auditor's Independent Opinion.

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The Supervisory Board has examined the Annual Report of the Management Board of the Company and its subsidiaries and on the Status of the Company and its subsidiaries for 2016 and found that it adequately and impartially presents the current business situation and the situation of the Company and its subsidiaries. Pursuant to this finding, the Supervisory Board accepted the Management Board report on the Company and its subsidiaries for the year 2016.

Management has presented to the Supervisory Board a proposal of the Decision on distribution of profit for 2016, which stipulates that the Company's profit for 2016 amounts to HRK 40,607,822,91 and suggests that a part of net profit in the amount of HRK 13.952.232,00 should be paid out as dividend to shareholders. A part of net profit in the amount of HRK 24,625,199.76 should be allocated to retained earnings, while a part of net profit in the amount of HRK 2,030,391.15 should be allocated to mandatory reserves.

The Supervisory Board agrees with this proposal of the decision on profit distribution of Tankerska Next Generation d.d. for 2016 and proposes to the General Assembly adoption of such a decision.



Chairman of the Supervisory Board
Ivica Pijaca