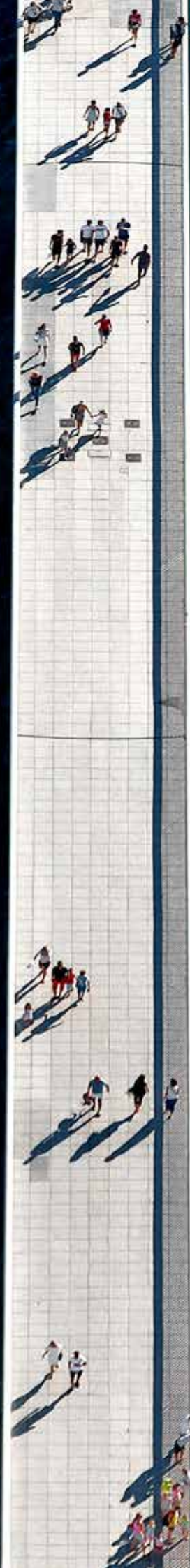


**TNG**  
Tankerska Next Generation

ANNUAL REPORT **2017**

Zadar, April 2018





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# Tankerska Next Generation

Total number of vessels: 6

ECO design MR Product tankers: 4

ICE class MR Product tankers: 2

TNG's MR average age – owned vessels **3,96 years**

World fleet MR average age – **9,40 years**

**MT Vukovar**, built: 2015

ECO design MR product tanker

Lenght/width: 183/32 m

Cargo capacity: 49,990 dwt

**MT Pag**, built: 2015

ECO design MR product tanker

Lenght/width: 183/32 m

Cargo capacity: 49,990 dwt

**MT Zoilo**, built: 2015

ECO design MR product tanker

Lenght/width: 183/32 m

Cargo capacity: 49,990 dwt

**MT Velebit**, built: 2011

ICE class MR product tanker

Lenght/width: 195/32 m

Cargo capacity: 52,554 dwt

**MT Dalmacija**, built: 2015

ECO design MR product tanker

Lenght/width: 183/32 m

Cargo capacity: 49,990 dwt

**MT Vinjerac**, built: 2011

ICE class MR product tanker

Lenght/width: 195/32 m

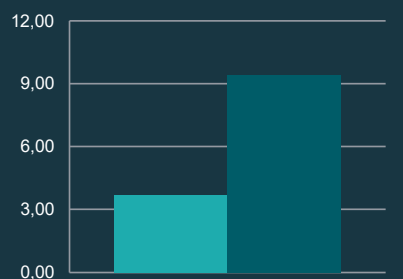
Cargo capacity: 51,935 dwt

Fleet revenue structure in 2017



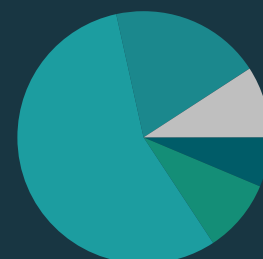
■ Voyage charter  
■ Time charter  
■ Other

Average age of MR fleet



■ TNG MR FLEET    ■ WORLD MR FLEET

World MR fleet structure



■ 20+ years    ■ 15-19 years  
■ 5-14 years    ■ 0-4 years  
■ Orderbook

# About us

Tankerska Next Generation Is a shipping company focused exclusively on the MR product tanker segment. The initiator of its incorporation was Tankerska Plovidba, an established Croatian shipping company with 60-year tradition, which is providing technical, crew and commercial management to TNG.

The main markets in which the Company operates is the international maritime transport of oil products and edible oil, and therefore provides transport services to large energy companies, large oil retailers and large manufacturers of oil and oil products and various other entities that depend on sea transport.

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., days after delivery of m/t Dalmacija.

At the end of 2017 TNG operates a fleet of 6 vessels, and 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, and the vessels were more strongly engaged in the spot market during 2017, thus achieving a better commercial result than it could have been achieved by contracting them on time charter during the past period

TNG conducts its business operations in a manner that is believed will enhance its ability to pay dividends and maximize value to its shareholders. TNG aims to timely acquire its vessels, which ensures efficient use of the capital and minimizes the leverage. Goal of the fleet management strategy is to increase cash flow and profitability through outsourcing most of the management functions to a fleet

manager which will improve the measurability and cost competitiveness of business because it will allow TNG to keep its flexible and simple organizational structure without realizing significant additional overheads. This will enable the efficient management of assets and liabilities of the company and ensure a stable return to shareholders in the form of dividends.

Key drivers for product tanker companies include among other global economic recovery and the shift in refining capacities from West to East. Namely, the current global trend is dislocating refineries, mainly from Europe to the Middle East and Asia, increasing routes the product tankers have to take in order to connect supply and demand. At the same time, the level of trade in petroleum products has been going up lately.

The Company's strategy is to be a reliable, efficient and responsible provider of seaborne refined petroleum product transportation services and to manage and expand the Group in a manner that is believed will enable the Company to increase its distributable cash flow, enhance its ability to pay dividends and maximize value to its shareholders. The Company intends to realize these objectives by pursuing the following:

Focus on the development of the fleet, and the acquisition and management of vessels in the product tanker segment, focusing on product tankers of medium capacity, which are the main labour force in the petroleum derivatives market. MR tankers are flexible because they are small enough that they can access a wide range of ports, and because of this flexibility and the possibility of handling the most common quantities of cargo, are popular with charterers.

Maintain superior customer service by maintaining high standards of reliability, safety, environmental and quality. Timely procure modern used and/or re-sale tankers and/or reasonably arrange the newbuildings and timely sell vessels in line with market conditions.

Increase cash flow and profitability by outsourcing most of the management functions to a fleet manager. Management believes that the agreement with an external management will improve the measurability and cost competitiveness of business because it will allow the TNG to expand its fleet without realizing significant additional overheads

Maintain a strong balance sheet through moderate debt in a way to try to finance future purchases of with approximately 35-45% of equity capital. This would facilitate the possibility of using a substantial part of the cash flow to pay dividends, but also improve conditions in the market as banks, shipyards and outsourcers prefer better capitalized Contracting Parties

# Comments from the CEO

During the second part of 2017 the time charter market showed a slight recovery, but looking back at the past year as a whole the market conditions put a number of challenges in front of ship-owners in order to maximize the commercial potential of the fleet.

Despite the market volatility that characterized 2017, Tankerska Next Generation reached an EBITDA of USD 16.6 million relying on three vessels that hold three-year time charter contracts alongside to the solid contribution of the vessels operating on the spot market.

Taking into account the challenging market environment, the three vessels whose time charter contracts expired in 2016 were more strongly engaged in the spot market during 2017, thus achieving a better commercial result than it could have been achieved by contracting them on time charter during the past period.

Stronger fleet engagement in the spot market has resulted in a stable financial position and allowed TNG to reach an operating profit of USD 9.1 million.

Adjusting the fleet employment strategy to the current market conditions offered management enough flexibility to ease the current market volatilities, and resulted in an increase of revenues during the reporting period. This significant part of the expenses is compensated through increased revenues which reached USD 42.4 million.

Intensive focus on the cost effectiveness of the fleet operations allowed TNG to maintain the expenses on the last year's level which helped to build solid foundations for the business operations in 2018 and expected recovery in freight rates.

Using this mix between voyage and time charter contracts allows Tankerska Next Generation to timely react to the expected long term positive changes in the freight rate market.

Intensive focus on the cost effectiveness of the fleet operations allowed TNG to maintain the expenses on the last year's level which helped to build solid foundations for the business operations in 2018 and expected recovery in freight rates.

Following some of the key indicators, such as rising oil demand which shows stability, strengthening of the global economic activity, and reducing of oil derivatives reserves, it is possible to expect additional demand for tonne mile in the tanker product segment. According to available market analysis and the projections of order books, backed by the solid growth in consumption and refined cargo-targeted export and projected economic growth, we expect market recovery in the medium term.

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*"Stronger fleet engagement in the spot market has resulted in stable financial position and allowed TNG to reach an operating profit of USD 9.1 million"*

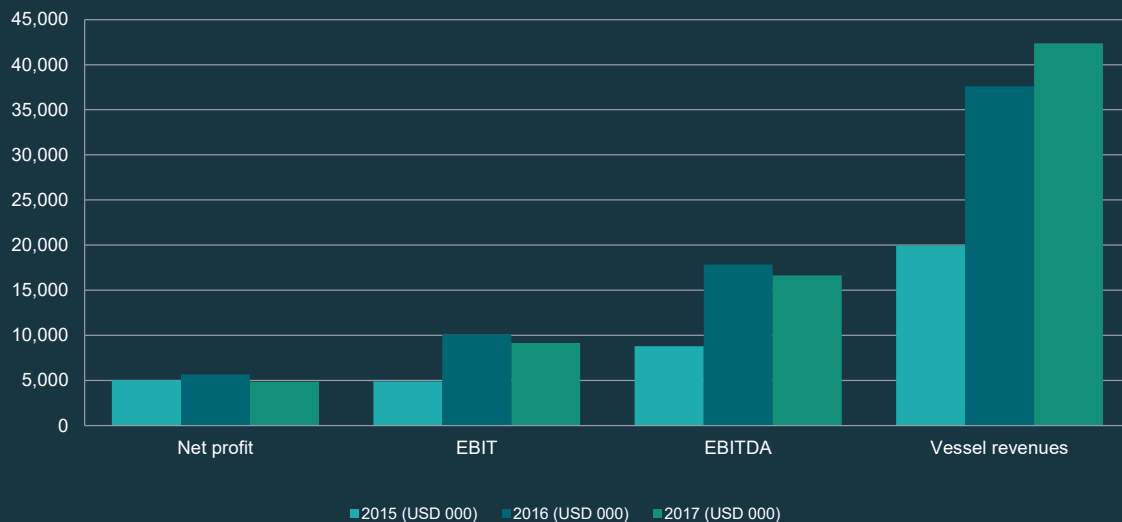
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During the next period TNG's management will focus on activities aimed at achieving the optimal structure of employment and providing the resources needed to continue with balanced business operations, while adapting to the changes in the regulatory environment related to the entry into force of Sulphur emission regulations and the application of the ballast water management convention, and securing the resources for the implementation of the regulatory requirements.



John Karavanić,  
CEO

# Selected financials



**280 mil. kn ~ USD 42.4 mil.**

Vessel revenues

**110 mil. kn ~ USD 16.6 mil.**

EBITDA

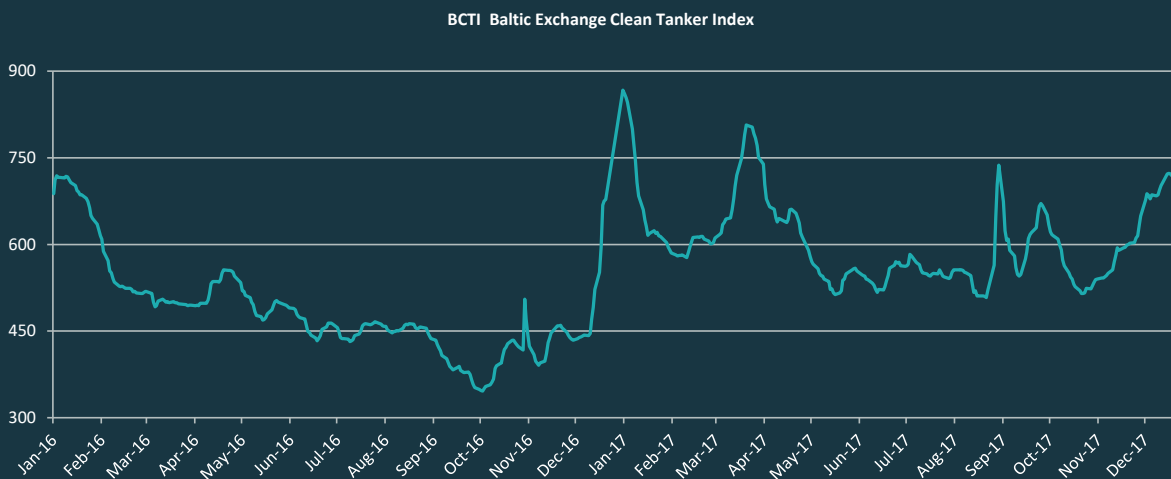
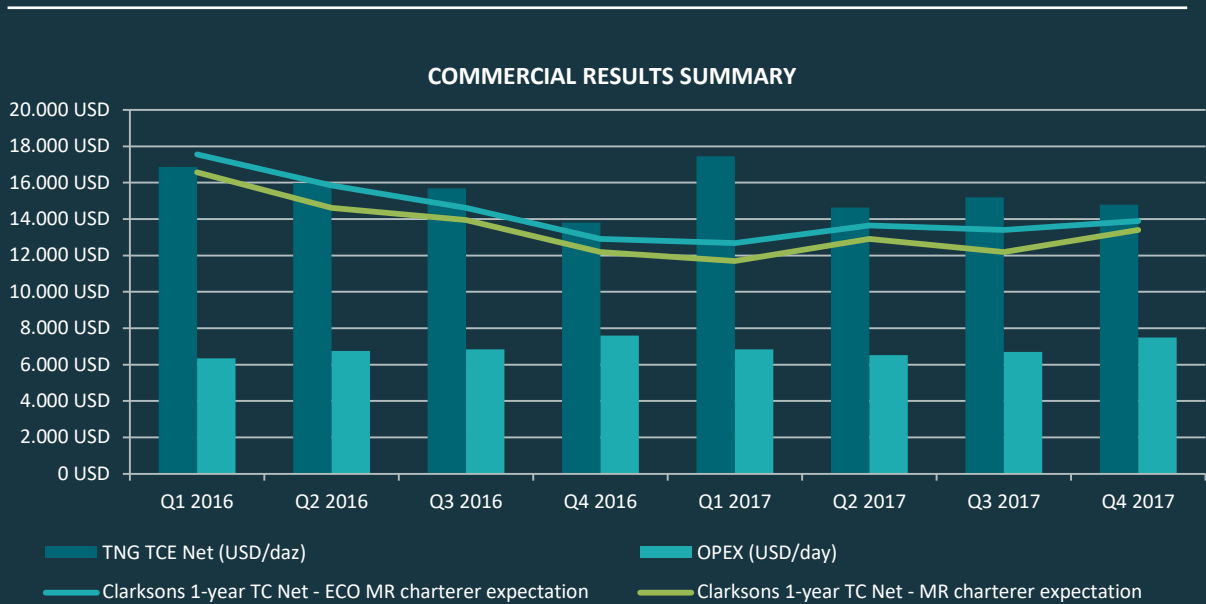
**60.4 mil. kn ~ USD 9.1 mil.**

EBIT

**32.1 mil. kn ~ USD 4.8 mil.**

Net profit

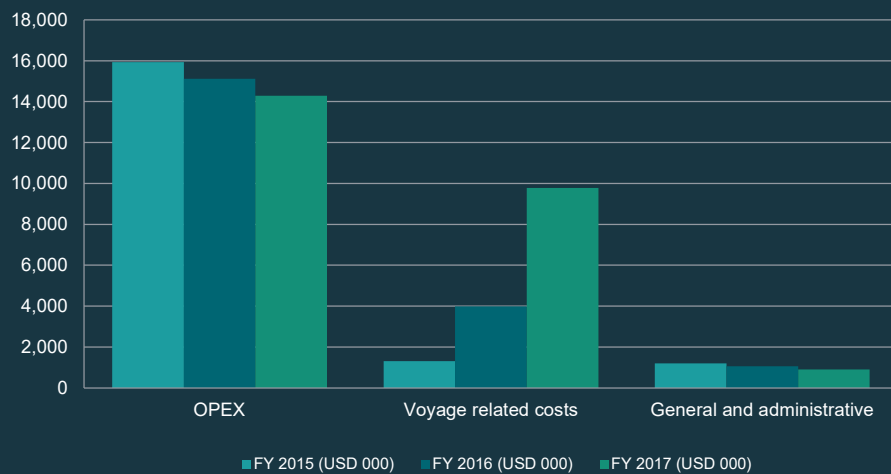
# Commercial results



*“The stronger engagement of the vessels in the spot market maximized their commercial potential thus achieving a better commercial result than it could have been achieved by contracting them on time charter during the past period”*



# Expenses summary



**94 mil. kn ~ USD 14.2 mil.**

Vessel operating expenses

**64.8 mil. kn ~ USD 9.8 mil.**

Voyage related costs and commision

**6.0 mil. kn ~ USD 0.9 mil.**

General and administrative

# Share TPNG-R-A

Share capital: **436,667,250.00 kn**

Issued shares: **8,733,345**

Treasury shares: **13,200**

## Trading data:

Total turnover in 2017: **4,068,945.54 kn**

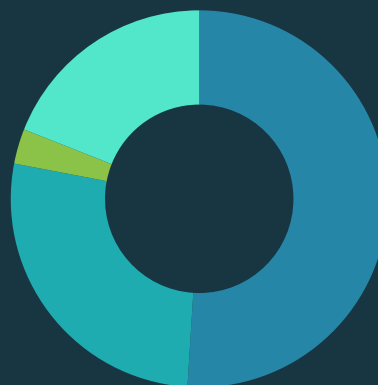
Total volume in 2017: **57,408 shares**

Trading days in 2017: **169**

Highest price in 2017: **84.75kn (25th Feb)**

Lowest price in 2017: **54.00kn (29th Dec)**

Market Capitalization 31st December 2017:  
**471,600,630.00 kn**



- Tankerska Plovidba d.d.
- Pension funds
- Croatia osiguranje
- Other institutional and private investors

## Top shareholders 31 Dec 2017

	No.shares	%
Tankerska plovidba d.d.	4,454,994	51.01
PBZ Croatia Osiguranje OMF	839,000	9.61
Erste Plavi OMF	808,000	9.25
Raiffeisen OMF	752,036	8.61
Raiffeisen DMF	367,521	4.21
Croatia Osiguranje	261,065	2.99
Treasury shares	13,200	0.15
Other	1,237,529	14.17
<b>Total</b>	<b>8.733.345</b>	<b>100.00</b>

Price and turnover TPNG-R-A



# Market conditions

The expected growth of the world economy in 2017 is projected at 3.7<sup>1</sup> percent, which is 0.1 percentage point faster than projected in September 2017 and 1/2 percentage point higher than the expectations from 2016.

IMF growth estimates and projections for the next two years published in January show a certain improvement (+0,2%)<sup>1</sup> relative to the previously published projections with an expected global growth of 3.9%<sup>1</sup> in both 2018 and 2019.

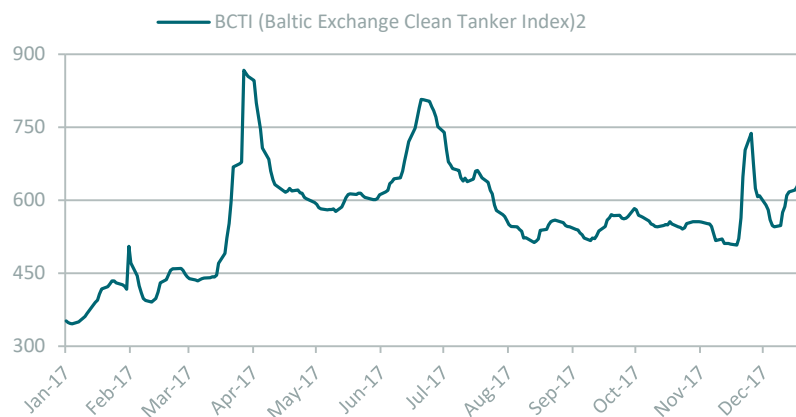
An increase in positive market sentiment has been recorded around the world on the basis of positive trends in economic activity. Some 120 economies, accounting for three quarters of world GDP, have seen a pickup in growth.

Growth rates shown to be higher than short-term projections published in September for developed economies such as Germany, Japan, Korea, and the United States, while emerging economies like Brazil, China and South Africa also surpassed this year's IMF projections.

An improving global growth outlook, weather events in the United States, the extension of the OPEC+ agreement to limit oil production, and geopolitical tensions in the Middle East have supported crude oil prices which rose to 66 USD by the end of the year which is an increase of almost 50 percent in comparison to June 2017 when the price slipped under 45 USD.

In the segment of product tankers which is still oversupplied by boats the market showed usual seasonality, alongside some volatilities by reacting to the short term disruptions like Hurricane Harvey which disrupted the work of refineries in the US Gulf during the course of the third quarter which affected the trading volumes.

After a slower start to the year, which can be seen on the BCTI graph to the right, towards the end of the year the market showed some positive trends, especially in the Far East attributable to higher demand for derivatives which benefited to transpacific trade and the exports from North Asia due to higher demand on the West Coast US, Latin America and Australia.



Meanwhile, MR product tanker supply is still significantly decelerating, with 64<sup>2</sup> new build units delivered in 2017, and with 14 vessels scrapped during the course of the year. Comparing these numbers to the 2016 when a total of 94<sup>2</sup> new units were delivered, this is a significant slowing down in supply, while the order book for 2018 is currently at 60<sup>2</sup> new MR's, with another ten vessels expected to be scrapped.

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 2018.

Current eco MR ship-owner expectations for one year hire with immediate delivery are at a level of USD 15,500<sup>3</sup> per day.

<sup>1</sup> IMF, World Economic Outlook, April 2018

<sup>2</sup> Baltic Exchange, BCTI, March 2018

<sup>3</sup> Banchemo costa – Product Tanker outlook 2018

<sup>4</sup> Clarksons, Tanker Matrix Report, April 2018

# Results for the year 2017

TNG's revenues in 2017 reached HRK 280.6 mil. (USD 42.4 mil.), and were slightly higher compared to the previous year, while EBITDA amounted to USD 110.1 mil. HRK (USD 16.6 mil.), which compared to HRK 127.9 in 2016 represents a decrease of 13.8%. TNG net profit in 2017 amounted to HRK 32.1 million (USD 4.85 mil.).

Operating profit for 2017 amounted to HRK 60.4 mil. (USD 9.1 mil.) and it is a result of (i) income stability brought in by the time charter contracts, (ii) contributions from Velebit, Vinjerac and Pag in the spot market. These positive trends were moderated by the (iii) increased costs as a result of higher exposure to the spot market and the one-off costs associated to the regular five-year drydocking of Vinjerac, which ended in the beginning of 2017, (iv) the correction of the spot hire rates, (v) a slightly lower level of utilization of 96.9% due to vessel repositioning in the second quarter and (vi) appreciation of the kuna against the US dollar.

Selected financials	2017 (‘000 USD)	2017 (‘000 HRK)	2016 (‘000 USD)	2016 (‘000 HRK)
Vessel revenues	42,371	280,596	39,991	272,085
EBITDA	16,635	110,166	18,798	127,894
EBIT	9,126	60,439	10,636	72,362
Net profit	4,852	32,132	5,968	40,608

The increase in ship revenues in 2017 primarily reflects the change in employment strategy of Vinjerac, Velebit and Pag. With the three vessels on the spot market during the significant part of the year TNG as a ship owner covers the voyage-related costs, contrary to the time-charter contracts where the charterer covers the voyage-related costs. This significant part of the expenses is compensated through increased revenues.

The average TCE net rate of the vessels during 2017 was recorded at 15,525 USD, and shows a slight decrease from the 15,583 USD recorded in 2016 following the change in market terms.

Year 2017 was predominately marked with usual vessel operating expenses, except for the one off costs associated with m/t Vinjerac drydocking which ended in January and partly burdened the first quarter result. In spite of that, the vessel operating expenses were slightly decreased and amount to USD 14.29 million.

Fees and voyage associated costs amounted to HRK 64.8 million in 2017, which is a significant increase from HRK 28.6 million recorded in 2016. This significant increase came as a result of the transfer of m/t Vinjerac, Velebit and Pag to the spot market where the voyage-related costs are paid by the ship owner, contrary to the time-charter contracts where the charterer covers the voyage-related costs.

The total operating expenses in 2017, amount to HRK 170.4 million (USD 25.7 mil.). The significant increase from the level recorded in 2016 (+18%) came as a result of the transfer of m/t Vinjerac, Velebit and Pag to the spot market which increased the commissions and voyage related costs.

Depreciation expenses in 2017 were HRK 49.7 million (USD 7.5 mil). All the vessels in operation are depreciated over an estimated useful life span of 25 years on a straight line basis to their residual value, which represents their scrap value on the international market.

General and administrative expenses in, 2017 amounted to HRK 6.0 million (0.9 mil. USD), and show an 16% decrease in comparison to the previous year due to more efficient control of the expenses.

Financial position	2017 ('000 USD)	2017 ('000 HRK)	2016 ('000 USD)	2016 ('000 HRK)
Bank debt	106,938	670,467	112,319	805,162
Cash and cash equivalents	10,175	63,792	6,126	43,915
Net debt	96,763	606,675	106,193	761,247
Capital and reserves	96,242	603,418	92,976	666,502
Gearing ratio Net debt/(capital and reserves + Net debt)	50%	50%	53%	53%

The gearing ratio by the end of 2017 decreased by 3 basis points to 50% in comparison to the end of 2016 when it amounted to 53%. This decreasing debt trend is in accordance with the loan repayment plans of TNG and regular decrease in indebtedness, and a further decrease in company's debt is expected in the future. With these funding transactions TNG has secured a strong capital base while maintaining a moderately leveraged capital structure and remaining in line with current ratios,

Securing both sufficient levels of debt and equity financing, provided stable foundations for delivering company strategy and increasing distributable cash flow, the ability to pay dividends and maximizing shareholder's value, while lowering the risk of the business by focusing on medium to long term time charter periods,

During 2017 the Company strengthened its liquidity position, and in spite of payment of the dividends to the shareholders in the third quarter ended the reporting period with a stable cash position which will ensure the optimal level of support to the operations on spot market,

Expenses summary	2017 ('000 USD)	2017 ('000 HRK)	2016 ('000 USD)	2016 ('000 HRK)
Commission and voyage related costs	(9,778)	(64,756)	(4,209)	(28,634)
Vessel operating expenses	(14,288)	(94,615)	(15,931)	(108,388)
General and administrative	(907)	(6,006)	(1,055)	(7,181)
<b>Total operating expenses</b>	<b>(25,738)</b>	<b>(170,442)</b>	<b>(21,195)</b>	<b>(144,203)</b>

# Financials

## Income statement and statement of other comprehensive income for period from Dec 31st 2016 to Dec 31st 2017

Audited	2017 ('000 USD)	2017 ('000 HRK)	2016 ('000 USD)	2016 ('000 HRK)
Vessel revenues	42,371	280,596	39,991	272,085
<b>Total revenues</b>	<b>42,373</b>	<b>280,608</b>	<b>39,993</b>	<b>272,097</b>
Commission and voyage related costs	(9,778)	(64,756)	(4,209)	(28,634)
Vessel operating expenses	(14,288)	(94,615)	(15,931)	(108,388)
General and administrative	(907)	(6,006)	(1,055)	(7,181)
<b>Total operating expenses</b>	<b>(25,738)</b>	<b>(170,442)</b>	<b>(21,195)</b>	<b>(144,203)</b>
<b>EBITDA</b>	<b>16,635</b>	<b>110,166</b>	<b>18,798</b>	<b>127,894</b>
Depreciation and amortization	(7,509)	(49,727)	(8,162)	(55,532)
Operating profit (EBIT)	9,126	60,439	10,636	72,362
Financial gains	23	149	72	491
Financial expenses	(4,297)	(28,456)	(4,740)	(32,245)
<b>NET INCOME</b>	<b>4,852</b>	<b>32,132</b>	<b>5,968</b>	<b>40,608</b>
Net foreign exchange gains (losses)	465	(81,264)	(420)	14,545
<b>Other comprehensive income</b>	<b>5,317</b>	<b>(49,132)</b>	<b>5,548</b>	<b>55,153</b>
Weighted average number of shares outstanding basic & diluted (thou,)	8,720,145	8,720,145	8,720,145	8,720,145
Net income (loss) per share, basic & diluted	0,56	3,68	0,68	4,66

## Balance sheet at the date of December 31st 2017

Audited	2017 ('000 USD)	2017 ('000 HRK)	2016 ('000 USD)	2016 ('000 HRK)
<b>Non-Current Assets</b>	<b>191,928</b>	<b>1,203,337</b>	<b>199,223</b>	<b>1,428,140</b>
Vessels	191,928	1,203,337	199,223	1,428,140
<b>Current Assets</b>	<b>14,769</b>	<b>92,597</b>	<b>9,788</b>	<b>70,160</b>
Inventory	1,335	8,370	1,508	10,806
Accounts receivable	2,803	17,574	1,193	8,558
Cash and cash equivalents	10,175	63,792	6,126	43,915
Other current assets	456	2,861	961	6,881
<b>TOTAL ASSETS</b>	<b>206,697</b>	<b>1,295,934</b>	<b>209,011</b>	<b>1,498,300</b>
<b>Shareholders equity</b>	<b>96,242</b>	<b>603,418</b>	<b>92,976</b>	<b>666,502</b>
Share capital	68,988	436,667	68,988	436,667
Share premium	10,179	68,426	10,179	68,426
Reserves	9,269	57,030	8,971	55,000
Retained earnings	10,388	67,725	7,885	51,575
Exchange differences	(2,582)	(26,430)	(3,047)	54,834
<b>Non-Current Liabilities</b>	<b>97,556</b>	<b>611,647</b>	<b>102,937</b>	<b>737,909</b>
Bank debt	97,556	611,647	102,937	737,909
<b>Current Liabilities</b>	<b>12,899</b>	<b>80,869</b>	<b>13,098</b>	<b>93,889</b>
Bank debt	9,382	58,820	9,382	67,253
Accounts payable	2,758	17,294	2,959	21,209
Other current liabilities	759	4,755	757	5,427
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>206,697</b>	<b>1,295,934</b>	<b>209,011</b>	<b>1,498,300</b>

# Financials

## Cash flow statement for period from Dec 31st 2016 to Dec 31st 2017

Revidirano	2017 ('000 USD)	2017 ('000 HRK)	2016 ('000 USD)	2016 ('000 HRK)
Profit before tax	4,852	32,132	5,968	40,608
Depreciation and amortisation	7,509	49,727	8,162	55,532
Changes in working capital	(4,897)	(32,434)	(7,009)	(47,680)
Other	4,384	27,606	4,470	28,902
<b>Cash flow from operating activities</b>	<b>11,848</b>	<b>77,031</b>	<b>11,591</b>	<b>77,362</b>
Cash inflows from investing activities	-	-	-	-
Cash outflows from investing activities	(602)	(3,983)	(1,165)	(7,924)
<b>Cash flow from investing activities</b>	<b>(602)</b>	<b>(3,983)</b>	<b>(1,165)</b>	<b>(7,924)</b>
Cash flow from financing activities	3,787	25,079	31,001	210,903
Cash outflows from financing activities	(10,986)	(72,754)	(45,522)	(309,697)
<b>Cash flow from financing activities</b>	<b>(7,199)</b>	<b>(47,675)</b>	<b>(14,521)</b>	<b>(98,794)</b>
Net changes in cash	4,047	25,373	(4,095)	(29,356)
Cash and cash equivalents (beginning of period)	6,126	43,915	10,221	71,465
Effects of exchange rate changes on the balance of cash	2	(5,496)	-	1,806
<b>CASH AND CASH EQUIVALENTS (END OF PERIOD)</b>	<b>10,175</b>	<b>63,792</b>	<b>6,126</b>	<b>43,915</b>



## Statement of changes in equity for period from Dec 31st 2016 to Dec 31st 2017

Statement of changes in equity for the year ended 31 Dec 2017	Paid-in Capital	Retained Earnings Account	Foreign exchange translation reserves	Other reserves	Share premium	Purchase of treasury shares	Total
	('000 USD)	('000 USD)	('000 USD)	('000 USD)	('000 USD)	('000 USD)	('000 USD)
<b>Balance at 31 December 2016</b>	<b>68,988</b>	<b>7,885</b>	<b>(3,047)</b>	<b>9,114</b>	<b>10,179</b>	<b>(143)</b>	<b>92,976</b>
Profit for the period	-	4,852	-	-	-	-	4,852
Exchange difference on foreign operations	-	-	465	-	-	-	465
<b>Total comprehensive income</b>	<b>-</b>	<b>4,852</b>	<b>465</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,317</b>
Transferred to reserves in yearly schedule	-	(298)	-	298	-	-	-
Declared dividend	-	(2,051)	-	-	-	-	(2,051)
<b>Balance at 31 December 2017</b>	<b>68,988</b>	<b>10,388</b>	<b>(2,582)</b>	<b>9,412</b>	<b>10,179</b>	<b>(143)</b>	<b>96,242</b>

Statement of changes in equity for the year ended 31 Dec 2017	Paid-in Capital	Retained Earnings Account	Foreign exchange translation reserves	Other reserves	Share premium	Purchase of treasury shares	Total
	('000 HRK)	('000 HRK)	('000 HRK)	('000 HRK)	('000 HRK)	('000 HRK)	('000 HRK)
<b>Balance at 31 December 2016</b>	<b>436,667</b>	<b>51,575</b>	<b>54,834</b>	<b>55,997</b>	<b>68,426</b>	<b>(997)</b>	<b>666,502</b>
Profit for the period	-	32,132	-	-	-	-	32,132
Exchange difference on foreign operations	-	-	(81,264)	-	-	-	(81,264)
<b>Total comprehensive income</b>	<b>-</b>	<b>32,132</b>	<b>(81,264)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(49,132)</b>
Declared dividend	-	(13,952)	-	-	-	-	(13,952)
Transferred to reserves in yearly schedule	-	(2,030)	-	2,030	-	-	-
<b>Balance at 31 December 2017</b>	<b>436,667</b>	<b>67,725</b>	<b>(26,430)</b>	<b>58,027</b>	<b>68,426</b>	<b>(997)</b>	<b>603,418</b>

# Fleet operating data

Currently TNG's fleet consists of six MR tankers in operation (Velebit, Vinjerac, Vukovar, Zoilo, Dalmacija and Pag). The Group owns an operating fleet which consists of two conventional ice class tankers and four eco-design modern product tankers with a total capacity of 300,000 dwt. On December 31st 2017, the average age of the vessel in TNG fleet is 3.71 years.

During 2016 the time charter contracts for m/t Vinjerac, Velebit and Pag expired, and the new employment for the vessels was contracted in accordance with the current market terms and expected hire rates, while taking into account the operational needs of m/t Vinjerac and m/t Velebit 5-year drydocking.

The vessels were transferred to spot market with goal to achieve the beneficial effect to the operational efficiency and optimal geographical positioning before the drydock, which resulted in lower expenses of the drydocks themselves.

## Velebit, Pag, Vinjerac

TNG operated Velebit, Vinjerac and Pag on the spot market during the most part of 2017, estimating how this mode of employment represents the current optimal strategy of using the fleet's commercial potential to timely adapt to the market conditions, until the recovery of time charter market.

Vinjerac operated on the spot market until end July 2017 when it was contracted on a short term time charter contract with Clearlake Shipping Pte Ltd („Clearlake“). This short term time charter contract ended in the fourth quarter of 2017. and the vessel continued its operations on spot.

## Vukovar

TNG took delivery of Vukovar on 29 April 2015 after which it begun its commercial exploitation on a three year time charter. The current charter rate for Vukovar is USD 17,250 per day with the earliest contract termination in April 2018. The charterer is STI Chartering and Trading Ltd (“Scorpio”).

## Zoilo and Dalmacija

TNG contracted vessels Zoilo and Dalmacija (Zoilo delivered on 27 July 2015 and Dalmacija delivered on 27 November 2015), both on a three year time

charter with the daily rate of USD 17,750, starting from delivery dates.

The charterer is Trafigura Maritime Logistics PTE. Ltd. („Trafigura“) which has an option to extend both time charters for an additional 12 months at USD 19,750 per day.

The vessel employment strategy secured a stable level of income in the midterm where three ships were employed on a three year contract, while others were employed on the spot market after their shorter time charter contracts expired. During the third quarter m/t Vinjerac was contracted on a short term time charter contract which ended in the fourth quarter of 2017.

Following the regulatory demands and the best market practice m/t Vinjerac conducted the 5-year drydock which (started in December 2016) decreased the operating days of the fleet by 9 days, but with an optimal positioning before the drydock which accomplished significant cost savings. With the completion of the drydocking for m/t Vinjerac and Velebit, the first drydocking cycle is completed, and the first forthcoming drydocking projects are expected in 2020.

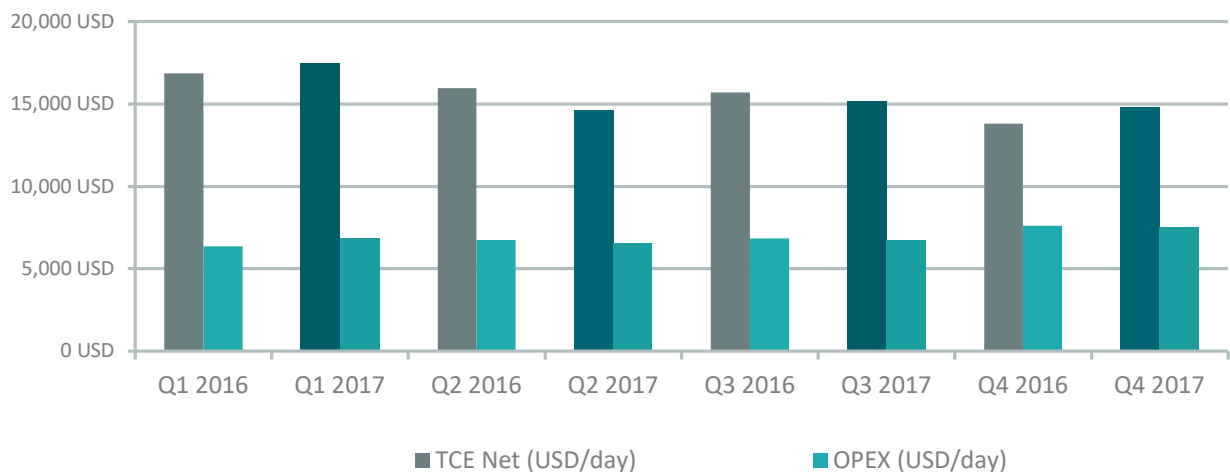
The average TCE net rate of the vessels during 2017 was recorded at 15,525 USD, and shows a slight decrease from the 15,583 USD recorded in 2016 following the challenging market environment marked by volatile hire rates throughout the year, and the expiry of the time charter arrangements which were contracted during significantly better market conditions in 2015. Average daily vessel operating expenses (OPEX) in 2017 amounted to USD 6,891 per vessels, which is on the same level of expenses as in the previous year.

Year 2017 was characterized by the somewhat lower fleet utilization of 96.9%, which was moderated by the m/t Vinjerac drydocking which finished in January, and the repositioning of two vessels on the spot market in the second quarter which later lead to beneficial effects to commercial efficiency.

Vessel	Capacity (dwt)	Type	Built	Shipyard	Flag	Employment	Daily rate (USD)
Velebit	52,554	ICE class MR product	2011	Treći Maj Croatia	Croatian	Voyage charter	SPOT
SPOT	51,935	ICE class MR product	2011	Treći Maj Croatia	Croatian	Voyage charter	SPOT
Vukovar	49,990	Eco MR product	2015	Hyundai Mipo S.Korea	Croatian	Scorpio Time Charter	17,250 (until Q2 2018)
Zoilo	49,990	Eco MR product	2015	Hyundai Mipo S.Korea	Croatian	Trafigura Time Charter	17,750 (until Q3 2018)
Dalmacija	49,990	Eco MR product	2015	SPP Shipbuilding S.Korea	Croatian	Trafigura Time Charter	17,750 (until Q4 2018)
Pag	49,990	Eco MR product	2015	SPP Shipbuilding S.Korea	Croatian	Voyage charter	SPOT

Operativni podaci flote	2015	2016	2017
Time Charter Equivalent rates (USD, per day)	15,257	15,583	15,525
Operating days (number)	1,191	2,156	2,123
Daily vessel operating expenses (USD)	7,180	6,885	6,891
Fleet utilization %	100	98,2	98,6
Average number of vessels in the period	3,26	6,00	6,00

#### TCE Net vs. OPEX, 2016 vs 2017:



# Key events in 2017

## Unaudited financial statements for Q4 2016 and the full year 2016 adopted (Q1)

The meetings of the Management Board and the Supervisory Board of Tankerska Next Generation Inc. were held on February 27th 2017 and the unaudited financial statements for the fourth quarter and the full year 2016 were adopted.

## Agreement for conducting specialist's activities expires (Q1)

Agreement for conducting specialist's activities between Tankerska Next Generation Inc. and Interkapital vrijednosni papiri Ltd. expired on March 31st 2017.

Interkapital vrijednosni papiri Ltd. continued to perform specialist activities for shares of Tankerska Next Generation Inc., TPNG-R-A, ISIN: H RTPNGRA0000 until May 2nd 2017.

## Agreed cooperation in conducting specialist trading activities (Q2)

Tankerska Next Generation Inc. signed an Agreement on conducting specialist trading activities with Zagrebačka banka Inc. on April, 10th 2017, by which Zagrebačka banka Inc. has undertaken to perform specialist trading activities for shares of Tankerska Next Generation Inc., TPNG-R-A, ISIN: H RTPNGRA0000, included on the Official market of the Zagreb Stock Exchange Inc.

The specialist submits simultaneous buy and sell orders within the order book on each trading day in accordance with the Rules of the Zagreb Stock Exchange. According to the signed Agreement Zagrebačka banka Inc. started to perform its activities on May, 3rd 2017.

## Audited financial statements for 2016 and unaudited financial statements for Q1 2017 adopted (Q2)

The meetings of the Management Board and the Supervisory Board of Tankerska Next Generation Inc. were held on 26 April 2017.

Supervisory Board considered and adopted the Financial statements for the year ended 31 December 2016 together with Independent auditor's report, and the Annual Company status report.

Furthermore, on the aforementioned session the Supervisory board considered and adopted the unaudited financial statements for the first three months of 2017

## Annual general assembly meeting held (Q3)

Tankerska Next Generation Inc. Annual general assembly meeting was held at the Company headquarters in Zadar on August 1st 2017 at 11:00 hours. At the annual general meeting 6,495,630 votes were present, representing 74.4899 % of the total share capital (with voting power).

All decisions of the General Assembly were passed with the necessary majority in the form proposed by the Management Board and the Supervisory Board in the Annual general meeting invitation.

## Unaudited financial statements for Q2 and H1 2017 adopted

The meetings of the Management Board and the Supervisory Board of Tankerska Next Generation Inc. were held on July 26th 2017 and the unaudited financial statements for the second quarter and the first six months of 2017 were adopted.

## Dividend payout from the profits realized in 2016 (Q3)

Tankerska Next Generation Inc. in the year ending with 31 December 2016 realized net profit in the amount of HRK 40.607.822,91. General Assembly adopted a decision that a part of net profit in the amount of HRK 13.952.232,00 will be paid as dividend to shareholders. The payout of dividend in the gross amount of HRK 1.60 per share started on 31st August 2017. A part of net profit in the amount of HRK 2.030.391,15 was allocated to mandatory reserves, and a part of net profit in the amount of HRK 24.625.199,76 was allocated to retained earnings.

## Unaudited financial statements for Q3 and 9m of 2017 adopted

The meetings of the Management Board and the Supervisory Board of Tankerska Next Generation Inc. were held on October 26th 2017 and the unaudited financial statements for the third quarter and the first nine months of 2017 were adopted.

## Termination of the cooperation in conducting specialist's activities (Q4)

On 27th November 2017, Zagrebačka banka Inc. as the Specialist trader and TNG Inc. as the Issuer agreed to terminate the cooperation in conducting specialist trading activities. Zagrebačka banka Inc. continued to perform specialist trading activities for the shares of TNG, TPNG-R-A, ISIN: H RTPNGRA0000 until the expiration of the termination period on 29th December 2017.

# Outlook

Tankerska Next Generation is a shipping company focused exclusively on the MR product tanker segment and owns and operates 6 product tankers, 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.

At the end of 2017 TNG 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.

The fleet employment strategy provided a stable level of income over the medium term, in which three vessels are employed on time charter while the remaining three vessels have been transferred to the spot market after their shorter time charter contracts expired.

Placing three vessels on the spot market was beneficial to the operational efficiency and it enabled optimal geographical positioning of the vessels before the drydock, which resulted in lower expenses of the drydocks itself.

The company continues with intent to employ the majority of its fleet through a medium to long-term time charter contracts in order to achieve predictable business results and cash flows that support risk mitigation for the shareholders. In terms of duration, future employment strategies will depend on market conditions and the management approach to optimum fleet management strategy.

The Group is subject to numerous laws and regulations in the form of international conventions and treaties, national, state and local laws and national, state and international regulations in force in the jurisdictions in which the Group's vessels operate or are enrolled.

The Ballast Water Convention of the International Maritime Organization entered into force on September 8, 2017, while at the last IMO meeting, a postponement of implementation was granted for a certain part of the existing fleet.

After September 2017, the approved ballast water treatment system will have to be installed by the time when it is necessary to renew the International Oil Pollution Prevention (IOPP) certificate, which for TNG means that the systems will be installed on vessels following a five-year drydock cycle that should start from the end of 2019, depending on the binding deadlines and future business conditions. The ballast water treatment system actively removes, kills or deactivates reproduction systems of organisms in ballast waters before returning them to the ecosystem. Expected cost of deployment can range from USD 500,000 to USD 1 mil. per ship depending on the preparation and existing ship installations.

According to the provisions of MARPOL by 1 January 2020 the sulphur content in motor fuel will not be allowed to be greater than 0.50%, and emissions into the environment will not be allowed to be higher than that. Compliance of operational performance with these regulations can result in significant capital expenditures in the case of installing equipment to reduce sulphur emissions or can raise the operating costs in order to substitute a cheaper high sulphur fuels with more expensive low sulphur fuel.

These changes in the regulatory environment will affect the operations of TNG in the medium term through the requirements for investments in new technology in order to achieve full compliance of the fleet with these conventions. TNG completed its first five-year drydocking for the two conventional tankers, and we expect that the investments associated with these regulations will have an impact in the next five-year drydocking cycle, which we expect by the end of 2019.

The main trends and indicators related to the product tanker market in the medium term show stability and balance of supply of newbuildings and demand for a tonne mile, while the relocation of production capacity of oil products to the Far East continues, which could all together indicate a slight recovery of the market hire rates in the future. In that period, the company aims to ensure the sustainability of the business and maximize business efficiency by managing the Group in a way that is believed to provide the Company a consistent and continuous dividend policy.

# Risk management

TNG's risk management policy in connection to managing its financial assets can be summarized as follows:

## Foreign exchange risk

TNG is exposed to the following currency risks: the transaction risk, which is the risk of a negative impact of fluctuations in foreign exchange rates against the Croatian kuna on TNG's cash flows from commercial activities; and the balance sheet risk, which is the risk that the net value of monetary assets on retranslation of kuna-denominated balances becomes lower as a result of changes in foreign exchange rates.

TNG operates internationally and is exposed to changes of US currency as significant amount of receivables and foreign revenues are stated in this currency. Current TNG policies do not include active hedging.

## Interest rate risk

Interest rate risk is the risk of change in value of financial instruments due to changes in market interest rates. The risk of interest rate in cash flow is a risk that the interest expenditure on financial instruments will be variable during the period. As TNG has no significant interest-bearing assets, its operating income and cash flows from operations are not significantly exposed to fluctuations in market interest rates. TNG's interest rate risk arises from long-term borrowings. TNG is exposed to interest rate risk on its long-term borrowings that bear interest at variable rates.

Arranging interest rate swaps with the key lenders provides for easing the risk of volatility in the variable interest rate, allowing the company, which operates in terms of pre-fixed income contracted to manage the profitability of operations fixing one of the major cost components.

## Credit risk

Credit risk is the risk of failure by one party to meet commitments to the financial instruments, what could cause the financial loss to the other party. Maximum exposure to credit risk is expressed in the highest value of each of the financial asset in statement of financial position. Basic financial assets of TNG consist of cash and of account balance with banks, trade receivables and other receivables, and of investments. Credit risk in liquid funds is limited as the counterparty is often the bank that most international agencies assessed with high credit ratings.

## Liquidity risk

The responsibility for managing liquidity risk rests with the Management Board which sets an appropriate liquidity risk management framework for the purpose of managing its short-term, medium-term and long-term funding and liquidity requirements. Liquidity risk, which is considered the risk of financing, is the risk of difficulties which the TNG may encounter in collecting funds to meet commitments associated with financial instruments. TNG has significant interest bearing non-current liabilities for loans with variable interest that expose TNG to the risk of cash flows. Company manages liquidity risk through maintaining adequate reserves and loan facilities, in parallel to continuously comparing planned and realized cash flow and maturity of receivables and liabilities.

## Price risk

TNG's activities expose it to price risk associated with changes in the freight rate. The daily freight rate (the spot rate) measured in USD per day, has historically been very volatile. The volatility influences day-to-day operations in the following ways:

- when rates are low TNG sees it as an opportunity to increase market exposure, and
- when rates are high TNG will seek to hedge short-term to medium-term exposure by chartering-out vessels or by actively trading freight-related derivatives.

In addition, TNG trades its spot exposed vessels in different pools that reduces the sensitivity to freight rate volatility by economies of scale and optimization of the fleet's geographical position.

## Operational risk

Due to the risks involved in seaborne transportation of oil products as well as due to very stringent requirements by the "oil majors", safety and environmental compliance are TNG's top operational priorities. The Fleet Manager will operate TNG's vessels in a way so as to ensure maximum protection of the safety and health of staff, the general public and the environment. TNG and the Fleet Manager actively manage the risks inherent in TNG's business and are committed to eliminating incidents that would threaten safety and the integrity of the vessels. Fleet Manager uses a risk management program that includes, among other, computer-aided risk analysis tools, maintenance and assessment programs, seafarers competence training

program, and seafarers workshops.

### Daily rates

Time charter rates are usually fixed during the term of the charter. Vessels operating on time charters for a certain period of time provide more predictable cash flows over that period of time and yield conservative profitability margins. Prevailing time charter rates fluctuate on a seasonal and year-to-year basis reflecting changes in spot charter rates, expectations about future spot charter rates and other factors. The degree of volatility in time charter rates is lower for longer-term time charters as opposed to shorter term time charters.

Employment strategy based on longer than one year time charter enables the mitigation of this type of risk.

### TNG and its fleet manager are comited to the following standards, strategies and insurance:

("ISO") 9001 for quality assurance,  
 ISO 14001 for environmental management systems,  
 ISO 50001 for energy management systems and Occupational Health and Safety  
 "OHSAS" 18001 Safety Advisory Services  
 ISM Code - International safety management code

### Company strategy

The Company's strategy is to be a reliable, efficient and responsible provider of seaborne refined petroleum product transportation services and to manage and expand the Group in a manner that is believed will enable the Company to increase its distributable cash flow, enhance its ability to pay dividends and maximize value to its shareholders.

Business operations are based on the timely acquisition of tankers, ensuring efficient use of raised capital and debt minimization. Basically, fleet management is

directed towards increasing cash flow and profitability through outsourcing majority of functions and services, maintaining a flexible and simple organizational structure unencumbered with additional overheads. This enables efficient assets and liabilities management and ensures a stable dividend return to shareholders.

### Chartering strategy

Charterer's financial condition and reliability is an important factor in counterparty risk. TNG generally minimizes such risks by providing services to major energy corporations, large trading houses (including commodities traders), major crude and derivatives producers and other reputable entities with extenuating tradition in in seaborne transportation.

### Insurance

The operation of any ocean-going vessel represents a potential risk of major losses and liabilities, death or injury of persons, as well as property damage caused by adverse weather conditions, mechanical failures, human error, war, terrorism, piracy and other circumstances or events. The transportation of oil is subject to the risk of pollution and to business interruptions due to political unrest, hostilities, labour strikes and boycotts. In addition, there is always an inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade.

As an integral part of operating the vessels, TNG maintains insurance with first class international insurance providers to protect against the majority of accident-related risks in connection with the TNG's marine operations.

The Company believes that the TNG's current insurance program, is adequate to protect TNG against the majority of accident-related risks involved in the conduct of its business and that an appropriate level of protection and indemnity against pollution liability and environmental damage is maintained. TNG's goal is to maintain an adequate insurance coverage required by its marine operations and to actively monitor any new regulations and threats that may require the TNG to revise its coverage.

# Related parties

As of 1 January 2015 the Management agreement and Non-Competition Agreement have commenced. More information on the scope and contents of contracts can be found in Company's Prospectus dated 8 December 2014 which is publicly available on TNG's website ([www.tng.hr](http://www.tng.hr)).

## Management Agreement

Under the careful supervision of the Management Board, the Group's operations are managed by Tankerska (Fleet Manager) and the Group has entered into a long-term agreement with the Fleet Manager (Management Agreement). Pursuant to the Management Agreement, the Fleet Manager shall provide to the Group commercial, crewing, technical, and certain administrative and corporate services in exchange for management services fees. The Management Agreement shall continue until the 31 December 2020. Management Board believes that the Group will greatly benefit from the relationship with Tankerska as it is a vastly experienced and highly reputable tanker operator which can offer premium services at favorable rates.

In return for providing the services under the Management Agreement, TNGI pays the Fleet Manager fees comprised of the following key components:

**Commercial management services fee.** TNGI pays a fee to the Fleet Manager for commercial services it provides to the Group equal to 1.5% of the gross vessel revenues

**Bunkering.** All bunkering arrangements will be charged at USD 1.00 per metric ton. Any cost directly or indirectly incurred in the process of providing the bunkering services

(including but not limited to agency costs, bunker samples analysis, bunker surveys, etc.) will be off-budget and charged to TNGI as contingency costs

**Ship management services fee.** TNGI pays a fee to the Fleet Manager for the ship management services. The fee is related to Moore Stephens' publication which provides an average daily expense for each type of vessel. The fee TNGI pays to the Fleet Manager is equal to 67% of the management fee published in Moore Stephens' latest OpCost for Handysize Product Tankers paid daily or pro-rata on daily basis for the part of a month.

**S&P fee.** In the event of a definitive agreement for the direct purchase, acquisition, sale or disposition of any vessels entered into by or on behalf of the Group or its affiliates or their owners, the Fleet Manager shall be entitled to a fee in the amount of 1% of the aggregate consideration

## Non-Competition Agreement

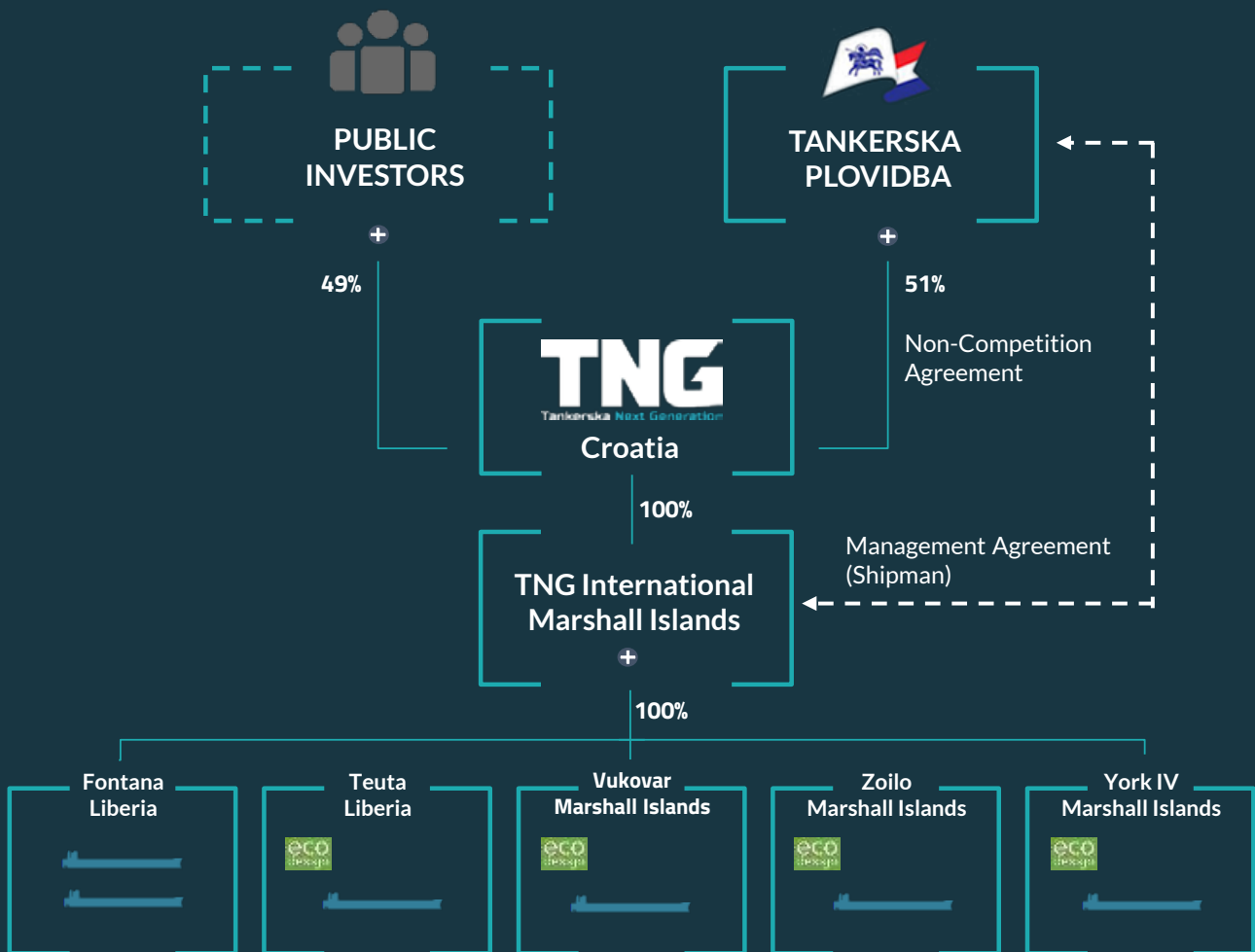
According to the Non-Competition agreement between TNG Group and Tankerska Group, the parties have agreed that Tankerska plovidba nor its affiliates (other than the Company and its affiliates) shall own, lease, commercially operate or charter any MR product tanker.

The Non-Competition Agreement automatically terminates, expires and has no further force and effect on the date that Tankerska and its affiliates no longer retain direct or indirect ownership of at least an aggregate of 33% of Company's shares.

Subsidiary	Jurisdiction of incorporation	Shareholder	Ownership interest	Voting power
TNG International Ltd.	Marshall islands	TNG d.d.	100%	100%
Pag Shipping LLC	Marshall islands	TNG International Ltd.	100%	100%
Zoilo Shipping LLC	Marshall islands	TNG International Ltd.	100%	100%
Vukovar Shipping LLC	Marshall islands	TNG International Ltd.	100%	100%
Fontana Shipping Company Ltd.	Liberia	TNG International Ltd.	100%	100%
Teuta Shipping Company Ltd.	Liberia	TNG International Ltd.	100%	100%



Overview of related party transactions




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Tankerska Next Generation International, a subsidiary of Tankerska Next Generation holds bareboat contracts with companies which own a total of 6 product tankers

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## STATEMENT ON APPLICATION OF THE CODE OF CORPORATE GOVERNANCE

According to the Croatian Companies Act, (OG 111/93, 34/99, 121/99, 52/00 – Decision CCRC, 118/03, 107/07, 146/08, 137/09, 152/11 – lectured text, 111/12, 68/13 i 110/15), those companies whose shares are traded on the regulated market are obliged to apply codes of corporate governance. Given that the total of 8.733.345 shares of the Company are listed under ticker TPNG-R-A and ISIN HRTPNGRA0000 are listed on the Official market of ZSE, the Company has adopted codes of corporate governance prepared by ZSE and CFSSA. The Code is published on the Zagreb Stock Exchange ([www.zse.hr](http://www.zse.hr)). Top shareholders are listed on the page 10 of the Annual report. Taking into account the specifics of the business model TNG Inc. complies with the provisions of the Code as reported to the public through the annual survey of corporate governance which is published on the website of the company ([www.tng.hr](http://www.tng.hr)).

With a goal to reach the high standards of corporate governance the Company has adopted its own Code of corporate governance, and it has been prepared according to the Code of Zagreb Stock Exchange and CFSSA. The Code recognizes the accountability of the Supervisory Board and Management Board and the importance of transparency to all the Company's shareholders, including customers, investors and regulatory authorities.

### Exceptions are the following:

- The company has not ensured that the shareholders of the company who, for whatever reason, are not able to vote at the General assembly in person, have proxies who are obliged to vote in accordance with instructions received from the shareholders, with no extra costs for those shareholders, because the Company did not receive that kind of request from any of its shareholders
- The shareholders are not allowed to participate and to vote at the General assembly using modern communication technology, because that kind of participation is not provided by the Articles of association. The benefits of the implementation of that kind of

system and its cost effectiveness will be examined in the future.

- Legal and statutory application for the General assembly are met, as well as the power of attorney and registration for participation in advance. All in order to protect the interests of shareholders and maintain appropriate technical quality of the general assembly.
- Supervisory board is composed of 3 members of the majority shareholder, and two independent members
- Succession planning will be carried out through early detection and identification of needs for successors.
- The detailed data on all earnings and remunerations is published in the Annual report.
- Due to organizational specifics of the company, the Supervisory Board has not established appointment and remuneration commission but it will be an "ad hoc body" in case of need, considering the questions in this area.
- The amount of charges paid to the independent external auditors for the audit carried out is protected by the confidentiality of the audit contracts

### Internal audit and risk management

The Audit committee of the company prepares and monitors the implementation of decisions of the Supervisory Board relating to the system of financial reporting, risks related to financial reporting and supervises control and quality assurance mechanisms and the process of financial reporting of Tankerska Next Generation. Through continuous access to auditors the committee oversees the reporting process, discusses key issues for the business set out by the auditors, management or the Supervisory Board by giving advice, recommendations or guidelines. The Audit Committee is responsible for ensuring the objectivity and credibility of the information and reports to be submitted to the Supervisory Board. Obligations and responsibilities of the audit committee include the responsibility to monitor and review the integrity of financial reporting of the Company's internal financial control system and the Company's internal control and compli-

ance of operations of the Company. The Audit Committee also monitors the function of the external auditors (including the effectiveness of the external audit and the appointment of auditors and fees) and evaluates the effectiveness of internal audit activities.

### Appointment and functions of the Management Board

Management Board is appointed and recalled by the Supervisory Board for a term that lasts up to five years, after which the members of the Board can be re-appointed. Management board currently consists of one member and can count up to three members. The powers of the members of the Board are defined by the Companies Act and the Articles of Association and include management activities at their own risk by taking all actions and decisions it deems necessary for the successful management of the Company. For certain decisions Management is obligated to ensure the approval of the Supervisory Board (among other things - changes to the Articles of Association, the acquisition and disposal of treasury shares). The Company is represented independently by the member of the Board. The sole member of the Management board is Mr. John Karavanić.

### Supervisory Board

The Supervisory Board consists of five members appointed by the General Assembly. The Supervisory Board is responsible for appointing and recalling of members of the Management board and for supervising the operations of the Company. In accordance with the provisions of the Articles of Association the Supervisory Board gives prior approval for significant transactions and activities that the Management Board can not execute without their consent. The Supervisory Board established the Audit Committee.

## Corporate management

### John Karavanić

#### Chief Executive Officer

Mr. John Karavanić graduated from the Faculty of Economics in Zagreb in 1992. After graduation, he was employed with Tankerska plovdba as trainee in the Commercial Division. From 1993 – 1997 he was a senior officer in Tanker Division in Tankerska plovdba, and from 1997 -1999 Department Manager in Tanker Department in the Commercial Division. Between 1999 -2004 he was a broker in Alan Shipping (a Tankerska plovdba subsidiary). He returned to Tankerska plovdba in 2004 to the position of Chartering Manager and Deputy Commercial Director within the company. Since 2014 he held a position of a Project Manager and Deputy Commercial Director in Tankerska plovdba. Since August 2014 Mr. Karavanić is the CEO of TNG.

### Mario Devošić

#### Chief Financial Officer

Mr. Mario Devošić graduated in 2004 from Faculty of Economics in Zagreb. After graduating, he was employed at the INA Inc. oil company which has a leading role in oil business in Croatia and a significant role in the region. He built his career through the segment of exploration and production of oil and gas and in the business finance functions. As a Director of Investor Relations, from 2011 to 2013, he was responsible for developing and implementing investor relations strategy, and as a Director of portfolio at INA Group he was responsible for portfolio optimization. From 2014 he worked in the field of credit risk management. He joined Tankerska Next Generation team in May 2015. He is a current member of the Committee on Conflict of Interest at Zagreb Stock Exchange.

### Ivica Pijaca

#### President of the Supervisory board

Mr. Ivica Pijaca began his professional career in Tankerska plovdba as a deck cadet from 1992–1993. He graduated from the Faculty of Maritime Studies in Rijeka in 1998. The same year he was employed as a 3rd mate in the Tankerska plovdba fleet. In 1999 he became Assistant Chartering Manager in

Product Tanker Department in Tankerska plovdba, advancing to the position of Chartering Manager in Tanker Department in Tankerska plovdba in 2003. Between 2004–2005, Mr Pijaca was a broker in Alan Shipping (a Tankerska plovdba subsidiary) and a Managing Director in the same company from 2005–2006. From 2006–2013 Mr Pijaca was Chartering Manager in Tanker Department in Tankerska plovdba. In 2013 Mr Pijaca became a Director of Commercial Division, a position he currently holds in Tankerska plovdba.

### Mario Pavić

#### Member of the Supervisory board and Audit committee

Mr Mario Pavić began his professional career in Tankerska plovdba as cadet between 1993 –1994. He graduated from the Faculty of Maritime Studies in Split in 1996 with the degree of nautical engineer. From 1997 to 2002 he was employed as a deck officer in Tankerska plovdba fleet. In 2002 he obtained a master degree in Maritime Engineering Management at the Faculty of Maritime Studies in Split. Between 2003–2007 he was Tanker Operations Manager in Tanker Department in Tankerska plovdba. Between 2007–2012, Mr Pavić was a broker in Alan Shipping (a Tankerska plovdba subsidiary) and a Managing Director in the same company from 2012–2013. Since 2013, Mr Pavić is the Management Board member of Tankerska plovdba.

### Nikola Koščica

#### Member of the Supervisory board and Audit committee

Mr. Nikola Koščica graduated in Financial Economics at London Guildhall University in 1996. After the graduation, he was employed with Dalmatinska banka Inc. between 1997–2001, first as a trainee, later as an analyst in Risk Management Department of the said bank. Between 2001–2003, he was initially employed as an account manager and later as head of Corporate Lending Department in Zadar Branch of Raiffeisenbank Austria Inc. He became an employee of Tankerska plovdba in 2004 as a Risk Manager and since 2013 he holds a position of Director

of Financial Division. Since August 2015, Mr Koščica is the Management Board member of Tankerska plovdba.

### Joško Miliša

#### Member of the Supervisory board

Mr. Joško Miliša graduated from the Faculty of Electrical Engineering in Zagreb and in 1992 he started working as a broker at a brokerage firm Medis, after that he worked in the consulting companies Consult Invest and ICF as a consultant on business acquisitions and general consultancy. At Erste Securities Ltd. he occupied the position of the Head of securities trading and the introduction of portfolio management. He was appointed in 2000 as vice-president of the Croatian Privatisation Fund. In early 2002, he co-founded the investment firm ŠTED-CAPITAL Ltd., which he independently and successfully lead till mid-2009. Currently he is the CEO of the investment firm Prosperus Invest Ltd.

### Nikola Mišetić

#### Member of the Supervisory board

Mr. Nikola Mišetić graduated in 2002 from the Faculty of Economics in Zagreb, and he finished an MBA program in 2009 at ISEAD business school, France. He began his professional career in 2003 as an macroeconomist at Volksbank Inc. Zagreb, from where he went to Kreditna banka Zagreb Inc. where he was employed as a deputy director for retail from 2004. till 2005. At McKinsey & Company Inc. he was a project manager from 2004. till 2011 when he entered Adris Grupa Inc. as an executive director of development. In April 2014. Mr. Mišetić is named to the Management Board of Croatia osiguranje following acquisition of Croatia osiguranje by Adris group.

### Sergej Dolezil

#### President of the Audit Committee

Mr. Sergej Dolezil graduated in 2004 at Webster University Vienna, Management with a focus on international business, he also completed the MBA program in 2009. at the IEDC Business School in Bled, Slovenia. In 2004 he got employed as a supervisor in the Tax Department of KPMG Croatia. From

2010 he is employed at the INA oil & gas industry at the position of Lead Internal Auditor, and in that position he remained until 2013 when he was promoted to Head of Internal Audit. In April 2015 he moved to Croatia Osiguranje d.d., where occupied the position of board member financial advisor. In January 2016 he became the head of internal audit at Croatia Osiguranje, and from January 2018 he is the CEO of CO Zdravlje d.o.o.

## Genarij Sutlović

### Member of the Audit Committee

Mr. Genarij Sutlović graduated from the Faculty of Economics in Rijeka in 1986. After graduation, he was employed in Tankerska plovidba as an officer from 1987 to 1989. Since 1990, he was employed on the position of Chief financial accountant from where he was promoted to Chief Accounting Officer in February 1991. At the position of Chief Accounting Officer at Tankerska Plovidba he remained until December 2001 when he moved to Stambeno Gospodarstvo Tanker, where he occupies the position of the Director of the company ever since. Mr. Sutlović is also a member of the Audit Committee in Viktor Lenac shipyard in Rijeka.

### Compensations for members of board's and committee's

#### Compensation for the members of Supervisory Board:

Compensation for the members of supervisory board amounts to 4,000 kn net monthly, while President of the Supervisory board has a compensation of 5,000 kn net monthly.

#### Supervisory board members as per 31st December 2017:

Mr. Ivica Pijaca, president  
Mr. Mario Pavić, deputy president  
Mr. Joško Miliša, member  
Mr. Nikola Mišetić, member  
Mr. Nikola Koščica, member

#### Compensation for the members of Audit committee:

Compensation for the members of Audit committee amounts to 2,000 kn net per session, members of the Audit committee who are also members of

the Supervisory board do not receive a compensation.

#### Audit committee as per 31st December 2017:

Mr. Sergej Dolezil, president  
Mr. Mario Pavić, member  
Mr. Genarij Sutlović, member

#### Members of the Management, Supervisory board and Audit committee who own the shares of the company as per 31st December 2017:

Mr. John Karavanić, CEO, 1,633 company shares,  
Mr. Ivica Pijaca, Supervisory board president, 1,840 company shares,  
Mr. Mario Pavić, member of the Supervisory board and Audit committee 1 company share,  
Mr. Nikola Koščica, member of the Supervisory board 1,840 company shares,  
Mr. Genarij Sutlović, member of the Audit Committee, 525 company shares.

### Dividend policy

Tankerska Next Generation d.d. business policy is guided by the best practice in achieving benefits for its shareholders in an effort to maximize the profit from operations, while the dividend payment policy which follows the example of the most successful global shipping companies in the same business segment, will be guided by efforts to ensure continuity and consistency in dividend payments policy. Management is further obliged to maximize profit devoting particular attention to effective management of vessels, strengthening its comparative advantages in relation to similar shipping companies operating in the global market, while keeping operating costs at low, but without compromising safety, quality of transport services and the environment.

In determining proposals for dividend payment TNG management shall be guided by the Company's earnings, financial position, needs and levels of available funds, fulfilling the commitments under agreements on loans for financing the construction of the fleet and market conditions and changes in the regulatory environment. Management will strive to maintain

the continuity in the dividend payment to shareholders by proposing payment of normalized company earnings as part of the profit in the amount of available funds above the minimum requirements of working capital needed for the fleet, in line with the needs of the strategy of commercial exploitation of ships, which can range from 600,000 to one million dollars depending on whether ships are employed on time charters or on a voyage basis, and in accordance with the mandatory financial indicators of the loan agreements.

### Dividends paid to shareholders from the business results achieved in 2016

Following the successful world practice of shipping companies of the same segment, in an effort to maximize profit, and assurance of continuity and consistency in policy dividend payments from operating result achieved in 2016 Company's shareholders were paid a dividend of HRK 1.60 per share. General assembly held on 1 August 2017 passed a decision approving the proposal of the Management Board and to distribute HRK 13,952,232,00 to shareholders in amount of HRK 1.60 per share, or an average dividend yield of 2,32% in comparison to the price which preceded the General assembly.

### 2017 dividend proposal

In order to ensure continuity in the dividend payment to shareholders management is taking into consideration the business results achieved during 2017, as well as the amount of available funds above the minimum requirements for working capital needed for the fleet in line with the needs of the employment of the fleet, which currently includes the engagement of three vessels on the spot market, and according to mandatory financial indicators of the loan agreements. Normalized earnings of the Company as part of the profit above the necessary funds in the gross amount of 0.60 kuna per share are proposed by the management, which is an average dividend yield of 1.18% in comparison to the price which preceded the publication of this report.

# Sustainability and social responsibility

The main goals of sustainability and social responsibility are: corporate social responsibility as integral part of business strategy, environmental protection, economic sustainability, market relations, work environment and community relations

The concept of Corporate Social Responsibility (CRS) implies the integration of responsibility for the society and environment into the business development strategy.

TNG's key stakeholder groups comprise of customers, suppliers, employees, shareholders, financiers, industry associations, regulators and the community, and our continuous goal is to nurture partnership and dialogue with each of these groups.

## Corporate social responsibility as integral part of business strategy

The shipping industry handles about 90% of the world's transported goods. In this way, shipping links production, people and companies in global trade and contributes to development and growth all over the world. Developing efficient, reliable and smart solutions for transporting goods from producers to buyers is increasingly a key component in ensuring sustainable development through trade. Recognising that smarter global trade is closely tied to sustainability, we discover the premise that working with the linkages between social and economic progress holds potential to increase value for customers, for communities and long term competitiveness to the Company.

Maritime transport is associated with a potential risk of large losses and liabilities, death or injuries to persons and damage to property caused by adverse weather conditions, mechanical failures, human error, war, terrorism, piracy and other circumstances or events. Transportation of petroleum products is associated with the risk of contamination, as well as business interruption due to political unrest, hostilities, strikes and boycotts. In addition, there is always an inherent possibility of maritime disasters, which include oil spills and other environmental impacts.

The quality of the crew and the vessel determines the safety of the cargo, reliability of operations and the flexibility to deal with unexpected situations. By putting the focus on quality crew and equipment we reduce operating costs for the company, but we also reduce the possible negative consequences for society as a whole, and guarantee the safety of the crew and the cargo being transported.

To achieve continuous reliability, shipping companies are required to entrust its operations to employees with the right competencies, which will with responsible management successfully conclude each trip. Our sailors and employees are key to achieving these objectives and therefore TNG is determined to attract and retain the best candidates. In addition to quality and motivated employees well maintained vessels are the key to successful and timely completed voyages. Good maintenance of ships and ship systems is crucial to minimize the possibility of failures, delays and errors that can manifest in negative externalities for the society.

TNG key stakeholder group:





## UN sustainable development goals achievement

### Environmental protection

The Policy of managing TNG fleet is to ensure that all owned or managed vessels are operated to comply with all necessary requirements to protect the Environment and in compliance with the existing International Conventions, Administration or other applicable Regulations, which will further help to achieve the 17 goals of UN's Sustainable development.

#### It shall be accomplished through the implementation of the following:

- Taking precautions to protect through the environment in which the Company's ships operate.
- High standards in operating and maintaining Company's ships.
- Responding to hazards quickly, efficiently and with the minimum possible impact to the environment and natural resources.
- Commitment to continuous improvements in our environmental performance and pollution prevention across all our activities.
- Correct treatment and handling of cargo products being transported, bunker and lubrication oils purchased, paints, chemicals, solvents, other consumables materials and in order to comply with statutory rules and regulations.
- Assessing identified risks for possible environmental impacts originating from the various environmental aspects of shipping business.
- Train crew to prevent accidental and whenever possible operational discharges of pollutants to the environment.

All shore based and shipboard personnel of Tankerska group are strictly required to adhere to this Policy by fully complying with all requirements of the Company as well as all applicable industry, administration, national and international regulations.

Tankerska Next Generation is committed to make efficient use of energy aboard its ships with the purpose of preserving natural resources, reducing atmospheric emissions and helping to mitigate the effects of climate change.

These objectives are mainly achieved through the delivery of four Eco-Design product tankers in 2015. Eco ships have various improvements to its operating system, such as improved engines and improved larger propellers which reduce fuel consumption. The new generation of engines and other improvements in the operating system on the eco-designed ships can provide a significant reduction in fuel consumption and emissions into the atmosphere, including CO<sub>2</sub>.

Climate change caused by CO<sub>2</sub> emissions pose a threat to the environment and wildlife and can pose operational and commercial challenges for the business operations of Tankerska Next Generation.

Work on reducing CO<sub>2</sub> emissions into the air and our commitment to curb CO<sub>2</sub> emissions and other harmful gases in the atmosphere has proved positive for the fleet, since in the same way it helped reduce fuel consumption, and thereby increase the efficiency of the fleet.

Eco-design of our fleet allows compliance with various regulatory issues, including emissions (NO, CO, CO<sub>2</sub>, C), and ease of implementation of the ballast water treatment system (BWT), which will have to be implemented in order to meet the regulatory requirements of US coast guard, and thus further reduce the environmental impact.

## Economic sustainability

### Contribution to economic prosperity

Tankerska Next Generation regularly and transparently calculates and pays taxes, contributions and other fees pursuant to the regulations of the Republic of Croatia. By doing this, the Company contributes substantially to the functioning and development of numerous activities important to everyday life in the community.

TNG keeps proper accounting records, which will at any time with reasonable accuracy present the financial position of the Company and comply with the Croatian Accounting Law.

Our financial obligations towards suppliers are executed within the set deadlines, and in this way we contribute to the optimization of delivery channels.

### Optimization of delivery channels

Tankerska Next Generation seeks to optimize the delivery chains in which it operates and thus contribute to the efficiency of its operations, and the operations of all parties, and interest groups involved in the delivery channels. Every day lost due to barriers in the supply chain drives up the costs, but if coupled with understanding and customer experiences from the field, inefficiencies can be eliminated. TNG endures on it through the adjustment of its business with a variety of industrial protocols and by adopting quality standards. Furthermore, we are looking for the highest quality standards from our suppliers, as well as to comply with ethical guidelines that must include respect for fundamental human rights, labor standards, the attitude towards the environment and employees.

## Market relations

### Good practices of Corporate governance

Tankerska Next Generation as a business entity that operates and develops its business in the Croatian and international market, is aware of the importance of responsible and ethical conduct of business entities as a necessary precondition for developing quality relations and loyal competition between business partners, and for the effective functioning of the market and the integration of the Croatian economy. The Company is developing and operating in accordance with good corporate governance practice and strives to practice business strategies and business policies which result in transparent and efficient business operations and quality relations with the business environment in which it operates.

## Corporate responsibility

Alongside with compliance with good practices of corporate governance, the key of successful and timely conducted transport is vessel maintenance. That is the cornerstone of good market relations with our clients. Well maintained vessels are key to ensure on-time delivery and a smooth voyage. It can prevent expensive delays, idle costs and repairs, and ultimately keep crew and cargo from undue risks.

All our vessels are equipped with modern technologies that are safer for the nature and the environment. Technology is considered as good as the people who operate it. That is precisely the reason we take care that all our employees are well aware of the ship's equipment and systems, and that is the reason why we constantly hold trainings and lectures. We build new vessels in close cooperation with shipyards, sharing our experience and know how in the design process as well as during the actual construction. We order our vessels exclusively in shipyards which can achieve the highest world standards.

### Anti corruption

Corruption impedes access to global markets and constitutes barriers for economic and social development around the world. For businesses in the maritime sector, corruption also escalates costs, endangers the safety and well-being of the crew and poses legal and reputational risk.

Although good business relations in different parts of the world are differently defined and denominated, Tankerska Next Generation adopted a zero tolerance on corruption and this attitude is held in our business relationships. Anticorruption program obliges all employees of Tankerska Next Generation, regardless of the level and position that they have to report any attempt of corruptive behavior towards them or others. In achieving these goals, employee training, alongside control is a key tool. Anti-corruption training sessions are conducted through daily individual training of our employees, while the code of conduct of our employees is defined in the Code of Corporate Governance Tankerska Next Generation.

In order to ensure an efficient fight against corruption employees of Tankerska Next Generation, whether on land or at sea, have continuous access to local intranet through which they can promptly report any form of corruption to the designated department.

## Work environment

### Stimulating workplace

Tankerska Next Generation is actively involved in creating



a positive, safe and motivating working environment for all employees through: Opportunities for lifelong learning and investment in the competence of its employees through professional training, incentives for innovation, recognizing individuals and teams which achieve best results, the system of rewarding the employees and the possibility of career development within the Group, a high degree of safety in the workplace, recreation and socializing through sports, flexible working hours and modern workplace with all necessary tools to work.

### Culture of diversity

Even though shipping is considered a male dominated area, the Group encourages employment of women, both on land and sea. TNG and its fleet manager Tankerska Plovidba through 60 years of tradition developed a culture that appreciates differences which is manifested in equal opportunities for all employees, regardless of sex, race or religion. We see diversity of our employees as an advantage which brings added value to business, and helps achieving Company objectives.

### Zero accidents

Operating at sea involves health, safety and security risks that must always be managed carefully to safeguard the crew, the cargo, the environment and the vessel. A healthy and safe working environment for employees comes before anything else. All employees must return home from work safely.

This means that TNG's ambition is zero accidents and that the Company operates by the principle that no injury or environmental incident is acceptable.

To support our safety culture, TNG has in place a safety management system and safety policy, compliant with the International Safety Management Code. Each year Tankerska Plovidba conducts monitoring of standards of Health, Safety, Quality, Environmental & Energy Management for the fleet.

The product tankers of TNG are constantly tested by the inspectors of large oil companies and the port authorities to determine that the fleet is in according to regulatory and safety requirements of navigation.

### Care for health, safety and future

Regular medical check-ups are organized for all employees in the Company once a year, the check-ups include the highest level of diagnostics at a prominent hospital. The results of medical examinations are thoroughly analysed, and preventive health measures are undertaken to reduce diseases of employees.

The company contracted the collective accident insurance with hospital days for all employees, which provides

additional employees safety in the workplace and outside of it, as are insured in case of accident, illness, disability, serious neurological condition, and death.

A monthly payment of the Company in the voluntary pension fund for each employee ensures the long-term savings and additional benefits that are thus achieved, so that our employees can better dedicate their business tasks. In this way, our employees provide independent savings with regular returns.

### Community relations

#### Professionals who contribute the community

Continuous service reliability requires that shipowners are able to bring the right competencies and leadership skills into play on each trip. Recognising that the workforce at sea is instrumental in this ambition, NORDEN wants to attract and retain the best people and be the preferred employer in the market.

On-board training, early action on maintenance and high-quality workmanship are continuous priorities to TNG to deliver a consistent and safe service to customers. Reliability and customer understanding have been strong contributory factors in TNG landing a series of long term contracts.

Our crew is highly qualified, they pride themselves on being team players who are motivated and dedicated to the company. The crew is homogeneous, as most of them have worked on Tankerska plovidba's vessels throughout their careers.

Most of the crew on board graduated in Zadar's Nautical high school and the Zadar Nautical College. They frequently serve on the same teams, knowing their colleagues and the ship's operations thoroughly, which contributes to their homogeneousness and success as a team.

Tankerska Next Generation employees a crew of over 250 seafarers, mostly from the Zadar region which certainly contributes to the development of our region as the gross wages of seamen employed on ships of TNG are significantly above the Croatian average.

#### Cooperation with the academic community

Tankerska Next Generation is always happy to respond to numerous inquiries from the academic community, we participate in many polls, and our employees are happy to provide assistance to students dealing with maritime and economic topics in their presentations and dissertations. Member of the Board, Mr. John Karavanić, during 2017 participated in the debate club of Faculty of Economics in Zagreb, giving a lecture as part of the "Uhvati me za riječ" programme ("Take my word" programme).



Pursuant to Article 263, paragraph 3, Article 280, paragraph 3, and Article 300c and d. of the Companies Act (Official Gazette, no. 152/11 - consolidated text, 111/12 and 68/13), Supervisory Board TANKERSKA NEXT GENERATION Inc. at its 18. session held on 27. th April 2018 adopted the

#### REPORT OF THE SUPERVISORY BOARD OF TANKERSKA NEXT GENERATION d.d. ON PERFORMED SUPERVISION OF THE COMPANY'S OPERATIONS IN 2017

Tankerska Next Generation is a shipping company incorporated in 2014. which owns and operates a fleet of MT product tankers which provides international shipping transportation services of derivatives, chemicals, and oil to the national oil companies, oil majors, and derivatives, chemicals and oil traders. The main markets in which the Company operates is the international maritime transport of oil products and edible oil, and therefore provides transport services to large energy companies, large oil retailers and large manufacturers of oil and oil products and various other entities that depend on sea transport.

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 31 million) 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 16 million) 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.

At the end of 2017 TNG operates a fleet of 6 vessels, two conventional MR ice class product tankers MT Velebit and MT Vinjerac, and four ECO designed MR product tankers; MT Zoilo, MT Vukovar, MT Dalmacija i MT Pag.

During 2017 the Supervisory board had the following structure which was set up in 2016.: Mr. Ivica Pijaca, president, Mr. Mario Pavić, deputy president, Mr. Joško Miliša, member, Mr. Nikola Mišetić, member, Mr. Nikola Koščica, member.

The group 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 and the vessels were more strongly engaged in the spot market during 2017, thus achieving a better commercial result than it could have been achieved by contracting them on time charter during the past period. Placing three vessels on the spot market was beneficial to the operational efficiency and it enabled optimal geographical positioning of the vessels before the drydock, which resulted in lower expenses of the drydocks itself. Using this mix between voyage and time charter contracts allows Tankerska Next Generation to timely react to the expected long term positive changes in the freight rate market.

During the second part of 2017 the time charter market showed a slight recovery, but looking back at the past year as a whole the market conditions put a number of challenges in front of ship-owners in order to maximize the commercial potential of the fleet. Despite the market volatility that characterized 2017, Tankerska Next Generation reached an EBITDA of USD 16.6 million relying on three vessels that hold three-year time charter contracts alongside to the solid contribution of the vessels operating on the spot market. Taking into account the challenging market environment, the three vessels whose time charter contracts expired in 2016 were more strongly engaged in the spot market during 2017, thus achieving a better commercial result than it could have been achieved by contracting them on time charter during the past period. Stronger fleet engagement in the spot market has resulted in a stable financial position and allowed TNG to reach an operating profit of USD 9.6 million.

TNG's revenues in 2017 reached HRK 280.6 mil. (USD 42.4 mil.), and were slightly higher compared to the previous year, while EBITDA amounted to USD 110.1 mil. HRK (USD 16.6 mil.), which compared to HRK 127.9 in 2016 represents a decrease of 13.8%. TNG net profit in 2017 amounted to HRK 32.1 million (USD 4.8 mil.).

Operating profit for 2017 amounted to HRK 60.4 mil. (USD 9.1 mil.) and it is a result of (i) income stability brought in by the time charter contracts, (ii) contributions from Velebit, Vinjerac and Pag in the spot market. These positive trends were moderated by the (iii) increased costs as a result of higher exposure to the spot market and the one-off costs associated to the regular five-year drydocking of Vinjerac, which ended in the beginning of 2017, (iv) the correction of the spot hire rates, (v) a slightly lower level of utilization of 96.9% due to vessel repositioning in the second quarter and (vi) appreciation of the kuna against the US dollar.

The increase in ship revenues in 2017 primarily reflects the change in employment strategy of Vinjerac, Velebit and Pag. With the three vessels on the spot market during the significant part of the year TNG as a ship owner covers the voyage-related costs, contrary to the time-charter contracts where the charterer covers the voyage-related costs. This significant part of the expenses is compensated through increased revenues.

The average TCE net rate of the vessels during 2017 was recorded at 15,525 USD, and shows a slight decrease from the 15,583 USD recorded in 2016 following the change in market terms.

Adjusting the fleet employment strategy to the current market conditions offered management enough flexibility to ease the current market volatilities, and resulted in an increase of revenues during the reporting period. Using this mix between voyage and time charter contracts allows Tankerska Next Generation to timely react to the expected long term positive changes in the freight rate market. Intensive focus on the cost effectiveness of the fleet operations allowed TNG to maintain the expenses on the last year's level which helped to build solid foundations for the business operations in 2018 and expected recovery in freight rates.

Following some of the key indicators, such as rising oil demand which shows stability, strengthening of the global economic activity, and reducing of oil derivatives reserves, it is possible to expect additional demand for tonne mile in the tanker product segment. According to available market analysis and the projections of order books, backed by the solid growth in consumption and refined cargo-targeted export and projected economic growth, we expect market recovery in the medium term. During the next period TNG's management will focus on activities aimed at achieving the optimal structure of employment and providing the resources needed to continue with balanced business operations, while adapting to the changes in the regulatory environment related to the entry into force of Sulphur emission regulations and the application of the ballast water management convention, and securing the resources for the implementation of the regulatory requirements.

The Supervisory Board report was prepared for 2017 and includes the period of business operations of Tankerska Next Generation Inc. (The Company) from 1 January 2017 to 31 December 2017.

Supervisory Board of the Company (Supervisory Board), in accordance with the powers established by the Companies Act and the Articles of Association of the Company, continuously supervised the conduct of the Company's business operations during 2017, making decisions and conclusions on the six meetings held in 2017. Through the Auditing committee, the Board focused on the area of internal and external auditing and thus further emphasized and considered the minimization of business risk.

By supervising the Company's business operations during 2017, the Supervisory Board discussed key issues related to the operations of the Company and its subsidiaries and was regularly reported by the Company's Management. Management reported to the Supervisory Board on all major business events, income and expenses, capital investments, and the current business status. The Management Board regularly submitted written business reports to the Supervisory Board on quarterly, semi-annual and annual basis.

During 2015, regular shares of the Company were included in the regulated capital market and the Code of Corporate Governance of the Zagreb Stock Exchange and HANFA began to apply. The Supervisory Board established the Audit Committee. Remuneration and appointment committees have not been appointed during the business year 2017 given the totality of the operations and the specifics of the Company's organization and will be established as "ad hoc" bodies of the Supervisory Board, according to the needs and activities of the relevant scope. The Supervisory Board discussed and received a report on the work of the Audit Committee for 2017. (Sergej Dolezil, President, Genarij Sutlovic, Member, Mario Pavić, Member)

By reviewing the Company's business operations, the Supervisory Board found that in 2017 the Company operated in compliance with the law, the Company's Articles of Association, and the decisions of the Company's General

Assembly.

Within the statutory deadline pursuant to Article 300 C. of the Companies Act, the Supervisory Board examined the Annual Financial Statements of the Company and Subsidiaries for the year ended 31 December 2017 together with the opinion of the Independent Auditor Deloitte d.o.o. Zagreb, Zagrebtower, Radnička 80 (Auditor), filed by the Management of the Company.

The Supervisory Board has also received the Related Party Transactions Report from the Management in accordance with Article 497 of the Companies Act.

The Supervisory Board has determined that the Company's Annual Financial Statements for the year ended 31 December 2017 have been prepared in accordance with the Company's business records and show the Company's and its affiliated companies' fair and good business standing.

The Company operates in a specific business environment where business processes and reporting methods are regulated by a special regulation, the IMO Code, which prescribes how to conduct business books, reporting and other regulatory obligations to the government bodies.

In accordance with such findings, the Supervisory Board agrees with the Annual Financial Statements for 2017 and the opinion of the Auditor, and pursuant to the Article 300.d of the Companies Act, the Management and the Supervisory Board accept and establish the Company's Annual Financial Statements.

An integral part of the Annual Financial Statements of the Company and its subsidiaries for the business year ended 31 December 2017 are:

1. Statement of Income and Other Comprehensive Income;
2. Report on the financial position of the company;
3. Statement of Cash Flows;
4. Statement of Changes in Shareholders' Equity;
5. Notes to the financial statements;
6. Annual Report on the Company and Subsidiaries' Statements and
7. Independent Auditor's Opinion

The Supervisory Board also examined the Annual Report of the Management Board of the Company and its subsidiaries and the situation of the Company and its subsidiaries for 2017 and found that it is accurate and objective in presenting the current business situation and the situation of the Company and its subsidiaries. In accordance with such findings, the Supervisory Board accepted the Management Board's report on the Company's and subsidiary's status for the business year 2017.

The Management Board presented to the Supervisory Board a proposal of the Decision on the distribution of the Company's Profit for the Year 2017, which determines that the Company's profit for 2017 amounts to 32,132,435.14 kuna, and proposes that the amount of 5,232,087.00 kuna should be allocated for the payment of the dividend to the shareholders, further proposes that the amount of 1,606,621.76 kuna should be allocated to mandatory reserves and the remaining amount of 25,293,726.38 kuna is proposed to be allocated to retained profit.

The Supervisory Board agrees with the proposed proposal of the Decision on the distribution of the Company's Profit for 2017 and proposes to the General Assembly of the Company the adoption of such a decision.



Deputy president of the Supervisory board  
Mario Pavić

Annual company status report for the year 2017

Signed on behalf of the Management Board by:

A handwritten signature in blue ink, appearing to read 'John Karavanić', is written over a horizontal line. The signature is stylized and cursive.

John Karavanić,  
Member of the Management Board  
Tankerska Next Generation d.d.

Zadar, April 27th 2018

## Responsibility for the financial statements

Pursuant to the Accounting Act of the Republic of Croatia, the Managing Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union (the EU) which give a true and fair view of the financial position and results of operations of Tankerska Next Generation d.d. and its subsidiaries (hereinafter: "TNG") for that period. After making enquiries, the Management Board has a reasonable expectation that TNG has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Management Board has prepared these financial statements under the assumption that TNG will continue as a going concern.

In preparing those financial statements, the Management Board is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making reasonable and prudent judgments and estimates;
- following applicable accounting standards and disclosing and explaining any material departures in the financial statements; and
- preparing the financial statements under the going-concern assumption unless the assumption is inappropriate.

The Management Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of TNG and for its compliance with the Croatian Accounting Act. The Management Board is also responsible for safeguarding the assets of TNG, and hence for taking reasonable steps for the prevention and detection of embezzlement and other illegal acts.

The Management Board authorised these financial statements for issue on 27 April 2018.



John Karavanić,  
Member of the Management Board



Tankerska Next Generation d.d.  
Božidara Petranovića 4  
23000 Zadar  
Republic of Croatia

Zadar, April 27th 2018

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF TANKERSKA NEXT GENERATION D.D.**

## **Opinion**

We have audited the financial statements of Tankerska Next Generation d.d., Zadar ("TNG"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union („IFRSs“).

## **Basis for Opinion**

We conducted our audit in accordance with the Audit Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of TNG in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Kn 44,900.00; Board Members: Branislav Vrtačnik, Eric Daniel Olcott, Marina Tonžetić, Juraj Moravek, Dražen Nimčević and John Jozef H. Ploem; Bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZABHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHHR2X IBAN: HR1024840081100240905.

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## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### Key Audit Matter

#### Vessels` valuation

*For additional information regarding the identified key audit matter, refer to Note 13 to the financial statements*

As at 31 December 2017 the carrying amount of the vessels managed by TNG was HRK 1,203,337 thousand i.e. USD 191,928 thousand.

As per IAS 36 "Impairment of assets" at the end of each reporting period, Management is required to assess whether there is indication that an asset may be impaired (i.e. its carrying amount may be higher than its recoverable amount). If there is an indication that an asset may be impaired, then the asset's recoverable amount must be calculated.

An impairment loss is recognized in the statement of comprehensive income whenever the carrying amount of an asset exceeds its recoverable amount.

Based on calculated valuation of vessels, the Management concluded that the recoverable amount was higher than their carrying values therefore, no impairment provision. The Management Board performs impairment tests based on discounted cash flows for the entire fleet, at least annually when preparing the year-end financial statements. Tests are based on the estimated recoverable amounts, defined as the higher of fair value less estimated costs of disposal and value in use.

Key assumptions regarding valuation of vessels are the long-term freights from time and voyage charter rates and the weighted average cost of capital (WACC).

For the purpose of assessing the key assumption are established on the average derived from available estimates of the value of independent naval agents.

### How our audit addressed the key audit matter

#### Our procedures in relation to management's impairment assessment of vessels included:

- assessing the value-in-use models developed by the Management Board, including the consideration of the valuation methodology and the reasonableness of the underlying key assumptions and inputs based on our knowledge of the operations and the relevant industry and relying on the available supporting evidence such as cost budgets and forecasts and data observed on the market, which relate to future freight hires, interests rates and other key assumptions. Furthermore, we reviewed the commitments contained in the underlying contracts;
- assessing the key assumptions made by the Management, including its consideration of the expected future short-term and long-term rates, daily running costs, WACC, useful lives, residual values and macroeconomic assumptions;
- examining, on a test-basis, the committed cash inflows and outflows in the value-in use calculation;
- checking the calculations of fair value less cost of disposal for vessels performed by the Management Board, including a comparison of the carrying amounts of the vessels with available valuations prepared by an external and independent ship valuation broker;
- checking the estimated useful lives and residual values applied by the Management.

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report and the Corporate Governance Statement, which are included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report and Corporate Governance Statement include required disclosures as set out in the Article/Articles 21 and 22 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in the Article 22 of the Accounting Act.

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

- 1) Information included in the other information is, in all material respects, consistent with the attached financial statements.
- 2) Management Report has been prepared, in all material respects, in accordance with the Article 21 of the Accounting Act.
- 3) Corporate Governance Statement has been prepared, in all material aspects, in accordance with the Article 22, paragraph 1, items 3 and 4 of the Accounting Act, and includes also the information from the Article 22, paragraph 1, point 2, 5, 6 and 7.

Based on the knowledge and understanding of TNG and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing TNG's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate TNG or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing TNG's financial reporting process.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TNG's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on TNG's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause TNG to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### Other reporting obligations as required by Regulation (EU) No. 537/2014 of the European Parliament and the Council and the Audit Act

We were appointed as the statutory auditor of TNG at the General Shareholders' Meeting held on 1 August 2017 to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 4 years and covers period 1 January 2014 to 31 December 2017.

We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of TNG on 27 April 2018 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to TNG and its controlled undertakings, and which have not been disclosed in the Annual Report.

The engagement partner on the audit resulting in this independent auditor's report is Branislav Vrtačnik.

Branislav Vrtačnik,  
President of the Board and auditor



Deloitte d.o.o.  
Zagreb, Republic of Croatia  
27th April 2018 godine

The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Kn 44,900.00; Board Members: Branislav Vrtačnik, Eric Daniel Olcott, Marina Tonžetić, Juraj Moravek, Dražen Nimčević and John Jozef H. Ploem; Bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZBAHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHHR2X IBAN: HR1024840081100240905.

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## Statement profit or loss and other comprehensive income

### For the year ended 31 December 2017

Statement profit or loss and other comprehensive income	notes	2017	2017	2016	2016
		USD	HRK	USD	HRK
<b>REVENUE</b>					
Vessel revenues	3	42,371	280,596	39,991	272,085
Other income		2	12	2	12
<b>Total income</b>		<b>42,373</b>	<b>280,608</b>	<b>39,993</b>	<b>272,097</b>
<b>OPERATING EXPENSES</b>					
Travel expenses	4	9,778	64,756	4,209	28,634
Vessel operating expenses	5	14,288	94,615	15,931	108,388
Cost of fuel sold to charterers		765	5,065	-	-
Depreciation and amortisation	6	7,509	49,727	8,162	55,532
General and administrative expenses	7	907	6,006	1,055	7,181
<b>Total operating expenses</b>		<b>33,247</b>	<b>220,169</b>	<b>29,357</b>	<b>199,735</b>
<b>Profit from operations</b>		<b>9,126</b>	<b>60,439</b>	<b>10,636</b>	<b>72,362</b>
<b>OTHER</b>					
Financial income	8	23	149	72	491
Financial expenses	9	(4,297)	(28,456)	(4,740)	(32,245)
Net financial income/(expense)		(4,274)	(28,307)	(4,668)	(31,754)
Tax tonnage per ship	10	-	-	-	-
<b>Net income</b>		<b>4,852</b>	<b>32,132</b>	<b>5,968</b>	<b>40,608</b>
Income tax	11	-	-	-	-
<b>Profit for the year</b>		<b>4,852</b>	<b>32,132</b>	<b>5,968</b>	<b>40,608</b>
<b>Other comprehensive income</b>					
<b>Items not reclassified subsequently to profit or loss:</b>					
Exchange differences on translation of foreign operations		465	(81,264)	(420)	14,545
<b>Total comprehensive income</b>		<b>5,317</b>	<b>(49,132)</b>	<b>5,548</b>	<b>55,153</b>
Earning per share, basic and diluted	12	0.56	3.68	0.68	4.66
Weighted average number of shares, basic and diluted		8,720,145	8,720,145	8,720,145	8,720,145

The accompanying notes form an integral part of these financial statements

## Statement of financial position

### As at 31 December 2017

Statement of financial position	Notes	31 December	31 December	31 December	31 December
		2017	2017	2016	2016
		USD	HRK	USD	HRK
<b>NON-CURRENT ASSETS</b>					
Vessels and equipment	13	191,928	1,203,337	199,223	1,428,140
<b>Total non-current assets</b>		<b>191,928</b>	<b>1,203,337</b>	<b>199,223</b>	<b>1,428,140</b>
<b>CURRENT ASSETS</b>					
Inventories	14	1,335	8,370	1,508	10,806
Trade and other receivables	15	2,803	17,574	1,193	8,558
Prepaid expenses and accrued income	16	456	2,861	961	6,881
Cash and cash equivalents	17	10,175	63,792	6,126	43,915
<b>Total current assets</b>		<b>14,769</b>	<b>92,597</b>	<b>9,788</b>	<b>70,160</b>
<b>Total assets</b>		<b>206,697</b>	<b>1,295,934</b>	<b>209,011</b>	<b>1,498,300</b>
<b>CAPITAL AND RESERVES</b>					
Paid-in capital	18	68,988	436,667	68,988	436,667
Share premium	18	10,179	68,426	10,179	68,426
Reserves		9,269	57,030	8,971	55,000
Exchange differences	18	(2,582)	(26,430)	(3,047)	54,834
Retained earnings		10,388	67,725	7,885	51,575
<b>Total capital and reserves</b>		<b>96,242</b>	<b>603,418</b>	<b>92,976</b>	<b>666,502</b>
<b>NON-CURRENT LIABILITIES</b>					
Long-term financial debt and loan	19	97,556	611,647	102,937	737,909
<b>Total non-current liabilities</b>		<b>97,556</b>	<b>611,647</b>	<b>102,937</b>	<b>737,909</b>
<b>CURRENT LIABILITIES</b>					
Short-term financial debt and loan	19	9,382	58,820	9,382	67,253
Liabilities toward suppliers and other current liabilities	20	2,758	17,294	2,959	21,209
Accrued expenses and deferred income	21	759	4,755	757	5,427
<b>Total current liabilities</b>		<b>12,899</b>	<b>80,869</b>	<b>13,098</b>	<b>93,889</b>
<b>Total liabilities</b>		<b>110,455</b>	<b>692,516</b>	<b>116,035</b>	<b>831,798</b>
<b>Total capital and liabilities</b>		<b>206,697</b>	<b>1,295,934</b>	<b>209,011</b>	<b>1,498,300</b>

The accompanying notes form an integral part of these financial statements

## Statement of cash flows

### For the year ended 31 December 2017

Statement of cash flows	Notes	2017	2017	2016	2016
		USD	HRK	USD	HRK
<b>OPERATING ACTIVITIES</b>					
Profit for the year		4,852	32,132	5,968	40,608
Adjusted by:					
Depreciation and amortisation	13	7,509	49,727	8,162	55,532
Interest expense	9	3,938	26,077	4,568	31,078
Interest income	8	(20)	(133)	(9)	(64)
Exchange differences from related-party transactions	8	(3)	(16)	(63)	(427)
Net change in foreign exchange differences		469	1,678	(26)	(1,685)
		<b>16,745</b>	<b>109,465</b>	<b>18,600</b>	<b>125,042</b>
<b>Changes in working capital</b>					
Increase in current receivables		(748)	(4,955)	(1,404)	(9,550)
Increase in inventories	14	368	2,435	(864)	(5,877)
Increase/(decrease) in current liabilities	20,21	(558)	(3,697)	(393)	(2,671)
Interest paid		(3,973)	(26,309)	(4,355)	(29,630)
Interest received		14	92	7	48
<b>Cash flow from operating activities</b>		<b>11,848</b>	<b>77,031</b>	<b>11,591</b>	<b>77,362</b>
<b>INVESTING ACTIVITIES</b>					
Cash paid for purchases of vessels and equipment	20,13	(602)	(3,983)	(1,165)	(7,924)
<b>Cash flow from investing activities</b>		<b>(602)</b>	<b>(3,983)</b>	<b>(1,165)</b>	<b>(7,924)</b>
<b>FINANCING ACTIVITIES</b>					
Received loans		3,787	25,079	31,001	210,903
Repayments of received loans		(8,882)	(58,820)	(40,464)	(275,283)
Dividends paid		(2,104)	(13,934)	(5,058)	(34,414)
<b>Cash flows from financing activities</b>		<b>(7,199)</b>	<b>(47,675)</b>	<b>(14,521)</b>	<b>(98,794)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>4,047</b>	<b>25,373</b>	<b>(4,095)</b>	<b>(29,356)</b>
<b>Effects of exchange rate changes on the balance of cash</b>		<b>2</b>	<b>(5,496)</b>	<b>-</b>	<b>1,806</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>6,126</b>	<b>43,915</b>	<b>10,221</b>	<b>71,465</b>
<b>Cash and cash equivalents at end of period</b>	17	<b>10,175</b>	<b>63,792</b>	<b>6,126</b>	<b>43,915</b>

The accompanying notes form an integral part of these financial statements

### Statement of changes in equity for the year ended 31 Dec 2017

Statement of changes in equity	Paid-in Capital	Retained Earnings Account	Foreign exchange translation reserves	Other reserves	Share premium	Purchase of treasury shares	Total
	USD	USD	USD	USD	USD	USD	USD
<b>Balance at 31 December 2015</b>	<b>68,988</b>	<b>6,854</b>	<b>(2,627)</b>	<b>9,114</b>	<b>10,179</b>	<b>(143)</b>	<b>92,365</b>
Profit for the year	-	5,968	-	-	-	-	5,968
Exchange difference on foreign operations	-	-	(420)	-	-	-	(420)
<b>Total comprehensive income</b>	<b>-</b>	<b>5,968</b>	<b>(420)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,548</b>
Dividends declared	-	(4,937)	-	-	-	-	(4,937)
<b>Balance at 31 December 2016</b>	<b>68,988</b>	<b>7,885</b>	<b>(3,047)</b>	<b>9,114</b>	<b>10,179</b>	<b>(143)</b>	<b>92,976</b>
Profit for the year	-	4,852	-	-	-	-	4,852
Exchange difference on foreign operations	-	-	465	-	-	-	465
<b>Total comprehensive income</b>	<b>-</b>	<b>4,852</b>	<b>465</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,317</b>
Transfer to other reserves	-	(298)	-	298	-	-	-
Dividends paid	-	(2,051)	-	-	-	-	(2,051)
<b>Balance at 31 December 2017</b>	<b>68,988</b>	<b>10,388</b>	<b>(2,582)</b>	<b>9,412</b>	<b>10,179</b>	<b>(143)</b>	<b>96,242</b>

The accompanying notes form an integral part of these financial statements.



### Statement of changes in equity for the year ended 31 Dec 2017

Statement of changes in equity	Paid-in Capital	Retained Earnings Account	Foreign exchange translation reserves	Other reserves	Share premium	Purchase of treasury shares	Total
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
<b>Balance at 31 December 2015</b>	<b>436,667</b>	<b>45,412</b>	<b>40,289</b>	<b>55,997</b>	<b>68,426</b>	<b>(997)</b>	<b>645,794</b>
Profit for the year	-	40,608	-	-	-	-	40,608
Exchange difference on foreign operations	-	-	14,545	-	-	-	14,545
<b>Total comprehensive income</b>	<b>-</b>	<b>40,608</b>	<b>14,545</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>55,153</b>
Dividends declared	-	(34,445)	-	-	-	-	(34,445)
<b>Balance at 31 December 2016</b>	<b>436,667</b>	<b>51,575</b>	<b>54,834</b>	<b>55,997</b>	<b>68,426</b>	<b>(997)</b>	<b>666,502</b>
Profit for the year	-	32,132	-	-	-	-	32,132
Exchange difference on foreign operations	-	-	(81,264)	-	-	-	(81,264)
<b>Total comprehensive income</b>	<b>-</b>	<b>32,132</b>	<b>(81,264)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(49,132)</b>
Transfer to other reserves	-	(2,030)	-	(2,030)	-	-	-
Dividends paid	-	(13,952)	-	-	-	-	(13,952)
<b>Balance at 31 December 2017</b>	<b>436,667</b>	<b>67,725</b>	<b>(26,430)</b>	<b>58,027</b>	<b>68,426</b>	<b>(997)</b>	<b>603,418</b>

The accompanying notes form an integral part of these financial statements.

## 1. GENERAL INFORMATION

### History and incorporation

Tankerska Next Generation d.d. is a public limited company established and registered in the Republic of Croatia on 22 August 2014. The Company's registered seat is in Zadar, Božidara Petranovića 4.

The Company's registered activities comprise the following:

1. Sea and coastal cargo transport
2. Sea and coastal passenger water transport
3. Services in sea transport:
  - Service activities incidental to sea transportation;
  - Rescue or removal of vessels or other property that may be subject to rescue on the sea surface, or if it is immersed, on the sea bottom;
  - Salvage and towage of ships and other maritime activities;
  - Supply of ships, boat and yachts with motor fuel;
  - Pilotage in coastal waters of the Republic of Croatia;
  - Intermediation incidental to water transportation;
  - Rental of vessels;
  - Domestic and international road passenger and freight transport;
  - Agency activities involved in the domestic and international sale of machinery, industrial equipment, ships and aircraft;
  - Wholesale of liquid and gaseous oils and related products;
  - Building of ships and floating structures;
  - Supervision services to building of ships and floating structures;
  - Repair and maintenance of ships and boats.

The Company conducts its activities through its related party Tankerska Next Generation International Ltd., Marshall Islands.

### Governance and management

In the period from 1 January 2017 to 27 April 2018 the members of the Supervisory Board were as follows:

Ivica Pijaca	Chairman of the Supervisory Board
Mario Pavić	Deputy Chairman of the Supervisory Board
Nikola Koščica	Member of the Supervisory Board
Joško Miliša	Member of the Supervisory Board
Nikola Mišetić	Member of the Supervisory Board

The Management Board consists of 1 member, Mr John Karavanić.

At 31 December 2017, there were 3 persons employed at the Company's administration (31 December 2016: 3 employees). At 31 December 2017 the crew of subsidiary Tankerska Next Generation International Ltd. consisted of 133 seamen on a contract basis (31 December 2016: 139 seamen on a contract basis).

The ownership structure as at 31 December 2017 is set out below::

Shareholder	Number of shares	Ownership in %
Tankerska plovidba d.d,	4,454,994	51,01
PBZ Croatia Osiguranje OMF	839,000	9,61
Erste Plavi OMF	808,000	9,25
Raiffeisen OMF	752,036	8,61
Raiffeisen DMF	367,521	4,21
Own shares	13,200	0,15
Other institutional and private investors	1,504,420	17,16
<b>Total</b>	<b>8,733,345</b>	<b>100,00</b>

These financial statements for the period ended 31 December 2017 comprise of the financial statements of Tankerska Next Generation d.d. and its foreign subsidiaries (shipping companies operating internationally) that Tankerska Next Generation d.d. controls from a single administrative seat and under single governance body, and for which it is in obligation to keep business records and prepare financial statements for the full operations in the country and abroad according to the article 429.a paragraph 4. of the Maritime Code (Official Gazette of the Republic of Croatia "Narodne novine" nos. 181/04., 76/07., 146/08., 61/11., 56/13. and 26/15.) has the obligation to maintain business records and prepare financial statements for integrated domestic and foreign operations, including all shipping companies in its majority ownership that perform the economic activities using the ships the net tonnage of which is included in the tonnage tax assessment.

As subsidiaries of Tankerska Next Generation d.d. may not have the obligation, pursuant to the applicable legislation in the relevant domicile countries, to maintain business records and prepare financial statements in the respective countries of domicile, Tankerska Next Generation d.d. presents the assets and liabilities, revenue and expenses of its subsidiaries in its financial statements, as specified in the Accounting Act and the Profit Tax Act.

The financial statements for the year ended 31 December 2017 were authorised for issue in accordance with the underlying decision of the Management Board. Pursuant to the Croatian Companies Act, they have to be approved by the Supervisory Board.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

### Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union. The applied accounting policies have not changed compared to the prior year.

Initial application of new amendments to the existing standards effective for the current reporting period

The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IFRS 12 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to the existing standards has not led to any material changes in TNG's financial statements.

### *New standards and amendments to existing standards in issue not yet adopted*

At the date of authorisation of these financial statements, the following new standards, amendments to existing standards and new interpretation were in issue, but not yet effective:

- IFRS 9 "Financial Instruments" - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16 "Leases" - adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- Amendments to IFRS 15 "Revenue from Contracts with Customers" - Clarifications to IFRS 15 Revenue from Contracts with Customers - adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).
- Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 8 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

***New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU***

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at the date of publication of financial statements (the effective dates stated below is for IFRS in full):

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 2 “Share-based Payment” - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 9 “Financial Instruments” - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IAS 19 “Employee Benefits” - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 40 “Investment Property” - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards due to “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12, IAS 28) primarily with a view to removing inconsistencies and clarifying wording (IFRS 12 effective for annual periods beginning on or after 1 January 2017, whereas IFRS 1 and IAS 28 effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),

***At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International***

Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at the date of publication of financial statements (the effective dates stated below is for IFRS in full) (continued):

- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018),
- IFRIC 23 “Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after 1 January 2019).

TNG anticipates that the adoption of these new standards, amendments to the existing standards and new interpretation will have no material impact on the financial statements of TNG in the period of initial application.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### a) Functional and presentation currency

The functional currency of TNG is the Croatian kuna (HRK).

TNG presents its financial statements in two currencies, the Croatian kunas (HRK) according to the regulation of the Republic of Croatia and the US dollars (USD) according according to the industry and business practice. The conversion of USD into HRK as the functional currency and the currency all business events are recorded in is performed in accordance with the relevant accounting standards.

Accordingly, financial statements are stated in Croatian kunas and converted to US dollars as follows:

- Current exchange rate effective at the end of the financial year was applied for all asset and liability items except for the positions of the share capital and reserves which are carried at historical cost converted into USD as of the transaction date.
- For profit and loss and other comprehensive income items, the average annual exchange rate was applied. In the financial statements stated in USD, the exchange differences arising from the conversion are credited or debited to equity.

The exchange rates applied in the conversion of the financial statements presented in Croatian kunas to US dollars were as follows:

<u>USD/HRK</u>	<u>2017.</u>
31 December	6.269733
2017 average exchange rate*	6.622397

\*The average rate was determined for the period 1 January 2017 – 31 December 2017

<u>USD/HRK</u>	<u>2016.</u>
31 December	7.168536
2016 average exchange rate*	6.803718

\*The average rate was determined for the period 1 January 2016 – 31 December 2016

The amounts in the financial statements are rounded to the nearest thousand.

### b) Use of estimates and judgements

The preparation of the financial statements in accordance with IFRSs requires from management to make own judgements, estimates and assumptions that affect the application of accounting policies as well as reported amounts of assets and liabilities, income and expenses. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

Key sources of estimation uncertainty and assumptions that affect the application of policies with significant effect on the amounts recognized in the financial statements are discussed in paragraph ee) of this note.

c) **Basis of preparation**

The financial statements have been prepared using the historical cost convention, except for financial assets available for sale, which are carried at fair value.

The financial statements have been prepared under the going-concern assumption.

The financial statements TANKERSKA NEXT GENERATION d.d. include the assets, liabilities, revenues and expenses of the following subsidiaries fully (100 %) owned by Tankerska Next Generation d.d.:

1. Tankerska Next Generation International Ltd., Majuro, Marshall Islands;
2. Fontana Shipping Company Limited, Monrovia, Liberia;
3. Fontana Shipping Company Ltd., Monrovia, Liberia;
4. Vukovar Shipping, LLC, Majuro, Marshall Islands;
5. Zoilo Shipping, LLC, Majuro, Marshall Islands and
6. Pag Shipping, LLC, Majuro, Marshall Islands

Items of assets and liabilities, profit or loss are translated at the middle exchange rate of the National Bank of Croatia, which was HRK 6.269733 for USD 1 at 31 December 2017 (31 December 2016: HRK 7.168536).

The carrying amounts of direct and indirect investments of Tankerska Next Generation d.d. in its subsidiaries at 31 December 2017:

	Subsidiary	USD	HRK	Ownership in %
1	Tankerska Next Generation International Ltd, Majuro, Marshall Islands	75,938	476,111	100
2	Fontana Shipping Company Ltd, Monrovia, Liberia	25,088	157,294	100
3	Teuta Shipping Company Ltd, Monrovia, Liberia	6,280	39,372	100
4	Vukovar Shipping, LLC, Majuro, Marshall Islands	15,170	95,114	100
5	Zoilo Shipping, LLC, Majuro, Marshall Islands	14,571	91,357	100
6	York Maritime Holdings IV, LLC, Majuro, Marshall Islands	14,003	87,793	100
	<b>Total</b>	<b>151,050</b>	<b>947,041</b>	<b>100</b>

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### d) Foreign currencies

Transactions denominated in a foreign currency are converted into the domestic currency using the middle exchange rate of the Croatian National Bank effective at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated at the official middle exchange rate of the Croatian National Bank in effect at the reporting date. Any gain or loss arisen from a change in the exchange rate subsequent to the transaction date is included in the profit and loss account and reported within financial income and financial expenses respectively.

Transactions of foreign operations denominated in a foreign currency are translated to the functional currency at the transaction-date exchange rates. At each date of the statement of financial position, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Any gain or loss arisen from a change in the exchange rate subsequent to the transaction date is included in the profit and loss account and reported within financial income and financial expenses respectively.

Assets and liabilities, revenues and expenses and cash flows of foreign operations are translated into domestic currency according to the middle exchange rate of Croatian National Bank valid on 31 December 2017, except in the case of significant currency fluctuations during the period, when the currency exchange rate on the transaction date is applied. All exchange differences arisen on the retranslation are recognised in a separate component of equity.

Exchange differences resulting from the retranslation of the net investment in foreign entities are included in equity under translation reserve. On the sale of a foreign operation, the exchange differences are transferred to profit or loss.

### e) Intangible assets

Intangible assets acquired by TNG with a finite useful life are carried at cost less accumulated amortisation and impairment.

Subsequently incurred expenditure is capitalised only if the enhance future economic benefits associated with an asset.

All other expenditure is recognised in profit or loss as an expense as incurred. Amortisation charge is recognised in profit or loss on a straight-line basis over the estimated useful life of an item of intangible assets starting from the date on which the asset is available for use.

### f) Property, plant and equipment

Individual items of property, plant and equipment, including vessels (see 2.y and 2.ee), that meet the recognition requirements for assets are measured at cost in dollar (vessels) or kuna (other equipment). Consequently, when presenting in the financial statements, foreign exchange differences arise (Note 13). Cost includes the purchase price and all costs directly associated with bringing an asset to a working condition for its intended use. Items and equipment are recognised as non-current assets if their useful life is longer than one year and their unit cost exceeds HRK 2,000.

Subsequent to initial recognition, items of property, plant and equipment are recognised at cost less accumulated depreciation and any accumulated impairment losses.

Gains and losses from the disposal of the property, plant and equipment are recognised within other revenues or expenses in the statement of profit or loss and other comprehensive income depending on the result.

Subsequently incurred expenditure on an already recognised item of property, plant and equipment is capitalised, i.e. added to the cost when it is probable that the expenditure will bring further economic benefits and improve the item's performance beyond the one previously assessed. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.



Depreciation is provided separately for each major asset (vessels) based on a depreciable period of 25 years, whereas for minor assets it is provided on the basis of the relevant groups of assets. Depreciation is accounted for according to the expected useful life and the rates derived from it, depending on the group and subgroup of property, plant and equipment, using the straight-line method.

The estimated useful life for individual categories of assets is as follows:

	2017	2016
- Computers and telecom equipment	4 years	4 years

Depreciation of those assets commences when they are ready for use.

#### g) Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell. A non-current asset is classified as held for sale if its carrying amount will be recovered principally from the sale rather than through continuing use. This condition is met only if the sale is highly probable and if the asset is available for immediate sale in its present condition. Assets classified as held for sale are not depreciated from the date of classification.

#### h) Financial assets

Investments are classified into the following categories: investments held-to-maturity, investments held-for-trading and investments available-for-sale.

Investments with fixed or determinable payments and with fixed maturity in which TNG has a positive intent and ability to hold to maturity, with exception of loans and receivables originated by TNG, are classified as held-to-maturity.

Investments acquired principally for the purpose of generating profit from short-term fluctuations in price are classified as investments held-for-trading. All other investments, except loans and receivables originated by TNG, are classified as available-for-sale. Every purchase and sale transaction is recognised on the settlement date. Investments are recognised initially at cost, which represents the fair value of the consideration given, including transaction costs.

Available-for-sale and held-for-trading investments are subsequently measured at fair value, with no deduction of transaction costs, by reference to their market prices at the reporting date.

Gains or losses arising from remeasurement of investments available-for-sale at fair value are recognized directly in TNG's fair-value reserve until the investment is sold or otherwise disposed of, or identified as impaired. At the time of sale, the cumulative gain or loss previously recognised in equity (reserves) is recognized in the net profit or loss for the corresponding period.

Financial assets and financial liabilities are recognised when TNG becomes a party to the contractual provisions of the instrument. Still, for regular-way purchases or sales (which the sale or purchase of financial assets under the contract which terms require delivery of the assets within the period established by legislation or agreement on the organized market), the date of settlement is essential for initial recognition or non-recognition. Financial assets are derecognised when the cash is received or the rights to receive the cash have expired. Financial liabilities are derecognised when the contractual liability is cancelled or has expired.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### i) Inventories

Inventories are carried at the lower of cost and net realisable value. Stocks of materials, spare parts and small inventory are carried at purchase costs. Cost of material and spare parts are based on first-in, first-out basis (FIFO). Small items are written off when put into use. Cost includes the cost of the inventory purchase and other costs directly attributable to bringing inventories to their present location and condition.

### j) Receivables

Receivables represent the right to receive certain amounts from customers or other debtors as a result of TNG's operations. Trade and other receivables are presented at the fair value of the consideration given and are carried at amortised cost less impairment. An allowance for bad and doubtful accounts is recognised for each individual balance receivable whenever management assesses that the recovery of the entire or a part of the receivable is doubtful.

### k) Impairment of assets

At each reporting date, the carrying amounts of TNG's assets are reviewed to identify whether there is any indication that the assets may be impaired. If any such indication exists, the recoverable amount of an asset is estimated.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment losses are recognised whenever the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

The recoverable amounts of goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use are estimated at each reporting date.

Impairment losses recognised in respect of individual cash generating units are allocated so as to, first, reduce the carrying amount of goodwill allocated to the cash generating unit (or groups of units) and then proportionally the carrying amounts of other assets within the unit (or group of units).

The Management Board performs impairment tests based on discounted cash flows for the entire fleet, at least annually when preparing the year-end financial statements. Tests are based on the estimated recoverable amounts, defined as the higher of fair value less estimated costs of disposal and value in use.

Key assumptions regarding valuation of vessels are the long-term freights from time and voyage charter rates and the weighted average cost of capital (WACC).

Where impairment of the fair value of an available-for-sale financial asset is recognised directly in equity, and there is objective evidence that the asset is impaired, the difference between the cost (net of principal repaid and depreciation) and the current fair value less impairment losses previously recognised in equity! profit or loss is transferred from equity to profit or loss.

The recoverable amount of TNG's investments in held-to-maturity investments and receivables carried at amortised cost is determined as the present value of estimated future cash flows, discounted at the original effective interest rate (that is, the effective interest rate computed at initial recognition of these financial assets). Current receivables are not discounted.

The recoverable amount of other assets is the greater of their net recoverable amount and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specified to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of a held-to-maturity security or receivable carried at cost or amortised cost is

reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the recognition of impairment loss.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Impairment losses on those assets are reversed directly in equity.

If the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed in profit or loss. Impairment losses on goodwill are not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the previously recognised impairment loss is either reduced or no longer exists, based on a review performed at each reporting date, and if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of accumulated depreciation or amortisation, if no impairment loss had been recognised.

#### l) Cash and cash equivalents

For the purposes of the statement of financial position and the statement of cash flows, cash and cash equivalents consist of cash in hand and balances with banks as well as of other highly liquid investments with initial maturities less than three months that are subject to an insignificant risk of changes in their value.

#### m) Share capital

The share capital consists of ordinary shares. Costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

Consideration paid to redeem own capital stock, including directly attributable costs, is recognised as a deduction in equity. Redeemed stock is classified as own (treasury) shares and represents a deduction from the total equity.

#### n) Dividends

Dividends are recognised in the statement of changes in shareholders' equity as a liability in the period in which they are approved by the Company's shareholders.

#### o) Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value of the proceeds received, less attributable transaction costs. In subsequent periods, interest-bearing loans and borrowings are stated at amortised cost using the effective interest method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings on an effective interest basis.

#### p) Provisions

Provisions are recognized only when TNG has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are determined by discontinuing the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### q) Trade and other payables

Trade payables are measured initially at fair value and are carried subsequently at amortised cost.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### r) Employee benefits

Contributions payable into mandatory pension funds are recognised in profit or loss as an expense as incurred.

Provisions for bonuses to employees are recognised based on TNG's formal plan and when past practice has created a valid expectation by the management or key employees that they will receive a bonus and the amount if bonus can be determined before the financial statements are issued. Liabilities for bonuses are expected to be settled within 12 months from the reporting date and are measured at the expected amount payable.

Short-term employee benefits are not discounted and are recognised as expenses when the related service is provided. A provision is recognised in an amount expected to be paid as a current cash bonus or profit distribution plan if TNG has a present legal or constructive obligation to pay that amount on the grounds of a past service of the employee and if the obligation can be reliably measured.

### s) Leases

Leases of property, plant and equipment and intangible assets under which TNG bears all the risks and rewards of ownership are classified as financial leases. Finance leases are capitalised at the estimated present value of the corresponding lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The corresponding liability to the lessor, less finance costs, is included in other long-term liabilities. The interest element of the finance costs is charged to the income statement over the lease period. Items of property, plant and equipment and of intangible assets acquired under financial lease arrangements are depreciated/amortised over the useful life of those assets.

Leases under which the lessor retains substantially all the risks and rewards of the ownership of an asset are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the lease term. If an operating lease arrangement is cancelled prior to the expiry of the lease term, all payments to the lessor in the form of penalty are recognised as an expense in the period of the cancellation.

### t) Taxation

TNG assesses its corporate income tax in accordance with Croatian laws.

Income tax expense comprises current and deferred taxes. Income tax expense is recognised in the income statement to the extent of the tax relating to items within equity when the expense is also recognised in equity. Current tax represents tax expected to be paid on the basis of taxable profit for the year, using the tax rate enacted at the reporting date and adjusted by any tax liabilities from prior-years. Deferred tax is provided using the balance sheet liability method, taking into account temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax arises from the expected realisation or settlement of the carrying amounts of assets and liabilities measured at the tax rates in enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

TNG is under the tonnage tax regime for a period of ten years, starting from 1 January 2014. Companies qualifying under the relevant provisions of the Maritime Code that have opted for the tonnage tax must remain subject to this regime for a period of 10 years. The qualifying requirement is that the company must be a shipping company subject to corporate income tax in Croatia based on any profits that accrue to it. It must also operate qualifying ships, and most importantly, it must carry out the strategic and commercial management of the qualifying ships in Croatia.

u) Vessel revenue

Vessel revenue is recognised (i) when the services are rendered; (ii) when a charter contract or another document serving as evidence of a concluded transaction has been signed; (iii) when the price is determined or determinable; and (iv) when the collection is reasonably certain.

Sales, which are reported net of returns, rebates and discounts, as well as net of taxes directly associated with the sale of products and services rendered, represent amounts invoiced to third parties.

Revenue is recognised at the time when services are rendered, and TNG has dispatched goods, or performed a service, as this is the point at which significant risks and rewards of ownership of the goods are transferred to the customer. Revenue from services is recognised according to the stage of completion of the service and when there is no significant uncertainty regarding the provision of service or associated costs.

Revenues from hire are generated from time charter and revenues from freight are generated from voyage charter. Revenues from time charter are accounted for by the method of the contract completion, as there is no uncertainty regarding the recoverability of the fee for the service rendered because time charter hires are paid in advance for a contractually agreed period of 15 days or one month. The same method is applied to voyage charters.

A time charter involves placing a vessel at the charterer's disposal for a certain period of time during which the charterer uses the vessel in return for the payment of a specified daily hire rate. In the case of voyage charters, the contract for a vessel voyage is concluded for a voyage between two or more ports. Based upon the terms of the contract with a customer, a voyage is deemed to commence once the vessel's previous cargo is unloaded and is deemed to end upon the completion of unloading of the current cargo.

All revenues from vessel hires are recognised on a percentage of completion basis. For voyages in progress at the end of a reporting period, TNG recognizes a percentage of the estimated revenue for the voyage equal to the percentage of the estimated duration of the voyage completed at the date of the statement of financial position. The estimate is based on the expected duration and the destination of the voyage.

Revenues from time charter are recognised on a time pro-rata basis over the hire periods of such charters, as the service is performed.

Charter contracts contain conditions regarding the amount of time available for loading and unloading the vessel. Demurrage revenues, recognised upon delivery of service in accordance with the terms and conditions of the charter parties, represent the estimated compensation for the additional time incurred in unloading a vessel. Revenue received from demurrage is recognised at the completion of the voyage and is presented net of any provision made in respect of demurrage claims where full recovery is not anticipated.

v) Other vessel revenue

The other revenue consists mainly of revenue from charterers for other services and revenues from profit commission on insurance policies. Other revenue is recognised as it arises.

w) Commissions and voyage related costs

Commissions are realized in two basic forms: address commission and brokerage commission. The address commission is the commission payable by the ship owner to the charterer regardless of the charter type and is expressed as a percentage of the freight or hire. The commission is a reimbursement to the charterer for costs incurred in relation to the chartering of the vessel either to third-party brokers or by the charterer's shipping department.

Brokerage commission is payable under a time charter on hire. Subject to the precise wording of the charter, the broker's entitlement to commission will therefore only arise when the charterers remit hire or it is recovered by some other means. A commission under a voyage charter is payable on freight, and may be payable on dead freight and demurrage.

Voyage-related costs are typically paid by the ship owner under voyage charters and by the customer (charterer) under time charters. Voyage-related costs represent all expenses that pertain to a specific voyage. TNG distinguishes between major and minor voyage-related costs.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### w) Commissions and voyage related costs (continued)

Most of the voyage-related costs are incurred in connection with the employment of the fleet on the spot market (Voyage Charter) and under COAs (Contracts of Affreightment). Major voyage-related costs include bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees, extra war risks insurance and any other expenses related to the cargo are typically paid by the customer.

Minor voyage-related costs, such as draft surveys, tank cleaning, postage and other minor miscellaneous costs incidental to a voyage, are typically paid by TNG. All voyage related costs are recognized as incurred. All voyage-related costs are recognised on an accrual basis of accounting.

### x) Vessel operating expenses

TNG is responsible for vessel operating costs, which include crewing, repairs and maintenance, lubricants, insurance, spares, stores, registration and communication, sundries and management fees (technical management, crew management and insurance arrangements).

### y) Depreciation of vessels

The carrying amount of each ship is its initial cost at the time of delivery or acquisition (except for vessels acquired in a business combination, which are measured at the acquisition-date fair value) less accumulated depreciation and impairment. Depreciation of ships is provided to write down the cost to the residual value over the estimated useful life of a ship by applying the straight-line method, starting from the date of the original delivery i.e. acquisition. The estimated useful life of TNG's ships is 25 years from the date of accepting a ship from the shipyard, in line with the industry practice for identical ships. The estimated useful life of a ship takes into account the ship design, the commercial characteristics and factors as well as any regulatory restrictions.

Because of volatile and cyclical tendencies of the scrap prices, the estimated residual value of a ship need not represent the market value at a certain point of time.

Extending the estimated useful life of a ship or increasing the residual value will result in a reduced depreciation charge for the year and extended future depreciable periods. A reduced useful life of a ship or a lower residual value will result in a higher depreciation charge for the year.

### z) Drydocking, special and intermediate surveys

TNG performs periodical dry-dock surveys, repairs and certain modifications to its ships. The dry-docking costs include all costs directly attributable to the dry-docking for the purpose of meeting the regulatory requirements, improvements that may extend the economic life of a ship, enhance its ability to generate revenue or its overall performance. The direct costs include shipyard costs, the costs of the hull preparation and painting, hull and mechanical component inspection, the inspection of the steel construction, mechanical and electrical works. The costs associated with regular maintenance and repairs during dry-docking are recognised as expenses as incurred.

Vessels are required to undergo dry-docks for replacement of certain components, major repairs and maintenance of other components, which cannot be carried out while the vessels are operating, scheduled every 60 months, depending on the nature of operation and external requirements. Dry-docking survey costs (which include class renewal surveys) are capitalised as they arise, that is, they are added to the carrying amounts of the vessels and depreciated on a straight-line basis over the five-year period to the next survey. Depreciation is provided on a monthly basis, starting from the 1st day in the month following the final month of the previous five-year survey. Where a dry-dock inspection occurs prior to the expiry of the period of 60 months, the remaining cost balance is charged to the operating result for the period in which the dry-docking takes place.

### aa) Vessel impairment and dry-docking costs

TNG reviews the carrying amounts of the vessels, including the dry-docking costs, whenever events or market circumstances indicate that the carrying amount of the assets or the related inputs, i.e. time charters, if any, may not be recoverable. Where a need to recognise impairment is identified, the recoverable amount of a ship is estimated

as the lower of value in use, determined on the basis of the discounted future cash flows, and fair value of the ship less costs to sell (mostly based on the market price).

Where, as a result of the review, the recoverable amount is identified to be lower than the carrying amount of an asset, the carrying amount is reduced to the asset's estimated recoverable amount.

Impairment losses are included in profit or loss whenever the carrying amount of a ship exceeds the ship's recoverable amount. An impairment loss is reversed when there is an indication that the impairment loss recognised in a prior period is either reduced or no longer exists.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised. A reversal of impairment is recognized as income immediately.

#### bb) General and administrative expenses

General and administrative expenses, which comprise of administrative staff costs, management costs, office expenses, audit, legal and professional fees, travel and other expenses associated with the administration, are expensed as incurred.

#### cc) Net financial income/(expense)

Net financial income/(expense) comprises interest accrued on loans and borrowings, interest income on deposits and advances, dividend income, foreign exchange gains and losses, gains and losses on financial assets at fair value through profit or loss.

Interest income is recognised in the statement of profit or loss on an accrual basis of accounting taking into account the effective yield (i.e. using the effective interest rate). Dividend income is recognised in the statement of profit or loss at the date when the right of TNG to receive dividends is established.

#### dd) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in net profit or loss for the period in which they are incurred.

## ee) Significant accounting estimates and judgements

In applying the TNG's accounting policies, the key areas of management judgement, other than those involving estimates, that have the most significant impact on the amounts reported in the financial statements are as follows:

### Revenue recognition

Revenue is recognised when the goods are delivered or a service is rendered and once the significant risks and rewards of ownership are transferred to the buyer. Estimated expected returns and other discounts are deducted from the sales revenue and recognised as accrued liabilities or provisions. The estimates are developed by analysing the current contractual or legal obligations, historical trends and the experience of TNG.

### Income tax

The income tax calculation is performed in accordance with the current interpretations of the applicable legislation. TNG is under the tonnage tax regime for a period of ten years, starting from 1 January 2014. Companies qualifying under the relevant provisions of the Maritime Code that have opted for the tonnage tax must remain subject to this regime for a period of 10 years. The qualifying requirement is that the company must be a shipping company subject to corporate income tax in Croatia based on any profits that accrue to it. It must also operate qualifying ships, and most importantly, it must carry out the strategic and commercial management of the qualifying ships in Croatia.

### Impairment of receivables

The amount recoverable from the sale of goods and services is estimated at the reporting date (and monthly) based on the assessed recoverability of doubtful accounts. Each trade debtor is reviewed individually by reference to the current status.

### Provisions for contingent liabilities

TNG recognises a provision based on legal actions initiated against it that are probable of requiring an outflow of TNG's resources to settle its obligation, and a reliable estimate of the amount can be made. In assessing the provision, TNG takes into account the professional legal advice.

### Depreciation of vessels

The residual value is estimated as the lightweight tonnage (lwt) of each vessel multiplied by an estimated scrap value (cost of steel) per ton, which is USD 410 per ton, representing a five-year average market price of steel scrap for the Indian subcontinent for 2016, determined based on the data publicly available on the Clarksons Shipping Intelligence Network website (<http://www.clarksons.net/sin2010>) hosted by Clarkson Research Services Limited, London, England, determined as the arithmetic mean of the scrap steel price expressed in USD/lwt for a five-year time horizon that includes years prior to 2014, as follows:

for the data type 78038 - Indian Sub Continent Handysize Bulker Demolition Prices; and  
for the data type 42653 - Indian Sub Continent Handysize Bulker Demolition Prices: Other Tankers.

The arithmetic mean calculated by the individual data type, depending on the lower value, is used as the five-year average market price of scrap steel for Indian subcontinent for the purpose of calculating the scrap value of a ship. If the five-year average market price of scrap steel for Indian subcontinent increases or decreases by 20 percent from the price applied in the previous year, this is identified as a change in the estimate of the residual value.

Vessel impairment and dry-docking costs.

The fair value less costs to sell is estimated based on the inputs from independent brokers, and the value in use is determined as the net present value of future cash flows from a ship over the ship's useful life. In determining the value in use, certain inputs into the estimated future cash flow calculations are predictable in their nature (including expected daily freights, vessel's operating expenses, discounting interest rate and the average steel price as a secondary raw material), including revenue estimates under the existing contracts. Certain assumptions underlying the future cash flow estimates are less predictable, such as the expected daily hires beyond the periods specified in the existing contracts and residual values, as they rely on inputs such as spot hires and time charter market rates and the expected residual value, which are volatile due to their long-term nature.



### 3. VESSEL REVENUES

	USD	HRK	USD	HRK
	2017	2017	2016	2016
Charter (hire) revenue	40,993	271,470	39,607	269,470
- Voyage charter	18,336	121,427	4,483	30,500
- Time charter	20,994	139,032	34,559	235,128
- Demurrage	1,663	11,011	565	3,842
Sales of fuel to the chareter	758	5,021	-	-
Other vessel revenue	620	4,105	384	2,615
<b>Total</b>	<b>42,371</b>	<b>280,596</b>	<b>39,991</b>	<b>272,085</b>

TNG has an operating fleet of 6 vessels: Velebit, Vinjerac, Vukovar, Zoilo, Dalmacija i Pag, out of which almost all were fully operational during 2017. Vessel revenues in 2017 mostly consisted of time chareter revenues 51,2%, while 44,7 % was attributed to the voyage charter revenues, while a minor part was attributed to the sales of fuel to the charterers. and other revenues.

Average gross revenue per vessel in 2017 was 20.770 USD (17.436 in 2016). Fleet employment strategy secured a stable level of income in the mid term in which three vessels were employeed on time charter (Vukovar, Zoilo, Dalmacija), while other three vessels (Vinjerac, Velebit, Pag) were employeed on spot market during the most part of the year.

### 4, VOYAGE EXPENSES

	USD	HRK	USD	HRK
	2017	2017	2016	2016
Fuel	4,591	30,403	1,464	9,957
Port costs	3,131	20,732	1,049	7,138
Commissions to brokers and agents	1,065	7,055	841	5,721
Fee for managing commercial operations - related parties	615	4,072	593	4,035
Agency fees	246	1,633	133	909
Other voyage-related costs	130	861	129	874
<b>Total</b>	<b>9,778</b>	<b>64,756</b>	<b>4,209</b>	<b>28,634</b>

## 5. VESSEL OPERATING EXPENSES

	USD	HRK	USD	HRK
	2017	2017	2016	2016
Crew costs /i/	8,352	55,308	9,309	63,333
Maintenance costs /iii/	1,798	11,905	2,021	13,747
Management fee for other activities – related parties	1,178	7,799	1,273	8,658
Consumables /ii/	1,177	7,792	1,396	9,501
Insurance costs	577	3,822	606	4,125
General vessel expenses /iv/	1,206	7,989	1,326	9,024
<b>Total</b>	<b>14,288</b>	<b>94,615</b>	<b>15,931</b>	<b>108,388</b>

/i/ Crew costs	USD	HRK	USD	HRK
	2017	2017	2016	2016
Crew salaries	7,213	47,771	8,038	54,686
Crew travel expenses	598	3,960	627	4,262
Victuals	453	2,998	518	3,526
Other crew expenses	88	579	126	859
<b>Total</b>	<b>8,352</b>	<b>55,308</b>	<b>9,309</b>	<b>63,333</b>

Under the Management Agreement, the Fleet Manager has the obligation to provide operational and commercial management, crewing, insurance arrangements, accounting services, vessel purchases and sale, required vessels supplies, including fuels. Under the Management Agreement, the Fleet Manager also receives a vessel management fee based on a More Stephens publication, which specified the average daily cost for each type of vessel, which is determined as 67 percent of the amount specified in the publication. Seamen forming ship crews are hired in accordance with the underlying collective agreements with the fleet manager or its related parties performing seamen recruiting activities. The fee is calculated monthly or daily on a pro-rata basis for a period below one month, and the Fleet Manager charges the actual crew expenses to operating expenses of TNG.

/ii/ Consumables	USD	HRK	USD	HRK
	2017	2017	2016	2016
Small inventory items, paints and varnishes, chemicals and gases	669	4,430	804	5,472
Lubricants and greases	508	3,362	592	4,029
<b>Total</b>	<b>1,177</b>	<b>7,792</b>	<b>1,396</b>	<b>9,501</b>

/iii/ Maintenance costs	USD	HRK	USD	HRK
	2017	2017	2016	2016
Spare parts	1,102	7,301	1,147	7,804
Maintenance and repairs	696	4,604	874	5,943
<b>Total</b>	<b>1,798</b>	<b>11,905</b>	<b>2,021</b>	<b>13,747</b>

/iv/ Overheads	USD	HRK	USD	HRK
	2017	2017	2016	2016
Postage, telephone and telecommunications	204	1,351	237	1,616
Other overhead costs	1,002	6,638	1,089	7,408
<b>Total</b>	<b>1,206</b>	<b>7,989</b>	<b>1,326</b>	<b>9,024</b>

## 6. DEPRECIATION

	USD	HRK	USD	HRK
	2017	2017	2016	2016
Depreciation of vessels	7,508	49,717	8,161	55,525
Depreciation of other tangible assets	1	10	1	7
<b>Total</b>	<b>7,509</b>	<b>49,727</b>	<b>8,162</b>	<b>55,532</b>

The 2017 vessel depreciation charge includes the depreciation charge on dry-docking costs for the Velebit and Vinjerac vessels in the amount of HRK 1,600 thousand, i.e. USD 252 thousand (2016: Velebit vessel in the amount of HRK 485 thousand, i.e. USD 68 thousand).

## 7. GENERAL AND ADMINISTRATIVE EXPENSES

	USD	HRK	USD	HRK
	2017	2017	2016	2016
Costs of guarantees for bank loans – related companies	339	2,244	403	2,740
Staff expenses /i/	253	1,677	332	2,261
Corporate services – related companies	72	474	72	492
Bank charges	39	259	23	160
Statutory audit services	22	150	22	150
Rental costs	10	64	10	67
Rental costs – related companies	8	55	8	57
Services provided by outsourced staff	1	5	3	19
Marketing services	1	4	-	2
Insurance premiums	3	19	2	13
Other external services	44	295	47	314
Other expenses	115	760	133	906
<b>Total</b>	<b>907</b>	<b>6,006</b>	<b>1,055</b>	<b>7,181</b>

/i/ Staff expenses	USD	HRK	USD	HRK
	2017	2017	2016	2016
Net salaries	122	810	148	1,004
Taxes and contributions	111	732	161	1,098
Reimbursement of costs to employees	18	120	21	141
Professional education costs	2	15	2	18
<b>Total</b>	<b>253</b>	<b>1,677</b>	<b>332</b>	<b>2,261</b>

/i/ Costs reimbursed to employees comprise daily allowances, overnight accommodation and transport related to business travels, commutation allowance, and reimbursement of costs for the use of personal cars for business purposes, and similar.

## 8. FINANCIAL INCOME

	USD	HRK	USD	HRK
	2017	2017	2016	2016
Foreign exchange gains – Group companies	3	16	63	427
Interest income	20	133	9	64
<b>Total</b>	<b>23</b>	<b>149</b>	<b>72</b>	<b>491</b>

## 9. FINANCIAL EXPENSES

	USD	HRK	USD	HRK
	2017	2017	2016	2016
Interest expense	3,938	26,077	4,568	31,078
Foreign exchange losses	359	2,379	172	1,167
<b>Total</b>	<b>4,297</b>	<b>28,456</b>	<b>4,740</b>	<b>32,245</b>

## 10. TONNAGE TAX

The tonnage tax regime has been introduced into the Croatian maritime legislation by amendments to the Maritime Code effective since 1 January 2014. According to the relevant provisions of the Maritime Code, qualifying companies may choose to have their shipping activities taxed based on the net tonnage of their fleet or based on their actual profits. Companies qualifying under the relevant provisions of the Maritime Code that have opted for the tonnage tax must remain subject to this regime for a period of 10 years. The qualifying requirement is that the company must be a shipping company subject to corporate income tax in Croatia based on any profits that accrue to it. It must also operate qualifying ships, and most importantly, it must carry out the strategic and commercial management of the qualifying ships in Croatia.

TNG is under the tonnage tax regime for a period of ten years, starting from 1 January 2014. TNG is subject to tonnage taxation for the following ships:

Vessel	Date of entry into the regime	Annual tax prepayment in HRK
Velebit	1 January 2014	31,329 kn
Vinjerac	1 January 2014	31,329 kn
Vukovar	29 April 2015	28,236 kn
Zoilo	27 July 2015	28,236 kn
Dalmacija	27 November 2015	28,863 kn
Pag	4 December 2015	29,058 kn
<b>Total</b>		<b>177,051 kn</b>

## 10. TONNAGE TAX (CONTINUED)

According to the ruling of the Ministry of Maritime Affairs, Transport and Infrastructure, the tax per tonnage of ships of TNG for 2017 is included in the liabilities of Tankerska Plovidba d.d. as the controlling (parent) company.

### CALCULATION OF TONNAGE TAX

Net tonnage of ship	Annual tonnage tax based on ship tonnage for every 100 units of net tonnage
0 -1,000 net tonnage	HRK 270
1,001-10,000 net tonnage	HRK 230
10,001 – 25,000 net tonnage	HRK 150
25,001 – 40,000 net tonnage	HRK 95
Over 40,000 net tonnage	HRK 55

A taxpayer pays a tax advance on the basis of a tax return for the previous tax period. The advance is paid monthly at the end of the month for the previous month in the installment that is received when the tax liability for the previous tax period is divided by the number of months of the same period or in the case of the first tax period after entering the taxation system on the basis of a tax liability assessment. Data from the application to the tonnage tax system. The taxpayer is obliged to submit a tax return to the Tax administration office for the previous calendar year at the latest four months after the end of the calendar year. In the same period tonnage tax needs to be paid for the previous year.

## 11. INCOME TAX

According to the relevant provisions of the Maritime Code, qualifying companies may choose to have their shipping activities taxed based on the net tonnage of their fleet or based on their actual profits. According to 2017 corporate income tax return, TNG had no income tax liability for the year in Croatia.

## 12. EARNINGS PER SHARE

	USD	HRK	USD	HRK
	31,12,2017	31,12,2017	31,12,2016	31,12,2016
Net profit for the year	4,852	32,132	5,968	40,608
Weighted average number of shares outstanding at the year-end, basic and diluted:	8,720,145	8,720,145	8,720,145	8,720,145
Earning per share, basic and diluted	0,56	3,68	0,68	4,66

Basic and diluted earnings per share are same, as TNG has no potentially dilutive shares.

### 13. PROPERTY, PLANT AND EQUIPMENT

2017	Vessels and equipment		Assets under development		Total	
	USD	HRK	USD	HRK	USD	HRK
<b>COST</b>						
At 31 December 2016	210,715	1,510,521	-	-	210,715	1,510,521
Additions	-	-	-	-	-	-
Transfer from assets under development	-	-	-	-	-	-
Exchange differences	1	(189,387)	-	-	1	(189,387)
At 31 December 2017	210,716	1,321,134	-	-	210,716	1,321,134
<b>ACCUMULATED DEPRECIATION</b>						
At 31 December 2016	12,102	86,746	-	-	12,102	86,746
Charge for the year	7,679	48,148	-	-	7,679	48,148
Exchange differences	-	(10,875)	-	-	-	(10,875)
At 31 December 2017	19,781	124,019	-	-	19,781	124,019
<b>CARRYING AMOUNT</b>						
At 31 December 2016	198,613	1,423,775	-	-	198,613	1,423,775
At 31 December 2017	190,935	1,197,115	-	-	190,935	1,197,115
<b>Dry-docking costs</b>			Vessels and equipment			
<b>COST</b>			USD	HRK		
At 31 December 2016			<b>678</b>	<b>4,850</b>		
Additions			635	3,983		
Exchange differences			-	(608)		
At 31 December 2017			<b>1</b>	<b>8,225</b>		
<b>ACCUMULATED DEPRECIATION</b>						
At 31 December 2016			<b>68</b>	<b>485</b>		
Depreciation and amortisation			252	1,579		
Exchange differences			-	(61)		
At 31 December 2017			<b>320</b>	<b>2,003</b>		
<b>CARRYING AMOUNT</b>						
At 31 December 2016			<b>610</b>	<b>4,365</b>		
At 31 December 2017			<b>993</b>	<b>6,222</b>		

### 13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

GRAND TOTAL	Vessels and equipment		Assets under development		Total	
	USD	HRK	USD	HRK	USD	HRK
<b>CURRENT VALUE</b>						
At 31 December 2016	199,223	1,428,140	-	-	199,223	1,428,140
At 31 December 2017	191,928	1,203,337	-	-	191,928	1,203,337
2016	Vessels and equipment		Assets under development		Total	
	USD	HRK	USD	HRK	USD	HRK
<b>COST</b>						
At 31 December 2015	210,714	1,473,269	-	-	210,714	1,473,269
Additions	-	-	1	12	1	12
Transfer from assets under development	1	12	(1)	(12)	-	-
Exchange differences	-	37,240	-	-	-	37,240
At 31 December 2016	210,715	1,510,521	-	-	210,715	1,510,521
<b>ACCUMULATED DEPRECIATION</b>						
At 31 December 2015	4,423	30,917	-	-	4,423	30,917
Depreciation and amortisation	7,679	55,047	-	-	7,679	55,047
Exchange differences	-	782	-	-	-	782
At 31 December 2016	12,102	86,746	-	-	12,102	86,746
<b>CARRYING AMOUNT</b>						
At 31 December 2015	206,291	1,442,352	-	-	206,291	1,442,352
At 31 December 2016	198,613	1,423,775	-	-	198,613	1,423,775



DOCKING COSTS	Vessels and equipment	
	USD	HRK
<b>CARRYING AMOUNT</b>		
<b>At 31 December 2015</b>	-	-
Additions	678	4,850
Exchange differences	-	-
<b>At 31 December 2016</b>	<b>678</b>	<b>4,850</b>
<b>ACCUMULATED DEPRECIATION</b>		
<b>At 31 December 2015</b>		
Depreciation and amortisation	68	485
Exchange differences	-	-
<b>At 31 December 2016</b>	<b>68</b>	<b>485</b>
<b>CARRYING AMOUNT</b>		
<b>At 31 December 2015</b>	-	-
<b>At 31 December 2016</b>	<b>610</b>	<b>4,365</b>

TOTAL	Vessels and equipment		Assets under development		Total	
	USD	HRK	USD	HRK	USD	HRK
<b>SADAŠNJA VRIJEDNOST</b>						
<b>At 31 December 2015</b>	<b>206,291</b>	<b>1,442,352</b>	-	-	<b>206,291</b>	<b>1,442,352</b>
<b>At 31 December 2016</b>	<b>199,223</b>	<b>1,428,140</b>	-	-	<b>199,223</b>	<b>1,428,140</b>

In 2017 TNG had the scheduled five-year (dry-dock) survey performed for its tanker m/t "Velebit". The total dry-docking costs (including class renewal surveys), based on the final billing, amount to USD 678 thousand.

In line with the adopted docking policy, the dry-docking costs (including class renewal surveys) for m/t "Velebit" were capitalised, i.e. added to the carrying amount of the ship recognised in the accounts of Tankerska Next Generation International Ltd. and are amortised on a straight-line basis over the five-year period until the next survey, which is expected in 2021.

At 31 December 2017 no borrowing costs were capitalised (31 December 2016: HRK 0).

At 31 December 2017 the total net book value of assets pledged as collateral for received loans amounts to HRK 1,423,746 thousand, i.e. USD 198,610 thousand (31 December 2016: HRK 1,442,327 thousand, or USD 206,288 thousand).

## 14. INVENTORIES

	USD	HRK	USD	HRK
	31 Dec 2017	31 Dec 2017	31 Dec 2016	31 Dec 2016
Lubricants and greases	448	2,809	598	4,289
Fuel	743	4,660	786	5,636
Food supplies	144	901	124	881
Small inventory	-	3	-	3
Value adjustment of small inventory	-	(3)	-	(3)
<b>Total</b>	<b>1,335</b>	<b>8,370</b>	<b>1,508</b>	<b>10,806</b>

## 15. TRADE AND OTHER RECEIVABLES

	USD	HRK	USD	HRK
	31 Dec 2017	31 Dec 2017	31 Dec 2016	31 Dec 2016
Trade receivables	2,664	16,701	857	6,146
Receivables from the State and other institutions	5	32	6	42
Due from employees	1	6	2	17
Other receivables	133	835	328	2,353
Other receivables – related companies	-	-	-	-
<b>Total</b>	<b>2,803</b>	<b>17,574</b>	<b>1,193</b>	<b>8,558</b>

Aging structure of due receivables:	USD	HRK	USD	HRK
	31 Dec 2017	31 Dec 2017	31 Dec 2016	31 Dec 2016
1 -90 days	2,135	13,384	738	5,293
91 -180 days	222	1,391	-	-
181 - 365 days	-	-	20	140
Preko 365 days	-	-	-	-
<b>Total</b>	<b>2,357</b>	<b>14,775</b>	<b>758</b>	<b>5,433</b>

Aging structure of receivables impairment:	USD	HRK	USD	HRK
	31 Dec 2017	31 Dec 2017	31 Dec 2016	31 Dec 2016
1 -90 days	-	-	-	-
91 -180 days	-	-	-	-
181 - 365 days	-	-	-	-
Preko 365 days	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 16. PREPAID EXPENSES AND ACCRUED INCOME

	USD	HRK	USD	HRK
	31 Dec 2017	31 Dec 2017	31 Dec 2016	31 Dec 2016
Prepaid expenses	447	2.806	616	4.416
Accrued income	9	55	345	2.465
<b>Total</b>	<b>456</b>	<b>2.861</b>	<b>961</b>	<b>6.881</b>

## 17. CASH AND CASH EQUIVALENTS

	USD	HRK	USD	HRK
	31 Dec 2017	31 Dec 2017	31 Dec 2016	31 Dec 2016
Cash with banks	9.058	56.793	5.039	36.124
Deposits	1.000	6.270	1.000	7.169
<b>Cash in hand</b>	<b>117</b>	<b>729</b>	<b>87</b>	<b>622</b>
<b>Total</b>	<b>10.175</b>	<b>63.792</b>	<b>6.126</b>	<b>43.915</b>

## 18. SHARE CAPITAL AND RESERVES

As of 31 December 2017, the authorised, issued and paid-up share capital comprised 8,733,345 ordinary shares with no par value (31 December 2016: 8,733,345 shares). The ordinary shareholders are entitled to receive dividends, as declared from time to time and are entitled to one vote per share at meetings of TNG shareholders. The immediate parent of Tankerska Next Generation d.d. is Tankerska plovdba d.d. The ultimate parent is Foundation-Betriebsstiftung Tankerska Plovdba d.d. Privatstiftung Privatstiftung, a private foundation with the registered office in Austria. The members of the foundation are the employees of Tankerska plovdba d.d.

At 31 December 2017, there were 13,200 own shares held by the Company (31 December 2016: 13,200). Reserves for own shares were formed out of the Company's profit.

As at 31 December 2017 the amount of regulatory reserves within other reserves amounts to HRK 2,030 thousand. The regulatory reserve arised according to Croatian law that prescribes 5% profits for the year, decreased by the amount of losses from the previous year, to be transferred to the respective reserve until it, along with other reserves, reaches 5% issued shareholders` equity. As at 31 December 2017, the balance of other reserves was HRK 55,000 thousand (31 December 2016: HRK 55,000 thousand).

Foreign exchange translation reserve includes all exchange differences arisen on the conversion of the financial statements of foreign operations.

In the General Shareholders' Meeting of 1 August 2017, a dividend per share in the amount of HRK 1.60 was approved, which amounts in total to HRK 13,952 thousand (2016: HRK 34,445 thousand).

## 19. INTEREST BEARING LOANS AND BORROWINGS

### Interest-bearing loans and borrowings in 2017

Interest-bearing loans and borrowings in 2017	USD	HRK
	31 Dec 2017	31 Dec 2017
Secured bank loans	106,938	670,467
<b>Total</b>	<b>106,938</b>	<b>670,467</b>
Current portion	(9,382)	(58,820)
<b>Long-term portion</b>	<b>97,556</b>	<b>611,647</b>

Short-term interest-bearing liabilities	USD	HRK
	31 Dec 2017	31 Dec 2017
<i>Current portion of long-term interest bearing loans and borrowings</i>		
Secured bank loans	9,382	58,820
<b>Total</b>	<b>9,382</b>	<b>58,820</b>

### Interest-bearing loans and borrowings in 2016

Long-term interest-bearing loans and borrowings	USD	HRK
	31 Dec 2016	31 Dec 2016
Secured bank loans	112,319	805,162
<b>Total</b>	<b>112,319</b>	<b>805,162</b>
Current portion	(9,382)	(67,253)
<b>Long-term portion</b>	<b>102,937</b>	<b>737,909</b>

Short-term interest-bearing liabilities	USD	HRK
	31 Dec 2016	31 Dec 2016
<i>Current portion of long-term interest bearing loans and borrowings</i>		
Secured bank loans	9,382	67,253
<b>Total</b>	<b>9,382</b>	<b>67,253</b>

Repayment terms and conditions for interest bearing liabilities at 31 December 2017 are as follows:

	HRK			
	Total	1 year or less	2 to 5 years	More than 5 years
Secured bank loans	670,467	58,820	611,647	-
<b>At 31 December 2017</b>	<b>670,467</b>	<b>58,820</b>	<b>611,647</b>	<b>-</b>

	USD			
	Total	1 year or less	2 to 5 years	More than 5 years
Secured bank loans	106,938	9,382	97,556	-
<b>At 31 December 2017</b>	<b>106,938</b>	<b>9,382</b>	<b>97,556</b>	<b>-</b>

Repayment terms and conditions for interest bearing liabilities at 31 December 2016 are as follows:

	HRK			
	Total	1 year or less	2 to 5 years	More than 5 years
Secured bank loans	805,162	67,253	552,505	185,404
<b>At 31 December 2016</b>	<b>805,162</b>	<b>67,253</b>	<b>552,505</b>	<b>185,404</b>

	USD			
	Total	1 year or less	2 to 5 years	More than 5 years
Secured bank loans	112,319	9,382	77,073	25,864
<b>At 31 December 2016</b>	<b>112,319</b>	<b>9,382</b>	<b>77,073</b>	<b>25,864</b>

## 19. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

Long-term loan debt written off is analysed below:

2017

					31 December 2017	
Financial institution	Original currency	Loan amount	Annual interest rate in %	Maturity	USD	HRK
ABN AMRO BANK N.V.	USD	52,653	LIBOR+2,00%	16.1.2022.	43,991	275,807
NORD LB BANK	USD	23,725	LIBOR+2,55%	27.7.2021.	20,125	126,178
NORD LB BANK	USD	23,725	LIBOR+2,55%	24.11.2021.	20,525	128,685
DVB BANK N.V.	USD	22,422	LIBOR+3,50%	24.4.2021.	18,297	114,717
ERSTE BANK	USD	2,000		5.6.2019.	2,000	12,540
ZAGREBAČKA BANKA	USD	2,000		10.5.2020.	2,000	12,540
					<b>106,938</b>	<b>670,467</b>
Current portion					(9,382)	(58,820)
Long-term portion					97,556	611,647

2016

					31 December 2016	
Financial institution	Original currency	Loan amount	Annual interest rate in %	Maturity	USD	HRK
ABN AMRO BANK N.V.	USD	52,653	LIBOR+2,00%	16.1.2022.	48,522	347,831
NORD LB BANK	USD	23,725	LIBOR+2,55%	27.7.2021.	21,725	155,736
NORD LB BANK	USD	23,725	LIBOR+2,55%	24.11.2021.	22,125	158,604
DVB BANK N.V.	USD	22,422	LIBOR+3,50%	24.4.2021.	19,947	142,991
					<b>112,319</b>	<b>805,162</b>
Current portion					(9,382)	(67,253)
Long-term portion					102,937	737,909

## 19. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

Average interest rate calculated based on paid interest for the year ended 2017 amounts to 3.869%, whereas average interest rate calculated based on paid interest for the year ended 2016 amounted to 3.879%.

During the year Zagrebačka banka d.d. approved a revolving loan in the amount of USD 2,000 thousand to the Company Tankerska Next Generation International Ltd with a variable interest rate linked to 3M USD LIBOR with a bullet repayment date 10 September 2020. Also, Erste&Steiermaerkische Bank d.d. approved a revolving loan in the amount of USD 2,000 thousand with a fixed interest rate and a bullet repayment date 5 June 2019. Both of these loans are collateralized with standard collaterals.

The security instruments for the loans consist of common and typical instruments provided for this type of transaction and include, but are not limited to the first-priority lien on the ship, assignment of the first-priority security, revenue and earnings of the ship, the time charter and business accounts, the first-priority lien on the shares of the ship owner and assignment of the earnings generated by the ship.

Average interest rate calculated based on paid interest for the year ended 2017 amounts to 3.869%, whereas average interest rate calculated based on paid interest for the year ended 2016 amounted to 3.879%.

During the year Zagrebačka banka d.d. approved a revolving loan in the amount of USD 2,000 thousand to the Company Tankerska Next Generation International Ltd with a variable interest rate linked to 3M USD LIBOR with a bullet repayment date 10 September 2020. Also, Erste&Steiermaerkische Bank d.d. approved a revolving loan in the amount of USD 2,000 thousand with a fixed interest rate and a bullet repayment date 5 June 2019. Both of these loans are collateralized with standard collaterals.

The security instruments for the loans consist of common and typical instruments provided for this type of transaction and include, but are not limited to the first-priority lien on the ship, assignment of the first-priority security, revenue and earnings of the ship, the time charter and business accounts, the first-priority lien on the shares of the ship owner and assignment of the earnings generated by the ship.

## 20. TRADE AND OTHER PAYABLES

	USD	HRK	USD	HRK
	31 Dec 2017	31 Dec 2017	31 Dec 2016	31 Dec 2016
Trade payables	1,489	9,338	1,104	7,912
Advances received	545	3,416	1,090	7,812
Liabilities to employees	656	4,114	739	5,301
Taxes, contributions and other duties payable	10	59	9	62
Trade payables – related companies	36	229	8	54
Liabilities in respect of profit distributions (dividends payable)	8	50	4	31
Other current liabilities	9	57	5	36
<b>Other current liabilities – related companies</b>	<b>5</b>	<b>31</b>	<b>-</b>	<b>1</b>
<b>Total</b>	<b>2,758</b>	<b>17,294</b>	<b>2,959</b>	<b>21,209</b>

### Structure of trade payables by currency:

	USD	HRK	USD	HRK
	31 Dec 2017	31 Dec 2017	31 Dec 2016	31 Dec 2016
USD	1,197	7,503	964	6,905
EUR	215	1,348	117	838
HRK	14	91	16	114
GBP	13	86	4	32
Other currencies	86	539	11	77
<b>Total</b>	<b>1,525</b>	<b>9,567</b>	<b>1,112</b>	<b>7,966</b>

## 21. ACCRUED EXPENSES AND DEFERRED INCOME

	USD	HRK	USD	HRK
	31 Dec 2017	31 Dec 2017	31 Dec 2016	31 Dec 2016
Accrued loan interest	692	4,337	732	5,248
Other accrued expenses	67	418	25	179
<b>Total</b>	<b>759</b>	<b>4,755</b>	<b>757</b>	<b>5,427</b>



## 22. RELATED-PARTY TRANSACTIONS

TNG has no related parties other than Tankerska plovidba d.d., Zadar and Donat Maritime Corporation. Set out below are transactions carried out during the year between TNG and Tankerska plovidba d.d., Zadar. između TNG-a i Tankerske plovidbe d,d, Zadar,

Related parties and key shareholders	USD	HRK	USD	HRK
	2017	2017	2016	2016
<b>Purchases from related companies</b>				
Tankerska plovidba d,d, Zadar	2,764	18,304	2,948	20,055
<b>Total</b>	<b>2,764</b>	<b>18,304</b>	<b>2,948</b>	<b>20,055</b>
<b>Sales to related companies</b>				
Tankerska plovidba d,d, Zadar	38	241	8	55
Donat Maritime Corporation	3	19	-	-
<b>Total</b>	<b>41</b>	<b>260</b>	<b>8</b>	<b>55</b>

The transactions between related parties are carried out under normal market terms and conditions.

The ships of TNG are managed by Tankerska plovidba d.d. Tankerska plovidba d.d., as the Fleet Manager, provides to TNG commercial, HR, technical and certain administrative and corporate services for a fee. Tankerska plovidba d.d. ensures a crew to the TNG fleet through its related party Donat Maritime Corporation Liberia.

### Key management personnel

The key management personnel includes the executive management, which consists of the sole member of the Board and the Financial Director. The total management remuneration paid for 2017 amounts to HRK 1,356 thousand, i.e. USD 205 thousand (2016: HRK 1,917 thousand, or USD 282 thousand). The fees of the Supervisory Board for the year amount to HRK 408 thousand, i.e. USD 62 thousand (2016: HRK 464 thousand, or USD 68 thousand). On 31 December 2017 the members of the executive management and the Supervisory Board held 5,314 shares of the Company (at 31 December 2016: HRK 6,681 shares). The Company did not provide any loans to the members of its Supervisory Board (31 December 2017 HRK 0).

## 23. FINANCIAL INSTRUMENTS

TNG's activities expose it to a variety of financial risks, including the effects of: market risk (including foreign exchange risk, interest rates and price risk), credit risk and liquidity risk. The exposure to credit risk, interest rate risk and foreign exchange risk arises in the normal course of TNG's operations.

Risk management policies associated with managing financial resources may be briefly summarized as follows:  
Foreign exchange risk

TNG is exposed to the following currency risks: the transaction risk, which is the risk of a negative impact of fluctuations in foreign exchange rates against the Croatian kuna on TNG's cash flows from commercial activities; and the balance sheet risk, which is the risk that the net value of monetary assets on retranslation of kuna-denominated balances becomes lower as a result of changes in foreign exchange rates.

TNG operates internationally and is exposed to changes of the US dollar, as significant amounts of receivables and foreign revenues are denominated in this currency. TNG currently does not use any active hedging against the changes in the foreign exchange rates.

TNG undertakes certain transactions in a foreign currency and is hence exposed to the foreign exchange risk. The carrying amounts of TNG's foreign-currency denominated monetary assets and liabilities at the end of the reporting period are provided in the table below:

### 2017

	Assets	Liabilities	Assets - Liabilities
	2017	2017	2017
USD	77,981	690,238	(612,257)
EUR	3,300	1,350	1,950
Other currencies	20	625	(605)
<b>Total</b>	<b>81,301</b>	<b>692,213</b>	<b>(610,912)</b>

### 2016

	Assets	Liabilities	Assets - Liabilities
	2016	2016	2016
USD	54,777	828,169	(773,392)
EUR	30	841	(811)
Other currencies	26	109	(83)
<b>Total</b>	<b>54,833</b>	<b>829,119</b>	<b>(774,286)</b>

## 23. FINANCIAL INSTRUMENTS (CONTINUED)

The impact of a 10-percent change in the USD exchange rate on cash items denominated in USD (10-percent strengthening/weakening against the Croatian kuna):

### 2017

HRK '000	Impact of the USD changes	
Effect on:	10%	-10%
(Loss)/profit	76	(76)
Cash flow (outflow) / inflow	(61,226)	61,226

### 2016

HRK '000	Impact of the USD changes	
Effect on:	10%	-10%
(Loss)/profit	134	(134)
Cash flow (outflow) / inflow	(77,339)	77,339

### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The cash-flow interest rate risk is a risk that the interest expense on financial instruments may vary during the period. As TNG has no significant interest-bearing assets, its operating income and cash flows from operations are not significantly exposed to fluctuations in market interest rates. TNG's interest rate risk arises from its long-term borrowings. TNG is exposed to interest rate risk on its long-term borrowings at variable rates (see Note 19).

### 2017 One-year interest expense

Current interest expense in HRK	Libor rate change	Interest expense (increase)/decrease in USD	Interest expense (increase)/decrease in HRK
23,765	1%	(194)	(1,216)
	-1%	194	1,216

### 2016 One-year interest expense

Current interest expense in HRK	Libor rate change	Interest expense (increase)/decrease in USD	Interest expense (increase)/decrease in HRK
29,258	1%	(180)	(1,287)
	-1%	180	1,287

Given the significant exposure of TNG to interest rate risk, which arises from its variable-rate loans, TNG uses derivative financial instruments (an interest rate swap) to hedge its exposure to the interest rate risk on loans received from Norddeutsche Landesbank Girozentrale and ABN AMRO Bank N.V.

## 23. FINANCIAL INSTRUMENTS (CONTINUED)

### Interest rate risk (continued)

2017

Loan	Fair value of IRS, in USD 31.12. 2017.	Loan debt, in USD 000 31 Dec 2017	Date of the interest-rate swap conclusion	Interest-rate swap validity period		Variable interest rate before the swap	Fixed interest rate under the swap
				from	to		
ABN AMRO BANK N.V.	232	43,991	16.12.15.	16.1.16	16.1.19.	3M USD LIBOR	1,325%
NORD LB BANK	109	20,125	15.12.15.	27.10.15.	27.1.19.	3M USD LIBOR	1,330%
NORD LB BANK	86	20,525	15.12.15.	24.11.15.	27.11.18.	3M USD LIBOR	1,330%
<b>Ukupno</b>	<b>427</b>	<b>84,641</b>					

2016

Loan	Fair value of IRS, in USDUSD 31.12. 2017.	Loan debt, in USD 000 31 Dec 2017	Date of the interest-rate swap conclusion	Interest-rate swap validity period		Variable interest rate before the swap	Fixed interest rate under the swap
				from	to		
ABN AMRO BANK N.V.	40	48,522	16.12.15.	16.1.16	16.1.19.	3M USD LIBOR	1,325%
NORD LB BANK	30	21,725	15.12.15.	27.10.15.	27.1.19.	3M USD LIBOR	1,330%
NORD LB BANK	21	22,125	15.12.15.	24.11.15.	27.11.18.	3M USD LIBOR	1,330%
<b>Ukupno</b>	<b>91</b>	<b>92,372</b>					

By entering into interest-rate swaps with Nord LB and ABN Amro Bank, TNG has swapped the difference between the amount of fixed and variable interest calculated based on the agreed value of the principal. These contracts enable mitigating the risk of volatility in the variable interest rate, allowing TNG, which operates in terms of pre-fixed income, to manage the profitability of operations by fixing one of the major cost components. The liabilities under the interest rate swaps are settled on a quarterly basis, while the proceeds from the swap are expected when the variable interest rate component becomes converted to the fixed rate agreed in the underlying swap contract.

## 23. FINANCIAL INSTRUMENTS (CONTINUED)

### Credit risk

Credit risk is the risk of failure by one party to meet its commitments to the other party under a financial instrument, resulting in a loss to the other party. Maximum exposure to credit risk is represented by the highest amount of each financial asset reported in the statement of financial position. The key financial assets of TNG consist of cash and balances on accounts with banks, trade and other receivables, and investments. Credit risk associated with liquid funds is limited, as the counterparty is often a bank receiving a high credit rating from most international rating agencies.

### Price risk

TNG's activities expose it to price risk associated with changes in the freight rate (hire). The daily freight rate (the spot rate) measured in USD per day, has historically been very volatile. The volatility influences day-to-day operations in the following ways:

- a low rate represents an opportunity for TNG to increase its market share;
- a high rate enables TNG to hedge its short-term to medium-term exposure to price risk by chartering-out vessels or by actively trading freight-related derivatives.

TNG seeks to minimise its exposure to price risk by trading its spot exposed vessels in different pools (of customers), which improves the economies of scale and optimises the fleet's geographical position.

### Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Management, which has built an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. Liquidity risk, which is considered the risk of financing, is the risk that TNG may encounter difficulties in recovering the funds owed to it to meet its commitments associated with financial instruments. TNG has significant long-term loan debt at variable rates, which exposes it to the cash-flow risk. TNG manages liquidity risk by maintaining adequate reserves and lines of credit, by continuously monitoring forecast and actual cash flows as well as the maturities of its receivables and payables.

### Liquidity and interest rate risk tables

The following tables detail the remaining contractual maturities of TNG's non-derivative financial liabilities and the expected maturities for its non-derivative financial assets. The contractual maturity is defined as the earliest date on which TNG can be required to make the payment. Disclosures of non-derivative financial assets and liabilities are necessary for understanding the manner in which TNG manages its liquidity risk, as it is managed based on net amounts of financial assets and liabilities.

#### 2017

2017	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	After 5 years	Total
<b>ASSETS</b>						
Interest bearing	-	-	-	-	-	-
Non-interest bearing	81,421	-	-	-	-	81,421
<b>TOTAL</b>	<b>81,421</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>81,421</b>
<b>LIABILITIES</b>						
Interest bearing	12,197	2,508	44,115	611,647	-	670,467
Non-interest bearing	21,181	868	-	-	-	22,049
<b>TOTAL</b>	<b>33,378</b>	<b>3,376</b>	<b>44,115</b>	<b>611,647</b>	<b>-</b>	<b>692,516</b>
<b>Net debt</b>	<b>48,043</b>	<b>(3,376)</b>	<b>(44,115)</b>	<b>(611,647)</b>	<b>-</b>	<b>(611,095)</b>

#### 2016

2016	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	After 5 years	Total
<b>ASSETS</b>						
Interest bearing	-	-	-	-	-	-
Non-interest bearing	54,939	-	-	-	-	54,939
<b>TOTAL</b>	<b>54,939</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>54,939</b>
<b>LIABILITIES</b>						
Interest bearing	13,946	2,867	50,440	552,505	185,404	805,162
Non-interest bearing	24,903	1,554	-	-	-	26,457
<b>TOTAL</b>	<b>38,849</b>	<b>4,421</b>	<b>50,440</b>	<b>552,505</b>	<b>185,404</b>	<b>831,619</b>
<b>Net debt</b>	<b>16,090</b>	<b>(4,421)</b>	<b>(50,440)</b>	<b>(552,505)</b>	<b>(185,404)</b>	<b>(776,680)</b>

## 23. FINANCIAL INSTRUMENTS (CONTINUED)

### Fair value

The fair value estimates of financial assets and financial liabilities determined by the Management Board are set out below, together with the carrying amounts of those instruments from the statement of financial position.

#### 2017

	Notes	Carrying amount		Fair value 31,12,2016	
		USD	HRK	USD	HRK
Trade and other receivables	15	2,803	17,574	2,803	17,574
Prepaid expenses and accrued income	16	456	2,861	456	2,861
Interest-bearing loans and borrowings	19	106,938	670,467	106,938	670,467
Trade and other payables	20	2,758	17,294	2,758	17,294
Accrued expenses and deferred income	21	759	4,755	759	4,755

#### 2016

	Notes	Carrying amount		Fair value 31,12,2016	
		USD	HRK	USD	HRK
Trade and other receivables	15	1,193	8,558	1,193	8,558
Prepaid expenses and accrued income	16	961	6,881	961	6,881
Interest-bearing loans and borrowings	19	112,319	805,162	112,319	805,162
Trade and other payables	20	2,959	21,209	2,959	21,209
Accrued expenses and deferred income	21	757	5,427	757	5,427

The fair values of receivables/liabilities with a remaining period to maturity less than one year are considered to reflect their fair values. All other balances receivable and payable are discounted to arrive at their fair values

## Capital management

The primary objective of TNG in managing its capital is to ensure financial support to the operations and maximize shareholder value. TNG manages its capital by taking into account changes in the economic conditions. In order to maintain or adjust the capital structure, TNG may adjust dividend payable to the shareholders, the return on investment, or issue new shares. There were no changes to objectives, policies and processes during the period ended 31 December 2017 and 31 December 2016. TNG supervises its capital through the gearing ratio calculated as follows:

### 2017

	USD		HRK
Total interest-bearing debt (long-term and short-term borrowings) (Note 19)	106,938		670,467
Less: Cash and cash equivalents (Note 17)	10,175		63,792
Net debt	96,763		606,675
Equity	96,242		603,418
<b>Total equity</b>	<b>193,005</b>		<b>1,210,093</b>
<b>Gearing ratio</b>		<b>50%</b>	

### 2016

	USD		HRK
Total interest-bearing debt (long-term and short-term borrowings) (Note 19)	112,319		805,162
Less: Cash and cash equivalents (Note 17)	6,126		43,915
Net debt	106,193		761,247
Equity	92,976		666,502
<b>Total equity</b>	<b>199,169</b>		<b>1,427,749</b>
<b>Gearing ratio</b>		<b>53%</b>	



## 24. CONTINGENT LIABILITIES AND COMMITMENTS

### Operating lease commitments, with the Company as the lessee

The Company has operating lease commitments for the properties and personal cars it uses under operating lease arrangements. Total future minimum payments under operating leases are as follows:

	USD	HRK	USD	HRK
	31.12.2017.	31.12.2017.	31.12.2016.	31.12.2016.
Up to 1 year	16	102	16	115
Between 1 and 5 years	49	309	54	390
After 5 years	45	280	39	281
<b>Total</b>	<b>110</b>	<b>691</b>	<b>109</b>	<b>786</b>

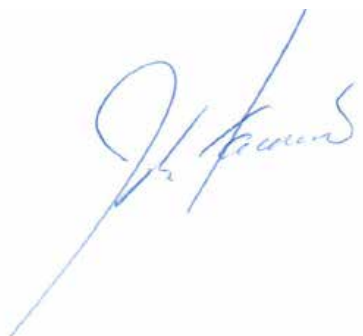
## 25. EVENTS AFTER THE BALANCE SHEET DATE

No events or transactions have taken place subsequent to 31 December 2017 that would have a significant impact on the financial statements as of that date or for the year then ended, or be of such significance for the operations of TNG that would require them to be disclosed in the notes to the financial statements.

## 26. FINANCIAL STATEMENTS APPROVAL

These financial statements, set out on pages 45 to 89, were approved by the Management and authorised for issue on 27 April 2018

Signed on behalf of TNG on 27 April 2018 by:



John Karavanić,  
 Member of the Management Board

Additional  
information

## IMPORTANT INDUSTRY TERMS AND CONCEPTS

The Group uses a variety of industry terms and concepts when analysing its own performance. These include the following:

**Revenue Days.** Revenue Days represent the total number of calendar days the Group's vessels were in possession of the Group during a period, less the total number of Off-Hire Days during that period generally associated with repairs, drydocking or special or intermediate surveys.

Consequently, Revenue Days represent the total number of days available for a vessel to earn revenue. Idle days, which are days when a vessel is available to earn revenue, yet is not employed, are included in Revenue Days. The Group uses Revenue Days to explain changes in its net voyage revenues (equivalent to time charter earnings) between periods.

**Off-Hire Days.** Off-Hire Days refer to the time a vessel is not available for service due primarily to scheduled and unscheduled repairs or drydocking.

When a vessel is off-hire, or not available for service, the charterer is generally not required to pay the charter hire rate and the Group will be responsible for all costs, including the cost of fuel bunkers unless the charterer is responsible for the circumstances giving rise to the lack of availability. Prolonged off-hire may obligate the vessel owner to provide a substitute vessel or permit the charter termination.

The Group's vessels may be out of service, that is, off-hire, for several reasons: scheduled drydocking, special surveys, vessel upgrade or maintenance or inspection, which are referred to as scheduled off-hire; and unscheduled repairs, maintenance, operational deficiencies, equipment breakdown, accidents/incidents, crewing strikes, certain vessel detentions or similar problems, or charterer's failure to maintain the vessel in compliance with its specifications and contractual and/or market standards (for example major oil company acceptances) or to man a vessel with the required crew, which is referred to as unscheduled off-hire.

**Operating Days.** Operating Days represent the number of days the Group's vessels are in operation during the year. Operating Days is a measurement that is only applicable to owned and not bareboated or chartered-in vessels. Where a vessel is under the Group's ownership for a full year, Operating Days will generally equal calendar days. Days when a vessel is in a dry dock are included in the calculation of Operating Days as the Group still incurs vessel operating expenses.

Operating Days are an indicator of the size of the fleet over a period of time and affect both revenues and expenses recorded during that period.

**(Net) Time Charter Equivalent (TCE).** TCE is a standard shipping industry performance measure used primarily to compare daily earnings generated by vessels on time charters with daily earnings generated by vessels on voyage charters, because charter hire rates for vessels on voyage charters are generally not expressed per day as charter hire rates for vessels on time charters are. Therefore the net equivalent of a daily time voyage rate is expressed in net daily time charter rate.

**(Net) TCE earnings.** The Group defines time charter equivalent earnings, or TCE earnings, as vessel revenues less commissions and voyage-related costs (both major and minor) during a period.

TCE earnings is a measure of performance of a vessel or a fleet, achieved on a given voyage or voyages and it is expressed in US dollars per day. The Group's definition of TCE earnings may not be the same as that used by other companies in the shipping or other industries.

**(Net) TCE rates.** The Group defines time charter equivalent rates, or TCE rates, as vessel revenues less commission and voyage related costs (both major and minor) during a period divided by the number of Revenue Days during that period.

TCE rates is a measure of the average daily revenue performance of a vessel or a fleet, achieved on a given voyage or voyages and it is expressed in US dollars per day. TCE rates correspond to the net voyage earnings per day. The Group's definition of TCE rates may not be the same as that used by other companies in the shipping or other industries.

The Group uses the foregoing methodology for calculating TCE rates and TCE earnings in cases of both time charter and voyage charter contracts.

**Gross Time Charter rates (GTC rates).** The Group defines gross time charter rates, or GTC rates, as vessel revenues during a period divided by the number of Revenue Days during that period.

GTC rates should reflect the average daily charter rate of a vessel or a fleet and is expressed in US dollars per day. The Group's definition of GTC rate may not be the same as that used by other companies in the shipping or other industries.

**Daily vessel operating expenses.** Daily vessel operating expenses is a metric used to evaluate the Group's ability to efficiently operate vessels incurring operating expenses and to limit these expenses.

Daily vessel operating expenses represent vessel operating expenses divided by the number of Operating Days of vessels incurring operating expenses and is expressed in US dollars per day.

**Average number of vessels.** Historical average number of owned vessels consists of the average number of vessels that were in the Group's possession during a period. The Group uses average number of vessels primarily to highlight changes in vessel operating costs.

**Fleet utilization.** Fleet utilization is the percentage of time that the Group's vessels generate revenues. The shipping industry uses fleet utilization to measure a company's efficiency in finding employment for its vessels and in minimizing the number of days that its vessels are off-hire for reasons such as scheduled repairs, drydocking, surveys or other reasons other than commercial waiting time.

Fleet utilization is calculated by dividing the number of Revenue Days during a period by the number of Operating Days during that period.

### Important chartering contracts

The Group's performance can be affected by some of the following types of charter contracts:

**Time charter.** Time charter is a contract under which a charterer pays a fixed daily hire rate on a semi-monthly or monthly basis for a fixed period of time for using the vessel. Subject to any restrictions in the charter, the charterer decides the type and quantity of cargo to be carried and the ports of loading and unloading. Under a time charter the charterer pays substantially all of the voyage-related costs (etc. port costs, canal charges, cargo manipulation expenses, fuel expenses and others). The vessel owner pays commissions on gross voyage revenues and the vessel operating expenses (etc. crew wages, insurance, technical maintenance and other).

Time charter rates are usually fixed during the term of the charter. Vessels operating on time charters for a certain period of time provide more predictable cash flows over that period of time, but can yield lower profit margins than vessels operating under voyage charters in the spot market during periods characterized by favourable market conditions. Prevailing time charter rates fluctuate on a seasonal and year-on-year basis reflecting changes in spot charter rates, expectations about future spot charter rates and other factors. The degree of volatility in time charter rates is lower for longer-term time charters compared to shorter-term time charters.

**Voyage charter.** Voyage charter involves the carriage of a specific amount and type of cargo from a specific loading port(s) to a specific unloading port(s) and most of these charters are of a single voyage nature. The owner of the vessel receives one payment derived by multiplying the tonnes of cargo loaded on board by the cost per cargo tonne. The owner is responsible for the payment of all expenses including commissions, voyage-related costs, operating expenses and capital costs of the vessel. The charterer is typically responsible for any costs associated with any delay at the loading or unloading ports. Voyage charter rates are volatile and fluctuate on a seasonal and year-on-year basis.

**Other charters.** Besides the two most common charters (time and voyage) the shipping industry provides other types of contracts between the ship owner and the charterer.

**Bareboat charter.** Bareboat charter is a contract pursuant to which the vessel owner provides the vessel to the charterer for a fixed period of time at a specified daily rate, and the charterer provides for all of the vessel's operating expenses in addition to the commissions and voyage related costs, and generally assumes all risk of operation. The charterer undertakes to maintain the vessel in a good state of repair and efficient operating condition and drydock the vessel during the term of the charter consistent with applicable classification society requirements.

**Time charter trip.** Time charter trip is a short term time charter where the vessel performs a single voyage between loading port(s) and unloading port(s). Time charter trip has all the elements of a time charter including the upfront fixed daily hire rate.

### Important financial and operating terms and concepts

The Group uses a variety of financial and operational terms and concepts when analysing its own performance. These include the following:

**Vessel revenues.** The Group generates revenues by charging customers for the transportation of their oil products using its own vessels. Historically, the Operating Fleet's services have generally been provided under time charters although the Group may enter into voyage charters in the future. The following describes these basic types of contractual relationships:

**Time charters,** under which the vessels are chartered to customers for a fixed period of time at rates that are generally fixed; and

**Voyage charters,** under which the vessels are chartered to customers for shorter intervals that are priced on a current or "spot" market rate.

The table below illustrates the primary distinctions among these types of charters and contracts:

	Time Charter	Voyage Charter
Typical contract length	1-5 years	Single voyages, consecutive voyages and contracts of affreightment (COA)
Hire rate basis	Daily	Varies
Commercial fee	The Group pays	The Group pays
Commissions	The Group pays	The Group pays
Major Vessel related costs	Customer pays	The Group pays
Minor Vessel related costs	The Group pays	The Group pays
Vessel operating costs	The Group pays	The Group pays
Off-hire	Customer does not pay	Customer does not pay

Under a time charter the charterer pays substantially all of the voyage-related costs. The vessel owner pays commissions on gross vessel revenues and also the vessel operating expenses. Time charter rates are usually fixed during the term of the charter.

Vessels operating under time charters provide more predictable cash flows over a given period of time, but can yield lower profit margins than vessels operating under voyage charters in the spot market during periods characterized by favourable market conditions. Prevailing time charter rates fluctuate on a seasonal and year-on-year basis reflecting changes in spot charter rates, expectations about future spot charter rates and other factors. The degree of volatility in time charter rates is lower for longer-term time charters as opposed to shorter-term time charters.

**Other revenues.** Other revenues primary includes revenues from charterers for other services and revenues from profit commission on insurance policies.

**Commercial fee.** Commercial fees expenses include fees paid to the Fleet Manager, under the Management Agreement, for providing the Group with chartering and commercial management services.

**Commissions.** Commissions are realized in two basic forms: addressed commission and brokerage commission.

Addressed commission is commission payable by the ship owner to the charterer, regardless of charter type and is expressed as a percentage of the freight or hire. This commission is a reimbursement to the charterer for costs incurred in relation to the chartering of the vessel either to third party brokers or by the charterer's shipping department.

Brokerage commission is payable under a time charter on hire. Subject to the precise wording of the charter, the broker's entitlement to commission will therefore only arise when the charterers remit hire or is recovered by some other means. Commission under a voyage charter is payable on freight, and may also be payable on deadfreight and demurrage.

**Voyage-related costs.** Voyage-related costs are typically paid by the ship owner under voyage charters and by the customer under time charters. Voyage-related costs are all expenses which pertain to a specific voyage. The Group differs major and minor voyage-related costs.

Most of the voyage-related costs are incurred in connection with the employment of the fleet on the spot market (voyage charter) and under COAs (contracts of affreightment). Major voyage-related costs include bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees, extra war risks insurance and any other expenses related to the cargo are typically paid by the customer.

**Minor voyage-related expenses** such as draft surveys, tank cleaning, postage and other minor miscellaneous expenses related to the voyage may occur and are typically paid by the ship owner. From time to time, the ship owner may also pay a small portion of above mentioned major voyage-related costs.

**Vessel operating costs.** The Group is responsible for vessel operating costs which include crewing, repairs and maintenance, lubricants, insurance, spares, stores, registration and communication and sundries.

Vessel operating costs also includes management fees paid to the Fleet Manager, under the Management Agreement, for providing the Group with technical and crew management, insurance arrangements and accounting services. The largest components of vessel operating costs are generally crews and repairs and maintenance. Expenses for repairs and maintenance tend to fluctuate from period to period because most repairs and maintenance typically occur during periodic drydocking. These expenses may tend to increase as these vessels mature and thus the extent of maintenance requirements expands.

**Depreciation and amortization.** The Group depreciates the original cost, less an estimated residual value, of its vessels on a straight-line basis over each vessel's estimated useful life. The estimated useful life of 25 years is the Management Board's best estimate and is also consistent with industry practice for similar vessels. The residual value is estimated as the lightweight tonnage of each vessel multiplied by an estimated scrap value (cost of steel) per tone. The scrap value per tone is estimated taking into consideration the historical Indian sub-continent five year scrap market rate.

Depreciation expense typically consists of charges related to the depreciation of the historical cost of the vessels (less an estimated residual value) over the estimated useful lives of the vessels and charges relating to the depreciation of upgrades to vessels, which are depreciated over the shorter of the vessel's remaining useful life or the life of the renewal or upgrade. The Group reviews the estimated useful life of vessels at the end of each annual reporting period.

**Drydocking and surveys (special and intermediate).** The vessels are required to undergo planned drydocking for replacement of certain components, major repairs and maintenance of other components, which cannot be carried out while the vessels are operating, approximately every 30 months or 60 months depending on the nature of work and external requirements. The Group intend to periodically drydock each of vessels for inspection, repairs and maintenance and any modifications to comply with industry certification or governmental requirements. The number of drydocking undertaken in a given period and the nature of the work performed determine the level of drydocking expenses.

**Vessel impairment.** The carrying amounts of the vessels are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indications exists, the vessel's recoverable amount is estimated. Vessels that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. The carrying values of the vessels may not represent their fair market value at any point in time since the market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuilds. Historically, both the charter rates and vessel values have been cyclical in nature.

Management Board's judgment is critical in assessing whether events have occurred that may impact the carrying value of the vessels and in developing estimates of future cash flows, future charter rates, vessel operating expenses, and the estimated useful lives and residual values of those vessels. These estimates are based on historical trends as well as future expectations. Management Board's estimates are also based on the estimated fair values of their vessels obtained from independent ship brokers, industry reports of similar vessel sales and evaluation of current market trends.

**General and administrative expenses.** General and administrative expenses comprise of the administrative staff costs, management costs, office expenses, audit, legal and professional fees, travel expenses and other expenses relating to administration.

**Interest expense and finance costs.** Interest expense and finance costs comprise of interest payable on borrowings and loans and foreign exchange gains and losses.

**Tonnage tax.** The tonnage tax regime is introduced into the Croatian maritime legislation by new amendments to the Maritime Act and is applicable from January 1, 2014. According to the relevant provisions of the Maritime Act ("Maritime Act"), qualifying companies may choose to have their shipping activities taxed on the basis of the net tonnage of their fleet instead of on the basis of their actual profits. Companies, having opted for the tonnage tax, must remain subject to this regime for the following 10 years. The qualifying company has to be a shipping company liable under the Croatian corporate tax on any profits it generates. Furthermore, it must operate the vessels which satisfy all applicable requirements, and most importantly, the qualifying company must be carrying out the strategic and commercial management activities of vessels in Croatia.

In the tonnage tax system, the shipping operations shifted from taxation of business income to tonnage-based taxation. Under the tonnage tax regime, the tax liability is not calculated on the basis of income and expenses as under the normal corporate taxation, but is based on the controlled fleet's notional shipping income, which in turn depends on the total net tonnage of the fleet under management.

**Summary of expenses.** Under voyage charters, the Group will be responsible for commissions, all vessel voyage-related costs and operating expenses. Under time charters, the charterer generally pays commissions, operating expenses and minor voyage-related costs. For both types of contracts the Group is responsible to pay fees to the Fleet Manager, under the Management Agreement.

The table below illustrates the payment responsibilities of the ship owner and charterer under a time and voyage charter.

EXPENSE TYPE	MAIN COMPONENTS	TIME CHARTER	VOYAGE CHARTER
<b>Capital</b>	Capital Principal Repayment Interest		
<b>Operating</b>	Crewing Repairs and Maintenance Lubricants Insurance Spares and stores Registration, communication and sundries <i>Management fee*</i> - <i>technical management</i> - <i>crew management</i> - <i>insurance arrangements</i> - <i>accounting services</i>		
<b>Commissions</b>	Address Brokerage		
<b>Commercial fee*</b>	<i>Chartering and commercial management services</i>		
<b>Voyage (minor)</b>	Draft surveys Tank cleaning Postage Other minor miscellaneous expenses		
<b>Voyage (major)</b>	Bunker fuel expenses Port fees Cargo loading and unloading expenses Canal tolls Agency fees Extra war risks insurance Other expenses related to the cargo		

Ship-owner payments
  Charterer payments
 \* fees paid to the Fleet Manager, under the Management Agreements



## Cautionary note regarding forward-looking statements

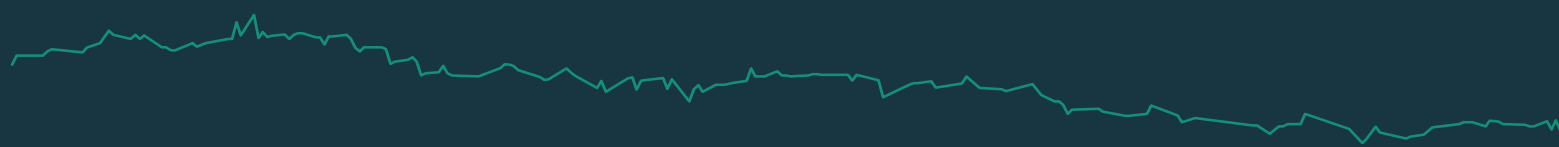
Certain statements in this document are not historical facts and are forward-looking statements. They appear in a number of places throughout this document. From time to time, the Group may make written or oral forward-looking statements in reports to shareholders and in other communications. Forward-looking statements include statements concerning the Group's plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditure, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, business strategy and the trends which the Group anticipates in the industries and the political and legal environment in which it operates and other information that is not historical information.

Words such as „believe“, „anticipate“, „estimate“, „expect“, „intend“, „predict“, „project“, „could“, „may“, „will“, „plan“ and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

When relying on forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as of the date on which they were made. Accordingly, the Company does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, other than as required by applicable laws and the Zagreb Stock Exchange Rules. The Company makes no representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

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