

April 18, 2017



THE REPORT OF ERICSSON NIKOLA TESLA D.D. SUPERVISORY BOARD ON THE SUPERVISION PERFORMED ON THE COMPANY'S OPERATIONS IN 2016

Pursuant to provisions of the Croatian Companies Act and Ericsson Nikola Tesla d.d. Statute, the Supervisory Board of Ericsson Nikola Tesla d.d. has reviewed the Company's business, taking respective decisions and conclusions in four regular and four extraordinary Board meetings held during 2016.

In 2016, the members of the Supervisory Board were as follows:

Klas Roland Nordgren (Chairman)

Ignac Lovrek (Deputy Chairman)

Vidar Mohammar (Member)

Dubravko Radošević (Member)

Zvonimir Jelić (Member and Employee representative).

The Company Management regularly informed the Supervisory Board on all important business activities and the course of the Company business performance.

At the meetings, the Supervisory Board discussed in detail the financial results, situation in the domestic and export markets and ICT industry trends. Further topics of discussions were as follows: business plans and strategic projects, business risks, investments, and issues regarding human resources and shareholders. Moreover, the Supervisory Board continuously monitored business development and responsibilities of the Research & Development Centre, Solutions& Services Centre and IT & Test Environment Unit (ITTE). The Supervisory Board analyzed and approved the Ericsson Nikola Tesla Group's Business Strategy 2016 – 2019, as well as transformation programs focused on business development.

At extraordinary Board meetings, the members discussed dividend payment, 2015 annual financial reports, 2016 targets and establishment of local company in Belarus.

Analyzing the Managing Director's reports and the key financial indicators, the Supervisory Board evaluated that Ericsson Nikola Tesla Group had a successful business performance in 2016, and achieved excellent financial result, along with a healthy balance sheet and a solid cash position. Ericsson Nikola Tesla Group gained new responsibilities in global corporation, primarily in research and development, and strengthen business in CIS markets. Due to the challenging market environment, the Group continues to be focused on cost and operational effectiveness to enhance profitability, and on addressing customers' needs.

In 2016 there were no changes in the composition of the Supervisory Board. As his mandate expired, Klas Roland Nordgren, the chairman of the Supervisory Board, was re-elected for another term in office, at the Ericsson Nikola Tesla Annual General Meeting held on 31 May 2016.

The Audit Committee held four meetings in 2016. During these meetings, the Audit Committee discussed financial performance during the year, annual financial statements, 2016 audit plan, audit findings, internal control and risk management system, and performed other tasks pursuant to new EU audit regulations. The Audit Committee

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regularly informed other Supervisory Board members of its findings and recommendations. In 2016, member of the Audit committee where: Ignac Lovrek, Chairman and Vidar Mohammar, Member.


Based on the review of financial and other relevant business documents, the Managing Director's report and the report provided by auditors, the Supervisory Board concluded the following:

- To the best of our knowledge Ericsson Nikola Tesla d.d. in all material aspects operates in compliance with the laws and Company's enactments and in accordance with the decisions made by the Annual General Meeting;
- The annual financial reports have been prepared in accordance with the business records of Ericsson Nikola Tesla d.d. and its subsidiaries, and in all material respects reflect the correct financial and business situation of Ericsson Nikola Tesla d.d. and its subsidiaries;
- The Managing Director's proposal relating to net income (profit) allocation is supported and approved;
- There are no objections regarding the Managing Director's report and consequently the report is approved;
- There are no objections regarding the Auditors' report and consequently the report is approved;
- Pursuant to the above stated, the submitted annual financial statements are approved.

Pursuant to the Companies Act, art. 300d the following documents are enclosed with this report:

1. Decision by the Managing Director on the established consolidated and non-consolidated annual financial statements;
2. Decision by the Supervisory Board on the established consolidated and non-consolidated annual financial statements;

For the Supervisory Board


Roland Nordgren, Chairman